Half-Year Report

2012

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

Telefónica Czech Republic, a.s. here and throughout the Report as well as Telefónica CR or the Company.

Content

01 Letter from the Chairman of the Board of Directors

Letter from the Chairman of the Board of Directors 01

To Our Shareholders

Let me review the activities and results of the Telefónica Czech Republic1 Group in the first half of 2012.

I am pleased that, despite the highly competitive market environment and the still challenging economic climate, we are on a good track to delivering on our full year targets which we communicated at the beginning of the year. Instrumental in that is our portfolio of products and services, which is popular with customers, and the successful execution of several projects focused on reducing the churn rate and our customers' consumption. We also continued in the transformation of our business in order to maintain its high operating efficiency. With respect to all this, I regard our results for the past half-year as very good.

In the mobile segment we maintained a strong growth in the contract customer base due to new customers signing up, migrating customers from the prepaid service and reducing the rate of churn. The churn rate in the second quarter was less than 0.9%, which is the lowest in last three years. This result has been driven by our successful retention and customer care initiatives, which also delivered a growth of 64 thousand in the number of contract customers in the first half of the year. Observing the market trends and the growing demand from customers for smartphones, we continued with our marketing activities supporting the sale of these devices. The share of our mobile customers using smartphones in the total mobile customers was already 23% at the end of June. We brought to the market a new range of tariffs SMART NEON, which combines voice, unlimited on-net SMS and Internet in Mobile. We believe that this service, which responds to the growing demand for mobile internet, will help us maintain our customer base and revenues. In addition, just before the summer time, we introduced a new roaming tariff offering one rate for all incoming and outgoing calls as well as SMS in all EU and some other most visited countries in Europe. This rate is the best in market and I believe it will help us to foster roaming traffic and revenues.

In the fixed access segment we continued to offer broadband internet based on the VDSL technology. Our existing customers with ADSL connections willingly migrated to VDSL, which helped us manage the pressure of the ARPU (average revenue per user) in broadband internet, and reduce the churn.

The popularity of our VDSL proposition has been clearly reflected in 80% fixed data traffic growth in comparison with periods before its launch. The growth in the number of customers using the so-called naked broadband internet also slowed down the rate of decline in the number of fixed lines. In the first half of the year, their number went down by 42 thousand, which is 28.5% less than in the same period last year. In the area of ICT services we continue to focus on and market our proposition of off-the-shelf and customised ICT solutions to corporate customers (managed services, cloud solutions, network security, virtual desktop), with the view of reducing our dependency on one-off projects for the government. This will help stay on the path of revenue growth and improve our profitability in the future. Additionally, our competitive advantage of having O2 Exclusive in our portfolio and the global know-how of Telefónica in this area, which generates economies of scale, are beginning to show in our results.

In Slovakia we continued with the successful marketing of our simple and transparent tariffs. New services for higher-consumption customers were added to the portfolio. A new tariff O2 Paušál gives the customer the benefit of free unlimited SMS, a bonus towards a purchase of a mobile phone and flat rates to all local networks. This assured that Telefónica Slovakia could again report a strong customer base growth for the first half of the year, together with improved financial performance. Its results augment the consolidated results of the Telefónica CR Group and reflect positively on the Group's financial performance.

In the first half of 2012 we continued in the transformation of our business so that we can better manage the operating expenditure in all its areas. We completed the next phase of the restructuring programme, which focuses on the implementation of a more effective organisation structure through reducing the number of hierarchical levels of management across the company. We also focused on making our processes more efficient and simple. I regard these actions as key, given the present pressures on our revenues. I am confident that they will help us remain highly profitable in our operations; the improved operating profitability will be a boost to our competitiveness and will help us retain the value in our business.

Reviewing our financial results I am pleased to see that the improving revenue trends, which we registered already in the second half of last year, carried on also in this half-year. The improved situation is the result of the stabilisation of the consumption of mobile services in the residential segment as a result of our retention and customer value management efforts. The positive trend in the mobile non-SMS data revenues and the continued strong revenue growth in Slovakia generated a positive effect. The competitive pressures in the SME and corporate segments, on the other hand, continued to adversely affect our mobile revenues. Still, the rate of decline in the consumption in these two segments did slow down as a result of our initiatives in the area of customer value management and of the O2 Exclusive proposition.

The consolidated business revenues went down 2.8% in the first half of the year to CZK 25.2 billion. In the second quarter alone, however, the revenues declined only 2.4%, which is an improvement in the fourth consecutive quarter. The Czech mobile segment revenues recorded a 4.5% drop to CZK 12.3 billion, while the fixed access revenues dropped 6.3% year on year in the first half of the year, down to CZK 10.6 billion. Revenues in Slovakia increased 27% to EUR 92.8 million. Operating profit OIBDA saw a 5.8% year-on-year drop to CZK 9.7 billion. The OIBDA margin excluding brand and management fees was a solid 40.5%, which is the result of our commitment to operating efficiency, improved profitability in Slovakia, the positive effect of the sale of our 80% share in our subsidiary

Informační linky and the higher commercial costs invested in future growth. Investments amounted to CZK 2.2 billion, and were directed mostly in building up the capacity and quality of our 3G network including backhaul network, improvements in the quality of our fixed broadband network and selected improvements in the optical fibre network.

With regard to the results achieved in the first half and the outlook for the second half of the year, I am pleased to be in the position to confirm our year-end targets: we expect the revenues to decline at a rate slower than 5.7%, which we experienced in 2011, a limited drop in the OIBDA margin excluding brand fees and management fees, and our investments to fit within the limit of CZK 6.2 billion, which represents roughly a 10% growth on the year 2011.

Luis Malvido

Luis Malvido
Chairman of the Board of Directors

02 Calendar of key events of the first half of 2012

Calendar of key events of the first half of 2012

02

January

Telefónica CR started cooperation with Ogilvy One and Euro RSCG in the area of BTL communication.

Telefónica CR expanded service from its call centres in Ústí nad Labem and Ostrava, creating 210 new jobs.

February

Telefónica CR published its audited consolidated financial results prepared under International Financial Reporting Standards for the fiscal year 2011. Consolidated business revenues reached CZK 52.3 billion; the net profit went down to CZK 8.7 billion.

Telefónica CR signed a contract to sell 80% of shares in Informační linky, a.s. The contract also contained an option to sell the remaining 20% stake.

The Supervisory Board of the Company appointed Ramiro Lafarga Brollo as a new member of the Board of Directors to succeed John McGuigan. Ramiro Lafarga Brollo at the same time stays as Chief Executive Officer of the subsidiary Telefónica Slovakia, s.r.o.

Telefónica CR joined an international initiative for safer internet, and published a practical guide for parents on how to protect children from the risks in the digital world; the guide is available from the Company's website.

March

All lights in Telefónica CR went out for an hour as a gesture of the Company's support to the Earth Hour, the world's largest initiative against climate change.

Telefónica CR pledges a guarantee of the lowest prices of new mobile handsets to customers.

April

A Regular General Meeting of shareholders of Telefónica CR was held. The shareholders approved, among other things, a proposal of the Board of Directors to reduce the share capital through the reduction of the nominal value of each share by CZK 13 for shares with the previous nominal value of CZK 100.

O2 TV Videotheque marked three million downloaded programmes.

Telefónica CR came out with its O2 Guru concept. O2 Gurus help people with new technology in store and are on a mission to motivate people to use it to its full potential.

O2 Experience Centre, the most modern and the largest brand store in the Czech Republic, opened in Chodov, Prague.

May

Acting on a mandate given by the General Meeting and the Board of Directors, Telefónica CR retained UniCredit Bank AG, London Branch, to execute the plan to acquire the Company's own shares (share buy-back).

Telefónica CR, as one of the leading systems integrators in the Czech Republic, forged a partnership with the business incubator of Inovacentrum of the Czech Technical University (ČVUT).

The Company expanded its data tariff proposition and introduced a special tariff Facebook with economical access to the world's largest social network.

Telefónica CR gave its support to Campus Party Europe, the largest technology festival, which showcases and develops modern technology that could help Europe.

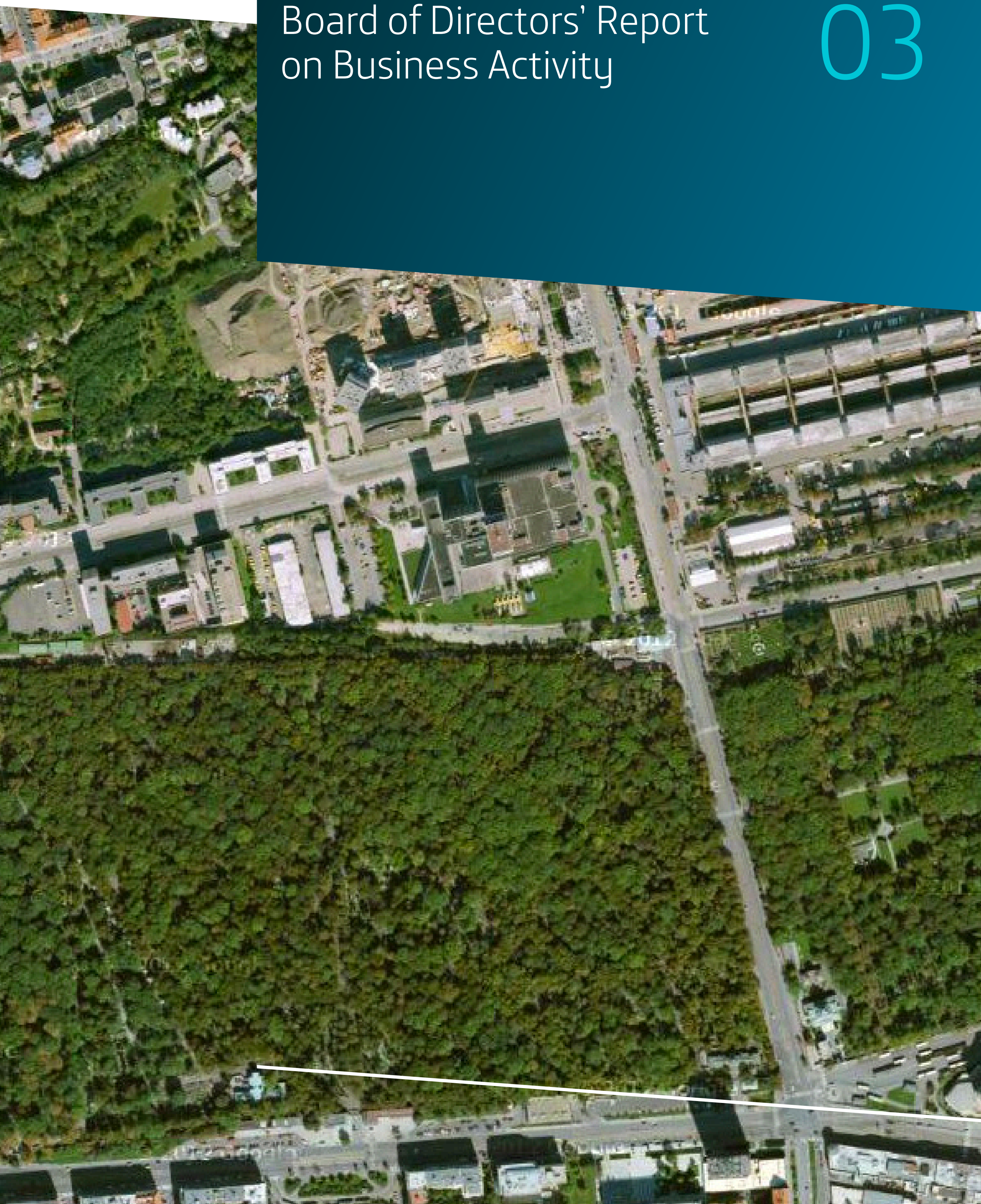
June

Telefónica CR was the first Czech operator to launch an LTE (Long Term Evolution) the fourth generation mobile communication network as the first Czech operator.

Telefónica CR implemented an electronic billing function with a free itemized bill for its new customers.

Telefónica CR commenced the testing of eCall – a service of automatic emergency 112 calling from passenger vehicles.

03 Board of Directors' Report on Business Activity



Board of Directors' Report on Business Activity

03

The Czech telecommunications market in the first half of 2012

The telecommunications market in the Czech Republic witnessed a slight decline in the first six months of 2012; the gradual recovery of the market demand, continuous competitive pressures and regulatory impact were the key reasons.

The mobile market was dominated by new and innovative services – mainly data, abut also voice.

For the overview of the key new services and products of Telefónica CR, please refer to Sectio 3.2.2.

Effective from 28 May 2012, MobilKom, a.s. introduced 'Calling for One Crown', a tariff which, for CZK 200 per month, gave customers calls for CZK 1 to the U:fon network, to other fixed and mobile networks, 100 minutes of calls to all networks in the Czech Republic and to selected international fixed line numbers.

