



2015

Half-year
Report

O₂

Note:

O2 Czech Republic a.s. hereinafter "O2 CZ" or "O2" or the "Company".

O2 Slovakia, s.r.o. hereinafter "O2 Slovakia".

Belonging in the Group O2 Czech Republic are the company O2 Czech Republic a.s. and its subsidiaries, hereinafter the "Group".

Numerical data and information listed in this Half-year Report are not verified by an auditor.

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Letter from the Chairman of the Board of Directors

Letter from the Chairman of the Board of Directors

Dear shareholders,
Let me briefly comment on the separation of O2, which I regard to be the most important event of the past six months, and which will influence development and our results also in the future.

We were the first operator in the world to voluntarily embrace separating fixed and mobile infrastructure into a new company. Months of analysis and hard work by many employees preceded our decision. I am convinced that after this division, O2 will remain a strong player maintaining a leading position on the Czech telecommunications market. We have millions of customers comprised of households, entrepreneurs, businesses and state administration agencies. We offer them high-quality and reliable services, products and solutions. Our offer is unique in many areas. Proof that our customers are satisfied is the fact that their loyalty has recently reached its highest level ever. Even after the separation, our subsidiary in Slovakia remained a part of O2. It stands as the only financially growing operator on the Slovak market.

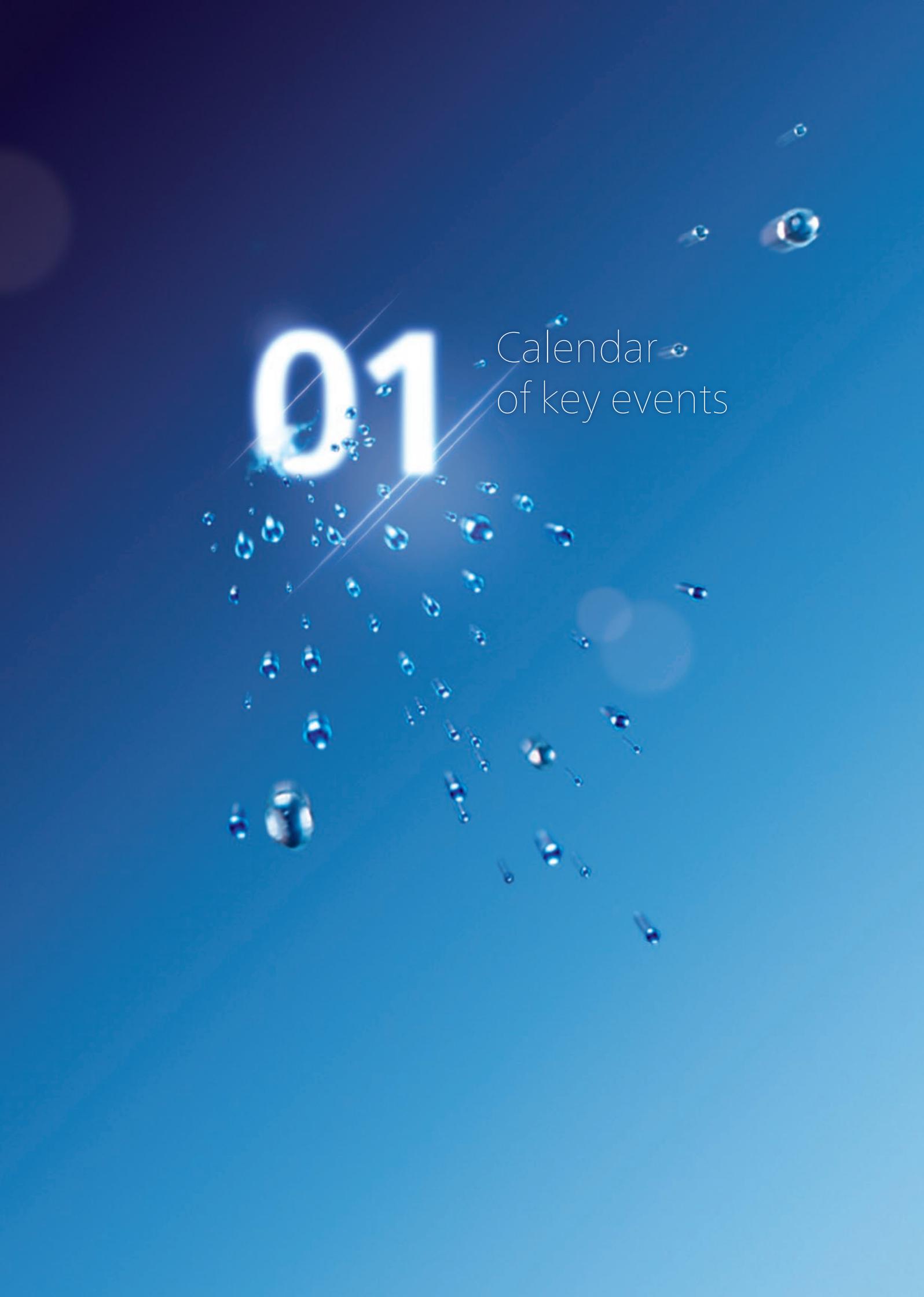
For the future, we plan on focusing also on other areas of rendering services than just telecommunications. We are also adjusting our processes and systems to meet this challenge. The aim of our activities is to build a simple operating model, so we could react flexibly to the changing market, quickly meet the requirements of our customers, and bring new services and products to the market.

I believe that the separation will bring all involved the advantages that we identified at the Board of Directors level. We consider them important and I am sure that they positively outweigh potential risks. I am confident that we will gain more customers who will start using more services from O2, and will therefore discover all the opportunities that our smart network and products can offer them. This in turn will result in higher value for you, the shareholders.

Welcome to the new O2.



Tomáš Budník
CEO and Chairman of the Board of Directors



01

Calendar
of key events

01 | Calendar of key events

January

The Board of Directors of the Company elected Tomáš Budník as its Chairman and Tomáš Kouřil as Vice-chairman.

The Company decided to cancel the quotations of Global Depository Receipts on the London Stock Exchange due to cost inefficiency.

February

The Company gained exclusive broadcasting rights for the next three years of the UEFA Champions League, including semi-final matches and the final match.

The Company announced its financial and operating results for 2014. Despite the ongoing transformation of the Company and the deteriorating conditions on the telecommunications market, it succeeded in stabilizing revenue and optimizing costs.

The Company successfully tested the technology Voice over LTE.

March

In order to provide fixed line services in Slovakia, the Company's Board of Directors decided to establish a branch unit in Slovakia.

The Company introduced the Extra Card, thanks to which customers can pay up to 40% less for O2 services.

April

The Company approved payment of a share in the profit of O2 Slovakia in the amount of EUR 31 mil. (approx. CZK 852 mil.) from part of the 2014 profit to a sole shareholder, O2 CZ.

The Company introduced the declaration The Truth about Mobile Phones and Tablets, which highlights the advantages of purchasing devices at O2. Thanks to this, customers may rely on the fact that they are getting a quality phone with neither commitment nor risk.

The Company announced that starting in August, it would be offering live broadcasts, fresh recordings and accompanying programs with selected fighting sports from the production of Fighting Spirit on the channel O₂ Sport.

The regular General Meeting of the Company took place. The supreme governing body approved separation the Company in the form of spin-off and formation of a new company, Česká telekomunikační infrastruktura a.s. (CETIN).

May

The Company announced its operating and financial results for the first quarter. Thanks to the improving trend in customer consumption, growth in data revenue in the mobile segment and solid results in Slovakia, results could be reported, which exceeded analyst expectations.

The Supervisory Board of the Company elected Jiří Hrabovský as a member of the Board of Directors effective 1 June 2015.

Since mid-May, the Company has been preparing a series of new advantages for existing and new customers of the *FREE* tariffs: calling from Europe for the same price as at home, basic data volume as a part of all tariffs and its easier restoration, as well as the new tariff *FREE Europe* for those who travel frequently.

The O2 Foundation launched a new programme SmartUp aimed at people aged 15–26. The program enables young people to realize their fresh ideas with the aim of improving something in their locality.

The Company gained further exclusive content for its prepared channel O₂ Sport. Starting in the new season, it will always broadcast one match from each round of the Synot liga football league.

The Board of Directors of the Company decided for the acquisition of 100% share in O2 IT Services s.r.o.

June

The separation of O2 CZ into two mutually separate companies came into effect. The new company CETIN has been transferred mainly the telecommunications infrastructure from O2 CZ.

Peter Gažík became the new Chief Operating Officer of O2 Slovakia.

The Company introduced novelties with the service Internet Air. This provides connection also for households where the fixed Internet service from O2 does not yet reach.

The Company prepared a simple solution to help business in transitioning to the planned electronic cash register sales system.



02

Information
on business activity

02 | Information on business activity

Separation of the Company

Following the performance of thorough analyses and feasibility studies, the Board of Directors of O2 CZ approved on 13 March 2015 the separation of the Company by spinning off and the formation of the new company. For this purpose, it prepared and approved a separation project including related accounting documents. The Supervisory Board of the Company also approved separation of the Company that same day. On 28 April 2015, the General Meeting approved separation of the Company. The Decisive Date of separation was determined for 1 January 2015. The separation took legal effect on the date of registering the separation in the Commercial Register on 1 June 2015.

In consequence of the separation, a new company was created, Česká telekomunikační infrastruktura a.s. (CETIN). A defined part of the equity of O2 CZ was transferred to the newly created company. The spun-off part included all assets and debts that concerned the Infrastructure and Wholesale Division. The newly created company thus assumed:

1. the fixed public communication network, in particular transmission systems, switching or routing equipment and other means, including elements of the network that are not active, which enable transmission of signals along wires, radio, optical and other electromagnetic means in the fixed network,
2. physical infrastructure of the mobile public communications network except for core parts of this network, data centres,
3. all documentation (content of physical and electronic archives and databases, plans, schematics, building permits, agreements, etc.),
4. relevant contracts and rights and obligations arising thereby, which are necessary for the future independent activity of CETIN.

In consequence of the spin-off, a total of 1,174 employees were transferred to CETIN, who were organisationally assigned to the Infrastructure and Wholesale Division.

Also transferred to CETIN in consequence of the spin-off was participation in two subsidiaries CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH. Participation in the rest of the subsidiaries remained in O2 CZ (selected information on subsidiaries is provided in the chapter O2 Czech Republic Group in this Half-year Report).

In compliance with the applicable provisions of the Transformation Act, O2 CZ had the spun-off part of the assets valued by opinion of an expert appointed by a court for such purpose, the company Deloitte Advisory s.r.o. This company elaborated an expert opinion based on the status as of 31 December 2014, and the relevant part of the assets of O2 CZ including the corresponding definition of part of the assets therein was valued to the stated date at an amount of CZK 46.9 billion.

