SLOVAK TELEKOM

ANNUAL REPORT 2016

CONTENT AND STRUCTURE

01 AN INTRODUCTION TO THE SLOVAK TELEKOM GROUP

A FOREWORD BY
THE CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

Dear ladies and gentlemen,

2016 was an important year for us from many standpoints and in terms of fulfilling our financial and non-financial indicators. We placed a strong emphasis focus on innovation – while launching new services and products which enhance the everyday lives of our customers as well as technologies that can be connected later to premium solutions. And they all contribute to customer experience which is enhanced in on-line environment or in our shops. Finally, we are trying hard to get back to the growth – in some areas we are already successful (with year-on-year increases in TV subscribers, broadband accesses or post-paid customers), in others we are taking important steps to reach it.

In the field of Slovak fixed and mobile services intense competition continue to dominate and therefore we are glad that we can appeal to the market and our customers through interesting promos and different approach as well as other aspects. As part of our medium-term strategy we have created the positioning of Trusted Innovator: we wish to provide reliable services, an excellent customer experience and introduce several innovations available to a wider range of contenders.

Innovation and common solutions come first. In this respect, for the second year we provided Magenta 1 package services and for the first time we brought them to the B2B segment, but with a different approach. As an established Cloud operator and after numerous years of building our portfolio we unified the position of cloud in Magenta 1 Business – providing fixed, mobile and cloud solutions at the same level of importance. The Cloud portfolio has been strengthened by the inclusion of BaaS (Back-up as a service) solutions. In the area of new business we introduced the mPos smart solution – as of now our business customers can accept contactless payments through a simple terminal and our service.

An important element of our services comes from providing the best connectivity and devices. Additionally, in 2016 we focused on our 4G network and expanded it to include other areas. By the end of the year, we had covered 87.2 % of the population and as early as in the first quarter covered all 140 Slovak towns, therefore we are currently expanding – in particular in the countryside and in a number of tourist resorts. Speed is also increased, LTE-Advanced extension is already available on three levels: up to 225 Mbps, up to 300 Mbps (e.g. Trnava, Žilina and Banská Bystrica) and we launched the LTE-A at 375 Mbps in Bratislava as the first operator in Slovakia. The quality of our networks was proved by two more Best in Test certificates from P3 Communications for the best mobile network in Slovakia (the first two certificates were obtained in 2015) and as part of our technological tests we are pushing the limits even further - in August we demonstrated a live 4G network transmission with speeds of up to 900 Mbps.

At the same time we began to increasingly focus on the fixed network, therefore last year a coverage map increased by of tens of thousands of new households were covered by the optical network and VDSL technology.

Another ambition is to increase the level of customer care – in the digital environment we redesigned the My Telekom portal and updated our mobile application. Across Slovakia we unified the design of outlets, added self-service kiosks and the network of our own store network received new features such as Meeting Reservations and E-tickets.

Last year was a successful one in regard to fixed services through the established Magio TV and the Nova DIGI platform - thanks to which we now have 538 000 TV subscribers and are constantly expanding both of the portfolios - adding high-quality content to our Tuki TV and we additionally prolonged our rights to the UEFA Champions League for example. Magio TV has more and more HD channels and stations in the archive; we extended it to include a news package and tested the summer Olympics broadcast in 4K resolution.

Both segments had a strong year - for fixed services we were able even slightly increase the number of customers in the mobile segment in the fourth quarter and we are doing well in terms of revenues. The Happy rateplans appear to be very well established, and thanks to them we recorded a strong 24 000 net-adds in 2016.

In 2016 the Slovak Telekom Group achieved revenues of 766 million Euro and maintaining its leading position on the Slovak market. Our subsidiaries had a good year – Zoznam once again reached double digit revenue growth and DIGI Slovakia managed to increase YoY revenues by 5%.

The entire group is also dedicated to various activities in the area of corporate social responsibility. Last year we expanded our activities in support of the hearing impaired and launched the Mobile teacher program – in which trained personnel visited families with hearing impaired children and helped them to solve their everyday problems. Our subsidiaries are active in the area of social responsibility in their own respective ways.

2017 is shaping up very well and we kicked the year off by launching an entirely new family product called Smart Home with which we wish to bring innovation to the largest group of customers possible. We believe that in the course of adding yet more new products, our customers will come to appreciate the quality of our services.

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Ing. Milan Vašina
Chief Executive Officer

2016 MILESTONES

JANUARY

Slovak Telekom customers use 4G with roaming: Telekom brought customers another 4G innovation in the form of roaming through 4G/LTE in neighbouring countries, in Germany and in Switzerland.

Telekom extends its partnership with Peter Sagan for another year: Telekom become the partner of the best Slovak cyclist Peter Sagan in February 2015 and prepared a special portal -www.s4gan.sk - and a campaign featuring the S4GAN logo to support the fastest 4G network.

FEBRUARY

Telekom allows customers to purchase a mobile every year and sell off used mobiles: This service is designed for lovers of the latest flagship models as well as cheaper mobiles.

Telekom expanded its fixed line portfolio: Richer programs and advantageous combinations with the Happy fixed rate plan made fixed plans more attractive – the Magenta 1 smart package and the Happy Home and Business Link strengthened Slovak Telekom through providing unlimited calls to all networks including mobile networks and international calls.

MARCH

Slovak Telekom awarded the Best in Test award for mobile networks in Slovakia for third time in a row: For the first time, all 4 Slovak 4G networks were tested. P3 is an independent consultancy company that implements certified mobile network testing throughout the entire world.

Telekom expands its Magio TV Biznis portfolio: The platform designed for corporate clients was expanded to include an attractive assortment of hardware. Telekom customers had the opportunity of receiving new TV sets and office sound systems for a monthly fee as part of the package of services.

Telekom unifies roaming zones for many types of products and simplifies their orientation: Slovak Telekom unified zones for many types of products. Once again, the principle of equal zones for fixed-rate plans, pre-paid cards and fixed lines applied.

APRIL

Telekom covers all 140 Slovak towns with its 4G network: In April Čierna nad Tisou, Kráľovský Chlmec, Sobrance and Veľké Kapušan were added to the coverage map. Q1 was rich in terms of providing coverage for localities in various districts throughout Slovakia.

DIGI 10th Anniversary: On April the 29th the DIGI brand celebrated the tenth anniversary of its creation. During its long existence it has grown into a strong brand that continually improves its services to end customers with stable prices. As a result, DIGI has built a solid customer base with growth potential.

MAY

A unique Smartphone game helps dementia research: Telekom introduced an innovative mobile game named Sea Hero Quest through which people helped create the world's largest database of data indicative of brain capacity and spatial awareness amongst healthy people. Within two weeks of its introduction the mobile game was downloaded more than one million users worldwide.

Telekom introduces mobile payment terminals for entrepreneurs: After the introduction of smart cash registers and the Market Locator service Telekom added other innovations to its portfolio for entrepreneurs - namely mPOS devices, approximately the same size as a pack of cards. This brought small enterprises the option of receiving simple and cost-effective cash payments.

Telekom expands customer portal to include new function: The Môj Telekom (My Telekom) portal was expanded to include a function which can be used by customers for online administration of their products and services. The portal has a modern responsive design – it adapts to any type of device and display size to facilitate the greatest comfort possible.

JUNE

Telekom covers 79.4% of the population and introduces LTE-A 225 Mbps to other locations: Telekom continued to expand the 4G network in two ways: through the overall coverage of the Slovak Population and through increasing the availability of higher speeds.

The Magio beach opens its gates for the tenth time: Telekom and the Municipality of Bratislava prepared the jubilee year with a rich program. Many new innovations were introduced to Magio Beach visitors. The 10th year was on the theme of sport (thanks additionally to the partnership with the Slovak Olympic Committee) and technological advances (including virtual reality).

JULY

Telekom launches speed increase for fixed networks across Slovakia: Telekom announced a nation-wide speed increase in their metallic and optical networks for customers. The increased speed is possible thanks to long-term investments into the infrastructure. The change in Internet speed includes ADSL, VDSL and the fibre-optic networks in Magio Internet and the corporate Magenta Office Internet.

AUGUST

The Telekom LTE network covers 81.6% of the population and surpasses 3G coverage: This was the first time Telekom 4G network coverage was greater than coverage for the 3G network, which also reached more than 80 percent of the population.

Slovak Telekom awarded the Best in Test award for mobile networks in Slovakia for the fourth time in a row: Telekom achieved the best results in the voice and data categories. Telekom followed on from the strong performance of the past three tests and won once again, this time under new methodology, creating an unprecedented run of results and achievements.

Slovak Telekom tests the 900 Mbps 4G network in Bratislava: In collaboration with Qualcomm and Ericsson, Telekom conducted another successful test on a real 4G network under real conditions at the Bratislava Magio Beach.

SEPTEMBER

Telekom expanded the Magio Sat package to include the highest XL variant: The highest package contains more than 100 high quality channels of all genres – for children through sports, documentaries, from music to film channels for demanding audiences and an adult selection.

OCTOBER

The Telekom 4G network is available to 85% of the population: Telekom continued extending LTE network coverage to 85.1% of the population in October. During September Telekom covered 33 new locations.

Telekom introduces a number of new products- the Magio GO TV Box for Magio GO and Parallel Ringing: The Magio GO Portable TV Box lets you watch Magio GO TV anytime, anywhere on a large screen without complicated installation. The Parallel Ringing service connects mobile phones to a fixed line.

NOVEMBER

Telekom provides unlimited data for members of Magenta 1: As part of its special Christmas offer, Telekom prepared unlimited data in Telekom mobile networks for Magenta 1 members. In addition, all customers received an external battery for activating or extending their Happy or fixed services programs.

DECEMBER

Topky.sk became the most searched for Slovak media of the year on Google for the fifth time, whilst also being the third most searched for word in Slovakia in 2016.

Slovak Telekom launches the first commercial LTE-A operation with speeds of up to 375 Mbps: Telekom continued to expand the 4G network. During October and November speed was increased in new locations and the LTE-A network was successfully installed in three different combinations.

Telekom transfers mobile numbers to Cloud and starts a partnership with the immmr communication platform: immmr combines the best of Internet-based communication with the benefits of mobile communication. immmr virtualizes telephone number and transmits them to the cloud - with their existing telephone number, a user can communicate regardless of their smart phone and SIM card. Slovakia is currently the first and only country in which this service is available.

THE SLOVAK TELEKOM GROUP PROFILE

THE SLOVAK TELEKOM GROUP IS PART OF THE WORLDWIDE GROUP OF DEUTSCHE TELEKOM COMPANIES. THE UNMISTAKABLE GRAPHIC SYMBOL OF THE ASSOCIATED COMPANIES IS THE MAGENTA "T" WHICH ADDITIONALLY INCORPORATES THE INTERNATIONALLY APPLICABLE VALUES RESPECTED AND UPHELD BY THE EMPLOYEES OF ALL COMPANIES WITHIN THE GROUP.

IDENTICAL VALUES FOR ALL THE COMPANIES WITHIN THE DEUTSCHE TELEKOM GROUP:

- Customer delight and satisfaction drive our action
- Respect and integrity guide our behaviour
- Team together – Team apart
- Best place to perform and grow
- I am T – Count on me

GROUP STRUCTURE

The Slovak Telekom Group comprises of the parent company - Slovak Telekom, a.s. ("Slovak Telekom") along with its subsidiaries: Zoznam, s.r.o. ("Zoznam"), Zoznam Mobile, s.r.o. (hereinafter "Zoznam Mobile"), Telekom Sec, s.r.o. ("Telekom Sec"), PosAm, spol.s.r.o. ("PosAm") and DIGI SLOVAKIA, s.r.o. ("DIGI SLOVAKIA")

As a provider of comprehensive telecommunication services, the Slovak Telekom Group provides its customers with fixed network services, internet connections, digital and cable television services, data services, end-user equipment and call centre services, mobile communication services, internet content (Zoznam and Zoznam Mobile), and security services (Telekom Sec).

All the information featured in this Annual Report and presented in relation to the Slovak Telekom Group additionally relate to all the companies within the Group.

ORGANISATION STRUCTURE

As a shareholder Slovak Telekom exercises its ownership rights pertaining to its subsidiaries by participating at general assemblies and/or exercising the power to call general assemblies for companies in which it is the sole shareholder. Slovak Telekom appoints representatives to the statutory bodies of its subsidiaries, who subsequently report to Slovak Telekom.

Slovak Telekom implements responsible and transparent model of governance and regularly publishes current and relevant reports pertaining to its activities on its website. Slovak Telekom also provides information on its financial performance on a quarterly basis and publishes its Annual Report.

Slovak Telekom pays particular attention on a long-term basis to the internal control environment. The management primary focuses on the control of internal processes and compliance with the standards. The internal control environment testing results are subject to audit by the company's internal and external auditors and, once audited, are included in the statement of Deutsche Telekom AG management on the internal control environment within the Deutsche Telekom Group. The first statement of this kind was issued on the 31st of December 2006.

Slovak Telekom is a holding company. The principles of corporate governance apply to all parts thereof, i.e., to the parent company (Slovak Telekom) and its subsidiaries, which in 2016 comprised Zoznam, Zoznam Mobile, Telekom Sec, PosAm and DIGI SLOVKIA. Each of these subsidiaries is a separate legal entity.

SLOVAK TELEKOM, A.S.

Slovak Telekom is the largest Slovak multimedia operator providing its products and services under the Telekom brand via fixed and mobile networks. In terms of fixed networks Slovak Telekom is the largest optical fibre and metallic cable broadband internet provider in the country (FTTX, ADSL and VDSL), providing digital television through state-of-the-art IPTV and DVB-S2 satellite technology. In the field of mobile communications the company provides internet connectivity via several high-speed data transmission technologies - namely GPRS/EDGE, UMTS FDD/HSDPA/HSUPA, FLASH-OFDM and LTE. Slovak Telekom's customers receive roaming services in mobile operator networks in destinations all over the world. Slovak Telekom is considered the leader in the provision of telecommunication services to the most demanding segment of business customers, both in terms of the respective range of services as well as in terms of quality.

Slovak Telekom is part of the multinational Deutsche Telekom Group. Deutsche Telekom is a leading international telecommunications company providing services to more than 180 million customers in 50 countries around the world. The majority shareholder of Slovak Telekom is Deutsche Telekom Europe B.V. with a 100 % share. Deutsche Telekom AG is the ultimate parent company of Slovak Telekom.

CORPORATE BODIES:

The General Assembly is the supreme body of the company. The competences of the General Assembly are stipulated in Act No. 513/1991, as amended ("Commercial Code") and the company's Articles of Association.

The Board of Directors is the statutory body of the company authorised to act on the company's behalf in all matters and represents the company vis-à-vis third parties. The Board of Directors strategically manages all of the company's activities and decides on all corporate matters, unless such powers are vested by law or Articles of Association to other bodies of the company, or delegated by the Board of Directors to other bodies of the company. The Board of Directors appoints the company's Executive Management Board and may delegate some of its powers thereto. The board of Directors additionally approves the Rules of Procedure for the Executive Management Board.

The Supervisory Board is the company's controlling body, overseeing the performance of the Board of Directors' competencies and the company's overall business conduct and performance.

The Slovak Telekom Executive Management Board is responsible for the day-to-day management of the company in line with the decisions of the Board of Directors. The Board of Directors may delegate any of its responsibilities to the Executive Management Board provided that the Articles of Association and/or Slovak legislation do not prohibit such delegation. The Executive Management Board is composed of the company's top-tier managers. Members of the Executive Management Board are accountable to the Board of Directors for their performance.

ZOZNAM, S.R.O.

One of the Slovakia's most visited internet portals Zoznam.sk - operated by Zoznam, s.r.o. - was established in 1997, specialising in Slovak internet website searches and currently featuring more than 40 online products. One of the most important products is the Topky.sk news server which, according to a December survey by Google, was the most searched Slovak medium for the fifth year.

ZOZNAM's specialised magazines (Môjdom.sk, Dromedar.sk, oPeniazoch.sk, Podkapotou.sk, Feminity.sk, Spuntik.sk, Urobsisam.sk, PC.sk, Androidportal.sk, PlniElanu.sk, Vysetrenie.sk, Karierainfo.sk) provide high-quality content. Zoznam's product portfolio also includes the mail.zoznam.sk free-mail service, the Pauzicka.sk entertainment portal, the Rexik.sk website for children, the Free.sk community portal for multimedia content sharing, the Kariera.sk job portal and the Predpredaj.sk e-ticketing portal. The Catalogue of the companies which provides small companies with a platform for their professional presentation on the internet is another important product provided by Zoznam.

ZOZNAM MOBILE, S.R.O.

ZOZNAM MOBILE was founded in 2002 when it launched internet content mobile services, such as sending of logos, text messages and ring tones. Zoznam Mobile ranks among the market leaders in the area of mobile technologies and solutions. The company provides high-quality, secure and verified solutions which are tailor-made for specific projects with easy-to-extend functions according to the client's needs.

POSAM, S.R.O.

PosAm has been active on the Slovak IT market since 1990. In 2010, PosAm became part of the Slovak Telekom Group, which confirmed and strengthened its position as a leading IT company in Slovakia. The company's main objective is to provide customers with unique solutions using a broad array of information technologies. PosAm focuses on the provision of services and solutions to corporate customers in segments such as banking, insurance, manufacturing, network industries, telecommunications, media, state administration and municipal administration. As part of its portfolio PosAm provides individualised software development, its own application solutions, system integration, consultancy services, outsourcing, and infrastructure solutions. Partnerships with global technology leaders, the innovation potential of management, a strong local team, and investments into the development of human resources guarantee continuous advancement and top performance.

DIGI SLOVAKIA, S.R.O.

DIGI SLOVAKIA provides public telecommunication services by means of television cabling, digital satellite television and the internet. Founded in 2006, DIGI SLOVAKIA became a part of the Slovak Telekom Group in September 2013. During its many years of existence DIGI SLOVAKIA has became an operator with a significant market position.

DIGI SLOVAKIA is strategically focused on providing pay-TV services via DVB-S satellite technology. In addition to digital satellite television DIGI SLOVAKIA provides cable TV and internet to ten Slovak cities - Handlova, Komarno, Kosice, Prievidza/Bojnice, Ruzomberok, Senica, Sala, Ziar nad Hronom, Brezno and Bratislava.

The company's unique portfolio provides five exclusive Digi Sport sports channels which are exclusively featured in Slovakia via rosters of Digi Sport and Slovak Telekom as parent company. The Digi Sport 1 and DigiSport 2 channels are broadcasted under exclusive contracts also in the Czech Republic.

TELEKOM SEC, S.R.O.

TELEKOM SEC was established by a Memorandum of Association dated 22. 9. 2006.

CODE OF ETHICS

The Code of ethics is a key document for the company regarding the prevention of unethical behavior. The Code defines our corporate culture and principles, requires the application of fair and responsible behavior in business relationships, emphasis on the safe handling of information and the protection thereof and last but not least establishes the requirements for dealing with customers, competitors, suppliers and third parties.

Compliance with the Code of Ethics is mandatory for all employees of Slovak Telekom and its subsidiaries. Any motions for violations of the code of ethics can be submitted by staff and external partners in person, by phone, by post or e-mail through a special line.

An integral part of the presentation of ethical principles was the International Day Against Corruption, in which Telekom employees held a meeting with Zuzana Čaputová – an activist, lawyer and a member of the Via Iuris civic association.

INTEGRATED MANAGEMENT SYSTEM

Our company is certified as per the following international norms:

- **Management quality system according to ISO 9001** - repeatedly providing products and services to our customers to the required quality.
- **Environmental management system according to ISO 14001** – we always focus on protecting the environment in our work.
- **Information Security Management System according to ISO 27001** - we protect our data and the data of our customers, employees and business partners.
- **Personal Cloud data protection management system of according to ISO 27018** - to protect the personal data of our customers in the Cloud, in accordance with relevant legislation and international standards.
- **Continuity Management System according to ISO 22301** - to ensure continuity of the operation of our critical processes at a defined level in the event of an emergency.

The certification covers the development and delivery of ICT services and data services for the business segment and government and public administration.

The company also implements a non-certified **management system of health and safety at work according to OHSAS 18001** - we do everything to ensure our employees have a favorable working environment and our company fulfilled all the relevant requirements in this area.

All systems are certified by TUV SUD, the management systems certification body accredited by SNAS.

MEMBERSHIP AND COOPERATION WITH SLOVAK PROFESSIONAL ASSOCIATIONS, PARTICIPATION IN INTERNATIONAL ORGANISATIONS

Slovak Telekom is an active member of the following organisations:

- The Slovak Chamber of Trade and Industry
- The American Chamber of Commerce in the Slovak Republic
- The Slovak-German Chamber of Commerce and Industry
- The British Chamber of Commerce in the Slovak Republic
- The Republic Union of Employers
- The Communication Technology Forum
- The Slovak IT Association
- The Slovak Cable Telecommunication Association
- The Slovak Electronic Trade Association
- The Creative Industry Forum
- Partnership for Prosperity
- The Advertising Board
- Business Leaders Forum
- HN club
- The Slovak Association of financiers
- HRcomm – The Association for Human Resource Management and Development
- The Project Management Association
- The Slovak Association for Information Security
- The Slovak Compliance Circle

Zoznam is an active member of the Slovak IAB Slovakia.

Slovak Telekom is represented in the following international organizations:

- The International Telecommunication Union (ITU) under which it is an associated member of the ITU as part of the standardized sector - Study Group 13 - Future networks including Cloud computing, mobile and next-generation networks.

The company is also a member of the following organizations:

- ETNO (European Telecommunications Network Operators Association),
- ETIS (E- and Telecommunications Information Services),
- GSM MOU Association,
- FreeMove Alliance.

THE COMPANY'S GOVERNING BODIES

EXECUTIVE MANAGEMENT

Ing. Milan Vašina
Chief Executive Officer
Milan Vašina graduated from the Brno University of Agriculture Faculty of Economics. From 1997 to 2002 he worked for RadioMobil in the Czech Republic, first as a marketing communications manager and later as marketing manager for the residential segment. In 2002 he started working in EuroTel Bratislava as Marketing Director and in 2005 successfully led the rebranding of the company as T-Mobile Slovakia. Between 2007and 2010 Milan Vašina was the general director of the company. He participated in the integration of T-Mobile and Slovak Telekom, where in 2010 he served as executive director for marketing, sales and customer service. Since January 2011 he has been General Director of T-Mobile Czech Republic. Since January 2016 he has also been the CEO of Slovak Telekom.

Dr. Robert Hauber
Chief Financial Officer and Deputy CEO (Until the 30th of June 2016)
Robert Hauber studied at the Universities of Stuttgart, in Mainz and in Massachusetts. Before his career at Deutsche Telekom, Robert worked at Hewlett Packard, Procter & Gamble and DaimlerChrysler. From 2002 to 2005 he worked at Deutsche Telekom as the vice president and from 2005 to 2009 as the T-Mobile International Senior Vice President for Financial Controlling. From 2009 to 2011 Robert headed the financial controlling of Deutsche Telekom for Europe. Through this position he acted as a member of the T-Mobile Czech Republic Supervisory Board and a member of the Telefónica Polska Cyfrowa (PTC) Supervisory Board. From April 2011 he was the Executive Finance Director, Deputy Executive Management Chairman and a member of the Slovak Telekom Board of Directors.

Stephan Eger
Chief Financial Officer and Deputy CEO (Since the 1st of July 2016)
Stephan Eger began his career at the Department of Finance and Treasury at Ford Motors in Venezuela. He then worked for four years at Deutsche Bank headquarters in Frankfurt in the area of capital and asset management. After five years at Allianz since 2003 with pan-European, and global managerial responsibility, Stephen started working in 2005 with Lehman Brothers', tasked with managing German sales activities. In 2007 he joined the Deutsche Telekom Group as Head of Investor Relations. Over the past 8 years he worked as the Deutsche Telekom business leader and reported directly to the CFO of Deutsche Telekom. In 2015, Stephan Eger was appointed to the position of Chief Financial Officer of T-Mobile Czech Republic. Since July 2016 Stephan Eger has been the Chief Financial Officer for both T-Mobile Czech Republic and Slovak Telekom.

Dipl. Ing. Branimir Marić
Chief Technology and Information Officer
Branimir Marić graduated from Zagreb Technical University Faculty of Electrical Engineering and Computer Science. Branimir began his career at the Hrvatski Telekom company in the management and development of the Internet network. Eventually the Head of group for customer IP and data networks, was Head of Technical Research and Product Development, executive director of group strategy and the development network platform and also a member of the Croatian T-Com executive board . After the merger between Hrvatski Telekom and T-Mobile Hrvatska in January 2010 Branimir Maric held the position of Chief Operating Officer for Service Management and fixed and mobile network operations. As of the 1st of January 2012 Branomir has been the Slovak Telekom Chief Operating Officer for Technology and IT.

Ing. Dušan Švalek
Chief Mass Market Segment Officer
Dušan Švalek completed his university education at the Bratislava Economic University, Faculty of International Commerce, and went on to study Corporate Economy and Management at the University of Navarra. He began his career with Benckiser and later Johnson & Johnson. Dušan worked for The Boston Consulting Group for six years and joined T-Mobile Slovensko in 2004 as the Customer Service Division Director and from 2007 became Chief Marketing Officer. From the 1st of July to the 31st of December 2010 he held the post of Slovak Telekom Marketing Director. From the 1st of January 2011 he was responsible for marketing strategy for individual segments, product management and the development of voice and data services. As of the 1st of October 2012 Dušan Švalek has been responsible for corporate marketing strategy development for sales and services to customers in the mass market segment. He is also responsible for the management of Zoznam, s.r.o.