UPC Česká republika, a.s. (UPC) ran promotions for all internet access services from the beginning of the year until the end of April 2012. The 10 Mbit/s service sold for CZK 299 for the first 12 months, instead of the listed price of CZK 494 per month. The 25 Mbit/s service could be subscribed for CZK 399 per month for the first 12 months, instead of the regular price of CZK 599 per month. The 50 and 100 Mbit/s services were offered by UPC at a 50% discount for the first 4 months of usage.

T-Mobile Czech Republic a.s. (T-Mobile) began to market a new edition of prepaid cards Twist Přátelé Extra. A regular monthly top-up of at least CZK 300 gave the customer calls to all numbers for CZK 3.50 per minute and SMS for CZK 1.50.

Vodafone Czech Republic a.s. (Vodafone) overhauled its data tariff proposition. Its mobile data tariffs charged on a per-day basis increased the daily data limit from 5 MB per day to 25 MB per day; the price went up from CZK 17 to CZK 25 per day. The Connection tariffs were expanded with Weekly Connection for CZK 49 per week and FUP 60 MB per week. The monthly Internet in Mobile tariffs welcomed a new Mobile Connection Super for CZK 249 per month with FUP 300 MB per month.

As part of the so-called 'Eurotariff' regulated by the European Union executive authority, customers were charged CZK 8.60 for a minute of an outgoing call (CZK 10.30 previously), CZK 2.38 for an incoming call, CZK 2.68 per SMS and CZK 20.84 per 1 MB of data, charged at the rate of 1kB.

T-Mobile started offering Travel&Surf, a new roaming mobile internet tariff; the service could be activated on a daily, weekly or a monthly basis.

Vodafone communicated its new 'roaming per day' proposition, which could be subscribed by customers of Vodafone's Tailor-made tariffs. The roaming offer allowed customers to use free units from their national tariffs in 41 countries of Europe.

Regulation

Several changes occurred in the first half of 2012 in the regulatory environment which governs the field of electronic communications in the Czech Republic. The most material changes included the following:

1) changes in the legislation;
2) changes in the areas of markets analysis and product regulation;
3) changes in the Universal Service provision and in the government's policy and support of broadband internet access.

The following are the most significant changes in the area of legislation governing electronic communications:

- Promulgation of the Act No. 341/2011 Coll. on General Inspection of Security Forces, and on the amendment to related acts,
- Promulgation of the Act No. 19/2012 Coll., amending the Act No. 216/1994 Coll., on arbitration and enforcement of the arbitration award, as amended, and other related laws, including the Act No. 127/2005 Coll., on electronic communications, and on the amendment to some related acts (Electronic Communications Act), as amended,
- Completion 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 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 amending Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities, and Directive 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 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Office, through the Act No. 468/2011 Coll., amending the Act No. 127/2005 Coll., on electronic communications, and on the amendment to some related acts (Electronic Communications Act), as amended, and some other laws, which came into effect on 1 January 2012.

Telefónica CR was involved in the preparation of the above legislation by providing consultation either directly or on the platform of industry associations of telecommunications operators or through its parent company Telefónica.

Relevant markets analysis and product regulation

Telefónica CR continued to meet its duties with which it was tasked based on the relevant markets analysis undertaken by the Czech Telecommunication Office (CTO) in previous periods.

On commission from the CTO, Ernst & Young, s.r.o., continued the development of the LRIC methodology, including a model for call termination in public fixed networks. The outputs of this model are expected to be used by the CTO to set the maximum call termination rates in fixed public networks in 2013 and beyond.

The LRIC methodology for call termination in public mobile networks was drawn up for the CTO by PricewaterhouseCoopers Česká republika, s.r.o., and the result of the cost price calculation of mobile termination rates based on the new model will apply most likely from 2013.

The CTO continued the third round of the third round of analysis of the relevant market no. 5 – wholesale broadband access in electronic communications networks. The draft paper was notified to the European Commission, which chose to exercise its veto and commenced the so-called second phase of the relevant market analysis; the publication date for the final version of the analysis has thus been postponed. Telefónica CR expects that the analysis will be published in the form of a general measure by the end of the year.

In the middle of 2012, the CTO also commenced the analysis of the relevant market no. 2 – call origination in the public telephone network provided at a fixed location, market no. 4 – wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location, and market no. 8 – access and call origination in public mobile telephone networks.

Regulation of international roaming

A new regulatory framework for international roaming services, which defines the regulated services and the related prices for the period until 2022, was approved by the European Parliament and the Council of Ministers in the second quarter of 2012. In line with the roaming regulation, regulated prices of international roaming voice and SMS services were cut further with effect from 1 July 2012, and the scope of the regulation was expanded to include also mobile data roaming services.

With effect from 1 July 2012, the retail price for incoming calls went down to EUR 0.08 per minute; the price of an outgoing call was cut to EUR 0.29 per minute. The price of an outgoing SMS went down to 0.09, and the new maximum price of EUR 0.70 per 1MB of data now applies. The prices in Czech crowns were adjusted using the applicable exchange rate conversion.

Imposition of duties related to the provision of the Universal Service

Telefónica CR provided the following services during the first half of 2012 as part of meeting its duties imposed by the CTO in relation to the Universal Service provision:

(a) the public payphone service;
(b) access to the public telephone service, of the same quality as for other end users, for people with disabilities, namely by means of special terminal equipment;
(c) special price plans for persons with disabilities, which are different from the regular price plans provided under the standard commercial terms and conditions.

As to the service under (a), a CTO decision tasked Telefónica CR with the duty to operate the service in municipalities with 4,999 or more residents until the end of 2013; and in municipalities with a population under 1,999, until the end of 2014.

As to the service under (b), the CTO passed a decision which obliges Telefónica CR to provide the service as part of the Universal Service for a period of three years commencing from 15 July 2012.

Compensation for Universal Service provision

Telefónica CR is presently working to prepare its claim for compensation for the loss incurred as a result of Universal Service provision (including the loss incurred as a result of offering special price plans for people with disabilities) in 2011.

State policy and support in the area of broadband internet

In March 2012, the CTO released working draft terms of reference for the tender for 800 MHz, 1800 MHz and 2.6 GHz frequencies for public consultation. Using the aforementioned frequencies to develop mobile broadband internet access represents one of the tools to meet the objectives set out in the State Policy in the Area of Electronic Communications – Digital Czech Republic. Telefónica CR submitted its comments to the CTO. After the CTO processes all the comments, it invited tender in July 2012. On 12 July 2012, the CTO published on its electronic bulletin board and in the Telecommunications Journal the details of a tender for the use of radio frequencies for the operation of a public communication network in the 800 MHz, 1800 MHz and 2600 MHz bands.

Structural funding from the EU continued to support various projects in the area of ICT development in public institutions. The support went in the direction of mainly regional networks connecting public institutions, as well as the private sector.

In April the European Commission invited comments on the EU Initiative to Reduce the Cost of Rolling Out High Speed Communication Infrastructure in Europe, and, in July 2012, on the Community Guidelines for the application of State aid rules in relation to rapid deployment of broadband networks.

The Government of the Czech Republic started the process of programming the EU Structural Funds for the period 2014–2020. With regard to the overall objectives of the EU, as expressed in the policy paper Digital Agenda for Europe 2020, we can expect that support will focus also on the field of ICT.

The Company is constantly monitoring options offered to customers by structural funds, and modifies its products and services so that they are eligible for subsidies. A special attention was paid to Call 8 under the Integrated Operational Programme for the development of eGovernment services in the regions. Telefónica CR successfully participated in tenders for projects co-funded from the Structural Funds.

Telefónica Czech Republic Group in the first half of 2012

Several changes occurred in the ownership structure of the Telefónica CR Group in the first half of 2012, which were made in order to make the management of the Group more effective, and to focus on its core businesses. As part of the consolidation of activities in the field of ICT services, the subsidiary Telefónica O2 Business Solutions, spol. s r.o., was merged through consolidation with another subsidiary, Internethome, s.r.o.; after the merger, all WiFi services were 'under one roof'. With regard to the market trend of the demand for broadband internet access growing at the expense of voice services, Telefónica CR decided to spin off a part of its assets – the organisation unit Information and Assistance Services – into a newly incorporated subsidiary Informační linky, a.s. An 80% stake in this company was subsequently sold. For more details about the changes in the subsidiary and affiliate companies, please refer to Section 4 Corporate Governance.

In the context of the highly competitive telecommunications marketplace, Telefónica CR continued also in the first half of 2012 to focus on the improvement of its existing services, customer experience and on the development and marketing of new products and services in areas with a growth potential. Its strategy focused on paying the utmost attention to what the customer requires and on meeting the growing demand for fixed and mobile broadband internet access and for mobile voice. The efforts brought a result in the form of a continued growth in the number of customers and maintaining, or increasing, as the case may be, Telefónica CR's market share.

Activities which focused on customer retention and improving the customer experience delivered a net increase of 64 thousand in the number of mobile contract customers over the half-year, which cemented the Company's leadership in this respect. Telefónica CR continued the roll-out if its 3G mobile network, including some parts in collaboration with T-Mobile. As at the end of June, the 3G network was available to more than 76% of the population. The Company also invested in improving the quality and carrying capacity of the 3G network.

The growing 3G coverage and the related marketing initiatives to support smartphone sales led to an increase of the customers' interest in small- and large-screen mobile internet. The smartphone penetration in the customer base was approximately 23% at the end of June, which is a 7 p.p. increase year on year. The share of smartphones sold in the total handset sales was close to 65% in the half-year. The growing number of mobile internet customers reflected positively on the increased revenues from data services, excluding SMS.

In the area of fixed broadband internet access, the Company, in line with its strategy to offer the best internet access service to the market and thus cement its competitive position, focused its attention on marketing VDSL services. The ongoing migration of customers from ADSL to the VDSL service helped the Company retain higher net worth customers and reduce the price pressure from the largest cable internet provider. Moreover, the churn rate also went down. By the end of June, the number of customers using the VDSL service went up to 207 thousand, which is 55% of all customers within the reach of the service. In the fiercely competitive environment, Telefónica CR secured a more than six percent year-on-year growth in the number of xDSL customers.

As one of the largest ICT service providers in the Czech Republic, Telefónica CR focused on marketing its broad portfolio of services in the first half of 2012. In addition to the more traditional, often one-off solutions for the government segment, the Company started promoting standard ICT services for the corporate clientele. The Company believes that this strategy will help it secure a revenue growth in the future.

In Slovakia, the Group continued to successfully offer its O2 Fér tariffs and O2 Moja Firma (My Business) for the self-employed, small and medium business customers. During the first six months of 2012, the company included in its portfolio a new tariff for residential customers – O2 Paušál – which, for the first time included a bonus for a purchase of a new handset. This offer targeted higher-spend customers, with the aim to increase the average revenue per user. The attractive offer helped Telefónica Slovakia retain its dynamic rate of growth, which in turn cemented its position at the Slovak mobile market. The company believes that its market share was close to 20% at the end of June. The continued strong revenue growth and improved financial performance produced a result in almost twice the level of OIBDA in the first half of 2012, compared to the same period of the year 2011.

All the above activities manifested in the very good operating performance in terms of customer additions. The number of xDSL customers reached 883 thousand at the end of the half-year, which is a year-on-year growth of 6.3%. The number of O2 TV customers was 139 thousand at the end of June, which is a pronounced success given the reality of the stagnant pay TV market in the Czech Republic. As at the same date, the number of fixed lines operated by Telefónica CR was 1.5 million. During the first six months of 2012, their number went down 42 thousand, which is 28.5% less than in the same period of the year 2011. The number of mobile customers increased 2.0% year on year, to almost 5 million, at the highly saturated mobile market. The growth was driven mainly by the increase in the number of contract customers, which at the end of June stood at 3.1 million, up 5.3% on the previous year. The rate of decline in the number of prepaid customers slowed down in the first half of the year to 38 thousand – compared to 63 thousand in the first half of 2011. The number of mobile customers in Slovakia went up 86 thousand in the first half-year, and stood at 1,250 thousand at the end of June.

During the first half of 2012, the Company continued its journey of transformation, following the goal of operating efficiency improvement and operating cost reduction. It implemented the next phase of the restructuring programme, which sought to implement a more effective and efficient organisation thorough a reduction of the number of management levels across the Company. The transformation also served the goal of making processes more effective and streamlined. The transformation also looked at the consolidation and optimisation of call centre operation, and the outsourcing of activities associated with non-core functions. In the first half of the year, the financial accounting function was outsourced to an external company outside the structure of Telefónica CR, which achieved a Group headcount reduction of 214 down to 6,376 in the half-year.

