Half-year Report 2013

Telefonica

Note:

Telefónica Czech Republic, a.s., hereinafter also as "Telefónica CR" or "Company"
Telefónica Group, hereinafter also as "Telefónica"
Telefónica Czech Republic Group, hereinafter also as "Telefónica CR Group" or "Group"
Telefónica Slovakia, s.r.o., hereinafter also as "Telefónica Slovakia"

Explanation:

The Telefónica Czech Republic Group includes Telefónica Czech Republic, a.s., and its subsidiaries.
The international Telefónica Group comprises companies in Europe, Africa and Latin America.

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Letter from the Chairman of the Board of Directors

1. Letter from the Chairman of the Board of Directors

To Our Shareholders

Let me use this opportunity to briefly revisit the activities and the results of the Telefónica Czech Republic Group in the first half of 2013.

I am pleased that, despite the fiercely competitive market environment and challenging economic situation, we are on a good track to delivering on our year-end objectives set at the beginning of the year. We continue with our transformation of the Company, so that any losses are correspondingly compensated for in those areas which are seeing a dip in the revenues. We managed to contain our operating costs to a reasonable level. Free cash flows saw a 7% year-on-year increase, which puts us in a good position to continue with our investments in projects which have a strategic priority, and it also demonstrates that we are on the right track to achieve our plan for 2013.

Not even in these times we do not let our sight off our customers' needs and wishes. In line with our philosophy and our ambition to assert our leadership in innovation, we launched a greatly simplified mobile tariff proposition from the middle of April – our new FREE tariffs caused a revolution in the Czech telecommunication market. Telefónica changed because of its customers; the competition changed because of us.

The market reaction to the unlimited tariffs was enthusiastic, which demonstrates that the thinking of customers is shifting from price to value. I personally consider it a great success that we managed to wrap more than two hundred various tariff options into three main tariffs. We came with a simple and transparent tariff proposition. And that we were the first in the market to do it has added to our credit. Nobody now doubts our leadership of the market.

The extremely high demand for these tariffs resulted in a significant rise in the number of contract customers of our mobile service in the second quarter of the year – up 52 thousand. In the first half of the year we added 95 thousand new mobile contract customers, reaching a total of 5,082,000 at the end of June 2013. The launch of our new FREE tariffs naturally affected also our financial results for the first half of the year. At the end of the period, almost one third of postpaid consumers migrated to the new tariffs. Shortly after the debut of the FREE tariffs, the spend of many customers went down, but recently we have been seeing a turnaround in the trend as low-spend customers are migrating to higher tariffs.

Our proposition also helped us increase our mobile data revenues, which were up more than 30% on the year. The smartphone penetration in the O_2 network reached 30.4% in the second quarter of 2013. The future is in data, so we have undertaken to educate our customers and advise them how to make the best out of the potential that data technology offers. One such initiative was the campaign Smart Life from this spring.

We are upgrading our network and we are rolling out the new LTE technology in the high-spectrum frequencies we already own in Prague and Brno. In 2013 we plan to invest as much as CZK 6 billion, namely in new technology developments and LTE networks.

The volume of data transmitted in the fixed internet access network is still thirty times greater than the volume of mobile data. We are building up our network of access points; we invest in bringing broadband internet to an even higher number of homes. We are the only ones in the Czech Republic investing in fixed access – and the customer reaps the benefits as, among other things, the speeds are higher while the connectivity prices remain the same.

Affordable prices are however only one aspect of our services. Telefónica Czech Republic focuses namely on excellence in customer care, keeping the customer satisfied to the maximum and maintaining the high quality of our networks. There is no other operator where customers will find such a comprehensive service proposition in such a wide network of stores. In addition to that, more than 120 highly professional assistants O_2 Gurus help customers with their choice of fixed and mobile internet service, internet television O_2 TV or the configuration of the latest smartphones, helping the customers to discover all the advantages of our Smart Network. All our fixed and mobile customers, including business customers, can also take advantage of Extra výhody, a benefits programme which gives them discounts in thousands of our partner sites. No other competitor offers such a scope and comfort of services.

Telefónica Czech Republic has always been the first to bring innovation to the Czech market – and the virtual mobile operator segment is no exception. Already last year we became the first in the Czech Republic to open our network to the first virtual operator BLESKmobil; this spring we partnered with Tesco Stores ČR to start a virtual operator; and in autumn our network will welcome the third virtual operator – this time it will be a venture of the ČEZ power company.

We continued with innovative steps even during the summer. On 29 August 2013, Telefónica Czech Republic and T-Mobile Czech Republic announced that they had started negotiations regarding the consolidation of their current mobile networks. The deal, which is now in the course of preparation, looks to achieve efficiencies in 2G and 3G mobile networks and technologies.

We have had a very successful half-year also in Slovakia where we keep adding new customers, especially those with contracts, which demonstrates the success of O_2 Paušál; this in turn helped increase Telefónica Slovakia's revenues 10% year on year. Telefónica Slovakia's results increase the company's contribution to the consolidated results of the Telefónica CR Group and help improve the Group's overall financial performance.

Luis Antonio Malvido
Chairman of the Board of Directors

02

Calendar of key events

2. Calendar of key events

January

Telefónica CR started offering the roaming tariff Volání bez hranic also to prepaid customers. A single flat rate of CZK 3.90 is applied to all traffic – outgoing and incoming calls and SMS.

Together with its partners GE Money Bank and MasterCard, Telefónica CR introduced mobile payments using a mobile phone enabled for contactless NFC technology and offered the service to the market.

February

Telefónica CR joined the international initiative Safer Internet Day.

A meeting of the Supervisory Board approved certain changes in its personnel composition.

Telefónica CR raised bandwidth caps for selected mobile data tariffs and the speed after reaching the bandwidth cap.

Telefónica CR published its audited consolidated financial results prepared under International Financial Reporting Standards for the fiscal year 2012.

March

The Czech Telecommunication Office (CTO) ruled to cancel the auction for spectrum bands of 800, 1,800 and 2,600 MHz.

Telefónica CR debuted the campaign Smart Life, which gives customers tips for useful applications.

Telefónica CR started offering three types of fixed internet access, which are up to one third more economical than the previous proposition.

The management of Tesco Stores CR and Telefónica CR announced a joint venture to launch Tesco Mobile, a virtual operator, in the Czech market.

Jindřich Fremuth became Director, Residential Division, Telefónica CR. His previous position within the Company was Director, Online Channels, Channel Strategy and Commercial Planning.

Telefónica CR, as it had done for a number of years before, joined the Earth Hour, the world's largest campaign against climate change. The Company dimmed the lights in its buildings and stores.

April

Telefónica CR became the first operator in the Czech market to revolutionize its proposition by introducing unlimited mobile FREE tariffs.

An Ordinary General Meeting of shareholders of Telefónica CR was held.

May

Telefónica CR’s LTE network expanded to include Prague. Several dozen of transmitters in the capital started offering mobile data transmission at the speed of up to 75 Mbps.

Telefónica CR published its financial and operating results for the period January-March 2013.

Changes to the personnel composition of the Supervisory Board and the Audit Committee were approved.

Telefónica Foundation announced its already fifth call for projects for the Think Big programme.

Prepaid customers can now also enjoy unlimited calling and SMS if they activate one of the weekly FREE bundles.

Telefónica CR issued a statement that the terms and conditions of the new auction for the spectrum bands of 800, 1,800 and 2,600 MHz were, as currently proposed, unacceptable to the Company.

A committee of experts, entrepreneurs and investors selected ten projects for the Prague-based Wayra Academy from the 20 shortlisted; two more teams qualified for the Wayra Academy in London.

The online self-service point My O_2 is now available also to self-employed and small business customers.

June

During the summer of 2013, customers will find ten minutes of free calling to all networks in the Czech Republic under the screw top of each competition-edition 0.5 litre Coca-Cola bottle; the total of seven million of free minutes will be given away in the Czech Republic.

Telefónica CR claimed victory in the 11th edition of the national competition Sodexo Employer of the Year.

The Wayra Prague accelerator welcomed the authors of the best-rated projects, to whom it will make available its facilities in the next six months, so that their ideas can be developed and ultimately implemented.

Elections of members of the Supervisory Board elected by employees were successfully held in the period 13-18 June 2013.

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Board of Directors' report on the business

3. Board of Directors' report on the business

3.1 The Czech telecommunications market in the first half of 2013

The first half of 2013 was a turning point for the Czech telecommunications market, with market-changing developments in the fixed access, mobile data and, in particular, mobile voice segments.

The Czech Telecommunication Office cancelled the first spectrum auction for the fourth generation mobile networks (LTE), and proposed the terms and conditions. Telefónica CR started a mobile revolution by launching the unlimited FREE tariffs, and the mobile services market saw the emergence of a number of new providers – virtual operators. The breakthrough decision of Telefónica CR to launch new tariffs, which, in many respects, brought the call rates below the level of Western Europe, proved to be a catalyst of a major industry shift towards greater customer experience. Another new development in the market was the launch of the NFC technology for mobile payments, by an alliance of Telefónica CR, MasterCard and GE Money Bank.