Ing. Ján Adamec
Chief ICT and Corporate Segment Officer (Until the 30th of June 2016)
After graduating from his studies at the Slovak University of Technology Faculty of Electrical Engineering in Bratislava, Ján Adamec joined Slovenska telekomunikacia, a.s. in 1992. Between 1991 and 2012 he held several key positions with a focus on care for the corporate sector and major customers. He was present at the birth of the most modern Telekom datacenter. Since January 2012 he worked as the director for ICT services and business sales. From October the 1st of October 2012 Jan Adamec served as acting Executive Director of ICT and the corporate segment, on the 1st of April 2013 he became the Chief Mass Market Segment Officer. He has held the position of Chief ICT and Corporate Segment Officer since the 1st of April 2013

Ing. Rudolf Urbánek
Chief ICT and Corporate Segment Officer (Since the 1st of July 2016)
Rudolf Urbánek joined the Deutsche Telekom Group in 2001. He held a number of senior positions in marketing and in sales at T-Mobile Slovakia and was responsible for the full integration of the sales network of Slovak Telekom and T-Mobile Slovakia before the companies merged in 2010. Rudolf Urbanek joined the T-Mobile Czech Republic in January 2011 as Managing Director for Sales and Customer Service. In the past five years he has been responsible for all B2B segment activities (VSE, SME and the corporate segment) and its mobile, fixed and ICT services. He covered operative and transformation activities for direct in indirect sales channels, B2B marketing and wholesale activities for the organisation's B2B. From 2013 to 2015 he was also personally responsible for all the commercial aspects of the integration process, T-Systems, GTS Czech and T-Mobile Czech Republic.

Mgr. Petra Berecová
Chief Human Resources Officer (Until the 29th of February 2016)
Petra Berecová graduated from the Bratislava Comenius University Faculty of Arts, and subsequently from the Faculty of Law. She worked in the automotive industry as the Human resources director for Yazaki Slovakia. She joined T-Mobile Slovensko in 2005 as the manager for remuneration and employee benefits. Petra managed T-Mobile's Human Resources Division from 2007 and as a member of top management contributed to the company's business decisions. As of the 1st of January 2010 Petra held the post of Executive Vice-President for Human Resources and simultaneously Human Resources Director in T-Mobile Slovensko. From 1st of July 2015 until 29th of February 2016 Petra served as the Slovak Telekom Chief Human Resources Officer.

Uršula Kráľová, MBA
Chief Human Resources Officer (Since the 1st of March 2016)
Uršula Kráľová graduated from the Faculty of Management at the Comenius University in Bratislava. She completed the studies at the Kellog School of Management at Northwestern University in Chicago between 2000 and 2001 with the MBA degree.She has rich professional experience in the area of advertising, consulting and human resources. In 1997 - 2000, she held the position of Account Director and Associate Account Director at the agency Leo Burnett in Chicago and Hong Kong. In 2002 - 2012, she worked at McKinsey & Co., at first in New Jersey and since 2007 in Prague, in the post of the Associate Principal. She provided consulting services for big companies, mainly in the area of pharmacy and consumer goods. Since 2012, Kralova has been the HR Director at T-Mobile Czech Republic. Ursula Kralova has been appointed the new Executive Director for Human Resources of Slovak Telekom as of March 1, 2016. As of this date, she will be the Executive Director for Human Resources in both companies.

JUDr. Ján Pitoňák
Chief Legal and Corporate Affairs Officer (Until the 30th of June 2016 and since the 1st of January 2017)
Ján Pitoňák completed his education at the Bratislava Comenius University Law Faculty and joined the Slovak Telekom Group in August 2000 in EuroTel (then T-Mobile Slovakia) in the position of Legal Department Head and later as executive director of the Legal, Regulation and Regulatory Affairs Division he was responsible for managing the legal and regulatory agenda. In 2001 he also became a chief clerk. After integration, he worked in the position of Director of Corporate Services. Since the 1st of October 2012 Ján Pitoňák has held the post of Slovak Telekom Chief Legal and Corporate Affairs Officer, with his responsibilities including regulatory and legal affairs, compliance, corporate security and public affairs.

THE BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairman:
- Kerstin Günther (Until the10th of February 2017)
- Guido Manfred Menzel (Since the10th of February 2017)

Member:
- Franco Musone Crispino (Until the 10th of February 2017)
- Darja Dodonova (Since the10th of February 2017)

THE SUPERVISORY BOARD

Chairman:
- Dr. Hans-Peter Schultz

Members:
- Ing. Denisa Herdová
- Miriam Kvočková
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag

AUDIT COMMITTEE

- Klaus-Peter Kneilmann
- Ing. Denisa Herdová
- Franco Musone Crispino (Until the 22rd of February 2017)
- Darja Dodonova (Since the 23rd of February 2017)

02 BUSINESS ACTIVITY REPORT

TECHNOLOGY, SERVICES AND PRODUCTS

THE SLOVAK TELEKOM GROUP WORKS ON THE FOLLOWING BASE PREMISES REGARDING SERVICES: UTILIZE TECHNOLOGICAL LEADERSHIP FOR PROVIDING THE BEST CUSTOMER EXPERIENCE AND PRODUCTS. SERVICES ARE PROVIDED TO ALL TARGET GROUPS (INDIVIDUALS, HOUSEHOLDS, FROM SMALL AND MEDIUM ENTERPRISES TO THE LARGEST COMPANIES). THE MAIN FOCUS IS B2C AND B2B ENRICHED BY SOLUTIONS IN NEW AREAS OF BUSINESS.

TOP TECHNOLOGY AND NEW NETWORKS

Last year, the company strengthened its coverage in the two main network pillars – both fixed, and mobile connectivity. With the mobile investments still focused on 4G networks, more investments are implemented in fixed line areas and optic technologies to the homes and buildings.

The gradual expansion of the 4G network achieved new milestones. In early 2016 Telekom covered 75.2 % of the population of Slovakia and during the year added another 12 percent - resulting in **year-end coverage amounting to 87.2 % of the population.** An important milestone achieved was to cover all 140 towns by the end of the first quarter of 2016, in the subsequent period Slovak Telekom strongly focused on rural areas and villages and covered dozens of districts across the whole of Slovakia. Part of the coverage was the focus on tourist centres such as Čičmany, Duchonka, Liptovská Mara, Malá Domaša, Martinske Hole, Orava, Ružiná, Senec Lake, Skalnaté Pleso, Slňava, Tale, Terchová, Valčianska Dolina, Veľká Domaša and Zemplínska Šírava.

At the same time, Slovak Telekom also increased the speed of 4G networks. In December 2016 Telekom - as the first operator in Slovakia – introduced **4G network speeds of up to 375 Mbps in several parts of Bratislava** (Nové Mesto Ružinov Petržalka and Devinska Nova Ves). At the end of 2016 higher speeds available in several locations: a 4G network up to 300 Mbps was installed in Žilina, Trnava and Banská Bystrica.

The LTE-A network with speed of up to 225 Mbps is being further expanded and is available for most residents in Košice. In Bratislava, it can be used in the urban parts of the Old Town, Karlova Ves, Dúbravka, Lamač, Vajnory, Vrakuňa and Podunajské Biskupice. Silmultaeniously it was spread around the capital city: Marianka and Záhorská Bystrica. 4G up to 225 Mbps coverage is also available in Trencin, Nitra and Senec.

In technological tests Slovak Telekom presented a further milestone: A **public LTE-A network test with speeds of up to 900 Mbps** at the Bratislava Magio Beach.

Our strong position in the 4G field was confirmed alongside the spreading of technology, increasing the speed and overall quality of 4G networks and two other independent awards: "**Best in Test**" by P3 Communications acquired in March and August 2016. In two years, Telekom gained four certificates from the independent consulting firm that implements certified measurement of mobile networks worldwide. In Slovak tests, P3 Communications measured network quality in the larger cities and towns and tested and selected the main travel routes. The tests were focused on multiple parameters: file handling, loading times of websites, access to Facebook and YouTube HD video loading.

For fixed networks, Slovak Telekom conducted further investments and implemented new coverage via VDSL and optics. During the year the Telekom covered tens of thousands of new homes and at the end of 2016 achieved new milestones. At the end of 2016 **VDSL technology was available to 534 000 households and optics to 447 000 households.**

Furthermore, in the second half-year, Slovak Telekom performed one of the largest speed increase campaigns ever. The Company divided the process into several phases and continually increased speed on all technologies (ADSL, VDSL, fibre-optics) progressing through all parts of Slovakia. Similar to as in past campaigns, the networks were increased not only for Telekom customers but also for alternative operator access.

THE CUSTOMER EXPERIENCE

In 2016 Slovak Telekom continued to implement a number of key activities in the area of customer experience.

The most important innovation was in the area of digital services – the renewed **My Telekom** portal – introduced in May. The portal brought a more comprehensive means of processing services and consumption overviews to customers.

In the retail network area Slovak Telekom continued to renovate outlets with the aim of improving the customer experience and uniting the design of outlets. 2016 saw the largest number of Telekom and partner outlets being reconstructed to date. All outlets gained self-service zones which are designed to help customers perform the selected action without waiting (payment of invoices, receipts, shopping cart, evaluations, etc.). 18 of our own outlets were provided with this customer service, which saves them time, namely in terms of:

- **E-ticket** (queue before arriving at the store)
- **Click & Collect** (customers can order exclusive products on-line and retrieve them directly in the nearest outlet speedily)
- **Book a meeting** (the customer can book a meeting with a sales rep without waiting)
- **The number of customers waiting in the store** where the customer is heading (in the application Telekom customer see the current status)

In Autumn Slovak Telekom also introduced a unique outlet known as "Wheels" (a truck) under the name Telekom on the road. In two months the project visited dozens of localities and brought services and products to all its customers.

The company installed self-service kiosks in the outlet network at the beginning of the year. Through these kiosks customers can pay invoices, check their consumption and evaluate our staff. During he course of of the year the main kiosk menu was upgraded to reflect the needs of customers on the basis of feedback from the customers themselves.

Slovak Telekom monitors customer satisfaction carefully and works with feedback in many ways in order to improve its services and customer care. Therefore, in addition to the possibility of evaluating our staff in the network of company stores through the **Staffino** application, in August the company provided customers who communicate with us via social networks the opportunity to send feedback on the work of back office staff through the application.

B2C: TV SERVICES FURTHER REINFORCED, MAGENTA 1 ESTABLISHED

The area of prepaid cards continues to be covered by **Easy Pecka** - after many years Telekom has shifted to a one card system for all customers and low call and SMS prices, daily limits and the possibility to surf the 4G network with the best coverage of Slovak.

The **Happy** rateplan is the cornerstone of the portfolio and during the year several special offers were introduced. In the special Christmas offer, the two devices for the price of one product strongly resonated – like the new combination of the Xbox One S game console and smartphone. An important change was brought with the unification of roaming zones for Telekom products and within Happy, the new concept of using services at neighbors like at home. In the four neighboring countries (the Czech Republic, Poland, Hungary, Austria) Telekom began to apply the same prices for calls and SMS as at home. Calls can be received for free in the foursome of countries, calls can be made with free Happy minutes and then the pricing is the same as in Slovakia.

Telekom hardware sales continued to be strong and smart phones and laptops are an important part of special offers. During the year Telekom launched dozens of devices. Customers increasingly took advantage of pre-orders, in particular for the flagships Samsung GALAXY S7 and S7 edge, the Sony Xperia X and XZ, the LG G5, Huawei P9 and the Apple iPhone 7 and iPhone 7 Plus. In 2016 Telekom provided multi-color options in their special offer product portfolio 4G smart phones at the same time and also increased their total sales, which is a promising premise for overall penetration and use of 4G network.

In the fixed network and its connection to the mobile portfolio, Telekom provided the new **Magenta 1** bundle concept for the second year. After its launch in 2015 Telekom refreshed the offer and made a number of improvements. The combinations can be applied with two fixed-rate mobile plans during fixation. The number of members in the group increased and customers do not have to have products listed only on one address, so they can join forces with colleagues, friends and acquaintances who are also members. The joint benefits for groups are unlimited calls and SMS and use of MagentaCloud.

Telekom gradually introduced further benefits for members of the group in the form of special offers and permanent offers.

TV SERVICES

In 2016, Telekom continued to develop Magio digital television. A number of new stations were introduced and the number of HD channels increased - in IPTV there were 46 HD channels at the end of the year. The Magio Sat portfolio was expanded to include the largest XL package with over one hundred channels.

Last year Telekom doubled the number of stations in the popular **Archive**. As a result, customers can watch the content of twenty channels from up to 7 days. In addition to IPTV and Magio GO platform customers, the Archive feature was made available for Magio Sat customers in October.

New thematic packages were introduced to the Magio TV portfolio in 2016, including the **News package** with fifteen high-quality news channels from all around the world.

Magio TV customers were able to further watch a robust portfolio of exclusive sport and family content. In addition to the five **DigiSport** channels with top football, tennis and other sports Telekom updated the portfolio of the **Ťuki TV** channel: cartoons were accompanied by true classics that today's parents remember from their childhood.

During the Summer Olympic Games in Rio Telekom confirmed its leading technological position and brought viewers the opportunity to enjoy the opening ceremony and sporting competition in **4K resolution.** It was simply enough to have a Smart TV and a free app.

In 2016 Telekom also completely rebuilt its **Magio Infochannel** that offers a varied mix of slow TV content, live streams of the famous corners of Slovakia and represented an interesting innovation in the portfolio company.

B2B SEGMENT: UNDER THE CLOUD

With the launch of Cloud Backup from Opero, Telekom extended the range of services in the **Backup as a Service** segment (BaaS) thanks to which customer data is secure and quickly accessible. Telekom - as the first provider of ICT services in Slovakia - launched Cloud services to back up and increase the availability of virtual servers designed for corporate customers. In the event of infrastructure failure the customer can recover IT services for Telekom backup hardware.

Last year Telekom expanded the concept of the Magenta 1 service packages for corporate customers. **Magenta 1 Business** brought an equivalent combination of fixed, mobile and cloud services in one versatile solution for the first time in Slovakia, based on three fundamental pillars: corporate advisory services, offers for employees and supplementary services.

The main product is fixed **Magenta Office Internet** including back-up access via the Telekom 4G mobile network. The optional Cloud VPN allows a secure data link between offices and mobile employees. The product for employees is a combination of Telekom fixed and mobile services segmented according to the volume of mobile data and free minutes and is available in five variants (Mini, Basic, Standard, Manager and VIP) based on the needs of the five groups of employees.

A brand new feature is the **Magenta Connect** communication platform which is automatically included in all service packages from Magenta 1 Mini through to Magenta 1 VIP. It provides simultaneous ringing, applications for mobile devices and PC, audio and video conferencing, simple image sharing, chat and integration with Microsoft Outlook as a bonus.

NEW AREAS OF BUSINESS

In 2016 Telekom expanded its portfolio for businesses with the new **mPOS service** which also brought small businesses the opportunity to easily and cost-effectively conduct cashless payments. Using mPOS devices is especially useful for small entrepreneurs, doctors, veterinarians, catering services, taxi services and other professions for which the classic terminal is disproportionately costly and for whom mobility is invaluable. After pairing with a mobile phone via Bluetooth the mPos device works like a payment terminal. The customer has three payment options: a credit card with a magnetic stripe, a chip card and contactless.

Telekom extended the **Family Assistant service**, designed to improve the lives of the elderly and chronically ill people and their relatives. The company began providing services on preferential terms throughout towns and municipalities. The elderly, sick people and their relatives can now activate the service even more easily.

In 2016 Telekom expanded the **Pôjdeto** paid consultancy and maintenance services from five to thirteen service kiosks.

WHOLESALE SERVICES

In 2016 Telekom surpassed the excellent results from the previous year in the wholesale, achieving more than six percent growth in revenues from telecommunication services provided by other operators, thereby confirming its position as a significant player in terms of providing the services of other telecommunications operators on the Slovak wholesale market.

The revenue growth was contributed mainly to wholesale mobile services as well as services for wholesale broadband access to the Internet. In the area of wholesale data products Telekom improved the quality of services provided by the partial automation of their creation, which was reflected on the success of individual sales data solutions for wholesale partners.

In 2016 Telekom took the first steps in the field of consolidating the international voice business within the DT Group. The consolidation brings company new possibilities to make expenses more effective for outgoing international calls.

LEGISLATIVE CONDITIONS AND MARKET REGULATION

LEGISLATIVE CONDITIONS

In mid 2016 the amended provisions of Act no. 351/2011 Coll. on electronic communications as amended came into force introducing the directive on reducing the cost of building high-speed networks. In the second half of 2016, these provisions had not yet managed to have an effect. In this period Slovak Telekom did not register nor express increasing interest in the use of different infrastructure suitable for building high-speed networks under the aforementioned provisions. Proposals for amendments to the Act were also submitted due to technical legislative adjustments stemming from the European Parliament and Council Regulation (EU) 2015/2120 of 25 November 2015, establishing measures concerning access to the open Internet, and amending Directive 2002/22 / EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the Union (hereinafter referred to as the "Regulation").

The regulation aims to establish common rules to ensure equal and non-discriminatory treatment regarding operations pertaining to the provision of Internet access and the related rights of end-users with emphasis on the protection of end users and respect for the principle of technological neutrality. Reforms in the area of roaming are governed by new mechanism for the formation of retail prices for regulated roaming services throughout the Union to abolish retail roaming surcharges without disturbing domestic and visited markets.

MARKET REGULATION

The main event in 2016 was the continuation of the EU roaming regulation: after several rounds of consultation, The European Commission issued rules specifying the possible practices for the appropriate use of EU roaming for domestic prices and allowed operators to apply an add-on on roaming prices, should roaming in the EU generate substantial losses.

From the list of six regulated markets relevant to the outcome of the three-criterion test by the Regulatory Office with effect from the 25th of February 2016, the wholesale market for call origination on the public telephone network provided at a fixed location were discarded. Simultaneously on 7 November 2016 based on the analysis, the high-quality broadband access market was deregulated due to the absence of significant position held by some of the enterprises.

Throughout 2016 Slovak Telekom was regulated on the basis of regulatory decisions on the designation of Slovak Telekom as a significant undertaking, including price regulation on the four relevant markets:

- Wholesale services of the termination of calls in individual public telephone fixed line networks
- Wholesale services of the termination of voice calls within individual mobile networks
- Wholesale local access services provided at a fixed location
- Wholesale central access services provided at a fixed location for products intended for the mass market

In 2016 the Regulatory Office finished the 3rd round of local, central and the high quality access in fixed locations as well as the 4th round of analysis of call termination in individual mobile networks and individual public phone networks offered in the fixed line. Based on the analysis results new regulatory obligations for the local and central access markets were proposed and should be valid as of the second quarter of 2017.

Regulatory obligations in markets for call termination by the Regulatory Office remained unchanged with the exception of the proposal for deregulation of call termination originating from countries outside the EU / EEA. Furthermore, the Regulatory Office has realized revision of the model for calculating termination rates in individual mobile networks following introduction of LTE technology. The same step is being expected in the case of the model for calculating termination rates in the individual public phone networks offered in the fixed line due to the migration to the IP-based network.

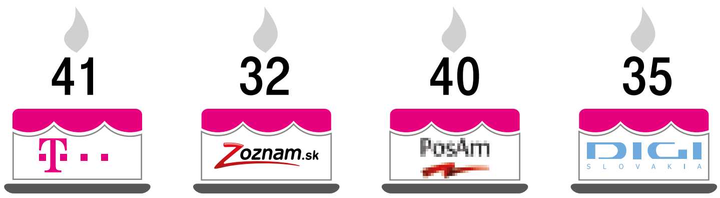
In addition to the said regulation, by the Regulatory Office Slovak Telekom remained in the year 2016 also the provider for universal service and with the obligation to provide disabled users equal access to telephone services, operator services, information services and the provision of a list of participants, as well as access to special terminal equipment appropriate to the respective disability for the rate of standard end user products remained.

HUMAN RESOURCES

EMPLOYEES

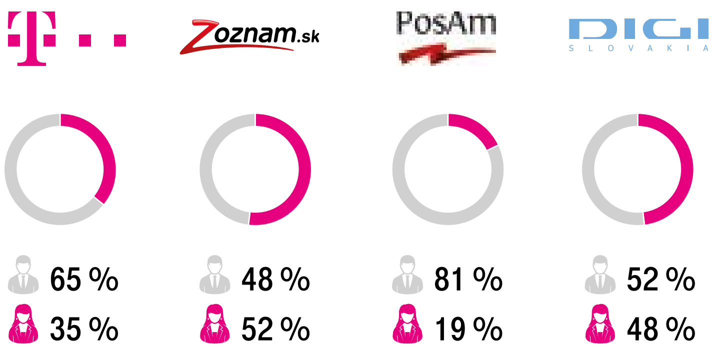
In 2016 Slovak Telekom employed **2,795** internal employees. In the same period Zoznam and Zoznam Mobile employed a total of **64** internal employees, PosAm **268** and DIGI Slovakia **141**.

The average age of employees in Slovak telekom and its affiliated companies was the following in 2016



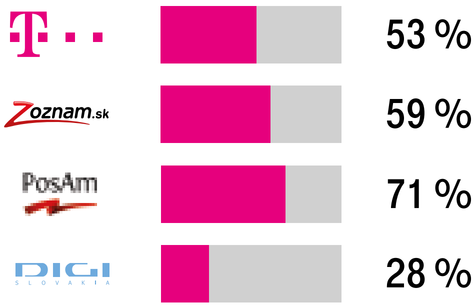
According to data provided up until the last day of 2016, the average age of an employee at Slovak Telekom was **41**, in the case of Zoznam and Zoznam Mobile the average age was **32**, in PosAm **40** and in DIGI **35**.

Representation of men and women in Slovak telekom and its affiliated companies was the following in 2016



Amongst employees in full-time employment at Slovak Telekom about **65%** were men and **35%** women. Zoznam a Zoznam Mobile employed **48%** men and **52%** women, PosAm **81%** men and **19%** women and DIGI **52%** men and **48%** women.

Percentage of university graduates in Slovak telekom and its affiliated companies. the remaining employees completed secondary school with a final school leaving exam.



53% of Slovak Telekom employees were university educated, **47%** of employees were high school educated. The ratio in Zoznam and Zoznam Mobile was **59%** university educated and **41%** high school educated. PosAm employees are **71%** university educated and **29%** high school educated. With DIGI these figures were **28%** university educated and **72%** high school educated.

REMUNERATION

In 2016 Slovak Telekom maintained a fair and competitive wage policy and remuneration schemes that reflected the situation in the IT and telecommunications sector in Slovakia. Employees were remunerated on the basis of individual performance, which directly affects the amount of paid variable part of the salary / individual bonuses and special bonuses. Part of the wage policy was the payment of corporate bonuses stemming from the company's financial results.

TRAINING AND DEVELOPMENT

In 2016 Slovak Telekom implemented 780 internal and external training activities with 7600 participants. The average external cost for training per employee amounted to 270 Euro. Internal coaches ensuring development of the front liners logged 10 700 training hours. The number of e-learning courses exceeded 39 000. 19 webinars took place and a total of 500 employees were trained.

COOPERATION WITH SCHOOLS

The aim of last year's activities was to raise real employer brand awareness. At the same time the company focused on Generation Y, through lectures at schools and events and personal experience with staff and employees and additionally supporting several non-profit and student organisations.

Slovak Telekom continued to support the **You Too in IT** project which aims to raise awareness of IT studies amongst female students and thus increase their interest in such studies. Students received the opportunity to participate in the Telekom Girls Day.

In collaboration with start-ups the first innovative hackathon under the name of **Innovation Hack** took place in cooperation with Impact Hub. More than 50 participants from 5 countries attended. In 48 hours 10 final ideas and prototypes were created based on the designated challenges.

In 2016, Slovak Telekom participated in career events for students - **'Night Of Chances - Business and Technology'.** In cooperation with the Nexteria organisation the **'Nexteria Leadership Academy'** and a term project were prepared, providing the opportunity to work on real case-studies.

In 2016 the **Trainee program** was launched, with the aim of finding the most appropriate students with growth potential and creating future colleagues from them. The trainee starts a specific project, gets to know the company and environment in order to become employed there after finishing school.

Throughout the year Slovak Telekom organised numerous excursions, seminars focused on technicians.

COMMUNICATION

EXTERNAL COMMUNICATION

As turbulent external factors affect and change business, the shape and content of external communication accordingly changes too. Every year, the world media embraces new technologies and innovations, even in the form of new communication channels that need to be reacted to immediately.

Slovak Telekom has long maintained a large number of media outlets and in 2016 the number exceeded 3,000. The external communication does not cover only media questions. By virtue of the revised strategy, external relations and the high anticipation of potential risks, crisis communication, or vice versa, anticipating potential is a key partner in several departments of the company.

2016 can be seen in terms of external communications from two perspectives. The number of customer suggestions substantially and exponentially increased - especially on social networks, a source also drawn on by media representatives.

At the same time, the past year was marked by the historically most active proactive communication towards "the seventh power" (the media itself). Thanks to new technological challenges and launches in the business segments, **a record-breaking 20 journalistic events** were held in 2016.

