2013 Annual Report

Telefónica Slovakia, s. r. o.

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Appendix to the independent auditor's report on the consistency of annual report with audited financial statements in accordance with Act No. 540/2007 Z.z. § 23 par. 5

To the Owner of Telefónica Slovakia, s.r.o.:

I. We have audited the financial statements of Telefónica Slovakia, s.r.o. ("the Company") as at 31 December 2013 presented in the annual report. We issued the following independent audit report dated 11 March 2014 on the financial statements:

"Independent Auditors' Report

To the Owner of Telefónica Slovakia, s.r.o.:

We have audited the accompanying financial statements of Telefónica Slovakia, s.r.o. ('the Company'), which comprise the balance sheet as at 31 December 2013 and statements of total comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

11 March 2014
Bratislava, Slovak Republic

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Ing. Tomáš Přeček
UDVA Licence No. 1067"

II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of the Company is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2013. We have not audited information that has not been derived from audited financial statements or Company accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Company as at 31 December 2013 and is in accordance with the Act on Accounting No 431/2002 Z.z., as amended by later legislation.

23 April 2014
Bratislava, Slovak Republic

Ernst & Young

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Ing. Tomáš Přeček
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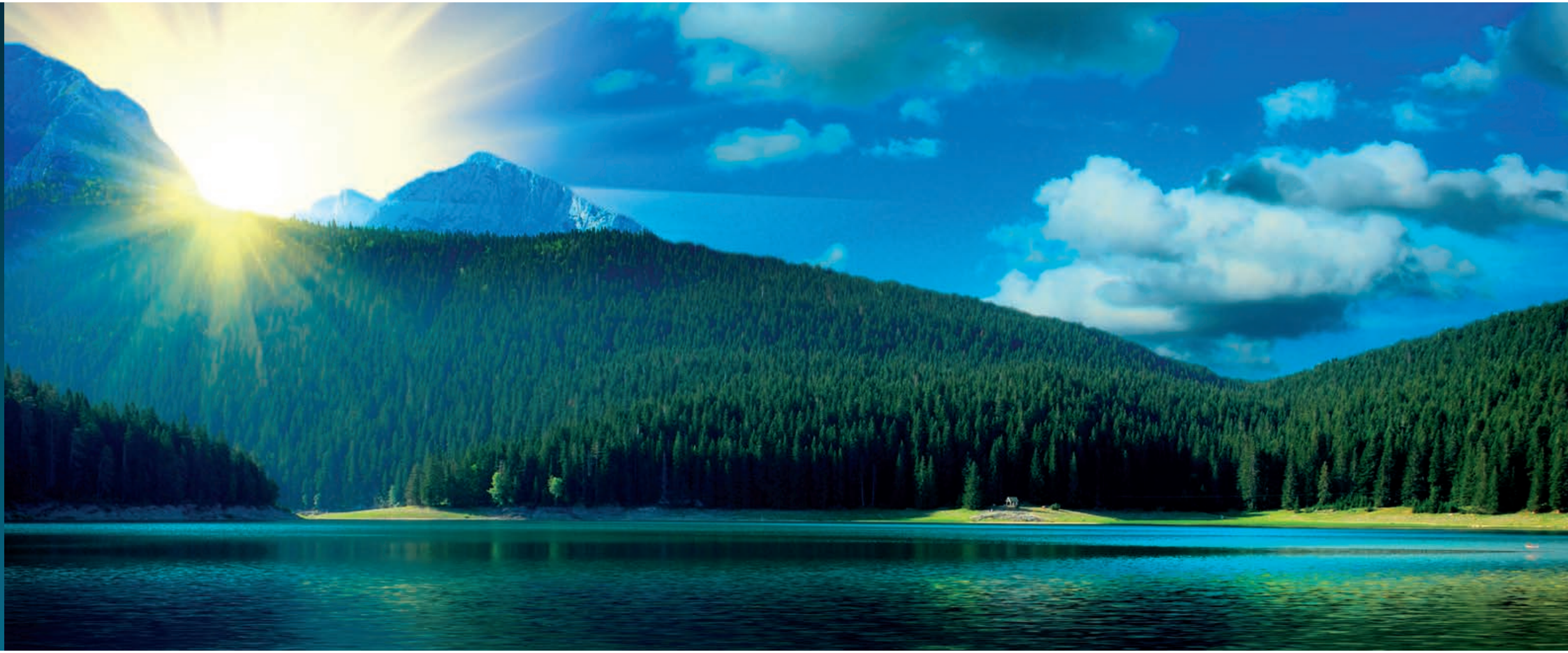


About Telefónica Group

From the aspect of market capitalisation, Telefónica is one of the largest telecommunication companies in the world. Its activities are focused mainly on the market of landline and mobile telephony, considering the broadband connection to be the key instrument for the development of both. The company operates significantly in 24 countries and has more than 320 million customers. Telefónica´s strategy of growth focuses on markets where it has a strong position: Spain, Europe, and Latin America. Telefónica is a 100% privately company owned 100% and its shares are quoted on the Madrid stock exchange and other stock exchanges with more than 1.5 million direct shareholders.

The Telefónica Group announced in November 2013 that it had agreed with the Czech PPF Investment Group on the sale of a 65.9% share of Telefónica Czech Republic, including the Slovak subsidiary Telefónica Slovakia. In June, the Telefónica Group also agreed with the Hong Kong company Hutchison Whampoa on the sale of 100% shares of its Irish mobile operator O_2 Ireland. The contract value was set at EUR 850 million. This series of steps enabled the Telefónica Group to make a significant strategic shift. 2013 was a decisive year for the transformation process of the Telefónica Group which is currently focusing on fulfilling the strategy of increased financial flexibility and strengthened operations on its key markets.

Telefónica was established in 1924 in Spain. Over the years, it has grown to a global size. The individual companies of the Telefónica Group located in 24 countries of the world are divided into two basic geographic zones – Europe and Latin America – and a global business unit Telefónica Digital.

Telefónica Europe

Telefónica Europe includes mobile network operators in Great Britain and Ireland, as well as integrated operators of landline and mobile networks in Germany, Czech Republic, and Slovakia. In 2013, all these operators presented themselves for their residential customers under the brand name of Telefónica. Telefónica Europe owns a 50% share in the common companies of Tesco Mobile in Great Britain and Tchibo Mobilfunk in Germany. It also owns 100% of Be, the leading provider of broadband services in Great Britain. The operator of fixed and mobile services on the Isle of Man – Manx Telecom is also part of the Group.

Telefónica Europe belonging to the Telefónica Group has its registered office in Slough in Great Britain and has around 43 million customers of fixed and mobile services.

2 | Telefónica Slovakia, s. r. o.

Within the Telefónica International Group, Telefónica Slovakia belonged to the Telefónica Europe Group in 2013. The company uses the brand name O_2 for all its business activities in the Slovak Republic. It joined the Slovak market of mobile operators based on the decision of the Selection Committee of the Telecommunication Office of the Slovak Republic from 25 August 2006. It launched its commercial operation on 2 February 2007.

In 2013, Telefónica Slovakia became for the fifth time the Operator of the Year in an independent customer survey. The company therewith confirmed that the O_2 Fair ("O_2 Fér") offer as well as the O_2 My Company („O_2 Moja Firma") and O_2 Flat Rate ("O_2 Paušál") reflect the actual customer needs.

Fairness, simplicity, and transparency

The main principles of mobile telephony in O_2 are fairness, simplicity, and transparency. The fairness brought about the cancellation of compulsory monthly fees for invoices services, so that customers only pay for what they actually use.

Transparency and simplicity mean the same prices for calls during days and at nights, during workdays as well as at weekends, to customer numbers in all Slovak networks and calls from Slovakia to all EU countries at domestic prices.

No binding contracts – programmes and services for residential O_2 customers are without binding. O_2 products are attractive and the benefits for calls do not need to be conditioned upon binding.

Equal benefits for all

Equal benefits belong to all, regardless of whether they charge their credit card or pay for the used services through invoices or if they are with O_2 longer or are new customers.

This approach is appreciated by many customers. From 2008 to 31 December 2013, customers transferred to the O_2 network more than 617,000 phone numbers. From the beginning of 2013 until 31 December, customers transferred to O_2 as many as 114,000 SIM cards.

We changed the rules of mobile communication in Slovakia

By introducing the O_2 Fair offer for residential customers in September 2008, Telefónica Slovakia changed the very basis rules of mobile communication in Slovakia. The benefits of O_2 Fair lie mainly in the non-binding nature of services, in a clear price list and uniform price for calls and text messages. Customers can also adjust the O_2 Fair programme to their own needs through Extra packages made up of minutes, SMS/MMS, and data at advantageous prices. Last year, O_2 also made calls within its own network free already after the 1st minute for all customers with the O_2 Fair programme.

Telefónica Slovakia was the only one to offer customers the possibility to make automatic calls from Slovakia to countries of the European Union at domestic prices. Calls and text messages from Slovakia to all mobile and landline networks in these countries cost the same as the calls and text messages to all networks in the Slovak Republic. All one has to do is use the O_2 Fair, O_2 Flat Rate, or O_2 My Company offer.

The company also contributed to providing access to the automatic transferability of numbers among all three operators and to a significant shortening of the deadline for transferring a number to the network of another telecommunication operator from the prehistoric 25 to the present 4 days.

Already in 2010, O_2 introduced its new programme for the sole traders and small and medium-sized companies – O_2 My Company. Customers of the O_2 My Company programme pay no more than EUR 44 for calls and SMS/MMS to all networks in Slovakia and to all countries of the European Union as well as the Internet. More than 70,000 corporate clients are currently using the O_2 My Company programme.

O_2 has got 1.5 million customers

2013 was yet another successful year for O_2.

The O_2 customer base reached as many as 1.5 million active customers in November 2013. Thus, O_2 proved after six years that a fair, innovative, and transparent approach and an attractive offer are exactly what customers expect of their operator.

O_2 General Director Ramiro Lafarga stated on this occasion: "1.5 million of customers means a lot to us. It means great responsibility with regards to our customers that come to expect from us not only a fair approach and high-quality and attractive services, but also something extra. Thank you for your trust. I thank the whole O_2 team, offering the best to customers day after day. Be sure that we shall not stop."

O_2 has also maintained the highest level of loyalty and the highest customer satisfaction from among all the operators. This was shown by a survey conducted by the independent Ipsos Tambor Agency and Telefónica Slovakia in which O_2 again achieved the highest level of customer satisfaction from among all Slovak mobile operators.