In relation to the spin-off, O2 CZ reduced its registered capital from CZK 27,461,384,874 to CZK 3,102,200,670 as of 1 June 2015. The nominal value of each share at the original nominal value of CZK 87 decreased to CZK 10 and the nominal value of the share at the existing nominal value of CZK 870 decreased to CZK 100. Within the framework of the registered capital reduction, all treasury shares (5,428,035 units), which O2 CZ owned prior to the separation, have been cancelled. The reduction in the registered capital and cancellation of treasury shares did not cause any change in the real mutual proportions of shares of individual shareholders in O2 CZ. The reduction in the registered capital had no immediate impact on the rights of shareholders. The purpose of the registered capital reduction was to optimise the equity capital structure in O2 CZ after the separation in such a manner so that the equity recognised in the opening balance sheet of O2 CZ would not

be lower than the registered capital, and so that O2 CZ would have sufficient funds in the future, which are not assigned, and so that all shareholders would be able to decide on their distribution in the future more flexibly.

At the time of the separation, an equal share distribution ratio was determined. Shareholders in O2 CZ were allocated 1 share in CETIN for each of their shares at the existing nominal value of CZK 87. Shareholders in O2 CZ had the right to allocation of shares in CETIN according to the number of shares, which they owned to the date of registering the separation in the Commercial Register.

The Board of Directors of the Company identified three main advantages that separation is expected to bring all shareholders:

1. The first advantage is the option to focus in the future independently on two key aspects of business of the Company. Prior to the separation, the Company was in fact a vertically integrated entity containing two differing units. These differed both by their nature and by the investment horizon and number of customers. The first of them, the service unit, was focused on retail, and provided its services to customers from the ranks of consumers, business companies and public administration authorities in the area of fixed and mobile voice and data services, or in the area of providing audiovisual entertainment, as well as various complex solutions of information and telecommunications technologies. The second, the infrastructure unit, contained planning, building and operating high-quality mobile networks, metallic and optical fixed networks, nationwide high-capacity network of data communications for other operators, services in the area of transmission and termination of services for domestic and international (foreign) operators. In light of the differing nature of both units, the Board of Directors of the Company is convinced that separating their administration and management will enable both future entities to focus their efforts exclusively and even more efficiently on their respective areas. The Board of Directors of the Company therefore believes that the separation will bring a tangible and specific increase in profitability for both business segments of the Company, and thus for all shareholders.
2. The second positive aspect is more efficient focus of sector telecommunications regulation on CETIN, the owner of the relevant telecommunications infrastructure. So far, regulation has impacted O2 CZ company-wide as a vertically integrated operator. The Company O2 CZ will be able in the future to better balance the entire portfolio of offered services.
3. The third undisputed advantage of the separation is the fact that it will enable shareholders to realise the potential shareholder value. Separation the Company into two entities may ensure a higher value for shareholders in part by increasing the profitability in both entities, and in part by ensuring greater flexibility for both companies, and providing greater room for orientation on key investments in the corresponding timeframes, which will differ substantially in both companies by the sheer nature of the matter. The investment horizon and financial framework of relevant agreements in the retail unit are ordinarily in the order of years. On the contrary, the infrastructure unit is characterised mainly by long-term investments and agreements, and agreements with estimated return on investment exceeding 10 years. Separation of the Company should bring advantages comprised of the best management of both companies inter alia from the aspect of the structure of their debt financing, and thereby facilitating possible domestic and foreign acquisition.

The Board of Directors of the Company also identified and assessed the potential risks of separation and arrived at the conclusion that these can be reduced to a bare minimum. It is also fully convinced that the expected advantages of separation significantly exceed the expected costs affiliated with it. For these reasons, the Board of Directors of the Company is of the opinion that division will be beneficial for shareholders.

Starting 1 June 2015, both companies, O2 CZ and CETIN, are functioning as mutually independent companies, where CETIN is in the position of key supplier to O2 CZ. As of this date, complete separation occurred of the corporate bodies, management and control of both companies, including security, information and control systems. Between O2 CZ and its subsidiaries on one hand, and CETIN and further companies from PPF Group

on the other hand, no above-the-line relationships exist that could negate the purpose of separation and the independence arising thereof.

Effective 1 June 2015, agreements regulating mutual relationships were concluded between O2 CZ and CETIN. This concerns the following agreements:

- Mobile Network Services Agreement; description of performance: this agreement ensures access of O2 CZ to infrastructure and functionalities of Radio Access Network of the mobile network on the part of CETIN, and performance on the part of CETIN involves operation and maintenance of 2G, 3G, LTE and CDMA networks, consolidation of the 2G and 3G networks, and deployment of the LTE network;
- Agreement on Access to End Points; description of performance: data services according to a new reference offer completed in cities forming regional seats;
- Agreement on Access to the Public Fixed Communications Network; description of performance: agreement based on a reference offer, the subject of which is providing services of connecting to the network at an end point, and access to publicly available telephone services and to broadband services in the fixed network of CETIN;
- Agreement on Interconnection of the Public Fixed Communications Network of the Company CETIN with the Public Mobile Communications Network of the Company O2 CZ; description of performance: provision of services of electronic communications and activities to participants connected to networks of contractual parties and other users, interconnection and maintenance of interconnection of infrastructures of their public communications networks;
- Service Agreement; description of performance: providing discount agreements with roaming partners on behalf of O2 CZ;
- Agreement on Providing Data Centre Services; description of performance: rental of space in data centres owned by CETIN;
- Agreement on Collocation for Specific Localities; description of performance: provision of collocation space and services of physical collocation in certain localities;
- Agreement on Providing Type Carrier Services; description of performance: data services Carrier ATM Access;
- Agreement on Providing Accounting of Wholesale Services; description of performance: providing accounting of wholesale services O2 CZ;
- Lease Agreement; description of performance: lease or rent of office space owned by CETIN;
- Agreement on Providing Support Services - CETIN to O2 CZ / O2 CZ to CETIN; description of performance: temporary provision of mutual support services;
- Agreement on Termination of International Voice Operation; description of performance: transit of international operation originating in mobile and fixed networks of O2 CZ including operation originating in the network O2 Slovakia;
- Optical Fibre Lease Agreement; description of performance: lease of optical fibres;

- Agreement on Providing Technological Housing Services; description of performance: rent of space in technological areas of CETIN for locating technologies of O2 CZ;
- Purchase agreements for sale of assets of O2 CZ to CETIN / CETIN to O2; description of performance: to finalize the ownership arrangement between the companies;
- Services Agreement on Signalling and GRX / IPX; description of performance: CETIN provides SCCP and diameter signalling, GRX/S8 payload mobile data exchange.

Factors influencing the business activity and results in the first six months of 2015

Czech telecommunications market

Without a doubt, the separation of O2 CZ into two mutually independent companies was the most important event of the first half of 2015 on the telecommunications market was. Details on the separation of the Company are listed in the chapter Separation of the Company.

In the first six months of 2015, the Czech telecommunications market was dominated by news regarding mobile data services and television broadcasting. The market continued to see the speeding up and availability increase of mobile and fixed Internet. In addition, sharing continued of mobile networks 3G and 4G with the company T-Mobile, from which customers of both companies enjoy benefits. In the area of the fixed Internet, construction continued of rDSLAMs, i.e. extended private branch exchanges, which, along with realising vectoring, expand the number of households with high-speed Internet access.

A summary of the main novelties in the offer of O2 CZ is listed in the chapter Products and Services.

Vodafone presented an offer of tariffs designed for four-member families and companies. Shared tariffs involve unlimited calling and SMS messaging to all networks and shared mobile Internet. In June, Vodafone introduced a new offer for prepaid packages with automatic renewal.

In April, T-Mobile presented voice packages for prepaid card customers, and in May, they modified for these customers the monthly fee and data limit size for mobile Internet. Also in May, T-Mobile stopped data for all customers using the mobile Internet package up to 50 MB past the exhausting of FUP. Customers have the option of restoring the data limit for a fee. T-Mobile introduced Mobile TV available only for its customers, and is currently offering two tariffs.

In January, UPC increased the prices of fixed Internet connection and cable TV. As of May, UPC is offering a new tariff for calls from fixed networks.

Regulation

The regulatory environment of the electronic communications market in the Czech Republic in the first six months of 2015 was influenced mainly by development of legislation, analyses of relevant markets, product regulation, international roaming, universal service and management of the radio spectrum.

Legislation

In terms of legislation regulating the area of electronic telecommunications or having a major say in the activities of O2 CZ, no fundamental changes were adopted in the first six months. Of course implementation of legislation adopted last year continued. From such legislation, one law having particularly serious impacts on the Company is Act No. 181/2014 Coll., on Cyber Security, which took effect on 1 January 2015.

Analyses of relevant markets and product regulation

O2 CZ continued in fulfilling its obligations imposed upon it based on relevant market analyses, and which the Czech Telecommunications Office (“CTO”) performed in previous periods. Along with the separation of the Company to 1 June 2015, a series of regulatory obligations have transferred from O2 CZ over to CETIN.

What still concerns O2 CZ is market regulation No. 1 – Access to a public telephone network in a fixed location, based on which obligations are imposed to provide the service of carrier selection and carrier pre-selection (CS/CPS).

Also concerning O2 CZ is market regulation No. 7 – Termination of voice calling (termination) in individual public mobile telephone networks. The price for terminating calls remains regulated in an amount of CZK 0.27 per minute excluding VAT, and applies to calls from telephone numbers with codes of countries of the European Economic Area.

International roaming regulation

Roaming services and prices in the European Union are regulated until 2022 by Regulation of the European Parliament and of the Council (EU) No. 531/2012 of 13 June 2012. In the first half of 2015, negotiations continued in European institutions on modifying the regulation leading to termination of roaming within the European Union. A final agreement has yet to be reached. During the first half of the year, valid regulated retail prices were therefore published to 1 July 2014.

Imposing obligations affiliated with providing universal service

As a part of the obligation to provide universal service (imposed by CTO), the Company provided the following partial services in the course of the first six months:

- a) services of public telephone booths,
- b) access of disabled persons to a publicly available telephone service equal to access that other end users use, especially by means of specially equipped telecommunications end devices,
- c) special price plans for disabled persons, which differ from price plans provided under normal terms and conditions of sale.

Financing universal service

By 31 July 2015, O2 CZ will file a request for payment of loss from provision of universal service, including loss from providing special price plans for disabled person, in 2014. CTO will then verify the amount of required payment and supplied materials. Issuance of a decision and payment by CTO should occur by the end of 2015.

Administration of the frequency spectrum

On 3 June 2015, the Czech Government adopted the strategy “Radio Spectrum Policy Program” elaborated by CTO. The document introduces the strategic aims and measures for their achievement within the framework of managing the radio spectrum, which are to support fulfilment of the aims of state policy in electronic communications.

The Ministry of Industry and Trade submitted for interdepartmental commenting the paper “Draft Government Decree, amending Government Decree No. 154/2005 Coll., on determining the amount and method of calculating charges for use of radio frequencies and numbers”. The principle of the proposed amendment is introduction of gradual digression of the amount charged for higher frequency bands of land mobile service, so that, besides other aspects of charges for use of radio frequencies (e.g. regulating functions, the spectrum as a limited national resource), also considered was the economic potential of the given part of the radio spectrum for holders of the relevant authorization to use radio frequencies.