Fixed access

New fixed voice and fixed data services dominated the fixed access market in the first half of the year.

In January, UPC introduced four new fixed voice tariffs. The tariffs, priced from CZK 25 up to CZK 120, come with free call time to all fixed and mobile networks, as well as to selected countries abroad.

In March, Telefónica CR launched a portfolio of fixed internet access tariffs, priced from CZK 353 for Internet Start+ up to CZK 606 for Internet Active+, with a 12-month commitment and automatic renewal of contract by additional 12 months.

In June, Telefónica CR introduced a portfolio of new fixed voice tariffs: Tarify Kamkoliv with free units for calling fixed and mobile networks in the Czech Republic.

Mobile access

The mobile access market in the first half of the year brought mainly mobile internet tariff adjustments and promotions for mobile voice tariffs.

In January, T-Mobile presented a new mobile internet tariff concept, with data limits ranging from 150 MB to 30 GB; the prices start at CZK 149 and go up to CZK 849 per month, with a discount of CZK 150 if the customer also subscribed to a mobile voice service. In May, T-Mobile launched a HSPA+ 42 service in the centre of Prague, in Karlovy Vary, Pilsen and Hradec Králové.

In March, Telefónica CR also adjusted its data tariff structure and raised the data limits for selected tariff options. In May, the Company went live with its fourth generation mobile LTE network in Prague; the network offers data transmission speeds of up to 75 Mbps.

In April 2013, Telefónica CR launched new revolutionary FREE tariffs supported with a massive campaign. For CZK 249, customers of the FREE O_2 tariff get unlimited calls and SMS to all numbers in the O_2 network. The tariff FREE O_2 Plus for CZK 499 comes with additional 120 minutes of calling to other mobile networks and a 150 MB data allowance. The tariff FREE CZ offers unlimited calling and SMS to all networks, plus a 1 GB data allowance, all for CZK 749.

T-Mobile and Vodafone responded in a few days with replicated propositions, which were different only in several parameters. T-Mobile offers unlimited calls and SMS to all networks also for CZK 749 but with a 1.5 GB data allowance. Vodafone's RED tariffs launched in May include the same option for CZK 699 and 1.2 GB of free data.

Virtual operators

The month of May saw a boom in the virtual operator market that came with the emergence of new mobile service providers: Tesco Mobile, which uses the Telefónica CR's network, and Mobil.cz and GTS, which use the network of T-Mobile. GTS debuted also a mobile proposition for business customers, and let other smaller players in the consumer segment use its platform for their mobile service. Mobile voice service is now available also from a number of providers: 99 Mobile, GoMobil, HelloMobile, Komutel, ha-loo, Air Telecom and Relax mobil. New virtual operators offer a prepaid service from CZK 1 per minute of on-net calling, and CZK 1.50 per minute of off-net calling. Contract tariffs are now available for prices ranging from CZK 0 up to CZK 799; there are options from zero free minutes or SMS to unlimited usage. The price per minute of calling ranges from CZK 0.49 on net and CZK 1.49 off net.

3.2 Regulation

Several changes occurred in the first half of 2013 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.

Below are the main changes to the legislation in the area of electronic communications:

- Adoption of a bill no. 836 by the Czech Parliament, amending the Act No. 127/2005 Coll., on electronic communications, and on the amendment to some related laws (Electronic Communications Act). The amendment of the Electronic Communications Act imposes on electronic communications services providers (including Telefónica CR) namely the following significant duties relating to contracts for the provision of a public service of electronic communications and contracts for the connection to a public communications network:
  - The duty to allow the customer to cancel a fixed-term contract at the same terms and conditions that apply to open-ended contracts.
  - The duty to provide to the customer, in the form the customer had chosen to receive bills, information regarding the way of cancellation of a fixed-term contract, which contains a clause on an automatic renewal, between the third and the first month prior to the expiration of the current term of the contract.
  - The duty to state in the contract the amount the customer has to pay in the event of before-term contract cancellation (e.g. a contractual penalty), while the amount to be paid may not exceed one fifth of the sum of flat monthly payments (or minimum charges) remaining until the agreed end of the term of the contract, and the amount corresponding to the cost of the terminal equipment provided to the customer at preferential terms.

- The duty to give the customer a written statement of all contractual requirements as per the law (approximately 26 items); immediately and after each instance of a remote conclusion or amendment of a contract.
- Upon failing to provide information as per the above point, the start of the statutory period in which the consumer can cancel the contract or its amendment, which had been concluded remotely or outside commercial premises, is postponed until the moment when the consumer receives the information as per the above point in writing.
- A breach of any of the above duties will result in an imposition of a fine up to the limit of CZK 20,000,000 by the Czech Telecommunication Office.

- Adoption of the Decree No. 73/2013 Coll., amending the Decree No. 486/2005 Coll., laying down the amount and method of payment of the costs effectively incurred in installing and securing telecommunication terminal equipment for message interception and recording, for maintaining and provision of traffic and location data, and for the provision of information from the database of subscribers to the publicly available telephone service.

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.

The CTO retracted its draft price decision for call termination in fixed public networks based on a cost-plus model (the so-called BU-LRIC method) after receiving comments from the European Commission in December 2012. The new proposal of regulated maximum prices for the termination of calls in fixed public networks can be, as per CTO's statement, expected after the relevant market analysis is completed in the second half of 2013.

Based on price decisions CEN/7/12.2012-5 and CEN/7/02.2013-1, the maximum regulated price for call termination in mobile public networks was reduced, with effect from 1 January 2013, to CZK 0.41 per minute for new contracts, and, with effect from 1 April 2013 also for existing contracts. The application of the BU-LRIC costing method to the mobile termination rates reduced the maximum regulated prices further to CZK 0.27 per minute, with effect from 1 July 2013. Telefónica CR objected to the costing model used, and employed available legal means in its challenge.

A price decision, CEN/4/06.2013-3, was issued in the first half of the year for the service of Local Loop Unbundling, which reduced the monthly lease charges for the metallic cable from CZK 197 down to CZK 179 for full access, and from CZK 39 down to CZK 30 for shared access.

In the first half of the year, the CTO continued with the third round of the relevant markets analysis and invited comments to draft market analysis papers for market no. 2 – call origination in a public telephone network at fixed location; no. 8 – access and call origination in public mobile telephone networks; no. 4 – wholesale (physical) access to network infrastructure (including shared or full local loop unbundling) at fixed location; and no. 5 – wholesale broadband access in electronic communications networks.

In the first quarter, the CTO also commenced analysis of markets no. 3 and no. 7 – voice call termination in fixed and mobile public networks; the consultation process for these two markets was concluded in May and June.

Regulation of international roaming

A new regulation of international roaming, which defines the regulated roaming services and prices in the EU until 2022, was passed by the European Parliament and the Council of Ministers in the first half of 2012. The adopted roaming regulation brought down further, with effect from 1 July 2012, the regulated roaming voice and SMS prices, expanded the scope of regulation to roaming data services, and strengthened the protection of the end users.

The retail incoming call rates did not change in the first half of 2013 and remained as were: CZK 2.30 per minute of an incoming call; CZK 8.70 per minute of an outgoing call; one SMS is priced at CZK 2.60; and the price per 1 MB of data remained at CZK 20.

Imposition of duties related to the Universal Service

The Company provided the following services during the first half of 2013 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.

Based on a CTO decision, the Company has the duty to operate one public payphone or similar equipment in municipalities under 1,999 residents from 1 January 2013. In municipalities over 2,000 and under 4,999 residents, the Company has the same duty if the location in question is not covered with a GSM signal of sufficient quality. The arrangement under (a) applies until the end of 2014.

Regarding the services under (b), the CTO decided that the Company had the duty to offer special terminal equipment to the designated categories of people with disabilities as part of the Universal Service for a period of three years from 15 July 2012.

As to the services under (c), the Company continued to meet its duty to offer special pricing to nominated categories of persons with disabilities under the Universal Service obligation imposed by the CTO, for a period of three years commencing on 2 July 2011.

Funding of the Universal Service

In the first half of the year, Telefónica CR commenced work 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 2012. The claim will be officially presented at the beginning of the second half of 2013. The CTO will subsequently verify the amount of the claim and examine the underlying documents supplied with the claim.

State policy and support in the area of broadband internet access

With respect to the objectives stated by the European Commission in the Digital Agenda for Europe, the Czech government approved an updated version of its digital policy – Digital Czech Republic 2.0. The document contains measures to support the development of new generation networks, releasing of additional spectrum and the protection of network neutrality.

After the tender for 800 MHz, 1,800 MHz and 2,600 MHz frequencies had been cancelled, the part of the proceeds that the government intended to go towards supporting the development of broadband internet did not materialize. The plan is to earmark a part of the proceeds from the new spectrum auction for supporting access to broadband internet.