The total headcount of the Telefónica CR Group, broken down by region, as at 30 June 2012 (shown in comparison to 30 June 2011) as follows:

	as at 30 June 2011	as at 30 June 2012
Telefónica Czech Republic, a.s.	6,767	5,825
Telefónica O2 Business Solutions, spol. s r.o.	162	143
Employees in the Czech Republic	**6,929**	**5,968**
Telefónica Slovakia, s.r.o.	400	408
Employees in Slovakia	**400**	**408**
Group employees total	**7,329**	**6,376**

Telefónica Slovakia

In the first half of the year 2012, Telefónica Slovakia offered a new no-commitment product to residential customers. The new tariff O2 Paušál gave customers the benefit of unlimited free SMS, a bonus redeemable against a handset purchase, and a flat rate of EUR 0.10 on calls to all local networks and to all networks in six other European countries. The tariff came in four price point variants (Blue, Silver, Gold, Platinum), each with a different bonus for the purchase of a new phone. The highest Platinum O2 Paušál gave customers unlimited calls to all networks in Slovakia, and unlimited calls from Slovakia to the Czech Republic, Hungary, Poland, Austria, United Kingdom and Ireland. Moreover, each customer received a data allowance of 1,000 MB already included in his tariff.

In the first half-year, Telefónica Slovakia also pursued the second phase of the 3G network roll-out; in the second quarter of 2012 alone, the company added 39 new locations to the 3G coverage map. The goal is to have 50% coverage of the population with the proprietary 3G network by autumn 2012.

According to a survey conducted by an independent agency Ipsos Tambor in collaboration with Telefónica Slovakia, the company again topped the leader board of Slovak mobile operators when it comes to customer satisfaction.

As at 30 June 2012, Telefónica Slovakia recorded a total of 1,250 thousand customers, of which almost 575 thousand were contract customers. This represents an increase of 24.7% in the total customer base. The share of contract customers in the total customer base was up 5 p.p. and reached 46% at the end of the half-year. The company's revenues for the first six months of the year reached EUR 92.8 million, up 26.9% year on year. In the same period, the OIBDA (Operating Income before Depreciation and Amortization) almost doubled compared to the same period of the year 2011.

New products and services

Also in 2012, Telefónica CR continued its Smart Network campaign. From February, it offered a smartphone for CZK 1 with the subscription of any O2 NEON tariff with Internet on A Mobile.

From March, Telefónica CR started to guarantee the lowest price on the most popular mobile handsets on the market and thus gave customers yet another reason why O2 is the best place to go for a smartphone.

It is the Company's long-term strategy to transform O2 brand stores into a place where people can go for inspiration or consultation – and to heed this, it launched teams of specialist consultants and O2 Guru. In April, Telefónica CR opened its largest and most modern brand store O2 Experience Centre in Chodov, Prague.

Telefónica CR secured a certification from Apple for use with the new iPad. The latest model of iPad went on sale in the Czech Republic in March. Together with the new iPad, customers could buy O2 Mobile Internet micro SIM card with three months' worth of internet access for free.

Between the beginning of June and the end of July, customers could activate a new Internet Active tariff, which offers the speed of up to 25/2 Mbps, in all 28 O2 brand stores in Prague, and claim a reduced-rate public transport annual pass for CZK 600, instead of the listed price of CZK 1,480.

From June, Telefónica CR offers an expanded range of mobile data tariffs; it also came out with a special Facebook data tariff. For CZK 75 per month or CZK 19 per week, prepaid customers could access the global social network Facebook from their mobile handset.

Customers who call from a fixed line from Telefónica CR still had a choice of tariffs and bundled services, which came with calls to all mobile networks in the Czech Republic starting from CZK 2 per minute. Those who need to call international could benefit from a new proposition of calling fixed line numbers in 47 countries of the world, again with prices as low as CZK 2 per minute. The new tariffs and bundles O2 Calling Mobile and O2 Calling International could be combined by the customers themselves – depending on which destinations they call most often. The bundled services could be combined with fixed voice tariffs that come with free call minutes to fixed line numbers in the Czech Republic.

Customers of mobile prepaid services could, starting from March, top up their credit using their payment card directly from their telephone by calling an automated voice system at *19, without needing to register. The service facilitates buying credit for people who do not have regular internet access. The customer calls the secure number, enters the number for which the credit is intended, the amount and the card number. The system promptly despatches a message confirming the credit top-up.

For new and existing customers of mobile prepaid services, Telefónica CR prepared an innovated service, from February, which offers free calls and SMS on weekends to the O2 network. All users of prepaid cards with the tariff O2 NA!HLAS and O2 NA!PIŠTE could, with the 'Reward for Top-up' loyalty scheme and in addition to the guaranteed reward, also win a special prize of 2 years' worth of telecommunications services for CZK 2 per month.

As part of the summer campaign, which ran from July until September, customers could find CZK 25 worth of credit in each half-litre bottle of Coca-Cola. A registration – by entering the code found under the screw top at www.25kredit.cz or via a mobile web or application – activated the credit. Owners of the prepaid O2 cards had the credit automatically added to their SIM card balance; others could request a new O2 card free of charge or donate the credit.

In February, Telefónica CR also expanded its portfolio of post-paid tariffs for young people. The popular O2 [:kůl:] was joined by O2 Pohoda. After the free minutes are used up, the calls are charged at CZK 4.60 per minute, SMS and MMS costs CZK 1.60 and CZK 5.90, respectively.

O2 [:kůl:] was offered for CZK 205 per month (incl. VAT), and came with 60 free minutes and unlimited on-net SMS.

Both 'young' tariffs could be combined with O2 Internet on A Mobile Start for the reduced price of CZK 100 per month; the regular listed price with FUP 150 MB was CZK 150 per month. Another attraction was the possibility to subscribe O2 Mobile Internet for CZK 200 per month (FUP 500MB), instead of the full-price CZK 300.

In March, Telefónica CR came out with Internet Guard, a comprehensive service that protects children, the family and the family computer against the threats from the digital world. It was developed in partnership with F-Secure, a global leader in online security, and customers could subscribe it for CZK 59 per month.

In July, all new O2 customers started automatically receiving their bill in an electronic format – delivered free to an email of their choice. The e-bill could come with a free itemised bill (normally for CZK 90), to give the customer a full control of their mobile phone usage. The e-bill is distributed via email with a notification via SMS. The online self-service My O2 gives a full history of the customer's bills and payments.

Telefónica CR was the first operator in the Czech Republic to go live with its LTE (Long Term Evolution) fourth generation mobile communication network, offering its customers the fastest internet they can presently experience anywhere. The technology allows for data transmission speeds which are up to ten times higher than those afforded by 3G networks.

The proposition to residential customers could also be enjoyed by business and self-employed customers.

To corporate customers, Telefónica CR continued to offer the option to become an 'Exclusive Customer' – a scheme which offers premium benefits in the form of better care, proactive usage optimisation, special handset pricing, personal treatment in a call centre, and many more. The goal is to reward the customer for his loyalty, improve customer experience and create an up-sell potential for other services from Telefónica CR.

Commented financial results

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

Consolidated Financial Statements

Consolidated business revenues went down by 2.8% year-on-year to CZK 25,165 million in H1 2012, while in Q2 the decline rate slowed down further to -2.4%. Thus, the Company reported the 4th consecutive quarter of improving revenues trend (-5.4% year-on-year in Q3 2011, -4.0% year-on-year in Q4 and -3.2% year-on-year in Q1 2012). This improvement continues to come a result of stabilisation in mobile residential spend, better performance in mobile data revenues and continuing sound revenue growth in Slovakia. At the same time, revenues continued to be impacted by prevailing competitive pressure largely in Corporate and SMB mobile segments and lower MTR year-on-year. Fixed business revenues in the Czech Republic declined by 6.3% year-on-year reaching CZK 10,584 million in H1 2012. Mobile revenues in the Czech Republic continued to improve, confirming positive trends seen in the second half of 2011. In H1 2012 they went down 4.5% year-on-year reaching CZK 12,345 million, while in Q2 2012, they declined by 4.0% year-on-year. Excluding the impact of MTR cuts, the decline rate would have been -1.8% year-on-year in Q2 2012, the best quarterly performance since Q4 2010, due to already mentioned better spend in the Residential segment and mobile data revenue growth. At the same time, revenues in Slovakia continued with solid growth and recorded a 26.9% year-on-year increase reaching EUR 92.8 million in H1 2012.

In H1 2012, the Company has continued in its effort to deliver efficiencies in all areas of its operations via further transformation of its organisation. Hence it executed additional phase of its restructuring program, focused on establishment of a more effective organisational structure by reducing the number of organizational layers across the whole company. In addition the transformation aims at further streamlining and simplifying processes. As a result of this restructuring program, the Company booked restructuring costs of CZK 223 million in H1 2012 in comparison with CZK 158 million in H1 2011. In H1 2012, the total Group headcount has been further optimised with a reduction of 514. Consequently, headcount reached 6,376 at the end of June 2012, representing a 13.0% year-on-year reduction. In addition, restructuring programs executed in 2011 and H1 2012 had a positive impact on personnel expenses, which went down by 9.2% year-on-year in H1 2012. Despite the above mentioned efficiencies in non-commercial areas, total consolidated operating costs increased slightly by 0.4% year-on-year reaching CZK 15,925 million in H1 2012 largely due to increased commercial investments to secure future growth, different phasing of ICT projects and higher network & IT costs.

Guided Operating income before depreciation and amortization (OIBDA)[1] decreased by 5.8% year-on-year, reaching CZK 10,195 million in H1 2012. At the same time guided OIBDA margin reported marginal 1.3 p.p. decline year-on-year, reaching a solid 40.5% in H1, on the back of already mentioned focus on cost efficiency, improving profitability in Slovakia and helped by sale of non-core business (80% stake in subsidiary Informační linky, a.s.), not fully compensating higher commercial costs for investments in future growth. Reported OIBDA reached CZK 9,682 million in H1, -5.8% year-on-year.

Depreciation and amortization charges went down 1.8% year-on-year in H1 2012. Consolidated net income amounted to CZK 3,254 million, down by 9.9% year-on-year in H1 2012, largely due to the decline in OIBDA, which was not fully offset by lower income tax expenses.

Consolidated Capital Expenditures (excluding business acquisitions) reached CZK 2,173 million in H1 2012, down by 9.7% year-on-year. The Company continued to direct investments into further capacity expansion and improvement of the quality of its 3G network, including backhaul. In addition, CapEx was spent on further expansion of 3G network coverage, including coverage of currently unserved areas on the basis of the network sharing contract with T-Mobile. At the end of June 2012, the Company's 3G network covered more than 76% of the population. Additionally, the Company focused its investments into upgrading its fixed broadband networks including selective fibre

[1] In terms of the 2012 guidance calculation, OIBDA excludes brand fees and management fees (CZK 551 million in H1 2011 and CZK 513 million H1 2012), 2012 guidance excludes changes in consolidation, includes potential capital gains from sales of non-core asset, assuming constant FX rates of 2011.

investments aiming at strengthening its position in the highly competitive fixed broadband market in the Czech Republic and improving customer experience. In Slovakia, CapEx was largely spent on additional 3G network expansion, where it targets 50% population coverage by October 2012.

Group free cash flows decreased by 28.5% year-on-year reaching CZK 4,308 million in H1 2012, as a combination of 20.3% decline in cash from operating activities, due to a decrease in OIBDA and different phasing in working capital cash movements, and a 5.8% decrease in cash used in investing activities, largely driven by proceeds on disposal of 80% of shares of its subsidiary Informační linky, a.s. in Q1 2012.

The consolidated financial debt amounted to CZK 3,146 million at 30 June 2012, broadly in line with the end of 2011. At the same time, cash and cash equivalents reached CZK 10,886 million.

CZ Mobile Business Overview[2]

In H1 2012, the dynamics of the mobile business continued to improve on the back of sustained sound commercial momentum, stabilisation in residential spend and better data performance, while tough competition in SMB and Corporate segments continued to dilute revenue performance. Nevertheless, the spend dilution in these two segments continues to decelerate helped by value management initiatives and the O2 Exclusive proposition. In addition, MTR cuts (-21.2% year-on-year[3]) impacted mobile revenues during this period. In the commercial area, the Company maintained solid subscribers' growth in the contract segment and further improving churn, despite intense competitive pressure. In June, it launched new structure of its mobile tariffs (O2 Smart NEON) which bundles voice, unlimited on-net SMS and Internet in handset services in one package. The new proposition reflects increasing demand for mobile internet and is aimed at protection of the revenues and customer base. In the mobile internet area, the Company continued in its support of smartphone sales via best price guarantee proposition for bestselling smartphones. As a result, smartphone sales represented 64% of total handset sales in H1 2012 and smartphone penetration grew further reaching 23% at the end of June 2012, up by 7 percentage points year-on-year.

The total mobile customer base reached 4,968 thousand at the end of June 2012, a 2.0% year-on-year increase. This performance has been driven by contract customers, whose number went up 5.3% year-on-year reaching 3,114 thousand with 36.8 thousand net additions during the quarter (compared to +27.5 thousand in Q1). This growth continued to be supported by customers migrating from the prepaid to the contract segment, strong customers' increase in Corporate segment, increasing smartphone penetration and enhanced churn. At the end of June 2012, contract customers accounted already for 62.7% of the base (+2.0 percentage points year-on-year), the highest figure ever. The number of prepaid customers reached 1,854 thousand at the end of March 2012, down by 3.0% year-on-year, with decelerated net losses of 7.2 thousand in Q2, compared to -31.1 thousand in Q1).