In the second half of 2015, one may expect the announcement of a tender for frequencies in the bands 1 800 MHz and 2.6 GHz. CTO also performed public consultation of the conditions of the prepared tender for frequencies in the band 3.7 GHz, which should be announced at the end of 2015.

CTO has allotted O2 CZ with radio frequencies for the bands 900 MHz and 1 800 MHz effective until 7 February 2016, and this is currently undergoing the legal process of renewal. CTO performed public consultation of the review for limiting the number of rights to use radio frequencies in both relevant bands, as well as an expert judgment appraising the new allocation of radio frequencies. CTO is expected to award a new allotment of radio frequencies in the second half of this year.

Membership in associations and professional groups

O2 CZ is a member of leading associations and professional groups, whose activities support market development in electronic telecommunications in the Czech Republic. This mainly concerns the Association of Mobile Networks Operators, the Association of Information Technology and Telecommunications, the Czech Association of Electronic Communications and the Czech Association of Telecommunications, but other associations as well that are important for activities operated by O2 CZ itself.

O2 CZ is also represented in work groups, which, in co-operation with the National Security Authority and the Ministry of the Interior, deal with detection and solving security incidents in the Czech Republic. For this purpose, team O2.cz CERT has been created in the Company, which aids customers in resolving Internet security incidents in systems operated by the Company.

Products and Services

Also in the first six months, the Company brought its customers new products and services, as well as a series of advantages affiliated with their use. Customers continued to use the popular loyalty program Extra výhody, which brought savings right from its inception of over 500 million Czech crowns.

In April, the Company introduced the credit Card Extra karta, thanks to which customers can save up to 40% on monthly billing of services provided by O2.

Mobile segment

In the first half of 2015, the Company continued to expand coverage of its mobile Internet 4G LTE network. At the end of June, the Internet 4G LTE from O2 was available for 60% of the population, and the Company plans to cover 80% by the end of the year. According to independent measuring by the server dsl.cz, it exceeds an average speed of 4G LTE at downloading 25 Mbps and mobile Internet from O2 comes out over the long term as the fastest around.

So that all customers could take advantage of the fastest data available, starting in mid-May, the Company added a basic data volume also to the tariff *FREE O₂ 60*, without even increasing the monthly fee. The Company also simplified restoration of data volume.

For using of 4G LTE Internet, people need not only a data tariff, but also a LTE SIM card and the LTE enabled smartphone, which only 10% of O2 customers used in the first six months. So in April, the Company started off a long-term initiative called Pravda o mobilech a tabletech. In it, it points out the pitfalls related to selecting a new handset, and highlights the advantages relating to purchasing at the operator, such as purchasing without commitment, the Best price guarantee or assistance by the trained specialists O₂ Guru. Along with the campaign, the Company also launched a more clearly structured e-shop. In May, it offered a discount of CZK 1,000 for selected LTE handsets for all customers using the *FREE* tariff.

From mid-May to the end of September, all customers of O2 CZ may call from their holiday for the lowest market price ever. In all countries of the European Union and EFTA countries (Switzerland, Lichtenstein, Norway and Island), their calls run CZK 3.50 per minute, a sent SMS and a minute of incoming calls cost them CZK 1.50. Prices apply not only when calling the Czech Republic, but also for foreign telephone numbers, also without the need to activate anything. Prices of roaming thus dropped to the same price for which customers are used to for home calls with the *FREE* tariff. In the same period, O2 CZ also offers double the volume of data in European data packages. Thanks to them, 1 MB of data costs just CZK 1, though the European Union determines the regulated price at CZK 6.60 per 1 MB. As of mid-May, the Company is offering customers who frequently travel in Europe a new tariff *FREE Europe*.

Fixed segment

O₂ TV

In the first six months, the Company entered the market with broadcasting rights to sports content by virtue of gaining rights to UEFA football matches. So starting next season, customers can begin watching the complete Champions League exclusively on O₂ TV. Another no less important acquisition was the most attractive match from each round the Czech football league Synot liga, which only O₂ TV will broadcast, and will feature multiple camera angles.

Beside important football events, the Company gained broadcasting rights to other sports, including ATP and WTA tennis tournaments, the world swimming championships and combat sports. The Company is investing in such sports content with the long-term strategic aim of developing O₂ TV services. For the option of broadcasting exclusive sports content that the Company obtained during the first six months, it has built its own sports channel O₂ Sport, whose launch is scheduled for August.

The number of households with O₂ TV has reached the boundary of almost CZK 190,000 as of 30 June 2015 and continues to grow. The application O₂TV Go allowing customers to watch television channels also on portable devices has registered 350,000 downloads.

High-speed Internet and fixed lines

The first six months saw growth in the number of customers using fixed Internet services based on xDSL technology. Therefore, the Company continued in the positive development from the second half of 2014, when after a year of stagnation and drop in the base, growth in customers returned. By the end of June, a total of 799,000 customers used xDSL-based fixed Internet services.

Also, in the first half of 2015, the Company continued in further quality improvement in high-speed Internet coverage. From January to June 2015, the Company increased coverage by VDSL technology in 31,000 households with the help of extended DSLAMs. At the end of the first six-month period, 404,000 customers were using the high-speed Internet service based on VDSL technology, representing 51% of the total number of customers of xDSL services. Around 55% of households are within reach of VDSL technology. Also thanks to the increasing proportion of VDSL customers, emphasis on quality of sales and a fair approach to customers, the Company succeeded in decreasing the number of churning customers to an all-time minimum. Also in the area of fixed lines, the Company reached its all-time best values in churn. In the first six months, this number was 14% lower than in the previous six months.

The Company also introduced novelties in wireless Internet. The service Internet Air provides connection speeds of up to 20 Mbps also for those homes where fixed Internet from O2 is not available. Starting in June, the service is not bound to a specific address; customers can use it at home, while on a domestic vacation or at the cottage. It is available for 92% of Czech households.

ICT

O2 CZ is continuing in developing its potential in IT services in two basic branches – Professional services and Managed services.

In the area of so-called Professional services, concentration is focusing on complex customer solutions – custom-designed projects based on specific needs and strategies of the given customer and segment in which it operates. O2 CZ confirms its ability to satisfy even the most demanding customers, whether it concerns state government institutions or businesses. The optimum model is always sought out for the customer using internal IT competencies and integration of partner solutions. Development continues in competency in IT / Business consulting and system integration.

Thanks to close cooperation with its subsidiary O2 IT Services, the Company gained very strong competency in the area of operating IT infrastructure, and support activities for operation are strengthening (Service Desk, Help Desk, Monitoring, etc.). Currently, there are around 5,000 physical and virtual servers in operation on various platforms, remote and local support is provided for 8,500 users and 10,000 end devices, as well as nonstop user support (24x7x365) for 30,000 requests and incidents per month.

Also developing are further topics deemed attractive by analysts and customers alike, such as computerisation of state administration agendas, computerisation of documents and their circulation for commercial entities, including solutions for forms and workflow, infrastructure optimisation, building and operation of private and hybrid clouds, management of IT security and technological safety, Smart Cities, telemetric solutions or eHealth.

Within the framework of the programming period of European subsidies for 2014 to 2020, O2 CZ is offering professional services of consultation in drawing EU subsidies – active monitoring of specification of aims in individual operational programmes, identification of opportunities in information and communications technologies, and drafting and the in-house implementation of suitable projects supporting the customer’s internal IT strategy, for which an EU subsidy could be allocated. O2 CZ has successfully implemented a series of projects from the past programming period, e.g. the network structures of Pilsen and Karlovy Vary.

In the area of so-called Managed services, the main priority is designing, developing and providing operation of standardized products leading to a substantially wider mass of customers – besides state administration agencies and large corporation, also small and medium-sized enterprises, tradesmen or households. The Company introduced a new product based on Microsoft Office 365, for increasing the efficiency of co-operation and communication within the framework of a company or organisation. The Company has adjusted its services portfolio under a common name O₂ Cloud, which was augmented by new services on the platform Microsoft Hyper-V (Azure Pack). New services were launched - Managed Data Storage and Managed Back-up & Restore. Furthermore, O2 CZ is preparing a solution for an Electronic Cash Register (ECR).

O2 Czech Republic Group

In the first six months of 2015, several changes occurred in the O2 Czech Republic Group.

The O2 Czech Republic Group expanded by three subsidiaries: O2 IT Services s.r.o., O2 TV s.r.o. and Sargantos management a.s.

Bonerix s.r.o. changed its registered business name to O2 Family, s.r.o.

O2 Slovakia

Even in the first six months of 2015, O2 Slovakia reported growth in all financial and operating indicators.

As part of its long-term strategy, O2 Slovakia continued in expanding coverage of its 3G network, and provided fast data access in further locations in Slovakia. Now it covers nearly 70% of the population with its 3G network.

Customers in Slovakia can continue to use the fastest 4G network in selected locations of the country's largest cities – Bratislava and Košice. By the end of the year, O2 Slovakia is striving to provide 4G signal coverage in thirteen of Slovakia's largest cities.

In March, O2 Slovakia introduced an offer for sharing unlimited calls for platinum and diamond variants of *O₂ Paušál*. Customers of these monthly fee programmes may gift unlimited calls to four of their friends, without any of them having a billing profile. They may simply choose anybody using one of the *O₂ Paušál* tariffs. Activation of this service is free of charge.

In June, O2 Slovakia introduced calls from anywhere in the EU for the domestic price for all of its customers. Calls for domestic prices apply from June till the end of August, and customers receive this advantage without any price increase.

Based on the results of research by O2 Slovakia and the independent agency Ipsos Tambor, the operator O2 in Slovakia once again received the highest customer satisfaction level of all Slovak operators. O2 Slovakia defended its primacy this year as well, when in January, readers of the technical magazine Techbox chose O2 in an independent survey for the sixth time as the best mobile operator in the category Techbox Operator 2014.

In the statutory and controlling body of O2 Slovakia, the following changes occurred: relinquishing their positions as of 1 June 2015 were statutory representatives Radek Štěrba and Martin Vlček, and Supervisory Board member Jan Tomaník; as of 1 June 2015, Peter Gažík was named statutory representative, and Radek Štěrba was named member of the Supervisory Board.

Commented financial and operational results of O2 Czech Republic Group

Consolidated Financial Results

Consolidated operating revenue reached CZK 18,393 million in 1H 2015, down by 0.3% year-on-year. In 2Q 2015 operating revenue declined by 0.3% to CZK 9,241 million. This performance has been helped by the improving spend trend thanks to Company's focus on customer value and growing data revenue in mobile segment, strong mobile hardware sales and continuous revenue growth in Slovakia.

Fixed operating revenue in the Czech Republic reached CZK 5,739 million, down by 8.0% year-on-year, on the back continuous voice revenue decline, while O₂ TV revenue remain the key growth area in the fixed segment.