Quick data is our priority

O_2 continues to expand its own 3G network. The commercial start of products on its own 3G network took place as early as in June 2011. Already in December 2013, O_2 exceeded its original plan of expanding the network. 3G network from O_2 covered a total of 59.5% of the population of Slovakia. Quick data is clearly a priority for O_2, be it in terms of expanding and strengthening of the 3G connection or expanding LTE coverage. O_2 was the first on the market to test LTE in 2010 as well as launching the first pilot commercial operation in August 2012 which is still in progress. Frequencies acquired in the auction enabled the operator to develop its own fourth generation network. In combination with the frequencies owned prior to the auction, O_2 has a sufficient bandwidth to operate high-quality broadband mobile data network with excellent capacity and coverage.

O_2 always offers its customers something extra. In May 2013, it changed its popular customer programme O_2 Super Zone to the loyalty programme Extra Benefits. This brought about greater simplicity and clarity in the offers of great benefits for O_2 customers in terms of travelling, active way of spending leisure time, as well as fashion.

Partner solutions

Telefónica Slovakia, s.r.o. decided to cooperate in the area of partner solutions through which mobile services are provided.

Tesco mobile is a partner product of Tesco Stores SR, a.s. and Telefónica Slovakia, s.r.o., sold within the network of Tesco Stores SR, a.s. Tesco mobile in Slovakia followed up in December 2009 on the successful operation in the British islands. It offers its services on three markets in the United Kingdom of Great Britain and Northern Ireland and in Ireland. The service provider is Telefónica Slovakia, s. r. o.

SWAN MOBILE is a partner product of SWAN, a.s. and Telefónica Slovakia, s.r.o. sold within the store network of SWAN, a.s. SWAN MOBILE SIM cards provide services CLIP, CLIR, access to the Internet, calls abroad, blocking of calls and information about missed calls. This service is provided by Telefónica Slovakia, s. r. o.

Companies Telefónica Slovakia, s.r.o. and SWAN, a.s. agreed to cooperate in the area of providing partner solutions. Within the pilot project, SWAN sells mobile electronic communication service O_2 Partner Special aimed at the segment of business customers, provider of which is Telefónica Slovakia. This mobile service is available at the address of the SWAN registered office and under the label of O_2.

3 | Company Management

Company Management

Ramiro Lafarga Brollo

General Director

Ramiro became the General Director of Telefónica Slovakia in November 2011. Prior to his arrival to Slovakia, he worked as the Business Director of Telefónica Chile where he was responsible for more than 5,800 employees. In the past, he also held the position of the Business Vice-President of Telefónica Brasil and worked at Movistar Chile.

Jonathan Earle

Executive Director for the Section of Marketing

Jonathan has worked for Telefónica O2 Slovakia since January 2012. In the past, he has worked for Goldfish credit card, Orange, and Barclays Bank. From May 2007 until his start at Telefónica Slovakia, he worked in Telefónica UK in Great Britain in the position of Head of Consumer Marketing.

Martin Klímek

Executive Director for Finances

Martin has been the Executive Director for finances of Telefónica Slovakia since May 2012. Previously, he held the position of the Director for Planning and Controlling in Telefónica CZ. He joined Telefónica CZ (at that time Eurotel Prague) as early as in 2002 after he had worked in PricewaterhouseCoopers in Prague.

Ján Žďárský

Network Department Director

Ján has worked in Slovakia since April 2011, first holding the position of Senior Manager of Network Operation and as of January 2013 as the Network Department Director. He has worked in the area of mobile network operation since 1996 when he joined Eurotel Prague. In 2003, he worked as the team leader of several technical teams on projects in Columbia, U.S.A., Sweden, and Brazil. In 2008, he returned to Czech Republic and worked as the Senior Project Manager at Telefónica.

Radek Štěrba

Executive Director for Sales and Customer Services Section

Radek joined Telefónica Slovakia from Czech Republic where he had worked at T-Mobile in the position of the Vice-President of Sales to Residential Customers. He is experienced in the area of implementing the company strategy for sales, introducing new non-traditional products, and managing the sales team.

Ján Vanovčan

IT CZ & SK Projects Director

Ján studied software engineering, department of artificial intelligence. After various IT positions in healthcare, insurance industry, and the development of SW for telecommunication operators, he has worked since 2000 as the Consulting Architect at Logica. As a consultant, he worked on projects for Slovak telecommunication operators as well as in Hungary, Czech Republic, and the United Kingdom. He joined Telefónica Slovakia in 2007 as the Manager for Integration and Architecture, and was later promoted to be the Director of this department. Ján designed solutions and managed several projects in Telefónica Slovakia in the area of CRM, integration of systems, and electronic channels.

Company Management

René Parák

Director of Corporate Communication

René worked in the past for TV Markíza and KPMG Slovensko, a.s., being responsible for marketing and communication. He joined Telefónica Slovakia in 2007. He was first responsible for external communication and PR, and as of March 2011 he became the Communication Director, which means he is responsible for the corporate communication of the company (external, internal, and social media).

Peter Gažík

Public Affairs Director

Peter came to our company in October 2011 and is responsible for relations with partner, state institutions, and the regulation authority. Since 2006, he has worked as a consultant for Candole Partners, a company providing strategic counselling in the region of Central and South Eastern Europe. During his work, he focused mainly on governmental relations, heading several successful projects for several multinational clients.

Mária Rapanová

Executive Director for Human Resources

Before she joined Telefónica Slovakia, Mária had worked in Komerční Banka Bratislava and in T-Mobile and Slovak Telekom. She came to our company in November 2008. She held several positions in the field of human resources. On 1 June 2013, she became the Executive Director for Human Resources.

Tomáš Masár

Director for Strategy and Business Development

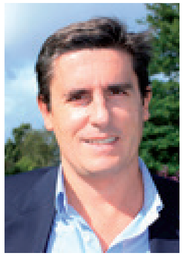
Tomáš has worked in the field of telecommunications since 2006, first at Eurotel ČR, and later at Telefónica O2 ČR, where he focused on developing business as well as the project of establishing a third mobile operator in Slovakia. At Telefónica Slovakia, he took care of the product department of marketing, roaming, and inter-operator relations (interconnect) from 2008. Since July 2012, he has been responsible for the strategic development and search for new business opportunities. In the past, he worked at Citibank in London, Geneva, and ČSOB in Prague.

Dávid Durbák

Director for Legal Affairs

Dávid joined our company in April 2007. From April 2011, he has held the position of the Director for Legal Affairs, being responsible for complex legal support in the company. He started his professional career in Slovak Telekom, a.s., at the department for regulation affairs, being responsible for providing legal support to the company in proceedings with state bodies, mainly representing the company in several proceedings at the Antimonopoly Office of the Slovak Republic.

Supervisory Board Members



David Melcon

David Melcon is the senior financial specialist with more than 15 years of praxis in senior management in the telecommunication industry. He has also got extensive experience in the field of financial planning and performance management, M&A, transactions, valuation of investment, and financial operations in Latin America, Spain, Great Britain, and the rest of Europe. He joined Telefónica in 2001. Since 2007, he has been holding the position of the Director for Finance and Controlling in Telefónica Europe and is also a member of the Board of Directors of Telfin Investments Ireland. He was a supervisory board member of Hansenet.

Martin Bek

Martin Bek worked in the French companies of ABC International, DRT International, and consequently Guerard Viala Prague. From 1996, he worked at ČESKÝ TELECOM (legal predecessor of Telefónica Czech Republic) in the positions of Director for Taxes and Accounting, later in the position of the Executive Director for Planning and Controlling. In April 2004, he was appointed to be the executive of Eurotel, where he held the position of Executive Director for Operation from September 2004. He currently holds the position of the Executive Director for Human Resources and Support Services in Telefónica Czech Republic.

František Schneider

František Schneider has worked for Vikomt CZ and Dell Computer. František joined Telefónica Czech Republic in April 2008, holding the position of the Executive Director for Corporate Sales and he is currently the Director of Corporate Customers Division.

4 | General Director Address

General Director Address

Ramiro Lafarga Brollo
General Director

Dear shareholders, customers, employees, and partners,

Last year was a successful year for Telefónica Slovakia. Even after seven years, we have persistently been fighting with the afflictions of the market. We bring attractive new products, services, and technologies to our customers. Customers appreciate our fair approach and advantageous offer. I am also pleased to confirm that thanks to our efforts applied throughout all of 2013, we managed to meet the set goals, not only in terms of growth but mainly in terms of introducing new, innovative, as well as fair services for our customers.

We managed to achieve several significant milestones in the past year. I am especially proud about exceeding the limit of 1.5 million active customers after more than six years of our entering on the Slovak market. We can thus state that on average we grow every two years by a half million new customers. This significant number is a great victory for us and especially in the combination with the fact that together with the number of customers, customer satisfaction grows too. This is proved not only by the statistics of the Ipsos Tambor survey, but also by the victory in an independent survey, based on which we were granted the Operator of the Year prize by our customers for the fifth year in a row. We equally value the appreciation from AON Hewitt for the Best Employer of the Year 2013. Just as we are fair to our customers, we are also fair to our employees and partners.

During 2013, we introduced numerous new features to our customers. Right at the beginning of the year, we were the first operator to enable our customers to pay contact-free using their mobile phones, thus again promoting the position of O_2 as the technological innovator. At the beginning of the year, we also enabled all our customers with the O_2 Flat Rate, O_2 Fair, and O_2 My Company programmes to call countries of the European Union at Slovak prices. We enabled new, as well as existing, customers of O_2 Fair to call for free within our network already after the first minute. In the summer, we improved our roaming offer and offered customers calls and text messages at domestic prices in the EU. Since we believe in the importance of customer satisfaction not only in our sector, since August we have been helping to search for the best services in Slovakia.

We went even further in terms of providing automatic benefits for new and existing customers. In September, we again offered something extra, this time it was the Internet on mobile phones for free as part of the O_2 Flat Rate. Customers thus do not have to choose between a phone bonus and free data package. They will get both. In the past year, we worked intensely on covering the territory

General Director Address

with our own 3G network, which is proved by our exceeding the original plan of expansion. Towards the end of last year, almost 60% of the population of Slovakia was covered by our 3G network. During last year, we also participated in the auction of the Telecommunication Office of the Slovak Republic and succeeded in winning the key frequency spectrum for the 4G network. The auctioned frequency share made the implementation of the 4G network around the county easier and ensured that high-speed mobile Internet would be available even in more remote areas where access to broadband Internet is currently limited.

Also thanks to all the services and benefits that we introduced last year, the share of customers paying based on an invoice increased by 17.4 percentage points. As of the last December day, Telefónica had more than 1,539,000 customers, which is 13.7% more than in the comparable period of last year. As many as 773,000 customers used invoiced services. The change in the thinking of people with regards to the use of mobile services that we attempted from the beginning was reflected this year in the highest share of transferred numbers. From the launch of the free number transfer (November 2008) until 31 December 2013, customers brought over to us more than 617,000 SIM cards. Only last year, in 2013, as many as 114,000 customers did so.

