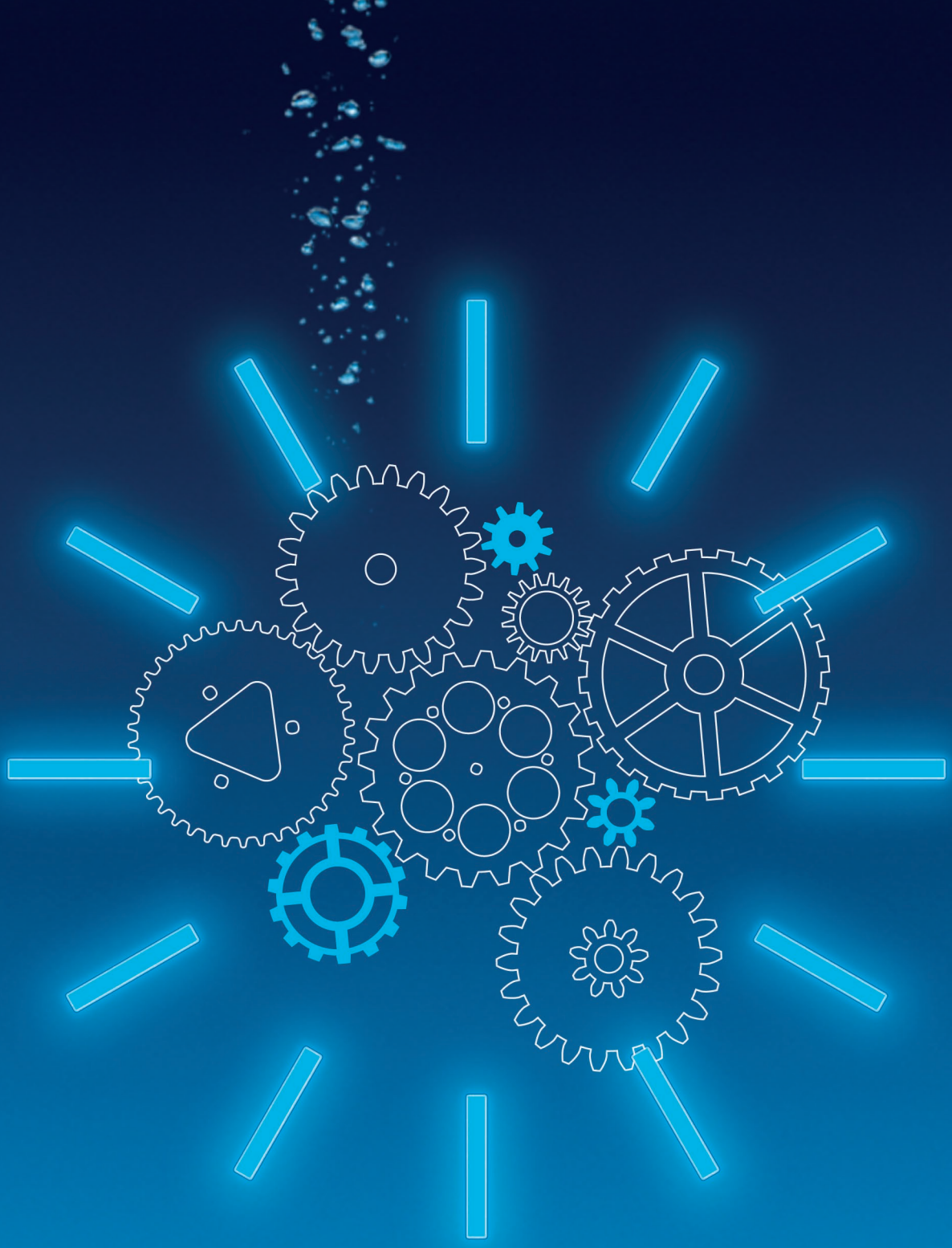

Half-Year Report 2010

A Telefónica company

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The financial figures and information stated in this Half-Year Report are not audited.

Letter from the Chairman of the Board of Directors

To Our Shareholders

Let me now review the activities and results of the Telefónica O2 Czech Republic Group in the first half of 2010. As in 2009, also in the first six months of 2010 our performance was influenced by the challenging macroeconomic environment in the Czech Republic. The effects came mainly in the form of lower expenditure by our mobile customers, which resulted in falling revenues. However in the second quarter we saw a certain stabilising effect and the rate of revenue decline has slowed. Another factor that influenced our results was the competitive pressure which persevered, and even grew stronger in some areas. In spite of all these developments, we managed to maintain a solid growth in our customer base in the key areas, which attests to the right choice of our strategy of focusing on services driven by customer needs. Our simple and clear proposition to the market helped us in securing a significant growth of our customer base in Slovakia.

In the fixed-line segment, owing to our offer of broadband-based services, we continued to be successful in halting the rate of decline in the number of fixed lines. In the first half of 2010, the number of fixed lines cancelled fell 30% year on year to 62 thousand. This was driven mainly by the increased number of broadband internet users. The fact that we eliminated the commitment requirement helped us make the service O_2 Internet more attractive to the market. New customers were offered internet connectivity with a speed of up to 16 MB/s at very competitive prices. The number of retail ADSL connections was 10.8% higher at the end of June than at the same time last year.

In the mobile segment we continued to focus on migrating customers from the prepaid service to contracts. The success of our O_2 NEON tariffs drew in customers; their number increased 4.5% year on year, and their share in the total customer base as at the end of the first half of the year was 57.4%. Increasing this share further also helps with maintaining voice traffic. We also introduced new tariffs for small business and self-employed customers, O_2 Podnikání, the first in the Czech market to offer unlimited calls during working hours within a flat monthly fee.

Customers of prepaid mobile services could, in addition to the tariffs O_2 NA!PIŠTE and O_2 NA!HLAS, enjoy calls from only CZK 1. The promotion Odměna za dobití (Top-up Reward) for regular credit top-ups continued. These activities helped us in stabilising our Average Revenue Per User for the prepaid service, and contributed to slowing down the rate of decline in their numbers.

In the segment of fast mobile internet, we continued to expand the coverage of our UMTS and EDGE networks. In mid-July, our 3G was available to a third of all Czech population, which means that we increased our head start on the competition again. In addition to expanding the coverage of mobile data networks we also introduced new services to our portfolio. The tariff O_2 Předplacený mobilní internet for the prepaid mobile customer came with free internet connectivity, without the requirement of a contact and regular monthly payment. In June we presented four options of mobile internet tariffs O_2 Mobilní Internet. Small and medium business customers could claim a netbook o a professional notebook with selected mobile data tariffs.

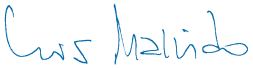
As I stated already at the beginning, our simple and clear tariffs O_2 Fér in Slovakia, which give the customer more value, helped us draw more customers and improve the quality, structure and loyalty of the customer base. The number of customers increased by more than 150 thousand

in the first half alone and reached 709 thousand. We at the same time strengthened our position in the Slovak mobile market; our market share went up to 12.3%. Those results also contributed to a more than 50% increase in revenues and improved financial performance.

As in the previous year, also in 2010 we push for better operating efficiency. With this goal in mind we decided to implement an ambitious restructuring programme; its aim is to realign the organisation into a more efficient form through a reduction of the number of organisation levels across the company. We also maintain our focus on better process efficiency through the continuing integration of fixed-line and mobile platforms and systems, with a special regard for network transformation, including the outsourcing of some activities. I am confident that the implementation of this programme will put us in a better competitive position and help us maintain our high financial performance.

As I am reviewing our financial results, I must again stress the effect of the macroeconomic environment on our revenues, which were also negatively impacted by the continuing cuts in mobile termination rates. The consolidated business revenues fell 6.6% year on year during the first half of the year and reached CZK 27.8 billion. However in the second quarter the rate of decline slowed down to 4.1%. The mobile segment revenues in the Czech Republic recorded an 8.5% drop to CZK 14.3 billion as a result of the optimisation of retail spending and the lower mobile termination rates, while the fixed-line segment revenues for the first half of the year fell 7.5% year on year to CZK 12.3 billion. The higher revenues from broadband internet and ICT services failed to compensate for the shortfall in voice revenues. The revenues in Slovakia went up by 51% and reached EUR 48.8 million. The year-on-year comparison of operating performance measured by OIBDA was influenced by several one-off items posted in 2009 and in 2010. In the first half of 2010, OIBDA reached CZK 11.2 billion, which translates into an 18.1% decrease. Without the one-off items, however, OIBDA went down by 4.5%, which is at a slower rate than the revenues, resulting in an increase of a fully comparable OIBDA margin by 0.7 percentage point to 43.4%. This improvement was powered by our continuing strive for efficient commercial and non-commercial operating expenditure. The net profit fell 23.9% to CZK 4.4 billion as a result of the aforementioned OIBDA decline, which has not been offset in full by the lower depreciation and tax.

I am glad that the results of the first half of the year and our expectations for the second half let us confirm the year-end outlook for a fully comparable OIBDA, where we expect a decline by 5–9% and investment expenditure, which should reach approximately CZK 6 billion. I believe that our successful proposition of products and services will secure a sufficient growth of customer base in the key areas and, together with the gradual recovery of the Czech economy, consumer spending trends will also improve. We will implement a stringent financial discipline with the aim to offset the falling revenues to the maximum extent, and to maintain high operating efficiency.



Luis Antonio Malvido
Chairman of the Board of Directors

Calendar of the main events

January

Telefónica O2 launched a new network documentation portal, which will allow people online access to maps documents concerning the situation of telecommunications network on their land.

February

Telefónica O2 published its audited consolidated financial results prepared under International Financial Reporting Standards (IFRS) for the fiscal year 2009. The consolidated business revenues reached CZK 59.7 billion and the net profit increased to CZ 11.6 billion.

The Board of Directors elected Luis Antonio Malvido as Chairman of the Board of Directors and Chief Executive Officer of Telefónica O2.

Jiří Dvorjančanský was appointed Executive Director for Residential Marketing, Telefónica O2.

Telefónica O2 became the general partner of Open Air Festival, a new multicultural project for the whole family.

March

Telefónica O2 introduced new tariffs O2 Podnikání, which were the first tariffs on the Czech market that came with free unlimited calls during work hours included in the flat monthly fee.