Mobile operating revenue in the Czech Republic were CZK 9,505 million in 1H 2015, reporting 1.1% year-on-year growth, impacted by intense competitive pressures with decline in traditional voice and messaging revenue, which were more than offset by uptake in data and hardware revenue.

Revenue in Slovakia reached EUR 117.3 million in 1H 2015, growing by 14.1% year-on-year, the revenue growth denominated in CZK currency was 14.3% year-on-year to CZK 3,226 million.

The Group has continued in its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. Total consolidated operating expenses¹ went down by 7.0% year-on-year to CZK 13,625 million, of which operating expenses¹ declined by 23.4% year-on-year in 1H 2015 helped by simplified operating model and vendor contracts renegotiation. Personnel expenses (excluding restructuring costs) declined by 6.4% year-on-year as the Company continued in its restructuring programme focused on building more lean and flexible organizational structure. The total Group headcount² reached 3,461 personnel at the end of June 2015. At the same time, costs of sales increased by 2.4% year-on-year due to higher hardware costs in line with growing revenue.

¹ Costs of sales and operating expenses

² Excluding the headcount of O2 Family, the Group subsidiary

Earnings before interest, depreciation and amortization (EBITDA) increased by 32.4% year-on-year to CZK 4,825 million in 1H 2015. This performance has been driven by stable revenue, focus on efficiency agenda, growing profitability in Slovakia and lower base in 1Q 2014. EBITDA margin reached solid 26.2% in 1H 2015, up by 6.5 p.p. year-on-year.

Depreciation and amortization charges went up by 6.9% year-on-year reaching CZK 1,775 million. Consolidated net income increased by 54.1% year-on-year to CZK 2,325 million in 1H 2015, largely due to growing EBITDA which more than offset higher depreciation and amortisation, higher net financial expenses and higher income tax charge.

Consolidated capital expenditures (CapEx) reached CZK 1,025 million in 1H 2015. On fully comparable basis³ CapEx increased by 37.1% year-on-year. Investments were directed largely in upgrade and consolidation of IT and systems aiming at simplification of systems and processes. The Company also invested into the upgrade of network management, control and administration and into billing systems upgrade.

The consolidated financial debt amounted to CZK 7.6 billion at the end of June 2015. At the same time, cash and cash equivalents reached CZK 3,596 million.

Results of the mobile segment in the Czech Republic

The Company continued in its strategy to focus on value proposition through its data centric tariffs to maintain high quality and loyalty of its customers. In business contract base, the Company continues focusing on maintaining its leading position by addressing the needs of its business customers with the commitment to be the innovation leader in the Czech mobile market.

The demand for mobile data continued to grow largely thanks to improved proposition in the Company's tariffs with extended data package. Total mobile data traffic increased by as much as 40% year-on-year in 1H 2015. The growth has been also supported by the Company's ongoing support of smartphone sales via instalment model, while keeping the best price guarantee proposition for the bestselling smartphones. As a result, data revenue⁴ went up by 6.6% year-on-year in 1H 2015. Small screen base grew by 14.0% year-on-year to 1.5 million at the end of June 2015. Smartphone penetration⁵ grew further, reaching 43.7% at the end of June 2015, up by 5 percentage points year-on-year. In 1H 2015, smartphones accounted for about 78% of all new phones sales and 94% of them were LTE smartphones. At the end of March 2015 LTE smartphones accounted to 27% of all smartphones in O2 network. Number of LTE customers⁶ reached 272 thousand as of 30 June 2015.

The total mobile customer base reached 4,945 thousand at the end of June 2015. The number of contract customers was flat year-on-year, reaching 3,252 thousand. The number of prepaid customers reached 1,693 thousand at the end of June 2015. The share of contract customers in total mobile customer base reached 65.8% at the end of 1H 2015, up by 1.5 p.p. year-on-year.

The blended monthly average churn rate reached 2.0% in 1H 2015, down by 0.2 percentage point year-on-year. Contract churn was at 1.1% by 0.1 percentage point lower compared to the same period in 2014. Monthly average churn rate in prepaid was 3.7%.

³ Excluding acquisition costs of LTE spectrum in both Czech Republic and Slovakia in 1Q 2014

⁴ Excluding SMS and MMS

⁵ Smartphones as % of total handsets base

⁶ Customer with LTE smartphone and LTE SIM

In terms of usage, total mobile traffic⁷ carried by our customers in the Czech Republic reached 5,806 million minutes in 1H 2015, up by 1.1% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all tariffs and unlimited all net voice calling in some tariffs.

Total mobile ARPU was CZK 284 in 1H 2015, down by 0.3% year-on-year, impacted largely by price pressures in the market, which were not fully offset by growing quality of the customer base. Contract ARPU decline further decelerated to -1.8% year-on-year reaching CZK 372 in 1H 2015. Prepaid ARPU was flat year-on-year at CZK 117.

Total mobile operating revenue in the Czech Republic were CZK 9,505 million in 1H 2015, representing year-on-year growth of 1.1%. At the same time, mobile gross service revenue went down by 1.4% year-on-year to reach CZK 8,612 million. Continuous competitive pressures mainly in business segment led to lower voice and messaging revenue, while data revenue and mobile hardware remained key growth drivers. Mobile originated voice revenue declined by 5.9% year-on-year to CZK 4,703 million, while messaging (SMS & MMS) revenue were 9.2% lower due to lower effective per unit price. Terminated revenue (interconnection) went up by 9.7% year-on-year to CZK 1,107 million, largely helped by higher incoming voice and SMS traffic. Hardware revenue went up by 46.7% driven by higher sales in line with Company's strategy to become one of the leading mobile hardware sellers in the market.

Results of the fixed segment in the Czech Republic

In the highly competitive and declining market the Company reported solid commercial and financial performance in all key areas. This has been helped by continuous growth of xDSL and O₂ TV services. Continuous migration of the existing ADSL customers to the VDSL service, and O₂ TV with added features such as multiscreen access (O₂ TV Go Multiscreen) including replay of up to 30 hours of any channel, are helping the Company to decelerate fixed broadband ARPU dilution and sustain low churn.

The total number of fixed voice lines declined by 9.7% year-on-year reaching 883 thousand at the end of June 2015. The decline trend decelerated to 44 thousand net losses in 1H 2015 compared to 74 thousand in the same period 2014.

The number of xDSL accesses⁸ reached 799 thousand at the end of June 2015, up by 1.1% year-on-year, with positive net additions of 5 thousand in 1H 2015. The share of the high speed VDSL accesses kept growing to 51%. In respect of VDSL, 404 thousand customers (+12.4% year-on-year) have already subscribed for the upgraded service. The total number of O₂ TV customers reached 188 thousand at the end of the period, up 9.7% year-on-year thanks to maintained popularity of the new O₂ TV features including O₂TV Go. Application O₂TV Go, which enables watching the channels on up to 4 devices, recorded about 350 thousand downloads.

Total fixed operating revenue reached CZK 5,739 million in 1H 2015, down by 8.0% year-on-year. Revenue from voice services continued in trend and fell by 15.4% year-on-year to CZK 1 496 million, in line with the performance of previous periods due to continuing fixed voice line losses. Internet & broadband revenue (incl. O₂ TV) declined by 3.8% year-on-year to CZK 2,465 million, resulting from competitive retail broadband ARPU pressures, not fully compensated by year-on-year growth in xDSL and O₂ TV customer base. Revenue from O₂ TV recorded a 16.7% year-on-year growth. Total ICT revenue went down by 2.3% year-on-year to CZK 858 million and data revenue were by 8.0% lower reaching CZK 577 million.

⁷ Inbound and outbound, including roaming abroad, excluding inbound roaming

⁸ Retail

Results in Slovakia

O2 Slovakia continued to be one of the Group's key growth drivers, which represented close to 17% of the consolidated revenue and 23% of EBITDA in 1H 2015. O2 Slovakia managed to keep solid commercial and financial performance in 1H 2015 despite the strong competition. Total number of customers reached 1,711 thousand at the end of June 2015, posting 6.4% year-on-year growth. The customer base increased by 27 thousand in 1H 2015, driven solely by net adds in contract customer base. The number of contract customers grew by 7.7% year-on-year reaching 884 thousand at the end of June 2015, while the number of prepaid customers increased by 5.0% year-on-year reaching 826 thousand. Share of contract customers in Slovakia reached 51.7% of the total customer base at the end of June 2015, up by 0.7 percentage point year-on-year. O2 Slovakia recorded increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which reached 46.9% at the end of June 2015, up by 7.4 percentage points year-on-year.

In terms of financial performance, the total operating revenue of O2 Slovakia in local currency grew 14.1% year-on-year reaching EUR 117.3 million in 1H 2015 (+14.3% to CZK 3,226 million), fuelled by customer growth, improving customer mix, refreshed portfolio of mobile phones, and data revenue. At the same time, EBITDA of O2 Slovakia went up by 20.2% year-on-year to EUR 40.8 million (+20.5% to CZK 1,123 million), resulting in growing EBITDA margin of 34.8% in 1H 2015 (+1.8 percentage point year-on-year). Total ARPU in Slovakia reached EUR 9.3 in 1H 2015, while contract ARPU was at EUR 12.7 and prepaid ARPU at EUR 5.7.

Outlook for the second half of 2015

In the second half the Company expects continuous growth of revenue in Slovakia, stabilisation of revenue in the mobile segment largely due to higher revenue from data services and hardware sales. These factors shall compensate for lower revenue in the fixed segment, where the Company expects deceleration of the year-on-year decline. The Company will continue in simplification of its operational and commercial model with the aim to streamline spending of the operating expenses and maintain high operational profitability. Capital investments in the second half will be directed to upgrade of IT, streamlining of systems and upgrade of billing systems.



03

Corporate
governance

03 | Corporate governance

Changes in corporate governance of the Company in the first six months mainly related to the separation of the Company. The General Meeting reduced the number of members of the Board of Directors from five to three, and personnel changes occurred in the Board of Directors and the Supervisory Board.

The separation was reflected into the organizational structure of the Company in such a way, that the Infrastructure and Wholesale Division was spun-off with the formation of a successor company CETIN (described in detail in the chapter Separation of the Company).

General Meeting of 28 April 2015

- It approved the annual (unconsolidated) financial statements and consolidated financial statements of the Company for 2014, prepared according to International Financial Reporting Standards. The auditor KPMG Česká republika Audit, s.r.o. gave an unqualified opinion on both sets of statements.
- It approved distribution of the unconsolidated profit of the Company for 2014 and part of the unconsolidated retained earnings from the previous years in the amount of CZK 4,103 mil. for payment of dividends. For each share in the nominal value of CZK 87, a dividend of CZK 13 before tax was paid out, or CZK 130 per share in the nominal value of CZK 870. The decisive date for payment of the dividend was on 28 April 2015. The dividend was due on 28 May 2015.
- It approved separation of O2 Czech Republic a.s. by spin-off with the formation of a new company CETIN. Within the framework of the separation, it also approved the final financial statements and opening balance sheet of O2 CZ and the opening balance sheet of CETIN. In relation to separation, the registered capital of O2 CZ was reduced to CZK 3,102 mil. by decreasing the nominal value of each share from CZK 87 to CZK 10, or from CZK 870 to CZK 100, and by cancellation of treasury shares.
- It approved the change of the Articles of Association comprised of decreasing the number of members of the Board of Directors from five to three.
- It appointed the auditing company KPMG Česká republika Audit, s.r.o. to conduct the mandatory audit of the Company for 2015.
- It elected Aleš Minx and Ctirad Lolek as members of the Supervisory Board and approved their Executive Service Agreements.