Structural funding from the EU continued to support various projects in the area of ICT development in public institutions as well as in the private sector.

The European Commission put for public consultation its draft regulation on measures to reduce the cost of deploying high-speed electronic communications networks.

The Czech government continued with the drafting of operational programmes of the EU Structural Funds for the programming period 2014-2020. The ICT area falls, for the most part, under the Operational Programme Enterprise and Innovation for Competitiveness, which plans to fund, through subsidies, the rollout of broadband internet networks.

The Company is constantly monitoring options offered to customers by the Structural Funds, and modifies its products and services so that they are eligible for subsidies. And also successfully participated in tenders for projects co-funded from the Structural Funds. The Company is a member of prominent industry associations that work to develop the market in electronic communications in the Czech Republic: ICTU (Association for Information Technologies and Telecommunications), APMS (Association of Mobile Network Operators), ČAT (Czech Telecommunications Association) and ČAEK (Czech Association of Electronic Communications). It is also a member of several other structures that are important for its activities: HK ČR (Chamber of Commerce of the Czech Republic), SDT (Association for Telematics in Transport) and others.

3.3. Telefónica Czech Republic Group in the first half of 2013

3.3.1 Telefónica Slovakia

In the first half of 2013, the company continued to offer its products O_2 Paušál and O_2 Fér in the consumer segment, and O_2 Moja Firma for entrepreneurs and small businesses**.** The number of postpaid customers increased 23.4% year on year to 709 thousand. The proportion of postpaid customers grew by 3.7 percentage points to 49.7%, mainly as a result of the popularity of O_2 Paušál with customers, as their numbers continued to rise.

For the fourth time in a row, O_2 was voted the Mobile Operator of the Year in an independent poll.

An independent survey by Ipsos Tambor and Telefónica Slovakia confirmed that O_2 again, in both quarters of the first half of 2013, achieved the highest level of customer satisfaction among all Slovak mobile operators.

Telefónica Slovakia confirmed again its position of a leader in technology. After being the first to have launched the commercial LTE test run in 2012, at the beginning of the this year the company became the first operator to make NFC payments available to its customers, in partnership with Tatra banka. Tatra banka is a clear technology leader in the Slovak banking sector and has the most extensive experience with contactless payments.

In the first quarter of 2013, Telefónica Slovakia introduced a major change for all consumers: calls and SMS to all EU countries at national rates for all new and existing customers. The service is provided without any activation or monthly fee.

Shortly after the launching the unique proposition of calls and SMS to all EU countries at Slovak rates for all customers, Telefónica Slovakia came through with the most extensive re-vamp of the O_2 Fér tariff for contract and prepaid customers in the last three years. The most popular benefit of on-net calling for free after the third paid minute of call became 'call for free in the O_2 network after the first minute'.

In addition to improvements to its customer proposition, Telefónica Slovakia sought to increase the added value of its proposition through the loyalty programme Extra výhody. Discounted public transport fare is the most popular benefit of the programme. In the run-up to the summer season, Telefónica Slovakia gave its customers discounts on fuel, travel products and services, as well as a number of other benefits. Customers with smartphones can also download a Extra výhody app.

As at 30 June 2013, Telefónica Slovakia recorded 1.428 million customers in total, of which 709 thousand were in the postpaid segment. This represents a year-on-year increase in the customer base by 14.2%. Since the launch of free number portability (November 2008) until 30 June 2013, customers ported more than 571 thousand telephone numbers to the O_2 network.

The company's revenues reached EUR 102 million in the first half of 2013, which is an increase of 10.0% year on year. Telefónica Slovakia also posted a positive operating profit before depreciation and amortization (OIBDA), up 24.3% year on year.

3.3.2 New products and services

Mobile segment

In the constantly changing market conditions, the Company always follows the needs and wishes of its customers. In line with this approach, and looking to confirm its leadership in innovation and the position of the strongest brand in the market, the Company caused a revolution in the Czech market on 11 April, when it unveiled its new FREE tariffs. The simple and transparent tariffs give all customers unlimited on-net calls and SMS, which means unlimited calling to approximately 7 million numbers. The higher-end FREE CZ tariff comes with unlimited calls and SMS to all networks, plus a 1 GB data allowance.

The way the market reacted to the unlimited tariffs was wholly positive and clearly demonstrated the shift in the customer preference from price to value. By 30 June, almost one third of consumer customers with contracts had switched to the new tariffs. The Company managed to further strengthen its market leadership as it forges ahead with its strategy to be leader in innovation in the Czech mobile market.

From 20 May, also prepaid customers could enjoy unlimited calling and SMS if they activated one of the three FREE weekly bundles.

In the mobile data area, the Company continued to support the sales of smartphones through implementing a pay-by-instalment scheme, guaranteeing the best price in the market on all models sold, and offering a generous data allowance with its new FREE tariffs. As a result, smartphones made up close to 70% of all handset sales in the first half of 2013, with the second quarter surpassing the first one. The smartphone penetration[1] also continued to grow; it was 30.4% at the end of June 2013, which is an increase of 7.5 percentage points year on year.

[1] Smartphones as % of total O_2 handsets base

The Company incentivised its customers to use mobile data when it launched, in early March, the campaign Smart Life, which demonstrated the wealth of applications that comes with data connectivity, and gave useful pointers how customers can start using them to their benefit. The Company also maintained its leadership in the customer-perceived best quality of mobile internet service.

The over-haul of data tariffs for mobile devices including notebooks, which came in February, was also instrumental in growing the base of customers who use smartphones. Telefónica CR increased data limits for selected data tariffs, and was the first one in the market to offer considerably higher browsing speeds after the data limit (Fair User Policy, FUP) is reached. The data limits were increased in tariffs designed for users with higher data demands, which included the majority of mobile internet users and heavier smartphone users. The tariff aimed at occasional small-screen internet users remained as was. The Company came with the FUP increase to let all customers use now common services – email, web browsing or various smartphone applications – without limitation. After using up the free data units, the connection speed is still reduced, but now to 200 kbps, which is more than six times of the original speed (32 kbps).

From mid-May, O_2 customers could connect to the LTE network offering a theoretical downlink speed up to 75 Mbps, uplink speed up to 38 Mbps; the LTE network covers the wider centre of Prague.

At the same time, the speed in O_2 3G network also increased in some locations as a result of the deployment of the new version of the HSDPA and HSPA+ standard. The theoretical maximum speed in the whole O_2 3G network thus improved to 14.4 Mbps; in some locations it is now 21 Mbps or 42 Mbps in some instances.

As a result of the Company's efforts to streamline the proposition and make it as transparent as possible, the popular roaming tariff Volání bez hranic was adapted for the prepaid segment. From 23 January, everything – a minute of an incoming or outgoing call and one SMS – is charged at the single rate of CZK 3.90. Outside the European Union, each call also attracts the so-called set-up charge, in addition to the roaming charge; the amount of the set-up charge depends on the country where the customer is travelling.

Since the beginning of 2013, the Company has been applying a more conservative approach to the activity criterion for the reporting mobile customers, which has led to the disconnection of 114 thousand mobile contract customers, with effect from 1 January 2013. The action had no impact on revenues.

Fixed segment

In the first half of 2013 and in the fiercely competitive and decelerating marketplace, the Company continued to post solid commercial and financial performance; this is attributed to the growing wholesale voice revenues and the success of the VDSL proposition. The ongoing migration of ADSL customers to the VDSL service also helped to contain the declining average revenue per broadband user (broadband ARPU) and to stabilise the churn at a low level.

The total number of fixed accesses went down 6.6% and reached 1,439 thousand at the end of June 2013. The fixed access losses over the first half of 2013 totalled 61 thousand. In the second quarter of 2013, the Company managed to further slow down the losses of fixed accesses compared to the first quarter.

As at 30 June 2013, the number of xDSL accesses stood at 921 thousand, up 3.1% year on year, thanks to the improved xDSL proposition. On 15 March 2013, the Company offered its customers three new fixed internet access tariffs, which were up to one third cheaper. From mid-March, customers could subscribe to the new tariff Internet Optimal+, which gave them up to 20 Mbps downlink speed for CZK 505 per month. The price of Optimal+ was conditional on concluding a contract for one year with automatic prolongation and price guarantee for the full term of the contract.

The total of 310 thousand customers (up 49.5% year on year) have already subscribed to the upgraded VDSL service by the end of the first half-year, which represents 37% of the total xDSL consumer base and 74% of the total addressable existing consumer base (approximately 50% of all households). The total number of O_2 TV customers reached 142 thousand at the end of June 2013, up 2.1% year on year.

3.3.3 Comments on the financial results

Consolidated Financial Statements

In H1 2013, the consolidated operating revenues went down 5.0% year on year to CZK 23,905 million. Excluding the impact of the mobile termination rates (MTR) cuts (from CZK 1.08 per minute in H1 2012, the MTR were reduced to CZK 0.55 in Q3 2012 and further to CZK 0.41 in Q2 2013), the decline would be 2.4% year on year.