The number of registered participants in the programme for customers of the prepaid services Odměna za dobití (Credit Top-up Reward) exceeded the one million mark.

April

Telefónica O2 began marketing O2 Clean Internet to businesses; the service protects local networks against malicious software and various viruses.

Employees purchased goods in the value of almost CZK 240,000 at the Easter market, thus helping sheltered workshops.

More than ten million messages were delivered via the system of data boxes, which serves the communication between official authorities and natural and legal persons.

May

An Ordinary General Meeting of shareholders of Telefónica O2. The shareholders approved, among other things, also the Board of Directors' proposal for the payment of dividend of CZK 40 per share. María Eva Castillo Sanz, an independent member of the board of Telefónica, S.A., was elected as new member of the Supervisory Board and the Audit Committee.

The Board of Directors of Telefónica O2 approved an increase of the registered capital of Telefónica O2 Slovakia by means of a monetary contribution of EUR 40 million, to reach EUR 240 million in total.

Telefónica O2 implemented changes in its organisation chart. A new centralised division Marketing and division Strategy and Business Development were created.

Telefónica O2 added O2 Předplacený mobilní internet to its portfolio of mobile data services. The service is intended for customers who go online irregularly or are new to the internet and the prepaid credit gives them connectivity without any commitment – easy and anytime.

June

Telefónica O2 joined the global mobile campaign 1GOAL in aid of education for children.

Telefónica O2 designed a special course aimed at communication for people with full or partial hearing loss. The participants then went on to become ambassadors for people with hearing impairment in their respective regions.

Board of Director's Report on Business Activity

The Czech telecommunications market in the first half of 2010

As in 2009, also in the first six months of 2010 our performance was influenced by the challenging macroeconomic environment in the Czech Republic, which manifested itself mainly in lower earnings and expenditure on the part of businesses and consumers. As a result, we saw a decline in the growth of the number of new customers and in falling revenues. In addition to the foregoing, mobile revenues were also negatively impacted by further cuts of the mobile termination rates.

The offer of the so-called 'flat-rate' mobile tariffs by all operators was significantly expanded at the beginning of the year: at the end of January, T-Mobile came out with two new voice tariffs, Grand and Grand PLUS, which offered unlimited calls for individual customers, and later also Profi, new tariffs offering the same to business customers; in March, Vodafone introduced a brand new concept of tailor made tariffs (Tarify šité na míru), which let customers combine services based on their actual need – from a zero monthly fee to the option of unlimited calls, SMS or unlimited data.

In April, Telefónica O2 expanded its portfolio of flat-rate mobile tariffs. Small business and self-employed customers were offered O_2 Podnikání, and in May, the innovated tariffs for small and medium business customers O_2 Business came out, and introduced a new tariff, O_2 Business Unlimited, with unlimited calls, SMS and data.

All mobile operators continued to upgrade and expand the coverage of their networks during the first half of the year. In January, T-Mobile started the commercial operation of its 3G network in parts of Prague, and by the end of the half-year it covered the remaining parts of the capital and the cities of Pilsen and Brno with signal. In June it also completed the project of upgrading its GSM network. In the first half of the year, Vodafone also covered the remaining parts of the capital and the cities of Brno and Karlovy Vary with signal.

Telefónica O2 rolled-out its 3G coverage to additional towns and cities; by mid-July, its UMTS/HSPA network was available to a third of the Czech population.

Vodafone revised its commercial strategy in the first half of the year – it began to offer a franchise on its brand stores. It plans to expand its retail network through franchises to approximately 130 locations within two years.

U:fon opted for a wholly different approach; at the end of 2009 it announced a principal turnaround of its commercial strategy and market positioning. U:fon set itself the goal to become the first low-end operator in the Czech Republic and it intends to focus primarily on marketing and development of mobile data. It also has plans for a wholesale operation in the mobile data and voice services. At the end of June, U:fon announced it would open its network also to the other operators, which would market fast mobile internet and voice to customers under their respective brands, allowing for the emergence of virtual operators. Live Telecom, WIA and Pe3nyNet became U:fon's first wholesale customers.

At the end of the first half of 2010, all operators had to cut the prices of their roaming voice and SMS services under pressure from the European Commission. A so-called 'data roaming limit' was implemented on a mandatory basis; it serves the purpose of protecting customers from unexpectedly high data roaming bills.

The fixed-line market saw an expansion of internet connectivity services on offer. In early April, UPC added a new product, UPC Fiber Power 25 to its broadband proposition, and cut by 40% the price of its two fastest broadband services (UPC Fiber Power 50, UPC Fiber Power 100).

In the second quarter Telefónica O2 and T-Mobile expanded their offers of mobile internet services by adding a prepaid option, and in early June, Telefónica O2 introduced a new portfolio of flat-rate data tariffs to the market.

České Radiokomunikace continued in the roll-out of their WiMAX network to other towns in the Czech Republic

Regulation

The regulatory environment in the electronic communications market in the Czech Republic saw the implementation, in the first half of 2010, of a number of changes, of which the most principal were the following:

— legislative changes;
— changes in the area of the relevant markets analysis and product regulation
— changes to the principles of the Universal Service provision, government policy and support for broadband internet access.

The following changes were introduced to the legislative environment governing the area of electronic communications:

— Enactment of the Act No. 132/2010 Coll., on audio-visual media services on demand and on the amendment to some other laws (Act on Audio-visual Media Services On-demand);
— Enactment of the Act No. 153/2010 Coll., amending the Act No. 127/2005 Coll., on electronic communications and on the amendment to some related laws (Electronic Communications Act), as amended, and some other laws;
— Commencement of the implementation of the revised regulatory framework for electronic communications networks in the Czech law:
  — Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services, Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector and Regulation (EC) No 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws;
  — Directive 2009/140/EC of the European Parliament and of the Council of 25 November 2009 amending Directives 2002/21/EC on a common regulatory framework for electronic communications networks and services, 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities, and 2002/20/EC on the authorisation of electronic communications networks and services;
  — Regulation (EC) No 1211/2009 of the European Parliament and of the Council of 25 November 2009 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Office.

Relevant markets analysis and product regulation
Telefónica O2 continued to meet its obligations which were imposed based on the relevant markets analysis by the Czech Telecommunications Office (CTO) in the previous period. In the first half of 2010, the CTO analysed two wholesale markets. The analyses resulted in a gradual reduction of the regulatory burden on the Company.

In April, the CTO published the new regulated wholesale mobile termination rates. The price per minute of call went down from CZK 2.31 to CZK 1.96 with effect from 1 January 2010, and later it was cut further to CZK 1.66, with effect from 1 July 2010.

The CTO also continued in the consultation of the regulation strategy for access to New Generation Networks (NGA), which concerns all businesses in the market of optical access networks. To this end, the CTO presents to the concerned entities the draft regulation for individual scenarios of optical access network construction. The draft paper is based on yet-to-be-published Commission Recommendation on regulated access to Next Generation Access Networks (NGA).

International roaming regulation
The retail prices for incoming calls were cut to 5 cents per minute with effect from 1 July 2010. The price for outgoing calls went down to 39 cents per minute. The prices in Czech crowns were set base on the applicable official exchange rate.

In March, the Company put into operation a protection mechanism for services to end customers. The customer is now automatically protected from bills for roaming data services in excess of EUR 50 per month.

Imposition of duties in connection with the Universal Service provision
As part of its Universal Service obligations imposed by the CTO, in the first half of 2010 Telefónica O2 provided the following ancillary services:

— public payphone service;
— access to the public telephone service for persons with disability, equal to that granted to other end users, specifically through special terminal equipment;
— special price plans for persons with disability, which differ from price plans provided under standard terms and conditions of service.

In the first half of 2010, the services under (a) were changed by a CTO from 2009; the change implies a significant reduction in the number of public payphones included in the scope of Universal Service.

The CTO also issued a decision concerning the amount of net cost of services included in the Universal Service for 2007. The decision has not yet become final and conclusive, as other operators who are to contribute towards the loss incurred in connection with the Universal Service provision appealed against the decision.

Furthermore, the CTO continued the process of examination of the claim for compensation for the loss from Universal Service provision for 2008 and the related documentation. Telefónica O2 prepared documentation for the claim for compensation for the loss from Universal Service provision for 2009.

Government policy and support in the area of broadband internet

The Ministry of Industry and Trade of the Czech Republic began work on a paper titled 'Digital Czech republic', which is to be an ICT development policy, with an emphasis on broadband including optical networks, in the Czech Republic. Subsidies from the EU Structural Funds continued to be used for projects for the development of ICT in the public and private sectors.

Telefónica O2 participated, as member of industry associations, in the discussion of the published principles of the draft paper. Telefónica O2 continues to monitor all possibilities that the EU Structural Funds create for customers, and designs its products and services in a way which allows meeting the Structural Funds eligibility criteria.

Telefónica O2 Czech Republic group in the first half of 2010

In the first half of 2010, the Telefónica O2 Group marketed its products and services with the aim to accommodate the needs of its customers even in the time of the difficult economic situation. Customers in the consumer segment benefited from promotions and our improved portfolio of broadband services. They could get internet connectivity without a commitment to use the service for a specific length of time. The Company continued in the development of ICT and business solutions, which focused not only on the government segment and large corporate accounts, but also on small and medium businesses.

In the mobile segment, the Company promoted its flat-ate contract tariffs O_2 NEON. Customers of the prepaid mobile services continued to benefit from Odměna za dobití (Top-up Reward) programme. In April, the Company introduced Korunománie, a promotion offering one minute of call for only CZK 1. In the area of mobile data networks, Telefónica O2 made a significant progress in expanding the coverage of its new generation network (3G). By mid-July, the 3G network was available to one third of the Czech population. At the same time, the Company continued the construction of its EDGE network; by the end of the half-year, more than 60% of the population were within the reach of the network. Together with the expansion of the coverage of mobile data networks, the Company also expanded its portfolio of mobile data tariffs, which were for the first time available for prepaid mobile customers.

The Company continued its successful marketing of O_2 Fér tariffs in Slovakia, which led to an improvement and growth in the customer base and achieved a greater customer loyalty, and resulted in a sustained and significant revenue growth and improved financial performance.