A summary of the results of the General Meeting is published at the Company website (<http://www.o2.cz/spolecnost/valne-hromady>).

Board of Directors

In the first half of the year, the Board of Directors held 27 meetings.

Resigning their membership in the Board of Directors effective 31 May 2015 were Martin Vlček, Petr Slováček and Michal Frankl.

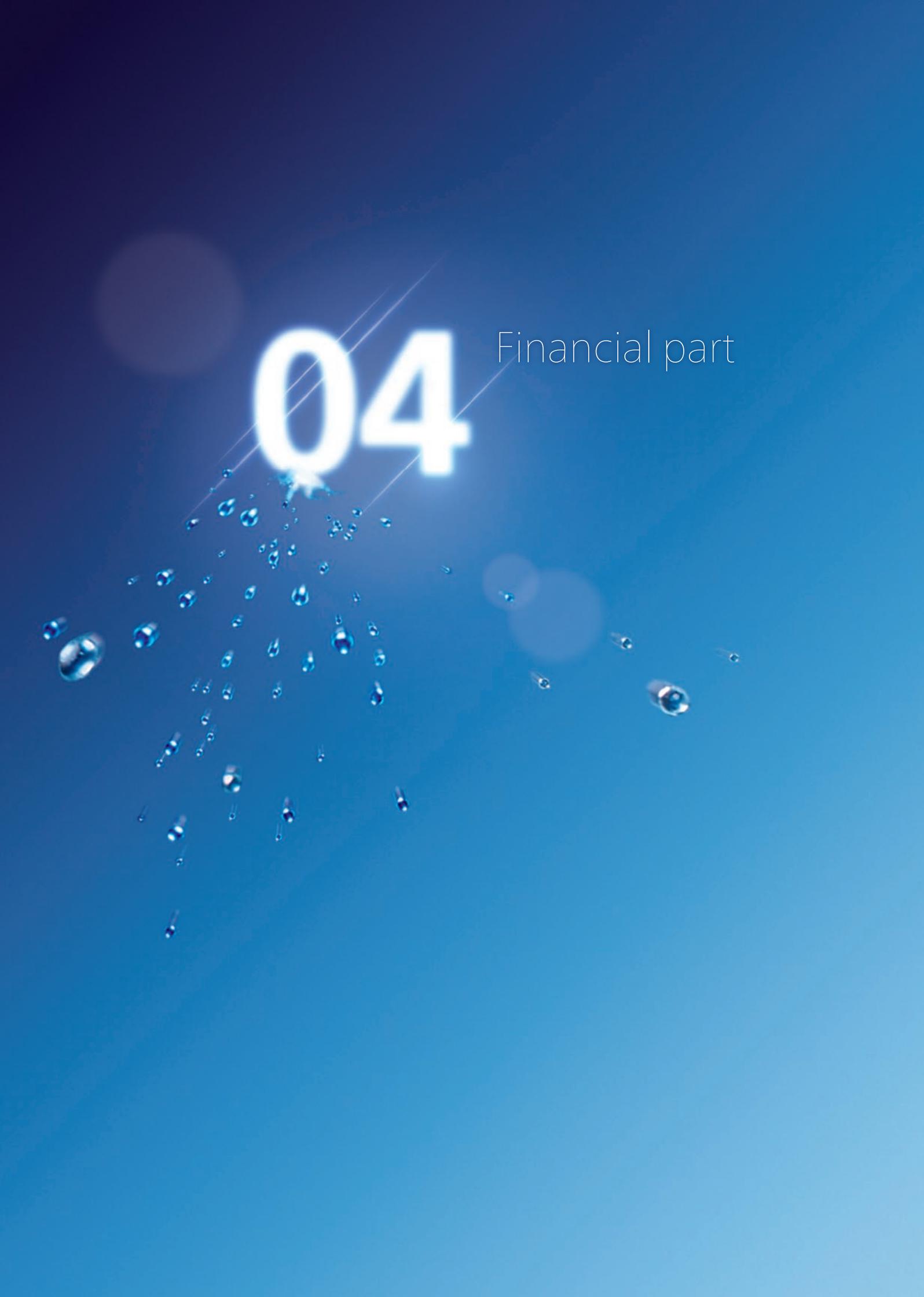
Effective 1 June 2015, Jiří Hrabovský was elected as member of the Board of Directors.

Supervisory Board

The Supervisory Board met four times over the first six months of the year.

Resigning their membership in the Supervisory Board effective 31 May 2015 were Ladislav Bartoníček and Vladimír Mlynář.

Effective 1 June 2015, Aleš Minx and Ctirad Lolek were elected as members of the Supervisory Board.

The background is a gradient of blue, transitioning from a darker shade at the top to a lighter shade at the bottom. Numerous water droplets of various sizes are scattered across the scene, with a higher concentration on the left side. Several bright, white light rays or beams originate from behind the number '04' and extend diagonally across the page.

04

Financial part

04 | Financial part

O2 Czech Republic a.s.

Interim condensed consolidated financial statements
for the six months ended 30 June 2015

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GENERAL INFORMATION

O2 Czech Republic Group (the "Group") consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries: O2 Slovakia, s.r.o., O2 Family, s.r.o. (formerly Bonerix s.r.o.), Internethome, s.r.o., O2 TV s.r.o., O2 IT Services s.r.o. and Sargantos management a.s. The Group operates a joint venture Tesco Mobile ČR s.r.o. with Tesco Stores ČR a.s. and O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., a branch in the Slovak Republic.

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 majority shareholder of the Company is PPF Arena 2 B.V. („PPF“).

The interim condensed consolidated financial statements were not audited.

Main events in the first half of 2015

Separation of the Company

On 1 June 2015, the Company was divided through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. ("CETIN") where Infrastructure and Wholesale division was demerged. In line with the Czech legislation ("Zákon o přeměnách") the decisive date of separation is 1 January 2015. The date when the Company lost control over spun off business in accordance with International Financial Reporting Standards (IFRS), was 1 June 2015.

The financial information of the spun off part of the Company presented in the consolidated financial statements of the Group are, in accordance with the IFRS 5, reported as Discontinued Operations. Details are provided in Note 2.

Changes in subsidiaries and other financial investments

During the first half year ended 30 June 2015, the Company has incorporated two new subsidiaries, O2 TV s.r.o. and Sargantos management a.s.

The Company has also created a branch in Slovakia to promote the sale of fixed telecommunication services. The branch, O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., is not a legal entity.

Additionally, the Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF, a.s. on 29 May 2015. In accordance with its accounting policy, all assets and liabilities acquired are reported in the financial statements of the Company at original carrying values. The difference between acquisition price and carrying values is reflected directly in the equity.

Change of name of subsidiary

The subsidiary Bonerix s.r.o. changed its name to O2 Family, s.r.o., with effect from 1 June 2015. Business activities remain the same.

Restructuring

During the first half of 2015, 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, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2015

In CZK million	Notes	For the six months ended 30 June 2015	Restated* for the six months ended 30 June 2014
Revenues		18,393	18,438
Other income		213	165
Expenses		(13,781)	(14,964)
Earnings before depreciation and amortization (EBITDA)	1	4,825	3,639
Depreciation and amortisation		(1,775)	(1,660)
Impairment loss		(2)	(1)
Operating profit	1	3,048	1,978
Finance income		7	-
Finance costs		(108)	(43)
Results attributed to joint venture		(4)	3
Profit before tax	1	2,943	1,938
Corporate income tax	1, 3	(618)	(433)
Profit for the period from continuing operations	1	2,325	1,505
Profit/(loss) after tax from discontinued operations	2	1,722	271
Profit/(loss) for the period		4,047	1,776
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		(68)	3
Other comprehensive income, net of tax		(68)	3
Total comprehensive income, net of tax		3,979	1,779
Profit/(loss) attributable to:			
Equity holders of the Company		2,325	1,776
Equity holders of CETIN (from discontinued operations)		1,722	-
Total comprehensive income attributable to:			
Equity holders of the Company		2,257	1,779
Equity holders of CETIN (from discontinued operations)		1,722	-
Earnings per share for continuing operations (CZK) - basic**	4	8	5

* Certain amounts shown in comparatives do not correspond to the interim consolidated financial statements as at 30 June 2014. The reason for that is the spin off of the Company as of 1 January 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 2.

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

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2015

In CZK million	Notes	30 June 2015	31 December 2014
ASSETS			
Property, plant and equipment		4,317	36,200
Intangible assets		16,016	26,276
Investment in associate	13	14	17
Other financial assets		337	564
Deferred tax asset		327	313
Non-current assets		21,011	63,370
Inventories		504	470
Receivables		6,299	7,194
Income tax receivable		3	-
Cash and cash equivalents	7	3,596	3,256
Current assets		10,402	10,920
Total assets		31,413	74,290
EQUITY AND LIABILITIES			
Ordinary shares		3,102	27,461
Treasury shares		-	(1,596)
Share premium		11,894	19,349
Retained earnings, funds and reserves		763	8,939
Total equity		15,759	54,153
Long-term financial debts		3,000	3,000
Deferred tax liability		11	2,151
Non-current provisions for liabilities and charges		17	251
Non-current other liabilities		26	155
Non-current liabilities		3,054	5,557
Short-term financial debts		4,634	4,004
Trade and other payables		7,444	10,135
Income tax liability		279	299
Provisions for liabilities and charges		243	142
Current liabilities		12,600	14,580
Total liabilities		15,654	20,137
Total equity and liabilities		31,413	74,290

Tomáš Budník

Chief Executive Officer
Chairman of the Board of Directors



Tomáš Kouřil

Chief Financial Officer
Vice-chairman of the Board of Directors



INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

In CZK million	Notes	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained Earnings/ Accumul. losses	Total
At 1 January 2014		27,461	19,349	(1,596)	256	38	6,542	3,699	55,749
Currency translation differences – amount arising in period		-	-	-	3	-	-	-	3
Net profit	1	-	-	-	-	-	-	1,776	1,776
Total comprehensive income		-	-	-	3	-	-	1,776	1,779
Capital contribution and other reclassifications		-	-	-	-	(38)	45	(55)	(48)
Distribution declared in 2014	4	-	-	-	-	-	-	(5,682)	(5,682)
At 30 June 2014		27,461	19,349	(1,596)	259	-	6,587	(262)	51,798