The revenue of the company reached EUR 208 million last year, which represents a year-to-year increase by 8.3%. The average monthly revenue per customer (ARPU) from prepaid services reached EUR 7.0 in 2013, ARPU for customers paying based on invoices was EUR 14.6. We also achieved a positive operating profit before depreciation and amortisation (OIBDA) that increased on a year-to-year basis by more than 24%.

Finally, I would like to thank you all on behalf of Telefónica Slovakia for all the awards we received in 2013 and I hope we will continue to gain your trust. Though being fair to all our customers may sometimes seem like a long-distance run, we will never give up. In future years, we will continue at the set speed and will bring many interesting, attractive, and fair offers for all.

5 | Calendar of Important Events in 2013

Calendar of Important Events in 2013

January

In January, O_2 was the winner in the independent survey evaluating the activities of mobile operators in Slovakia, and that for the fourth time in a row.

O_2 together with Tatra banka offered customers contact-free payments by phone using the NFC (Near Field Communication) technology.

February

O_2 enables making calls to countries of the European Union at Slovak prices to all customers with the O_2 Flat Rate, O_2 Fair, and O_2 My Company programmes.

On 13 February 2013, O_2 welcomed its one hundred thousandth fan on its Facebook profile. Towards the end of 2013, the O_2 Facebook community had more than 140,000 fans.

April

All customers with the most popular programme O_2 Fér can call more than 1.5 million phone numbers within the O_2 network for free already after the 1st minute! The benefit is provided to customers of prepaid or invoiced services automatically and without any monthly fee or activation.

May

From 7 May 2013, the O_2 customers travel in the public transport within the O_2 Extra Benefits ("O_2 Extra výhody") programme with an SMS ticket cheaper by 10%. Apart from this, O_2 Extra Benefits offer many other advantages to O_2 customers – for example, cheaper fuel, more advantageous travels around Slovakia and abroad, as well as the cheaper purchase of clothing and books.

June

O_2 enables its customers to call and even send text messages with the EU Pass („EU Pas") programme at domestic prices in the EU and call with the Calls World ("Volania Svet") programme at domestic prices even outside of the EU.

July

More than 67,000 customers transferred their numbers to the O_2 network from the beginning of the year.

As of July, O_2 helps to find the best services in Slovakia at www.najlepsiesluzby.sk

Calendar of Important Events in 2013

September

O_2 continues to provide automatic benefits to new as well as existing customers and again introduced something extra - the Internet on mobile phones for free as part of the O_2 Flat Rate. Customers with the O_2 Flat Rate thus do not have to decide between a bonus for phone or the Internet. Data volume is defined for each version of the O_2 Flat Rate that can be used by new as well as current customers automatically for free.

October

O_2 will continue to expand its 3G network. By the end of the year, it will be made accessible at a further 86 locations.

November

The O_2 label changes its owner.

O_2 is the best employer in Slovakia from among large companies. This was the outcome of the Best Employers Slovakia study conducted by Aon Hewitt. 41 companies participated in the project this year.

The O_2 customer base reached 1.5 million active customers. Thus, O_2 proved after six years that a fair, innovative, and transparent approach and an attractive offer are exactly what customers expect of their operator.

From 14 November, customers with the O_2 Flat Rate can get two mobile phones by purchasing just one. All a customer needs to do is choose one of the offered phones to his or her O_2 Flat Rate and O_2 gives him or her another one for free.

December

O_2 exceeded its original plan in expanding the 3G network. By the end of 2013, the 3G network should be accessible to 56.4% of the population of Slovakia and 60 new locations. The last day of the year showed that the O_2 3G network covered more than 59.5% of the population of Slovakia.

O_2 contributes to the Heart for Children („Srdce pre deti") programme in the amount of EUR 26,533 thanks to the collected phones.

6 | O_2 Portfolio

Contract-free O_2 Paušál

O_2 Flat Rate ("O_2 Paušál")

O_2 Flat Rate is a programme without binding contract, combining the bonus for phone every 18 months, Internet package, free SMS and prepaid minutes to all networks in the Slovak Republic and from the Slovak Republic to the entire EU.

It is aimed at all customers who want to buy the phone at a more advantageous price and at the same time who want to use O_2 services more advantageously without binding themselves. Another bonus is the free SMS to all networks in the Slovak Republic and from the Slovak Republic to of the entire EU. There are four variants of the O_2 Flat Rate on offer: Blue, Silver, Gold, and Platinum.

Comparison of flat rates:

O2 Flat Rate ("O_2 Paušál")	Blue O_2 Flat Rate ("Modrý O_2 Paušál")	Silver O_2 Flat Rate ("Strieborný O_2 Paušál")	Gold O_2 Flat Rate ("Zlatý O_2 Paušál")	Platinum O_2 Flat Rate ("Platinový O_2 Paušál")
Monthly fee	EUR 15	EUR 20	EUR 30	EUR 45
Number of prepaid minutes	100	150	300	Unlimited
Number of SMS	Unlimited	Unlimited	Unlimited	Unlimited
Internet for the cell phone	100 MB	500 MB	500 MB	1000 MB
Right to a new phone	18 months	18 months	18 months	18 months
Total discount for phone	EUR 72	EUR 126	EUR 198	EUR 288

Contract-free O_2 Fér

O_2 Fair (“O_2 Fér”) without binding

The O_2 offer for residential customers is based on the „no binding” principle. Thus, customers can activate or deactivate various service packages at more advantageous prices according to their needs, thus they can adjust the O_2 Fair offer themselves at any time and without additional fees, depending on what they use and how long they want to use it.

The O_2 Fair service is a permanent offer for O_2 customers. This means that it stays equally simple, fair, and advantageous and it does not matter at all if it is Christmastime or another season of the year:

- Uniform price of calls of EUR 0.13 per minute to participant numbers in all networks in the Slovak Republic at any time;
- Uniform price of sent SMS messages of EUR 0.06 per SMS to participant numbers in all networks in the Slovak Republic at any time;
- Free calls after the 1st minute within the O_2 Slovakia network;
- Equal prices regardless of whether the customer pays for the services through invoices or by charging a credit card;

Extra packages

The customer can purchase the O_2 Fair service extra packages of minutes, SMS, MMS, and data at advantageous prices. By purchasing packages, the customer sets their discount offer according to what fits him or her best at the moment. Extra packages work in a monthly interval and the customer can activate or deactivate it without any additional fees.

Contract-free O_2 Moja Firma

O_2 My Company (“O_2 Moja Firma”)

The offer for small and medium-sized companies and sole traders, O_2 My Company, offers to corporate customers a maximum EUR 44 price limit and automatic price optimising per minute of calling to all networks in the Slovak Republic and EU. This means customers pay a maximum of EUR 44 for calls to all networks in the Slovak Republic and the EU.

In months when they call less, customers pay only for the actually called minutes.

Moreover, the O_2 My Company programme ensures high-quality care for customers from one SIM card, whether in the area of service or a row of benefits, such as the free selection of a phone number.

O_2 My Company is based on the following principle – the more calls a customer makes, the less per minute he or she pays. The sole traders are at the same time protected by a price limit thanks to which they pay for unlimited calls in Slovakia and within of the entire EU never more than EUR 44 per month. According to the need, everyone can activate additional data or SMS packages.

7 | Corporate Responsibility

Corporate Responsibility

O_2 Think Big Programme

In 2010, we successfully launched in Slovakia the international programme of Telefónica Europe Group titled O_2 Think Big. Through this programme, we support the social and personal development of young people. Considering the clear and solid social focus and European-wide penetration of the whole Telefónica Group in Europe, O_2 Think Big is a unique project excelling in the European area.

During the four-year-long existence of the O_2 Think Big grant programme realised in cooperation with the Ekopolis Foundation ("Nadácia Ekopolis") and the Foundation for Children of Slovakia ("Nadácia pre deti Slovenska"), young people received support for 163 projects and a total of EUR 178,000.

In 2013, we again supported more projects. The jury selected the 65 best projects from Slovakia that will get a grant from EUR 500 to EUR 2,000. Dominant among the supported projects were projects in the field of culture and sports, assistance to socially disadvantaged peers, and environmental protection.

More information about the programme itself as well as about the supported projects can be found at www.o2thinkbig.sk.

Think Big School Project

The uniqueness of the Think Big Programme has been supplemented since 2012 by the Think Big School Project taking place in 6 European countries. It is aimed at young people aged 14 to 16 and focuses on digital literacy, entrepreneurial skills, and the support of entrepreneurial thinking.

Part of the programme of 12 workshops in 2013 was also to build the self-confidence and entrepreneurial spirit of young people, and to motivate them to come up with new ideas and projects. Our employees as consultants during workshops helped them on the way.

The added value of this project is the higher motivation of employees that have the opportunity to share and develop their knowledge and skills. The project is realised in cooperation with Junior Achievement.

Wayra

The main aim of the Wayra programme is to promote innovation and discover talents in Europe and Latin America in the area of new digital and information technologies (ICT). This global accelerator helps talents in developing their ideas and projects. It provides them with the necessary technologies, background, qualified counsellors, inspirational work environment, and financing needed for their growth.

It quickly gained the position of one of the largest accelerators in the world and it now operates in twelve countries of Latin America and Europe. As part of calls for technological companies, it received more than 20,000 proposals and funded more than 295 new companies with the amount exceeding EUR 9.4 million.

Corporate Responsibility

2013 was a special year also for Slovakia. In the strong competition of start-ups, the majority of teams from Slovakia made it to the Prague Academy. The Wayra Academy is a centre for talents in the field of digital industry from all of Central and Eastern Europe.

Heart for Children (“Srdce pre deti”)

In 2013 we also decided to support the charitable programme Heart for Children and O_2 contributed EUR 1 for each provided phone that we also ecologically recycled.

A competition for schools the aim of which was to collect the greatest number of old phones by the end of October was also new. For each provided mobile phone O_2 contributes EUR 1 to the public collection to help children in need. We also awarded the first three most successful classes with great prizes – tablets for the whole class, SIM cards with credit, and an interesting technological workshop.

Many adults, as well as whole classes of students, responded to the unconventional call of O_2 and brought thousands of old phones to O_2 stores. In a couple of weeks, O_2 thus contributed the amount of EUR 26,533 to helping physically and socially disadvantaged children.

We help search for the best services (“Najlepšie služby”)

We offer businesspersons effective and modern solutions for their business and we help them succeed. We decided to make yet another step. We know how important customer satisfaction is and we at O_2 believe that we are not the only one looking forward to customer satisfaction. We, therefore, support the www.najlepsiesluzby.sk portal where the best get room to excel in various categories. After all, the best services deserve to be properly heard.