The blended monthly average churn rate reached 1.80% in H1 2012, while in Q2 2012 it was only 1.74%. This is a result of continuous improvement in contract churn, which reached 0.87% in Q2 2012, down 0.2 percentage points year-on-year. Prepaid churn stood at 3.19% in Q2 2012.

[2] Figures are shown net of inter-segment charges between fixed and mobile businesses
[3] From CZK 1.37 to CZK 1.08 in July 2011

In terms of usage, total mobile traffic[4] carried by customers in the Czech Republic reached 4,723 million minutes in H1 2012, up by 6.6% year-on-year, supported by a successful contract proposition.

In H1 2012, mobile blended ARPU[5] was CZK 396.5, down by 7.0% year-on-year, while in Q2 it went down 6.8% year-on-year, the lowest year-on-year decline since Q4 2010, reaching CZK 399.5. ARPU continued to be impacted by MTR cuts and competition. Excluding the impact of MTR cuts, total ARPU would have declined by 4.9% year-on-year in H1 2012 and by 4.6% year-on-year in Q2. Continuous voice ARPU dilution driven by persisting competitive pressures remains the key driver for the majority of the decline. Contract ARPU reached CZK 530.3 in H1 2012, down by 9.6% year-on-year and CZK 530.4 in Q2, down 9.4% year-on-year (-7.7% year-on-year and -7.3% year-on-year in H1 and Q2 2012 excluding the impact from MTR cuts). Prepaid ARPU decreased by 5.2% year-on-year and 4.6% year-on-year in H1 and Q2 2012 reaching CZK 176.1 and CZK 181.4 respectively. Data ARPU declined by 2.6% year-on-year reaching CZK 111.8 in H1 2012 (-2.0% year-on-year to CZK 112.3 in Q2) largely due to mobile internet bundling with voice tariffs and continuous SMS/MMS bundling in monthly fees. However pure data ARPU[6] improved 8.1% year-on-year in Q2 better compared to +3.3% year-on-year in Q1.

Total mobile business revenues in the Czech Republic declined by 4.5% year-on-year to CZK 12,345 million in H1 2012, with a lower rate of decline in Q2 (-4.0% year-on-year to CZK 6,246 million). At the same time mobile service revenues went down by 4.8% year-on-year in H1 2012. Already mentioned competitive pressures leading to lower spend in SMB and Corporate segments and MTR cuts continued to be the key drivers for the decline. Excluding the impact of mobile termination rate cuts, mobile service revenues would decline by 2.5% year-on-year in Q2 2012, compared to -2.8% in Q1 2012, -4.5% in Q4 2011 and -5.8% in Q3 2011. Despite fierce competitive pressures, continued growth in the contract customer base and better spend dynamics helped to reach 1.5% year-on-year growth in revenues from monthly fees, reaching CZK 4,070 million in H1 2012. Stabilisation in residential spend dynamics and lower spend dilution in SMB and Corporate segments are reflected in a lower decline in traffic revenues, which decreased by 11.8% year-on-year in H1 2012 to CZK 3,092 million. Interconnection revenues went down by 17.2% year-on-year in H1 2012, largely impacted by MTR cuts not fully compensated by higher incoming traffic. Other revenues (including SMS & MMS, data and other business revenues) reached in total CZK 3,510 million and CZK 1,763 million in H1 and Q2 2012 and were broadly flat compared to the same periods in the previous year with more SMS/MMS bundling putting pressure on them, while revenues from mobile internet remain the key growth driver and accelerated its growth (non-SMS data revenues: +10.5% year-on-year in Q2, up from +5.8% year-on-year in Q1).

CZ Fixed Business Overview[7]

In H1 2012, the Company successfully continued addressing the demand for fixed broadband services which led to solid commercial performance of the broadband customer base and a continuing deceleration in fixed access losses. Continuous migration of existing ADSL customers to the VDSL service helped the company to manage fixed broadband ARPU dilution and improve churn, which is relevant in a highly competitive and slowing fixed broadband market environment.

4 Inbound and outbound, including roaming abroad, excluding inbound roaming
5 Including inter segment revenues
6 Big screens, small screens, M2M, time/usage based, push email, data roaming
7 Figures are shown net of inter-segment charges between fixed and mobile businesses

The total number of fixed accesses declined by 4.4% year-on-year reaching 1,539 thousand at the end of June 2012, with 41.8 thousand net losses during the quarter. This represents a 28.5% reduction compared to H1 2011 and is largely a result of lower traditional telephony line losses (-83.0 thousand in H1 2012, -18.0% year-on-year) and solid 32.9% year-on-year growth of naked accesses.

The number of xDSL accesses reached 894 thousand at the end of June 2012, up 6.3% year-on-year. In respect of VDSL, 207 thousand customers have already subscribed for the upgraded service, which represents 26% of the total xDSL residential base and close to 55% of the total addressable existing base (~ 50% of households). In H1 2012, the number of VDSL customers grew by 104.1 thousand. The total number of O2 TV customers reached 139 thousand at the end of H1 2012, +7.3% year-on-year, a relevant achievement in stagnant Pay TV market in the Czech Republic.

Voice traffic generated in the fixed network went down by 12.8% year-on-year in H1 2012 to 693 million minutes, still impacted by fixed telephony line losses and the fixed to mobile substitution effect.

In H1 2012, total fixed business revenues went down by 6.3% year-on-year reaching CZK 10,584 million. Revenues from traditional accesses fell by 15.5% year-on-year reaching CZK 1,829 million in H1 2012 due to continuing fixed telephony line losses, while revenues from traditional voice revenues went down by 7.0% year-on-year to CZK 3,159 million, largely due to lower revenues from communication traffic (in line with lower voice traffic). Internet & broadband revenues increased in total by 0.5% year-on-year reaching CZK 3,027 million in H1 2012, as a result of xDSL customer growth, migration of higher value customers to VDSL and ARPU pressures. IT services and business solutions revenues went up 2.6% year-on-year reaching CZK 984 million in H1 2012, while in Q2 they improved by 4.3% year-on-year. The Company continues with penetration of standard and recurring ICT services for business customers (Managed Services/Cloud/Security /Virtual Desktop) to mitigate dependence on one-off projects, which shall help it to generate sustainable revenues.

Slovakia

Telefónica Slovakia delivered another strong set of commercial and financial results in H1 2012, which resulted in the further strengthening of its position in the Slovak mobile market. At the same time its results continue to increase their contribution to the Group's financial performance. At the end of June 2012, the total number of customers reached 1,250 thousand, posting 24.7% year-on-year growth. In H1 2012, their number increased by 86.2 thousand driven largely by strong performance in the contract base supported by the successful launch of the new tariff O2 Paušál targeting higher value customers. The number of contract customers grew by 40.0% year-on-year reaching 575 thousand at the end of June 2012 (+76.6 thousand in H1), while the number of prepaid customers increased by 14.1% year-on-year ending up at 676 thousand. Consequently, the customer mix in Slovakia further improved and contract customers represented an already significant 46.0% of the total customer base, up 5.0 percentage points year-on-year. In terms of financial performance, the total revenues of Telefónica Slovakia in local currency increased by 26.9% year-on-year reaching EUR 92.8 million in H1 2012 (+26.8% year-on-year in Q2). Excluding the impact of MTR cuts, the growth rates would be 35.9% in H1 and 37.1% in Q2 2012 respectively, fuelled by customer growth, improving customer mix and the company's focus on acquiring higher value customers. Thus revenues in Slovakia represented nearly 10% of total Group revenues in H1 2012. In H1 2012, OIBDA for Telefónica Slovakia went up 89.8% year-on-year, thus helping to support the Group's profitability. In H1 2012, contract ARPU reached EUR 16.7 (EUR 17.1 in Q2), while prepaid ARPU was at EUR 8.3 (EUR 8.6 in Q2).

Outlook for the second half of 2012

Based on the results delivered in the first half of 2012 and outlook for the second half, Telefónica CR Group confirms its full year guidance in all levels:

	2011 base	2012 guidance
Business revenues	-5.7% year-on-year	improving trends vs. 2011
OIBDA margin[1]	43.7%	limited margin erosion y-o-y
CapEx[2]	CZK 5.6 billion	up to CZK 6.2 billion (flexibility to manage CapEx/ Revenue evolution)

[1] OIBDA before brand fees & management fees; 2012 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2011.
[2] Excluding business acquisitions

Corporate Governance

04

Corporate Governance

04

In the first half of 2012, the Board of Directors met ten times, the Supervisory Board and the Audit Committee held three and two meetings, respectively.

The Regular General Meeting of Telefónica CR was held on 19 April 2012. The supreme governing body of the Company approved:

— The annual financial statements and the consolidated financial statements of the Company prepared under International Financial Reporting Standards (IFRS) for the year 2011. Both sets of financial statements were recommended by the Board of Directors to the General Meeting for approval and they had been verified by the auditors Ernst & Young who gave an unqualified opinion.
— The distribution of profit and the payment of dividend. The proposal was based in a prudent analysis of the Company's results in the previous period, the current situation of the balance sheet and with regard to the Company's future outlook made by the Board of Directors, including its investment plans and cash flow projections.
— The payment of dividends from the 2011 profit, in the total amount of CZK 7,633,074,030.17, and from a part of the retained earnings, which represents CZK 1,063,353,269.83, with the total sum approved for the payment of dividends being CZK 8,696,427,300, i.e. CZK 27 per share before tax.
— A reduction of the share capital through the reduction by CZK 13 of the nominal value of each share with the previous nominal value of CZK 100. The total amount corresponding to the reduction of the share capital, which is CZK 4,187,168,700 will be paid out to all shareholders. Together with the dividends, the pay-out to shareholders will be CZK 40 in cash per each share with the previous nominal value of CZK 100.
— An amendment to the Company's Articles of Association. Some of the changes were motivated by the amendments to the Commercial Code. Other changes relate to the adjusted scope of the Board of Directors' authority in that the Board of Directors no longer needs to seek a prior approval of the Supervisory Board with (i) acquisition of the Company's own shares, (ii) entering into an agreement to transfer business assets, or any part of them, or to lease the business assets, (iii) election, nomination or recall of members of statutory and supervisory bodies in subsidiary companies or other companies in which the Company holds an ownership interest. The number of members of the Supervisory Board also changed from the present fifteen to twelve. Last but not least, the rules governing the process of decision making by the Board of Directors, Supervisory Board and the Audit Committee were simplified.

— The share buy-back programme for the Company's own shares, allowing to buy back shares up to 10% from the total of 322,089,890 ordinary shares with a nominal value of CZK 100 before tax, i.e. not more than 32,208,989 ordinary shares. The Company can buy back shares over a period of 5 years.
— Contribution of a part of business assets into the subsidiary Internethome, s.r.o.; the business assets comprise a unit of Telefónica CR, which provides WiFi internet access. Internethome, s.r.o., is a provider of home internet access and was incorporated in 2011 with this business mission.
— The General Meeting confirmed by election members of the Supervisory Board and the Audit Committee in their positions (for full details please see below).

Personnel changes in the governing bodies of the Company as at 31 January 2012 are described in the 2011 Annual Report (section Corporate Governance). In the period from February until June 2012, the following changes occurred in the personnel composition of the governing bodies:

Supervisory Board

At its meeting of 19 April 2012, the General Meeting confirmed by election the membership of the following co-opted members: José María Álvarez-Pallete López, Enrique Medina Malo and Patricia Cobian Gonzalez. The General Meeting elected Javier Santiso Guimaras a new member of the Supervisory Board. The résumé of the new member is available at the Company's website in section About/Corporate Governance. With effect from 27 July 2012, the General Meeting elected the member Maria Pilar López Álvarez for another tenure. The General Meeting also approved agreements for the performance of office for the newly elected members of the Supervisory Board. Petr Gazda, member of the Supervisory Board elected by employees, resigned from his membership with effect from 19 April 2012.

Audit Committee

At its meeting of 19 April 2012, the General Meeting confirmed Vladimír Dlouhý as member of the Audit Committee. Javier Santiso Guimaras was elected substitute member of the Audit Committee.

Board of Directors

At its meeting of 17 February 2012, the Supervisory Board discussed a resignation from membership in the Board of Directors, which was tendered by John Gerald McGuigan. Ramiro Lafarga Brollo, who is also the Statutory Executive and Chief Executive Officer of the subsidiary Telefónica Slovakia, s.r.o., was nominated in his stead on the same day.

The executive organisation structure of Telefónica CR changed in the first half of 2012 from the situation published in the 2011 Annual Report in the respect that the scope of the division Strategy and Business Development, which is helmed by Felix Geyr, was expanded to include the division Wholesale (from 1 February 2012) and the division Customer Experience (from 1 June 2012), both previously in the direct reporting line of the Chief Executive Officer.