Fixed operating revenues in the Czech Republic declined 4.2% year on year, reaching CZK 10,144 million in H1 2013 and exhibiting a more positive trend compared to 2012, with improved year-on-year dynamics in Q2 2013 compared to Q1 2013.

Mobile operating revenues in the Czech Republic saw a 8.7% year-on-year decline down to CZK 11,269 million in H1 2013, largely on the back of the MTR cuts and intensified competitive pressures against the decline in traditional voice and messaging revenues. Conversely, the Company is harvesting the benefits of its data-centric proposition, with a growth of 21.4% year on year in the non-messaging data revenues (excluding CDMA), which was significantly boosted in Q2 2013 by the introduction of the new FREE tariffs. Excluding the MTR cut impact, the mobile operating revenues would go down 3.3% year on year in H1 2013.

Revenues in Slovakia continued to follow a positive trend and recorded a 10.0% year-on-year increase to EUR 102.0 million in the first half of 2013 (+23.1% year on year excluding the impact of the MTR cuts).

In H1 2013, the Company continued with its efforts to deliver efficiencies in both the commercial and non-commercial areas of its operations. Total consolidated operating costs went down 4.1% year on year to CZK 14,781 million in H1 2013. Personnel expenses (excluding the restructuring costs) went down 5.9% year on year as the Group continued its restructuring program focused on building a leaner and more efficient organisational structure. In H1 2013, the total Group headcount was reduced by 596 employees. As a result, the Group headcount reached 5,679 at the end of June 2013, representing a 10.9% year-on-year reduction. Moreover, the launch of FREE tariffs in Q2 2013 has helped the Company to further simplify its business model and to eliminate handset subsidies in the consumer segment.

On a fully comparable basis (i.e. excluding non-recurring items mentioned below), the OIBDA would decline 6.9% year on year, while the comparable OIBDA margin would reach 39.7% in H1 2013, down 0.8 percentage points year on year. Guided OIBDA margin[2] reached 38.2% in H1 2013, while in Q2 2013 it was 39.9%, showing a substantial improvement over Q1 2013 (+3.4 percentage points). Guided Operating income before depreciation and amortization (OIBDA)[3] reached CZK 9,141 million in H1 2013, down 10.3% year on year. The year-on-year performance has been impacted by the CZK 220 million gain from the sale of non-core assets in H1 2012 (80% stake in Informační linky, a.s.) and the higher restructuring costs booked in H1 2013 (CZK 354 million) compared to H1 2012 (CZK 223 million). Reported OIBDA (including brand fees and management fees) reached CZK 8,615 million in the first half of the year.
Depreciation and amortization charges went down 3.0% year on year, reaching CZK 5,517 million in H1 2013. Consolidated net income excluding aforementioned non-recurring items in H1 2012 and H1 2013 went down 15.7% year on year, largely due to the decline in the comparable OIBDA. The reported net income amounted to CZK 2,393 million, down 26.5% year on year.

Consolidated CapEx reached CZK 2,208 million in H1 2013, up by a slight 1.6% year on year. The Company continued to focus on efficient investments in growth areas. These include largely further capacity expansion and quality improvements in the mobile broadband network, to satisfy the growing demand for mobile data services. In H1 2013, the Company commenced the deployment of LTE network in the existing 1,800 MHZ band spectrum, and launched an LTE service in selected parts of Prague on 15 May 2013, which will be followed by an LTE rollout in Brno in Q4 2013. The Company also directed its investments into capacity enhancement in its fixed broadband networks and into VDSL expansion.

Consolidated free cash flows surged 7.8% year on year and reached CZK 4,642 million in the period from January until June 2013. Cash from operating activities recorded a positive development (+2.1 % year on year) due to a focus on working capital cash management, lower interest and income tax payments. Cash used in investing activities went down 5.6% year on year as a result of a combination factors: the lower proceeds from the disposal of fixed assets (H1 2012 results were influenced by the proceeds from the disposal of 80% of shares in the subsidiary Informační linky, a.s., which amounted to CZK 240 million), and a 4.8% decrease in payments for CapEx.

The consolidated long-term financial debt stood at CZK 3,000 million at the end of June 2013, flat compared to the end of 2012. At the same time, the cash and cash equivalents reached CZK 6,922 million.

Overview of the mobile segment in the Czech Republic

In the changing market environment, the Company continuously monitors the needs of its customers. In line with this approach and looking to confirm its leadership of the market, in the middle of April the Company considerably streamlined its portfolio of mobile tariffs and launched the new FREE tariffs. The simple tariffs with transparent pricing give the customers more value: unlimited on-net calls and SMS in each package, with the FREE CZ tariff offering unlimited all-net calls and SMS plus a 1GB data allowance. The market reaction to the new flat-rate tariffs was very positive and clearly demonstrated the shift of customer preference from price- to value-oriented propositions; and by 30 June, nearly one third of the consumer contract base had migrated to the

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[2] OIBDA excluding brand fees & management fees / Operating revenues

[3] In terms of the 2013 guidance calculation, OIBDA excludes brand fees and management fees, 2013 guidance excludes changes in consolidation, includes potential capital gains from sales of non-core asset, assuming constant FX rates of 2012

new tariffs. Moreover, the Company has further strengthened its leading market position as it continues in its commitment to be the innovation leader in the Czech mobile market.

The underlying trend of financial performance has not changed in Q2 compared to Q1 2013 (Q2 MGSR, excluding the impact of MTR cuts, declined 5.3% year on year, compared to a 5.2% decline in Q1) owing to a spend optimization by high-spending customers, which was offset by the up sell of lower spending customers.

In the mobile internet area, the Company continued its support of smartphone sales by introducing the option to pay by instalments, keeping the best price guarantee for bestselling smartphones and offering a data allowance as part of the new FREE tariffs. As a result, smartphone sales represented close to 70% of total handset sales in H1 2013, with the share of smartphones increasing in Q2 over Q1 2013. The smartphone penetration[4] continued to grow, reaching 30.4% at the end of June 2013, up 7.5 percentage points year on year.

Since the beginning of 2013, the Company has been applying a more conservative approach to the activity criterion for reporting mobile customers, which has led to a reduction of the reported mobile contract customers by 114 thousand, with effect from 1 January 2013, with no impact on revenues.

The total mobile customer base reached 5,082 thousand at the end of June 2013, which is an increase of 2.3% year on year, despite the reduction of the inactive part of the contract base, as mentioned above. The total net additions amounted to 113 thousand, excluding the above adjustment; customer net additions in the same period of 2012 were negative. The trend has been helped by the good traction in the contract segment throughout the H1 2013, and the positive performance of the prepaid segment in Q1 2013. The number of contract customers grew 1.9% year on year, reaching 3,173 thousand. Net additions during the first half of the year reached 95 thousand excluding the impact of the customer base adjustment; the rate of addition accelerated in Q2 2013 to 52 thousand. The growth was fostered mainly by solid trading, sustained low churn, and customers migrating from the prepaid to the contract segment after the launch of the FREE tariffs in April 2013. The number of prepaid customers reached 1,909 thousand at the end of June 2013, up 3.0% year on year, with positive net additions of 18 thousand in the first half of the year.

The blended monthly average churn rate reached 2.2% in H1 2013; the contract churn was 1.6% due to the adjustment in the customer base. The contract churn excluding the adjustment remained low at 1% (flat year on year). The prepaid churn went slightly up by 0.1 percentage point to 3.3%.

In terms of usage, the total mobile traffic[5] carried in the O_2 network in the Czech Republic reached 5,133 million minutes in H1 2013, up 8.4% year on year, supported by the high adoption rate of the unlimited FREE tariffs.

In H1 2013, the total mobile ARPU declined 14.9% year on year to CZK 337.40, mainly as a result of the MTR cuts and the lower effective prices for outgoing traffic due to the initial dynamics of customer swich-rate to the new tariffs (initial spend optimization vs. consecutive up-sell). Excluding the impact of the MTR cuts, the total ARPU would decline 9.4%. The contract ARPU went down 15.2% year on year in comparable terms, reaching CZK 449.70 in the quarter. The prepaid ARPU decreased 14.2% year on year to CZK 151.

[4] Smartphones as % of total handsets base
[5] Inbound and outbound, including roaming abroad, excluding inbound roaming

Total operating revenues from the mobile segment in the Czech Republic declined 8.7% year on year to CZK 11,269 million in H1 2013. At the same time, mobile gross service revenues went down 11.0% year on year to reach CZK 10,363 million. The constant competitive pressures leading to a lower spend, together with MTR cuts, continued to be the key drivers of the downward trend. Excluding the impact of the MTR cuts, the gross revenues from the mobile segment would in the first half of the fiscal year go down 5.3% year on year. Mobile originated voice revenues declined 9.7% year on year to CZK 6,469 million, while messaging (SMS & MMS) revenues were 19.7% lower due to the lower effective per unit price. Terminated revenues went down 31.4% year on year to CZK 1,150 million in H1 2013, largely due to the MTR cuts which were not fully compensated by higher incoming traffic. On the other hand, non-messaging data revenues improved considerably by 13.1% year on year (+21.4% excl. CDMA), reaching CZK 1,627 million, supported by the growing revenues from mobile internet, and remained the key growth driver of mobile revenues.