O_2 supports the search and evaluation of the best service providers in Slovakia through the www.najlepsiesluzby.sk portal. Everyone could propose as well as evaluate services in five categories through the Internet or a mobile application from July 2013. In a couple of months, more than 550 original facilities were added to the portal and almost 2,000 evaluators shared more than 10,000 evaluations.

Volunteerism of employees

Telefónica volunteering day

Employees of Telefónica Slovakia also participate every year in volunteering events. This time we decided to help the Kopčany housing estate in Bratislava Petržalka and in Zvolenská Slatina. A total of 99 volunteers helped modify the premises for the safer and nicer spending of leisure time of the youth.

Kopčany is an area inhabited mainly by socially disadvantaged citizens. Youth and children have few opportunities for spending their leisure time and so we decided to help by adjusting the area of the playground being reconstructed and any help is welcome. Our colleagues together with local inhabitants started to work diligently and cleared the adjoining areas, painted the cement centring, and produced barriers of the sporting playground.

The scouts centre Zvolenská Slatina is one of the few places in this region offering room for young people as well as organising educational and instructional activities. O_2 Slovakia decided to help the centre adjust the courtyard. We managed to get the necessary material and our employees set the rubber pad under the climbing wall, painted the roof, planted rows of herbs, fruit and decorative bushes.

Global Business Project

Telefónica Slovakia is the partner of the GEP (Global Business Project) project. It is an activity of the European Roundtable of Industrialists (ERT), Junior Achievement - Young Enterprise Europe and European Schoolnet Organisation. Its aim is to support a better understanding of and promoting the globalization, business, and experience needed in order to succeed in the global economy among young people.

Employees of Telefónica participated in this activity again this year as consultants in the form of lectures (concerning the causes and impacts of globalisation) in secondary schools.

Sponsoring - Grape Festival

Grape Festival

Telefónica Slovakia became the general partner of the Grape Festival again in 2013, bringing once again to its customers and fans a lot of great music and fun. During the festival, attractive services and a rich programme was prepared for all the visitors – the mobile guide through the festival, free Wi-Fi in the whole complex, competitions, phone charging areas, or the great relax zone O_2 World, or SMS and MMS in the O_2 Slovakia network for free throughout of the festival for its visitors.

More than 6,000 SMS and MMS were sent from the Grape Festival thanks to free text and image messages from O_2. O_2 charging areas charged almost 2,700 mobile phones during the festival. More than 5,000 visitors downloaded to their smartphones the mobile festival guide from O_2.

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Auditor´s Report

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

EY
Building a better working world

Independent Auditors' Report

To the Owner of Telefónica Slovakia, s.r.o.:

We have audited the accompanying financial statements of Telefónica Slovakia, s.r.o. ('the Company'), which comprise the balance sheet as at 31 December 2013 and statements of total comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

11 March 2014
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Tomáš Přeček
UDVA Licence No. 1067

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Balance Sheet

STATEMENT OF FINANCIAL POSITION as at 31 December 2013

EUR'000	Note	31.12.2013	31.12.2012	1.1.2012
ASSETS				
Non-current assets				
Non-current tangible assets (net)	1	81,093	84,691	85,081
Non-current intangible assets (net)	2	20,687	18,172	19,268
Investment in joint venture		3	3	3
Long-term receivables		61	99	100
Deferred tax asset	3	14,692	26,779	28,823
Total non-current assets		**116,536**	**129,744**	**133,275**
Current assets				
Inventories		1,940	1,792	1,470
Trade and other receivables	4	31,377	28,117	18,642
Loans provided	5	74,400	27,000	-
Tax receivable		-	-	2
Cash and cash equivalents		1,480	714	376
Deferred expenses and accrued revenues		1,098	705	694
Total current assets		**110,295**	**58,328**	**21,184**
TOTAL ASSETS		**226,831**	**188,072**	**154,459**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		103,204	240,000	240,000
Other reserves		3,742	2,018	-
Retained earnings / accumulated losses from previous periods		7	(136,796)	(175,137)
Profit / loss for the period		34,971	34,481	40,359
Total equity	**6**	**141,924**	**139,703**	**105,222**
LIABILITIES				
Non-current liabilities				
Provisions	9	129	83	122
Other non-current liabilities	7	135	158	139
Total non-current liabilities		**264**	**241**	**261**
Current liabilities				
Trade and other liabilities	8	77,851	42,229	42,113
Tax liabilities		1,003	363	-
Interest-bearing loans and borrowing	5	-	-	812
Deferred revenues	10	5,789	5,536	6,051
Total current liabilities		84,643	48,128	48,976
Total liabilities		**84,907**	**48,369**	**49,237**
TOTAL EQUITY AND LIABILITIES		**226,831**	**188,072**	**154,459**

Financial records

STATEMENT OF TOTAL COMPREHENSIVE INCOME for the year ended 31 December 2013

EUR'000	Note	2013	2012
Revenues from sale of services		197,751	184,886
Revenues from sale of goods		8,076	5,175
Other revenues		2,181	2,094
Total revenues		**208,008**	**192,155**
Costs of goods sold and services provided	11	(122,134)	(118,332)
Impairment of non-current assets		-	(200)
Depreciation and amortization	1.2	(18,654)	(17,462)
Staff costs	12	(14,186)	(14,315)
Other expenses	13	(4,044)	(4,695)
Operating income		**48,990**	**37,151**
Finance costs		(184)	(330)
Finance income		171	195
Profit before tax		**48,977**	**37,016**
Income tax	14	(14,006)	(2,535)
Profit after tax		**34,971**	**34,481**
Other comprehensive income		-	-
Total comprehensive income		**34,971**	**34,481**

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2013

EUR'000	Share capital	Other reserves	Retained earnings / accumulated losses from previous periods	Total equity
Balance as at 1 January 2012	240,000	-	(134,778)	105,222
Transfers to other reserves	-	2,018	(2,018)	-
Profit for 2012	-	-	34,481	34,481
Balance as at 31 December 2012	**240,000**	**2,018**	**(102,315)**	**139,703**
Transfers to other reserves	-	1,724	(1,724)	-
Share capital decrease	(136,796)	-	136,796	-
Dividends	-	-	(32,750)	(32,750)
Profit for 2013	-	-	34,971	34,971
Balance as at 31 December 2013	**103,204**	**3,742**	**34,978**	**141,924**

Cash flow overview

CASH FLOW STATEMENT for the year ended 31 December 2013

EUR'000	2013	2012
Profit/loss from ordinary activities before income tax	**48,977**	**37,016**
Cash flows from operating activities		
Depreciation and amortization of non-current assets	18,654	17,484
Change in provision to receivables and write-off of receivables	1,905	1,178
Change in expense and revenue accruals	(141)	(526)
Interest expense	-	2
Profit/loss on sale of fixed assets	(3)	21
Effect of changes in working capital		
Change in receivables from operations	(5,127)	(10,450)
Change in liabilities from operations	2,483	(546)
Change in inventories	(148)	(322)
Interest paid	-	(2)
Income tax paid (levy on business in regulated industries)	(1,278)	(124)
Net cash flows from operating activities	**16,345**	**6,715**
Cash flows from investment activities		
Acquisition of tangible fixed assets	(11,070)	(10,007)
Acquisition of intangible fixed assets	(6,127)	(5,600)
Income on sale of tangible fixed assets	41	27
Current loans provided to the parent company	(47,400)	(27,000)
Net cash flows from investment activities	**(64,556)**	**(42,580)**
Cash flows from financing activities		
Repayment of borrowing	-	(813)
Net cash flows from financing activities	**-**	**(813)**
Net increase or net decrease of cash	**766**	**338**
Cash and cash equivalents at the beginning of the accounting period	**714**	**376**
Cash and cash equivalents at the end of the accounting period	**1,480**	**714**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2013

General information

Telefónica Slovakia s.r.o. („the Company") is a limited liability company established as CZECH TELECOM Slovakia s.r.o. on 18 November 2002 and incorporated on 12 December 2002 with the Commercial Register of the District Court Bratislava, Section Ltd., Insert No. 27882/B. The Company was renamed to Telefónica O2 Slovakia, s.r.o. according to a resolution of the sole owner from 24 September 2007.
The address of its registered office is Einsteinova 24, Slovak Republic and its registration number is 35848863.
The following significant change was made to the Commercial Register entry in 2011: based on a resolution of the sole owner dated 25 March 2011, the Company was renamed from Telefónica O2 Slovakia, s.r.o. to Telefónica Slovakia, s.r.o.
Its main activities are:

1. Establishing and operating GSM and UMTS public electronic communication mobile phone networks on assigned frequencies

2. Providing public mobile phone, public data and multimedia services, via a public mobile phone network

The Company is a part of Telefónica Group. The parent company is Telefónica Czech Republic, a.s., Za Brumlovkou 266/2, 140 22 Prague 4 – Michle, Czech Republic (the sole owner of the Company) and the ultimate parent company is Telefónica, S.A. Gran Vía 28, 28013 Madrid, Kingdom of Spain (registration number: A28015865). Consolidated financial statements for the whole Telefónica Czech Republic Group are prepared by Telefonica Czech Republic, a.s. These financial statements are included as part of the consolidated financial statements for Telefónica Group prepared by Telefónica, S.A. These financial statements are available at the registered office of Telefónica, S.A.

The Company does not have unlimited liability in any company.

Members of statutory bodies in 2012 and 2013:

Executive officers
Ramiro Lafarga Brollo
Ing. Martin Klímek (from 2 May 2012)
Radek Štěrba, MBA
Mgr. Henrich Daubner (until 2 May 2012)

Supervisory Board
Martin Bek (from 30 November 2012)
František Schneider (from 30 November 2012)
David Melcon (from 30 November 2012)

Procuration holder
Mgr. Dávid Durbák (from 6 November 2012)

As at 31 December 2013, the Company had 405 employees, of whom 10 were executive managers (as at 31 December 2012: 416 employees, 10 executive managers; as at 1 January 2012: 398 employees, 7 executive managers).

Significant accounting principles

These financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, including comparative data for the preceding accounting period and as per Act No. 431/2002 Coll. on Accounting. The financial statements for the preceding accounting periods were prepared in accordance with Slovak accounting regulations. The immediately preceding financial statements prepared as at 31 December 2012, were approved by the Company's General Meeting on 12 March 2013.

The Company is obliged to prepare financial statements in accordance with Article 17 of the Act on Accounting for the first time for the accounting period ended 31 December 2013.