All the above activities reflected into a solid operating result in terms of customer growth. The number of retail ADSL connections reached 702 thousand as at the middle of 2010, which represents a year-on-year growth of 10.8%. The number of O_2 TV customers reached 133 thousand at the end of June. As at the same date, the number of fixed accesses operated by Telefónica O2 reached 1.7 million. During the first six months of 2010, the number declined by 62 thousand, which is 30.3%.less than in the same period of 2009. The number of mobile customers grew, despite the highly saturated mobile market, by 0.1% on the year before, and reached 4.8 million. This development was driven mainly by the growth in the number of contact customers, of which there was 2.8 million at the end of June, which is up 4.5% on the previous year. The decline in the number of prepaid customers slowed down to 70 thousand in the half-year, compared to 110 thousand in the same period of 2009. The number of mobile customers in Slovakia increased by 156 thousand in the first half of the year (compared to 92 thousand in the same period of 2009) and reached 709 thousand.

As in 2009, also in the first half of 2010 the Company strived for better operating efficiency. With this goal in mind we decided to implement an ambitious restructuring programme; its aim is to realign the organisation into a more efficient form through a reduction of the number of organisation levels across the Company. We also maintain our focus on better process efficiency through the continuing integration of fixed-line and mobile platforms and systems, with a special regard for network transformation, including the outsourcing of some activities. The changes will also translate into a headcount reduction by approximately 1,000 employees in 2010; of this number, approximately 500 will be transferred together with the outsourced activities. The Company posted restructuring costs of approximately CZK 427 million in the first half of 2010.

Telefónica O2 Slovakia

Due to the increasing popularity of the simple and value-based tariff O_2 Fér, Telefónica O2 Slovakia succeeded in growing its customer base and improving its financial performance in the first half of 2010. At the end of June, the number of active customers reached 709 thousand, which is a year-on-year increase of 69.9%. The net additions reached 156 thousand in the first half of the year 2010. The net customer adds for the first half of 2010 were 89.9% year on year and reached 258 thousand; the number of prepaid customers grew 60.3% year on year to 451 thousand. At the end of the second quarter of 2010, the share of contract customers in the total customer base reached 36.4%, which is an increase of 3.8 percentage points.

The continuing strong growth in the customer base helped Telefónica O2 increase its market share to 12.3% at the end of June, from 9.8% at the beginning of the year.

The revenues of Telefónica O2 Slovakia grew in the first half of 2010 by 51.0% year on year and reached EUR 48.8 million. The Average Revenue Per User (ARPU) also increased: the average for contract customers in the first and second quarter was EUR 18.8 and EUR 19.2, respectively, while for prepaid customers it was EUR 8.3 and EUR 8.5, respectively.

At the end of the first half-year, Telefónica O2 Slovakia's own network covered already 94.35% of the Slovak population. The coverage now allowed the company to carry 89% of traffic in its own network, while the remaining 11% of traffic was carried within the framework of national roaming. The share of on-net traffic therefore increased by 5 percentage points compared to the situation at the end of 2009.

An independent agency evaluated Telefónica O2 Slovakia as an operator with the highest customer satisfaction score among all mobile operators in Slovakia. The Customer Satisfaction Index (CSI) of Telefónica O2 Slovakia was 84.2 and the company thus confirmed its longstanding leadership in the area of customer satisfaction.

Telefónica O2 Slovakia is now fully established in the Slovak market. In May, the Board of Directors of the parent Telefónica O2 Czech Republic approved an increase of the registered capital by means of a pecuniary contribution of EUR 40 million, to the total of EUR 240 million. This step confirmed the long-term plans of the Telefónica Group in Slovakia. Also in the future, Telefónica O2 Slovakia will continue to monitor the needs of Slovak customers, and meet them with innovative and effective solutions.

New products and services

In March, Telefónica O2 made a special offer to new users of flat-rate tariffs from the O_2 NEON family. Customers (small businesses or registered self-employed), who activated a new number with any of the tariffs O_2 NEON L, L+, XL or XXL between 1 March and 14 March 2010, could have it 30% cheaper for the whole time they subscribed to it (i.e. 2 or 3 years, depending on the contract).

From 1 June, Telefónica O2 offers a complementary service O_2 Navzájem, which, for a flat monthly fee, offers unlimited calls within a group of up to seven friends, regardless of the time of day. The service is available to both contract customers and users of the prepaid O_2 karta. Each member of the group pays the same monthly fee, which gets lower with each new member to the group. The unlimited communication with the selected contacts makes the service an ideal complement to the O_2 NEON tariffs.

Any customer of the prepaid service who, between 22 March and 5 April 2010, topped up their credit for a minimum of CZK 200 and entered a special code at www.odmenazadobiti.cz, received a special 'gold' bonus instead of the standard one, e.g. a choice of another O_2 service: instead of the standard bonus of ten SMS to the O_2 network, the customer could send unlimited on-net SMS for one whole day.

Other options included daily bundles of unlimited calls and MMS, mobile internet for one whole week or twenty free minutes for calling international. The 'gold' bonuses were available to all customers even after the end of the Easter promotion, provided they topped up their credit for a minimum of CZK 400 at any one time.

New customers of prepaid mobile customers of Telefónica O2 could take an advantage of a unique promotion, which ran from 1 April until 30 June 2010. Together with O_2 NA!PIŠTE and O_2 NA!HLAS tariffs, customers got a special promotional rate of CZK 1 per one minute of call. Even outside the promotion, if they had any of the above prepaid tariffs, the customers could choose from four bundles – calling in evenings or weekends for CZK 0.50 per minute, weekend SMS for CZK 0.50 or mobile internet for CZK 20 per week. They were also eligible for the guaranteed bonuses from www.odmenazadobiti.cz.

From April 2010, Telefónica O2 expanded its offer of mobile tariffs for small businesses and self-employed persons. The new O_2 Podnikání were the first tariffs on the Czech market which offered, for a flat monthly fee, unlimited calls within working hours. The benefit was not limited in time and applied for the whole duration of subscription to the tariff. O_2 Podnikání tariffs gave a choice of four alternatives: O_2 Podnikání M, O_2 Podnikání L, O_2 Podnikání XL and O_2 Podnikání XXL. The highest tariff came with unlimited calls to any network between 9 am and 5 pm. The other tariffs offered the benefit of unlimited calls to more than 7 million numbers in the O_2 network and to all fixed line numbers in the Czech Republic.

From May, Telefónica O2 began to offer O_2 Business, improved per-minute tariffs to small and medium business customers. The innovated tariff O_2 Business Unlimited came with unlimited calls. Customers who subscribed to this tariff could, for the promotional monthly rate of CZK 2,900 (exclusive of VAT), make unlimited calls, use unlimited mobile internet and send unlimited SMS to all networks in the Czech Republic. O_2 Business tariffs were also made more affordable, with more free minutes, lower per-minute rates and lower monthly subscription fees. A promotion of O_2 Business tariffs gave customers a free choice of any of the O_2 Podnikatel tariffs, which focused on calls in Telefónica O2's own network.

In February, Telefónica O2 introduced another promotion for broadband internet. Customers who activated the service O_2 Internet na doma in February, paid only CZK 600 month for a period of one year; there was no commitment required and no extra payments for fixed line rental. New and existing customers alike could get even more value if they combined their internet service with additional services. With a subscription to O_2 Internet na doma, they could order cut-price mobile internet and get a discount of CZK 100 on the mobile tariffs O_2 NEON, or get 300 free voice minutes from a fixed line for only CZK 120.

From 1 June, all customers of Telefónica O2 could get a very competitively priced internet service with the highest speed of up to 16 MB/s, depending on the capacity of their line. Any customer who ordered O_2 Internet paid only CZK 400 per month for the duration of the subscription; again there was no commitment required and no extra payments for fixed line rental.

In February, Telefónica O2 expanded its portfolio of mobile internet tariff by introducing the new O_2 Mobilní Internet Standard tariff, which was aimed at regular internet users. It was sufficient for daily email, occasional music downloads or for storing more than 2,000 high resolution images. For CZK 500 per month, customers could surf anytime and anywhere. The FUP data limit for the new tariff was set at 2 GB per month. O_2 Mobilní Internet Standard worked out most economically in combination with other services.

From 1 June, all get mobile internet connectivity on a prepaid basis, with the service O_2 Předplacený mobilní internet. The service gave customers a free access to the internet, without a contract and commitment to monthly payment. It came in four alternatives, based on the number of daily access packages purchased. Daily access packages were 24 hour blocks that could be used anytime within two months from the date of activation. One such block came with unlimited access and 500 MB of (FUP) data limit. The daily access packages were available with the following pricing structure: 1 day – CZK 50; 5x 1 day – CZK 200, 10x 1 day – CZK 350; 30x 1 day – CZK 900. Customers had a choice of two optionsO_2 Mobilní internet sada (set) and O_2 Mobilní internet karta (card). O_2 Mobilní internet sada consisted of a prepaid SIM card with 5 weeks of free internet and a Huawei USB modem E1750; the retail price of the set was CZK 995. O_2 Mobilní internet karta could be purchased separately for CZK 95; it came with a prepaid credit of CZK 50, which gave one day free access to the internet.

On 8 June, Telefónica O2 presented its new portfolio of flat-rate mobile internet tariffs. Customers had a choice of four tariffs: O_2 Mobilní Internet Start for CZK 300 inclusive of VAT, with a data limit of 500 MB; O_2 Mobilní Internet Standard for CZK 500 inclusive of VAT, with a data limit of 2 GB; O_2 Mobilní Internet Pro for CZK 750 inclusive of VAT, with a data limit of 10 GB; and O_2 Mobilní Internet Neomezený or CZK 1,000 inclusive of VAT and without a data limit.

With some mobile data tariffs, small and medium business customers could get a netbook Samsung N150 for a subsidised price of CZK 1,495, or a professional notebook HP 4520s for CZK 6,495. Both portable computers came with an inbuilt 3G modem. Customers therefore require no other equipment to enjoy the fastest mobile internet access in the Czech Republic.

In June, Telefónica O2 expanded its offer of mobile internet tariffs for customers of its prepaid service. Smartphone owners, who wanted to surf online without any restrictions, could subscribe to the new tariff O_2 Internet v mobilu Plus for CZK 75 per week, inclusive of VAT. The monthly data limit in this case was 500 MB (FUP).