The situation of the subsidiary and affiliated companies changed in the first half of 2012 from the situation published in the Telefónica CR's 2011 Annual Report in the following respects; the changes affected subsidiaries Telefónica O2 Business Solutions, spol. s r.o., Informační linky, a.s. and Internethome, s.r.o.

Telefónica O2 Business Solutions, spol. s r.o.

In February 2012, the Board of Directors of Telefónica CR approved a plan to merge through consolidation the subsidiary Telefónica O2 Business Solutions, spol. s r.o. Telefónica Czech Republic, a.s. In April 2012, a notarial record was made of the project of a national merger through consolidation, which was presented by the Board of Directors of Telefónica CR and the statutory executives of Telefónica O2 Business Solutions, spol. s r.o. On 1 July 2012, the merger was recorded in the Commercial Register, which effectively meant that Telefónica O2 Business Solutions, spol. s r.o., ceased to exist and all its assets, including rights and obligations arising from labour law relationships, were transferred to Telefónica Czech Republic, a.s.

Informační linky, a.s.

In February 2012, Telefónica CR entered into an agreement to sell 80% of shares of Informační linky, a.s. This was a follow up step to the incorporation of Informační linky, a.s., as of 1 January 2012 by spinning of a part of business assets – the unit Information and Assistance Services which operated the directory and assistance services at numbers 1180, 1181 and 1188.

Internethome, s.r.o.

In May 2012, the Board of Directors of Telefónica CR passed the decision to increase the registered capital of Internethome, s.r.o. from the present CZK 200,000 to CZK 67,765,000. The registered capital will be increased trough an in-kind contribution of a part of the business assets from Telefónica CR. The transfer of the business assets to Internethome, s.r.o., will be effected based on an agreement on the transfer of a part of business assets, which was approved for conclusion by the General Meeting of 19 April 2012.

Personnel composition of the Supervisory Board of Telefónica CR (as at 30 June 2012)

Name	Function
José María Álvarez-Pallete López	Chairman of the Supervisory Board
María Eva Castillo Sanz	1st Vice-chairwoman of the Supervisory Board
Lubomír Vinduška	2nd Vice-chairman of the Supervisory Board
Patricia Cobian Gonzalez	Member of the Supervisory Board
Vladimír Dlouhý	Member of the Supervisory Board
Tomáš Firbach	Member of the Supervisory Board
Pavel Herštík	Member of the Supervisory Board
Maria Pilar López Álvarez	Member of the Supervisory Board
Enrique Medina Malo	Member of the Supervisory Board
Javier Santiso Guimaras	Member of the Supervisory Board
Dušan Stareček	Member of the Supervisory Board
Ángel Vilá Boix	Member of the Supervisory Board

Personnel composition of the Audit Committee of Telefónica CR (as at 30 June 2012)

Name	Function
María Eva Castillo Sanz	Chairman of the Audit Committee
Maria Pilar López Álvarez	Vice-chairwoman of the Audit Committee
Vladimír Dlouhý	Member of the Audit Committee
Pavel Herštík	Member of the Audit Committee
Jaime Smith Basterra	Member of the Audit Committee
Javier Santiso Guimaras	Substitute Member of the Audit Committee

Personnel composition of the Board of Directors of Telefónica CR (as at 30 June 2012)

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
Jakub Chytil	Member of the Board of Directors
Ramiro Lafarga Brollo	Member of the Board of Directors
František Schneider	Member of the Board of Directors

Executive management of Telefónica CR (as at 30 June 2012)

Name	Function
Luis Antonio Malvido	Chief Executive Officer
Martin Bek	Director, Support Units Division
Jiří Dvorjančanský	Director, Marketing Division
Dana Dvořáková	Director, Corporate Communication
Felix Geyr	Director, Strategy and Business Development Division
Jakub Chytil	Director, Legal, Regulatory and Public Affairs Division
Ctirad Lolek	Director, Human Resources Division
Martin Luis Aldo	Director, Consumer Division
Jesús Pérez de Uriguen	Director, Finance Division
František Schneider	Director, Business Division
Petr Slováček	Director, Operations Division

All principal information and documents relating to the corporate governance of Telefónica CR are available at the Company's website (www.telefonica.cz).

Financial part

05

Interim condensed consolidated financial statements

05

for the six months ended 30 June 2012
prepared in accordance with
International accounting standard 34

Contents

These condensed consolidated financial statements were not audited.

General information

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

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 three suppliers of mobile telephone services in the Czech Republic.

The Company's shares are traded on the Prague Stock Exchange.

The Annual General Meeting of the Company held on 19 April 2012 decided to reduce the registered capital. Nominal value of shares in the current nominal value of CZK 100 will be reduced to CZK 87 and the nominal value of existing shares of the nominal value of CZK 1,000 will be reduced to CZK 870. The amount of the reduction shall be paid to shareholders in the appropriate amount.

The Annual General Meeting of the Company held on 19 April 2012 approved the share repurchase programme (see Note 3).

During the first half year 2012, the Company has continued in its effort to deliver efficiencies in all areas of its operation via further transformation of its organisation. Hence it executed additional phase of the restructuring program, focused on establishment of more effective organizational structure by reducing the number of organizational layers across the whole company. In addition the transformation aims at further streamlining and simplification of the processes (see Note 8).

These condensed consolidated financial statements were not audited.

Interim consolidated statement of comprehensive income For the six months ended 30 June 2012

In CZK million	Notes	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Revenues from voice services		8,570	9,200
Monthly charges		6,301	6,472
Data services		5,648	5,707
Other revenues		4,646	4,520
Revenues		**25,165**	**25,899**
Other income		358	103
Interconnection and roaming expenses		(4,563)	(4,627)
Cost of goods sold		(1,010)	(1,001)
Other direct cost of sales		(1,784)	(1,511)
Other expenses		(5,338)	(5,225)
Staff costs		(3,129)	(3,358)
Impairment reversal/(loss)		(18)	(5)
Operating income before depreciation and amortization ("OIBDA")		**9,681**	**10,275**
Depreciation and amortization		(5,688)	(5,792)
Operating profit	1	3,993	4,483
Finance income		524	272
Finance costs		(631)	(308)
Profit before tax	1	3,886	4,447
Corporate income tax	1, 2	(632)	(836)
Profit for the year	**1**	**3,254**	**3,611**
Other comprehensive income			
Translation differences		(7)	(46)
Other comprehensive income, net of tax		(7)	(46)
Total comprehensive income, net of tax		**3,247**	**3,565**
Profit attributable to:			
Equity holders of the Company		3,254	3,611
Total comprehensive income attributable to:			
Equity holders of the Company		3,247	3,565
Earnings per share (CZK) – basic [1]	3	10	11

[1] 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 2012

In CZK million	Notes	30 June 2012	31 December 2011
ASSETS			
Property, plant and equipment		48,713	51,525
Intangible assets		19,971	20,658
Investment in associate	12	29	22
Other financial assets		95	149
Deferred tax asset		666	746
Non-current assets		**69,474**	**73,100**
Inventories		495	488
Receivables and prepayments		7,612	8,273
Income tax receivable		39	165
Cash and cash equivalents	6	10,886	6,955
Current assets		**19,032**	**15,881**
Non-current assets classified as held for sale		**–**	**1**
Total assets		**88,506**	**88,982**
EQUITY AND LIABILITIES			
Ordinary shares		32,209	32,209
Share premium		24,374	24,374
Retained earnings, funds and reserves		7,077	12,514
Treasury shares		**(405)**	**–**
Total equity		63,255	69,097
Deferred taxes		3,321	3,736
Non-current provisions for liabilities and charges		28	26
Non-current other liabilities		74	108
Non-current liabilities		**3,423**	**3,870**
Short-term financial debts		3,146	3,061
Trade and other payables		18,517	12,882
Income tax liability		4	5
Provisions for liabilities and charges		161	67
Current liabilities		**21,828**	**16,015**
Total liabilities		**25,251**	**19,885**
Total equity and liabilities		**88,506**	**88,982**

Interim consolidated statement of changes in shareholders equity For the six months ended 30 June 2012

In CZK million	Notes	Share capital	Treasury shares	Share premium	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2011		**32,209**	**–**	**24,374**	**(162)**	**38**	**6,452**	**10,265**	**73,176**
Currency translation differences – amount arising in period		–	–	–	(46)	–	–	–	(46)
Net profit	1	–	–	–	–	–	–	3,611	3,611
Total comprehensive income		**–**	**–**	**–**	**(46)**	**–**	**–**	**3,611**	**3,565**
Capital contribution		–	–	–	–	23	–		23
Dividends declared in 2011	3	–	–	–	–	–	–	(12,884)	(12,884)
At 30 June 2011		**32,209**	**–**	**24,374**	**(208)**	**61**	**6,452**	**992**	**63,880**
At 1 January 2012		**32,209**	**–**	**24,374**	**(52)**	**56**	**6,452**	**6,058**	**69,097**
Currency translation differences – amount arising in period		–	–	–	(7)	–	–	–	(7)
Net profit	1	–	–	–	–	–	–	3,254	3,254
Total comprehensive income		**–**	**–**	**–**	**(7)**	**–**	**–**	**3,254**	**3,247**
Capital contribution		–	–	–	–	17	48	(53)	12
Dividends declared in 2012	3	–	–	–	–	–	–	(8,696)	(8,696)
Ordinary share acquisition		–	(405)	–	–	–	–	–	(405)
At 30 June 2012		**32,209**	**(405)**	**24,374**	**(59)**	**73**	**6,500**	**563**	**63,255**

Interim consolidated statement of cash flow
For the six months ended 30 June 2012

In CZK million	Notes	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Cash from operating activities			
Cash received from operations		27,122	28,192
Cash paid to suppliers and employees		(18,848)	(17,184)
Dividends received		5	5
Net interest and other financial expenses paid	6	80	(14)
Taxes paid		(848)	(1,599)
Net cash from operating activities		**7,511**	**9,400**
Cash flow from investing activities			
Proceeds on disposals of property, plant and equipment and intangible assets		262	42
Payments on investments in property, plant and equipment and intangible assets		(3,378)	(3,443)
Payments on investments in WiFi acquisition		(69)	–
Payments made on financial investments		(18)	–
Net cash used in investing activities		**(3,203)**	**(3,401)**
Cash flow from financing activities			
Dividends paid		7	21
Cash payments to owners to acquire the ordinary shares		(405)	–
Net cash used in financing activities		**(398)**	**21**
Effect of foreign exchange rate changes on collections and payments		**21**	**2**
Net increase / (decrease) in cash and cash equivalents during the period		**3,931**	**6,022**
Cash and cash equivalents at the beginning of the period		**6,955**	**4,798**
Cash and cash equivalents at the end of the period	**6**	**10,886**	**10,820**
Balance at the beginning of the period		**6,955**	**4,798**
Cash on hand and at banks		6,932	4,774
Other cash equivalents		23	24
Balance at the end of the period		**10,886**	**10,820**
Cash on hand and at banks		10,863	10,799
Other cash equivalents		23	21

Accounting policies

Content

A. 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 consolidated financial statements as at 31 December 2011.

The amounts shown in these consolidated financial statements are presented in millions of Czech Crowns ("CZK"), unless stated otherwise.

B. Significant accounting policies

Účetní postupy převzaté při přípravě mezitímní zkrácené konsolidované účetní závěrky jsou shodné se všemi postupy použitými pro roční účetní závěrku za rok končící 31. prosince 2011.

C. Change in accounting policy

V roce 2012 a 2011 nebyly aplikovány žádné významné změny v účetních politikách.

D. Seasonality of operations

V segmentu pevných linek i mobilním telekomunikačním segmentu nejsou žádné sezónní výkyvy. Telekomunikační podnikání Skupiny není považováno za sezónní.

Notes to the interim condensed consolidated financial statements

Obsah

1. Segment information

Business segments recognised by the Group are as follows:

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

For the six months ended 30 June 2012 **In CZK million**	**Fixed**	**Mobile**[1]	**Group**
Revenues	10,689	14,773	25,462
Inter-segment sales	(151)	(146)	(297)
Total consolidated revenues	10,538	14,627	25,165
Operating profit	**462**	**3,531**	**3,993**
Interest and other financial costs (net)			(107)
Profit before tax			3,886
Tax			(632)
Profit after tax			3,254
Minority interest			0
Net profit			**3,254**
As at 30 June 2012			
Assets (excluding goodwill)	39,724	35,320	75,044
Goodwill	142	13,320	13,462
Total assets	**39,866**	**48,640**	**88,506**

[1] Standalone Revenues of Telefónica Slovakia, s.r.o. of CZK 2,334 million included.

For the six months ended 30 June 2011 **In CZK million**	**Fixed**	**Mobile**[2]	**Group**
Revenues	11,464	14,780	26,244
Inter-segment sales	(158)	(187)	(345)
Total consolidated revenues	11,306	14,593	25,899
Operating profit	**630**	**3,853**	**4,483**
Interest and other financial costs (net)			(36)
Profit before tax			4,447
Tax			(836)
Profit after tax			3,611
Minority interest			–
Net profit			**3,611**
As at 31 December 2011			
Assets (excluding goodwill)	52,778	29,004	81,782
Goodwill	136	13,320	13,456
Total assets	**52,914**	**42,324**	**95,238**

[2] Standalone Revenues of Telefónica Slovakia, s.r.o. of CZK 1,780 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 2012 and 2011 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.