In CZK million	Note	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained Earnings/ Accumul. losses	Total
At 1 January 2015		27,461	19,349	(1,596)	296	-	6,587	2,056	54,153
Currency translation differences – amount arising in period		-	-	-	(68)	-	-	-	(68)
Net profit	1	-	-	-	-	-	-	2,325	2,325
Net profit attributable to shareholders of CETIN (from Discontinued Operations)		-	-	-	-	-	-	1,722	1,722
Total comprehensive income		-	-	-	(68)	-	-	4,047	3,979
Capital contribution and other reclassifications		-	-	-	-	-	45	(45)	-
Distribution declared in 2015	4	-	-	-	-	-	-	(4,103)	(4,103)
Treasury shares operations		-	-	-	-	-	-	71	71
Cancellation of treasury shares		(472)	(1,124)	1,596	-	-	-	-	-
Acquisition of O2 IT Services, s.r.o.	13	-	-	-	-	-	(79)	-	(79)
Distribution of profit and other distribution to CETIN shareholders relating to spin off project	2	(23,887)	(6,331)	-	-	-	(6,322)	(1,722)	(38,262)
At 30 June 2015		3,102	11,894	-	228	-	231	304	15,759

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 30 June 2015		For the six months ended 30 June 2014
Profit before tax		4,047		1,776
Non-cash adjustments for:				
Taxes		1,072		486
Results attributed to Joint Venture		4		(3)
Dividends received		(4)		(5)
Depreciation		1,521		4,231
Amortisation		1,299		1,045
Impairment loss		2		4
Profit on sale of property, plant and equipment		(14)		(10)
Net interest and other income (charges)		42		41
Foreign exchange losses/(gains) (net)		(1)		6
Fair value changes		-		(1)
Change in provisions and allowances		217		282
Other non-cash operations		67		(63)
Operating cash flow before working capital changes		8,252		7,789
Working capital adjustments:				
Increase/(decrease) in trade and other receivables		(657)		(217)
Decrease/(increase) in inventories		(80)		58
Increase/(decrease) in trade and other payables		602		(783)
Cash flows from operating activities		8,117		6,847
Interest paid		(45)		(32)
Interest received		4		-
Income tax paid		(831)		(735)
Net cash flow from operating activities		7,245		6,080
Cash flows from investing activities				
Purchase of property, plant and equipment		(978)		(1,298)
Purchase of intangible assets		(599)		(5,240)
Proceeds from sales of property, plant and equipment and intangible assets		1		18
Cash purchase of financial investments		(65)		-
Dividends received		4		5
Grant of loan		-		-
Repayment of loan		-		18
Net cash used in investing activities		(1,637)		(6,497)
Cash flows from financing activities				
Proceeds / repayments of loans		630		-
Cash payments to owners for acquisition of treasury shares		-		-
Capital decrease		-		-
Dividends paid		(3,927)		-
Distribution of CETIN's cash	2	(1,970)		-
Net cash used in financing activities		(5,267)		-
Net increase/(decrease) in cash and cash equivalents		341		(417)
Cash and cash equivalents at beginning of year	7	3,256		3,890
Effect of foreign exchange rate movements on cash and cash equivalents		(1)		5
Cash and cash equivalents at the year end	7	3,596		3,478

Accounting policies

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A The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to financial position as at 31 December 2014 (balance sheet and equity movements) are shown inclusive of discontinued operations. The financial information (profit and loss and cash flow statement) for the period ended 30 June 2014 are reported without discontinued operation.

B 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 2014.

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

C 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 2014.

D Change in accounting policy

No significant changes in accounting policies were applied in the interim period of 2015 and 2014.

E 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.

F Discontinued operations

As stated above in General Information, in accordance with national legislation, the Company was split into two separate accounting units with effective date 1 January 2015. In accordance with the International Financial Reporting Standards, the date when the control over the spun off part ceased was 1 June 2015. Under IFRS 5, financial indicators relating to company

CETIN for the period from January to May 2015, or as of 31 May 2015 respectively, are classified in the consolidated financial statements for the six months ended 30 June 2015 as *Discontinued operations*.

New business relations between O2 and CETIN

In connection with the spin off, new business relations with CETIN were established as of 1 January 2015 by virtue of the purchase of fixed and mobile telecommunications services and other services. These services are provided based on wholesale agreements and represent a significant item of interconnection costs for the Company. More information is provided in Note 2.

G Transactions under common control

Asset and liabilities acquired are recognized in the financial statements of the Company at original carrying value. The difference between acquisition price and carrying value of the acquired company under common control is recorded directly in the equity.

H Estimated useful lives of tangible and intangible assets

The Company regularly assesses net book values and useful lives of assets as of each balance sheet date. In connection with the sale of the Group to PPF in 2014 the assessment of carrying values and useful lives, which is in line with International Financial Reporting Standards, was carried out by an external expert. Taking into account expert's appraisal, the Company has decided to reflect changes of useful lives as of 1 January 2015 (change in estimates). The above stated relates to both, continuing operations and discontinued operations.

Estimated useful lives used in the financial statements are as follows:

	Year	Extension of
Buildings in the ownership of the Company	max. 40	max. of 16 years
Cable and other related plant	10–25	max. of 16 years
Exchanges and related equipment	max. 25	max. of 1 year
Other fixed assets	max. 20	max. of 6 years
Software and valuable rights	3–8	max. of 4 years

The impact on depreciation and amortization in the consolidated financial statements arising from the extension of the useful lives of the tangible and intangible assets was CZK 138 mil. for the continuing operations for the period of half year ended 30 June 2015 and CZK 1,962 mil. for the discontinued operation for the period 5 months ended 31 May 2015.

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1 Segment information

Segments recognised by the Group are as follows:

- Czech Republic:
 - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company and other subsidiaries in the Group excluding O2 Family, s.r.o.
 - mobile segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o.
- Discontinued operations – separately reported segment relating to CETIN (spun off entity), which provides wholesale services using its own fixed and mobile infrastructure and wholesale services provided by CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH
- Slovak Republic - mobile telecommunication and data services provided by O2 Slovakia, s.r.o

The operating results of all segments are regularly controlled and reviewed by the chief operating decision maker who holds the power to make decisions about resource allocation to the segment and to assess its performance.

In 2015, in relation to the spin off of the Company (as described above in the part General Information), the Group adopted the following changes in monitoring segment information:

- a) the original fixed and mobile segments of the Company continue to be monitored only to the level of gross margin, whereas these indicators are reported, managed and reviewed at the level of the entire Company. These facts are reflected in the segment statement below, where indirect costs are aggregated and presented for the entire Company;
- b) due to a change in the organisation structure relating to spin off of the Company, a separate segment is reported concerning the spun-off part of the Company as Discontinued operations. The relevant information for the previous period was restated.

Prices inter-segment pricing rates in 2015 and 2014 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.

For the six months ended 30 June 2015	Czech Republic		Slovak Republic	Elimination CR vs SR	Discontinued Operations	Elimination Continuing vs Discontinued operations *	Group
In CZK million	Fix	Mobile					
Revenues	5,738	9,613					
Cost of Sales (CoS)	<u>(3,515)</u>	<u>(4,754)</u>					
Gross margin	2,223	4 859					
Other income pro non/telecommunication services and activation of fixed assets	198						
Other costs excluding (CoS)	<u>(3,529)</u>						
Earnings before depreciation and amortization (EBITDA)	3,751						
Revenues	15,351		3,226	(184)	7,960	(4,558)	21,795
Other income pro non/telecommunication services and activation of fixed assets	198		15	-	193	-	406
Total consolidated income	<u>15,549</u>		<u>3,241</u>	<u>(180)</u>	<u>8,153</u>	<u>(4,558)</u>	<u>22,201</u>
Total consolidated costs	(11,798)		(2,167)	180	(4,930)	4,558	(14,153)
Earnings before depreciation and amortization (EBITDA)	3,751		1,074	-	3,223	-	8,048
Depreciation and amortization	(1,446)		(329)	-	(1,045)	-	(2,820)
Impairment loss	(2)		-	-	-	-	(2)
Operating profit	<u>2,303</u>		<u>745</u>	<u>-</u>	<u>2,178</u>	<u>-</u>	<u>5,226</u>
Net financial loss	(95)		(6)	-	(2)	-	(103)
Results attributed to joint venture	(4)		-	-	-	-	(4)
Profit before tax	2,204		739	-	2,176	-	5,119
Corporate income tax	<u>(431)</u>		<u>(187)</u>	<u>-</u>	<u>(454)</u>	<u>-</u>	<u>(1,072)</u>
Profit for the period	1,773		552	-	1,722	-	4,047
Assets (excl. Goodwill)	21,922		5,048	-	-	-	26,970
Goodwill	4,443		-	-	-	-	4,443
Total Assets	26,365		5,048	-	-	-	31,413
Trade and other payables	(6,040)		(1,404)	-	-	-	(7,444)
Other liabilities	(8,037)		(173)	-	-	-	(8,210)
Total liabilities	(14,077)		(1,577)	-	-	-	(15,654)
Fixed assets additions	835		193	-	807	-	1,835

* column *Elimination Continuing vs Discontinued operations* represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to May 2015 (further comments under point F of the part Accounting policies above and also in Note 2)

Restated** for the six months ended 30 June 2014	Czech Republic		Slovak Republic	Elimination CR vs SR	Discontinued Operations	Elimination Continuing vs Discontinued operations ***	Group
In CZK million	Fix	Mobile					
Revenues	6,321	9,457					
Cost of Sales (CoS)	(3,685)	(4,887)					
Gross margin	2,636	4,570					
Other income pro non/telecommunication services and activation of fixed assets	157						
Other costs excluding (CoS)	(4,827)						
Earnings before depreciation and amortization (EBITDA)	2,536						
Revenues	15,778		2,821	(161)	8,925	(5,640)	21,723
Other income pro non/telecommunication services and activation of fixed assets	157		8	-	282	-	447
Total consolidated income	15,935		2,829	(161)	9,207	(5,640)	22,170
Total consolidated costs	(13,399)		(1,726)	161	(5,261)	5,640	(14,585)
Earnings before depreciation and amortization (EBITDA)	2,536		1,103	-	3,946	-	7,585
Depreciation and amortization	(1,377)		(283)	-	(3,615)	-	(5,275)
Impairment loss	(1)		-	-	(3)	-	(4)
Operating profit	1,158		820	-	328	-	2,306
Net financial loss	(40)		(3)	-	(4)	-	(47)
Results attributed to joint venture	3		-	-	-	-	3
Profit before tax	1,121		817	-	324	-	2,262
Corporate income tax	(274)		(159)	-	(53)	-	(486)
Profit for the period	847		658	-	271	-	1,776
Assets (excl. Goodwill)	21,600		5,316	-	33,926	-	60,842
Goodwill	4,443		-	-	9,005	-	13,448
Total Assets	26,043		5,316	-	42,931	-	74,290
Trade and other payables	(6,602)		(1,400)	-	(2,133)	-	(10,135)
Other liabilities	(5,705)		(164)	-	(4,133)	-	(10,002)
Total liabilities	(12,308)		(1,564)	-	(6,265)	-	(20,137)
Fixed assets additions	3,374		1,214	-	958	-	5,546

** Certain amounts shown in comparatives do not correspond to the interim consolidated financial statements as at 30 June 2014. The reason for that is the spin off of the Company as of 1 January 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 2.