In April, Telefónica O2 launched a new service, O_2 Clean Internet, which provides a professional standard of protection against malicious content to any local network which is connected to the internet through Telefónica O2 Czech Republic. O_2 Clean Internet can be installed for the vast majority of internet connections offered by the Company (symmetrical/asymmetrical xDSL connections, IOL Ethernet, VPN Expres, etc.). The professional solution significantly reduces the risk of infiltration by malicious code (spyware, malware) and various viruses in the local network. At the same time it gives the user the necessary functionality for managing the security of the connection of the customer network to the internet and filters away any unwanted http traffic. The solution did not require any client intervention in the proprietary infrastructure as the service ran in the O_2 data centre and did not take up any of the client network capacity. The service could be activated for CZK 500 per internet connection.

All people with impaired hearing could, from February, use a free special assistance service O_2 – Hovor pro neslyšící. Telefónica O2 operated a 24/7 assistance number at which operators with special training helped people who are deaf or hard of hearing communicate. Until then,

the service could be accessed only through a text phone or a fax; now it was made available also via SMS and email. The service works on a very simple principle: the operator receives an instruction from a deaf or hard-of-hearing customer via email, fax or SM, and communicates it to the intended hearing recipient. Likewise, the operator can convey a message to a deaf or hard-of-hearing recipient, by transcribing it and sending it to the intended recipient.

Commented financial results

In this section we present and comment on the unaudited consolidated financial results of the Telefónica O2 Group including the results of Telefónica O2 Slovakia, Telefónica O2 Business Solutions and other smaller operating companies. The results were prepared according to International Financial Reporting Standards (IFRS).

Consolidated Financial Statements

The financial performance of Telefónica O2 Czech Republic Group in the first half of 2010 Group continued to be negatively impacted by challenging environment and mobile termination rate (MTR) cuts. In addition, revenues from Universal Service (USO) negatively impacted year-on-year revenues comparison. However in the second quarter it showed improving trends both in fixed and mobile segments compared to the first quarter with less customers' optimization and stabilization in spend. Total consolidated revenues totalled CZK 27,908 million, down by 6.4% year-on-year. Business revenues went down 6.6% year-on-year to CZK 27,765 million in the first half 2010 with a 4.1% year-on-year decline to CZK 14,038 million in second quarter alone. Excluding the impact of USO1, Group business revenues would have declined 6.2% year-on-year in the first half, and 4.1% year-on-year in second quarter. Fixed business revenues in the Czech Republic declined by 7.5% year-on-year to CZK 12,273 million in the first half 2010 (-6.5% year-on-year excluding the USO impact) and by 5.3% to 6,121 million in second quarter (-5.5% year-on-year excluding the USO impact, an improvement compared to a 7.3% decline in the first quarter). Mobile revenues in the Czech Republic declined by 8.5% to CZK 14,310 million in the first half 2010 (-4.2 % year-on-year excluding the impact of MTR cuts) and by 5.8% to CZK 7,282 million in the second quarter, (-1.6 % year-on-year excluding the impact of MTR cuts, an improvement compared to the first quarter: -6.8%). On the other hand, revenues in Slovakia continued in the sound growth and recorded a 51.0% year-on-year increase to reach EUR 48.8 million in the first half 2010 (+51.0% in second quarter).

In the first quarter of 2010, the Company announced an ambitious restructuring program with a special focus on Network transformation, aiming at further improvement of its operational efficiency. As a result, the restructuring provision of CZK 381 million has been booked in the first quarter, while in the second quarter, the Company charged additional CZK 46 million coming from further management structure simplification.

In addition, the Company continued in efficiency enhancement via strict financial discipline seen already in previous quarters to compensate for drop in revenues. Total consolidated operating costs (including restructuring costs) reached CZK 16,993 million in the first half 2010, up 0.9% year-on-year. The year on year comparison has been impacted by the settlement agreement with T-Mobile (CZK 1,027 million) booked in the second quarter 2009 and already mentioned restructuring costs booked in the first half 2010 (CZK 427 mil.). Excluding these items, Group consolidated costs would declined by 7.3% in the first half 2010 helped also by MTR cuts.

[1] CZK 179 million in 1H 2009 and CZK 27 million in 1H 2010

Group Operating income before depreciation and amortization (OIBDA) went down 18.1% year-on-year to CZK 11,209 million in the first half 2010 (-17.2% year-on-year to 5,864 million in the second quarter alone) largely due to revenues decline, non-recurring gain from real estate sale booked in the first quarter 2009 (CZK 341 million), settlement agreement with T-Mobile in the second quarter 2009 (CZK 1,027 million) and negative impact of restructuring costs (CZK 427 million) booked in the first half 2010. Consequently OIBDA margin thus decreased by 5.7 percentage points year-on-year to reach 40.4% in the first half 2010 and by 6.6 percentage points year-on-year to 41.8% in the second quarter 2010. Comparable OIBDA[2] decreased by 4.5% year-on-year to CZK 12,047 million in the first half 2010 (-2.0% year-on-year to 6,116 million in the second quarter 2010), while comparable OIBDA margin[3] improved by 0.7 percentage points to reach 43.4% in the first half 2010 (+1.0 percentage points to 43.6% in the second quarter 2010).

Consolidated net income amounted to CZK 4,354 million in the first half 2010, down by 23.9% year-on-year (-23.9% year-on-year in the second quarter to CZK 2,342 million), largely as a result of the decline in OIBDA, which has not been fully compensated by lower depreciation & amortization, financial expenses and income tax.

Consolidated CAPEX reached CZK 2,379 million in the first half 2010, down by 18.1% year-on-year (-31.2% year-on-year in the second quarter). The Company continued to invest in expansion of its mobile broadband networks (EDGE and UMTS), fixed broadband network (ADSL and IPTV) as well as development of IT systems. During the first half 2010, the Company expanded its 3G coverage to additional district towns resulting in 29 towns in the Czech Republic covered by mid-July, which represents some 32% of the population. Investment in EDGE network expansion also continued and by the end of June 2010, 60% of the population has been covered. Group free cash flows increased 15.2% year-on-year to reach CZK 7,103 million in the first half 2009, largely due to lower paid income tax and less cash paid for CAPEX.

The consolidated financial debt amounted to CZK 3,147 million at 30 June 2010, flat compared to the end of 2009, while cash and cash equivalents and short term financial investments reached CZK 8,397 million at the end of June 2010.

CZ Mobile Business Overview[4]

Mobile business continued to maintain solid commercial performance in mobile contract segment leveraging on successful customer proposition around O_2 NEON tariffs. The financial performance in the second quarter improved compared to the first quarter with less customers' optimization and some stabilization seen in spend, while MTR cuts (-34.4% between January 2009 and January 2010[5]) continued to dilute mobile revenues in the first half 2010.

In the third quarter 2009, for its contract customers the Company launched a tariff with no monthly fee (O_2 ZERO) to address the customers' demand for a strict cost control. In line with prudent principle, the Company decided to apply 3 months' activity criteria to those contract customers and to customers who subscribed for similar tariffs launched in the past years, as it applies to prepaid customers. As a result, in June 2010, the contract customer base has been reduced by 111,000 one-off corresponding to customers with low activity level. However, this adjustment has no impact on the financial performance of the mobile business.

[2] OIBDA excluding brand fees and non-recurring items (1H 2009: universal service, gain from real estate and settlement agreement with T-Mobile totaling CZK 1,456 million; 1H 2010: universal service and restructuring costs totaling CZK minus 414 million).

[3] Comparable OIBDA over Comparable business revenues (business revenues excluding universal service: CZK 179 million in 1H 2009 and CZK 27 million in 1H 2010).

[4] Figures are shown net of inter-segment charges between fixed and mobile businesses

[5] MTR dropped from CZK 2.99 to CZK 2.65 (February 1, 2009), to CZK 2.31 (July 1, 2009) and to CZK 1.96 (January 1, 2010).

Consequently, total mobile customer base increased by 0.1% year-on-year to reach 4,842 thousand at the end of June 2010 (+2.4% year-on-year to 4,953 thousand excluding the adjustment). Number of contract customers went up 4.5% year-on-year reaching 2,782 thousand at the end of the second quarter 2010 (+8.6% year-on-year to 2,893 thousand excluding the adjustment). Excluding the adjustment, the contract net additions reached 78 thousand in the first half 2010. This solid performance was driven by continuous uptake of O_2 NEON tariffs and by customers migrating from the prepaid to the contract segment. Number of prepaid active customers reached 2,060 thousand at the end of the second quarter 2010, down by 5.2% year-on-year. The Company kept up seeing a continuous improvement in prepaid customer base with 70 thousand net losses in the first half 2010, 36.7% less compared to the same period in 2009. At the end of the second quarter 2010, contract customers represented 57.4% of the base (+2.4 percentage points year-on-year).

The blended monthly average churn rate totalled 2.5% in the first half 2010 and 2.8% in the second quarter, posting a 0.6 percentage points year-on-year increase in the first half 2010 and 1.1 p. year-on-year in the second quarter, mainly due to the disconnections made in the contract base in the period. Excluding the one-off adjustment, churn would stand at 2.1% in the second quarter, which is 0.1 percentage points lower compared to the first quarter.

In terms of usage, mobile traffic[6] carried by the customers in the Czech Republic grew by 9.0% year-on-year to 4,387 million minutes in the first half 2010.

In the first half 2010, blended ARPU[7] reached CZK 468.3, down 9.5% year-on-year, largely due to MTR cuts and customers' optimizing their behavior. However, in the second quarter the ARPU (CZK 477.1) improved to -7.9% year-on-year. Contract ARPU reached CZK 664.0 in the first half 2010, down by 13.5% year-on-year, while in the second quarter its decline slowed down to -11.2% year-on-year to reach CZK 673.0. This was the result of decreasing customers' optimization, stabilization in spend and seasonality patterns. In addition, customer migration from prepaid to the contract tariffs and MTR cuts continued to contribute to contract ARPU dilution. Prepaid ARPU decreased by 9.2% year-on-year to reach CZK 203.3 in the first half 2010 with an improvement to CZK 209.4 in the second quarter compared to CZK 197.2 in the first quarter due to positive impact of propositions focused on traffic stimulation and regular top-ups.