Based on the date above, as well as IFRS 1, 1 January 2012 was set as the date of transition to IFRS. IFRS 1 specifies retrospective application of IFRS in the version valid as at the balance sheet date, i.e., 31 December 2013. This also applied to the preparation of the opening balance sheet, in accordance with IFRS as at 1 January 2012, as well as for both the following accounting periods until the first balance sheet date, prepared in accordance with IFRS.

The accounting methods and principles below were used in preparing the financial statements for the year ended 31 December 2013 and comparative data for the year ended 31 December 2012, disclosed in these financial statements. Additionally, they were used in compiling the opening balance sheet as at 1 January 2012 (the date of transition to IFRS as adopted by the EU).

According to IFRS 1, the accounting entity applying IFRS for the first time is required to include reconciliation of assets, liabilities and equity, profit/loss, as well as material corrections affecting its cash flows, provided that the accounting entity was obliged to prepare the statement of cash flows in accordance with the previous accounting standards.

Owing to the transition to IFRS as adopted by the EU, the Company presented in the financial statements net receivables from, and payables to, its business partners, with whom the settlement of mutual receivables and liabilities is regulated by existing contractual relationships. Assets, liabilities and cash flows were adjusted accordingly.

Adjustments to the balance sheet as at 31 December 2012:

EUR'000	Recognized as per Slovak accounting regulations	Adjustment due to transition to IFRS	Value after adjustment
Trade and other receivables	31,501	(3,384)	28,117
Trade and other liabilities	45,613	(3,384)	42,229

Adjustments to the balance sheet as at 1 January 2012:

EUR'000	Recognized as per Slovak accounting regulations	Adjustment due to transfer to IFRS	Value after adjustment
Trade and other receivables	20,137	(1,495)	18,642
Trade and other liabilities	43,608	(1,495)	42,113

Adjustments in the statement of cash flow for the year ended 2012 resulting from a change in balance sheet items:

EUR'000	Recognized as per Slovak accoun-ting regulations	Adjustment due to transition to IFRS	Value after adjustment
Change in receivables from operations	(12,339)	1,889	(10,450)
Change in liabilities from operations	1,343	(1,889)	(546)

Basis of preparation

The financial statements have been prepared in thousands of Euros (EUR), under the historical cost convention and on a going-concern basis. The accounting policies and general accounting principles adopted are consistent with those of the previous financial year.
The preparation of the financial statements in accordance with the IFRS, as adopted by the EU, requires management to make various judgements, assumptions and estimates that affect the reported carrying amounts of assets, liabilities, revenues and costs. Actual results will probably differ from the estimates. Critical accounting estimates and underlying assumptions are periodically reviewed. If the revisions to the accounting estimates affect only one accounting period, they are recognized in this period. If the revisions affect current as well as future accounting periods, they are recognized in the period in which the revision was made, as well as in future periods.
The Company has applied all the IFRS and interpretations issued by the International Accounting Standards Board (IASB), all adopted by the EU and effective as at 31 December 2013.
The Company's management may propose changes to the financial statements, with the approval of the owner. However, in accordance with Article 16 (paragraph 9 to 11) of the Act on Accounting, the closed accounting books are not to be reopened after the financial statements have been prepared and approved. If the accounting entity, having approved the financial statements, identifies that the data for the preceding accounting period is not comparable, the Act on Accounting allows the accounting entity to correct it. The correction must be performed in the accounting period in which the accounting entity identified the discrepancy.

Significant accounting judgements, estimates and assumptions

Assessments in application of accounting principles

Preparation of the Company's financial statements requires management to make assumptions and estimates with a significant impact on the reported amounts of revenues, costs, assets and liabilities and disclosed contingent liabilities as at the balance sheet date. However, uncertainties in these assumptions and estimates may result in a material adjustment to the carrying amount of assets and liabilities in future accounting periods. In applying the accounting principles above, the management of the Company came to the following conclusions with an significant impact on the amounts reported in the financial statements:

Receivables

Receivables are stated at their nominal value, less allowances for impairment of these receivables. The amount of allowance is estimated, based on historical experience and individual assessment. Details on determining the allowance for receivables are stated in Note 4 – Trade and other receivables.

IFRS issued, but not yet effective

As at 31 December 2013, the following IFRS, amendments and interpretations of the standards were issued and adopted by the EU, relevant to the Company, but not yet effective and not applied by the Company in preparing these financial statements

IFRS 9 Financial Instruments

IFRS 9 includes the first phase of replacing IAS 39 and relates to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for the annual periods beginning after 1 January 2013, but in December 2011 its effective date was postponed to annual periods beginning after 1 January 2015. In the upcoming phases the standard will cover changes in reporting of hedging instruments and impairment of financial assets. The adoption of these changes will not affect the reporting of the Company's financial assets and financial liabilities.

Amendments to IFRS 10, IFRS 12 and IAS 27- Investment Entities

These amendments are effective for the annual periods beginning after 1 January 2014 and introduce an exemption from the preparation of the consolidated financial statements for entities that fulfil the definition of an investment entity as required by this standard. This exemption enables investment entities not to include their subsidiaries in the consolidated financial statements and only report them at fair value. Adoption of the amendment has no effect on the financial performance or position of the Company.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the application of offsetting criteria to settlement systems (such as central clearing houses) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective for annual periods beginning after 1 January 2014. The Company is considering the impact of these amendments on its financial statements.

IFRIC 21 Levies

IFRIC 21 clarifies that an accounting entity recognizes a liability when the activity that triggers the payment of the levy occurs, in accordance with the relevant legislation. The interpretation further clarifies that in the case of fines which occur after reaching a certain level, the liability is not recognized before. This amendment is effective for annual periods beginning after 1 January 2014. Adoption of the interpretation has no effect on the financial performance or position of the Company.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These adjustments simplify hedge accounting provided that a derivative used as a hedging instrument meets certain criteria. The amendment is effective for annual periods beginning after 1 January 2014. Adoption of the amendment has no effect on the financial performance or position of the Company.

Improvements to 2010 - 2012 IFRS Cycle

In December 2013, IASB issued a set of amendments to IAS and IFRS, with a view to removing inconsistencies and clarifying the wording of IAS and IFRS standard provisions. The following standards were amended under the project:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IAS 16	Property, Plant and Equipment
IAS 24	Related Party Disclosures
IAS 38	Intangible Assets

Improvements to 2011 - 2013 IFRS Cycle

In December 2013, IASB issued an set of amendments to IAS and IFRS, with a view to removing inconsistencies and clarifying the wording of IAS and IFRS standard provisions. The following standards were amended under the project:

IFRS 1	First Time Adoption of IFRS
IFRS 3	Business Combinations
IFRS 13	Fair Value Measurement
IAS 40	Investment Property

The Company expects that the amendments under the improvement projects above will not have a significant impact on the financial statements.

The Company did not apply IFRS in advance if such adoption was not required as at the balance sheet date. In the case that the transitional provisions allow accounting entities to choose from a prospective or retrospective adoption of new standards, the Company decided to apply these standards prospectively as of the date of the transition to IFRS. Other standards will be applied by the Company as at the date of their effectiveness.

Foreign currency translation

Data in these financial statements is measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in thousands of EUR, which was the Company's functional and presentation currency in 2012 and 2013.

Foreign currency transactions are translated into the functional currency at the exchange rate valid as at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies with the year-end exchange rate are recognized in the statement of comprehensive income.

Before 31 December 2008, foreign currency transactions were translated into SKK using the exchange rate valid at the transaction date, as published by the National Bank of Slovakia. After 1 January 2009 (introduction of Euro in the Slovak Republic), foreign currency transactions are translated into EUR using the reference foreign exchange rate effective on the date preceding the transaction, as determined and published by the European Central Bank or the National Bank of Slovakia.

General accounting principles and methods

a) Non-current intangible assets

Acquired non-current intangible assets are stated at their acquisition cost consisting of the purchase price and costs directly attributable to acquisition; the subsequent expenses are capitalized when it is probable that economic benefits associated with the assets will flow to the Company and they can be reliably measured. Internally generated, non-current intangible assets are stated at cost, which include direct material and labour costs and production overheads. Repairs and maintenance are expensed as incurred.

Amortization

Non-current intangible assets are amortized over their estimated useful life. The useful life of individual items is revised at least annually and in the case of indication of a change it is adjusted accordingly. The estimated useful life, amortization method and rates for individual groups of non-current intangible assets are as follows:

	Estimated useful life in years	Annual amortization rate in %	Amortization method
Software and valuable rights	1 – 19	5 – 100	straight-line

b) Non-current tangible assets

Acquired non-current tangible fixed assets are stated at their acquisition cost which consists of purchase price, freight, customs duty and other costs directly attributable to acquisition; the subsequent costs are capitalized when it is probable that economic benefits associated with the assets will flow to the Company and the costs can be reliably measured. Internally generated non-current tangible assets are stated at cost, which include direct material and labour costs and production overheads. Repairs and maintenance are expensed as incurred.

Items of non-current tangible assets are accounted for on a component-by-component basis at a level that allows depreciation of each component over its expected useful life and allows proper accounting of asset disposal and withdrawal.

Depreciation

Non-current tangible assets are depreciated over their estimated useful life. The useful life of individual items is revised at least once a year and in the case of indication of a change it is adjusted accordingly. The estimated useful life, depreciation method and depreciation rate for individual groups of non-current tangible assets are as follows:

	Estimated useful life in years	Annual depreciation rate in %	Depreciation method
Buildings	10 - 20	5 - 10	straight-line
Technology and office equipment	2 - 20	5 - 50	straight-line
Other non-current tangible assets	2 - 10	10 - 50	straight-line

In the event of a temporary diminution in the value in use of a non-current tangible asset, an impairment provision equal to the difference between its value in use and net book value is recognized.

c) Impairment of assets

The carrying amount of non-current assets is reviewed at each balance sheet date in order to assess whether there are any indications of impairment of non-current assets. If such an indication exists, the Company calculates an estimated recoverable amount. The recoverable amount is the higher of the net selling price of the assets and its value in use. In order to assess impairment, the assets are divided into groups, whereby cash flows can be separately identified at the lowest level. The impairment loss is always recognized when the carrying amount exceeds the estimated recoverable amount in the profit and loss statement. The Company performs annual tests of impairment of fixed assets with indefinite useful life or fixed assets which are not yet available for use, by comparing their carrying amount with the recoverable amount.

Impairment loss, recognized in previous accounting periods, is reversed if the assumptions used for determination of the recoverable amount have changed. In this case, the value of assets increases to a new recoverable amount. However, this cannot exceed the carrying amount, less depreciation, which would have been recognized, provided that the impairment loss of the assets had not been recognized in the past. Such a reversal is recognized as a decrease of costs in the current accounting period.

d) Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through statement of comprehensive income, borrowing and receivables and available-for-sale financial assets. The classification depends on the purpose of acquiring the financial assets, if they are listed on the public market or the intentions of the Company's management.