*** column Elimination Continuing vs Discontinued operations represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to June 2014 (further comments under point F of the part Accounting policies above and also in Note 2)

2 Discontinued operation

On 13 March 2015, the Board of Directors of the Company approved a separation project of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). On 28 April 2015, the General Meeting approved the separation of the Company. The decisive date of the separation is 1 January 2015, in accordance with the national legislation. From the perspective of the International Financial Reporting Standards the date when the Company cease the control over the spun off part CETIN is 1 June 2015.

The legal effect of the separation and formation of CETIN took place on the date when it was recorded in the Commercial Register, which happened on 1 June 2015. As a result of the separation a part of assets and liabilities in the amount of CZK 36,660 million has been transferred to CETIN, in particular fixed public communications network, physical infrastructure of public mobile communications network, data centres, all relevant evidence and relevant contracts, rights and obligations necessary for the future independent operations of the new company. In total 1,174 employees assigned to the Infrastructure and Wholesale division were also transferred to CETIN.

At the time of the separation an equal share exchange ratio was determined. One share in CETIN was assigned to all equity holders of the Company for each share of the Company that they held on the date of registration of the spin off in the Commercial Register.

CETIN, represents a separate business activity – Infrastructure and Wholesale division. CETIN's main activity is operating fixed and mobile networks. The term network is meant as a multiservice-access, aggregate and backbone infrastructure, which mediates access of operators' customers to their fixed and mobile voice, data and video services.

Accounting items relating to the spun off company were identified based on the relation to the Infrastructure and Wholesale division in the way it was defined in the separation project, and mainly represent property and equipment and relating assets and liabilities of the Infrastructure and Wholesale division.

Tangible and intangible assets

All tangible and intangible assets relating to access, aggregation and transmission infrastructure of the fixed and mobile telecommunications network were transferred into CETIN. The actual determination was based on an analysis of the fixed asset register, where individual asset cards were aggregated based on technological units, and consequently definitely determined as to whether they relate to the operations of the Company or those of CETIN.

Financial investments

Financial investments in the companies CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH, which are used by the Infrastructure and Wholesale division for the wholesale data transmission (transit) were transferred into CETIN.

Inventories

The directly identifiable items of material that related to tangible assets were transferred into CETIN.

Trade and other receivables

All trade receivables from wholesale telecommunications services, international interconnection charges and fixed national interconnection charges were also transferred into CETIN. All trade receivables relating to spun off contracts as at 31 May 2015 are reported as a part of discontinued operations.

Equity

The reported equity of CETIN in the interim consolidated financial statements of the Company for the six months ended 30 June 2015 represents the difference between the total equity of the Company as at 31 December 2014 after deducting equity components of the Company defined in the opening balance sheet of the Company as at 1 January 2015. It also applies that the reported equity of CETIN equals to the equity of the Company to be spun off, as defined in the separation project as at 1 January 2015, before the revaluation of CETIN assets.

Trade and other liabilities

Liabilities of CETIN are formed by directly assignable items of wholesale sales of telecommunications services, international interconnection charges and fixed national interconnection charges. Furthermore, trade and other liabilities contain un-invoiced supplies, accruals and other liabilities as of 31 May 2015, which relate to demerged agreements or fixed assets.

In relation to the spin off, new business relations were established as of 1 January 2015 with the company CETIN by a virtue of the purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Company.

Amongst the most important newly arising relationships are the following wholesale agreements:

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Group is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

b) agreement on the access to the public fixed communications network (so-called RAO)

The subject of RAO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 lines for a period of 7 years after signing the agreement (which represents only part of the total payment). Total cost for June 2015 was approximately CZK 354 mil.

c) agreement on the access to end points (so-called RADO) and others.

CETIN enables the Group access to end points, which include provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for June 2015 was approximately CZK 81 mil.

The Company assessed some of the newly concluded agreements between the Company and CETIN as lease agreements – Optical Fibre Lease Agreement, Agreement on Provision of Data Centre Services, Commercial Lease Agreements and Commercial Sub-lease Agreements. The aggregate future minimum lease payments (with the Company as a lessee) arising from these agreements are as follows:

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases	222	817	258

PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

In CZK million	For the five months ended 31 May 2015	For the six months ended 30 June 2014
Revenues	8,153	9,207
Expenses	(4,930)	(5,261)
Earnings before depreciation and amortization (EBITDA)	3,223	3,946
Depreciation and amortisation	(1,045)	(3,615)
Impairment loss	-	(3)
Operating profit	2,178	328
Financial result	(2)	(4)
Profit before tax	2,176	324
Corporate income tax	(454)	(53)
Profit after tax from discontinued operations	1,722	271
Earnings per share for discontinued operations (CZK) – basic	6	1

Decrease of cash and cash equivalents

Effect of disposal on the financial position	31 May 2015	31 Decemr 2014
Property, plant and equipment and intangible assets	31,962	32,234
Goodwill	9,005	9,005
Inventories	20	27
Trade and other receivables	1,702	1,443
Other financial receivables	65	167
Cash and cash equivalents	1,970	55
Total assets	44,724	42,931
Shareholders equity*	38,277	36.660
Trade and other payables	4,157	4,118
Deferred tax liability	2,290	2,147
Total equity and liabilities	44,724	42,931

Cash flows from Discontinued operations

	For the five months ended 31 May 2015	For the six months ended 30 June 2014
Net cash flows from operating activities	2,705	3,939
Net cash flows from investing activities	(790)	(958)
Net increase/(decrease) for cash and cash equivalents for the period	1,915	2,981

* Shareholders equity as at 31 December 2014 includes part of the equity amounting to CZK 36,660 million., which due to the separation of the Company has been transferred to CETIN, and an item arising from the consolidation of subsidiaries in an amount of CZK 6 million.

Shareholders equity as at 31 May 2015 includes, inter alia, the consolidated profit for the period of January to May 2015 of the Group CETIN amounting to CZK 1,722 million., and an item arising from consolidation of subsidiaries in an amount of CZK 5 million.

3 Income tax

In CZK million	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Total income tax expense is made up of:		
Current income tax charge	629	391
Deferred income tax credit	(11)	42
Income tax	618	433

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. For 2015 and 2014 19% tax rate is applied.

4 Dividends, other distribution and earnings per share

In CZK million	30 June 2015	30 June 2014
Dividends declared (including withholding tax)	4,103	5,682

Dividends include a withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2015 and 2014. The approval of the 2014 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 28 April 2015 (2013: 25 June 2014). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 13 per share from the 2014 profit were paid out on 28 May 2015 (2013: CZK 18).

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.

Continuing operations

	30 June 2015	30 June 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	2,325	1,776
Basic earnings per share (CZK)	8	6

Discontinued operations

	30 June 2015	30 June 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	1,722	271
Basic earnings per share (CZK)	6	1

5 Property plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired assets at a cost of CZK 401 million (as at 30 June 2014: CZK 111 million). Assets with a net book value of CZK 29 million were disposed of by the Group during the six months ended 30 June 2015 (as at 30 June 2014: CZK 7 million).

The Group achieved a total gain from the sale of the above fixed assets (including assets held for sale) amounting to CZK 11 million (as at 30 June 2014: CZK 14 million) and total losses of CZK 4 million (as at 30 June 2014: CZK 4 million) during the six months ended 30 June 2015.

6 Intangible assets

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired assets at a cost of CZK 627 million (as at 30 June 2014: CZK 4,477 million).

7 Cash and cash equivalents

In CZK million	30 June 2015	31 December 2014
Cash at current bank accounts and other cash equivalents	53	237
Cash at current bank accounts and other cash equivalents with related parties (Note 12)	3,543	3,019
Total cash and cash equivalents	<u>3,596</u>	<u>3,256</u>

The Group drew as at 30 June 2015 overdrafts for working capital management in total amount of CZK 632 million (as at 31 December 2014: CZK 0 million) aimed to be repaid within three months.

As at 30 June 2015, the Group had available equivalent of CZK 409 million (as at 31 December 2014: CZK 961 million) of undrawn committed facilities.

As of 30 June 2015 and 31 December 2014 no cash and cash equivalents were pledged.

8 Inventories

As at 30 June 2015 the inventories are stated net of an allowance of CZK 66 million (as at 31 December 2014: CZK 51 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 1,618 million (2014: CZK 1,063 million).

9 Restructuring costs

During the six months period ended 30 June 2015 the Group recognised restructuring costs of CZK 161 million (as at 30 June 2014: CZK 267 million).

10 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 2014 Annual Report, the following changes occurred during the first half of 2015:

I. Office for the Protection of Competition – penalty CZK 91.9 million

The Regional court in Brno dismissed by its decision dated 23 October 2014 company's legal action against decision of the Office for the Protection of Competition which imposed the penalty CZK 91.9 million for the delict from the years 2002 – 2003 as the Office stated in the decision. The Company filed a cassation complaint to the Supreme Administrative Court which was granted by the decision from 15 April 2015. Supreme Administrative Court concluded that the findings of the Regional court in Brno were not correct and therefore the court shall the legality of the penalty reassesses again. It has been seventh court's decision in this case already.

II. Vodafone Czech Republic a.s. – legal action on CZK 384.7 million

The legal action where Vodafone Czech Republic a.s. claims amount CZK 384.7 million was delivered to the Company on 2 April 2015. Vodafone Czech Republic a.s. claims that the Company allegedly breached the competition rules regarding broadband internet connection via xDSL technology during years 2009 to 2014. The legal action was filed less than a week after the two-page prelitigation letter had been delivered to the Company.

According to the Company, the legal action is artificially created case, which primarily aimed to damage the Company by its medialization. Vodafone Czech Republic a.s. claims that lost profit was caused by not acquiring 200 000 xDSL customers. The Company sent its statement to the court pointing out that the legal action is not based on the facts. The oral hearing hasn't been scheduled yet.

III. Legal action on invalidity of point No. 7 General meeting held on 28 April 2015 (approval of the separation by spin-off)

Mr. Tomáš Hájek, shareholder of the Company, filed the legal action where he seeks the decision on invalidity of the decision of the General meeting held on 28 April 2015 to the point 7. („Discussion over and approval of the separation of the company by spin-off with the formation of a new company“). The Company considers the legal action as groundless and not based on facts. With respect to the legal rules and time limit stated in the Section 88 (2) and Section 90 (3) of the Act No. 292/2013 Coll. the Company will send its complete statement to this case after expiration of this time limit.

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.

11 Commitments

The Company has made an assessment of commitments reflected in the financial statements as at 31 December 2014 where majority of all reported commitments are commitments arising from contracts transferred to CETIN. Some of the agreements concluded with CETIN are amongst the Company's new lease agreements concluded in the first half year ended 30 June 2015. These agreements, or the amount of future minimum lease payments arising from them, are mentioned in Note 2.

Capital commitments

Capital expenditure contracted but not yet included in the financial statements as at 30 June 2015 amounted to CZK 602 mil. The majority of contracted amounts relate to the telecommunications network and service contracts.