The year began with the introduction of several hardware innovations and the **A Mobile Every Year** service and soon after the proud triumph in the independent **Best in Test** for mobile networks was repeated. Slovak Telekom scored a hit with the new **At home at the neighbours** roaming innovation, followed by publicity given to a game application for dementia research named **Sea Hero Quest**. Mid year the advantageous and **Magenta 1** and **Magenta 1 Business** programs stood out, bringing customers a totally new concept of combining products and services.

The summer brought the hi-tech event on the Magio beach, where Slovak Telekom - as the first in Slovakia - presented **900 Mbps on the 4G networ**k.

Autumn once again belonged to branded themes such as the **Telekom Night Run**, but above all the unique campaign during the Week of the Hearing-Impaired, where Slovak Telekom introduced the **Online interpreter**. The beginning of winter is traditionally reserved for **Christmas propositions and campaigns** that in 2016 were based on the ambassador and "media magnet" Peter Sagan.

All year long, topics resonated in following areas: the expansion of the 4G network, fixed network expansion, publication of our financial results, flagship device launches from prestigious brands, as well as new features and content for Magio TV, Digi TV and Ťuki TV channel.

INTERNAL COMMUNICATION

2016 was the year of joining forces. Under the moniker of Elan (enthusiasm) the process of merging the management of T-Mobile CZ began. It was a challenge even for internal communication. Managerial communication was significantly strengthened, as were the intensity and extent of communication tools for management meetings, newsletters and the Elan microsite helped to manage the process. Standard tools in the form of direct mail, intranet, video messaging and personal meetings and prints were are an essential part of communication.

We didn't forget the products and services – alongside which we focused on supporting our strategy as a Trusted Innovator - all the latest news and important information could be found on the staff intranet, electronic communication was also used, as was texting to staff. A popular part of the internal communications consisted of short image and instructional videos (e.g. a personal greeting from top management, and educational videos on our products). The staff magazine supported knowledge of new products and services, new trends in technology, facilitating mutual understanding among employees. The communication of certain areas and products was supported by a contest in which several thousand people participated. The dissemination of information was helped by posters in internal areas, and webinars (online video presentations).

Special attention was paid to communing the launch of the new prepaid Juro ! card, in addition to conventional communication platforms we also took advantage of special promotions with the theme of folk music and dancing at corporate buildings across the country.

Throughout 2016 Telekom supported a program to encourage the search for new employees for selected vacant positions in the company under the name EMPLOYEE TIP.

In the second half of the year the company's management met employees in regions during the Roadshow. Video recordings of the meetings were also available on the intranet. At the meetings, management presented all the relevant economic factors, the objectives and strategy of the company, and provided motivation for the upcoming period.

MARKETING COMMUNICATION

2016 for Telekom kicked off with a repeat victory in independent P3 Communications tests and for the whole year Slovak Telekom brand communication was produced within the line of the **best network** in which **#nicniejenemozne** (meaning nothing is impossible).

Telekom's achievements match the success of its ambassador and historically the most successful Slovak cyclist Peter Sagan. The story of Telekom’s connection with Peter Sagan had a natural follow-on when Telekom came up with the symbol of the fastest 4G network (S**4G**AN) for aspiration, something which unified year round communication (in the bestnetwork #nicniejenemozne).

The first, innovative approach represented the true face of Peter Sagan. In the campaign he was not presented only as a cyclist - but as a person during a visit to the hairdresser’s, in Prague, at the gym and in the distant future. Promotional stories bring customers new promotions of mobile and data services (A Mobile Every Year, online services, "infinite" external batteries).

At the Tour de France, Peter Sagan defended the green jersey for the fifth consecutive year, and Telekom again clothed itself in green during the victorious evening by lighting up Slovak Telekom headquarters – the high-rise building in Bratislava on Bajkalská street – transformed into a symbolic green monument. During the race Telekom supported Peter with a group of fans in an eye-catching FAN BUS, which brought other exclusive content for fans.

The second communication course covered effective Magenta 1 bundles. The new feature within the **Magenta 1 Group** brought a new dimension to the possibilities of connecting services and benefits for the groups (unlimited calls, cheaper mobile devices etc.). The creative direction of the international campaign was represented by the **No.1 Dad** concept with the advertising stories of different fathers - who thanks to the special offers from Telekom – covered their family at the top level.

In the summer the Slovak media strongly resonated with a international campaign made by Deutsche Telekom. The hero of the story – blind tenor **Andrea Bocelli** presented a message of how the best network cannot be seen, but can be felt in an image campaign. It connects us to our loved ones every step of the way and always when we need it to.

The **Sea Hero Quest** goodvertising campaign that Slovak Telekom initiated was a great success. This was the first mobile game in the world that helped scientists with dementia research. Telekom received the bronze award at the Zlaty Klinec (Golden Nail) awards for its innovative campaign drawing attention to the fact that dementia is not an insult, but a disease. The game shone at the prestigious Cannes Lions creativity festival, where it won 9 awards.

Slovak Telekom has provided long-term support for the **hearing-impaired**. Traditionally, during the fourth week of September Telekom attempts to increase awareness of the problems associated with the hearing-impaired. The basic message of the campaign was a demonstration of the need for understanding each other, because for the non-hearing-impaired it is very difficult, perhaps even impossible to introduce a "world of silence" and the isolation of the hearing-impaired. The heroine of the In tune with the world campaign was a sign language interpreter who tuned the Slovak Radio Symphony Orchestra in a TV commercial. The main character also works for the online translator service that Telekom developed for hearing-impaired customers, allowing them to more easily and more independently solve everyday issues such as visiting the doctor or state offices where without the assistance of an interpreter they encounter communication barriers.

Telekom's content on social networks has long been of high quality, which did not fail to escape the attention of **Socialbakers**, a company that is among the most respected in the area of evaluating of social networks. During the year, Telekom won several firsts - in March Telekom became one of the 5 fastest growing brands, and in July Telekom literally dominated Facebook with the most successful Slovak post – when Peter Sagan won the green jersey.

Last year brought Telekom an award at the Telekom Media and Communications Awards, where the company won the **People's Choice** for the best year-round brand communication for the S4GAN campaign.

The most popular city event – The Magio Beach celebrated its jubilee 10th anniversary. The beach was open for a total of 87 days and attracted 310 000 visitors. Telekom presented technological gadgets in the Techlounge shipping containers at the **Magio Beach** - retro versus modern homes, virtual reality from Samsung, a test of the fastest network and vloger workshops. The main theme for the 10th anniversary was sport and the Summer Olympics. By partnering with the Slovak Olympic Committee, Magio beach hosted our successful Olympians. A creative, great anti-stress painting – was prepared for the jubilee by artist Nina Weisslechner.

CORPORATE SOCIAL RESPONSIBILITY

THE SLOVAK TELEKOM GROUP RESPECTS THE PRINCIPLES OF SOCIAL RESPONSIBILITY AND THROUGHOUT THE YEAR EVERY COMPANY WITHING THE GROUP IMPLEMENTS NUMEROUS ACTIVITIES IN THEIR RESPECTIVE FIELDS.

SLOVAK TELEKOM

Slovak Telekom has long been behind the conviction that corporate responsibility can not be supported without continuity. There are many applications and the needs for which where society would welcome a helping hand – are in their thousands.

As we represents a long-standing and stable pillar of the Slovak business environment, our commitment to the community where we do business grows proportionately to the length and success of our being and we prefer systematic actions that lead to major changes.

The primary focus for our people and our activities in the area of corporate responsibility is to lead to change in the quality of life for those who are touched by our business. This is the wider community in which we operate, our customers, our employees and contractors, and of course - a friendly approach towards the environment.

One of our regular activities that strive for systemic change is a long-term support for the **Hearing-impaired**. Training courses undo myths and bring non-hearing-impaired people closer to the culture of hearing-impaired people and sign language. We have had five years of supporting hearing-impaired entrepreneurs. Currently, we are focusing primarily on families with children with hearing impairments.

Slovak Telekom was behind the **Mobile teacher** project in 2016, during which trained professionals visited the families of hearing-impaired children and helped them to overcome their everyday pitfalls. The project consists of several factors, but the essence is to support early intervention through experts who visit the family homes and teach mothers and fathers to learn to develop the speech and understanding their children. They also provide important psychological support. Another factor is promoting the involvement of parents and the sharing of their experiences.

Via **Teach for Slovakia, Comenius Institute** and **Edumy** Telekom supports education. In collaboration with **Impact Hub** we support social start-ups. We focus predominantly on supporting projects and activities that are likely to bring about change in our society.

Our employee grant program has enjoyed great popularity for many years and **helps the community**, thanks to which from January, 35 non-profit organisations began to implement their projects.

Overall, in 2016 through the Telekom Endowment Fund we allocated 618 329 Euro to 109 projects in various fields.

The most important CSR activities in 2016

JANUARY

Helping Landmarks

Last year was the twelfth year of our grant program for Telekom employees titled "Helping Landmarks" and 45 projects participated. The expert commission could hand out 30 000 Euro, the financial support up to 2 500 was awarded to 24 of them. When reviewing requests we took into account the urgency of action in restoring monuments, the long-term impact of the project and the involvement of other entities. Among the supported sites were for example Tematín Castle, Lietava Castle and Strečno Castle.

FEBRUARY

Family assistant

Slovak Telekom - in collaboration with Falck SK rescue system - expanded the availability of the service to other cities in Slovakia which integrated the service into their portfolio of care for the elderly and people with reduced health capability. In February, Family Assistant received a nomination at the Mobile World Congress in Barcelona between the nominated projects in the "The Connected Life Awards - Best Mobile Innovation for Health" category.

MARCH

Helping the community

In the thirteenth year of the grant program called "Helping the community" 75 colleagues became involved. The expert commission allocated over 30 000 Euro. Financial support of up to 1 000 Euro was awarded to 34 of them. The grants are largely represented by schools, mainly primary schools or kindergartens which will be able to enrich their activities and improve their equipment and facilities.

APRIL

Good Angel partnership

As part of the tenth anniversary of the Good Angel non-profit organisation we prepared an advertising campaign aimed at a socially beneficial project within our marketing efforts. The TV and print campaign managed to convince 6212 customers in their invoices to pay part of the funds to families where a member is diagnosed with cancer.

MAY

The global launch of Sea Hero Quest

Slovak Telekom introduced the innovative Sea Hero Quest mobile game, which is fun to play while helping a good cause. It is the first mobile game in the world that can help scientists in dementia research. In the first six months the game made in cooperation with Deutsche Telekom was downloaded over 2.5 million times.

JUNE

Bratislava Impact Hub Partnership

Slovak Telekom and Bratislava Impact HUB organized an "Innovation Hack" - hackathon for top hackers. The challenges and solutions were created with respect to our products and services. Contestants had 48 hours to upload a complete case study on the chosen topic.

JULY

Thinking of cleaner air

During the complete reconstruction of the Slovak Telekom building in Košice service technology using waste heat for re-heating was installed. Through the reduction of heating requirements we succeeded in saving 50 MWh of consumed energy, accounting for about 25 tons of CO_2 in one year.

AUGUST

No limits

Magio Beach changed over the summer to a place that has no limits. An event took place here of the same name, which interlinked regular visitors with people who have certain obstacles in their lives. During the whole event Online Living library projections were screened, in the form of videos telling different stories of the disabled and otherwise discriminated people to schools, non-profit organisations and online portal businesses.

SEPTEMBER

Online interpreter

As part of the International Day of the Hearing-Impaired, we introduced the Online interpreter service. In cooperation with the Pontis Foundation, which operates a contact center for users, we allow hearing-impaired people to connect online with a professional interpreter. The online service interpreter now features a specially adapted product - Mobile Internet L for the Hearing-impaired with 15 GB of data from 0.99 Euro per month.

OCTOBER

Anti-corruption e-learning

The anti-corruption campaign in the internal environment sought to retrain e-learning through relevant jobs. The effective internal campaign involved the training of 66.7 % of respondents, which means that 598 employees benefited from this form of training.

NOVEMBER

The Dibuk Saga

At the end of the year we launched a new product for book lovers called The Dibuk Saga. An E-book reader is designated – alongside the general population – for the population that has some form of dyslexia and difficulties with reading and comprehension. Thanks to a specially developed Dyslexia font reading is much more enjoyable for this target group.

DECEMBER

Anti-corruption day

An integral part of the presentation of ethical principles was the International Day against Corruption, in which Telekom employees held a meeting with Zuzana Caputová - an activist, lawyer and a member of the Via Iuris civic association.

ZOZNAM

In compliance with corporate culture, Zoznam s.r.o. prepares targeted activities for the development of the concept of corporate responsibility. Zoznam regularly supports non-profit organisations, civic associations and humanitarian organisations and assists with the fulfilment of strategic goals in the third sector. In 2016 Zoznam supported the following civic association non-profit organisations by providing free media coverage: The League against Cancer, Červený nos (Red Nose) Clowndoctors, Želaj si (Make a Wish), Pluto, Úsmev ako dar (A Smile as a Gift), Savio and Magna Deti v núdzi (Children in Need), the Kvapka nádeje (Drop of Hope) Foundation, Plamienok, UNICEF, the Child Safety Line, the Moonlight Camp civic association, DOBRÝ ANGEL (Good Angel),The Children's Foundation and the 2016 Appelia cup – the Slovak children's home football world championship and the 2016 Stars for children charity event.

The company supports the Konšpirátori.sk initiative (Conspirators) through the membership of executive manager Martin Mác in the evaluation committee. Conspirators.sk provides advertisers with lists of untrustworthy, deceptive propaganda spreading websites where advertising is not recommended.

In 2016 Zoznam became a permanent member of the Advertising Board as a natural result of the continuous activities of the company in the area of cultivation advertising in the online environment. Zoznam, as the operator of internet portal, cares if the advertising located on its websites is in line with ethical standards. Each advertisement is analyzed for its content before publication in addition to the corresponding technical parameters. Zoznam takes the same approach with its own promotion. Participation in the Advertising Board is an active effort to contribute to the spread of fair, legal, and ethical advertising, which will ultimately benefit all parties involved in marketing communication and especially for advertisers and consumers.

DIGI SLOVAKIA

DIGI SLOVAKIA applies corporate responsibility in its business principles through which it acts responsibly not only in its business decisions and strategies, but also in its environmental conduct and the social impact its business operations has. The Company creates the mutual trust with its clients based on the individual approach to values, reliability and openness.

In 2016 DIGI SLOVAKIA supported the following events: Beach sports week, the Carpathian triathalon, Cyclomarathon, Hviezdy detom (Stars for Children), Hviezdy deťom, Orava Man Tour, Dobšinský kopec, MS triathlon, Zombie Run, Zebratour Badmington, Fusion Fight Night, Star for Stars, Slovakia Ring, Bikefest, Nitrava Cup and many others. DIGI Slovakia became a partner of the artist and journalist football team known as Mufaza, the Fandime spolu (supporting together) initiative and the Bratislava Slovan ice hockey club.

POSAM

PosAm helped to improve the teaching of computer science at the University of Economics. Bratislava Economic University Faculty of Informatics students are now taught in a computer lab with new equipment. Help for schools was initiated by Peter Kolesar - director of Public Administration at PosAm - who graduated from the Bratislava University of Economics back in 1997. Today, as the manager of a successful IT company he felt committed to his alma mater and helped it in this way.

DIGI SLOVAKIA

SERVICES AND PRODUCTS

Nová DIGI satellite TV

The Nová DIGI service continued to be provided independently and its customers have a choice of 2 main packages and 3 supplementary packages. The STANDARD package provides more than 66 programs for a long term unchanged price of 9.60 Euro per month. The MAXI package brings more than 99 programs for 12.90 Euro per month.

New complementary packages include EXTRA SPORT HD +, which 6 sports channels in HD for 4 Euro per month (DIGI Sport 1 HD, Digi Sport 2 HD, Digi Sport 3 HD, Digi Sport 4 HD, Sport 1 HD and Sport 2 HD). The EXTRA HBO package (HBO HD, HBO2 and HBO3) remains in the offer and continues to provide the best price on the market at 6 Euro per month. The new package EXTRA HU+ brought 28 of the most watched Hungarian channels for 3.30 Euro a month and replaced the original EXTRA HU package with 16 channels.

From March 2016 customers - in addition to the classic set-top box – received the opportunity of using CA Modules which allow comfortable viewing of satellite TV programs without an additional device.

In May 2016 DIGI Slovakia revealed new firmware for Kaon HD set-top boxes that improves stability and brought new updates for the set-top box interface menu. Its main improvement was the import of TV channel list that each customer can easily create with the new web application and via a USB key, this list will automatically load into the set-top box.

Cable television and internet

At the end of 2016 DIGI SLOVAKIA brought innovation to its cable television service and launched the MAXI package with 90 channels for 11.60 Euro per month. The Maxi package previously existed only for satellite TV. The STANDARD package received 25 additional programs. Additional packages EXTRA ŠPORT HD+ and EXTRA HBO were offered in the same price range as for satellite television. The EXTRA HU+ package includes a total of up to 18 Hungarian channels for 3.30 Euro per month.

DIGI SLOVAKIA continues to provide internet that can be purchased as a standalone service or bundled with cable TV for a special price. The choice of two programs are: INTERNET Maxi with speeds of 50/25 Mbps and the INTERNET Standard with 30/15 Mbps.

DIGI Sport channels

In 2016 DIGI Sport TV and five channels brought hundreds of monthly live broadcasts of the most prestigious football leagues, such as the English Premier League, the Spanish La Liga and the UEFA Champions League. The first two aired in Slovakia and the Czech Republic, the third in Slovakia. For major football fans the Scottish Football League Premiership and 2nd England Sky Bet Championship league were provided.

In addition to football, viewers could also enjoy Diamond League athletics, men's basketball Euroleague competition, Czech Ice Hockey Tipsport Extraleague and at the end of the year the oldest hockey tournament in the world – the Spengler Cup. DIGI Sport brought cycling, kickboxing, European Air Rifle Championship, martial arts and many other events.

DIGI GO mobile television

DIGI GO is an application for smartphones and tablets that allows you to watch TV sports programs in real time on up to two devices simultaneously. In 2016 DIGI GO provided the DIGI Sport channels 1, 2, 3 and 4, to which in August 2016 the Sport 1 and Sport 2 channels were added. In order to use mobile TV, both available Internet connection and a compatible devices running Android or iOS are required.

HUMAN RESOURCES

In 2016 DIGI Slovakia had 141 internal employees with an average age of 35. Men made up 52 % of the DIGI Slovakia full-time staff, with women accounting for 48 %, 28 % of DIGI Slovakia employees had a university degree and secondary school graduates accounted for 72 % of the staff.

The company continued its new employee assessment scheme in 2016 with the intent of establishing uniform principles for remuneration. Front line staff was subject to a progressive remuneration scheme and motivation programs supporting the business performance of the company. The company provides new employment benefits and continued to extend its portfolio of staff discounts provided by partners.

As part of its staff development program, DIGI Slovakia continued developing management skills and new styles of leadership for staff in management positions. As part of a complex development program DIGI supports the career development of internal staff. For front line staff DIGI provides sales skills training.

DIGI Slovakia pays attention to the working and social conditions of its employees and to their health and safety at work, primarily concentrating on prevention and a system of cyclical training for employees.

ZOZNAM AND ZOZNAM MOBILE

PRODUCTS AND SERVICES

The progressive trend of visiting websites from mobile devices was the reason for creating mobile versions of the Telkáč Magazine product. The **Telkáč.sk** portal provides current a TV program guide and also includes a specialized magazine (Telkáč Magazine) focused on the events from the TV and film environment. In the past, visitors were only able to browse TV programs on mobile devices. In the 2016 Zoznam launched the magazine section of **Telkáč.sk** section of the site optimized for mobile phones.

Zoznam redesigned the information sub-page for the public and clients - **media.zoznam.sk**. In addition to a complete responsive redesign, an interactive "Tailor made" form for advertisers was included. Those interested in advertising through the completed form obtain basic information about the most efficient space for the campaign.

In addition to the innovation of services for end users, the company also developed new services and advertising opportunities for clients, including more efficient ways to serve up ads:

- The launch of the new HTML5 player with the individual online magazine preroll function
- The creation of a content department for creating native ads
- The launch of cooperation with Strossle.com in order to improve linked content quality
- The launch and optimising of the **videoinsider** advertising format in collaboration with ETARGET.

HUMAN RESOURCES

Standing the 31st of December 2015, Zoznam had 61 employees, Zoznam Mobile employed 3. The average age of an employee at Zoznam was 32, in case of Zoznam Mobile the average age was 35.

Out of all of the Zoznam's employees in 2016 52 % were women and 48 % were men, in Zoznam Mobile these figures were 33 % women and 67 % men in 2016.

POSAM

COMPANY PORTFOLIO

Software solutions

PosAm develops complex information systems based on individual client requirements and implements its own unique solutions. Key competencies are in the area of public finance budgeting, promotion of core processes in insurance and energy, IT service management and workforce management, authorization of persons and the digital signature of documents. PosAm has a strong position in SAP implementation.

Infrastructure solutions

PosAm designs, implements, operates and provides independent and integrated infrastructure component services. The company is a leader in building cloud-based solutions in Slovakia. PosAm holds a significant market share, more than a quarter of corporate storage systems, where it is a key partner for solutions from Hitachi Data Systems.

Outsourcing

PosAm provides operational IT services, customer care, warranty and post-warranty service to leading companies in Slovakia in the energy, telecommunication, banking and insurance sectors. PosAm is currently the number three in Slovakia and continues to solidify its standing.

ACTIVE SEGMENTS

Banking and insurance

PosAm provides application and infrastructure solutions and operational services for the clients from the banking sector. Software solutions are focused on increasing retail efficiency – such as innovative electronic document authorization and identity management processes. The infrastructure field is dominated by information storage and management. IT outsourcing for key market players plays a significant role.

In terms of insurance PosAm provides solutions to support key processes - sales, customer relationship management, claims settlement and fraud management. The flagship in the portfolio is the latest generation of sales system that supports omnichannel sales strategy. In the field of services, IT outsourcing is a growing trend – one of PosAm's strongest competences.

Industry and telecommunications

PosAm provides software and infrastructure solutions and outsourcing services for the industry segment.

The supplied software systems are designed for the management of executives, authorization and document signing. Within set-up and transformation of IT infrastructure, the PosAm is specialized in storage solutions and comprehensive IT infrastructure consolidation- Outsourcing services include operational IT services and service desks.

In the telecommunications sector, the core of software deliveries are SAP-based solutions and management IT solutions with the international reach. Infrastructure solutions are dominated by building Cloud and data centers.

State Administrations and Local Governance

In the state administration and local government segment PosAm has been involved for a longer period in software development aimed at supporting the main processes in the field of public finance. Years of experience and competence also make PosAm experts in this domain in the wider region.

In public finance, PosAm's software solutions predominantly cover preparation, approval, amendments, monitoring, assessment and consolidation of budgets at all levels of state administration, as well as local governance. The preparation of public administration budgets is facilitated by a solution developed by PosAm: the Budget Information System (RIS) - representing an inevitable prerequisite for the functioning of the state treasury.

Information systems designed by PosAm also facilitate the processes of collecting, storing and utilizing information in the financial statement register, coordination, preparation, performance and evaluation of government audits, in addition to the management of development aid financing.

We implement the most important international project

The operation and support of telecommunications services in the Allianz Group through the Servio platform is the biggest PosAm success of the year within the announced international expansion. This was achieved thanks to close cooperation with Slovak Telekom. For the application support service desk, service management and monitoring Slovak Telekom chose PosAm Servio. The first countries in the Allianz Group to start using the PosAm Servio platform in managing their telecommunications services are the Czech Republic and Croatia.

03 FINANCIAL STATEMENTS

Slovak Telekom, a.s.

CONSOLIDATED FINANCIAL STATEMENTS

prepared in accordance with International Financial Reporting Standards (IFRS) and Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Slovak Telekom, a.s.:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovak Telekom, a.s. (the "Company") and its subsidiaries (together the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the section *Auditor's responsibilities for the audit of the consolidated financial statements* of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 29 to these consolidated financial statements, which describe the infringement decision of the European Commission against the Company and the implications thereof. The ultimate outcome of the related proceedings cannot presently be determined.

PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, Bratislava, 815 32, Slovenská republika
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The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

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Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the consolidated financial statements and (b) other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2016 is consistent with the consolidated financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Management's responsibilities for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

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from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Ing. Štefan Čupil, FCCA
UDVA licence No. 1088

Bratislava, 16 March 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Revenue	4	765,984	782,890
Staff costs	5	(127,745)	(129,295)
Material and equipment		(97,388)	(114,211)
Depreciation, amortization and impairment losses	11, 12	(181,750)	(189,052)
Interconnection and other fees to operators		(72,443)	(67,390)
Other operating income	6	14,408	10,991
Other operating costs	7	(209,285)	(193,504)
Operating profit		91,781	100,429
Financial income	8	3,387	2,036
Financial expense	9	(1,554)	(2,130)
Net financial result		1,833	(94)
Profit before tax		93,614	100,335
Income tax expense	10	(26,888)	(28,655)
Profit for the year		66,726	71,680

The financial statements on pages 39 to 80 were authorized for issue on behalf of the Board of Directors of the Group on 16 March 2017 and signed on their behalf by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Guido Manfred Menzel
Vice-chairman of the Board of Directors

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Profit for the year		66,726	71,680
Other comprehensive income			
Loss on remeasurement of available-for-sale investments	18	(9)	(115)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		(9)	(115)
(Loss) / gain on remeasurement of defined benefit plans	23	(1,177)	757
Deferred tax income / (expense)	10	228	(166)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		(949)	591
Other comprehensive income for the year, net of tax		(958)	476
Total comprehensive income for the year, net of tax		65,768	72,156

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2016	2015
ASSETS			
Non-current assets			
Property and equipment	11	742,495	766,533
Intangible assets	12	351,677	372,172
Deferred tax	10	1,219	1,066
Other receivables	14	1,240	1,179
Prepaid expenses and other assets	15	13,226	13,356
		1,109,857	1,154,306
Current assets			
Inventories	16	16,617	11,983
Investments at amortized cost	17	-	3,120
Available-for-sale investments	18	-	31,079
Term deposits	19	4,422	31,533
Loans	20	180,000	45,000
Trade and other receivables	14	112,615	100,368
Prepaid expenses and other assets	15	12,202	8,562
Current income tax receivables		521	1,550
Cash and cash equivalents	21	56,182	76,440
		382,559	309,635
TOTAL ASSETS		1,492,416	1,463,941
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	22	864,113	864,113
Statutory reserve fund	22	172,823	172,823
Other		(2,351)	(1,400)
Retained earnings and profit for the year		69,979	72,996
		1,104,564	1,108,532
Non-current liabilities			
Deferred tax	10	95,140	106,661
Provisions	23	26,145	22,726
Other payables	24	7,118	5,074
Other liabilities and deferred income	25	3,380	3,363
		131,783	137,824
Current liabilities			
Provisions	23	34,162	9,962
Trade and other payables	24	147,238	137,014
Other liabilities and deferred income	25	70,620	68,286
Current income tax liabilities		4,049	2,323
		256,069	217,585
Total liabilities		387,852	355,409
TOTAL EQUITY AND LIABILITIES		1,492,416	1,463,941

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2015							
At 1 January 2015		864,113	386,139	172,823	(1,907)	187,558	1,608,726
Profit for the year		-	-	-	-	71,680	71,680
Other comprehensive income		-	-	-	476	-	476
Total comprehensive income		-	-	-	476	71,680	72,156
Transactions with shareholder							
Distribution to shareholder and other changes in equity	22	-	(386,139)	-	31	-	(386,108)
Dividends	22	-	-	-	-	(186,242)	(186,242)
At 31 December 2015		864,113	-	172,823	(1,400)	72,996	1,108,532
Year ended 31 December 2016							
At 1 January 2016		864,113	-	172,823	(1,400)	72,996	1,108,532
Profit for the year		-	-	-	-	66,726	66,726
Other comprehensive income		-	-	-	(958)	-	(958)
Total comprehensive income		-	-	-	(958)	66,726	65,768
Transactions with shareholder							
Other changes in equity		-	-	-	7	-	7
Dividends	22	-	-	-	-	(69,743)	(69,743)
At 31 December 2016		864,113	-	172,823	(2,351)	69,979	1,104,564

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Operating activities			
Profit for the year		66,726	71,680
Adjustments for:			
Depreciation, amortization and impairment losses	11, 12	181,750	189,052
Interest income, net		(2,098)	(606)
Income tax expense	10	26,888	28,655
(Gain) / loss on disposal of property and equipment and intangible assets		(966)	335
Other non-cash items		3,446	6,854
Movements in provisions	23	23,616	(26,641)
Changes in working capital			
Change in trade and other receivables		(20,284)	2,928
Change in inventories		(5,515)	(774)
Change in trade and other payables		11,186	(49,458)
Cash flows from operations		284,749	222,025
Income taxes paid		(35,580)	(28,498)
Net cash flows from operating activities		249,169	193,527
Investing activities			
Purchase of property and equipment and intangible assets	11,12	(118,504)	(99,516)
Proceeds from disposal of property and equipment and intangible assets		5,473	1,228
Proceeds from disposal of available-for-sale investments		35,057	170,276
Disbursement of loans		(185,000)	(205,000)
Repayment of loans		50,000	310,000
Acquisition of term deposits		(4,262)	(57,230)
Termination of term deposits		31,430	244,859
Interest received		1,328	6,770
Other charges paid for investing activities		-	(115)
Net cash flows (used in) / from investing activities		(184,478)	371,272
Financing activities			
Dividends paid	22	(69,743)	(186,242)
Share premium paid	22	-	(386,139)
Repayment of other financial liabilities	12, 24	(14,291)	(8,071)
Other charges paid for financing activities		(915)	(1,059)
Net cash used in financing activities		(84,949)	(581,511)
Effect of exchange rate changes on cash and cash equivalents		-	85
Net decrease in cash and cash equivalents		(20,258)	(16,627)
Cash and cash equivalents at 1 January	21	76,440	93,067
Cash and cash equivalents at 31 December	21	56,182	76,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

These consolidated financial statements have been prepared for Slovak Telekom, a. s. ("the Company" or "Slovak Telekom") and its subsidiaries DIGI SLOVAKIA, s.r.o. ("DIGI"), PosAm, spol. s r. o. ("PosAm"), Zoznam, s. r. o. ("Zoznam"), Zoznam Mobile, s. r. o. ("Zoznam Mobile") and Telekom Sec, s. r. o. ("Telekom Sec") (together "the Group").

Slovak Telekom is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at Bajkalská 28, 817 62 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. For shareholders overview of the Company refer to Note 22.

Slovak Telekom is the largest universal multimedia operator in Slovakia offering residential and corporate clientele benefits of comprehensive solutions provided from a single source. Slovak Telekom offers a full-array of data and voice services, and owns and operates the fixed and mobile telecommunications network covering almost the entire territory of the Slovak Republic. In the field of the fixed network, Slovak Telekom systematically invests in the most advanced optical infrastructure, operates the Next Generation Network (NGN) and is the largest broadband provider in the country. As the first multimedia operator in the country, it offers the IPTV (Magio TV) and satellite TV (Magio SAT) via fixed networks and satellite technology DVB-S2. In the field of mobile communication, it provides as the only operator internet connectivity via five technologies for high-speed data transmission - GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA/HSUPA, FLASH-OFDM and LTE (as the first operator commercially launched services running on the LTE network). Slovak Telekom established and operates public mobile telecommunications networks over frequencies: 900 MHz and 1800 MHz under the standard GSM (Global System for Mobile Communications) to provide voice services. Slovak Telekom also provides wireless broadband internet access and Managed Data Network Services over frequencies 2100 MHz under the standard UMTS (Universal Mobile Telecommunications System), 800 MHz, 1800 MHz and 2600 MHz under standard LTE and 450 MHz under the Flash-OFDM standard. In addition, Slovak Telekom provides Fixed Wireless Access (FWA) over frequencies 26 GHz/28 GHz.

On 30 December 2013 the Telecommunications Office of the Slovak Republic granted to Slovak Telekom the license for the provision of mobile services on 800 MHz and 2600 MHz frequency bands (LTE license) valid until 31 December 2028. The frequency authorization granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services on 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 December 2025. The UMTS license for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections) is valid up to 31 August 2026. The 28 GHz frequency license granted by the Telecommunications Office of the Slovak Republic is valid until 21 December 2017 and 26 GHz frequency license is valid until 23 January 2018.

At 31 December 2016 and 31 December 2015, the Company had the following fully consolidated direct subsidiaries:

Name and registered office	Activity	Share and voting rights
DIGI SLOVAKIA, s.r.o., Röntgenova 26, 851 01 Bratislava	TV services, broadband services and TV channels production	100%
PosAm, spol. s r.o. Until 31 December 2015: Odborárska 21, 831 02 Bratislava Since 1 January 2016: Bajkalská 28, 821 09 Bratislava	IT services, applications and business solutions	51%
Zoznam, s.r.o., Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	100%
Zoznam Mobile, s.r.o., Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	100%
Telekom Sec, s.r.o., Bajkalská 28, 817 62 Bratislava	Security services	100%

All subsidiaries are incorporated in the Slovak Republic. Shares in the subsidiaries are not traded on any public market.

On 1 September 2013 the Group acquired 100% share capital and voting rights in DIGI.

On 29 January 2010 the Group acquired 51% of the share capital and voting rights in PosAm and obtained control of PosAm. The business combination was accounted for as if the acquirer had obtained a 100% interest in the acquiree due to existence of put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm to Slovak Telekom. The Group concluded that terms of the transaction represent a contractual obligation to purchase the Group's equity instrument. The fair value of such liability (i.e. present value of the redemption amount) has been reclassified from equity (non-controlling interest) to financial liabilities (Note 24). Accordingly, the consideration transferred includes the present value of the liability related to the acquisition of 49% of PosAm under the put & call options. There is no time limitation in respect of put option obligation (Note 24) and the put option obligation is presented in current liabilities as the put option can be exercised on demand.

On 31 August 2005 the Group purchased 90% share of Zoznam and 100% share of Zoznam Mobile. On 30 June 2006 the Group acquired the remaining 10% share in Zoznam.

Members of the Statutory Boards at 31 December 2016

BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairman:
- Kerstin Günther

Member:
- Franco Musone Crispino

SUPERVISORY BOARD

Chairman:
- Dr. Hans-Peter Schultz

Members:
- Ing. Denisa Herdová
- Miriam Kvočková
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag

There were no changes entered in the Commercial Register in 2016.

Deutsche Telekom Europe B.V. with registered office at Stationsplein 8 K, Maastricht, the Netherlands is the parent of the Company.

Deutsche Telekom AG, with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the ultimate parent of the group of which the Company is a member and for which the group financial statements are drawn up. The ultimate parent's consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except where disclosed otherwise.

The Group companies functional currency is the Euro ("EUR"), the financial statements are presented in Euros and all values are rounded to the nearest thousands, except where otherwise indicated.

The financial statements were prepared using the going concern assumption that the Group will continue its operations for the foreseeable future.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.18.

Statement of compliance
These financial statements are the ordinary consolidated financial statements of the Group and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS").
The consolidated financial statements are available at the Company's registered office, on the internet page of the Company and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December for each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using uniform accounting policies.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it has power over the investee defined as existing rights that give it the ability to direct the relevant activities; is exposed, or has rights to variable returns from its involvement with the investee; and has the ability to affect those returns through its power over the investee. In most cases, control involves the Company owning a majority of the ordinary shares in the subsidiary (to which normal voting rights are attached). The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

All subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. The consideration payable includes the fair value of any asset or liability resulting from a contingent consideration arrangement. If the amount of contingent consideration (a liability) changes as a result of a post-acquisition event (such as meeting an earnings target), the change is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Put option on share held in subsidiary by minority shareholders is classified as financial liability. The corresponding amount is reclassified from equity (non-controlling interest). Subsequent measurement of the liability is at amortised cost in accordance with IAS 39.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Costs directly attributable to the acquisition are expensed.

All intra-group balances, transactions, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2.2 Property and equipment

Property and equipment is initially measured at historical cost, excluding the costs of day-to-day servicing. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and provision for impairment, where required. The initial estimate of the costs of dismantling and removing the item of property and equipment and restoring the site on which it is located is also included in the costs, if the obligation incurred can be recognized as a provision according to IAS 37.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or expense in the income statement in the period in which the asset is derecognized. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation is calculated on a straight-line basis from the time the assets are available for use over their estimated useful lives. Depreciation charge is identified separately for each significant part of an item of property and equipment.

The useful lives assigned to the various categories of property and equipment are:

Buildings and masts	50 years
Other structures	8 to 30 years
Duct, cable and other outside plant	8 to 50 years
Telephone exchanges and related equipment	4 to 30 years
Radio and transmission equipment	5 to 8 years
Other property and equipment	13 months to 30 years

No depreciation is provided on freehold land or capital work in progress.

Residual values and useful lives of property and equipment are reviewed and adjusted in accordance with IAS 8, where appropriate, at each financial year-end. For further details on groups of assets influenced by the most recent useful life revisions refer to Note 2.18.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply.

2.3 Intangible assets

Intangible assets acquired separately are recognized when control over them is assumed and are initially measured at historical cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and provision for impairment, where required. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With the exception of goodwill, intangible assets have a finite useful life and are amortized using the straight-line method over their estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, as appropriate, at each financial year-end. For further details on the groups of assets influenced by the most recent useful life revisions refer to Note 2.18.

The useful lives assigned to the various categories of intangible assets are as follows:

Software	2 to 16 years
Telecommunications licenses	8 to 22 years
Content licenses	1 to 4 years
Customer relationships	12 to 15 years

Any gain or loss on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included within other operating income or expense in the income statement in the period in which the asset is derecognized.

Software and licenses
Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

a) it is technically feasible to complete the software product so that it will be available for use;
b) management intends to complete the software product and use or sell it;
c) there is an ability to use or sell the software product;
d) it can be demonstrated how the software product will generate probable future economic benefits;
e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
f) the expenditures attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalized as part of a software product include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognized as an expense as incurred.

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use specific software. Costs comprise all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in a manner intended by the management, including enhancements of applications in use.

Costs associated with the acquisition of long term frequency licenses are capitalized. Useful lives of concessions and licenses are based on the underlying agreements and are amortized on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life. Recurring license fees paid for core frequencies may be subject to change and therefore cannot be reliably estimated over the duration of the license term and are recognized as other operating costs in the period they relate to. Recurring license fees are paid during whole period of granted license.

The Group accounts for content licenses as intangible assets if there is unavoidable obligation to pay for the content rights, there are no doubts that the content will be delivered and the cost can be reliably estimated. Acquired content licenses are shown at historical cost. If there is no fixed price defined in the contract, the Group uses best estimate to assess the fee during the contracted period. The useful lives of content licenses are based on the underlying agreements and are amortized on a straight-line basis over the period from availability for commercial use until the end of the license term which is granted to the Group.

Goodwill
Goodwill arises on the acquisition of subsidiaries and represents an excess of consideration transferred over Group's interest in net fair value of the net identifiable assets acquired, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortized but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 13). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed. Fair values less costs to sell of cash-generating units with allocated goodwill tested for impairment are in Level 3 of the fair value hierarchy.

2.4 Impairment of non-financial assets

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. Assets with indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested for impairment annually. Impairment losses for each class of asset are disclosed within depreciation, amortization and impairment losses in the income statement. Reversals of impairment losses are disclosed within other operating income in the income statement.

For the purpose of assessing impairment, assets are grouped into cash-generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group determines the recoverable amount of a cash-generating unit on the basis of fair value less costs of disposal. The calculation is determined by reference to discounted cash flows calculations. These discounted cash flows calculations are based on financial budgets approved by management, usually covering a ten or four-year period. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of fair value less costs of disposal include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Discount rates reflect risks specific to the cash-generating unit. Cash flows reflect management assumptions and are supported by external sources of information. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate.

If carrying amount of a cash-generating unit to which the goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is reduced by the amount of the difference. If an impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through pro rata reduction of the carrying amounts of assets allocated to the cash-generating unit. Impairment losses on goodwill are not reversed.

In addition to the general impairment testing of cash-generating units, the Group also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to fair value less costs to sell.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from synergies of combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal purposes.

Impairment is determined by assessing the recoverable amount of cash-generating unit to which the goodwill relates. For more details on impairment of goodwill refer to Note 13.

2.5 Inventories

Cost of inventories comprises all the costs of purchase and other costs incurred in bringing the inventories to their present location and condition, including customs, transportation and similar costs. Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. An allowance is created against slow-moving and obsolete inventories.

Some terminal equipment, in particular phone sets, is often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is recorded upon customer acquisition or retention within material and equipment costs in the income statement. Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with original maturity of three months or less from the date of acquisition.

For the purpose of the statement of cash flows, cash and cash equivalents are net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

2.7 Financial assets

The Group classifies its financial assets as: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. When financial assets are recognized, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables are detailed in Note 3.6.

Trade receivables are amounts due from customers for services performed or merchandise sold in the ordinary course of business. Trade and other receivables are included in current assets, except for maturities greater than 12 months after the financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method, less allowance for impairment. For the purpose of impairment evaluation, trade receivables are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The amount of impairment loss recognised is the difference between the asset´s carrying amount and present value of estimated future cash flows which are based on the past experience of the collectability of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a trade receivable for which an allowance was recognized becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a legally enforceable right to set-off exists and the Group intends to settle them on a net basis.

Finance lease receivables
Where Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins), using a discount rate determined at inception. The difference between the gross receivable and the present value represents unearned finance income which is recognized over the term of the lease using the effective interest rate method.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition in this category. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of "financial assets through profit or loss" category are presented in the income statement within financial income or financial expense in the period in which they arise.

Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial income or financial expense.

The Group does not apply hedge accounting in accordance with IAS 39 for its financial instruments, therefore all gains and losses are recognized in the income statement within financial income or financial expense.

Available-for-sale investments
Available-for-sale financial investments include debt securities. Debt securities in this category are those that may be sold in response to needs for liquidity or in response to change in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in financial income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in financial expense. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method.

2.8 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets reduce their carrying amount and are recognized in the income statement against allowance accounts. Upon derecognition of a financial asset the net carrying amount includes any allowance for impairment. Any gains or losses on derecognition are calculated as the difference between the proceeds from disposal and the net carrying amount and are presented in the income statement.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

2.9 Financial liabilities

There are two measurement categories for financial liabilities used by the Group: financial liabilities carried at amortized costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortized cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group does not apply hedge accounting in accordance with IAS 39 for its financial instruments, therefore all gains and losses are recognized in the income statement within financial income or financial expense.

2.10 Prepaid expenses

The Group has easement rights to use and access technological equipment sited in properties owned by third parties. These easements are presented within prepaid expenses in the statement of financial position. Easements are initially recognized at their net present value and amortized over their expected duration. Amortization of easement rights is presented within other operating costs in the income statement.

2.11 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Asset retirement obligations
Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The obligation is recognized in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.12 Employee benefit obligations

Retirement and other long-term employee benefits
The Group provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The contribution is based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Group also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2016. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognized immediately in income statement.

Remeasurement gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur within other comprehensive income for retirement benefits and within the income statement for jubilee benefits. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs. Interest costs are included within financial expense.

Termination benefits
Employee termination benefits are recognized in the period in which is the Group demonstrably committed to a termination without possibility of withdrawal, i.e. the management defines and authorizes a detailed plan listing the number and structure of employees to be discharged and announces it to the trade unions. Expenses related to termination benefits are disclosed within staff costs in the income statement.

2.13 Revenue recognition

Revenue is recognized upon the delivery of services and products and customer acceptance thereof and to the extent that: it is probable that economic benefits will flow to the Group; the revenue can be measured reliably and when specific criteria as stated below have been met. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the fair value of consideration received or receivable.

The Group recognizes revenue as follows:

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognized in the period they relate to.

Revenue from prepaid cards is recognized when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognized as revenue at the time when the call is received in the Group's network. The Group pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Group's network but use other operators' networks. Revenue from interconnect is recognized gross.

Content revenue is recognized gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Group acts as a principal in the transaction with a final customer. Content revenue is recognized net, if the Group acts as an agent; i.e. the content provider is responsible for service content and the Group does not assume risks and rewards of ownership.

Revenue from multiple revenue arrangements is considered as comprising identifiable and separable components, to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount). The revenue relating to the item(s) is recognized when risks and rewards are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognized on a straight-line basis over the service period.

Revenue from sales of equipment is recognized when the equipment is delivered and installation is completed. Completion of an installation is a prerequisite for recognizing revenue on such sales of equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognized on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognized under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customized products and/or services is recognized when the customized complex solution is being delivered and accepted by a customer. Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Group is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognized over the contractual period or when the services are provided. Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognized when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognized when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognized using the effective interest rate method. When a loan or receivable is impaired, the Group reduces its carrying amount to a recoverable amount. Recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognized when the right to receive payment is established.

2.14 Leases

Determination of whether an arrangement is, or contains, a lease is based on the substance of an arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on use of a specific asset or assets and whether it conveys a right to use the asset.

Leases in which significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over lease period.

When operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognized in income statement in the period in which the termination took place.

Contracts are analysed based on the requirements of IFRIC 4, and if they include embedded lease elements, revenue or income attributable to these is recognized in accordance with IAS 17.

Operating lease – the Group as lessor
Assets leased to customers under operating leases are included in property and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognized as revenue or other operating income on a straight-line basis over the lease term.

Operating lease – the Group as lessee
Costs of operating leases are charged to the income statement on a straight-line basis over the lease term.

Finance lease – the Group as lessor
Leases of assets where the Group transfers substantially all the risks and rewards of ownership are recognized and disclosed as revenue against finance lease receivable. The revenue equals to the estimated present value of future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). Costs of asset sold in finance lease transactions are recognized at the commencement of the lease. Each lease receipt is then allocated between lease receivable and interest income.

Finance lease – the Group as lessee
Leases of assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The finance lease obligations are included in the statement of financial position in trade and other payables.

2.15 Operating profit

Operating profit is defined as a result before income taxes and financial income and expenses. For financial income and expenses refer to Notes 8 and 9 respectively.

2.16 Foreign currency translation

Transactions denominated in foreign currencies are translated into functional currency using exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the statement of financial position date. All foreign exchange differences are recognized within financial income or expense in the period in which they arise.

2.17 Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. The levy of 4.356% per annum is applied on the basis calculated as the profit before tax determined for each relevant legal entity in accordance with the Slovak Accounting Standards reduced by a fixed deduction of EUR 3,000 thousand in each relevant entity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax
Deferred tax is calculated at the statement of financial position date using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognized for all taxable temporary differences, except for the deferred tax liability arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.18 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenue and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Group's experience with similar assets. The Group reviews the estimated remaining useful lives of non-current assets annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation or amortization period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists.

The Group reviewed useful lives of non-current assets during 2016 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortization charge for the following categories of non-current assets:

thousands of EUR	2016	2017	2018	2019	After 2020
Duct, cable and other outside plant	(91)	45	9	9	28
Telephone exchanges and related equipment	(140)	31	39	29	41
Radio and transmission equipment	(566)	(77)	232	162	249
Other	(376)	9	120	49	198
	(1,173)	8	400	249	516

Customer relationships
The Group maintains record of customer relationships obtained during the acquisition of control of T-Mobile, DIGI and PosAm (Note 12) and regularly evaluates appropriateness of useful lives used to amortize these intangible assets on the basis of churn of customers acquired through the business combinations. No changes to useful lives were necessary in 2016. If the useful lives of customer relationships were shortened by one year, the amortization would increase by EUR 19,553 thousand. If the useful lives of customer relationships were shortened by two years, the amortization would increase by EUR 20,038 thousand.

Activation fees and subscriber acquisition and retention costs
The Group defers activation, non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. This period is estimated on a basis of an anticipated term of customer relationship under the arrangement which generated the activation fee. The estimated customer relationship period is reassessed at each financial year-end. Costs incurred in direct relation to customer activation (such as SIM card costs and commissions) are deferred to the extent of activation revenue and amortized in the same manner as the activation fees. Other subscriber acquisition costs, which primarily include losses on subsidized handsets and hardware, are expensed as incurred.

Assessment of impairment of goodwill
Goodwill is tested annually for impairment as further described in Note 2.4 using estimates detailed in Note 13.

Asset retirement obligation
The Group enters into lease contracts for land and premises on which mobile communication network masts are sited. The Group is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years.
The remaining useful life of masts ranges from 26 to 50 at 31 December 2016. Management's determination of the amount of the asset retirement obligation (Note 23) involves the following estimates (in addition to the estimated timing of crystallisation of the obligation):

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Group's credit standing;
b) the amounts necessary to settle future obligations;
c) inflation rate.

If the economic useful life of the masts was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,792 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 2,647 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,194 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,278 thousand.

Provisions and contingent liabilities
The Group is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 23 and 29.

2.19 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Group's accounting period beginning on 1 January 2016

- Amendments within Annual improvements project 2010 – 2012, issued in November 2013 and European Union effective for annual periods beginning on or after 1 February 2015. The improvements consist of changes to seven standards:

  IFRS 2 Share-based Payment – Definition of vesting condition

  Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

  IFRS 8 Operating segment - Aggregation of operating segments

  Amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.

  IFRS 8 Operating segment - Reconciliation of the total of the reportable segments' assets to the entity's assets

  Amendment clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

  IFRS 13 Fair value Measurement – short term receivables and payables

  Amendment clarifies issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

  IAS 24 Related Party Disclosures – Key management personnel

  Amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- Amendments to IAS 1 – Presentation of Financial Statements: Disclosure Initiative, issued in December 2014 and effective for annual periods beginning on or after 1 January 2016.

  The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The adopted standards and amendments do not have material impact on the Group´s financial statements.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2016 and which the Group has not early adopted

- IFRS 9 Financial Instruments, issued in July 2014 and effective for annual periods beginning on or after 1 January 2018. The effective date has not yet been endorsed by the European Union.

  The package of improvements introduced by the Standard IFRS 9 issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014 includes a model for classification and measurement, a single, forward-looking “expected loss” impairment model and substantially-reformed approach to hedge accounting.

  Classification and Measurement: Classification determines how financial assets and liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash characteristics and the business model in which an assets is held.

  Impairment: Standard introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

  Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

- IFRS 15 Standard on the recognition of revenue from contracts with customers, issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018. The effective date has not yet been endorsed by the European Union. Depending on the business model applied, the new provisions address the following issues in particular:

  - In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This will lead to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
  - At the same time, this will generally lead to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
  - Future capitalization and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
  - Increase in total assets on initial application due to the capitalization of contract assets and customer acquisition costs.
  - Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
  - For the purposes of determining whether the Group sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is unlikely there will be any material changes.