Overview of the fixed access segment in the Czech Republic

In the first six months of 2013, the Company continued to report solid commercial and financial performance on the back of a healthy growth in the voice wholesale revenues, boosted by the successful VDSL proposition to the broadband customer base in the highly competitive and slowing market. In addition, the ongoing migration of ADSL customers to the VDSL service helps the Company manage the fixed broadband ARPU dilution and sustain a low rate of churn.

The total number of fixed accesses declined 6.6% year on year down to 1,439 thousand at the end of June 2013, with 61 thousand net losses during the half-year. The Company managed to slow down the rate of fixed access cancellations in Q2 2013 compared to Q1 2013.

The number of xDSL accesses reached 921 thousand at the end of H1 2013, up 3.1% year on year as the xDSL proposition improved. The total of 310 thousand customers (up 49.5% year on year) have already subscribed to the upgraded VDSL service (50 thousand net additions in the first half of the year), which represents 37% of the total xDSL consumer base and 74% of the total addressable existing consumer base (approximately 50% of all households). The total number of O_2 TV customers reached 142 thousand at the end of H1 2013, up 2.1% year on year.

Total fixed operating revenues in the Czech Republic went down 4.2% year on year to CZK 10,144 million in H1 2013, while in Q2 2013 alone the year-on-year drop was only 2.9% mainly due to the significant growth in voice wholesale revenues and an upsurge in the ICT business. Revenues from retail voice services followed the trend and fell 17.8% year on year, in line with performance in the previous periods, and reached CZK 2,359 million, in which the continuing fixed voice losses were the key factor. Wholesale voice revenues improved by 16.1% year on year in H1 2013 to CZK 2,229 million; internet & broadband revenues (incl. IPTV) fell 2.6% year on year to CZK 3,054 million in H1 2013, resulting from a combination of a growth in the number of xDSL customers, customer migration to VDSL and ARPU pressures. ICT revenues went up 3.2% year on year to CZK 1,028 million, with a significant growth of 11.4% in Q2. The performance was driven by the higher revenues from recurring managed services, in line with the Company’s strategy to focus on innovative ICT solutions to mitigate the dependency on one-off projects for the public sector.

Slovakia

In H1 2013, Telefónica Slovakia reported a solid commercial and financial performance. At the end of June 2013, the total number of customers reached 1,428 thousand, posting a 14.2% year-on-year growth. Their number increased 74 thousand in the first half of the year, owing to a solid performance of the contract customer base and a growth in the prepaid segment. The number of contract customers grew 23.4% year on year, reaching 709 thousand at the end of June 2013 (+50 thousand in H1), while the number of prepaid customers increased 6.4% year on year, ending up at 719 thousand. Consequently, the customer mix in Slovakia further improved and contract customers represented nearly half of all customers (49.7% of the total customer base at the end of H1 2013, up 3.7 percentage points year on year.)

In terms of financial performance, the total operating revenues of Telefónica Slovakia in local currency increased 10.0% year on year to EUR 102 million in H1 2013. Excluding the impact of the MTR cuts, the rate of growth would be 23.1% - fuelled by the growing customer base, refreshed proposition, improving customer mix and the Company's focus on acquiring higher-value customers. At the same time, the OIBDA of Telefónica Slovakia went up 24.3% year on year to EUR 31.4 million, resulting in a healthy 30.7% OIBDA margin. Contract ARPU reached EUR 15.40, while prepaid ARPU was at EUR 7.30.

Outlook for the second half of 2013

Based on the results of the first half of 2013 and the outlook for the second half of the year, Telefónica CR Group confirms its full year guidance in all levels:

	2012 base	2013 guidance
OIBDA margin[6]	41.4%	Limited margin erosion y-o-y
CapEx[7]	CZK 6.2 billion	Less than CZK 6 billion, increasing proportion of investments in growth areas (mobile data, LTE and new technologies/businesses)

[6] OIBDA before brand fees & management fees; 2013 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2012

[7] Excluding investments into spectrum licence (2013) and business acquisitions

04

Corporate governance

4. Corporate governance

Subsidiaries, associates and other ownership interests

The following changes from the situation described in the 2012 Annual Report occurred in the structure of companies in the Telefónica Czech Republic Group in the first half of 2013:

Informační linky, a.s.

In March 2013, Telefónica CR signed an agreement to sell the remaining 20% of shares in Informační linky, a.s. This move followed the sale of 80% of shares in the company in 2012. As a result, Informační linky, a.s. effectively ceased to be a part of the Telefónica Czech Republic Group.

Tesco Mobile ČR s.r.o.

On 14 March 2013, Telefónica CR entered into a shareholder agreement with Tesco Stores ČR, a.s., and an agreement to transfer the ownership interest, under which it became a member in Tesco Mobile ČR s.r.o. holding 50% of the company.

Telefónica Slovakia, s.r.o.

In March 2013, the sole member of the company approved a reduction of its registered capital by way of reducing the nominal value of a member's contribution by the amount of EUR 136,796,563, i.e. from EUR 240,000,000 to EUR 103,203,437. The reduction of the registered capital was recorded in the Commercial Register on 30 July 2013. The reason for the reduction of the registered capital was to improve the capital structure of the company. The amount by which the registered capital had been reduced was used to cover for accumulated losses from the previous accounting periods.

The organisation of Telefónica CR

In the reported period, no changes occurred in the organisation of Telefónica CR from the situation described in the 2012 Annual Report.

Governing bodies and Executive management of Telefónica CR

General Meeting

The Ordinary General Meeting of Telefónica CR was held on 22 April 2013 and approved the following:

- The Company's financial statements and the consolidated financial statements for the year 2012 prepared under the International Financial Reporting Standards (IFRS). Both sets of statements were recommended by the Board of Directors of the Company for approval, and audited by the auditor Ernst & Young, which gave both sets of statements an unqualified opinion.
- Distribution of unconsoidated profit for the year 2012 and retained earnings from previous periods. The proposal was based in a diligent analysis by the Board of Directors of the Company's results in the past period, the present balance sheet situation and the expected future results of the Company, including investment plans and future cash flow generation estimates.
- The payment of dividends from the profit for the year 2012, amounting to CZK 5,911,412,358.38, and from a part of the retained earnings of the previous periods, amounting to

CZK 530,385,641.62, totalling CZK 6,441,798,000. This represents a dividend of CZK 20 before tax per each share in the nominal value CZK 87. A dividend of CZK 200 before tax will be due on the share in the nominal value CZK 870.

- The distribution of a part of the share premium, amounting to CZK 3,220,899,000, among the shareholders. Each share in the nominal value CZK 87 will attract a payment of CZK 10 before tax; the amount of CZK 100 before tax will be paid to the share in the nominal value CZK 870.
- A reduction of the share capital by way of cancelling 2% of own shares acquired by Telefónica CR in 2012 as part of its share buy-back programme. The share capital will be reduced by CZK 560 m in total. The cancelled shares were acquired for CZK 2,483 m. The share premium will be reduced by the amount of CZK 1,922 m, which is the difference between the acquistion price and the nominal value of the cancelled shares.
- An amendment of the Articles of Association. The main changes included the addition of consumer credit providing and mediation to the registered business of the Company. Furthermore, the numbers of members of some governing bodies changed: the number of members of the Supervisory Board changed from the present twelve to nine; the number of members of the Nomination and Remuneration Committee went down from the present five to three. The changes concerning the governing bodies went into effect as of 30 June 2013.
- A change in the rules for awarding non-claim perquisites to members of the Supervisory Board and to members of the Audit Committee.
- The General Meeting also confirmed by vote members of the Supervisory Board and members of the Audit Committee, and elected new members (for details see below).

Board of Directors

The Board of Directors met twelve times in the first half of 2013. Petr Slováček, whose five-year term expired on 15 June 2013, was re-elected by the Supervisory Board meeting as member of the Board of Directors as of the same date. The Board of Directors also elected him as its 2nd Vice-chairman at its meeting of 27 June 2013.

Members of the Board of Directors

Luis Antonio Malvido	Chairman
David Melcon Sanchez-Friera	1st Vice-chairman
Petr Slováček	2nd Vice-chairman
Martin Bek	Member
Jakub Chytil	Member
Ramiro Lafarga Brollo	Member
František Schneider	Member

Supervisory Board

Two scheduled meetings of the Supervisory Board were held in the first half of 2013. Personnel changes in the composition of the Supervisory Board effective from 13 February 2013 are described in the 2012 Annual Report (section Corporate governance). The following changes in the later period before the close date of the Half-year Report:

- The General Meeting of 22 April 2013 confirmed the membership of Jesús Pérez de Uriguen and Antonio Manuel Ledesma Santiago in the Supervisory Board, to which they had both been co-opted previously. The General Meeting elected Francisco de Borja de Nicolás Benito as new member of the Supervisory Board. The résumé of the new member can be found on the Telefónica CR's website section About/Corporate Governance.