Total mobile business revenues in the Czech Republic declined by 8.5% to CZK 14,310 million in the first half 2010 with a 5.8% decline in the second quarter 2010, while mobile service revenues went down by 8.5% year-on-year and 5.6% year-on-year in the first half and the second quarter respectively. Mobile termination rate cuts diluted mobile service revenues by 4.4 percentage points and 4.3 percentage points in the first half and the second quarter 2010. Despite 9.0% year-on-year growth in mobile outbound voice traffic in the first half 2010, traffic revenues decreased by 10.6% year-on-year to CZK 4,214 million (-9.3% in the second quarter), due to higher number of customers opting for semi-flat rate tariffs (O_2 NEON). Interconnection revenues went down by 19.6% year-on-year to CZK 1,951 million in the first half (-18.3% in the second quarter), largely impacted by MTR cuts, which have not been compensated by higher inbound traffic. Other revenues (including SMS & MMS, data and other business revues) declined by 7.2% year-on-year in the first half 2010, while in the second quarter, they improved by 2.2% driven by better performance of SMS, MMS as well as mobile data revenues.

[6] Inbound and outbound, including roaming abroad, excluding inbound roaming
[7] Including inter segment revenues

CZ Fixed Business Overview[8]

The fixed business reported solid commercial performance in broadband customer base and fixed accesses in the first half 2010. The financial performance continued to be negatively impacted by already mentioned universal service (in the first quarter), while ICT revenues continued in growing trend experienced already in the first quarter.

Total number of fixed accesses declined by 5.3% year-on-year to reach 1,708 thousand at the end of June 2010, with 29 thousand net losses in the quarter (by 37.9% less compared to the second quarter 2009) helped by solid uptake of naked accesses following the introduction of new broadband centric proposition in 2009. The positive impact of the broadband strategy has been also proven by household access performance. Their decline slowed down further to -5.6% year-on-year in the second quarter 2010 to reach 1,159 thousand at the end of June 2010, while their number decreased by 6.1% year-on-year in the first quarter 2010 and by 9.1% year-on-year in the second quarter 2009.

Voice traffic generated in the fixed network went down 13.2% in the first half 2010 to 923 million minutes as a result of continued fixed telephony lines losses and fixed to mobile substitution effect.

Retail ADSL accesses reached 702 thousand at the end of the second quarter 2010, up 10.8% year-on-year, while total number of O_2 TV customers reached 133 thousand, up by 0.4% year-on-year.

Total fixed business revenues went down 7.5% year-on-year to CZK 12,273 million in the first half 2010 (-6.5% year-on-year excluding the USO impact), while they decreased by 5.3% to CZK 6,121 million in the second quarter (-5.5% excluding the USO impact). Revenues from traditional accesses fell by 31.5% year-on-year to reach CZK 2,684 million in the first half 2010 (-29.6% in the second quarter) due to continuous fixed telephony lines losses and introduction of broadband centric customer proposition in 2009, while Internet & broadband revenues increased in total by 35.8% year-on-year to CZK 2,989 million in the first half 2010. IT services and business solutions revenues increased by still solid 25.4% year-on-year to reach CZK 1,030 million in the first half 2010 (+20.5% year-on-year in the second quarter alone).

Slovakia

In the first half 2010, Telefónica O2 Slovakia kept its sound commercial performance and deliver strong financial performance leveraging on successful customer proposition based on value and simplicity strategy (O_2 Fér). Total number of active customers reached 709 thousand at the end of June 2010, up by 69.9% year-on-year, with 63 thousand net additions in the second quarter. Number of contract customers grew by 89.9% year-on-year to reached 258 thousand, while number of prepaid active customers increased by 60.3% year-on-year to reach 451 thousand at the end the second quarter 2010. Contract customers represented 36.4% of total customer base at the end of the second quarter 2010, up 3.8 percentage points year-on-year. Total revenues of Telefónica O2 Slovakia in local currency increased by 51.0% year-on-year to reach EUR 48.8 million in the first half 2010, with a 51.0% year-on-year growth in the second quarter alone to EUR 26.3 million. Contract ARPU reached EUR 18.8 and EUR 19.2 in the first half and the second quarter respectively, while prepaid ARPU was at EUR 8.3 and EUR 8.5 in these periods.

[8] Figures are shown net of inter-segment charges between fixed and mobile businesses

Outlook for second half of 2010

Based on the delivered results for the first half of 2010 and outlook for the second half, Telefónica O2 Group confirms its full year guidance[9] for OIBDA and CapEx.

In the second half of 2010, the Group will continue with active proposition of its mobile O2 NEON tariffs and VPN based tariffs for business and corporate customers. In line with its 3G coverage expansion strategy, the Company will focus on improved proposition of new mobile broadband and data services. The Company's aim is to exploit its competitive advantage of having the highest 3G network coverage and the most advanced portfolio of mobile data services.

In the fixed line business the Company's effort will stay focused on active marketing and enhancement of the broadband centric proposition including the enlargement of fixed/mobile bundles proposition leading to further stabilization of fixed accesses. This should help the Company to outperform again the fixed broadband and mobile contract markets.

Telefónica O2 Slovakia will continue in active marketing of its "value and simplicity" customer proposition, which helped to outperform the market in the first half and will lead to further customer base growth and mix improvement to strengthen its financial position.

The Company will cautiously pursue the macroeconomic development in the Czech Republic and the speed of its gradual recovery. Therefore it will continue to closely monitor behavior of its customers to offer the propositions which meet their needs. In addition, it expects that mobile revenues will be hit by additional MTR cuts. In addition to above mentioned customer focused activities, the Company will stay focused on delivering commercial and non-commercial efficiencies in OPEX to sustain healthy operating profitability.

[9] OIBDA decline of -5% to -9%, CapEx around CZK 6 billion. In terms of 2010 guidance calculation, OIBDA excludes brand fees (CZK 754 million in 2009). In addition, 2009 OIBDA base excludes non-recurring items (settlement with T-Mobile, universal service and gain from real estate sale) totaling CZK 1,548 million; 2010 guidance excludes changes in consolidation, assuming constant FX rates of 2009.

Corporate governance

In the first half of 2010, the Board of Director met eleven times, the Supervisory Board met three times and the Audit Committee (now being a standalone governing body) met once.

An Ordinary General Meeting of Telefónica O2 Czech Republic was held on 7 May 2010. The supreme governing body of Telefónica O2 Czech Republic approved the financial statements of the company and the group consolidated financial statements for 2009 both prepared in accordance with International Financial Reporting Standards (IFRS) and audited by the audit firm Ernst & Young Audit, s.r.o., which gave both sets of financial statements its unqualified opinion. The General Meeting approved a proposal by the Board of Directors for the distribution of profit, including a payment of dividends. The proposal was based on a rigorous analysis of the company's performance in the past period, the current balance sheet situation and the projected future earnings of the company, including a cash flow generation estimate. The amount of the dividend also fully corresponds with the long-term policy of the Board of Directors to focus investment on high-growth potential areas; any surplus cash is not retained by the company and is paid out to the shareholders. The shareholders approved a payment of dividends from the profit for 2009 in the amount of CZK 12,388,795 thousand, and from a part of the retained earnings from previous periods in the amount of CZK 494,801 thousand, which together represented CZK 12,883,596 thousand and translates into a dividend of CZK 40 per share before tax.

The General Meeting approved a proposal by the Board of Directors to amend the company's Articles of Association in the wording which had been proposed. The changes, by and large, were motivated by the changes in the legislation, in particular the Commercial Code and the Capital Market Undertakings Act. These relate principally to the ways in which shareholders may exercise their rights, and some rules of organisation of general meetings.

Changes in the personnel composition of the governing bodies of the company in the period January–March 2010 are described in the 2009 Annual Report (section Corporate Governance). Anselmo Enriquez Linares resigned from his office at the Supervisory Board meeting held before the General Meeting (7 May 2010). In his stead, the shareholders elected María Eva Castillo Sanz, an independent member of the Board of Directors of Telefónica, S.A., who, by decision of the General Meeting, also became a member of the Audit Committee. The General Meeting had already passed the decision to recall Ángel Vilá Boix from the body. The shareholders confirmed by vote the Supervisory Board membership of Alfonso Alonso Durán, Ángel Vilá Boix, Luis Lada Díaz and Guillermo José Fernández Vidal, whose respective tenures were to expire in June. The résumés of all members can be found on the company's website (section About Us).

The General Meeting approved the conclusion of a contract for the performance of office of a member of the Supervisory Board between the company and the new Supervisory Board member, María Eva Castillo Sanz, and the re-elected members Alfonso Alonso Durán, Ángel Vilá Boix, Luis Lada Díaz and Guillermo José Fernández Vidal, and a contract for the performance of office of an Audit Committee member between the Company and María Eva Castillo Sanz.

The organigram of executive macrostructure Telefónica O2 underwent several changes as opposed to the situation published in the Company's 2009 Annual Report; an independent Marketing division was established, which, from 1 May 2010, assumed all marketing-related activities, which had previously been performed by individual commercial units; an independent Strategy and Product Development division was also established. The new organisation unit now incorporates

the department of Sponsorship and Interactive Partnership. Jiří Dvorjančanský became Director, Marketing Division (his résumé can be found on the Company's website, section About Us). From 1 September 2010, the divisions catering to corporate and strategic accounts, respectively, will be merged into one unit to be led by František Schneider, formerly Director, Corporate and SME Division. David Šita, Director, Strategic Account Division, leaves the Company on the same date to continue his career outside the Telefónica Group. Again on the same date, Jose Perdomo, who has been at the helm of the Consumer Division, is transferring to a newly established unit Global New Services in the parent Telefónica, S.A.; Global New Services was established as part of the new operating model of the Telefónica Group. Jose Perdomo will be in charge of eHealth, healthcare and assistance services powered by modern telecommunication technology.

All principal information and documents about the corporate governance of Telefónica O2 are available to shareholders and other stakeholders on the Company's website.

The situation in subsidiary and affiliated companies did not incur any changes during the first half of 2010 against the situation described in the 2009 Annual Report, with the exception of Telefónica O2 Slovakia, whose registered capital was increased by means of a pecuniary contribution to EUR 240,000 by decision of the Telefónica O2 in May.