  The Group has determined to utilize the option for simplified initial application, i.e. contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be restated; instead, the Group intends to provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

  The effects will be analysed as part of a project for implementing the new standard, though a reliable estimate of the quantitative effects is not possible until the project has been completed, probably in mid-2017.

- FRS 16 Standard on the recognition, measurement, presentation and disclosure of leases, issued on 13 January 2016 and effective for the periods beginning on or after 1 January 2019. The effective date has not yet been endorsed by the European Union. Depending on the business model applied, the new provisions address the following issues in particular:

  - Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognized as rights of use and lease liabilities in the statement of financial position.
  - The Group anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalized. The increase in lease liabilities leads to a corresponding increase in net debt.
  - Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.
  - For the Group as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

  The overall effects will be analysed as part of a project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed. For future minimum operating lease payments refer to Note 27.

- Amendments to IAS 7 (Disclosure Initiative) issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017. The effective date has not yet been endorsed by the European Union.

  The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

3. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks. The Group's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Group.

The Group's financial instruments include cash and cash equivalents, loans and term deposits. The main purpose of these instruments is to manage the liquidity of the Group.

The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arise from its operations.

The Group enters also into derivative transactions. The purpose is to manage the foreign currency risk arising from the Group's operations. The Group does not perform speculative trading with the derivative instruments.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Treasury is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the Deutsche Telekom Group Treasury. The Treasury works in association with the Group's operating units and with the Deutsche Telekom Group Treasury. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates.

The Group is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Group is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

The Group can use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. Such economic hedge however does not qualify for hedge accounting under the specific rules of IAS 39.

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Group uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 19).

Short-term cash forecasts are prepared on a rolling basis to quantify the Group's expected exposure. The Group's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 250 thousand.

The Group's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Group's profit before tax and equity to a 10% increase/decrease in the USD against EUR, with all other variables held as constant. The 10% change represents management's assessment of the reasonably possible change in foreign exchange rate and is used when reporting foreign currency risk internally in line with treasury policies.

thousands of EUR		2016	2015
Profit before tax	Depreciation of USD by 10%	299	(405)
	Appreciation of USD by 10%	(299)	405
Equity	Depreciation of USD by 10%	233	(316)
	Appreciation of USD by 10%	(233)	316

3.1.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group entered into a master agreement with DT AG in October 2008 based on which the Group provided loans to DT AG. Currently, there is outstanding loan in amount of EUR 180,000 thousand (2015: EUR 45,000 thousand) at fixed interest rate (Note 20). The term deposits in banks outstanding at 31 December 2016 in the amount of EUR 4,422 thousand (2015: EUR 31,533 thousand) have been concluded with fixed interest rate (Note 19).

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in commodity prices or equity prices. However, there are no such financial instruments, that would have been materially impacted from changes in commodity prices.

3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group's credit risk policy defines products, maturities of products and limits for financial counterparties. The Group limits credit exposure to individual financial institutions and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Group is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 180,000 thousand (2015: EUR 45,000 thousand) provided to DT AG (Germany).

For credit ratings see following tables:

thousands of EUR	2016	2015
Term deposits (Note 19)		
A2	4,422	31,533
	4,422	31,533

thousands of EUR	2016	2015
Loans (Note 20)		
Baa1	180,000	45,000
	180,000	45,000

thousands of EUR	2016	2015
Cash and cash equivalents (Note 21)		
A1	4,934	3,195
A2	29,672	48,859
A3	-	1
Baa1	11,094	23,771
Baa2	9,916	-
Not rated	566	614
	56,182	76,440

Further, counterparty credit limits and maximum maturity can be decreased based on recommendation by Deutsche Telekom Group Treasury in order to manage bulk risk steering of Deutsche Telekom Group. Group credit risk steering takes into account various risk indicators including, but not limited to CDS level, rating and negative movement of the share price of the counterparty.

The Group establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognized to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, loans, term deposits, trade and other receivables, the Group's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Group assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial investments are tested for impairment on an individual basis. The remaining financial investments are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of a financial investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal of the impairment loss is recognized in profit or loss.

The table summarises the ageing structure of receivables:

		Past due but not impaired						
thousands of EUR	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Impaired	Total
At 31 December 2016								
Trade and other receivables	99,642	1,232	702	208	1,043	141	10,887	113,855
At 31 December 2015								
Trade and other receivables	81,637	352	204	108	36	82	19,128	101,547

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2016 and 2015.

Trade receivables that are past due as at 31 December 2016, but not impaired, are from creditworthy customers who have a good track record with the Group and, based on historical default rates, management believes that no additional impairment allowance is necessary.

For sensitivity of impairment charge of uncollectible receivables refer to Note 14.

3.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's liquidity risk mitigation principles define the level of cash and cash equivalents, marketable securities and the credit facilities available to the Group to allow it to meet its obligations on time and in full. The funding of liquidity needs is based on comparisons of income earned on cash and cash equivalents and available-for-sale investments with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

thousands of EUR	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2016					
Trade and other payables	7,107	120,230	19,901	7,118	154,356
At 31 December 2015					
Trade and other payables	6,756	112,557	17,701	5,074	142,088

Offsetting financial assets and liabilities
The following financial assets and liabilities are subject to offsetting:

thousands of EUR	Gross amounts	Offsetting	Net amounts
At 31 December 2016			
Current financial assets – Trade receivables	13,982	(6,951)	7,031
Current financial liabilities – Trade payables	9,542	(6,951)	2,591
At 31 December 2015			
Current financial assets – Trade receivables	15,487	(7,253)	8,234
Current financial liabilities – Trade payables	10,960	(7,253)	3,707

For the Group's accounting policy on offsetting refer to Note 2.7.

3.4 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The Company's management proposes to the owners of the Company (through the Board) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be achieved primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, issue new shares or sell assets to reduce debt. The Group also takes into consideration any applicable guidelines of the parent company. No changes were made to the objectives, policies or processes in 2016.

The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 22). The management of the Group manages capital measured in terms of shareholder's equity amounting to at 31 December 2016 EUR 1,104,564 thousand (2015: EUR 1,108,532 thousand).

3.5 Fair value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

3.5.1 Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

thousands of EUR	At 31 December 2016				At 31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Current assets								
Available-for-sale investments (Note 18)	-	-	-	-	31,079	-	-	31,068
Interest receivable on available-for-sale investments (Note 14)	-	-	-	-	919	-	-	922

The fair value of available-for-sale investments was established based on quoted unadjusted market values provided by banks who act as depositors of the securities. There were no transfers between fair value hierarchy levels.

3.5.2 Non-recurring fair value measurements

There were no non-recurring fair value measurements in 2016 and 2015.

3.5.3 Financial assets and financial liabilities not measured at fair value

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date. Non-current receivables and non-current payables are discounted unless the effect of discounting was inconsiderable.

3.6 Presentation of financial instruments by measurement category

Presentation of financial instruments by measurement category in accordance with IAS 39 is as follows:

thousands of EUR	2016	2015
Loans and receivables		
Trade and other receivables (Note 14)	113,855	101,547
Term deposits (Note 19)	4,422	31,533
Loans (Note 20)	180,000	45,000
Cash and cash equivalents (Note 21)	56,182	76,440
Financial assets held-to-maturity		
Investments at amortized cost (Note 17)	-	3,120
Available-for-sale financial assets		
Available-for-sale investments (Note 18)	-	31,079

4. REVENUE

thousands of EUR	2016	2015
Fixed network revenue	291,718	291,215
Mobile network revenue	332,656	325,781
Terminal equipment	33,075	33,270
System solutions / IT	59,786	88,234
Other	48,749	44,390
	765,984	782,890

5. STAFF COSTS

thousands of EUR	2016	2015
Wages and salaries	99,433	100,976
Defined contribution pension costs	11,885	12,388
Other social security contributions	16,427	15,931
	127,745	129,295

	2016	2015
Number of employees at period end	3,268	3,472
Average number of employees during the period	3,317	3,541

6. OTHER OPERATING INCOME

thousands of EUR	2016	2015
Gain on disposal of property and equipment and intangible assets, net	973	-
Income from material sold, net	864	1,640
Income from rental of premises	1,901	2,095
Reversal of impairment of property and equipment (Note 11)	2,024	210
Income from marketing activities	4,693	4,376
Other	3,953	2,670
	14,408	10,991

7. OTHER OPERATING COSTS

thousands of EUR	2016	2015
Repairs and maintenance	17,100	19,895
Installation services	1,044	937
Marketing costs	21,175	20,762
Energy	13,251	14,112
Printing and postage	4,107	4,272
Logistics	4,597	4,176
Rentals and leases	18,832	18,780
IT services	6,811	7,698
Dealer commissions	22,036	18,855
Frequency and other fees to Telecommunications Office	4,700	2,788
Content fees	16,593	17,670
Legal and regulatory claims (Note 23)	25,481	1,374
Consultancy	3,773	4,293
Bad debts expenses	5,263	4,540
Services related to delivery of solutions for customers	32,459	36,741
Fees paid to DT AG group	4,919	4,823
Other	21,138	24,760
Own work capitalized	(13,994)	(12,972)
	209,285	193,504

8. FINANCIAL INCOME

thousands of EUR	2016	2015
Reversal of impairment on investments at amortized cost	402	-
Gain on disposal of available-for-sale investments (Note 17)	614	-
Interest on term deposits and bank accounts	81	458
Remeasurement of put option liability (Note 24)	1,230	-
Interest on loans	61	134
Interest on available-for-sale investments	13	221
Interest from finance lease	17	48
Foreign exchange gains, net	197	383
Other	772	792
	3,387	2,036

9. FINANCIAL EXPENSE

thousands of EUR	2016	2015
Remeasurement of put option liability (Note 24)	-	806
Dividends paid to minority owners of PosAm	840	818
Interest costs on employee benefits provision	219	216
Interest cost on other non-current provisions	420	49
Bank charges and other financial expense	75	241
	1,554	2,130

10. TAXATION

The major components of income tax expense for the years ended 31 December are:

thousands of EUR	2016	2015
Current tax expense	34,878	35,236
Deferred tax income	(11,446)	(9,661)
Levy on regulated industries	3,456	3,080
Income tax expense reported in the income statement	26,888	28,655

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the statutory tax rate is as follows:

thousands of EUR	2016	2015
Profit before income tax	93,614	100,335
Income tax calculated at the statutory rate of 22% (2015: 22%)	20,595	22,074
Effect of non-taxable income and tax non-deductible expenses:		
Cost / (income) related to legal and regulatory claims	5,601	(5)
Other tax non-deductible items, net	1,920	3,502
Tax charge in respect of prior years	(212)	4
Levy on regulated industries	3,456	3,080
Effect of change in tax rate	(4,472)	-
Income tax at the effective tax rate of 29% (2015: 29%)	26,888	28,655

Change of the income tax rate from 22% to 21%, effective from 1 January 2017, resulted in the decrease of the deferred tax liability of EUR 4,472 thousand in these financial statements with the positive effect on the tax expense of EUR 4,441 thousand and on the other comprehensive income of EUR 31 thousand.

Deferred tax assets (liabilities) for the year ended 31 December are attributable to the following items:

thousands of EUR	1 January 2016	Through income statement	Through statement of comprehensive income	31 December 2016
Difference between carrying and tax value of fixed assets	(123,897)	12,680	-	(111,217)
Allowance for investments at amortized cost	2,269	(2,269)	-	-
Staff cost accruals	2,752	(373)	-	2,379
Allowance for bad debts	3,312	(324)	-	2,988
Termination benefits	1,008	(82)	-	926
Retirement benefit obligation	2,363	(59)	228	2,532
Asset retirement obligation	2,248	443	-	2,691
Other	4,350	1,430	-	5,780
Net deferred tax liability	(105,595)	11,446	228	(93,921)

thousands of EUR	1 January 2015	Through income statement	Through statement of comprehensive income	31 December 2015
Difference between carrying and tax value of fixed assets	(131,189)	7,292	-	(123,897)
Allowance for investments at amortized cost	2,269	-	-	2,269
Staff cost accruals	3,117	(365)	-	2,752
Allowance for bad debts	2,425	887	-	3,312
Termination benefits	590	418	-	1,008
Retirement benefit obligation	2,609	(80)	(166)	2,363
Asset retirement obligation	2,756	(508)	-	2,248
Other	2,333	2,017	-	4,350
Net deferred tax liability	(115,090)	9,661	(166)	(105,595)

Deferred tax asset of EUR 1,219 thousand is recognized in respect of subsidiaries DIGI, PosAm and Zoznam and deferred tax liability of EUR 95,140 thousand in respect of other entities. The Group offsets deferred tax assets and deferred tax liabilities if, and only if, those relate to income taxes levied by the same taxation authority on the same taxable entity.

thousands of EUR	2016	2015
Deferred tax asset to be settled within 12 months	1,253	1,039
Deferred tax asset to be settled after more than 12 months	8	51
Deferred tax liability to be settled after more than 12 months	(42)	(24)
Net deferred tax asset	1,219	1,066

thousands of EUR	2016	2015
Deferred tax asset to be settled within 12 months	10,241	12,715
Deferred tax asset to be settled after more than 12 months	5,808	5,364
Deferred tax liability to be settled within 12 months	(808)	(705)
Deferred tax liability to be settled after more than 12 months	(110,381)	(124,035)
Net deferred tax liability	(95,140)	(106,661)

11. PROPERTY AND EQUIPMENT

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress including advances	Total
At 1 January 2016							
Cost	186,179	994,087	599,883	319,391	330,303	50,741	2,480,584
Accumulated depreciation	(104,834)	(546,897)	(542,444)	(277,535)	(241,853)	(488)	(1,714,051)
Net book value	81,345	447,190	57,439	41,856	88,450	50,253	766,533
Additions	3,038	10,043	3,616	6,398	9,524	48,586	81,205
Depreciation charge	(3,603)	(35,161)	(18,336)	(16,407)	(28,749)	-	(102,256)
Impairment charge	(80)	(33)	(10)	-	(359)	-	(482)
Reversal of impairment	-	1	1,934	-	52	37	2,024
Disposals	(4,095)	(4)	(2)	-	(196)	(232)	(4,529)
Transfers	994	5,296	6,934	12,969	16,370	(42,563)	-
At 31 December 2016							
Cost	176,231	1,009,356	505,488	269,859	331,798	56,515	2,349,247
Accumulated depreciation	(98,632)	(582,024)	(453,913)	(225,043)	(246,706)	(434)	(1,606,752)
Net book value	77,599	427,332	51,575	44,816	85,092	56,081	742,495

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,996 thousand (2015: EUR 25,996 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Group has the third party liability insurance for all motor vehicles.

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress including advances	Total
At 1 January 2015							
Cost	152,417	1,006,902	870,870	342,623	339,090	70,975	2,782,877
Accumulated depreciation	(74,874)	(539,496)	(820,570)	(304,723)	(250,619)	(428)	(1,990,710)
Net book value	77,543	467,406	50,300	37,900	88,471	70,547	792,167
Additions	894	10,329	4,358	2,502	15,672	42,977	76,732
Depreciation charge	(3,771)	(35,580)	(21,897)	(15,941)	(29,828)	-	(107,017)
Impairment charge	(1)	(9)	-	(1)	(50)	-	(61)
Reversal of impairment	-	-	53	96	25	36	210
Disposals	(2,605)	-	(3)	(8)	(172)	(940)	(3,728)
Transfers	1,055	5,044	24,628	17,308	14,332	(62,367)	-
Transfers from assets held for sale	8,230	-	-	-	-	-	8,230
At 31 December 2015							
Cost	186,179	994,087	599,883	319,391	330,303	50,741	2,480,584
Accumulated depreciation	(104,834)	(546,897)	(542,444)	(277,535)	(241,853)	(488)	(1,714,051)
Net book value	81,345	447,190	57,439	41,856	88,450	50,253	766,533

thousands of EUR	2016	2015
Additions	81,205	76,732
Non-cash additions from asset retirement obligation	(2,186)	(137)
Change in payables for purchase of property and equipment	1,618	(8,133)
Cash used for purchase of property and equipment from investing activities	80,637	68,462

12. INTANGIBLE ASSETS

thousands of EUR	Customer relationships	Licenses	Goodwill	Software	Internally developed intangible assets	Other	Total
At 1 January 2016							
Cost	306,610	226,036	112,970	446,459	6,049	25,487	1,123,611
Accumulated amortization	(237,167)	(101,499)	(3,000)	(407,289)	(2,457)	(27)	(751,439)
Net book value	69,443	124,537	109,970	39,170	3,592	25,460	372,172
Additions	-	19,251	-	18,643	730	19,893	58,517
Amortization charge	(22,186)	(22,805)	-	(33,417)	(604)	-	(79,012)
Transfers	-	4	-	13,010	469	(13,483)	-
At 31 December 2016							
Cost	290,531	232,302	112,970	470,541	7,225	31,870	1,145,439
Accumulated amortization	(243,274)	(111,315)	(3,000)	(433,135)	(3,038)	-	(793,762)
Net book value	47,257	120,987	109,970	37,406	4,187	31,870	351,677

Significant part of customer relationships was recognized at the acquisition of T-Mobile in December 2004. Net book value of those customer relationships for post-paid business customers at 31 December 2016 is EUR 19,195 thousand and remaining useful life is 1 year.

The remaining part of customer relationships was recognized at acquisition of subsidiaries DIGI and PosAm with total net book value at 31 December 2016 of EUR 28,062 thousand.

Net book value of the category Other includes intangible assets in progress of EUR 31,870 thousand (2015: EUR 25,460 thousand).

For cost and impairment of goodwill refer to Note 13.

thousands of EUR	Customer relationships	Licenses	Goodwill	Software	Internally developed intangible assets	Other	Total
At 1 January 2015							
Cost	447,621	216,600	112,970	518,746	5,357	17,306	1,318,600
Accumulated amortization	(354,530)	(86,218)	(3,000)	(468,473)	(1,910)	(110)	(914,241)
Net book value	93,091	130,382	109,970	50,273	3,447	17,196	404,359
Additions	-	15,377	-	13,005	461	20,976	49,819
Amortization charge	(23,648)	(21,222)	-	(36,524)	(579)	(1)	(81,974)
Disposals	-	-	-	(6)	(1)	(25)	(32)
Transfers	-	-	-	12,422	264	(12,686)	-
At 31 December 2015							
Cost	306,610	226,036	112,970	446,459	6,049	25,487	1,123,611
Accumulated amortization	(237,167)	(101,499)	(3,000)	(407,289)	(2,457)	(27)	(751,439)
Net book value	69,443	124,537	109,970	39,170	3,592	25,460	372,172

thousands of EUR	2016	2015
Additions	58,517	49,819
Additions paid from financing activities	(22,787)	(15,370)
Change in payables for purchase of intangible assets	2,137	(3,395)
Cash used for purchase of intangible assets from investing activities	37,867	31,054

thousands of EUR	2016	2015
Additions paid from financing activities	22,787	15,370
Change in financial payables	(8,496)	(7,299)
Cash used for purchase of intangible assets from financing activities	14,291	8,071

13. IMPAIRMENT OF GOODWILL

For impairment testing, the goodwill acquired in business combinations has been allocated to individual cash-generating units, as of 31 December 2016 and 2015:

thousands of EUR	T-Mobile	DIGI	PosAm	Zoznam a Zoznam Mobile	Total
Goodwill allocated to cash-generating units	73,313	28,621	6,368	4,668	112,970
Impairment	-	-	-	(3,000)	(3,000)
	73,313	28,621	6,368	1,668	109,970

T-Mobile (Mobile telecommunication business)

The goodwill was recognized at the acquisition of T-Mobile in December 2004. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Group uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2015: 2%) and a discount rate of 5.31% (2015: 5.34%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

DIGI, PosAm, Zoznam and Zoznam Mobile

The recoverable amounts of the cash-generating units were determined using cash flows projections based on the four-year financial plans that have been approved by management and are also used for internal purposes of the cash-generating units. Cash flows beyond the four-year period are extrapolated using a 1.5% growth rate (2015: 1.5%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating units operate.

The Group uses following discount rates:

	2016	2015
DIGI (TV business)		
PosAm (IT solutions business)	5.79%	6.86%
Zoznam and Zoznam Mobile (Online business)	6.26%	7.63%
	7.41%	8.14%

Further key assumptions on which management has based its determination of the recoverable amounts of the cash-generating units include the development of revenue, customer acquisition and retention costs, capital expenditure and market share. In 2016 and 2015, the recoverable amounts of the cash-generating units based on fair value less costs of disposal calculation exceeded its carrying amounts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amounts are based would not cause its carrying amounts to exceed its recoverable amounts.

In 2011, the carrying amount of the cash generating unit Zoznam and Zoznam Mobile exceeded its recoverable amount based on fair value less costs of disposal calculation by EUR 3,000 thousand and the Group allocated impairment to goodwill in the same amount.

14. TRADE AND OTHER RECEIVABLES

thousands of EUR	2016	2015
Non-current		
Receivables from instalment sale	673	751
Finance lease receivables	567	428
	1,240	1,179
Current		
Trade receivables	111,535	98,494
Other receivables	436	234
Interest receivable on available-for-sale investments	-	919
Finance lease receivables	644	721
	112,615	100,368

Trade receivables are net of an allowance of EUR 19,609 thousand (2015: EUR 20,477 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the period would be by EUR 171 thousand higher.

Movements in the allowance for impaired receivables from third parties were as follows:

thousands of EUR	2016	2015
At 1 January	20,477	20,685
Charge for the year, net	3,326	3,976
Utilised	(4,194)	(4,184)
At 31 December	19,609	20,477

15. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2016	2015
Non-current		
Easements	9,560	9,730
Subscriber acquisition costs	1,842	1,543
Other prepaid expenses	1,824	2,083
	13,226	13,356
Current		
Subscriber acquisition costs	1,753	1,660
Other prepaid expenses	4,306	5,307
Other assets	6,143	1,595
	12,202	8,562

16. INVENTORIES

thousands of EUR	2016	2015
Materials	7,365	3,523
Goods	9,252	8,460
	16,617	11,983

Inventories are net of an allowance of EUR 1,774 thousand (2015: EUR 1,036 thousand). The write-down of inventories in amount of EUR 880 thousand (2015: EUR 901 thousand) was recognized in cost of material and equipment.

17. INVESTMENTS AT AMORTIZED COST

thousands of EUR	2016	2015
Bank bond	-	3,120
	-	3,120

The bank bond was net of impairment and the amount of EUR 3,120 thousand approximated the fair value of the bond.

The bond matured in 2008. In December 2015 the Composition Agreement between issuer of the bond and composition creditors came into effect. Following the Composition Agreement, the claim from the bond ceased to exist and the Group received at the beginning of 2016 entitlements from the Composition Agreement: cash payment in amount of EUR 1,378 thousand, the convertible notes with the nominal value of GBP 2,551 thousand and with maturity of 15 years and 11,214,318 pieces of the shares with the nominal value of ISK 11,214 thousand. The notes and shares were categorised as available-for-sale investments (Note 18). The notes and shares were sold in December 2016 with the gain of EUR 614 thousand (Note 8).

18. AVAILABLE-FOR-SALE INVESTMENTS

thousands of EUR	2016	2015
At 1 January	31,079	204,067
Additions	2,145	-
Disposals	(33,065)	(170,000)
Amortisation of premium paid	(147)	(2,857)
Remeasurement recognised in other comprehensive income	(12)	(131)
At 31 December	-	31,079

For interest receivable on available-for-sale investments refer to Note 14.

Available-for-sale investments are measured at fair value. In 2015 the Group recognized unrealized loss of EUR 25 thousand in other comprehensive income. In 2016 the Group reclassified gain of EUR 9 thousand from other comprehensive income to income statement (2015: EUR 89 thousand).

Available-for-sale investments at 31 December 2015 comprised of state bonds. Credit quality in 2015 was as follows: rating A2: EUR 31,079 thousand.

If the interest rates of available-for-sale investments were 15 basis points higher / 20 basis points lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would increase / decrease by EUR 129 thousand/ EUR 173 thousand.

19. TERM DEPOSITS

thousands of EUR	2016	2015
Term deposits in banks	4,422	31,533
	4,422	31,533

Term deposits include deposits at banks with original maturity more than 3 months from the date of acquisition. Short-term deposits with original maturity of three months or less from the date of acquisition are presented as cash and cash equivalents. For credit ratings see Note 3.2.

20. LOANS

thousands of EUR	2016	2015
Loans to Deutsche Telekom AG	180,000	45,000
	180,000	45,000

The loans granted to Deutsche Telekom AG were not secured. Loans outstanding at 31 December 2016 were provided during August to December 2016 and are repayable during January to March 2017 (2015: provided in November and December 2015 and repayable in May and June 2016). For credit ratings see Note 3.2.

21. CASH AND CASH EQUIVALENTS

thousands of EUR	2016	2015
Cash and cash equivalents	56,182	76,440
	56,182	76,440

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months and earn interest at the respective rates. For credit ratings see Note 3.2.

22. SHAREHOLDERS' EQUITY

On 1 April 1999, Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.20 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.20 per share. The shares were issued at a premium totalling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the National Property Fund of the Slovak Republic. By acquiring 51% share of Slovak Telekom, Deutsche Telekom obtained 51% of the total voting rights associated with the shares and gained control of the Company. The Slovak Republic retained 34% of the shares of Slovak Telekom through the Ministry of the Economy of the Slovak Republic and the National Property Fund of the Slovak Republic retained 15% of the shares of Slovak Telekom.

Due to the change in the functional currency of the Group companies from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of Slovak Telekom of EUR 158 thousand. The increase in share capital was covered from the statutory reserve fund.