12 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.

As the settlement of the sale of the Company was held at the end of January 2014 related parties transactions were identified for the period of January 2014 with a group of former owner Telefónica, S.A. and from February to June 2014 with the PPF Group.

The following transactions were carried out with related parties:

I. Parent company:

Balance sheet In CZK million	30 June 2015	31 December 2014
Payables (excl. dividend payable)	-	-

Statement of total comprehensive income In CZK million	For the six months ended 30 June 2015	For the period from 1 February to 30 June 2014	For the period ended 31 January 2014
a) Sales of services and goods	-	27	-
b) Purchases of services and goods	-	-	3
c) Royalty fees	-	-	51

The dividend paid during the six months period ended 30 June 2015 to the shareholders from PPF Group amounted to CZK 3,417 million. The liability from dividend distribution to the parent company was duly paid (31 December 2014: CZK 0 million).

II. Other related parties:

Balance sheet In CZK million	30 June 2015	31 December 2014
a) Receivables	243	36
b) Payables	1,147	103
c) Short-term receivables (interest)	-	-
d) Cash equivalents (see Note 7)	3,543	3,019

Statement of total comprehensive income In CZK million	For the six months ended 30 June 2015	For the period from 1 February to 30 June 2014	For the period ended 31 January 2014
a) Sales of services and goods	64	44	70
b) Purchases of services and goods	1,139	191	109
c) Management fees	45	41	35
d) Interest income	3	1	1

The capital purchases for the six months period ended 30 June 2015 were solely with CETIN (there were no capital purchases with related parties for the six months period ended 30 June 2014). The Company sold assets to CETIN at carrying value CZK 99 mil. for the sale price of CZK 108 mil. and has acquired assets from CETIN for CZK 91 mil.

As mentioned above in General Information, the Company has acquired 100% ownership in O2 IT Services, s.r.o. from PPF Group on 29 May 2015.

From January to May 2015 O2 IT Services, s.r.o. was fully owned by PPF, a.s. All related transactions between the Company and O2 IT Services, s.r.o. for this period are reported in transactions with related parties for the period of six months ended 30 June 2015.

For the period January – May 2015, the separated part of CETIN (more information in Note 2) was under control of the Company. Sales and purchase with the related parties shown above therefore include only transactions for the period of June 2015. All significant contracts concluded with CETIN are described in Note 2.

The list of the PPF Group companies with which the Group had any transaction during first half 2015 includes the following entities:

The list of the PPF Group companies with which the Group had any transaction from February 2014 includes the following entities: PPF Arena 2 B.V., PPF a.s., Česká pojišťovna a.s., Home Credit a.s., Air Bank a.s., Home Credit International a.s., PPF banka a.s., Bestsport Arena, a.s., Penzijní společnost České pojišťovny, a.s., SOTIO a.s., Elektrárny Opatovice, a.s., ČP INVEST investiční společnost, a.s., Pražská teplárenská a.s., PRVNÍ MOSTECKÁ a.s., Generali Development s.r.o., PPF Real Estate s.r.o., Česká pojišťovna ZDRAVÍ a.s., Generali PPF Asset Management a.s., PPF Art a.s., Generali PPF Services a.s., Společnost pro informační databáze, ČP DIRECT, a.s., Public Picture & Marketing a.s., PPF GATE a.s., Mystery Services s.r.o., Solitaire Real Estate, a.s., EOP & HOKA s.r.o., ČP ASISTENCE s.r.o., PPF Partners a.s., AISE, s.r.o., Plzeňská energetika a.s., Teplo Neratovice, spol. s r.o., Click Credit s.r.o., REFICOR s.r.o., CITY EMPIRIA a.s., TERMONTA PRAHA a.s., PPF Financial Consulting s.r.o., United Energy, a.s., SPP Storage, s.r.o.

The list of the Telefónica companies with which the Group had any transaction during January 2014 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 Colombia, S.A., Telefónica Móviles Chile, S.A., Otecel, S.A., Telefónica Móviles Nicaragua, S.A., Telefónica Investigación y Desarrollo, 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., Wayra Czech Republic, s.r.o.

III. Other related parties

a) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the O2 Czech Republic a.s. were granted the following benefits:

In CZK million	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Salaries and other short-term benefits	22	48
Personal indemnification insurance	-	1
Total	22	49

As a result of splitting off as at 1 June 2015 four members of the management left the Board of Directors and the Supervisory Board: Petr Slováček, Martin Vlček, Michal Frankl and Vladimír Mlynář.

b) Loans to related parties

No loans were given to members of Board of Directors and Supervisory Board in 2015 and 2014.

No loans were given by the Group to related parties.

13 Subsidiaries, associates and joint ventures

As at 30 June 2015

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. O2 Slovakia, s.r.o.	100 %	6,116	Slovakia	Mobile telephony, internet and data transmission services	Full consolidation
2. Internethome, s.r.o.	100 %	72	Czech Republic	Provision of WiFi internet access	Full consolidation
3. O2 Family, s.r.o. (formerly Bonerix s.r.o.)	100 %	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
4. O2 TV s.r.o.	100 %	1	Czech Republic	Digital television	Full consolidation
5. O2 IT Services s.r.o.	100 %	90	Czech Republic	Information technology services	Full consolidation

6.	Sargantos management a.s.	100 %	2	Czech Republic	Dormant	Not consolidated
Associates						
7.	První certifikační autorita, a.s.	23 %	9	Czech Republic	Certification services	Not consolidated
8.	AUGUSTUS, spol. s r.o.	40 %	-	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
Joint ventures						
9.	Tesco Mobile ČR s.r.o.	50 %	6	Czech Republic	Mobile virtual network operator for prepaid services	Not consolidated (Equity method)

As a result of splitting off as at 1 June 2015 the subsidiaries CZECH TELECOM Germany GmbH a CZECH TELECOM Austria GmbH were transferred into CETIN Group.

14 Post balance sheet events

There were no events which occurred subsequent to the balance sheet date and which would have a material impact on the condensed consolidated financial statements for the six months ended 30 June 2015.



05

Other information
for shareholders
and investors

05 | Other information for shareholders and investors

Shareholder structure

Structure of O2 CZ shareholders as of 3 June 2015:

	Name	Address	Share in registered capital
1	PPF Arena 2 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	74,46%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10,27%
	PPF Group total		84,73%
3	Investment funds and individual ownership	–	15,27%

On 1 December 2014, a qualified shareholder, PPF Arena 2 B.V. declared a voluntary offer for buyout of shares of O2 CZ, valid until 16 January 2015. The offer was determined for natural persons who were shareholders of O2 CZ to 15 August 2014, and was limited by the maximum quantity of two hundred pieces of shares per shareholder for the price of CZK 277.15 per share. Within the framework of this offer, PPF Arena 2 B.V. assumed a share in the amount of 0.11% of the shares of O2 CZ.

In relation to the approval the separation project by the General Meeting on 28 April 2015, on 1 June 2015, 5,428,035 pieces of treasury shares were cancelled.

On 8 June 2015, a shareholder, PPF A4 B.V. declared a voluntary offer for buyout of shares of O2 CZ, valid from 15 June 2015 to 13 July 2015. The offer price was CZK 78 per share. Settlement of transfer of shares occurred on 12 August 2015. Within the framework of this offer, PPF A4 B.V. assumed 0.18% of the shares in the company O2 CZ.

Registered capital and shares

In relation to the separation of O2 CZ, effective 1 June 2015, registered capital has been reduced from CZK 27,461,384,874 to CZK 3,102,200,670 by means of decreasing the nominal value of shares and cancellation of treasury shares. The ordinary shares of O2 CZ as of 30 June 2015 in the amount of CZK 3,102,200,670 were entirely paid and were made up of the following shares:

A.	Type:	ordinary
	Kind:	registered
	Form:	booked
	Total number of shares:	310,220,057
	Nominal value:	10
	Total volume of issue	3,102,200,570
	ISIN:	CZ0009093209
B.	Type	ordinary
	Kind:	registered
	Form:	booked
	Total number of shares:	1
	Nominal value:	100
	Total volume of issue	100
	ISIN	CZ0008467115

Trading in shares of O2 CZ

Up to 27 May 2015, shares of O2 CZ were traded on the shares market of the Prague Stock Exchange (PSE) prior to separation of the Company. On 28 and 29 May 2015, trading with shares of O2 CZ was suspended. Starting 1 June 2015, trading in shares occurred after separation. The total volume of trading with shares of O2 CZ on the shares market of PSE reached CZK 7.7 billion in the first six months of 2015 compared to CZK 8.8 billion in the first half of 2014. This indicator ranked shares of the Company amongst the four most traded stocks, and represented over 8% of the total volume of share trades. The average daily amount of trading volume in the first six months of 2015 amounted to CZK 61.1 million.

From the start of the year to 27 May 2015, the price of shares of O2 CZ decreased by 23.8% to CZK 177.60. For the trading day 1 June 2015, PSE determined a reference price of shares of O2 CZ at CZK 49.40. By the end of June, the price of shares grew to CZK 97.50. To 30 June 2015, market capitalization reached CZK 30.2 billion, which ranked the Company sixth amongst companies traded on the PSE shares market. This represented 3% of the total market capitalization of the PSE shares market by the end of the first half of 2015. By 26 August 2015, the price of shares rose to CZK 201.50.

General Meeting

The General Meeting of the Company took place on 28 April 2015. An overview of results is listed in the chapter Corporate Governance within this Half-year Report.

Dividend

The aforementioned General Meeting approved inter alia payment of a dividend for 2014. In total, from the 2014 profit and part of the retained earnings of prior years, dividends were paid out in the amount of CZK 4,103 million, which represents a single dividend in the amount of CZK 13 per share with nominal value of CZK 87 and CZK 130 per share with nominal value of CZK 870. The decisive date was 28 April 2015, and the due date was 28 May 2015. The bank Česká spořitelna is providing payment.

Treasury shares of the Company

In relation to separation of O2 CZ, as of 1 June 2015, 5,428,035 pieces of treasury shares have been cancelled. As of 30 June 2015, O2 CZ owned no treasury shares.

Contact for institutional investors and shareholders:

Investor relations

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A dynamic splash of water droplets in various sizes and orientations, appearing to fall from the top left towards the center of the page. The droplets are rendered with a soft blue glow and some motion blur, creating a sense of movement and freshness. The background is a smooth gradient from dark blue at the top to a lighter blue at the bottom.

06

Declaration
of mandated
persons

06 | Declaration of mandated persons

Tomáš Budník, Chairman of the Board of Directors of O2 Czech Republic a.s.

Tomáš Kouřil, Vice-chairman of the Board of Directors of O2 Czech Republic a.s.

hereby declare that, to their best knowledge, the consolidated Half-year Report gives a true and faithful reflection of the financial situation, 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.



Tomáš Budník

Chairman of the Board of Directors



Tomáš Kouřil

Vice-chairman of the Board of Directors

In Prague on 26 August 2015