The Company recognized only borrowing and receivables from the categories above in the reporting periods. Borrowing and receivables represent non-derivative financial assets with fixed or determinable instalments that are not quoted in an active market. They are included in current assets with the exception that their maturity exceeds 12 months from the balance sheet date. Borrowing and receivables are measured at amortized cost. The measurement of doubtful receivables is adjusted to their realizable value using allowances through the statement of comprehensive income if there is objective evidence that the Company is not able to collect the total outstanding amount. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the initial market rate of interest for similar borrowers. Cash flows relating to short-term receivables are usually not discounted.

e) Cash and cash equivalents

Cash and cash equivalents comprise valuables, cash on hand and bank accounts or investments with an original maturity of three months or less, where the risk of reduction in value is low.

f) Inventory

Inventory is stated at the lower of cost or net realizable value.

Cost of inventories includes the purchase price and related costs of acquisition

(transport, customs, commissions etc.). Any discounts and rebates received decrease the cost of inventory. Net realizable value includes the estimated selling price, less the estimated costs of sale completion and selling expenses.
The cost of inventory is determined using weighted average cost.

g) Financial liabilities

The Company classifies its financial liabilities according to contractual obligations and depending on the purpose with which the Company's management concluded a contract. The Company's management determines the classification at initial recognition and reviews it at each balance sheet date. Financial liabilities are recognised initially at fair value less transaction costs directly attributable to acquisition of a specific financial liability and subsequently measured at amortized cost, using the effective interest rate method. Profit or loss resulting from financial liabilities is recognized in the statement of comprehensive income.
Financial liabilities are classified as short-term if the Company does not have an unconditional right to settle the liability after 12 months of the balance sheet date.
Borrowing costs on debts used to finance the acquisition and construction of qualifying assets are capitalized during the period required to complete and prepare the asset for its intended use. Other borrowing costs are recognized directly in the statement of comprehensive income.

h) Provisions

A provision is a present obligation of the Company arising from past events, the settlement of which is expected to result in an outflow of the Company's resources embodying economic benefits.
If the effect of the time value of money is material, provisions are measured by discounting future cash flows at a pre-tax interest rate that reflects the current estimate of the time value of money on the market, or the risk specific to the liability.

i) Equity

Equity consists of share capital, profit/loss to be approved and retained earnings.
The Company's share capital is stated in the amount recorded in the Commercial Register with the District Court. Any increase or decrease in the share capital pursuant to a decision made by the General Meeting, which was not recorded in the Commercial Register at the reporting date, is recognized as a change in share capital.
The Company creates a reserve fund in the amount required by the Memorandum of Association. The Company created a reserve fund representing 5% of its share capital at the date of its establishment. Every year 5% of net profit is transferred to the reserve fund until it reaches 10% of the value of share capital. This fund may be only used for the purposes as defined by the Commercial Code, i.e., to cover the Company's losses or for measures which should overcome the Company's unfavourable course of operation.

j) Revenues

Sales revenues from own services and goods are stated net of VAT, discounts and deductions (rebates, bonuses, credit notes, etc.). Sales revenues are recognized at the date of delivery of goods or provision of services. They are measured at fair value of the consideration received or receivable if this amount can be determined reliably.

Revenues from sales of services are recorded in the accounting period when rendered, taking the stage of their completion into consideration. This stage is identified on the basis of actually provided services or a proportional part to the total scope of the agreed-upon services.

Depending on the tariff, customers may use a defined extent of telecommunications services during the billing period. The unused extent of services is not transferred to the following periods.

In assessing whether revenue should be recognized gross (i.e., with separate disclosure of costs) or on a net basis, the Company considers, as indicators of gross reporting, whether it:

a) Is the primary obligor in the arrangement
b) Has general inventory risk
c) Has price latitude
d) Changes the product or performs part of the service
e) Has discretion in supplier selection
f) Is involved in the determination of product or service specifications
g) Has credit risk
h) Has the ability to set the terms of the transaction
i) Has managerial control over the transaction

The relative strength of each indicator is considered while deciding the accounting treatment. If a transaction is considered to meet conditions of an agency arrangement, the revenue is recognised only at the amount of the commission received/realised.

The main activity of the Company is the sale of telecommunications services to end customers, other operators and sale of mobile phones and accessories.

Voice services, SMS and data

Revenues from billed telecommunication services are invoiced to customers on a monthly basis and are recognized in the period of using the service regardless of the time of invoicing. Revenues from prepaid services are recognized in the period of using the service regardless of the moment of charging credit.

Sale of mobile phones and accessories

Revenues from sale of mobile phones and accessories are recognized at the time of sale to a distributor or end customer. Resulting losses from sale at a discount are recognised at the date of sale.

Premium SMS

Revenues from SMS, enabling payment via mobile phones for goods and services provided by third parties, are recognised using the netto principle.

Interconnection fees

Interconnection revenues are derived from calls originated in networks of other domestic or foreign operators, but which terminate in or transit via the Company's network. These revenues are recognized at the time of accepting such phone calls via the Company's network. The same approach is also applied for SMS and MMS.

k) Leasing

Leases under which a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Assets acquired under operating leasing are expensed over the duration of a lease contract. When an operating lease is terminated before the lease period has expired, all penalty payments required by the lessor, due to the premature termination are expensed in the period in which the termination of the operating lease occurred.

Leases under which a significant portion of the risks and benefits of ownership are retained by the Company are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of either the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liabilities and finance costs so as to achieve a constant interest rate. The corresponding lease obligations are included in other long-term liabilities (depending on maturity). Interest is recognized in finance costs over the entire lease period so as to achieve a constant interest rate. If there is a reasonable certainty that the Company will obtain ownership of the assets at the end of the lease term, their period of depreciation in the accounting records is their useful life; otherwise, these assets are depreciated over the shorter of either the lease term or the useful life of the assets.

l) Income tax

Income tax expense is calculated, using the current tax rate, from accounting profit adjusted for permanent or temporary tax non-deductible expenses, non-taxable income and amortization of tax loss.

Deferred taxes (deferred tax asset and deferred tax liability) relate to (1) temporary differences between the carrying amount of assets and the carrying amount of liabilities shown on the balance sheet and their tax base, (2) tax losses carry-forward, which can be offset against taxable profits in future periods, or (3) unused tax credits and other tax claims available for carry-forward, which can be offset against taxable profits in future periods.

The Company always recognizes a deferred tax liability; a deferred tax asset is recognized only if it is realizable. Deferred tax is calculated using the income tax rate, which is probable to be valid at the time of deferred tax settlement.

1. Non-current tangible assets

EUR'000	Buildings	Technology and office equipment	Other assets	Assets in acquisition	Total
Acquisition cost					
Balance as at 1 January 2012	39,384	72,276	452	8,743	120,855
Additions	412	7,413	10	3,510	11,345
Disposals	187	439	6	-	632
Transfers	1,485	1,294	2	(2,781)	-
Balance as at 31 December 2012	**41,094**	**80,544**	**458**	**9,472**	**131,568**
Balance as at 1 January 2013	41,094	80,544	458	9,472	131,568
Additions	1,943	6,521	42	643	9,149
Disposals	4	1,058	-	-	1,062
Transfers	1,423	1,972	-	(3,395)	-
Balance as at 31 December 2013	**44,456**	**87,979**	**500**	**6,720**	**139,655**

EUR'000	Buildings	Technology and office equipment	Other assets	Assets in acquisition	Total
Accumulated depreciation					
Balance as at 1 January 2012	6,780	28,328	186	-	35,294
Additions	2,383	9,083	56	-	11,522
Disposals	187	426	6	-	619
Balance as at 31 December 2012	**8,976**	**36,985**	**236**	**-**	**46 197**
Balance as at 1 January 2013	8,976	36,985	236	-	46,197
Additions	2,638	10,026	45	-	12,709
Disposals	1	1 023	0	-	1,024
Balance as at 31 December 2013	**11,613**	**45,988**	**281**	**-**	**57,882**

EUR'000	Buildings	Technology and office equipment	Other assets	Assets in acquisition	Total
Impairment					
Balance as at 1 January 2012	-	-	-	480	480
Additions	-	-	-	200	200
Disposals	-	-	-	0	0
Balance as at 31 December 2012	**-**	**-**	**-**	**680**	**680**
Balance as at 1 January 2013	-	-	-	680	680
Additions	-	-	-	0	0
Disposals	-	-	-	0	0
Balance as at 31 December 2013	**-**	**-**	**-**	**680**	**680**

EUR'000	Buildings	Technology and office equipment	Other assets	Assets in acquisition	Total
Net book value					
Balance as at 1 January 2012	32,604	43,948	266	8,263	85,081
Balance as at 31 December 2012	**32,118**	**43,559**	**222**	**8,792**	**84,691**
Balance as at 1 January 2013	**32,118**	**43,559**	**222**	**8,792**	**84,691**
Balance as at 31 December 2013	**32,843**	**41,991**	**219**	**6,040**	**81,093**

Non-current tangible assets do not include any separate, individually significant items. The Company does not record any non-current tangible assets, except for those in acquisition which are not utilized in meeting its objectives. No other party has the right of lien pledged over the non-current tangible assets and the Company has no disposal restrictions on them. The Company does not lease non-current tangible assets to third parties.

Non-current tangible assets of the Company are insured for the risk of theft and damage caused by natural disaster up to EUR 105,720 thousand (2012: EUR 120,854 thousand).

The Company does not have any restricted rights to non-current tangible assets.

2. Non-current intangible assets

EUR'000	Software and valuable rights	Assets in acquisition	Total
Acquisition cost			
Balance as at 1 January 2012	35,274	1,663	36,937
Additions	1,094	3,771	4,865
Disposals	81	-	81
Transfers	1,018	(1,018)	-
Balance as at 31 December 2012	**37,305**	**4,416**	**41,721**
Balance as at 1 January 2013	37,305	4,416	41,721
Additions	6,036	2,423	8,459
Disposals	-	-	-
Transfers	3,486	(3,487)	(1)
Balance as at 31 December 2013	**46,827**	**3,352**	**50,179**

EUR'000	Software and valuable rights	Assets in acquisition	Total
Accumulated depreciation			
Balance as at 1 January 2012	17,669	-	17,669
Additions	5,961	-	5,961
Disposals	81	-	81
Balance as at 31 December 2012	**23,549**	**-**	**23,549**
Balance as at 1 January 2013	23,549	-	23,549
Additions	5,943	-	5,943
Disposals	-	-	-
Balance as at 31 December 2013	**29,492**	**-**	**29,492**

EUR'000	Software and valuable rights	Assets in acquisition	Total
Net book value			
Balance as at 1 January 2012	17,605	1,663	19,268
Balance as at 31 December 2012	**13,756**	**4,416**	**18,172**
Balance as at 1 January 2013	13,756	4,416	18,172
Balance as at 31 December 2013	**17,335**	**3,352**	**20,687**

The Company does not record any non-current intangible assets which are not utilized, except for non-current tangible assets in acquisition. No other party has the right of lien pledged over the non-current intangible assets and the Company has no restrictions on the disposal with its non-current intangible assets. The Company does not lease non-current intangible assets to third parties.