On 13 December 2013 Deutsche Telekom AG transferred 51% share of Slovak Telekom and voting rights associated with the shares to T-Mobile Global Holding Nr. 2 GmbH, and on 17 December 2013 T-Mobile Global Holding Nr. 2 GmbH transferred 51% share and voting rights associated with the shares to CMobil B.V. The change of the shareholders came into effect by registering in the Central Securities Depository of the Slovak Republic. T-Mobile Global Holding Nr. 2 GmbH became the shareholder of Slovak Telekom on 18 December 2013 and CMobil B.V. became the shareholder of Slovak Telekom on 10 January 2014. CMobil B.V. changed its name to Deutsche Telekom Europe B.V. in March 2015.

The Extraordinary General Meeting of Slovak Telekom held on 9 February 2015 approved the transformation of the form of shares of Slovak Telekom from physical registered shares to book-entered registered shares and the change of nominal value of shares of Slovak Telekom from the nominal value of EUR 33.20 to a nominal value of EUR 10.00, whereby the total amount of registered capital of Slovak Telekom remained unaltered. The change came into effect by registering in the Commercial register of the Slovak Republic in February 2015.

On 8 April 2015 Ministry of the Economy of the Slovak Republic transferred its 34% share of Slovak Telekom and voting rights associated with the shares to the National Property Fund of the Slovak Republic. Subsequently the National Property Fund of the Slovak Republic sold 49% share of Slovak Telekom and voting rights associated with the shares to the Deutsche Telekom Europe B.V. The change of the shareholders came into effect by registering in the Central Securities Depository of the Slovak Republic. Deutsche Telekom Europe B.V. became the sole shareholder of Slovak Telekom on 18 June 2015.

On 4 August 2015 the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved distribution of share premium of Slovak Telekom. The share premium of EUR 386,139 thousand was paid to the shareholder in August 2015.

On 31 March 2016, the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved the transformation of the form of shares of Slovak Telekom from book-entered registered shares to physical registered shares with the effective date 1 May 2016.

As of 31 December 2016, Slovak Telekom had authorized and issued 86,411,300 ordinary shares (2015: 86,411,300) with a par value of EUR 10.00 per share (2015: EUR 10.00 per share). All the shares issued were fully subscribed.

The structure of shareholders of Slovak Telekom at 31 December 2016 and 2015:

Shareholder' name	Number of shares acquired	Value of acquired shares in EUR	Acquired share	Acquired voting rights
Deutsche Telekom Europe B.V.	86,411,300	864,113,000	100%	100%

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Consolidated statement of changes in equity covers changes of equity from retirement benefits (Note 23), available-for-sale investments (Note 18) and share-based payment plan.

The Financial statements of the Group for the year ended 31 December 2015 were authorized for issue on behalf of the Board of Directors of Slovak Telekom on 14 March 2016.

On 31 March 2016, the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 69,743 thousand (2015: EUR 186,242 thousand) were paid in April 2016.

Approval of the 2016 profit distribution will take place at the Annual General Meeting scheduled for April 2017.

23. PROVISIONS

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
	(Note 29)					
At 1 January 2016	3,373	10,219	4,584	11,023	3,489	32,688
Arising during the year	25,856	193	4,408	1,899	816	33,172
Utilised	(59)	-	(3,456)	(30)	(1,194)	(4,739)
Reversals	(659)	(385)	(1,126)	(770)	(6)	(2,946)
Transfers	-	-	-	-	(886)	(886)
Interest impact	-	2,791	-	225	2	3,018
At 31 December 2016	28,511	12,818	4,410	12,347	2,221	60,307
Non-current	-	12,818	-	12,347	980	26,145
Current	28,511	-	4,410	-	1,241	34,162
	28,511	12,818	4,410	12,347	2,221	60,307

thousands of EUR	2016	2015
Non-current	26,145	22,726
Current	34,162	9,962
	60,307	32,688

Asset retirement obligation

The Group is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases (Note 2.18). Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Termination benefits

The restructuring of the Group operations resulted in headcount reduction of 217 employees in 2016. The Group expects a further headcount reduction of 231 employees in 2017 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorized by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognized in full in the current period. In 2016 the Group recognized an expense resulting from termination benefits in amount of EUR 3,765 thousand (2015: EUR 4,677 thousand) in staff costs.

Retirement and jubilee benefits

The Group provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Group. The benefit entitlements are determined from the respective employee’s monthly remuneration or as a defined particular amount.

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2016	10,739	284	11,023
Current service cost	704	18	722
Interest cost	219	6	225
Benefits paid	(14)	(16)	(30)
Remeasurement of defined benefit plans	1,177	(2)	1,175
Curtailment gain	(768)	-	(768)
At 31 December 2016	12,057	290	12,347

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2015	11,856	233	12,089
Current service cost	798	20	818
Interest cost	216	4	220
Benefits paid	(11)	(17)	(28)
Remeasurement of defined benefit plans	(757)	44	(713)
Curtailment gain	(1,363)	-	(1,363)
At 31 December 2015	10,739	284	11,023

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 1,177 thousand consists of experience adjustments in amount of EUR 416 thousand and of change in financial assumptions in amount of EUR 761 thousand.

The curtailment gain in amount of EUR 768 thousand resulted mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2016 or was announced for 2017. There were no special events causing any new past service cost during 2016 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2016 include the discount rate of 1.56% (2015: 2.07%). The expected expense for 2016 has been determined based on the discount rate as at the beginning of the accounting period of 2.07% (2015: 1.84%). Average retirement age is 62 years (2015: 62 years). The expected growth of nominal wages over the long term is 2.0% (2015: 2.0%) with minor adjustments for the first three years. The remaining weighted average duration of the defined benefit obligation is 13.0 years (2015: 13.8 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2016 and 2015 is as follows:

thousands of EUR	(Decrease) / increase of employee benefits provision	
Change of actuarial assumption:	2016	2015
Discount rate change +100 bp / -100 bp	(1,442) / 1,655	(1,275) / 1,462
Salary change +0.50% / -0.50%	795 / (749)	702 / (662)
Change in life expectation +1 year / -1 year	14 / (15)	13 / (13)

24. TRADE AND OTHER PAYABLES

thousands of EUR	2016	2015
Non-current		
Financial payables	7,118	5,074
	7,118	5,074
Current		
Trade payables	64,452	70,600
Uninvoiced deliveries	54,615	44,399
Put option	11,179	12,409
Financial payables	15,223	8,677
Finance lease payables	-	322
Other payables	1,769	607
	147,238	137,014

25. OTHER LIABILITIES AND DEFERRED INCOME

thousands of EUR	2016	2015
Non-current		
Deferred income	3,380	3,363
	3,380	3,363
Current		
Deferred income	36,062	36,110
Amounts due to employees	20,558	20,604
Other tax liabilities	9,983	7,484
Other liabilities	4,017	4,088
	70,620	68,286

Amounts due to employees include social fund liabilities:

thousands of EUR	2016	2015
At 1 January	89	157
Additions	1,488	1,546
Utilisation	(1,462)	(1,614)
At 31 December	115	89

26. COMMITMENTS

The Group's purchase commitments were as follows:

thousands of EUR	2016	2015
Acquisition of property and equipment	27,540	16,476
Acquisition of intangible assets	9,115	4,143
Purchase of services and inventory	70,110	46,577
	106,765	67,196

27. OPERATING LEASE – THE GROUP AS LESSEE

The future minimum operating lease payments were as follows:

thousands of EUR	2016	2015
Operating lease payments due within one year	21,074	12,920
Operating lease payments due between one and five years	37,291	25,575
Operating lease payments due after five years	14,365	17,955
	72,730	56,450

The possible prolongation of operating lease contracts is not reflected in the table.

During 2013 the Group has entered into an operating lease of premises contract for the period of 10 years. The Group has an option to extend the lease term for the next 2 years and the Group has a right to exercise the option repeatedly, maximum five times. Since 2015 rental payments shall increase annually by the portion contingent on the index of the consumer prices increase in the Eurozone, maximum 3.5% annually.

28. RELATED PARTY TRANSACTIONS

thousands of EUR	Receivables		Payables		Sales and income		Purchases		Commitments	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
DT AG	188,019	51,091	8,635	7,768	5,077	4,361	6,732	7,810	2,403	5,785
Other entities in DT AG group	4,361	1,579	6,029	2,545	13,331	8,003	11,125	7,433	2,365	649
Other shareholders of the Company	-	-	-	-	-	11	-	6	-	-
	192,380	52,670	14,664	10,313	18,408	12,375	17,857	15,249	4,768	6,434

The Group conducts business with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. The Group purchased fixed assets in amount of EUR 324 thousand (2015: EUR 1,196 thousand) from related parties.

In 2016 the Group granted Deutsche Telekom AG a short-term loan of EUR 180,000 thousand (2015: EUR 45,000 thousand). Interest related to the loan amounted to EUR 61 thousand (2015: EUR 134 thousand) (Notes 8, 20).

Until 18 June 2015 the Slovak Government had significant influence over the financial and operating policy decisions of the Group through 49% of the shares of the Company. The shares were owned by the Slovak Republic through the Ministry of the Economy of the Slovak Republic (34%) and by the National Property Fund of the Slovak Republic (15%). The Slovak Government and the companies controlled or jointly-controlled by the Slovak Government ("Slovak Government related entities") were classified as related parties of the Group until 18 June 2015 and therefore revenue and expenses further disclosed cover only this period.

During 2015 the Group purchased from the Slovak Government related entities electricity and electricity distribution services for EUR 3,513 thousand, postal and cash collection services for EUR 2,389 thousand. The Group also incurred expenses of EUR 1,375 thousand with respect to other frequency and telecommunication equipment related fees to the Telecommunications Office.

During 2015 the Group recognized revenue with the Slovak Government related entities for establishment and delivery of communication system, lease of terminal equipment, delivery of internet connectivity and other telecommunications services in amount of EUR 2,666 thousand, for providing services of communications infrastructure in amount of EUR 4,146 thousand and for development, implementation and support of software solution of municipalities portal of EUR 6,245 thousand.

In 2016 the Group signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Group acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Group. The total value of the contract amounts to EUR 41,537 thousand. In 2016 the Group recognized revenue with TSI in amount of EUR 1,614 thousand, revenue with other DT AG Group entities in amount of EUR 117 thousand and expenses with other DT AG Group entities in amount of EUR 1,250 thousand.

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2016 or 2015.

Compensation of key management personnel

The key management personnel, 16 in number (2015: 16) include members of the Executive Management Board, Board of Directors and Supervisory Board.

Since 1 July 2016 the companies Slovak Telekom and T-Mobile Czech Republic a.s. have the joint Executive Management Board. All management members are responsible for business and managerial activities of companies on both Slovak and Czech markets. The number of key management personnel include all members of the Executive Management Board, irrespective if they are employed by Slovak Telekom or T-Mobile Czech Republic a.s. Tables below include only benefits earned by the key management personnel in Slovak Telekom.

thousands of EUR	2016	2015
Short term employee benefits	1,748	3,045
Defined contribution pension plan benefits	31	58
Share-based payment plan	7	30
	1,786	3,133

thousands of EUR	2016	2015
Executive Management Board	1,760	3,069
Board of Directors	7	32
Supervisory Board	19	32
	1,786	3,133

The benefits of Executive Management Board include amount of EUR 47 thousand (2015: EUR 96 thousand) for private spending of members charged to the Group.

29. CONTINGENCIES

Legal and regulatory cases

On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter "the Decision"). The Decision found the Company (and DT AG, as parental company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, claiming compensation for damages of EUR 362,286 thousand plus interest. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission. Other competitors that would have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

In 2009, the Anti-Monopoly Office ("AMO") imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position by price squeeze and tying practices on several relevant markets (voice, data and network access services on its fixed network). Company filed an action for judicial review of AMO decisions to the Regional Court in Bratislava in 2009. In January 2012, the Regional Court cancelled the AMO decision. The Regional Court's judgment was cancelled by the Supreme Court in February 2014 upon AMO's appeal. The Supreme Court referred the case back to the Regional Court for further proceedings.

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company's conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 137,667 thousand plus interest. All three proceedings before the first instance District Court Bratislava II are currently suspended pending the outcome of judicial review of the underlying AMO decisions.

The Group is involved in legal and regulatory proceedings in the normal course of business.

As at 31 December 2016, the Group recognized provision for known and quantifiable risks related to proceedings against the Group, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

30. AUDIT FEES

In 2016 the Group obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. audit services in amount of EUR 307 thousand (2015: EUR 291 thousand), other assurance services in amount of EUR 2 thousand (2015: EUR 62 thousand) and other non-audit services in amount of EUR 80 thousand (2015: EUR 444 thousand).

31. EVENTS AFTER THE REPORTING PERIOD

There were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2016.

Slovak Telekom, a.s.

SEPARATE FINANCIAL STATEMENTS

prepared in accordance with International Financial Reporting Standards (IFRS) and Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Slovak Telekom, a.s.:

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Slovak Telekom, a.s. (the "Company") as a company standing alone as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's separate financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the section *Auditor's responsibilities for the audit of the separate financial statements* of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 30 to these separate financial statements, which describe the infringement decision of the European Commission against the Company and the implications thereof. The ultimate outcome of the related proceedings cannot presently be determined.

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Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the separate financial statements and (b) other information.

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2016 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Management's responsibilities for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of our audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Slovenská komora audítorov
SKAU
č. licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Ing. Štefan Čupil, FCCA
UDVA licence No. 1088

Bratislava, 16 March 2017

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Revenue	4	701,876	707,056
Staff costs	5	(112,829)	(113,514)
Material and equipment		(93,859)	(107,823)
Depreciation, amortization and impairment losses	11, 12	(171,078)	(178,850)
Interconnection and other fees to operators		(72,550)	(67,642)
Other operating income	6	20,882	17,389
Other operating costs	7	(188,726)	(162,699)
Operating profit		83,716	93,917
Financial income	8	3,089	3,017
Financial expense	9	(709)	(500)
Net financial result		2,380	2,517
Profit before tax		86,096	96,434
Income tax expense	10	(24,864)	(26,690)
Profit for the year		61,232	69,744

The financial statements on pages 85 to 125 were authorized for issue on behalf of the Board of Directors of the Company on 16 March 2017 and signed on their behalf by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Guido Manfred Menzel
Vice-chairman of the Board of Directors

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Profit for the year		61,232	69,744
Other comprehensive income			
Loss on remeasurement of available-for-sale investments	19	(9)	(115)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		(9)	(115)
(Loss) / gain on remeasurement of defined benefit plans	24	(1,177)	757
Deferred tax income / (expense)	10	228	(166)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		(949)	591
Other comprehensive income for the year, net of tax		(958)	476
Total comprehensive income for the year, net of tax		60,274	70,220

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2016	2015
ASSETS			
Non-current assets			
Property and equipment	11	731,096	752,614
Intangible assets	12	278,814	299,890
Investments in subsidiaries	14	69,098	69,098
Other receivables	15	1,240	1,179
Prepaid expenses and other assets	16	13,091	13,205
		1,093,339	1,135,986
Current assets			
Inventories	17	16,230	11,426
Investments at amortized cost	18	-	3,120
Available-for-sale investments	19	-	31,079
Term deposits	20	4,422	31,533
Loans	21	180,000	45,000
Trade and other receivables	15	104,610	96,705
Prepaid expenses and other assets	16	11,250	7,259
Current income tax receivable		-	1,542
Cash and cash equivalents	22	36,959	60,467
		353,471	288,131
TOTAL ASSETS		1,446,810	1,424,117
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	23	864,113	864,113
Statutory reserve fund	23	172,823	172,823
Other		(2,350)	(1,401)
Retained earnings and profit for the year		61,232	69,744
		1,095,818	1,105,279
Non-current liabilities			
Deferred tax	10	89,393	99,953
Provisions	24	26,106	22,665
Other payables	25	5,440	4,863
Other liabilities and deferred income	26	3,208	3,178
		124,147	130,659
Current liabilities			
Provisions	24	32,062	7,109
Trade and other payables	25	128,238	118,666
Other liabilities and deferred income	26	63,545	60,785
Current income tax liability		3,000	1,619
		226,845	188,179
Total liabilities		350,992	318,838
TOTAL EQUITY AND LIABILITIES		1,446,810	1,424,117

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2015							
At 1 January 2015		864,113	386,139	172,823	(1,908)	186,242	1,607,409
Profit for the year		-	-	-	-	69,744	69,744
Other comprehensive income		-	-	-	476	-	476
Total comprehensive income		-	-	-	476	69,744	70,220
Transactions with shareholder:							
Distribution to shareholder and other changes in equity	23	-	(386,139)	-	31	-	(386,108)
Dividends	23	-	-	-	-	(186,242)	(186,242)
At 31 December 2015		864,113	-	172,823	(1,401)	69,744	1,105,279
Year ended 31 December 2016							
At 1 January 2016		864,113	-	172,823	(1,401)	69,744	1,105,279
Profit for the year		-	-	-	-	61,232	61,232
Other comprehensive income		-	-	-	(958)	-	(958)
Total comprehensive income		-	-	-	(958)	61,232	60,274
Transactions with shareholder:							
Other changes in equity		-	-	-	9	-	9
Dividends	23	-	-	-	-	(69,744)	(69,744)
At 31 December 2016		864,113	-	172,823	(2,350)	61,232	1,095,818

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2016	2015
Operating activities			
Profit for the year		61,232	69,744
Adjustments for:			
Depreciation, amortization and impairment losses	11, 12	171,078	178,850
Interest income, net		(865)	(1,398)
Income tax expense	10	24,864	26,690
(Gain) / loss on disposal of property and equipment and intangible assets		(944)	373
Dividend income from subsidiaries	8, 29	(874)	(851)
Other non-cash items		1,751	5,724
Movements in provisions	24	24,392	(27,616)
Changes in working capital:			
Change in trade and other receivables		(15,455)	(349)
Change in inventories		(5,683)	(563)
Change in trade and other payables		10,993	(47,962)
Cash flows from operations		270,489	202,642
Income taxes paid		(32,272)	(26,740)
Net cash flows from operating activities		238,217	175,902
Investing activities			
Purchase of property and equipment and intangible assets	11, 12	(114,878)	(90,528)
Proceeds from disposal of property and equipment and intangible assets		5,448	1,166
Dividends received	8, 29	874	851
Proceeds from disposal of available-for-sale investments		35,057	170,276
Disbursement of loans		(185,000)	(205,000)
Repayment of loans		50,000	310,000
Acquisition of term deposits		(4,262)	(57,230)
Termination of term deposits		31,430	244,859
Interest received		1,319	6,750
Other charges paid for investing activities		-	(115)
Net cash flows (used in) / from investing activities		(180,012)	381,029
Financing activities			
Dividends paid	23	(69,744)	(186,242)
Share premium paid	23	-	(386,139)
Repayment of other financial liabilities	12, 25	(11,900)	(6,598)
Other charges paid for financing activities		(69)	(235)
Net cash used in financing activities		(81,713)	(579,214)
Effect of exchange rate changes on cash and cash equivalents		-	86
Net decrease in cash and cash equivalents		(23,508)	(22,197)
Cash and cash equivalents at 1 January	22	60,467	82,664
Cash and cash equivalents at 31 December	22	36,959	60,467

NOTES TO THE FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Slovak Telekom, a.s. ("the Company" or "Slovak Telekom") is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at Bajkalská 28, 817 62 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. For shareholders overview of the Company refer to Note 23.

The Company is the largest universal multimedia operator in Slovakia offering residential and corporate clientele benefits of comprehensive solutions provided from a single source. Slovak Telekom offers a full-array of data and voice services, and owns and operates the fixed and mobile telecommunications network covering almost the entire territory of the Slovak Republic. In the field of the fixed network, Slovak Telekom systematically invests in the most advanced optical infrastructure, operates the Next Generation Network (NGN) and is the largest broadband provider in the country. As the first multimedia operator in the country, it offers the IPTV (Magio TV) and satellite TV (Magio SAT) via fixed networks and satellite technology DVB-S2. In the field of mobile communication, it provides as the only operator internet connectivity via five technologies for high-speed data transmission - GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA/HSUPA, FLASH-OFDM and LTE (as the first operator commercially launched services running on the LTE network). Slovak Telekom established and operates public mobile telecommunications networks over frequencies: 900 MHz and 1800 MHz under the standard GSM (Global System for Mobile Communications) to provide voice services. Slovak Telekom also provides wireless broadband internet access and Managed Data Network Services over the frequencies 2100 MHz under the standard UMTS (Universal Mobile Telecommunications System), 800 MHz, 1800 MHz and 2600 MHz under standard LTE and 450 MHz under the Flash-OFDM standard. In addition, Slovak Telekom provides Fixed Wireless Access (FWA) over frequencies 26 GHz/28 GHz.

On 30 December 2013 the Telecommunications Office of the Slovak Republic granted to Slovak Telekom the license for the provision of mobile services on 800 MHz and 2600 MHz frequency bands (LTE license) valid until 31 December 2028. The frequency authorization granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services on 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 December 2025. The UMTS license for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections) is valid up to 31 August 2026. The 28 GHz frequency license granted by the Telecommunications Office of the Slovak Republic is valid until 21 December 2017 and 26 GHz frequency license is valid until 23 January 2018.

Members of the Statutory Boards at 31 December 2016

BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairman:
- Kerstin Günther

Member:
- Franco Musone Crispino

SUPERVISORY BOARD

Chairman:
- Dr. Hans-Peter Schultz

Members:
- Ing. Denisa Herdová
- Miriam Kvočková
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag

There were no changes entered in the Commercial Register in 2016.

Deutsche Telekom Europe B.V. with registered office at Stationsplein 8 K, Maastricht, the Netherlands is the parent of the Company.

Deutsche Telekom AG ("Deutsche Telekom" or "DT AG"), with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the ultimate parent of the group of which the Company is a member and for which the group financial statements are drawn up. The ultimate parent's consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except where disclosed otherwise.

The Company's functional currency is the Euro ("EUR"), the financial statements are presented in Euros and all values are rounded to the nearest thousands, except where otherwise indicated.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 2.19.

Statement of compliance
These financial statements are the ordinary separate financial statements of the Company and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS"). These financial statements should be read together with the consolidated financial statements in order to obtain full information on the financial position, results of operations and changes in financial position of the Company and its subsidiaries.

The consolidated financial statements for the year ended 31 December 2016 have been prepared in compliance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union. The consolidated financial statements are available at the Company's registered office, on the internet page of the Company and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

2.2 Property and equipment

Property and equipment is initially measured at historical cost, excluding the costs of day-to-day servicing. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and provision for impairment, where required. The initial estimate of the costs of dismantling and removing the item of property and equipment and restoring the site on which it is located is also included in the costs, if the obligation incurred can be recognized as a provision according to IAS 37.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or costs in the income statement in the period in which the asset is derecognized. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation is calculated on a straight-line basis from the time the assets are available for use over their estimated useful lives. Depreciation charge is identified separately for each significant part of an item of property and equipment.

The useful lives assigned to the various categories of property and equipment are:

Buildings and masts	50 years
Other structures	8 to 30 years
Duct, cable and other outside plant	8 to 50 years
Telephone exchanges and related equipment	4 to 30 years
Radio and transmission equipment	5 to 8 years
Other property and equipment	18 months to 30 years

No depreciation is provided on freehold land or capital work in progress.

Residual values and useful lives of property and equipment are reviewed and adjusted in accordance with IAS 8, where appropriate, at each financial year-end. For further details on groups of assets influenced by the most recent useful life revisions refer to Note 2.19.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply.

2.3 Intangible assets

Intangible assets acquired separately are recognized when control over them is assumed and are initially measured at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and provision for impairment, where required. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With the exception of goodwill, intangible assets have a finite useful life and are amortized using the straight-line method over their estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, as appropriate, at each financial year-end. For further details on the groups of assets influenced by the most recent useful life revisions refer to Note 2.19.

The useful lives assigned to the various categories of intangible assets are as follows:

Software	2 to 16 years
Telecommunications licenses	8 to 22 years
Content licenses	1 to 4 years
Customer relationships	13 years

Any gain or loss on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included within other operating income or costs in the income statement in the period in which the asset is derecognized.

Software and licenses

Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

a) it is technically feasible to complete the software product so that it will be available for use;
b) management intends to complete the software product and use or sell it;
c) there is an ability to use or sell the software product;
d) it can be demonstrated how the software product will generate probable future economic benefits;
e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
f) the expenditures attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalized as part of a software product include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognized as an expense as incurred. Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use specific software. Costs comprise all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in a manner intended by the management, including enhancements of applications in use.

Costs associated with the acquisition of long term frequency licenses are capitalized. Useful lives of concessions and licenses are based on the underlying agreements and are amortized on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life. Recurring license fees paid for core frequencies may be subject to change and therefore cannot be reliably estimated over the duration of the license term and are recognized as other operating costs in the period they relate to. Recurring license fees are paid during whole period of granted license.

The Company accounts for content licenses as intangible assets if there is unavoidable obligation to pay for the content rights, there are no doubts that the content will be delivered and the cost can be reliably estimated. Acquired content licenses are shown at historical cost. If there is no fixed price defined in the contract, the Company uses best estimate to assess the fee during the contracted period. The useful lives of content licenses are based on the underlying agreements and are amortized on a straight-line basis over the period from availability for commercial use until the end of the license term which is granted to the Company.