Personnel composition of the Supervisory Board of Telefónica O2 Czech Republic (As at 1 August 2010)

Name	Function
Jaime Smith Basterra	Chairman of the Supervisory Board
Alfonso Alonso Durán	1st Vice-Chairman of the Supervisory Board
Lubomír Vinduška	2nd Vice-Chairman of the Supervisory Board
Eduardo Andres Julio Zaplana Hernández-Soro	Member of the Supervisory Board
Antonio Botas Bañuelos	Member of the Supervisory Board
María Eva Castillo Sanz	Member of the Supervisory Board
Tomáš Firbach	Member of the Supervisory Board
Petr Gazda	Member of the Supervisory Board
Pavel Herštík	Member of the Supervisory Board
Guillermo José Fernández Vidal	Member of the Supervisory Board
Luis Lada Díaz	Member of the Supervisory Board
Maria Pilar López Álvarez	Member of the Supervisory Board
Dušan Stareček	Member of the Supervisory Board
Enrique Used Aznar	Member of the Supervisory Board
Ángel Vilá Boix	Member of the Supervisory Board

Personnel composition of the Audit Committee of Telefónica O2 Czech Republic (As at 1 August 2010)

Name	Function
Alfonso Alonso Durán	Chairman of the Audit Committee
María Eva Castillo Sanz	Vice-Chairman of the Audit Committee
Pavel Herštík	Member of the Audit Committee
Maria Pilar López Álvarez	Member of the Audit Committee
Jaime Smith Basterra	Member of the Audit Committee
Enrique Used Aznar	Member of the Audit Committee

Personnel composition of the Board of Directors of Telefónica O2 Czech Republic (As at 1 August 2010)

Name	Function
Luis Antonio Malvido	Chairman of the Board of Directors
Jesús Pérez de Uriguen	1st Vice-Chairman of the Board of Directors
Petr Slováček	2nd Vice-Chairman of the Board of Directors
Martin Bek	Member of the Board of Directors
John Gerald McGuigan	Member of the Board of Directors
Jakub Chytil	Member of the Board of Directors
Jose Severino Perdomo Lorenzo	Member of the Board of Directors

Executive macrostructure of Telefónica O2 Czech Republic, a.s. (As at 1 August 2010)

Name	Function
Luis Malvido	Chief Executive Officer
Jésus Pérez de Uriguen	Director, Finance Division
Petr Slováček	Director, Operations Division
Martin Bek	Director, Support Units
Jiří Dvorjančanský	Director, Marketing Division
Jakub Chytil	Director of Legal & Regulatory Affairs, Director, Company Secretary
Jose Severino Perdomo Lorenzo	Director, Consumer Division
Stanislav Kůra	Director, Strategy and Business Development
František Schneider	Director, Business Division
David Šita	Director, Strategic Account Division
Michal Urválek	Director, Human Resources and Employee Communication

Financial part

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General information

Telefónica O2 Czech Republic, a.s. Group (the "Group") consists of Telefónica O2 Czech Republic, a.s. (the "Company") and its subsidiaries: Telefónica O2 Slovakia, s.r.o., Telefónica O2 Business Solutions, spol. s r.o. (formerly Telefónica O2 Services, spol. s r.o.), CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH.

The Company has a form of a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Za Brumlovkou 266/2, Prague 4, 140 22, Czech Republic.

The Group is a member of the Telefónica Group of companies (the "Telefónica Group") with a parent company, Telefónica, S.A. (the "Telefónica").

The Company is the principal supplier of fixed line telecommunication services and is one of the four suppliers of mobile telephone services in the Czech Republic.

The Company's shares are traded on the Prague Stock Exchange and London Stock Exchange (GDRs).

These condensed consolidated financial statements were not audited.

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2010

In CZK million	Notes	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Revenue	1	27,908	29,803
Gains from sale of non-current assets		(3)	356
Internal expenses capitalized in fixed assets		310	391
Operating expenses		(16,993)	(16,837)
Impairment loss		(13)	(20)
Depreciation and amortisation		(5,733)	(6,234)
Operating profit	1	5,476	7,459
Interest income		34	108
Interest expense		(132)	(141)
Other finance expense (net)		(23)	(99)
Profit before income tax	1	5,355	7,327
Taxes on income	2	(1,001)	(1,605)
Profit for the year	**1**	**4,354**	**5,722**
Other comprehensive income			
Translation differences		(59)	103
Other comprehensive income, net of tax		**(59)**	**103**
Total comprehensive income, net of tax		4,295	5,825
Profit attributable to:			
Equity holders of the Company		4,354	5,722
Total comprehensive income attributable to:			
Equity holders of the Company		4,295	5,825
Earnings per share (CZK) – basic*		14	18

* There is no dilution of earnings as no convertible instruments have been issued by the Company.

Interim consolidated statement of financial position

As at 30 June 2010

In CZK million	Notes	30 June 2010	31 December 2009
ASSETS			
Property, plant and equipment		54,523	57,545
Intangible assets		21,980	22,477
Investment in associate		9	9
Other financial assets		333	285
Non-current assets		**76,845**	**80,316**
Inventories		473	618
Receivables and prepayments		8,962	9,773
Income tax receivable		874	697
Cash and cash equivalents	6	8,373	1,269
Current assets		**18,682**	**12,357**
Non-current assets classified as held for sale		**161**	**95**
Total assets		**95,688**	**92,768**
EQUITY AND LIABILITIES			
Ordinary shares		32,209	32,209
Share premium		24,374	24,374
Retained earnings, funds and reserves		8,721	17,296
		65,304	**73,879**
Minority interest		–	–
Total equity		**65,304**	**73,879**
Long-term financial debts		2,956	3,044
Deferred taxes		3,060	3,333
Non-current provisions for liabilities and charges		24	24
Non-current other liabilities		30	21
Non-current liabilities		**6,070**	**6,422**
Short-term financial debts		191	87
Trade and other payables		23,613	12,092
Provisions for liabilities and charges		510	288
Current liabilities		**24,314**	**12,467**
Total liabilities		**30,384**	**18,889**
Total equity and liabilities		**95,688**	**92,768**

Interim consolidated statement of changes in shareholders' equity

For the six months ended 30 June 2010

In CZK million	Notes	Share capital	Share premium	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2009		**32,209**	**24,374**	**(206)**	**47**	**6,452**	**15,292**	**78,168**
Currency translation differences – amount arising in year		-	-	103	-	-	-	103
Net income and expense recognised directly in equity		-	-	103	-	-	-	103
Net profit	1	-	-	-	-	-	5,722	5,722
Total comprehensive income		**-**	**-**	**103**	**-**	**-**	**5,722**	**5,825**
Capital contribution		-	-	-	10	-	-	10
Dividends declared in 2009	3	-	-	-	-	-	(16,104)	(16,104)
At 30 June 2009		**32,209**	**24,374**	**(103)**	**57**	**6,452**	**4,910**	**67,899**
At 1 January 2010		**32,209**	**24,374**	**(55)**	**38**	**6,452**	**10,861**	**73,879**
Currency translation differences – amount arising in year		-	-	(59)	-	-	-	(59)
Net income and expense recognised directly in equity		-	-	(59)	-	-	-	(59)
Net profit	1	-	-	-	-	-	4,354	4,354
Total comprehensive income		**-**	**-**	**(59)**	**-**	**-**	**4,354**	**4,295**
Capital contribution and other transfers		-	-	-	14	-	-	14
Dividends declared in 2010	3	-	-	-	-	-	(12,884)	(12,884)
At 30 June 2010		**32,209**	**24,374**	**(114)**	**52**	**6,452**	**2,331**	**65,304**

Interim consolidated statement of cash flow

For the six months ended 30 June 2010

Until 2009, the Group used indirect method for reporting cash flow from operating activities. Since year 2010, the Group presents cash flows from operating activities using the direct method as changed presentation is more appropriate. For cash flow from investing activities and cash flow from financing activities, direct method was used for both years 2009 and 2010.

In CZK million	Notes	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Cash from operating activities			
Cash received from operations		29,476	32,044
Cash paid to suppliers and employees		(17,994)	(19,645)
Dividends received		3	–
Net interest and other financial expenses paid		(20)	82
Taxes paid		(1,466)	(2,103)
Net cash from operating activities		**9,999**	**10,378**
Cash flow from investing activities			
Proceeds on disposals of property, plant and equipment and intangible assets		49	849
Payments on investments in property, plant and equipment and intangible assets		(2,980)	(5,094)
Net cash used in investing activities		**(2,931)**	**(4,245)**
Cash flow from financing activities			
Dividends paid		34	33
Proceeds on loans, borrowings and promissory notes		–	943
Cancellation of debentures and bonds		–	(5)
Repayments of loans, borrowings and promissory notes		**–**	**(115)**
Net cash used in financing activities		**34**	**856**
Effect of foreign exchange rate changes on collections and payments		**2**	**(283)**
Net increase / (decrease) in cash and cash equivalents during the period		**7,104**	**6,706**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,269**	**7,116**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**6**	**8,373**	**13,822**
BALANCE AT THE BEGINNING OF THE PERIOD		**1,269**	**7,116**
Cash on hand and at banks		1,251	6,696
Other cash equivalents		18	420
BALANCE AT THE END OF THE PERIOD		**8,373**	**13,822**
Cash on hand and at banks		8,348	13,817
Other cash equivalents		25	5

Accounting policies

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Basis of preparation

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

The consolidated financial statements were prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group´s annual financial statements as at 31 December 2009.

The amounts shown in these consolidated financial statements are presented in millions Czech Crowns ("CZK"), if not stated otherwise.

A) Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 December 2009.

B) Change in accounting policy

No significant changes in accounting policies were applied in the interim period of 2010 and 2009.

C) Seasonality of operations

There is no seasonal nature either in fixed line segment or mobile telecommunication segment. Telecommunication business of the Group is not regarded as highly seasonal.

Notes to the interim condensed consolidated financial statements

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1) Segment information

Business segments recognised by the Group are as follows:

— Fixed – network communications services using a fixed network and IS/ICT services provided by the Company and other consolidated subsidiaries,
— Mobile – mobile communications services provided by the Company and by Telefónica O2 Slovakia, s.r.o.

For the six months ended 30 June 2010 In CZK million	Fixed	Mobile*	Group
Revenues	12,587	15,727	28,314
Inter-segment sales	(171)	(235)	(406)
Total consolidated revenues	12,416	15,492	27,908
Operating profit	**1,529**	**3,947**	**5,476**
Interest and other financial costs (net)			(121)
Profit before tax			5,355
Tax			(1,001)
Profit after tax			4,354
Minority interest			–
Net profit			**4,354**
As at 30 June 2010			
Assets (excluding goodwill and non-current assets held for sale)	52,220	29,859	82,079
Goodwill	128	13,320	13,448
Non-current assets held for sale	161	–	161
Total assets	**52,509**	**43,179**	**95,688**

* Standalone Revenues of Telefónica O2 Slovakia, s.r.o. of CZK 1,256 million included.