During the first half of 2012, Telefónica Slovakia, s.r.o. further strengthened its position on the Slovak mobile market. Subscriber's market share of Telefónica Slovakia, s.r.o. reached close to 20% at the end of June 2012. In line with its strategy to offer simple and transparent services, it has extended its offer by new tariffs for higher residential segment (O2 Paušál). This helped to increase total subscribers base by 24.7% year-on-year to 1,250 thousand, driven largely by contract base growth. Their number increased by 40% year-on-year to reach 575 thousand, while prepaid base grew by 14.1% reaching 675 thousand at the end of June 2012. Consequently, contract customers represented 46% of total customer base, representing a 5 percentage points increase year-on-year. Subscribers' growth and improving customer mix led to an increase in revenues which reached CZK 2,334 million in the first half of 2012 compared to CZK 1,780 million in the same period of 2011. As at 30 June 2012, net book value of fixed assets deployed in Slovakia amounted to CZK 2,604 million (as at 31 December 2011: CZK 2,692 million).

2. Income tax

In CZK million	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Total income tax expense is made up of:		
— Current income tax charge	973	1,157
— Deferred income tax credit	(341)	(321)
Taxes on income	**632**	**836**

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. For 2012 and 2011 19% applied.

3. Dividends proposed and earnings per share

In CZK million	30 June 2012	30 June 2011
Dividends declared (including withholding tax)	8,696	12,884

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2012 and 2011. Approval of the 2011 profit and the decision regarding the amount of any dividend payment for this financial year took place at the Annual General Meeting on 19 April 2012 (2011: 28 April 2011). Pursuant to the decision of the Annual General Meeting the dividend for 2011 profit is expected to be paid out on 10 October 2012 in amount CZK 27 per share.

The Annual General Meeting approved the ordinary share acquisition programme for the next 5 years, up to a maximum of 10% of the total number of 322,089,890 ordinary shares.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

	30 June 2012	30 June 2011
Weighted number of ordinary shares in issue (thousands)	321,986	322,090
Net profit attributable to shareholders (in CZK million)	3,254	3,611
Basic earnings per share (CZK)	10	11

4. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired assets with a cost of CZK 1,709 million (as at 30 June 2011: CZK 1,919 million), including additions from WiFi acquisitions totalled 9 million CZK (as at 30 June 2011: CZK 0 million). Assets with a net book value of CZK 17 million were disposed of by Group during the six months ended 30 June 2012 (as at 30 June 2011: CZK 26 million).

The Group achieved a total gain from the sale of the above fixed assets (including assets held for sale) amounting to CZK 238 million (as at 30 June 2011: CZK 25 million) and total losses in amount CZK 4 million (as at 30 June 2011: CZK 11 million) during the six months ended 30 June 2012.

5. Intangible fixed assets

Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired assets with a cost of CZK 518 million (as at 30 June 2011: CZK 635 million).

By purchasing network infrastructure, customer base and related assets and liabilities from local providers of Internet access using WiFi technology a goodwill in the amount of CZK 9 million was recognised during the six month ended 30 June 2012. The goodwill resulted from comparison of the present value of the purchase price in the amount of CZK 40 million and fair value of net assets acquired of CZK 31 million.

6. Cash and cash equivalents

In CZK million	30 June 2012	31 December 2011
Cash at current bank accounts	230	192
Cash at cash-pooling structures (inter-company) (Note 11)	10,656	6,763
Total cash and cash equivalents	**10,886**	**6,955**

As at 30 June 2012, the Group had available equivalent of CZK 1,855 million (as at 31 December 2011: CZK 1,884 million) of undrawn committed facilities.

As of 30 June 2012 and 31 December 2011 no cash and cash equivalents were pledged.

In CZK million	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Interest paid	(17)	(18)
Interest received	56	45
Bank commissions	(12)	(14)
Other financial income/expenses	53	(27)
Total paid net interest and other financial income/expenses	**80**	**(14)**

7. Inventories

As at 30 June 2012 the inventories are stated net of an allowance of CZK 51 million (as at 31 December 2011: CZK 43 million), reducing the value of the inventories to their net realisable value.

8. Restructuring costs

During the six months period ended 30 June 2012 restructuring costs of CZK 223 million (as at 30 June 2011: CZK 158 million) have been recognised. The amount includes CZK 208 million for the severance payments (as at 30 June 2011: CZK 158 million) and consultancy costs of CZK 15 million (as at 30 June 2011: CZK 0 million).

9. Contingencies

The Company is involved in a number of legal disputes arising from standard course of the business. Below is described evolvement in court cases which occurred during first half of the year of 2012 in comparison with annual report from 2011.

I. MEDIATEL, spol. s r.o. – dispute on CZK 359 million

MEDIATEL, spol. s r.o., which was cooperating with the Company on the publishing of the phone directory distributed to all telecommunications subscribers since 1992 (known under brand name "Zlaté stránky"), filed a legal action against the Company for the compensation of an alleged damage exceeding CZK 359 million in December 2009. Municipal court in Prague fully dismissed the legal action as groundless in January 2012. Decision came into the legal force and the dispute is successfully closed.

II. CNS a.s. – dispute on CZK 137 million

In 2009, the employees of CNS a.s., dealing with the development and updates of IT applications and the employees of Telefónica O2 Business Solutions, spol. s r.o. were having negotiations over the potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project was never materialised. CNS a.s. filed in August 2010 a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million for not signing any contract. The Company regards this claim as fabricated and the amount evidently exaggerated which can be demonstrated by the fact that according to the 2009 financial statements, CNS a.s. generated annual profit of less than CZK 5.5 million. On first oral hearing which took place the court ordered to CNS a.s. to prove its statements by concrete evidence. Next hearing is planned for October 2012.

III. VOLNÝ, a.s. – dispute on CZK 4 billion

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by the Company on the fix broadband market. The lawsuit has not been heard yet and the Court interrupted the proceedings in April 2012 with intention to wait for decision of the Antimonopoly Office in the margin squeeze investigation. The Company filed an appeal against such interruption while it could cause delays in the court proceedings in years.

IV. BELL TRADE s.r.o. – dispute on CZK 3.2 billion

Legal action of BELL TRADE s.r.o. company for CZK 3.2 billion. Legal action was filed at County court in Malacky and was grounded on statement that the Company signed up the contract with RVI, a.s. company in 2002 on several IT projects. BELL TRADE s.r.o. with registered seat in Bratislava allegedly through the chain of intermediates bought the claims for contractual fees for provided services. The Company filed its statement that any contract has not been signed neither the Company received any services for which the price nor fees should be paid. Moreover the lack of Slovakian courts jurisdiction was emphasised because the dispute does not have any connection to the Slovakian territory. The Company received a decision in June 2012 by which the proceedings were terminated due to lack of jurisdiction of the Slovakian courts.

The Company is involved in other legal disputes. The aggregate value of all disputes with subject-matter over CZK 5 million not closed with a verdict in 2012 totals to nearly CZK 12 million. The annual profit and loss statement takes into account also some minor disputes, however, with risks of less importance.

The Company considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Company in these cases.

The Company is convinced that all risks relating to the litigations have been duly reflected in the financial statements.

10. Commitments

Operating leases – lessee

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

In CZK million	30 June 2012	31 December 2011
No later than 1 year	1,406	1,386
Later than 1 year and not later than 5 years	4,516	4,617
Later than 5 years	4,060	3,981
Total	**9,982**	**9,984**

Capital and other commitments

In CZK million	30 June 2012	31 December 2011
Capital and other expenditure contracted but not provided for in the financial statements	3,712	1,881

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 under 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:

Balance sheet In CZK million	30 June 2012	31 December 2011
a) Receivables	–	6
b) Payables (excl. dividend payable)	368	800

Comprehensive income In CZK million	For the six months ended 30 June 2012	For the six months ended 30 June 2011
a) Sales of services and goods	–	–
b) Purchases of services and goods (excl. royalty fees)	18	22

There was no dividend paid as at 30 June 2012 to Telefónica, S.A. The dividend payable to Telefónica, S.A. is in the amount of CZK 6,036 million (31 December 2011:CZK 0).

For the six months ended 30 June 2012 the royalty fees to Telefónica, S.A. amounted to CZK 365 million (for the six months ended 30 June 2011: CZK 382 million).

II. Other related parties – Telefónica Group:

Balance sheet In CZK million	30 June 2012	31 December 2011
a) Receivables	357	344
b) Payables (excl. dividend payable)[1]	1,551	2,202
c) Short-term receivables (interest)	7	5
d) Cash equivalents (see Note 6)	10,656	6,763

[1] As at 31 December 2011 payables to TELEFÓNICA FACTORING E.F.C., S.A. of CZK 908 million were included (2010: CZK 1,486 million).

Comprehensive income In CZK million	For the six months ended 30 June 2012	For the six months ended 30 June 2011
a) Sales of services and goods	366	361
b) Purchases of services and goods	794	563
c) Interest income	39	36

There was no capital purchases for the six months ended 30 June 2012 and 30 June 2011 carried out with related parties.

The list of the Telefónica companies with which the Group had any transaction in 2012 and 2011 includes the following entities: Telefónica S.A., Telefónica de España, S.A.U., Telefónica Germany GmbH& CO.OHG, Telefónica UK Ltd., Telefónica Ireland Ltd., Telefónica Móviles España, S.A.U., Telefónica Móviles Argentina, S.A., O2 Holdings Ltd., Telefónica Insurance, S.A., 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 Investigación y Desrrollo, S.A., Telecom Italia S.p.A., Telfisa Global BV, Telfisa, Telefónica International Wholesale Services, Telefónica International Wholesale Services II, S.L., 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 Global Roaming GmbH, Vivo, S.A., Telefónica Europe People Services Limited, Jajah Ltd., Telefónica USA, G. T. North America, Telefonica Global Technology Chequia, Telefónica Global Technology, Telefónica Global Technology CZ, Telefónica Global Services GmbH, MOPET CZ a.s., Telefónica factoring E.F.C., S.A.

Liabilities to TELEFÓNICA FACTORING E.F.C., S.A. represent due balances arising from the assigned receivables by the suppliers using Group factoring and are considered as a due amount to the associate company.

III. Other related parties

a) Key management compensation

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

In CZK million	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Salaries and other short-term benefits	56	55
Personal indemnification insurance	2	3
Total	**58**	**58**

b) Loans to related parties

There were no loans provided to members of Board of Directors and Supervisory Board in 2012 and 2011.

There were no loans provided to related parties by the Group.

12. Principal subsidiary undertakings and associates

As at 30 June 2012

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. Telefónica O2 Business Solutions, spol. s r.o.	100 %	237	Czech Republic	Network and consultancy services in telecommunications, IT/ICT services	Full consolidation
2. CZECH TELECOM Germany GmbH	100 %	10	Germany	Data transmission services	Full consolidation
3. CZECH TELECOM Austria GmbH	100 %	6	Austria	Data transmission services	Full consolidation
4. Telefónica Slovakia, s.r.o.	100 %	6,116	Slovakia	Mobile telephony,internet and data transmission services	Full consolidation
5. Internethome, s.r.o.	100 %	55	Czech Republic	Providing of internet access on WiFi technology	Full consolidation
Associates					
6. První certifikační autorita, a.s.	23 %	9	Czech Republic	Rendering of certification services	Not consolidated
7. AUGUSTUS, spol. s r.o.	40 %	–	Czech Republic	Sales by auctions and advisory services	Not consolidated
8. MOPET CZ a.s.	13 %	20	Czech Republic	Real time payment services via mobile phones	Not consolidated
9. Informační linky, a.s.	20 %	3	Czech Republic	Information and directory services	Not consolidated

13. Events after the statement of financial position date

On 26 June 2012 the Company signed an agreement on transfer of shares and became the sole owner of the company Bonerix Czech Republic s.r.o., with registered capital of CZK 200 thousand. The Company was incorporated as the sole owner of the company Bonerix Czech Republic s.r.o. in Commercial Register on 4 July 2012.

On 1 July 2012 there was a merger of the Company, as successor company, with Telefónica O2 Business Solutions, spol. s r.o., as the company being acquired. The assets of Telefónica O2 Business Solutions, spol. s r.o. were transferred to the Company. The merger was incorporated in Commercial Register on 1 July 2012.

On 30 July 2012 the Company repaid the foreign currency loan of EUR 115 million.

From 1 August 2012 current CFO of the Company Mr Jesús Pérez de Uriguen left for the position of Director of Finance and Controlling at the Telefónica Europe Group. New CFO is Mr David Melcon Sanchez-Friera. The Supervisory Board of the Company elected David Melcon, effectively from 1 August 2012, as a new member of the Board of Directors. Mr Melcon takes over following the resignation of Mr Jesús Pérez de Uriguen.