Goodwill

The goodwill previously recognized through the acquisition of the fully owned subsidiary T-Mobile was separately recognized in the statement of financial position of the integrated company Slovak Telekom as at 1 July 2010. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortized but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 13). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed. Fair values less costs to sell of cash-generating units with allocated goodwill tested for impairment are in Level 3 of the fair value hierarchy.

2.4 Investments in subsidiaries

Investments in subsidiaries are carried at cost less any accumulated impairment losses. Cost of an investment in a subsidiary is based on cost attributed to the acquisition of the investment, representing fair value of the consideration given. Dividends received from subsidiaries are recognized as income when the right to receive dividend is established.

2.5 Impairment of non-financial assets

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Assets that are subject to depreciation or amortization are reviewed for impairment, whenever events or circumstances indicate that their carrying amount may not be recoverable. Assets with indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested for impairment annually. Impairment losses for each class of asset are disclosed within depreciation, amortization and impairment losses in the income statement. Reversals of impairment losses are disclosed within other operating income in the income statement.

For the purpose of assessing impairment, assets are grouped into cash generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company determines the recoverable amount of a cash-generating unit on the basis of fair value less costs of disposal. The calculation is determined by reference to discounted cash flows calculations. These discounted cash flows calculations are based on financial budgets approved by management, usually covering a ten-year period. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of fair value less costs of disposal include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Discount rates used reflect risks specific to the cash-generating unit. Cash flows reflect management assumptions and are supported by external sources of information. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate.

Investments in subsidiaries are tested for impairment if impairment indicators exist. The Company considers, as minimum, the following indicators of impairment: the carrying amount of the investment in the separate financial statements exceeds the carrying amounts of the investee's net assets in the consolidated financial statements, including associated goodwill or; the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared.

In addition to the general impairment testing of cash-generating units, the Company also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to fair value less costs to sell.

2.6 Inventories

Cost of inventories comprises all the costs of purchase and other costs incurred in bringing the inventories to their present location and condition, including customs, transportation and similar costs. Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. An allowance is created against slow-moving and obsolete inventories.

Some terminal equipment, in particular phone sets, is often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is recorded upon customer acquisition or retention within material and equipment costs in the income statement. Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with original maturity of three months or less from the date of acquisition.

For the purpose of the statement of cash flows, cash and cash equivalents are net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

2.8 Financial assets

The Company classifies its financial assets as: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. When financial assets are recognized, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are detailed in Note 3.6.

Trade receivables are amounts due from customers for services performed or merchandise sold in the ordinary course of business. Trade and other receivables are included in current assets, except for maturities greater than 12 months after the financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method, less allowance for impairment. For the purpose of impairment evaluation, trade receivables are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The amount of impairment loss recognised is the difference between the asset´s carrying amount and present value of estimated future cash flows which are based on the past experience of the collectability of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a trade receivable for which an allowance was recognized becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a legally enforceable right to set-off exists and the Company intends to settle them on a net basis.

Finance lease receivables
Where Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins), using a discount rate determined at inception. The difference between the gross receivable and the present value represents unearned finance income which is recognized over the term of the lease using the effective interest rate method.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition in this category. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of "financial assets through profit or loss" category are presented in the income statement within financial income or financial expense in the period in which they arise.

Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial income or financial expense.

The Company does not apply hedge accounting in accordance with IAS 39 for its financial instruments, therefore all gains and losses are recognized in the income statement within financial income or financial expense.

Available-for-sale investments
Available-for-sale financial investments include debt securities. Debt securities in this category are those that may be sold in response to needs for liquidity or in response to change in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in financial income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in financial expense. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method.

2.9 Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets reduce their carrying amount and are recognized in the income statement against allowance accounts. Upon derecognition of a financial asset the net carrying amount includes any allowance for impairment. Any gains or losses on derecognition are calculated as the difference between the proceeds from disposal and the net carrying amount and are presented in the income statement.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

2.10 Financial liabilities

There are two measurement categories for financial liabilities used by the Company: financial liabilities carried at amortized costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortized cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

The Company does not apply hedge accounting in accordance with IAS 39 for its financial instruments, therefore all gains and losses are recognized in the income statement within financial income or financial expense.

2.11 Prepaid expenses

The Company has easement rights to use and access technological equipment sited in properties owned by third parties. These easements are presented within prepaid expenses in the statement of financial position. Easements are initially recognized at their net present value and amortized over their expected duration. Amortization of easement rights is presented within other operating costs in the income statement.

2.12 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Asset retirement obligations
Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The obligation is recognized in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.13 Employee benefit obligations

Retirement and other long-term employee benefits
The Company provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company has no further payment obligations. The contribution is based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2016. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognized immediately in income statement.

Remeasurement gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur within other comprehensive income for retirement benefits and within the income statement for jubilee benefits. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs. Interest costs are included within financial expense.

Termination benefits
Employee termination benefits are recognized in the period in which is the Company demonstrably committed to a termination without possibility of withdrawal, i.e. the management defines and authorizes a detailed plan listing the number and structure of employees to be discharged and announces it to the trade unions. Expenses related to termination benefits are disclosed within staff costs in the income statement.

2.14 Revenue recognition

Revenue is recognized upon the delivery of services and products and customer acceptance thereof and to the extent that: it is probable that economic benefits will flow to the Company; the revenue can be measured reliably and when specific criteria as stated below have been met. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the fair value of consideration received or receivable.

The Company recognizes revenue as follows:

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognized in the period they relate to.

Revenue from prepaid cards is recognized when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognized as revenue at the time when the call is received in the Company's network. The Company pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Company's network but use other operators' networks. Revenue from interconnect is recognized gross.

Content revenue is recognized gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Company acts as a principal in the transaction with a final customer. Content revenue is recognized net if the Company acts as an agent, i.e. the content provider is responsible for service content and the Company does not assume risks and rewards of ownership.

Revenue from multiple revenue arrangements is considered as comprising identifiable and separable components, to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount). The revenue relating to the item(s) is recognized when risks and rewards are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognized on a straight-line basis over the service period.

Revenue from sales of equipment is recognized when the equipment is delivered and installation is completed. Completion of an installation is a prerequisite for recognizing revenue on such sales of equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognized on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognized under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customized products and/or services is recognized when the customized complex solution is being delivered and accepted by a customer. Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Company is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognized over the contractual period or when the services are provided. Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognized when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognized when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognized using the effective interest rate method. When a loan or receivable is impaired, the Company reduces its carrying amount to a recoverable amount. The recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognized when the right to receive payment is established.

2.15 Leases

Determination of whether an arrangement is or contains a lease is based on the substance of an arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on use of a specific asset or assets and whether it conveys a right to use the asset.

Leases in which significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over lease period.

When operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognized in income statement in the period in which the termination took place.

Contracts are analysed based on the requirements of IFRIC 4 and if they include embedded lease elements, revenue or income attributable to these is recognized in accordance with IAS 17.

Operating lease – the Company as lessor
Assets leased to customers under operating leases are included in property and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognized as revenue or other operating income on a straight-line basis over the lease term.

Operating lease – the Company as lessee
Costs of operating leases are charged to the income statement on a straight-line basis over the lease term.

Finance lease – the Company as lessor
Leases of assets where the Company transfers substantially all the risks and rewards of ownership are recognized and disclosed as revenue against finance lease receivable. The revenue equals to the estimated present value of future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). Cost of assets sold in finance lease transactions are recognized at the commencement of the lease. Each lease receipt is then allocated between lease receivable and interest income.

Finance lease – the Company as lessee
Leases of assets where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. The finance lease obligations are included in the statement of financial position in trade and other payables.

2.16 Operating profit

Operating profit is defined as a result before income taxes and financial income and expenses. For financial income and expenses refer to Notes 8 and 9 respectively.

2.17 Foreign currency translation

Transactions denominated in foreign currencies are translated into functional currency using exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the statement of financial position date. All foreign exchange differences are recognized within financial income or expense in the period in which they arise.

2.18 Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity respectively.

Current income tax
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. The levy of 4.356% per annum is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards reduced by a fixed deduction of EUR 3,000 thousand.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax
Deferred tax is calculated at the statement of financial position date using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognized for all taxable temporary differences, except for the deferred tax liability arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenue and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Company's experience with similar assets. The Company reviews the estimated remaining useful lives of non-current assets annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation or amortization period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists.

The Company reviewed useful lives of non-current assets during 2016 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortization charge for the following categories of non-current assets:

thousands of EUR	2016	2017	2018	2019	After 2020
Duct, cable and other outside plant	(91)	45	9	9	28
Telephone exchanges and related equipment	(140)	31	39	29	41
Radio and transmission equipment	(566)	(77)	232	162	249
Other	(472)	(29)	127	106	268
	(1,269)	(30)	407	306	586

Customer relationships
The Company maintains record of customer relationships obtained during the acquisition of control of T-Mobile and recognized at the merger (Notes 1, 13) and regularly evaluates appropriateness of useful lives used to amortize these intangible assets on the basis of churn of customers acquired through the business combination. No changes to useful lives were necessary in 2016. If the useful lives of customer relationships were shortened by one year, the amortization would increase by EUR 19,195 thousand.

Activation fees and subscriber acquisition and retention costs
The Company defers activation; non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. This period is estimated on a basis of an anticipated term of customer relationship under the arrangement which generated the activation fee. The estimated customer relationship period is reassessed at each financial year-end. Costs incurred in direct relation to customer activation (such as SIM card costs and commissions) are deferred to the extent of activation revenue and amortized in the same manner as the activation fees. Other subscriber acquisition costs, which primarily include losses on subsidized handsets and hardware, are expensed as incurred.

Assessment of impairment of goodwill
The 2010 legal merger with T-Mobile led to recognition of goodwill. Goodwill is tested annually for impairment as further described in Note 2.5 using estimates detailed in Note 13.

Asset retirement obligation
The Company enters into lease contracts for land and premises on which mobile communication network masts are sited. The Company is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 26 to 50 at 31 December 2016. Management's determination of the amount of the asset retirement obligation (Note 24) involves the following estimates (in addition to the estimated timing of crystallisation of the obligation):

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Company's credit standing;
b) the amounts necessary to settle future obligations;
c) inflation rate.

If the economic useful life of the masts was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,792 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 2,647 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,194 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,278 thousand.

Provisions and contingent liabilities
The Company is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 24 and 30.

2.20 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Company's accounting period beginning on 1 January 2016

- Amendments within Annual improvements project 2010 – 2012, issued in November 2013 and European Union effective for annual periods beginning on or after 1 February 2015. The improvements consist of changes to seven standards:

  IFRS 2 Share-based Payment – Definition of vesting condition

  Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

  IFRS 8 Operating segment - Aggregation of operating segments

  Amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.

  IFRS 8 Operating segment - Reconciliation of the total of the reportable segments' assets to the entity's assets

  Amendment clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

  IFRS 13 Fair value Measurement – short term receivables and payables

  Amendment clarifies issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

  IAS 24 Related Party Disclosures – Key management personnel

  Amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- Amendments to IAS 1 – Presentation of Financial Statements: Disclosure Initiative, issued in December 2014 and effective for annual periods beginning on or after 1 January 2016.

  The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The adopted standards and amendments do not have material impact on the Company's financial statements.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2016 and which the Company has not early adopted

- IFRS 9 Financial Instruments, issued in July 2014 and effective for annual periods beginning on or after 1 January 2018. The effective date has not yet been endorsed by the European Union.

  The package of improvements introduced by the Standard IFRS 9 issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014 includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and substantially-reformed approach to hedge accounting.

  Classification and Measurement: Classification determines how financial assets and liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash characteristics and the business model in which an assets is held.

  Impairment: Standard introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

- IFRS 15 Standard on the recognition of revenue from contracts with customers, issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018. The effective date has not yet been endorsed by the European Union. Depending on the business model applied, the new provisions address the following issues in particular:

  - In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This will lead to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
  - At the same time, this will generally lead to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
  - Future capitalization and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
  - Increase in total assets on initial application due to the capitalization of contract assets and customer acquisition costs.
  - Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
  - For the purposes of determining whether the Company sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is unlikely there will be any material changes.

  The Company has determined to utilize the option for simplified initial application, i.e. contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be restated; instead, the Company intends to provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

  The effects will be analysed as part of a project for implementing the new standard, though a reliable estimate of the quantitative effects is not possible until the project has been completed, probably in mid-2017.

- IFRS 16 Standard on the recognition, measurement, presentation and disclosure of leases, issued on 13 January 2016 and effective for the periods beginning on or after 1 January 2019. The effective date has not yet been endorsed by the European Union. Depending on the business model applied, the new provisions address the following issues in particular:

  - Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognized as rights of use and lease liabilities in the statement of financial position.
  - The Company anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalized. The increase in lease liabilities leads to a corresponding increase in net debt.
  - Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.
  - For the Company as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

  The overall effects will be analysed as part of a project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed. For future minimum operating lease payments refer to Note 28.

- Amendments to IAS 7 (Disclosure Initiative) issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017. The effective date has not yet been endorsed by the European Union.

  The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

3. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks. The Company's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Company.

The Company's financial instruments include cash and cash equivalents, loans and term deposits. The main purpose of these instruments is to manage the liquidity of the Company.

The Company holds financial assets which represent its investment in subsidiaries. These financial assets are deemed to be long-term.

The Company has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arise from its operations.

The Company enters also into derivative transactions. The purpose is to manage the foreign currency risk arising from the Company's operations. The Company does not perform speculative trading with the derivative instruments.

The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. The Treasury is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the Deutsche Telekom Group Treasury. The Treasury works in association with the Company's operating units and with the Deutsche Telekom Group Treasury. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates.

The Company is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Company is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

The Company can use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. Such economic hedge however does not qualify for hedge accounting under the specific rules of IAS 39.

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Company uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 20).

Short-term cash forecasts are prepared on a rolling basis to quantify the Company's expected exposure. The Company's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 250 thousand.

The Company's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Company's profit before tax and equity to a 10% increase/decrease in the USD against EUR, with all other variables held as constant. The 10% change represents management's assessment of the reasonably possible change in foreign exchange rate and is used when reporting foreign currency risk internally in line with treasury policies.

thousands of EUR		2016	2015
Profit before tax	Depreciation of USD by 10%	290	(460)
	Appreciation of USD by 10%	(290)	460
Equity	Depreciation of USD by 10%	227	(359)
	Appreciation of USD by 10%	(227)	359

3.1.2 Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company entered into a master agreement with DT AG in October 2008 based on which the Company can provide loans to DT AG. Currently, there is outstanding loan in amount of EUR 180,000 thousand (2015: EUR 45,000 thousand) at fixed interest rate (Note 21). The term deposits in banks outstanding at 31 December 2016 in the amount of EUR 4,422 thousand (2015: EUR 31,533 thousand) have been concluded with fixed interest rate (Note 20).

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in commodity prices or equity prices. However, there are no such financial instruments, that would have been materially impacted from changes in commodity prices.

3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to credit risk from its operating activities and certain financing activities. The Company's credit risk policy defines products, maturities of products and limits for financial counterparties. The Company limits credit exposure to individual financial institutions and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Company is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 180,000 thousand (2015: EUR 45,000 thousand) provided to DT AG (Germany).

For credit ratings see following tables:

thousands of EUR	2016	2015
Term deposits (Note 20)		
A2	4,422	31,533
	4,422	31,533

thousands of EUR	2016	2015
Loans (Note 21)		
Baa1	180,000	45,000
	180,000	45,000

thousands of EUR	2016	2015
Cash and cash equivalents (Note 22)		
A1	4	496
A2	22,278	45,059
A3	-	1
Baa1	10,090	14,315
Baa2	4,044	-
Not rated	543	596
	36,959	60,467

Further, counterparty credit limits and maximum maturity can be decreased based on recommendation by Deutsche Telekom Group Treasury in order to manage bulk risk steering of Deutsche Telekom Group. Group credit risk steering takes into account various risk indicators including, but not limited to CDS level, rating and negative movement of the share price of the counterparty.

The Company establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognized to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Company's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, loans, term deposits, trade and other receivables, the Company's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Company assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial investments are tested for impairment on an individual basis. The remaining financial investments are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of a financial investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal of the impairment loss is recognized in profit or loss.

The table summarises the ageing structure of receivables:

		Past due but not impaired						
thousands of EUR	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Impaired	Total
At 31 December 2016								
Trade and other receivables	92,874	1,044	532	193	1,022	126	10,059	105,850
At 31 December 2015								
Trade and other receivables	84,369	257	181	106	26	65	12,880	97,884

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2016 and 2015.

Trade receivables that are past due as at 31 December 2016, but not impaired, are from creditworthy customers who have a good track record with the Company and, based on historical default rates, management believes that no additional impairment allowance is necessary.

For sensitivity of impairment charge of uncollectible receivables refer to Note 15.

3.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's liquidity risk mitigation principles define the level of cash and cash equivalents, marketable securities and the credit facilities available to the Company to allow it to meet its obligations on time and in full. The funding of liquidity needs is based on comparisons of income earned on cash and cash equivalents with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

thousands of EUR	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2016					
Trade and other payables	6,916	114,303	7,019	5,440	133,678
At 31 December 2015					
Trade and other payables	6,280	107,133	5,253	4,863	123,529

The Company has granted credit limit to subsidiary DIGI SLOVAKIA, s.r.o. in amount of EUR 5,000 thousand with interest rate 1M Euribor + 1% margin. The limit was not used as at 31 December 2016.

Offsetting financial assets and liabilities
The following financial assets and liabilities are subject to offsetting:

thousands of EUR	Gross amounts	Offsetting	Net amounts
At 31 December 2016			
Current financial assets – Trade receivables	13,982	(6,951)	7,031
Current financial liabilities – Trade payables	9,542	(6,951)	2,591
At 31 December 2015			
Current financial assets – Trade receivables	15,487	(7,253)	8,234
Current financial liabilities – Trade payables	10,960	(7,253)	3,707

For the Company's accounting policy on offsetting refer to Note 2.8.

3.4 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The Company's management proposes to the owners of the Company (through the Board) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Company. This can be achieved primarily by adjusting the amount of dividends paid to shareholders, or alternatively, by returning capital to shareholders by capital reductions, issue new shares or sell assets to reduce debt. The Company also takes into consideration any applicable guidelines of the parent company. No changes were made to the objectives, policies or processes in 2016.

The capital structure of the Company consists of equity attributable to shareholders, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 23). The management of the Company manages capital measured in terms of shareholder's equity amounting to at 31 December 2016 EUR 1,095,818 thousand (2015: EUR 1,105,279 thousand).

3.5 Fair value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

3.5.1 Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

thousands of EUR	At 31 December 2016				At 31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Current assets								
Available-for-sale investments (Note 19)	-	-	-	-	31,079	-	-	31,068
Interest receivable on available-for-sale investments (Note 15)	-	-	-	-	919	-	-	922

The fair value of available-for-sale investments was established based on quoted unadjusted market values provided by banks who act as depositors of the securities. There were no transfers between fair value hierarchy levels.

3.5.2 Non-recurring fair value measurements

There were no non-recurring fair value measurements in 2016 and 2015.

3.5.3 Financial assets and financial liabilities not measured at fair value

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date. Non-current receivables and non-current payables are discounted unless the effect of discounting was inconsiderable.

3.6 Presentation of financial instruments by measurement category

Presentation of financial instruments by measurement category in accordance with IAS 39 is as follows:

thousands of EUR	2016	2015
Loans and receivables		
Trade and other receivables (Note 15)	105,850	97,884
Term deposits (Note 20)	4,422	31,533
Loans (Note 21)	180,000	45,000
Cash and cash equivalents (Note 22)	36,959	60,467
Financial assets held-to-maturity		
Investments at amortized cost (Note 18)	-	3,120
Available-for-sale financial assets		
Available-for-sale investments (Note 19)	-	31,079

4. REVENUE

thousands of EUR	2016	2015
Fixed network revenue	268,043	268,219
Mobile network revenue	332,778	325,936
Terminal equipment	33,090	33,315
System solutions / IT	36,496	50,636
Other	31,469	28,950
	701,876	707,056

5. STAFF COSTS

thousands of EUR	2016	2015
Wages and salaries	88,346	89,126
Defined contribution pension costs	11,593	11,903
Other social security contributions	12,890	12,485
	112,829	113,514

	2016	2015
Number of employees at period end	2,795	2,977
Average number of employees during the period	2,845	3,043

6. OTHER OPERATING INCOME

thousands of EUR	2016	2015
Gain on disposal of property and equipment and intangible assets, net	944	-
Income from material sold, net	829	1,488
Income from rental of premises	2,780	2,307
Reversal of impairment of property and equipment (Note 11)	2,024	210
Income from marketing activities	4,695	4,378
Other	9,610	9,006
	20,882	17,389

7. OTHER OPERATING COSTS

thousands of EUR	2016	2015
Repairs and maintenance	17,507	20,100
Installation services	1,022	902
Marketing costs	18,075	19,192
Energy	13,051	13,742
Printing and postage	3,731	3,866
Logistics	4,596	4,176
Rentals and leases	18,029	17,547
IT services	6,725	7,773
Dealer commissions	20,107	17,523
Frequency and other fees to Telecommunications Office	4,700	2,788
Content fees	12,184	13,233
Legal and regulatory claims (Note 24)	25,480	1,355
Consultancy	3,487	3,908
Bad debts expenses	3,852	4,167
Services related to delivery of solutions for customers	26,745	22,587
Fees paid to DT AG group	4,919	4,823
Other	16,646	16,386
Own work capitalized	(12,130)	(11,369)
	188,726	162,699

8. FINANCIAL INCOME

thousands of EUR	2016	2015
Dividends from subsidiaries (Note 29)	874	851
Reversal of impairment on investments at amortized cost	402	-
Gain on disposal of available-for-sale investments (Note 18)	614	-
Interest on term deposits and bank accounts	72	438
Interest on loans	61	134
Interest on available-for-sale investments	13	221
Interest from finance lease	17	48
Foreign exchange gains, net	264	532
Other	772	793
	3,089	3,017

9. FINANCIAL EXPENSE

thousands of EUR	2016	2015
Interest costs on employee benefits provision	219	216
Interest cost on other non-current provisions	420	49
Bank charges and other financial expense	70	235
	709	500

10. TAXATION

The major components of income tax expense for the years ended 31 December are:

thousands of EUR	2016	2015
Current tax expense	31,945	32,544
Deferred tax income	(10,332)	(8,645)
Levy on regulated industries	3,251	2,791
Income tax expense reported in the income statement	24,864	26,690

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the statutory tax rate is as follows:

thousands of EUR	2016	2015
Profit before income tax	86,096	96,434
Income tax calculated at the statutory rate of 22% (2015: 22%)	18,941	21,215
Effect of non-taxable income and tax non-deductible expenses:		
Dividends	(192)	(187)
Cost / (income) related to legal and regulatory claims	5,601	(5)
Other tax non-deductible items, net	1,732	2,982
Tax charge in respect of prior years	(212)	(106)
Levy on regulated industries	3,251	2,791
Effect of change in tax rate	(4,257)	-
Income tax at the effective tax rate of 29% (2015: 28%)	24,864	26,690

Change of the income tax rate from 22% to 21%, effective from 1 January 2017, resulted in the decrease of the deferred tax liability of EUR 4,257 thousand in these financial statements with the positive effect on the tax expense of EUR 4,226 thousand and on the other comprehensive income of EUR 31 thousand.

Deferred tax assets (liabilities) for the year ended 31 December are attributable to the following items:

thousands of EUR	1 January 2016	Through income statement	Through statement of comprehensive income	31 December 2016
Difference between carrying and tax value of fixed assets	(117,199)	12,709	-	(104,490)
Allowance for investments at amortized cost	2,270	(2,270)	-	-
Staff cost accruals	2,473	(228)	-	2,245
Allowance for bad debts	3,154	(472)	-	2,682
Termination benefits	977	(62)	-	915
Retirement benefit obligation	2,363	(59)	228	2,532
Asset retirement obligation	2,248	444	-	2,692
Other	3,761	270	-	4,031
Net deferred tax liability	(99,953)	10,332	228	(89,393)

thousands of EUR	1 January 2015	Through income statement	Through statement of comprehensive income	31 December 2015
Difference between carrying and tax value of fixed assets	(123,781)	6,582	-	(117,199)
Allowance for investments at amortized cost	2,270	-	-	2,270
Staff cost accruals	2,840	(367)	-	2,473
Allowance for bad debts	2,378	776	-	3,154
Termination benefits	575	402	-	977
Retirement benefit obligation	2,609	(80)	(166)	2,363
Asset retirement obligation	2,756	(508)	-	2,248
Other	1,921	1,840	-	3,761
Net deferred tax liability	(108,432)	8,645	(166)	(99,953)

thousands of EUR	2016	2015
Deferred tax asset to be settled within 12 months	10,242	12,711
Deferred tax asset to be settled after more than 12 months	5,662	5,241
Deferred tax liability to be settled within 12 months	(808)	(706)
Deferred tax liability to be settled after more than 12 months	(104,489)	(117,199)
Net deferred tax liability	(89,393)	(99,953)

11. PROPERTY AND EQUIPMENT

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2016							
Cost	185,819	991,741	599,538	319,391	311,623	49,942	2,458,054
Accumulated depreciation	(104,754)	(545,908)	(542,196)	(277,535)	(234,559)	(488)	(1,705,440)
Net book value	81,065	445,833	57,342	41,856	77,064	49,454	752,614
Additions	3,028	9,878	3,477	6,398	7,558	48,648	78,987
Depreciation charge	(3,550)	(34,911)	(18,199)	(16,406)	(24,455)	-	(97,521)
Impairment charge	(80)	(33)	(10)	-	(359)	-	(482)
Reversal of impairment	-	1	1,934	-	52	37	2,024
Disposals	(4,095)	(5)	(2)	-	(192)	(232)	(4,526)
Transfers	994	5,296	6,934	12,969	15,912	(42,105)	-
At 31 December 2016							
Cost	175,906	1,006,845	505,004	269,859	312,016	56,236	2,325,866
Accumulated depreciation	(98,544)	(580,786)	(453,528)	(225,042)	(236,436)	(434)	(1,594,770)
Net book value	77,362	426,059	51,476	44,817	75,580	55,802	731,096

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,000 thousand (2015: EUR 25,000 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Company has the third party liability insurance for all motor vehicles.