For the six months ended 30 June 2009 In CZK million	Fixed	Mobile*	Group
Revenues	13,543	16,786	30,329
Inter-segment sales	(207)	(319)	(526)
Total consolidated revenues	13,336	16,467	29,803
Operating profit	**2,502**	**4,957**	**7,459**
Interest and other financial costs (net)			(132)
Profit before tax			7,327
Tax			(1,605)
Profit after tax			5,722
Minority interest			-
Net profit			**5,722**
As at 31 December 2009			
Assets (excluding goodwill and non-current assets held for sale)	58,947	34,193	93,140
Goodwill	128	13,320	13,448
Non-current assets held for sale	57	-	57
Total assets	**59,132**	**47,513**	**106,645**

* Standalone Revenues of Telefónica O2 Slovakia, s.r.o. of CZK 876 million included.

Revenue of the Group is predominantly derived from domestic trading activities and as a result, segment reporting is only shown on the basis of business segments.

The inter-segment pricing rates applied in 2010 and 2009 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

2) Income tax

In CZK million	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Total income tax expense is made up of:		
Current income tax charge	1,275	1,704
Deferred income tax credit	(274)	(99)
Taxes on income	1,001	1,605

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. For 2009 and 2010 19% applied.

3) Dividends proposed

In CZK million	30 June 2010	30 June 2009
Dividends declared (including withholding tax)	12,884	16,104

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2009 and 2010. Approval of the 2009 and 2008 profit and the decision regarding the amount of any dividend payment for these financial years took place at the Annual General Shareholders Meeting on 7 May 2010 (2009: 3 April 2009). Pursuant to the decision of the Annual General Shareholders Meeting the dividend for 2009 profit will be paid out on 6 October 2010.

4) Property plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired assets with a cost of CZK 1,799 million (2009: CZK 1 934 million) Assets with a net book value of CZK 6 million were disposed of by Group during the six months ended 30 June 2010 (2009: CZK 129 million).

The Group achieved a total gain from the sale of the above fixed assets (including assets held for sale) amounting to CZK 13 million (2009: CZK 356 million) and total losses in amount CZK 18 million (2009: 2 CZK million) during the six months ended 30 June 2010.

5) Intangible fixed assets

Acquisitions and disposals
During the six months ended 30 June 2010, the Group acquired assets with a cost of CZK 580 million (2009: CZK 971 million).

6) Cash and cash equivalents

In CZK million	30 June 2010	31 December 2009
Cash at current bank accounts	243	169
Cash at cash-pooling structures (inter-company)	8,130	1,100
Total cash and cash equivalents	8,373	1,269

As at 30 June 2010, the Group had available equivalent of CZK 4,189 million (at 31 December 2009: CZK 4,115 million) of undrawn committed facilities.

As of 30 June 2010 and 31 December 2009 no cash and cash equivalents were pledged.

7) Inventories

As at 30 June 2010 the inventories are stated net of an allowance of CZK 64 million (as at 31 December 2009: CZK 68 million), reducing the value of the inventories to their net realisable value.

8) Restructuring costs

During the six months period ended 30 June 2010 restructuring costs of CZK 427 million have been recognised for the redundancy payments.

9) Contingencies

The Company has been a party to several business lawsuits. In 2009, the Company managed to successfully conclude a number of significant litigations opened in previous years. Compared to the 2009 Annual Report the following has changed:

1) The litigation initiated by Vodafone Czech Republic, a.s. was finally closed. In May 2004, Vodafone filed a legal action due to an alleged breach of the Comlegal action Protection Act by Eurotel Praha, spol. s r.o. for damages in the amount of CZK 1,043 million. The Municipal Court in Prague completely rejected the unsubstantiated legal action as unjustified on 21 August 2008. Moreover, Vodafone Czech Republic, a.s. failed to succeed with its appeal filed with

the High Court in Prague, which finally confirmed with its adjudication of 6 October 2009 that the rejection of the legal action had been correct. Vodafone Czech Republic, a.s. did not file an extraordinary appeal against the judgements.

2) AUGUSTUS spol. s r.o. sued the Company, claiming for an alleged loss of profit in years 1995–2001 in the amount of approximately CZK 183 million, incl. appurtenances. AUGUSTUS spol. s r.o. claims that the Company unlawfully terminated the contract for phone cards issuance which had been concluded for an indefinite period of time. Based on the adjudication, the Company paid CZK 83 million in August 2006 including interest (in total CZK 139 million). Both parties filed an extraordinary appeal against this judgement. The Supreme Court cancelled the previous decisions in June 2009. The Municipal Court in Prague completely rejected the legal action against the Company in April 2010.

3) Subsequently, AUGUSTUS spol. s r.o. sued the Company again for the amount of CZK 294 million. The legal action was based again on the contract for phone cards issuance between the Company and AUGUSTUS spol. s r.o. that was terminated 13 years ago. AUGUSTUS spol. s r.o. has tried to put forward other claims in this legal action that have no substantiation in law or are even contradictory. Considering the Supreme Court's adjudication and the Municipal Court's resolution in the previous case, it is obvious that AUGUSTUS spol. s r.o. cannot be successful in this case either.

4) In January 2010, the Company was sued by MEDIATEL for damages in the amount of CZK 359 million. The companies MEDIATEL and Telefónica O2 Czech Republic, a.s. cooperated from 1992 until 2008 in the area of telephone directory publishing. As the universal service provider, the Company was obliged to publish a printed phone directory based on the provision of Sec. 38 (2)(c) and 41(1) of the ECA.

To comply with the obligation, SPT TELECOM, the Company's legal predecessor, made a contract for telephone directory publishing with MEDIATEL that was later replaced by other contracts which were in force until the end of 2008.

Although MEDIATEL had been profiting from being associated with the traditional and publicly recognized brand Telefónica O2 Czech Republic (previously ČESKÝ TELECOM and SPT TELECOM) for 16 years, in 2010 MEDIATEL surprisingly sued the Company for damages. MEDIATEL based its claim on an alleged unlawful unreasonable price conditions in the contracts for telephone directory publishing within the regime of universal service.

The Company is convinced that it has not breached any of the disputed obligations and caused any damage to MEDIATEL as a result. The litigation is in its starting phase and the Company assumes that it would be inappropriate to provide any other information at this stage, as it might compromise the Company's position in this litigation.

The Company's executive management believes that all risk associated with any ongoing disputes is appropriately reflected in the financial statements.

10) Commitments

Operating leases

The aggregate future minimum lease payments under operating leases are as follows:

In CZK million	30 June 2010	31 December 2009
No later than 1 year	1,403	1,453
Later than 1 year and not later than 5 years	4,705	4,900
Later than 5 years	3,841	4,747
Total	9,949	11,100

Capital and other commitments

In CZK million	30 June 2010	31 December 2009
Capital and other expenditure contracted but not provided for in the financial statements	4,741	5,422

The majority of contracted amounts relate to the telecommunications network and service contracts.

11) Related party transactions

The Group provides services to all related parties on normal commercial terms. Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are unsecured, interest free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial assets balances are tested for the impairment at the balance sheet date, and no allowance or write off was incurred.

The following transactions were carried out with related parties:

I. Parent company:

There was no dividend paid as at 30 June 2010 or 2009 to Telefónica, S.A. The dividend payable to Telefónica, S.A. is in the amount of CZK 8,943 million (31 December 2009: CZK 0).

For the six months ended 30 June 2010 the royalty fees to Telefónica, S.A. amounted to CZK 423 million (for the six months ended 30 June 2009: 379 CZK million).

II. Other related parties – Telefónica Group:

Balance sheet In CZK million	30 June 2010	31 December 2009
a) Receivables	349	581
b) Payables (excl. dividend payable)	575	874
d) Short-term receivables (interest)	6	–
e) Cash equivalents (Note 6)	8,130	1,100

Comprehensive income In CZK million	For the six months ended 30 June 2010	For the six months ended 30 June 2009
a) Sales of services and goods	402	432
b) Purchases of services and goods	344	234
c) Interest income	22	101
d) Interest expense	–	31

The capital purchases for the six months ended 30 June 2010 amounted to 0 CZK million (for the six months ended 30 June 2009: 9 CZK million).

The list of the Telefónica companies with which the Company had any transaction in 2010 and 2009 includes the following entities: Telefónica S.A., Telefónica de España, S.A.U., Telefónica O2 Germany GmbH& CO.OHG, Telefónica O2 UK Ltd., Telefónica O2 Ireland Ltd., Telefónica Móviles España, S.A.U., Telefónica Móviles Argentina, S.A., Pléyade Peninsular, O2 Holdings Ltd., Manx Telecom Ltd., Telefónica Móviles Guatemala, S.A., Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Panamá, S.A., Telefónica Móviles Chile, S.A., Otecel, S.A., Telefónica Móviles Nicaragua, S.A., Telefónica Móviles Columbia, S.A., Telefónica S. de Informática y Comunicaciones de España, S.A.U., Telefónica Investigación y Desrrollo, S.A., Portugal Telecom, S.G.P.S., S.A., Telecom Italia S.p.A., Telfisa Global, BV., Telefónica Finanzas, S.A., Telefónica International Wholesale Services, Telefónica International Wholesale Services II, S.L., Telefónica Gestión de Servicios Compartidos, S.A., Telefónica Factoring E.F.C., S.A., Atento Chequia, Telefónica Compras Electrónica, S.L., Telefónica Móviles Mexico, S.A, Telefónica Móviles del Uruguay, S.A., Telefónica Móviles Peru, S.A., Telefónica Venezuela, S.A., China Unicom (Hong Kong) Limited, Telefónica O2 Business Solutions, spol. s r.o., CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, Telefónica O2 Slovakia, s.r.o., Telefónica Global Roaming GmbH.

a) Key management compensation
Members of the Board of Directors and of the Supervisory Board of the Telefónica O2 Czech Republic, a.s. were provided with benefits as follows:

In CZK million	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Salaries and other short-term benefits	57	43
Personal indemnification insurance	3	2
Total	60	45

b) Loans to related parties
There were no loans provided to members of Board of Directors and Supervisory Board in 2010 and 2009.