- Ángel Vilá Boix, Patricia Cobian Gonzalez and Enrique Medina Malo resigned from their membership in the Supervisory Board on 6 May 2013; Ivan Varella Sanchez was co-opted by the Supervisory Board as of the same date.
- The five-year term of Lubomír Viduška, Pavel Herštík, Dušan Stareček and Tomáš Firbach, all members of the Supervisory Board elected by employees, expired on 29 June 2013.
- Elections of members of the Supervisory Board elected by employees were held in the period 13-18 June 2013. A total of 3,711 employees of the Company took part in the elections, which represents 63.04% of the total eligible votes; the elections were valid. Lubomír Vinduška, Antonín Botlík and Jiří Trupl were elected by employees as members of the Supervisory Board for a five-year term commencing on 30 June 2013.
- On 19 July 2013, the Supervisory Board re-elected Lubomír Vinduška as its 2nd Vice-chairman.
- On 19 July 2013, the Supervisory Board resolved to reduce the number of members of the Ethics and Corporate Social Responsibility Committee, from six to four. Antonín Botlík, Jiří Trupl, Francisco de Borja de Nicolás Benito and Ivan Varela Sanchez were elected members of the committee as of the same date.

Members of the Supervisory Board

María Eva Castillo Sanz	Chairwoman
Maria Pilar López Álvarez	1st Vice-chairwoman
Lubomír Vinduška	2nd Vice-chairman
Antonín Botlík	Member
Antonio Manuel Ledesma Santiago	Member
Francisco de Borja de Nicolás Benito	Member
Jesús Pérez de Uriguen	Member
Jiří Trupl	Member
Ivan Varela Sanchez	Member

Audit Committee

The Audit Committee held two scheduled meetings in the first half of 2013. Personnel changes in the composition of the Audit Committee effective from 13 February 2013 are described in the 2012 Annual Report (section Corporate governance). The following changes in the later period before the close date of the Half-year Report:

- Jesús Pérez de Uriguen and Antonio Manuel Ledesma Santiago were elected as members of the Audit Committee on the General Meeting of 22 April 2013. The General Meeting also elected substitute members Francisco de Borja de Nicolás Benito, Lubomír Vinduška and Ivan Varela Sanchez.
- María Eva Castillo Sanz tendered her resignation from the position of Chairwoman and member of the Audit Committee as of 6 May 2013. Francisco Borja de Nicolás Benito, previously a substitute member, stepped in to fill the vacancy.
- On 6 May 2013, the committee elected Maria Pilar López Álvarez as its Chairwoman and, on the same date, Jesús Pérez de Uriguen as its Vice-chairman.

Members of the Audit Committee

Maria Pilar López Álvarez	Chairwoman
Jesús Pérez de Uriguen	Vice-chairman
Pavel Herštík	Member
Antonio Manuel Ledesma Santiago	Member
Francisco de Borja de Nicolás Benito	Member
Lubomír Vinduška	Substitute member
Ivan Varela Sanchez	Substitute member

Executive management of Telefónica CR

In March 2013, Jindřich Fremuth became a director of Consumer Division, replacing Luis Aldo Martin.

Luis Antonio Malvido	Chief Executive Officer
Martin Bek	Director, Support Services Division
Jiří Dvorjančanský	Director, Marketing Division
Dana Dvořáková	Director, Corporate Communication
Jindřich Fremuth	Director, Consumer Division
Felix Geyr	Director, Strategy and Business Development Division
Jakub Chytil	Director, Legal, Regulatory and Public Affairs Division
Ctirad Lolek	Director, Human Resources Division
David Melcon Sanchez-Friera	Director, Finance Division
František Schneider	Director, Business Division
Petr Slováček	Director, Operations Division

All principal informaiton and documents concerning the corporate governance of Telefónica CR can be found on the Company’s website (www.telefonica.cz).

05

Financial part

5. Financial part

Telefónica Czech Republic, a.s.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

Content **Pages**

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., Bonerix 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 interim condensed consolidated financial statements were not audited.

Main events in the first half of 2013

The Annual General Meeting held on 22 April 2013 decided to reduce the share capital by cancellation of own shares (6,441,798 own shares with the nominal value of CZK 87 per share) of the total amount of CZK 560,436,426. Capital reduction through the cancellation of own shares will have no impact on the ratio of shareholders' shares in the Company. This transaction is not yet reflected in the financial statements as at 30 June 2013 due to mandatory administrative proceedings.

During the first half of 2013, the Group continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure and on the elimination of duplicate positions, consolidation and optimisation of call centres, reducing the number of and streamlining of applications and systems in use, and on process optimisation. Some restructuring projects resulted in a transfer of activities to outsourcing partners.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2013

In CZK million	Notes	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Revenues from voice services		7,687	8,584
Monthly charges		5,785	6,301
Data services		5,614	5,648
Other revenues		4,819	4,646
Revenues		**23,905**	**25,179**
Other income		121	358
Interconnection and roaming expenses		(4,089)	(4,517)
Cost of goods sold		(1,146)	(1,010)
Other direct cost of sales		(1,876)	(1,784)
Other expenses		(5,207)	(5,398)
Staff costs		(3,088)	(3,129)
Impairment loss		(5)	(18)
Operating income before depreciation and amortization ("OIBDA")	1	**8,615**	**9,681**
Depreciation and amortisation		(5,517)	(5,688)
Operating profit	1	3,098	3,993
Finance income		228	524
Finance costs		(314)	(631)
Results attributed to joint venture		(6)	-
Profit before tax	1	3,006	3,886
Corporate income tax	1, 2	(614)	(632)
Profit for the period	1	**2,392**	**3,254**
Other comprehensive income			
Translation differences		117	(7)
Other comprehensive income, net of tax		117	(7)
Total comprehensive income, net of tax		**2,509**	**3,247**
Profit attributable to:			
Equity holders of the Company		2,392	3,254
Total comprehensive income attributable to:			
Equity holders of the Company		2,509	3,247
Earnings per share (CZK) – basic*	3	8	10

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

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2013

In CZK million	Notes	30 June 2013	31 December 2012
ASSETS			
Property, plant and equipment		43,772	46,691
Intangible assets		19,995	20,330
Investment in associate	12	9	29
Other financial assets		95	112
Deferred tax asset		567	673
Non-current assets		**64,438**	**67,835**
Inventories		423	487
Receivables		7,110	7,732
Income tax receivable		2	101
Cash and cash equivalents	6	6,922	3,044
Current assets		**14,457**	**11,364**
Non-current assets classified as held for sale		**1**	**-**
Total assets		**78,896**	**79,199**
EQUITY AND LIABILITIES			
Ordinary shares		28,022	28,022
Treasury shares		(3,315)	(2,483)
Share premium		21,153	24,374
Retained earnings, funds and reserves		6,755	10,661
Total equity		**52,615**	**60,574**
Long-term financial debts		3,000	3,000
Deferred tax liability		2,850	3,206
Non-current provisions for liabilities and charges		37	29
Non-current other liabilities		70	87
Non-current liabilities		**5,957**	**6,322**
Short-term financial debts		5	31
Trade and other payables		20,064	12,235
Income tax liability		68	5
Provisions for liabilities and charges		187	32
Current liabilities		**20,324**	**12,303**
Total liabilities		**26,281**	**18,625**
Total equity and liabilities		**78,896**	**79,199**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2013

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 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 and other reclassifications		-	-	-	-	17	48	(53)	12
Distribution declared in 2012	3	-	-	-	-	-	-	(8,696)	(8,696)
Treasury share acquisition		-	(405)	-	-	-	-	-	(405)
At 30 June 2012		**32,209**	**(405)**	**24,374**	**(59)**	**73**	**6,500**	**563**	**63,255**
At 1 January 2013		**28,022**	**(2,483)**	**24,374**	**(117)**	**31**	**6,499**	**4,248**	**60,574**
Currency translation differences – amount arising in period		-	-	-	117	-	-	-	117
Net profit	1	-	-	-	-	-	-	2,392	2,392
Total comprehensive income		**-**	**-**	**-**	**117**	**-**	**-**	**2,392**	**2,509**
Capital contribution and other reclassifications		-	-	-	-	20	44	(37)	27
Distributions declared in 2013	3	-	-	(3,221)	-	-	-	(6,442)	(9,663)
Treasury share acquisition		-	(832)	-	-	-	-	-	(832)
At 30 June 2013		**28,022**	**(3,315)**	**21,153**	**-**	**51**	**6,543**	**161**	**52,615**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2013

In CZK million	Notes	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Cash flow from operating activities			
Cash received from operations		26,374	27,122
Cash paid to suppliers and employees		(18,024)	(18,848)
Dividends received		5	5
Net interest and other financial income/expenses paid	6	(34)	80
Taxes paid		(655)	(848)
Net cash from operating activities		**7,666**	**7,511**
Cash flow from investing activities			
Proceeds on disposals of property, plant and equipment and intangible assets		23	262
Payments on investments in property, plant and equipment and intangible assets		(3,254)	(3,378)
Payments on investments in WiFi acquisition		(34)	(69)
Payments made on financial investments		(10)	(18)
Proceeds on temporary financial investments		250	-
Net cash used in investing activities		**(3,025)**	**(3,203)**
Cash flow from financing activities			
Dividends returned		26	7
Cash payments to owners for acquisition of treasury shares		(832)	(405)
Net cash used in financing activities		**(806)**	**(398)**
Effect of foreign exchange rate changes on collections and payments		**43**	**21**
Net increase / (decrease) in cash and cash equivalents during the period		**3,878**	**3,931**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**3,044**	**6,955**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**6**	**6,922**	**10,886**
BALANCE AT THE BEGINNING OF THE PERIOD		**3,044**	**6,955**
Cash on hand and at banks		3,025	6,932
Other cash equivalents		19	23
BALANCE AT THE END OF THE PERIOD		**6,922**	**10,886**
Cash on hand and at banks		6,903	10,863
Other cash equivalents		19	23

ACCOUNTING POLICIES

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A Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all periods 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 2012.