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2015							
Cost	152,220	1,004,650	870,655	342,623	325,516	70,032	2,765,696
Accumulated depreciation	(74,821)	(538,844)	(820,451)	(304,723)	(243,771)	(428)	(1,983,038)
Net book value	77,399	465,806	50,204	37,900	81,745	69,604	782,658
Additions	731	10,235	4,228	2,502	7,817	42,286	67,799
Depreciation charge	(3,744)	(35,243)	(21,768)	(15,941)	(25,829)	-	(102,525)
Impairment charge	(1)	(9)	-	(1)	(34)	-	(45)
Reversal of impairment	-	-	53	96	25	36	210
Disposals	(2,605)	-	(3)	(8)	(157)	(940)	(3,713)
Transfers	1,055	5,044	24,628	17,308	13,497	(61,532)	-
Transfers from assets held for sale	8,230	-	-	-	-	-	8,230
At 31 December 2015							
Cost	185,819	991,741	599,538	319,391	311,623	49,942	2,458,054
Accumulated depreciation	(104,754)	(545,908)	(542,196)	(277,535)	(234,559)	(488)	(1,705,440)
Net book value	81,065	445,833	57,342	41,856	77,064	49,454	752,614

thousands of EUR	2016	2015
Additions	78,987	67,799
Non-cash additions from asset retirement obligation	(2,186)	(137)
Change in payables for purchase of property and equipment	1,910	(6,759)
Cash used for purchase of property and equipment from investing activities	78,711	60,903

12. INTANGIBLE ASSETS

thousands of EUR	Software	Licenses	Internally developed intangible assets	Goodwill	Customer relationships	Intangibles under construction	Total
At 1 January 2016							
Cost	443,033	223,422	4,077	73,313	265,612	24,902	1,034,359
Accumulated amortization	(404,708)	(100,823)	(1,716)	-	(227,222)	-	(734,469)
Net book value	38,325	122,599	2,361	73,313	38,390	24,902	299,890
Additions	17,988	17,135	168	-	-	16,709	52,000
Amortization charge	(32,557)	(21,050)	(273)	-	(19,195)	-	(73,075)
Disposals	-	-	-	-	-	(1)	(1)
Transfers	12,331	5	469	-	-	(12,805)	-
At 31 December 2016							
Cost	466,813	227,551	4,714	73,313	249,532	28,805	1,050,728
Accumulated amortization	(430,726)	(108,862)	(1,989)	-	(230,337)	-	(771,914)
Net book value	36,087	118,689	2,725	73,313	19,195	28,805	278,814

Goodwill and customer relationships were recognized at the merger of Slovak Telekom with T-Mobile on 1 July 2010. Goodwill and customer relationships arose on the Slovak Telekom's acquisition of the controlling interest in T-Mobile at 31 December 2004. Net book value of customer relationships for post-paid business customers at 31 December 2016 is EUR 19,195 thousand and remaining useful life is 1 year.

thousands of EUR	Software	Licenses	Internally developed intangible assets	Goodwill	Customer relationships	Intangibles under construction	Total
At 1 January 2015							
Cost	515,574	212,813	3,779	73,313	406,622	17,030	1,229,131
Accumulated amortization	(466,293)	(83,523)	(1,463)	-	(347,576)	-	(898,855)
Net book value	49,281	129,290	2,316	73,313	59,046	17,030	330,276
Additions	12,589	12,842	67	-	-	20,418	45,916
Amortization charge	(35,805)	(19,533)	(286)	-	(20,656)	-	(76,280)
Disposals	(7)	-	-	-	-	(15)	(22)
Transfers	12,267	-	264	-	-	(12,531)	-
At 31 December 2015							
Cost	443,033	223,422	4,077	73,313	265,612	24,902	1,034,359
Accumulated amortization	(404,708)	(100,823)	(1,716)	-	(227,222)	-	(734,469)
Net book value	38,325	122,599	2,361	73,313	38,390	24,902	299,890

thousands of EUR	2016	2015
Additions	52,000	45,916
Additions paid from financing activities	(17,728)	(12,842)
Change in payables for purchase of intangible assets	1,895	(3,449)
Cash used for purchase of intangible assets from investing activities	36,167	29,625

thousands of EUR	2016	2015
Additions paid from financing activities	17,728	12,842
Change in financial payables	(5,828)	(6,244)
Cash used for purchase of intangible assets from financing activities	11,900	6,598

13. IMPAIRMENT OF GOODWILL

thousands of EUR	2016	2015
T-Mobile	73,313	73,313
	73,313	73,313

The goodwill previously recognized at the acquisition of T-Mobile was recognized in the separate statement of the financial position of the Company on the merger on 1 July 2010. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Company uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2015: 2%) and a discount rate of 5.31% (2015: 5.34%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. INVESTMENTS IN SUBSIDIARIES

At 31 December 2016 the Company held the following investments in fully consolidated direct subsidiaries:

Name and registered office	Activity
DIGI SLOVAKIA, s.r.o. („DIGI") Röntgenova 26, 851 01 Bratislava	TV services, broadband services and TV channels production
PosAm, spol. s r.o. ("PosAm") Until 31 December 2015: Odborárska 21, 831 02 Bratislava Since 1 January 2016: Bajkalská 28, 821 09 Bratislava	IT services, applications and business solutions
Zoznam, s.r.o. ("Zoznam") Viedenská cesta 3-7, 851 01 Bratislava	Internet portal
Zoznam Mobile, s.r.o. ("Zoznam Mobile") Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider
Telekom Sec, s.r.o. ("Telekom Sec") Bajkalská 28, 817 62 Bratislava	Security services

thousands of EUR	Share and voting rights	Cost of investment 2016	Cost of investment 2015	Profit / (loss) 2016	Profit 2015	Net assets 2016	Net assets 2015
DIGI SLOVAKIA, s.r.o.	100%	52,362	52,362	5,824	4,694	15,546	9,721
PosAm, spol. s r.o.	51%	12,968	12,968	2,209	2,558	12,324	11,829
Zoznam, s.r.o.	100%	2,346	2,346	160	123	2,497	2,337
Zoznam Mobile, s.r.o.	100%	1,410	1,410	17	4	507	491
Telekom Sec, s.r.o.	100%	12	12	(2)	2	-	2
		69,098	69,098				

Financial data for subsidiaries are based on their separate financial statements. At the date of authorization of these separate financial statements for issue, the approved financial statements of subsidiaries for the year ended 31 December 2016 were not available. The table is prepared based on their non-approved draft financial statements.

All subsidiaries are incorporated in the Slovak Republic. Shares in the subsidiaries are not traded on any public market.

Cost of investment in Zoznam and Zoznam Mobile is net of impairment of EUR 1,562 thousand and EUR 938 thousand respectively.

15. TRADE AND OTHER RECEIVABLES

thousands of EUR	2016	2015
Non-current		
Receivables from instalment sale	673	751
Finance lease receivables	567	428
	1,240	1,179
Current		
Trade receivables	103,544	94,876
Other receivables	422	189
Interest receivable on available-for-sale investments	-	919
Finance lease receivables	644	721
	104,610	96,705

Trade receivables are net of an allowance of EUR 17,564 thousand (2015: EUR 19,288 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the period would be by EUR 155 thousand higher.

Movements in the allowance for impaired receivables from third parties were as follows:

thousands of EUR	2016	2015
At 1 January	19,288	19,821
Charge for the year, net	2,470	3,651
Utilised	(4,194)	(4,184)
At 31 December	17,564	19,288

16. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2016	2015
Non-current		
Easements	9,560	9,731
Subscriber acquisition costs	1,842	1,543
Other prepaid expenses	1,689	1,931
	13,091	13,205
Current		
Subscriber acquisition costs	1,753	1,660
Other prepaid expenses	3,753	4,532
Other assets	5,744	1,067
	11,250	7,259

17. INVENTORIES

thousands of EUR	2016	2015
Materials	7,068	3,169
Goods	9,162	8,257
	16,230	11,426

Inventories are net of an allowance of EUR 1,747 thousand (2015: EUR 1,009 thousand). The write-down of inventories in amount of EUR 879 thousand (2015: EUR 897 thousand) was recognized in cost of material and equipment.

18. INVESTMENTS AT AMORTIZED COST

thousands of EUR	2016	2015
Bank bond	-	3,120
	-	3,120

The bank bond was net of impairment and the amount of EUR 3,120 thousand approximated the fair value of the bond.

The bond matured in 2008. In December 2015 the Composition Agreement between issuer of the bond and composition creditors came into effect. Following the Composition Agreement, the claim from the bond ceased to exist and the Company received at the beginning of 2016 entitlements from the Composition Agreement: cash payment in amount of EUR 1,378 thousand, the convertible notes with the nominal value of GBP 2,551 thousand and with maturity of 15 years and 11,214,318 pieces of the shares with the nominal value of ISK 11,214 thousand. The notes and shares were categorised as available-for-sale investments (Note 19). The notes and shares were sold in December 2016 with the gain of EUR 614 thousand (Note 8).

19. AVAILABLE-FOR-SALE INVESTMENTS

thousands of EUR	2016	2015
At 1 January	31,079	204,067
Additions	2,145	-
Disposals	(33,065)	(170,000)
Amortisation of premium paid	(147)	(2,857)
Remeasurement recognised in other comprehensive income	(12)	(131)
At 31 December	-	31,079

For interest receivable on available-for-sale investments refer to Note 15.

Available-for-sale investments are measured at fair value. In 2015 the Company recognized unrealized loss of EUR 25 thousand in other comprehensive income. In 2016 the Company reclassified gain of EUR 9 thousand from other comprehensive income to income statement (2015: EUR 89 thousand).

Available-for-sale investments at 31 December 2015 comprised of state bonds. Credit quality in 2015 was as follows: rating A2: EUR 31,079 thousand.

If the interest rates of available-for-sale investments were 15 basis points higher / 20 basis points lower and all other variables were held constant, the Company's profit for the year ended 31 December 2015 would increase / decrease by EUR 129 thousand/ EUR 173 thousand.

20. TERM DEPOSITS

thousands of EUR	2016	2015
Term deposits in banks	4,422	31,533
	4,422	31,533

Term deposits include deposits at banks with original maturity more than 3 months from the date of acquisition. Short-term deposits with original maturity of three months or less from the date of acquisition are presented as cash and cash equivalents. For credit ratings see Note 3.2.

21. LOANS

thousands of EUR	2016	2015
Loans to Deutsche Telekom AG	180,000	45,000
	180,000	45,000

The loans granted to Deutsche Telekom AG were not secured. Loans outstanding at 31 December 2016 were provided during August to December 2016 and are repayable during January to March 2017 (2015: provided in November and December 2015 and repayable in May and June 2016). For credit ratings see Note 3.2.

22. CASH AND CASH EQUIVALENTS

thousands of EUR	2016	2015
Cash and cash equivalents	36,959	60,467
	36,959	60,467

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months, and earn interest at the respective rates. For credit ratings see Note 3.2.

23. SHAREHOLDERS' EQUITY

On 1 April 1999, Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.20 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.20 per share. The shares were issued at a premium totalling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the National Property Fund of the Slovak Republic. By acquiring 51% share of Slovak Telekom, Deutsche Telekom obtained 51% of the total voting rights associated with the shares and gained control of the Company. The Slovak Republic retained 34% of the shares of Slovak Telekom through the Ministry of the Economy of the Slovak Republic and the National Property Fund of the Slovak Republic retained 15% of the shares of Slovak Telekom.

Due to the change in the functional currency of the Company from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of Slovak Telekom of EUR 158 thousand. The increase in share capital was covered from the statutory reserve fund.

On 13 December 2013 Deutsche Telekom AG transferred 51% share of Slovak Telekom and voting rights associated with the shares to T-Mobile Global Holding Nr. 2 GmbH, and on 17 December 2013 T-Mobile Global Holding Nr. 2 GmbH transferred 51% share and voting rights associated with the shares to CMobil B.V. The change of the shareholders came into effect by registering in the Central Securities Depository of the Slovak Republic. T-Mobile Global Holding Nr. 2 GmbH became the shareholder of Slovak Telekom on 18 December 2013 and CMobil B.V. became the shareholder of Slovak Telekom on 10 January 2014. CMobil B.V. changed its name to Deutsche Telekom Europe B.V. in March 2015.

The Extraordinary General Meeting of Slovak Telekom held on 9 February 2015 approved the transformation of the form of shares of Slovak Telekom from physical registered shares to book-entered registered shares and the change of nominal value of shares of Slovak Telekom from the nominal value of EUR 33.20 to a nominal value of EUR 10.00, whereby the total amount of registered capital of Slovak Telekom remained unaltered. The change came into effect by registering in the Commercial register of the Slovak Republic in February 2015.

On 8 April 2015 Ministry of the Economy of the Slovak Republic transferred its 34% share of Slovak Telekom and voting rights associated with the shares to the National Property Fund of the Slovak Republic. Subsequently the National Property Fund of the Slovak Republic sold 49% share of Slovak Telekom and voting rights associated with the shares to the Deutsche Telekom Europe B.V. The change of the shareholders came into effect by registering in the Central Securities Depository of the Slovak Republic. Deutsche Telekom Europe B.V. became the sole shareholder of Slovak Telekom on 18 June 2015.

On 4 August 2015 the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved distribution of share premium of Slovak Telekom. The share premium of EUR 386,139 thousand was paid to the shareholder in August 2015.

On 31 March 2016, the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved the transformation of the form of shares of Slovak Telekom from book-entered registered shares to physical registered shares with the effective date 1 May 2016.

As of 31 December 2016, Slovak Telekom had authorized and issued 86,411,300 ordinary shares (2015: 86,411,300) with a par value of EUR 10.00 per share (2015: EUR 10.00 per share). All the shares issued were fully subscribed.

The structure of shareholders of Slovak Telekom at 31 December 2016 and 2015:

Shareholder' name	Number of shares acquired	Value of acquired shares in EUR	Acquired share	Acquired voting rights
Deutsche Telekom Europe B.V.	86,411,300	864,113,000	100%	100%

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Statement of changes in equity covers changes of equity from retirement benefits (Note 24), available-for-sale investments (Note 19) and share-based payment plan.

The Financial statements of the Company for the year ended 31 December 2015 were authorized for issue on behalf of the Board of Directors of Slovak Telekom on 14 March 2016.

On 31 March 2016, the sole shareholder of Slovak Telekom while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 69,744 thousand (2015: EUR 186,242 thousand) were paid in April 2016.

Approval of the 2016 profit distribution will take place at the Annual General Meeting scheduled for April 2017.

24. PROVISIONS

thousands of EUR	Legal and regulatory claims (Note 30)	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
At 1 January 2016	1,477	10,220	4,439	11,023	2,615	29,774
Arising during the year	25,524	193	4,358	1,899	572	32,546
Utilised	(59)	-	(3,401)	(30)	(593)	(4,083)
Reversals	(4)	(385)	(1,038)	(770)	(4)	(2,201)
Transfers	-	-	-	-	(886)	(886)
Interest impact	-	2,791	-	225	2	3,018
At 31 December 2016	26,938	12,819	4,358	12,347	1,706	58,168
Non-current	-	12,819	-	12,347	940	26,106
Current	26,938	-	4,358	-	766	32,062
	26,938	12,819	4,358	12,347	1,706	58,168

thousands of EUR	2016	2015
Non-current	26,106	22,665
Current	32,062	7,109
	58,168	29,774

Asset retirement obligation

The Company is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases (Note 2.19). Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Termination benefits

The restructuring of the Company's operations resulted in headcount reduction of 206 employees in 2016. The Company expects a further headcount reduction of 221 employees in 2017 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorized by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognized in full in the current period. In 2016 the Company recognized an expense resulting from termination benefits in amount of EUR 3,714 thousand (2015: EUR 4,611 thousand) in staff costs.

Retirement and jubilee benefits

The Company provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Company. The benefit entitlements are determined from the respective employee's monthly remuneration or as a defined particular amount.

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2016	10,739	284	11,023
Current service cost	704	18	722
Interest cost	219	6	225
Benefits paid	(14)	(16)	(30)
Remeasurement of defined benefit plans	1,177	(2)	1,175
Curtailment gain	(768)	-	(768)
At 31 December 2016	12,057	290	12,347

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2015	11,856	233	12,089
Current service cost	798	20	818
Interest cost	216	4	220
Benefits paid	(11)	(17)	(28)
Remeasurement of defined benefit plans	(757)	44	(713)
Curtailment gain	(1,363)	-	(1,363)
At 31 December 2015	10,739	284	11,023

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 1,177 thousand consists of experience adjustments in amount of EUR 416 thousand and of change in financial assumptions in amount of EUR 761 thousand.

The curtailment gain in amount of EUR 768 thousand resulted mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2016 or was announced for 2017. There were no special events causing any new past service cost during 2016 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2016 include the discount rate of 1.56% (2015: 2.07%). The expected expense for 2016 has been determined based on the discount rate as at the beginning of the accounting period of 2.07% (2015: 1.84%). Average retirement age is 62 years (2015: 62 years). The expected growth of nominal wages over the long term is 2.0% (2015: 2.0%) with minor adjustments for the first three years. The remaining weighted average duration of the defined benefit obligation is 13.0 years (2015: 13.8 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2016 and 2015 is as follows:

thousands of EUR	(Decrease) / increase of employee benefits provision	
	2016	2015
Change of actuarial assumption:		
Discount rate change +100 bp / -100 bp	(1,442) / 1,655	(1,275) / 1,462
Salary change +0.50% / -0.50%	795 / (749)	702 / (662)
Change in life expectation +1 year / -1 year	14 / (15)	13 / (13)

25. TRADE AND OTHER PAYABLES

thousands of EUR	2016	2015
Non-current		
Financial payables	5,440	4,863
	5,440	4,863
Current		
Trade payables	60,039	69,277
Uninvoiced deliveries	54,173	41,547
Financial payables	12,261	6,917
Finance lease payables	-	322
Other payables	1,765	603
	128,238	118,666

26. OTHER LIABILITIES AND DEFERRED INCOME

thousands of EUR	2016	2015
Non-current		
Deferred income	3,208	3,178
	3,208	3,178
Current		
Deferred income	32,197	32,307
Amounts due to employees	18,719	18,140
Other tax liabilities	9,111	6,730
Other liabilities	3,518	3,608
	63,545	60,785

Amounts due to employees include social fund liabilities:

thousands of EUR	2016	2015
At 1 January	37	108
Additions	1,419	1,474
Utilisation	(1,374)	(1,545)
At 31 December	82	37

27. COMMITMENTS

The Company's purchase commitments were as follows:

thousands of EUR	2016	2015
Acquisition of property and equipment	27,553	16,478
Acquisition of intangible assets	9,182	4,150
Purchase of services and inventory	70,393	46,581
Guarantee to subsidiary	2,100	1,100
	109,228	68,309

28. OPERATING LEASE – THE COMPANY AS LESSEE

The future minimum operating lease payments were as follows:

thousands of EUR	2016	2015
Operating lease payments due within one year	20,777	12,630
Operating lease payments due between one and five years	37,143	25,428
Operating lease payments due after five years	14,365	17,955
	72,285	56,013

The possible prolongation of operating lease contracts is not reflected in the table.

During 2013 the Company has entered into an operating lease of premises contract for the period of 10 years. The Company has an option to extend the lease term for the next 2 years and the Company has a right to exercise the option repeatedly, maximum five times. Since 2015 rental payments shall increase annually by the portion contingent on the index of the consumer prices increase in the Eurozone, maximum 3.5% annually.

29. RELATED PARTY TRANSACTIONS

	Receivables		Payables		Sales and income		Purchases		Commitments	
thousands of EUR	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
DT AG	188,019	51,091	8,635	7,768	5,077	4,361	6,732	7,810	2,403	5,785
Subsidiaries	5,090	7,441	4,805	4,871	8,364	8,187	7,440	8,645	445	13
Other entities in DT AG group	4,082	1,577	6,029	2,545	12,762	7,931	11,125	7,433	2,365	649
Other shareholders of the Company	-	-	-	-	-	11	-	6	-	-
	197,191	60,109	19,469	15,184	26,203	20,490	25,297	23,894	5,213	6,447

The Company conducts business with its subsidiaries (DIGI, PosAm, Zoznam, Zoznam Mobile, Telekom Sec) as well as with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. The Company purchased fixed assets in amount of EUR 2,833 thousand (2015: EUR 4,082 thousand) from related parties.

In 2016 the Company granted Deutsche Telekom AG a short-term loan of EUR 180,000 thousand (2015: EUR 45,000 thousand). Interest related to the loan amounted to EUR 61 thousand (2015: EUR 134 thousand) (Notes 8, 21).

In March 2016 the General meeting of PosAm declared a dividend of EUR 874 thousand (2015: EUR 851 thousand), which was paid in March 2016 (Note 8). There was no dividend declared by other subsidiaries in 2016 and 2015.

Until 18 June 2015 the Slovak Government had significant influence over the financial and operating policy decisions of the Company through 49% of the shares of the Company. The shares were owned by the Slovak Republic through the Ministry of the Economy of the Slovak Republic (34%) and by the National Property Fund of the Slovak Republic (15%). The Slovak Government and the companies controlled or jointly-controlled by the Slovak Government ("Slovak Government related entities") were classified as related parties of the Company until 18 June 2015 and therefore revenue and expenses further disclosed cover only this period.

During 2015 the Company purchased from the Slovak Government related entities electricity and electricity distribution services for EUR 3,425 thousand, postal and cash collection services for EUR 2,194 thousand. The Company also incurred expenses of EUR 1,375 thousand with respect to other frequency and telecommunication equipment related fees to the Telecommunications Office.

During 2015 the Company recognized revenue with the Slovak Government related entities for establishment and delivery of communication system, lease of terminal equipment, delivery of internet connectivity and other telecommunications services in amount of EUR 2,666 thousand and for providing services of communications infrastructure in amount of EUR 4,146 thousand.

In 2016 the Company signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Company acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Company. The total value of the contract amounts to EUR 41,537 thousand. In 2016 the Company recognized revenue with TSI in amount of EUR 1,614 thousand, revenue with other DT AG Group entities in amount of EUR 117 thousand and expenses with other DT AG Group entities in amount of EUR 1,250 thousand.

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2016 or 2015.

Compensation of key management personnel
The key management personnel, 16 in number (2015: 16) include members of the Executive Management Board, Board of Directors and Supervisory Board.

Since 1 July 2016 the companies Slovak Telekom and T-Mobile Czech Republic a.s. have the joint Executive Management Board. All management members are responsible for business and managerial activities of companies on both Slovak and Czech markets. The number of key management personnel include all members of the Executive Management Board, irrespective if they are employed by Slovak Telekom or T-Mobile Czech Republic a.s. Tables below include only benefits earned by the key management personnel in Slovak Telekom.

thousands of EUR	2016	2015
Short term employee benefits	1,748	3,045
Defined contribution pension plan benefits	31	58
Share-based payment plan	7	30
	1,786	3,133

thousands of EUR	2016	2015
Executive Management Board	1,760	3,069
Board of Directors	7	32
Supervisory Board	19	32
	1,786	3,133

The benefits of Executive Management Board include amount of EUR 47 thousand (2015: EUR 96 thousand) for private spending of members charged to the Company.

30. CONTINGENCIES

Legal and regulatory cases
On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter "the Decision"). The Decision found the Company (and DT AG, as parental company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, claiming compensation for damages of EUR 362,286 thousand plus interest. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission. Other competitors that would have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

In 2009, the Anti-Monopoly Office ("AMO") imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position by price squeeze and tying practices on several relevant markets (voice, data and network access services on its fixed network). Company filed an action for judicial review of AMO decisions to the Regional Court in Bratislava in 2009. In January 2012, the Regional Court cancelled the AMO decision. The Regional Court's judgment was cancelled by the Supreme Court in February 2014 upon AMO's appeal. The Supreme Court referred the case back to the Regional Court for further proceedings.

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company's conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 137,667 thousand plus interest. All three proceedings before the first instance District Court Bratislava II are currently suspended pending the outcome of judicial review of the underlying AMO decisions.

The Company is involved in legal and regulatory proceedings in the normal course of business.

As at 31 December 2016, the Company recognized provision for known and quantifiable risks related to proceedings against the Company, which represent the Company's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

31. AUDIT FEES

In 2016 the Company obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. audit services in amount of EUR 234 thousand (2015: EUR 224 thousand), other assurance services in amount of EUR 2 thousand (2015: EUR 62 thousand) and other non-audit services in amount of EUR 80 thousand (2015: EUR 440 thousand).

32. EVENTS AFTER THE REPORTING PERIOD

There were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2016.

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