As at 31 December 2008 Telfisa Global, BV. has provided a loan in the amount of CZK 3,194 million to Telefónica O2 Slovakia, s.r.o. The loan has bore a floating interest based on 1M BRIBOR. As of 30 June 2009 the total interest expense was CZK 31 million. The loan was repaid in July 2009 together with related interest.

No other loan was provided to related parties by the Group.

12) Principal subsidiary undertakings

		Group's interest	Cost of investment in CZK million	Country of incorporation	Activity
Subsidiaries					
1.	Telefónica O2 Business Solutions, spol. s r.o. (formerly Telefónica O2 Services, spol. s r.o., merged with DELTAX Systems a.s.)	100 %	237	Czech Republic	Network and consultancy services in telecommunications, IT/ICT services
2.	CZECH TELECOM Germany GmbH	100 %	13	Germany	Data transmission services
3.	CZECH TELECOM Austria GmbH	100 %	11	Austria	Data transmission services
4.	Telefónica O2 Slovakia, s.r.o.	100 %	6,116	Slovakia	Mobile telephony, internet and data transmission services
Associates					
5.	První certifikační autorita, a.s.	23 %	9	Czech Republic	Rendering of certification services
6.	AUGUSTUS, spol. s r.o.	40 %	–	Czech Republic	Sales by auctions and advisory services

Following the Resolution of sole participant of Telefónica O2 Slovakia, s.r.o., the increase of the registered capital by a monetary investment in the amount of EUR 40 million from the amount of the registered capital of EUR 200 million to the amount of the registered capital of EUR 240 million was approved. Effective date of increase of the registered capital was 6 May 2010.

13) Events after the statement of financial position date

There were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 30 June 2010.

Other information for shareholders and investors

The main shareholders of Telefónica O2 as at 30 June 2010:

Telefónica, S.A.	69,41 %
Investment funds and individual shareholders	30,59 %

Trading in Telefónica O2 shares

The volume of trading in Telefónica O2 shares on the stock market of the Prague Stock Exchange (PSE) in the first half of 2010 reached CZK 21.1 billion, compared to CZK 32.3 billion in the first half of 2009. This indicator ranked the company's shares among the top five blue chip stock and accounted for approximately 10% of all trades. The average volume of trades fell from CZK 256.5 million for the first half of 2009 to CZK 161.6 million in the first half of 2010. As at 30 June 2010, the market capitalisation of the company reached CZK 131.7 billion. Measured by this indicator, Telefónica O2 ranks third among the companies listed on the PSE stock market and accounts for 10.5% of the total market capitalisation of the PSE stock market.

From the beginning of the year until 30 June 2010, the share price of Telefónica O2 fell 2.2% to CZK 409. The performance of the PSE stock market as measured by the PX index declined 1.3% over the same period and reached 1,103.9 points. The share price of Telefónica O2 reached its maximum CZK 452.5 in the first half of 2010 on 17 February 2010.

General Meeting

An Ordinary General Meeting of the company was held in Prague on 7 May 2010. The main conclusions of the General Meeting are recapitulated in the Section Corporate Governance of this Half-year Report.

Dividends

At the Ordinary General Meeting, the shareholders approved a dividend payment from the 2009 net profit and from the retained earnings, in the total amount of CZK 12,388.8 million, i.e. CZK 40 per share of nominal value of CZK 100 and CZK 500 per share of nominal value CZK 1,000, before tax. The record day for the payment of dividends will be 8 September 2010, and the disbursement date 6 October 2010. The dividends will be paid out by Česká spořitelna. After the record date, Česká spořitelna will inform all recorded shareholders in writing of the method of disbursement.

Institutional relations and shareholders may contact

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Declaration of competent persons responsible for Half-Year Report

Luis Antonio Malvido, Chairman of the Board of Directors and Chief Executive Officer of Telefónica O2 Czech Republic, a.s.

Jesús Pérez de Uriguen, 1st Vice-chairman of the Board of Directors and Director, Finance Division of Telefónica O2 Czech Republic, a.s.

hereby declare that, to their best knowledge, the consolidated Half-Year Report gives a true and faithful reflection of the financial situation, business activity and the results of the Company and its consolidated whole for the past half-year, and of the outlook on the future development of the financial situation, business activity and the results of the Company and the its consolidated whole.

Luis Antonio Malvido
Chairman of the Board of Directors
and Chief Executive Officer

Jesús Pérez de Uriguen
1st Vice-chairman of the Board
of Directors and Director,
Finance Division

Glossary of terms and acronyms

ADSL Asymmetric Digital Subscriber Line

ARPU an indicator – average monthly revenues from services per user, excluding roaming visitors

BlackBerry a mobile office solution from Telefónica O_2 designed for mobile corporate customers

BTS Base Transceiver Station for relaying signal to mobile telephones

CDMA Code Division Multiple Access, a modern digital technology for wireless data and broadband internet

CSR Corporate Social Responsibility

CTO Czech Telecommunications Office

DSLAM Digital Subscriber Line Access Multiplexer; a gateway to the network of ADSL access provider

e-účet a service offering online access to the fixed line billing balance

EDGE Enhanced Data Rates for GSM Evolution, a mobile digital technology with a faster and more reliable data transmission

FTP File Transfer Protocol; a platform-independent protocol for the transfer of files between computers

GPRS General Packet Radio Service, a technology for mobile data transmission

GSM Global System for Mobile Communication; the most widely deployed digital wireless communication standard for the digital mobile system which globally uses frequencies of 450, 900, 1,800 and 1,900 MHz, and frequencies of 900 and 1,800 MHz in the Czech Republic

HSCSD High-Speed Circuit-Switched Data, a technology for mobile data transmission in the GSM network

HSDPA High Speed Downlink Packet Access, a superstructure technology for data transmission in the UMTS network, with speeds from 8 to 10 Mb/s

HTTP Hypertext Transfer Protocol; an internet protocol for exchanging hypertext documents and other HTML content

ICT Information and Communication Technologies

IFRS International Financial Reporting Standards

IMAP Internet Message Access Protocol an internet protocol for remote access to email

IP Connect a service for communication using the IP protocol

IPsec (IP security) a security enhancement to the IP protocol

IPTV Internet Protocol Television; a television signal broadcast over broadband networks using the IP protocol

IP VPN Internet Protocol Virtual Private Network, a service of intra-corporate data or voice over IP communication

LAN Local Area Network a local network for communication between computers in the network

LTE Long Term Evolution for UMTS; the latest concept of data transmission technology in the 3rd generation mobile networks

MMS a multimedia format for mobile data transmission

My Europe a mobile tariff of Telefónica O_2, with free-of-charge incoming calls for roaming users

My Europe SMS a mobile tariff of Telefónica O_2, with free-of-charge incoming calls for roaming users

NMT Nordic Mobile Telephony, a technology standard for mobile telephony networks using the 450 MHz frequency

O_2 Business Unlimited a tariff of Telefónica O_2 for business customers, offering unlimited calls to all fixed line and mobile network free of charge, as part of the monthly subscription

O_2 Business Nonstop Max a tariff of Telefónica O_2 for business customers, offering free calls within the O_2 mobile network and to all fixed line networks in the Czech Republic

O_2 Duo a converged service of Telefónica O_2 combining unlimited calls to fixed line networks in the Czech Republic with O_2 Internet ADSL or O2TV, all as part of one monthly subscription

O_2 Duo Mobil a converged service of Telefónica O_2 combining, as part of one monthly subscription, O_2 Internet ADSL and a mobile voice tariff; the fixed line rental fee is already included

O_2 Fér a service of Telefónica O_2 Slovakia, offering a single rate on calls and SMS for the customers of prepaid and contract services, without s monthly subscription fee

O_2 Internet ADSL a broadband internet access service of Telefónica O_2, formerly branded O_2 Internet Expres

O_2 Internet Komplet a service of Telefónica O_2 combining fixed line and mobile services

O_2 Internet Mobil a CDMA mobile service of Telefónica O_2

O_2 [:kůl:] a service of Telefónica O_2 with fee SMS

O_2 SIM to SIM a service of Telefónica O_2 with free calling within a group of up to seven friends

O_2 Neomezená linka the first VoIP service of Telefónica O_2 for business customers

O_2 Neon a family of flat rate tariffs

O_2 Friends a service of Telefónica O_2 with a 10% discount on calls to five numbers

O_2 Trio a converged service of Telefónica O_2 combining O_2 Internet ADSL, O_2 TV and unlimited calls to fixed networks in the Czech Republic, all for one monthly fee

O_2 TV an IPTV service of Telefónica O_2; digital television over a fixed line

O_2 TXT a mobile tariff of Telefónica O_2 designed for prepaid customers who prefer to communicate via SMS and MMS

OIBDA Operating Income before Depreciation and Amortisation

Platí to Kvído a service of Telefónica O_2 which lets customers call for free for a duration of one minute

POP3 Post Office Protocol version 3; an internet protocol used for downloading email messages by the client remotely from the server

RSU Remote Subscriber Unit

SMS Short Message Service; a format of short messages used in mobile telephony

UMTS Universal Mobile Telecommunications System; a standard for the so-called 3rd generation mobile networks

VoIP Voice over Internet Protocol

VPN Virtual Private Network

VPN Expres an IP VPN data service of the former ČESKÝ TELECOM; it is based on the ADSL access technology with aggregation, and the MPLS backbone network

WAN Wide Area Network; a wider computer network giving remote branches full access to data and providing for communication between the headquarters and the branches and within the branch network

WAP Wireless Application Protocol, a protocol for displaying selected web pages on a mobile telephone display

WiFi a local wireless network for accessing the internet

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CAUTIONARY STATEMENT: Any forward-looking statements concerning the future economic and financial performance of Telefónica O2 Czech Republic, a.s. contained in this Half-Year Report are based on assumptions and expectations of the future development of factors having material influence on the future economic and financial performance of Telefónica O2 Czech Republic, a.s. These factors include, but are not limited to, public regulation in the telecommunications sector, the future macroeconomic situation, and the development of market competition and related demand for telecommunications and other services. The actual development of these factors, however, may be different. Consequently, the actual future results of the economic and financial performance of Telefónica O2 Czech Republic, a.s. could materially differ from those expressed in the forward-looking statements contained in this Half-Year Report.