

## National and international wholesale services

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The year 2009 saw a culmination of the market consolidation trend in the Czech Republic, which was driven by the worsening macroeconomic trends. T-Mobile and Vodafone followed in the strategic footsteps of Telefónica O2 and embarked on a course of gradual transformation from purely mobile into comprehensive providers of telecommunications services, with a broader portfolio of options, including fixed access. The operators responded to the economic developments by an increasingly strict cost control and by implementation of economizing measures. In the wholesale market, this demonstrated itself in the form of increased pressures to drive down the prices, a higher rate of migration to services with a lower ARPU and the general stagnation of demand for services.

Telefónica O2 also presented an innovated portfolio of products. Following changes in the legislation, the Company began to offer the so-called naked ADSL, in which the alternative provider purchased only the ADSL line, without the need for a telephone connection. Together with the increased demand for leases of transmission infrastructure on the part of mobile operators, the service acted, to an extent, as a stimulus in the wholesale telecommunications market in the second half of 2009. The year 2009 also saw a revived interest in Ethernet data services. A large part of new services sold was, however, only a result of migration from the traditional service of leased lines.

In the area of international data and internet services, the growing demand for international transmission capacity on the part of international partners has produced additional requests for extra capacity, especially for international IP connectivity. Telefónica O2 registered a growing demand and increased sales of high-capacity international leased lines (Lambda 2.5 and 10 Gbps). The Company's own international IP connectivity also increased. In collaboration with other members in the Telefónica group and other international partners, Telefónica O2 successfully implemented several rather large international VPN projects; it also expanded its functional integration collaboration with Telefónica International Wholesale Services. The economic recession caused a downturn in the demand for new international leased lines; existing lines were cancelled by customers and there were also pressures to drive down the prices.

In the area of wholesale international voice services, Telefónica O2 further strengthened its leading position in the markets of Central and Eastern Europe. The Company increased the number of direct lines interconnecting it with other mobile and fixed line operators in Europe and beyond, and it shifted its attention to Russia and the Middle East. Compared to 2008, the volume of transit services was up 5% and reached a record of nearly 1.5 billion minutes. The Company also expanded its proposition to mobile operators – it added a service of video call transit to foreign mobile networks.

At the end of 2009, the fixed line network of Telefónica O2 was interconnected with the networks of seventeen operators of fixed networks of public electronic communications, and its mobile network was interconnected with the networks of eleven operators of public electronic communications in the Czech Republic.