Software and valuable rights include a telecommunication licence acquired in 2006 and several key systems summarized as follows:

EUR'000		31.12.2013	31.12.2012	1.1.2012
Telecommunication licence	Acquisition price	5,591	5,591	5,591
	Net book value	**3,624**	**3,909**	**4,193**
CRM system	Acquisition price	10,902	8,160	7,535
	Net book value	**4,204**	**4,106**	**5,216**
Billing system	Acquisition price	6,994	6,643	6,487
	Net book value	**-**	**-**	**1,269**

The Company does not have any restricted rights to non-current intangible assets.

3. Deferred tax assets

EUR'000	2013	2012
Deferred tax assets at the beginning of the period	26,779	28,823
Change in profit and loss statement	(12,087)	(2,044)
of which: effect of a change in tax rate	*(668)*	4,657
Deferred tax assets at the end of the period	**14,692**	**26,779**

As at 1 January 2013, the income tax rate was changed from 19% to 23%. Subsequently, as at 1 January 2014 the income tax rate was decreased to 22%.

The deferred tax assets are represented by the following items:

EUR'000	31.12.2013	31.12.2012	1.1.2012
Non-current assets	12,041	9,966	6,183
Receivables	571	631	343
Inventories	11	11	9
Liabilities	853	694	618
Tax losses carry-forward	1,216	15,477	21,670
Total deferred tax assets	**14,692**	**26,779**	**28,823**
Portion realizable in 12 months	3,245	16,537	8,378
Portion realizable in more than 12 months	11,447	10,242	20,445
Total deferred tax assets	**14,692**	**26,779**	**28,823**

The Company has offset deferred tax assets and liabilities because there is a legally enforceable right to offset current tax assets against current tax liabilities, which relate to the same tax authority. Deferred taxes are calculated using currently enacted tax rates expected to apply in the period in which the asset is realized or the liability settled.

With effect from 1 January 2014 there was a change in legislation with respect to carry-forward of tax losses recognized in tax periods ended in 2010 and later. This legislative change will not affect carry-forward of the Company's tax losses. The Company anticipates that in 2014 it will utilise the entire remaining portion of the tax loss recognized in 2009.

4. Trade and other receivables

EUR'000	31.12.2013	31.12.2012	01.01.2012
Receivables	42,582	38,841	34,708
Provision for bad debt	(11,205)	(10,724)	(16,066)
Net receivables	**31,377**	**28,117**	**18,642**

EUR'000	31.12.2013	31.12.2012	01.01.2012
Not impaired receivables	20,206	22,213	11,334
Impaired receivables	22,376	16,628	23,374
Total receivables	**42,582**	**38,841**	**34,708**

Ageing structure of not impaired receivables:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Within maturity	7,094	11,462	10,214
By 180 days after maturity	13,112	9,922	682
By 365 days after maturity	-	428	261
More than 365 days after maturity	-	401	177
Total receivables not impaired	**20,206**	**22,213**	**11,334**

Ageing structure of impaired receivables:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Within maturity	7,932	3,156	5,557
By 180 days after maturity	3,715	3,104	1,749
By 365 days after maturity	1,104	615	473
More than 365 days after maturity	9,625	9,753	15,595
Total impaired receivables	**22,376**	**16,628**	**23,374**

Movements in provision for bad debt:

EUR'000	31.12.2013	31.12.2012
Provision at the beginning of the period	10,724	16,066
Use of provision	1,291	6,321
Creation in the statement of profit and loss	1,772	979
Provision at the end of the period	**11,205**	**10,724**

Customers of the Company are not evaluated by independent rating agencies. Accordingly, information on credit quality is not included in the notes to the financial statements. Provisions for receivables include a specific provision created for particular receivables in which case the Company has reliable information that they will not be fully paid, and a general provision created for the entire customer base, based on past experience with their payment behaviour and revenues from assignment of overdue receivables.

Receivables of the Company are covered with a combination of insurance, bank guarantees, blank promissory notes and accepted securities as summarized below:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Combination of insurance, bank guarantees and blank promissory note	1,304	2,114	2,592
Securities received	1,250	1,626	1,479
Total secured receivables	**2,554**	**3,740**	**4,071**

In 2013, the Company decided not to further secure receivables with insurance.

The Company has loan facilities agreed with various banks in the following breakdown:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Slovenská sporiteľňa	2,500	-	-
Citibank Europe plc, foreign bank branch	2,324	1,660	1,660
Československá obchodná banka	2,150	1,650	850
Total agreed loan facilities	**6,974**	**3,310**	**2,510**

The loan facilities above were drawn only in 2011 and the remaining portion of the outstanding loan from Citibank Europe plc., foreign bank branch, amounted to EUR 62 thousand as at 1 January 2012. These loan facilities were not drawn in other periods.

5. Loans provided and interest-bearing loans and borrowing

EUR'000	Interest rate	Maturity	31.12.2013	31.12.2012	01.01.2012
Loans provided					
Telefonica Czech Republic, a.s.	1M EURIBOR p.a.	30.06.2014	74,400	27,000	-
Total loans provided			**74,400**	**27,000**	**-**

EUR'000	Interest rate	Maturity	31.12.2013	31.12.2012	01.01.2012
Interest-bearings loans and borrowing					
Telefonica Czech Republic, a.s.	1M EURIBOR + 0.65% p.a.	31.12.2012	-	-	750
Citibank Europe plc, foreign bank branch	O/N LIBOR + 0.60% p.a.	26.07.2012	-	-	62
Total interest-bearings loans and borrowing			**-**	**-**	**812**

6. Equity

After approving the financial statements for 2012 the Company allocated 5% of net profit to the legal reserve fund and the remaining part was kept as retained earnings.

Based on a resolution of the sole owner made on 12 March 2013, share capital was decreased by EUR 136,796 thousand and the same amount was used to settle accumulated losses from previous periods. Retained earnings from previous periods were offset against accumulated losses from previous periods in the amount of EUR 311 thousand. The legislative conditions for paying out dividends to the sole owner were fulfilled once all accumulated losses were settled. Subsequently, on 13 December 2013, the sole owner decided on payment of dividends of of EUR 32,750 thousand.

The Company generated profit of EUR 34,971 thousand for 2013. The sole owner is to decide on distribution of the profit.

7. Other non-current liabilities

EUR'000	Social fund	Other liabilities	Total
Balance as at 1 January 2012	103	36	139
Creation	64	-	64
Use	45	-	45
Reversal	-	-	-
Balance as at 31 December 2012	**122**	**36**	**158**
Creation	**60**	**-**	**60**
Use	83	-	83
Reversal	-	-	-
Balance as at 31 December 2013	**99**	**36**	**135**

8. Trade and other liabilities

EUR'000	31.12.2013	31.12.2012	01.01.2012
Liabilities to the sole participant from profit distribution	32,750	-	-
Trade liabilities	20,875	16,273	16,760
Uninvoiced deliveries	20,058	22,647	20,584
Tax liabilities (except for income tax)	2,363	1,533	2,685
Staff	1,805	1,776	2,084
Total current liabilities	**77,851**	**42,229**	**42,113**

Ageing structure of current liabilities:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Within maturity	75,342	40,172	40,832
By 180 days after maturity	1,381	874	1,281
By 365 days after maturity	665	(225)	-
More than 365 days after maturity	463	1,408	-
Total current liabilities	**77,851**	**42,229**	**42,113**

9. Provisions

EUR'000	Long-term provisions	Total provisions
Balance as at 1 January 2012	122	122
Creation	77	77
Use	116	116
Reversal	-	-
Balance as at 31 December 2012	**83**	**83**
Creation	**71**	**71**
Use	25	25
Reversal	-	-
Balance as at 31 December 2013	**129**	**129**

Long-term provisions will be utilized during the following three accounting periods.

10. Deferred revenues

Deferred revenues mainly include credit of prepaid services customers. Credit is valid for one, three or six months depending on the amount of last charge.

11. Cost of goods sold and services provided

EUR'000	2013	2012
Telecommunication services	56,471	57,429
Bonuses for sale channels	14,705	13,857
Marketing costs	12,651	13,096
Lease	8,312	7,834
Outsourcing of services within the Group and from external suppliers	6,927	6,914
Sold goods	8,890	5,151
Energy consumption	1,800	2,518
Repairs of fixed assets	2,522	1,675
Audit of financial statements	64	73
Other	9,792	9,785
Total cost of goods sold and services provided	**122,134**	**118,332**

12. Staff costs

EUR'000	2013	2012
Gross wages	10,610	11,130
Social security	3,576	3,185
Total staff costs	**14,186**	**14,315**

13. Other expenses

EUR'000	2013	2012
Fees to Telecommunication Authority for frequencies	1,714	2,097
Creation of provisions for receivables	1,772	979
Other	558	1,619
Total other expenses	**4,044**	**4,695**

14. Tax expenses and reconciliation of effective tax rate

EUR'000	2013	2012
Deferred tax	12,087	2,044
Special levy on business in regulated industries	1,919	487
Current tax	-	4
Total tax expenses	**14,006**	**2,535**

In accordance with Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries and on Amendments and Supplements to Certain Laws in the wording of Act No. 440/2012 Coll., the Company considers itself a regulated legal entity. Consequently, the Company is obliged to pay a special levy provided that its profit for the accounting period exceeds EUR 3,000 thousand (deductible amount). The levy is determined on the basis of the latest known profit/loss before taxation, after the adjustment for the deductible amount. The levy rate amounts to 0.00363 (Article 6 of Act No. 235/2012 Coll.) paid on a monthly basis.

EUR'000	2013	2012
Profit before tax	48,977	37,016
Theoretical tax of 23% (2012: 19%)	11,265	7,033
Special levy on business in regulated industries	1,919	487
Change in tax rate	668	(4,657)
Permanent and temporary differences	154	(328)
Total tax expenses	**14,006**	**2,535**

15. Financial instruments and financial risk management

The Company is exposed to various financial risks due to its activities. The Group's overall risk management focuses on the unpredictability of financial markets and economic environment and seeks to minimize potential adverse effects on the financial performance of the Company.