On 3 August 2012 the Company raised share capital as non-cash contribution in the company Internethome, s.r.o., now amounting 67,765 thousand CZK. The increase in share capital of Internethome, s.r.o. was incorporated in Commercial Register on 3 August 2012.

As at the date of approval of this interim consolidated financial statements the Company acquired approximately 1% of own shares. The own shares buy-back started on 18 May 2012 according to the ordinary share acquisition programme approved by the Annual General Meeting held on 9 April2012 and following the Company´s Board of Directors approval from 18 May 2012.

Other information for shareholders and investors

06

Other information for shareholders and investors 06

The shareholder structure of Telefónica CR as at 30 June 2012:

Telefónica, S.A.	69.41 %
Investment funds and individual shareholders	30.26 %
Telefónica CR (own shares)	0.33%

Trading in Telefónica CR shares

The total volume of Telefónica CR shares traded on the stock market of the Prague Stock Exchange (PSE) reached CZK 16.6 billion in the first half of 2012, compared to CZK 15.3 billion in the first half of 2011. This ranked the Company among TOP 5 blue chips and accounted for approximately 12% of all trades. Compared to the first half of 2010, the average daily trading volume increased in the first half of 2012 from CZK 87.8 million in the first half of the previous year to CZK 97.8 million.
As at 30 June 2012, the market capitalisation of the Company was CZK 120.4 billion, which helped Telefónica CR maintain the fourth position among companies traded on the stock market of the PSE. It represented 12% of the total market capitalisation of the PSE stock market at the end of the first half of 2012.

In the period from the start of the year until 30 June 2012, the share price of Telefónica CR went up 0.05% to CZK 385.00. The performance of the PSE stock market, as measured by the PX Index, fell 1.1% in the same period.

General Meeting

The Ordinary General Meeting of the Company was held on 19 April 2012 in Prague. For an overview of the most important conclusions of the General Meeting please refer to Section 4 Corporate Governance of this Half-year Report.

Dividends and reduction of the share capital

The key parameters of the dividends and the reduction of the share capital are given in Section 4 Corporate Governance of this Half-year Report. The record day for the payment of the dividends will be 12 September 2012, and the dividends will be paid out on 10 October 2012. The record day for the reduction of the share capital will be the day of the registration of the reduction in the Commercial

Register. The payment of the amount corresponding to the reduction of the share capital will be made starting from the 22nd working day after the registration of the reduction in the Commercial Register. Česká spořitelna will process the payment of the dividends and of the amount corresponding to the reduction of the nominal value of shares. After the applicable record day, the bank will advise all shareholders eligible to collect dividends or the amount corresponding to the reduction of the share capital, as the case may be, of the method of payment.

Acquisition of the Company's own shares

Following the decision of the General Meeting which concerned a programme of acquisition of the Company's own shares up to 10% from the total number of 322,089,890 ordinary shares over a period of five years, the Board of Directors passed a decision on 9 May 2012 to commence the programme of acquisition of own shares, pending on the conclusion of a contract with a brokerage firm selected for this purpose. The selected brokerage firm will hold a mandate to acquire up to 6,441,798 ordinary shares as part of the programme of acquisition of own shares, which is up to 2% of the total outstanding ordinary shares of the Company. The Board of Directors also approved the plan to submit to the General Meeting, after the programme of acquisition of the Company's own shares, a proposal to cancel the acquired shares together with a proposal to reduce the Company's share capital by the amount equivalent to the nominal value of the shares. The purpose of the programme of acquisition of own shares is to improve the present very conservative capital structure of the Company.

Following the Board of Directors' decision dated 9 May 2012, the Company gave a mandate to UniCredit Bank AG, London Branch, to commence with the programme of acquisition of own shares. The acquisition was realised on the European regulated market on which the Company's shares are listed (Prague Stock Exchange); UniCredit Bank AG, London Branch, was mandated to execute the programme through a securities trader qualified to trade on this market.

The Company commence the process of acquisition of its own shares on 18 May 2012. By 30 June 2012, the Company had acquired 1,067,080 shares with the nominal value of CZK 100; it represents 0.33% from the total of 322,089,890 ordinary shares. The sum of the acquisition prices of the shares reached CZK 405.1 million. The lowest acquisition price was CZK 371.00 per share; the highest CZK 388.50 per share. No shares were sold or alienated during the first half of the year.

Updates to the status of acquisition of the Company's own shares are published on the Company's website: http://www.telefonica.cz/en/shares/284480-nabyti_vlastnich_akcii_spolecnosti.html

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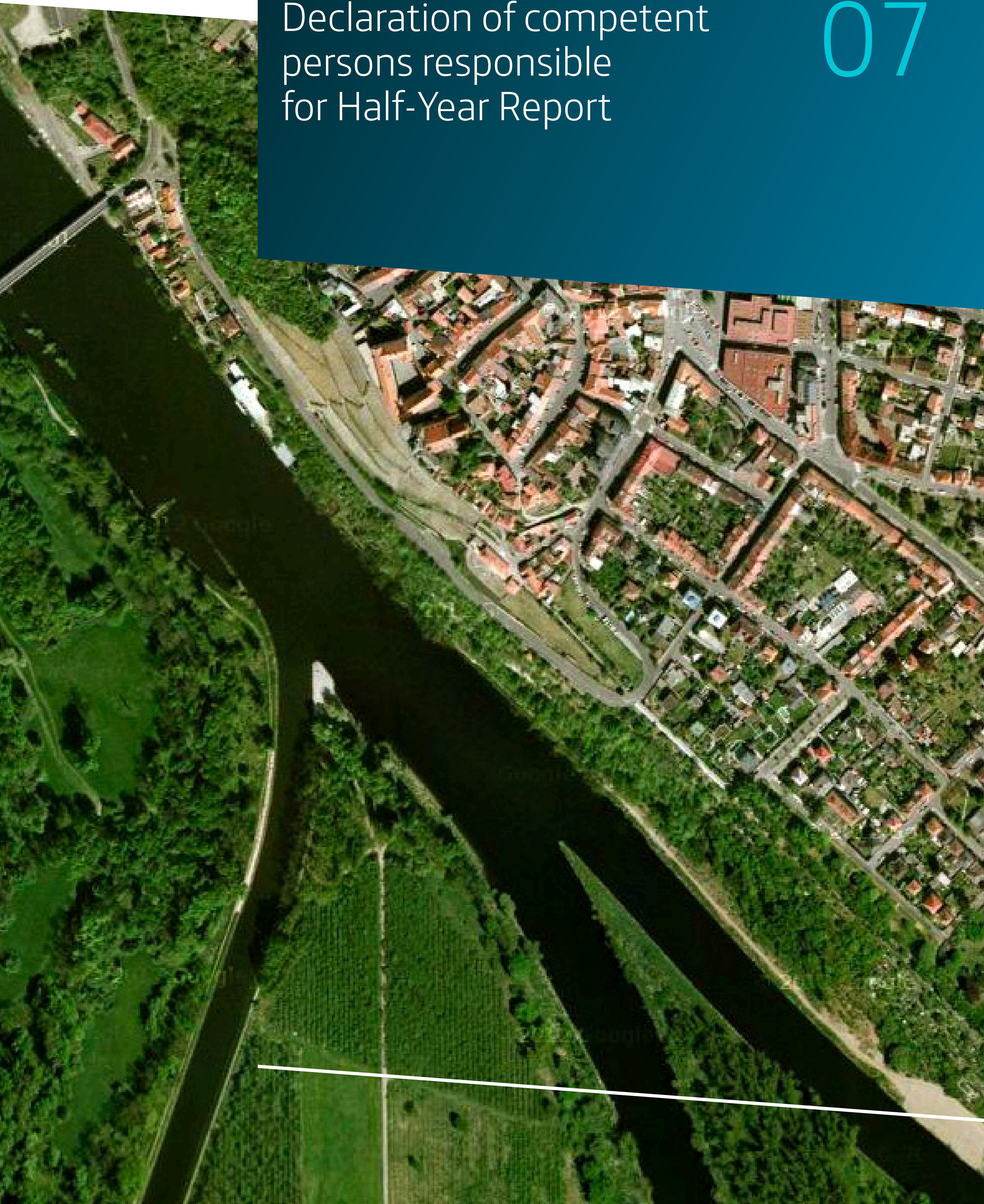
07

Declaration of competent persons responsible for Half-Year Report



Declaration of competent persons responsible for Half-Year Report

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

David Melcon Sanchez-Friera, member of the Board of Directors and Director and Chief Financial Officer of Telefónica 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

David Melcon Sanchez-Friera
member of the Board of Directors
and Chief Financial Officer

In Prague on 31 August 2012

Glossary of terms and acronyms

Glossary of terms and acronyms

A

ADSL 2+ (Asymmetric Digital Subscriber Line)
A more advanced and modern type of ADSL technology, which allows, among other things, to accelerate the data transmission speed to up to 24 Mbps. 6–16 Mbps is the optimum actual speed for the majority of households.

Android
An operating system by Google for smartphones.

Asymmetric transmission
Data transmission with different uplink and downlink speeds.

B

Base station
Base Transceiver Station (BTS) provides for radio connection with a mobile telephone. It typically supports several transceivers (TRX), each covering a specific area with radio signal.

BlackBerry
A technology for easy and safe access to email, calendar and data. Runs specifically on mobile devices by Research In Motion (RIM) from Canada.

Bluetooth
A technology of wireless device-to-device communication – e.g. mobile telephone and hands-free set, PDA and PC, etc. A mobile telephone with Bluetooth can communicate with other devices over a range of up to 100 metres, depending on the Bluetooth version used.

BPIN
Bank PIN (security code) is distributed together with the SIM card in the scratch field.

BTS (Base Transceiver Station)
BTS relays signal to mobile telephones.

Business Partner
A point of sale with a full range of mobile telephones and accessories, where a trained sales associate will help you with selection, activation and change requests.

C

Call redirection
A network function that allows for an incoming call to be redirected to any other receiving line, or to voice mail.

CAMEL (Customised Applications for Mobile networks Enhanced Logic)
A technology for direct communication between the roaming partner's and home network during the connecting of a call placed by a prepaid customer. The roaming partner's network can thus check the level of credit in the home network and connect the call accordingly.

CDMA (Code Division Multiple Access)
A digital transmission technology. Coded information is transmitted to several receivers at the same time within the same frequency band. Individual receivers use a dedicated decoding key to decode the data flow, and process only data meant for the receiver; other ('foreign') data is ignored.

Cell
A territory covered with a mobile telephone signal from a transceiver mounted on a BTS. One BTS can support several transceivers for several cells. In an open terrain, one cell may be 35 kilometres in diameter, however in an urban landscape, one cell may only cover one street.

Cellular network
A mobile network. An area covered with signal is split into smaller areas (cells) covered with individual BTS. A mobile telephone network typically consists of several thousands of cells.

CLIP (Calling Line Identification Presentation)
Caller identification.

CONEX
A direct connection of the O2 mobile telephone network centre with the local (company) PBX (Private Branch Exchange). This turns mobile telephones and the company telephone system into an integrated communication system that saves costs on calls between company branch lines and company mobile telephones.

Conference call
A mobile network service that allows a multi-party call.

CZK 100 discount on the postpaid tariff
If you subscribe to an O2 NEON tariff or O2 Business tariff and you activate O2 Internet, you get a discount of CZK 100 per month on your O2 NEON or O2 Business tariff. All you need to do is to enter your number associated with the O2 NEON tariff at the check-out in our e-shop. To take advantage of this offer, both services (O2 Internet and the mobile tariff) must be subscribed for the same duration of time.

D

DCS 1800 MHz
A standard for GSM mobile telephone networks. The main difference is that the network uses the 1,800 MHz frequency, which has a better quality signal compared to the normal 900 MHz. Both GSM standards are used in the Czech Republic (900 MHz and 1,800 MHz). Such networks are called 'dual'.

DECT (Digital Enhanced Cordless Telecommunication)
A wireless digital technology connecting a telephone receiver with the base. It allows unmitigated movement within the range of the radio signal (typically 300 metres in open spaces and 50 metres indoors). Another solution achieving a similar effect is to install a wireless Private Branch Exchange that can support more receivers from one base.

Device blocking
To increase security, some devices can be restricted for use with the help of a special security code; the code is selected on the device (unlike PIN and PUK codes that are stored on the SIM card). Please consult the manual of your device on the use of the security code in the model you have.

E

EDGE
A technology for fast mobile data transmission. EDGE deployed in combination with the packet service (GPRS) can give a speed of up to 384 kbps. The telephone or modem must be EDGE-enabled to take advantage of the technology.

EFR (Enhanced Full Rate)
An improved sound coding in the GSM network, with the quality of voice nearing that of a CD player. Good signal quality is required.

F

FUP (Fair User Policy)
A service that protects regular users from the consequences of network overuse by heavy users. FUP gradually slows down the transmission speed to those users who use too much bandwidth, especially by downloading large volumes of data for too long a time.