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

B Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 December 2012.

C Change in accounting policy

No significant changes in accounting policies were applied in the interim period of 2013 and 2012.

D Seasonality of operations

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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1 Segment information

Business segments recognised by the Group are as follows:

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

For the six months ended 30 June 2013	**Fixed**	**Mobile***	**Group**
In CZK million			
Revenues	10,233	13,915	24,148
Inter-segment sales	(154)	(89)	(243)
Total consolidated revenues	10,079	13,826	23,905
Operating income before depreciation and amortization ("OIBDA")	**3,662**	**4,953**	**8,615**
Depreciation and amortisation			(5,517)
Operating profit			**3,098**
Finance income and costs (net)			(86)
Results attributed to joint venture			(6)
Profit before tax			3,006
Corporate income tax			(614)
Profit for the period			**2,392**

As at 30 June 2013			
Assets (excluding goodwill)	37,819	27,578	65,397
Goodwill	179	13,320	13,499
Total assets	**37,998**	**40,898**	**78,896**

* Standalone Revenues of Telefónica Slovakia, s.r.o. of CZK 2,621 million included.

For the six months ended 30 June 2012	**Fixed**	**Mobile***	**Group**
In CZK million			
Revenues	10,689	14,787	25,476
Inter-segment sales	(151)	(146)	(297)
Total consolidated revenues	10,538	14,641	25,179
Operating income before depreciation and amortization ("OIBDA")	**3,978**	**5,703**	**9,681**
Depreciation and amortisation			(5,688)
Operating profit			**3,993**
Finance income and costs (net)			(107)
Results attributed to joint venture			-
Profit before tax			3,886
Corporate income tax			(632)
Profit for the period			**3,254**

As at 31 December 2012			
Assets (excluding goodwill)	38,697	27,005	65,702
Goodwill	177	13,320	13,497
Total assets	**38,874**	**40,325**	**79,199**

* Standalone Revenues of Telefónica Slovakia, s.r.o. of CZK 2,334 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 2013 and 2012 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 2013, Telefónica Slovakia, s.r.o. continued to strengthen its position in the Slovak mobile market. The market share of Telefónica Slovakia, s.r.o., measured by the number of active subscribers, reached 22.3% at the end of June 2013. In line with its strategy to offer simple and transparent services and to focus on the acquisition of higher-value customers, it has refreshed its offer for residential segment (O_2 Fér, O_2 Paušál). This helped increase the total subscriber base by 14.2% year-on-year to 1,428 thousand, driven largely by the growth in the contract base. The number of contract customers increased by 23.4% year on year to reach 709 thousand, while the prepaid base grew by 6.4% reaching 719 thousand at the end of June 2013. Consequently, contract customers represented 49.7% of the total customer base which is a 3.7 percentage point increase year on year. The growth in the number of customers and improvements in the customer mix led to an increase in revenues, which reached CZK 2,621 million in the first half of 2013, compared to CZK 2,334 million in the same period of 2012. As at 30 June 2013, the net book value of fixed assets deployed in Slovakia amounted to CZK 2,590 million (as at 31 December 2012: CZK 2,591 million).

2 Income tax

In CZK million	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Total income tax expense is made up of:		
Current income tax charge	836	973
Deferred income tax credit	(222)	(341)
Income tax	614	632

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. For 2013 and 2012 19% tax rate is applied.

3 Dividends proposed and earnings per share

In CZK million	30 June 2013	30 June 2012
Dividends declared (including withholding tax)	6,442	8,696
Other distributions	3,221	0
Total declared distributions	9,663	8,696

Dividends include a withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2013 and 2012. The approval of the 2012 profit and the decision regarding the amount of any dividend payment for this financial year took place at the Annual General Meeting on 22 April 2013 (2012: 19 April 2012). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 20 per share from the 2012 profit is expected to be paid out on 11 November 2013.

The Annual General Meeting also approved the distribution of a part of the Company's share premium in the amount of CZK 10 before tax per share to shareholders. Own shares will not be eligible for the share premium distribution. The conclusive date for payment is 14 October 2013 and payment is due on 11 November 2013.

The reduction of the Company's share capital in 2012, as a part of the total shareholders‘ remuneration, was registered into the Commercial Register on 14 November 2012 (i.e. after 30 June 2012). Each share with nominal value of CZK 100 was decreased by CZK 13 per share and each share with the nominal value of CZK 1,000 was decreased by CZK 130. The total shareholders‘ remuneration declared and paid in 2012 amounted to CZK 12,884 million (i.e. CZK 40 per share).

Following the resolution of the Company's General Meeting held on 19 April 2012, which approved the share buy-back programme (for the next 5 years, up to the limit of 10% of the total number of 322,089,890 ordinary shares) the Board of Directors approved on 26 February 2013 the continuation of the programme to the limit of 6,441,798 shares, i.e. 2% of the total number of ordinary shares issued by the Company.

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. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

	30 June 2013	30 June 2012
Weighted number of ordinary shares outstanding (thousands)	314,750	321,986
Net profit attributable to shareholders (in CZK million)	2,392	3,254
Basic earnings per share (CZK)	8	10

4 Property plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired assets at a cost of CZK 1,395 million (as at 30 June 2012: CZK 1,709 million). No assets from WiFi acquisitions were acquired during the six months ended 30 June 2013 (as at 30 June 2012: CZK 9 million). Assets with a net book value of CZK 23 million were disposed of by Group during the six months ended 30 June 2013 (as at 30 June 2012: CZK 17 million).

The Group achieved a total gain from the sale of the above fixed assets (including assets held for sale) amounting to CZK 31 million (as at 30 June 2012: CZK 238 million) and total losses in the amount of CZK 4 million (as at 30 June 2012: CZK 4 million) during the six months ended 30 June 2013.

5 Intangible assets

Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired assets at a cost of CZK 813 million (as at 30 June 2012: CZK 518 million).

6 Cash and cash equivalents

In CZK million	30 June 2013	31 December 2012
Cash at current bank accounts and other cash equivalents	178	283
Cash at cash-pooling structures (inter-company) (Note 11)	6,744	2,761
Total cash and cash equivalents	6,922	3,044

As at 30 June 2013, the Group had available equivalent of CZK 1,449 million (as at 31 December 2012: CZK 1,408 million) of undrawn committed facilities.

As of 30 June 2013 and 31 December 2012 no cash and cash equivalents were pledged.

Net interest and other financial income/expenses paid are as follows:

In CZK million	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Interest paid	(46)	(17)
Interest received	5	56
Bank commissions	(12)	(12)
Other financial incomes	19	53
Total	(34)	80

7 Inventories

As at 30 June 2013 the inventories are stated net of an allowance of CZK 48 million (as at 31 December 2012: CZK 60 million), reducing the value of the inventories to their net realisable value.

8 Restructuring costs

During the six months period ended 30 June 2013 the Group recognised restructuring costs of CZK 354 million (as at 30 June 2012: CZK 223 million).

9 Contingencies

The Company is involved in a number of legal disputes arising from the usual course of business. Compared to the situation described in the 2012 Annual Report, the following changes occured during the first half of 2013:

I. CNS a.s. – a claim for CZK 19.8 million (originally for CZK 137 million)

The Municipal Court in Prague issued a decision, delivered to the Company in January 2013, in which it fully dismissed the legal action against the Company. CNS, a.s. filed an appeal but only to the extent of CZK 19.8 million. The decision regarding the outstanding part of the original claim is therefore final. The Company filed its statement and considers the appeal as groundless. The High Court in Prague will decide on the appeal in the following months.