Financial instruments include cash, capital instruments of other accounting entities, any agreement entitling to acquire or binding to provide cash or other financial asset or any agreement entitling or binding to exchange financial assets and liabilities.

The main risks resulting from financial instruments used by the Company include market risk, credit risk and liquidity risk. The financial department is responsible for financial risk management based on the rules approved by the headquarters of the Telefónica Group.

Market risk management

The market risk represents risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in market prices. The market risk includes currency, interest and other price risks.

Foreign currency risk

Foreign currency risk represents the risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in foreign exchange rates.

The Company is exposed to fluctuations in the American Dollar, British Pound and Czech Crown, which represent a minimal risk in connection with the position of these currencies on the total amount of liabilities/assets. Consequently, no sensitivity analysis was performed.

Interest rate risk

Revenues, costs and operating cash flows of the Company are not significantly affected by changes in market interest rates. In March 2012, the Company concluded a loan agreement with the parent company Telefónica Czech Republic, a.s., on provision of a short-term loan. As at 31 December 2013, the remaining portion of the loan amounted to EUR 74,400 thousand (as at 31 December 2012: EUR 27,000 thousand). The Company's management considers the risk of significant fluctuations in the interest rate of this loan as insignificant and therefore, no sensitivity analysis with respect to interest rate changes was performed.

The Company's management does not use hedging instruments to manage the risk of the variable interest rate.

Other price risks

Other price risks arise in the case of financial instruments, for example, due to changes in prices of commodities or shares. The Company is not exposed to such risks.

Credit risk

Credit risk represents risk that one party to a financial instrument causes financial loss to the other party by failing to fulfil an obligation.

The Company is exposed to credit risk resulting from its operating activities. The Company's rules for credit risk management define maturity and limits for individual partners. The Company decreases the credit risk of partners by using insurance of receivables, bank guarantees and blank promissory notes.

Concentration of credit risk in connection with trade receivables is limited due to the Company's large client base. Additionally, if the client fails to pay the outstanding amount for the provided services even after follow-up notices, the Company limits outgoing calls to the client and then the provision of services is interrupted.

The Company creates a provision for receivables due to impairment, which represents an estimate of possible losses from trade and other receivables. The creation covers instances of individually significant credit risk as well as general loss from receivables where the impairment is not assessed on an individual basis.

The summary of the ageing structure of short-term receivables disclosed in Note 4 – Trade and other receivables which were overdue as at the balance sheet date without impairment are kept from creditworthy partners with good payment behaviour. On the basis of the past experience with payment behaviour of the contractual partners the Company's management is convinced that no impairment of these receivables is necessary.

Liquidity risk

The liquidity risk represents risk that the Company will have difficulties in fulfilling obligations relating to financial liabilities which are settled using cash or other financial assets.

The Company's rules to decrease liquidity risk define the level of cash, cash equivalents and credit facilities which the Company has at its disposal, so as to be able to fulfil its obligations on time and to the full extent.

The table below shows financial liabilities of the Company, based on undiscounted cash flows taking into account the earliest possible dates when the Company may be required to pay off these liabilities.

EUR'000	**31.12.2013**	**31.12.2012**	**01.01.2012**
Without maturity	36	36	36
Maturity up to 180 days	78,855	42,593	42,926
Maturity up to 365 days	-	-	-
Maturity more than 365 days	99	122	103
Total liabilities	**78,990**	**42,751**	**43,065**

The table below shows data on the Company's expected maturity of non-derivative financial assets. The table was prepared based on undiscounted contractual maturity of financial assets including interest income on these assets.

EUR'000	31.12.2013	31.12.2012	01.01.2012
Without maturity	1,541	814	477
Maturity up to 180 days	116,982	65,841	34,711
Maturity up to 365 days	-	-	-
Maturity for more than 365 days	-	-	-
Total receivables and cash and cash equivalents	**118,523**	**66,655**	**35,188**

Financial assets and liabilities offsetting

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Trade and other receivables prior to offsetting	34,660	31,501	20,137
Gross offset amount	(3,283)	(3,384)	(1,495)
Trade and other receivables after offsetting	**31,377**	**28,117**	**18,642**

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Trade and other liabilities prior to offsetting	81,134	45,614	43,608
Gross offset amount	(3,283)	(3,384)	(1,495)
Trade and other liabilities after offsetting	**77,851**	**42,230**	**42,113**

The Company records no financial assets and financial liabilities which would be subject to offsetting agreements and which were not offset in the balance sheet.

Capital risk management

The primary objective of the Company's capital management is to ensure support of its business activities and maximize the value for the owner, taking into account guidelines of the management of Telefónica Group. In 2013, no changes were carried out in objectives, principles and procedures.

The capital structure of the Company consists of the owner's equity which includes share capital, reserve fund and retained earnings from previous periods. The Company's management manages the capital measured with equity of EUR 141,924 thousand as at 31 December 2013 (EUR 139,703 thousand and EUR 105,222 thousand as at 31 December 2012 and 1 January 2012, respectively).

Fair value estimation

The carrying amount of each class of the Company's financial instruments approximates their fair value. The carrying amount of trade receivables, less provisions for bad and doubtful receivables, the carrying amount of other trade financial payables, loans and borrowing as well as the carrying amount of liabilities approximates their fair value. In the case of short-term receivables and liabilities the impact on their present value is insignificant.

16. Related party transactions

Transactions with related parties were performed based on normal commercial terms. The disclosed balances relate to the following purchases:

Telefónica Czech Republic, a.s. – jointly used services (accounting, information technologies, planning and telecommunication network supervision), financing, telecommunication services
Telefónica Global Roaming – management fees
O2 Holdings Limited – management fees
O2 Germany GMBH & CO – purchases of goods
Telefónica UK Limited – management fees
Telefónica S.A. – management fees
Telfisa Global B.V. – mediation of payments to roaming partners
Telefónica Europe People – fees in the area of human resources
Tesco Mobile Slovakia – sale of goods, commissions

Receivables, liabilities, purchases and sales concerning related parties are disclosed in the following tables:

EUR'000	**31.12.2013**	**31.12.2012**	**01.01.2012**
Trade and other receivables			
Telefónica Czech Republic, a.s.	9,864	7,552	-
Telefónica Global Roaming GmbH	-	-	360
Telefónica UK Limited	171	47	33
Provided short-term loans			
Telefónica Czech Republic, a.s.	74,400	27,000	-
Total receivables concerning related parties	**84,435**	**34,599**	**393**

EUR'000	**31.12.2013**	**31.12.2012**	**01.01.2012**
Trade and other liabilities			
O2 Holdings Limited	1,523	1,895	922
O2 Germany GMBH & CO	462	606	26
Telefónica Czech Republic, a.s.	33,118	-	1,075
Telefónica Global Roaming GmbH	309	142	-
Telefónica UK Limited	78	3	516
Telefónica, S.A	-	133	122
Telefónica Europe People	114	93	24
Short-term loans received			
Telefónica Czech Republic, a.s.	-	-	750
Total liabilities concerning related parties	**35,604**	**2,872**	**3,435**

EUR'000	**2013**	**2012**
External purchases		
Telefónica Czech Republic, a.s.	13,403	12,085
Telefónica UK Limited	123	148
O2 Holdings Limited	370	1,366
Telefónica S.A.	68	171
O2 Germany GMBH & CO	644	576
Telefónica Global Roaming GmbH	547	300
Tesco Mobile Slovakia, s.r.o.	2,213	2,334
Total external purchases concerning related parties	**17,368**	**16,980**

EUR'000	**2013**	**2012**
Sale		
Telefónica UK Limited	276	170
Tesco Mobile Slovakia, s.r.o.	321	338
O2 Germany GMBH & CO	82	104
Telefónica Czech Republic, a.s.	5,194	3,230
Total sales concerning related parties	**5,873**	**3,842**

17. Operating leases

The Company leases cars, office, retail and technological premises under operating leases, where the terms fluctuate from 1 to 15 years, along with land and roofs for base stations. The table below shows the total minimum lease payments resulting from irrevocable operating leases:

EUR'000	**31.12.2013**	**31.12.2012**	**01.01.2012**
Leases due in one year	4,402	4,809	4,947
Leases due in more than one year, but not more than five years	10,812	11,495	13,537
Leases due in more than five years	7,160	7,437	8,909
Total leases	**22,374**	**23,741**	**27,393**

The Company has also concluded lease agreements for indefinite periods in addition to those summarized in the table above. The leases payable from these contracts in the following year is summarized below:

EUR'000	31.12.2013	31.12.2012	01.01.2012
Leases due in one year	1,883	1,818	1,785
Total lease	**1,883**	**1,818**	**1,785**

Total minimum lease payments under operating leases for land, buildings and equipment acknowledged in 2013 as expense amounted to EUR 7,097 thousand (2012: EUR 6,782 thousand). The lease contracts may include a condition on restoring the leased assets at the end of the lease term. The Company estimates the current value of future costs of liquidation and dismantling, taking into consideration changes in network infrastructure. At present, these future costs are not accounted for as their amount is insignificant with respect to the Company's operating results, financial position or cash flows.

18. Investment and other commitments

EUR'000	31.12.2013	31.12.2012	01.01.2012
Investment and other commitments contracted but not included in the financial statements yet	1,526	623	328
Total investment and other commitments	**1,526**	**623**	**328**

These commitments mainly relate to building a telecommunication network, optical transport network and exchange of equipment in sales points. The Company participated in an auction for LTE network spectrum bands. The result of this auction is described in Note 19 – Subsequent events.

19. Subsequent events

On 3 January 2014, based on the resolution of Telecommunication Authority frequencies in the band of 800 and 1800 MHz necessary for building the new generation LTE network were assigned. The acquisition price of these licences amounted to EUR 40,300 thousand. Fifty percent of the acquisition price was paid in January 2014 and 50% is due by 31 May 2014.

On 15 January 2014, the European Commission confirmed purchase of a 65.9% share in the parent company Telefónica Czech Republic, a.s., also including a 100% share in the Company by financial group PPF. The Commission assessed the transaction in a simplified procedure and concluded that the transaction poses no risks in terms of restriction of competition, as the activities of Telefónica and PPF have so far not overlapped.

On 28 January 2014, the Company became part of the PPF Group. Subsequently, on 1 February 2014, members of the Supervisory Board withdrew and were replaced by Martin Štefunko, Jan Tomaník and Martin Vlček.

20. Approval of the financial statements

These financial statements were approved by the management of the Company on 11 March 2014.

Ramiro Lafarga Brollo
Chief Executive Officer

Ing. Martin Klímek
Chief Financial Officer

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