G

Gateway
A device which acts as an interface between two different networks
(e.g. mobile – internet; fixed access – mobile access, etc.)

GPRS (General Packet Radio Service)
A mobile data transmission technology. The transmitted data is divided into chunks, which are called packets. The destination address is attached to each such packet. Depending on the current network capacity, packets are transmitted to the terminal device, in which they are reassembled into the original data sequence. The terminal device (mobile telephone, modem) is connected permanently, but the transmission capacity of the network is used only when it receives or sends packets of data. The data transmission is charged based on the volume of data transmitted – not based on the duration of connection.

GPS

The GPS (Global Positioning System) allows for seeing the position of a device within a range of few metres. It is used mainly for satellite navigation and is now a standard feature of most smartphones.

GSM (Global System for Mobile Communication)

An acronym derived from the standard for mobile communication. GSM networks are often called second generation networks. They offer SMS, roaming, caller identification, call redirection, fax service, data, etc.

H

Hands-free

A device that allows hands-free calling from a mobile telephone.

HSCSD (High Speed Circuit Switched Data)

A technology used for data transmission in mobile GSM telephone networks which uses the so-called circuit switching. It uses multiple timeslots at the same time, which gives the mobile data transmission the much called-for speed. Available terminals use up to 4 timeslots and give a transmission speed of up to 43.2 kbps.

HSDPA (High-Speed Downlink Packet Access)

A technology in 3rd generation mobile networks (UMTS) that improves the data download speed to up to 14.4 Mbps. It is the most advanced technology of its kind used in the Czech Republic.

HSUPA (High-Speed Uplink Packet Access)

A technology in 3rd generation mobile networks (UMTS) that improves the data upload speed to up to 5.76 Mbps. It is the most advanced technology of its kind used in the Czech Republic.

I

IMEI

A fifteen-digit numerical sequence that carries coded information about the type and serial number of the device. IMEI is typically found on the back side of the telephone in the battery slot; alternately, it can be recalled to the device display by entering the code *#06#.

Intelligent Call Assistant (ICA)

Intelligent Call Assistant (ICA) allows calls from customers of other operators roaming our network to connect even if the number is dialled in the wrong format: common mistakes is dialling without an international dialling prefix, with one extra zero in the international dialling prefix (especially UK customers), using * instead of + in front of the international dialling prefix, etc. The system uses algorithms to correct the called number while respecting the numbering plan of the country. Calls that would not be connected otherwise due to an erroneous format (as before the service deployment) are redirected to ICA. Calls dialled connected are put through as usual and bypass ICA.

IPv6

A new generation of IP address which is 128 bits long. It is set to replace IPv4 which uses only 32 bits, which limits the number of available addresses; the available pool of unused addresses is almost exhausted. IPv6 will increase the number of addresses by several orders.

IrDA
A communication interface for mobile telephones and computers. Infrared radiation allows them to communicate with other devices within the range of direct visibility.

J

Java
A programming language. Applications (software, games…) in Java can be run on a mobile device (if the device supports Java script).

L

Li-Ion
A lithium-ion battery that is used to power wireless communication devices. Li-Ion batteries are lighter than older types of batteries, are relatively long-life and do not require full depletion – so they can be recharged any time.

Line
The basic technology for ADSL fixed internet access, O2 TV or calling from home via the O2 telephone network.

LTE
LTE (3GPP Long Term Evolution) is a fast mobile internet technology. It is formally classified as 3G, while its successor – LTE Advanced – will be a fully-fledged fourth-generation solution (4G).
The theoretical downlink speed and uplink speed is 300 Mbps and 75 Mbps, respectively.

M

MMS
MMS (Multimedia Messaging Service) allows mobile telephones to send and receive not only text but also photographs and short videos. It is an improvement on SMS, which supports only text messages.

N

Network monitoring centre
A non-stop operation with a team of specialists that monitor the functions of all parts of the national data network. Any technical problems that may arise are dealt with remotely by the NMC team or engineers are despatched to the site. The O2 NMC centre is among the most modern in Europe.

NFC
NFC (Near Field Communication) is a technology for wireless communication between electronic devices over short distances; the standard specifies a maximum range of 20 cm, in reality it is more like 2–6 cm. The technology builds and improves on the standard ISO/IEC 14443 (contact-free cards, RFID), which combines the interface of the microchip Smartcards and of a wireless communication device. NFC is expected to propel the boom of mobile payments. Telefónica Czech Republic is a pioneer of NFC in the Czech Republic. Together with the City Transport Company in Pilsen (PMDP), Telefónica Czech Republic came out with 'Pilsen Card', an NFC application for mobile phones already in 2009.

NiCd

A nickel-cadmium battery is a long-life rechargeable battery that typically lasts up to 700 charging cycles (charge and deplete). If the battery is not fully depleted before recharging, the so-called memory effect can reduce its useful life.

NiMH

A nickel-metal hydride is an accumulator battery that holds more energy than NiCd batteries and has less of the memory effect (the need to fully deplete the battery to prevent the shortening of its life). It is typically more expensive than Ni-Cd batteries.

Node B

A UMTS base station – similar to BTS in the GSM network – provides for communication between the mobile network and a mobile telephone or another device using radio frequencies.

O

OLED (Organic Light-emitting Diode) display

A new generation display with excellent technical parameters: more than 16 million colours, a wide viewing angle, the image is high clarity and high contrast with extremely sharp rendering. It is very energy efficient and requires low operating voltage.

OTA

OTA (Over the air) is used for service activation and changes to services without the need to connect the device to a computer. Hardware manufacturers can thus offer users remote updates of the operating software.

P

PAC ID

An identification number that precisely guides a number porting request between operators. The sequence has eleven characters.

PBX (Private Branch Exchange)

A solution of inter-company telecommunications. PBX supports a maximum of 100,000 subscriber units. Different PBX rely on different technology and also differ in the number of branch lines they support.

PDA (Personal Digital Assistant)

A pocket computer combining the functionality of a mobile telephone and a personal computer.

PIN (Personal Identification Number)

A numerical security code. It is used, for instance, to protect the SIM card from unauthorised use. In this case you were given it when you purchased your SIM card. If a wrong PIN is entered three times in a row, the SIM card is blocked and can be unblocked by using the PUK code.

PPPoA / PPPoE
PPPoA / PPPoE is a type of protocol that facilitates data transmission in the internet network. The older type of PPPoA does not support new trends and technologies and fast internet. PPPoE is the current standard in most European countries and supports faster internet and digital television broadcasting.

Prepaid services
A popular method of using telecommunications services; the customer does not commit to the operator in a written contract. Mobile services are paid for through prepaid credit. The credit is charged depending on the service used (calling, SMS, MMS, internet access, etc.). When the credit runs out, it must be topped up to ensure the continuation of service.

Pricing of O2 NEON tariffs
If you are subscribed to O2 NEON and choose O2 Internet for CZK 600 per month, you are eligible for a discount of CZK 100 per month on your O2 NEON subscription. All you need to do is to enter your number associated with the O2 NEON tariff at the check-out in our e-shop. To take advantage of this offer, both services (O2 Internet and O2 NEON) must be subscribed for the same duration of time.

PUK
An eight-digit numerical security code that will unblock a SIM card after previous repeated failed attempts to enter PIN. If PUK is entered incorrectly 10 times, the SIM card is blocked for good and its holder must seek professional assistance in the operator's brand store.

R

Roaming
A function in the GSM mobile network that allows for a mobile telephone to be used in GSM networks of other operators abroad. Roaming services are billed based on inter-operator roaming agreements.

S

Sales Office
A team of certified sales representatives who will see customers in their own offices or in your company.

SAR
SAR (Specific Absorption Rate) is the energy absorbed by a body exposed to the radiofrequency field. Its unit is W/kg, which is the absorption rate per 1 kilogram of weight. The limit in Europe is max. 2.0 W/kg for the head and the torso.

Set-top-box
A device that receives digital broadcasting signal and converts it into images on the connected television set. In addition to channel switching it supports many other functions.

SIM card
A card with a chip containing identification information – the operator's network, phone number, activated services, billing, credit, etc. Mobile telephones require a SIM card to be inserted before they can connect to the network. The SIM card is protected using the PIN security code. SIM cards have a built-in (very small) memory for storing telephone numbers or SMS received.

SIM card blocking
A SIM card can be blocked by the user or by the operator. A user can block a SIM card if they enter a wrong PIN code three times. Unblocking is possible only with the so-called PUK code.
If a wrong PUK code is entered, the SIM card is blocked for good. An operator will block a SIM card (access for the SIM card to the network) in the event of a breach of the contract or on request of the user (e.g. in the case of theft).

SLA
SLA (service level agreement) is an agreement to deliver in a certain quality; sanctions apply when it is breached.

SMS centre
An exchange for despatching short text messages. If the recipient's mobile device is off the network, the message is stored in the network's SMS centre for limited time.

Splitter
A device that splits data traffic from voice traffic in a single fixed telephone line.

Symbian
An open-source operating system by Nokia for mobile devices; it supports a wide range of smartphone applications.

T

Tablet
A portable computer with a touchscreen display, typically 7–10 inches in diameter. iPad from Apple became the first tablet to conquer the mass market; it was followed by a number of other devices, with the Android operating system from Google for the most part. Tablets can be equipped with a built-in 3G module to stay online also in areas without WiFi coverage.

TDMA (Time Division Multiple Access)
A technology used to carry multiple calls in the GSM network. One transmission frequency is shared by several calls based on time division. Each mobile telephone sharing the frequency is assigned a short window within which it receives or transmits on the frequency. The devices alternated in sending/receiving very fast. The sequence of those short windows creates a timeslot during which the mobile telephone communicates with the mobile network's base station and vice versa.

Telematics
Telematics allows for a mobile connection to be used to collect data to be processed later. It is used, among other things, to monitor the movement of vehicles.

TFT (Thin Film Transistor) display
A type of display made of great many small transistors, each controlling a single pixel.
This construction gives a very good quality image as it prevents shadows caused by display movement, and has a contrast of up to 100:1, which is ideal for fast animation. Its energy efficiency and thinness compared to older model add to its advantages.

Timeslot
A transmission channel between a mobile device and a base station in the mobile network, which is made up of quickly alternating and sequenced time windows of receiving/transmitting on a given frequency. A GSM frequency can support 8 timeslots. Mobile data transmission technologies (HSCSD and GPRS) allow using several timeslots simultaneously.

U

UMTS (Universal Mobile Telephony Standard)
The so-called 3rd generation (3G) mobile telecommunication network, which allows data transmission at a speed of up to 42 Mbps.

USSD (Unstructured Supplementary Service Data)
This technology allows operators to provide specific services, such as seeing the amount of credit when calling from abroad, call redirection, etc. Special prefixes activate specific services in the network.

V

VDSL
VDSL (Very High Speed DSL) is a technology for faster data transmission in the existing telephone network. Customer who are within 1.3 km range from the exchange, i.e. approximately a half of all Czech households, can make use of the benefits the technology brings. The high transmission speeds that VDSL offers (up to 25 Mbps downlink and 2 Mbps uplink) are ideal for new applications and the simultaneous running of O2 TV digital television and multiple internet connections at home.

Video Library
The Video Library gives O2 TV customers the option to select and buy programmes via their television screen. Video Library is a virtual video rental directly in your television.

Voice-enabled searching
The search item does not need to be written into the search engine field – saying it is sufficient.

VOIP (Voice over IP)
A call of which a part is carried via the internet. The voice is converted into a data sequence and it is carried via broadband internet lines. Unlike a normal call when the call engages the whole line for its duration, internet telephony can run simultaneously with regular data transmission or other calls.

VPN (Virtual Private Network)
A Virtual Private Network allows for communication between remote devices as if they were in one local network. The service connects all mobile telephones of a company into one virtual network connected to a PBX. Calling between mobile telephones in the virtual network can be done with only short format numbers and user privileges can be configured, as in the case of PBX. The calls within VPN are also charged at very low rates.

W

WAP (Wireless Application Protocol)
A data format for viewing special versions of websites on mobile phone displays. WAP is not so widely used any more as smartphones can display websites in a similar structure and detail as we know from a PC.

WiFi
A wireless network technology that allows the device to be online in the vicinity of the access point. WiFi wireless networks are easy to set up at home, to benefit from your ADSL/VDSL connection on all your household devices – PCs, tablets and WiFi-enabled mobile phones. The network operates in an unlicensed band on the 802.11 standard. O2 offers the so-called HotSpots service for internet access for PCs and mobile phones (enabled for this service).

WiFi modem
A device that is needed to connect a computer (or a computer network) to the internet via the ADSL technology. The WiFi modem is connected to the telephone line and covers the near range with a wireless network, so that multiple computers or other devices can be online simultaneously.

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CAUTIONARY STATEMENT: Any forward-looking statements concerning the future economic and financial performance of Telefónica Czech Republic, a.s. contained in this Annual 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 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 Czech Republic, a.s. could materially differ from those expressed in the forward-looking statements contained in this Annual Report.