II. VOLNÝ, a.s. – a claim for CZK 4 billion

After the Company's appeal, the High Court in Prague cancelled its previous decision to interrupt proceedings from April 2012, citing the absence of a reason to wait pending the outcome of the administrative proceedings of the Office for the Protection of Economic Competition. The Company filed the appeal because the interruption would cause an enormous protraction of the dispute, in which, in the Company's opinion, the claim is manifestly artificial. The court started to deal with the legal action, processed certain evidence and ordered to hear witnesses. Due to the extent of the court file, the proceedings could not have been concluded in the first half of 2013.

III. ČESKÉ RADIOKOMUNIKACE – a claim for CZK 3.1 billion

The Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition as it did in the VOLNÝ case. After the Company appealed, the High Court in Prague cancelled the decision in June 2013, citing the absence of a reason to wait pending the outcome of the administrative proceedings of the Office for the Protection of Economic Competition. The Company filed the appeal because the interruption would cause an enormous protraction of the dispute, in which, in the Company's opinion, the claim is manifestly artificial. Therefore the court will deal with the merit of the legal action. No hearing has been ordered yet.

IV. BELL TRADE s.r.o. – a claim for CZK 3.2 billion

The Company received a decision on the termination of the proceedings due to the lack of the jurisdiction of the Slovak courts in June 2012. However this decision was cancelled by the Regional

Court in Bratislava in February 2013, and the case currently remains in the jurisdiction of the Slovak courts. The Company filed an extraordinary appeal and a constitutional complaint because the Company is confident that the claim is entirely unjustified; above all there is no reason for the case to fall within the jurisdiction other than the relevant Czech court. The Company pointed out suspicious circumstances surrounding BELL TRADE (a company without a history, which allegedly bought the claim through a chain of intermediaries). No hearing in the merit of the case has been ordered yet.

The Company is also involved in other litigation cases. The aggregated value of all outstanding cases representing claims for the amount of CZK 5 million or higher, for which a final and conclusive decision has not been given in 2013, represents nearly CZK 14 million. The financial statements reflect also some minor disputes with no material risk.

The Company considers disclosing other information regarding the said litigations as not advisable, since it could jeopardize the Company's litigation strategy.

The Company is convinced that all litigation risk has been faithfully 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 2013	31 December 2012
No later than 1 year	1,298	1,359
Later than 1 year and not later than 5 years	3,906	4,474
Later than 5 years	3,204	3,228
Total	8,408	9,061

Capital and other commitments

In CZK million	30 June 2013	31 December 2012
Capital and other expenditure contracted but not reflected in the financial statements	2,834	1,980

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

11 Related party transactions

The Group provides services to all related parties on common commercial terms. Sales and purchase transactions with related parties are based on contractual agreements negotiated on common 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 impairment at the balance sheet date; 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 2013	31 December 2012
Payables (excl. dividend payable)	336	751

Statement of total comprehensive income In CZK million	For the six months ended 30 June 2013	For the six months ended 30 June 2012
a) Purchases of services and goods	24	18
b) Royalty fees	336	365

There was no dividend paid during the six months period ended 30 June 2013 to Telefónica, S.A. The liability from distribution of a portion of share premium and the dividend payable to Telefónica, S.A. is in the amount of CZK 6,707 million (31 December 2012: CZK 0 million).

II. Other related parties – Telefónica Group:

Balance sheet In CZK million	30 June 2013	31 December 2012
a) Receivables	322	352
b) Payables	1,954	2,115
c) Short-term receivables (interest)	1	1
d) Cash equivalents (see Note 6)	6,744	2,761

Statement of total comprehensive income In CZK million	For the six months ended 30 June 2013	For the six months ended 30 June 2012
a) Sales of services and goods	431	380
b) Purchases of services and goods	666	601
c) Management fees	192	207
d) Interest income	6	39

The capital purchases for the six months period ended 30 June 2013 amounted to CZK 3 million (for the six months period ended 30 June 2012: CZK 0 million).

The list of the Telefónica companies with which the Group had any transaction in 2013 and 2012 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 Germany Customer Services GmbH, 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 Investigación y Desrrollo, S.A., Telecom Italia S.p.A., Telfisa Global BV, Telfisa, Telefónica International Wholesale Services, SL, Telefónica International Wholesale Services II, SL, Telefónica Compras Electrónica, S.L., Telefónica Móviles Mexico, S.A., Telefónica Móviles del Uruguay, S.A., Telefónica Móviles Perú, S.A.C., 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, Telefonica Global Technology, S.A., Czech Republic branch, Telefonica Global Technology, S.A., Telefonica Global Services GmbH, Tesco Mobile ČR s.r.o., Telefónica Factoring, E.F.C., S.A., Telefónica Costa Rica S.A., Telefónica Digital España SL.

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 granted the following benefits:

In CZK million	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Salaries and other short-term benefits	49	56
Personal indemnification insurance	1	2
Total	50	58

b) Loans to related parties

No loans were given to members of Board of Directors and Supervisory Board in 2013 and 2012.

No loans were given by the Group to related parties.

12 Subsidiaries, associates and joint ventures

As at 30 June 2013

Subsidiaries		Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	Telefónica Slovakia, s.r.o.	100%	6,116	Slovakia	Mobile telephony, internet and data transmission services	Full consolidation
4.	Internethome, s.r.o.	100%	72	Czech Republic	Provision of WiFi internet access	Full consolidation
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
Associates						
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services	Not consolidated
7.	AUGUSTUS, spol. s r.o.	40%	-	Czech Republic	Auction sales and advisory services	Not consolidated

Joint ventures

8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Not consolidated (Equity method)

For more details regarding changes in the structure of companies in the Group please refer to section Corporate governance.

13 Post balance sheet events

On 29 August 2013, Telefónica Czech Republic and T-Mobile Czech Republic announced that they had started negotiations regarding the consolidation of their current 2G and 3G mobile networks. The deal, which is now in the course of preparation, looks to achieve efficiencies in 2G and 3G mobile networks and technologies.

06

Other information for shareholders and investors

6. Other information for shareholders and investors

The shareholder structure of Telefónica CR as at 30 June 2013:

Telefónica, S.A.	69.41%
Investment funds and individual shareholders	27.68%
Telefónica CR (own shares)	2.91%

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 9.9 bn in the first half of 2013, compared to CZK 16.6 bn in the first half of 2012. This ranked the Company among the four most traded stocks and accounted for approximately 11% of all equity trades. The average daily trading volume in the first half of 2013 was CZK 79 m. As at 30 June 2013, the market capitalisation of the Company was CZK 87.6 bn, which put Telefónica CR on the fifth position among companies traded on the stock market of the PSE. This represented 9% of the total market capitalisation of the PSE stock market at the end of the first half of 2013.

Between the start of the year and 30 June 2013, the price of Telefónica CR shares went down 14.9% to CZK 275. The performance of the PSE stock market, measured by the PX Index, went down 15.4% to 878 points over the same period.

General Meeting

The Ordinary General Meeting of the Company was held on 22 April 2013 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 the distribution of a part of the share premium

The key parameters of the dividends and the distribution of a part of the share premium are given in Section 4 Corporate Governance of this Half-year Report. The record day for both payments will be 14 October 2013; both amounts will be paid out on 11 November 2013. Česká spořitelna will process the payment of both amounts. After the applicable record day, Česká spořitelna will advise all shareholders eligible to collect the dividend and the amount corresponding to the distribution of a part of the share premium on the method of payment.

Acquisition of the Company’s own shares

The General Meeting of 19 April 2012 approved a programme of acquisition of the Company’s own shares – the Company can acquire its own shares up to the limit of 32,208,989 shares, which is 10% of the total number of ordinary shares issued by the Company. The Company has a mandate to buy back own shares for a period of five years from the decision of the General Meeting. 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 from 9 May 2012, the Company gave a mandate to UniCredit Bank 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 was mandated to execute the programme through a securities trader licensed for trading on this market.

Following the above-mentioned decision of the General Meeting of 2012, the Board of Directors decided, on 26 February 2013, to continue with the programme of acquisition of the Company's own ordinary shares, up to the limit of 6,441,798 ordinary shares issued by the Company, i.e. 2% of the total number of ordinary shares issued by the Company. The Board of Directors also approved the plan to submit to the General Meeting, after the conclusion of 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. Following these decisions, the Company commenced the process of acquisition of own shares on 5 March 2013. By 30 June 2013, the Company purchased the total of 2,935,513 shares, which represented 0.91% of the total of ordinary shares issued by the Company. The total price for which these shares were purchased was CZK 867 m, which represents an average price of CZK 295 per share.

The progress of acquisition of the Company's own shares can be followed on the Company's website: http://www.telefonica.cz/en/shares/284480-nabyti_vlastnich_akcii_spolecnosti.html

Institutional investors and shareholders may contact:

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07

Declaration of competent persons responsible for the Half-year Report

7. Declaration of competent persons responsible for the 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, 1st Vice-chairman of the Board of Directors and Director, Finance Division 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, on the business 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
1st Vice-chairman of the Board of
Directors and Director, Finance
Division

In Prague on 2 September 2013