Half-year Report 2014

Explanation:
As of 21 June 2014, the company name (commercial name) changed from Telefónica Czech Republic, a.s. to O2 Czech Republic a.s.
As of 4 June 2014, the name (commercial name) of Telefónica Slovakia, s.r.o. changed to O2 Slovakia, s.r.o.

Note:
O2 Czech Republic a.s., further below also as "O2 CZ" or "Company".
O2 Slovakia, s.r.o., further below also as "O2 Slovakia".

With respect to the above, the Half-year Report uses the new commercial names in all the reported facts and events (including those which happened before the change of name).
The O2 Czech Republic Group includes O2 Czech Republic a.s. and its subsidiaries, also as "the Group".

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Letter from the Chairman of the Board of Directors

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1. Letter from the Chairman of the Board of Directors

To Our Shareholders,

Let me use this opportunity to look back at the activities of O2 Czech Republic a.s. in the first six months of 2014.

Also in the first half of the year we maintained our focus on investments in areas with a high potential of growth. These include in particular the expansion of the 4G LTE network coverage using new spectrum; transition to the mobile network sharing model; and increasing the capacity and improving the quality of our data network, in order to accommodate the growing demand for mobile data services. In the fixed access segment, we focused on investments in boosting the capacity of our broadband internet network through expanding the VDSL coverage.

Last year we introduced our revolutionary *FREE* tariffs. With them, all our contract customers in the consumer segment have unlimited calls within the O_2 network; those subscribed to the *FREE CZ* tariff get unlimited on-net and off-net calls within the territory of the Czech Republic. By migrating all customers to these tariffs, a process which was completed in the first half of this year, we succeeded with simplifying our proposition in a considerable way. The new tariffs were also instrumental in the year-on-year increase in the number of mobile customers, which, given the extremely competitive climate, I regard as a success.

More and more our customers use smartphones; their share in our network increased to 38% during the first half of the year. This increase has brought on a surge in mobile data traffic, which remains a key growth area in mobile services. The result is a year-on-year increase of mobile revenues by a quarter, and revenues from small-screen internet were up by a whole 95.9%.

The volume of data transmitted via fixed internet connection is still thirty times greater than the volume of mobile data. This trend attests to the important role played by fixed access and the high potential of mobile networks. If one tenth of the data from the fixed network moved to the mobile network, it would represent a four-fold increase in the volume of mobile data.

We are the only one who is investing in fixed access in the Czech Republic, and one of the benefits for the customers is the fact that they get a faster connection for the same price. At the end of the first half-year, already 391 thousand customers were using the VDSL broadband internet service, which is a full quarter more than last year.

Last year we introduced our revamped O_2 TV, with a unique function of playing back programmes within 30 hours of their original broadcast time. This year we launched our *O_2TV Go* application, which brings television to up to four devices: in addition to the conventional TV set, also to the tablet, smartphone or computer screen. This innovation, which we are the only one to offer to the Czech market, has helped us confirm our leadership in innovation and increase the number of O_2 TV customers, which stood at 171 thousand at the end of June 2014.

O2 Slovakia, s.r.o. continues to report very good results and has increased, as a result of customer additions and the growing share of contract customers, its contribution to the group consolidated bottom line.

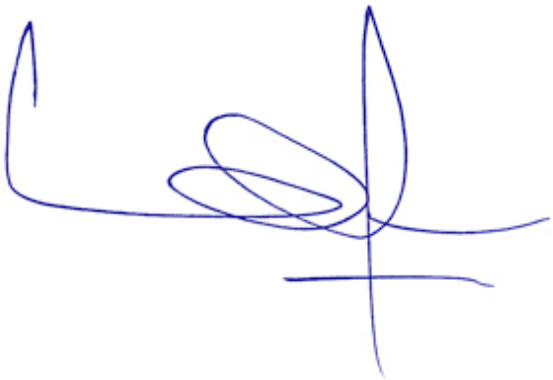
We continue to focus on educating our customers in the area of digital technology and helping them with advice how technology can make their daily life easier. To this end, we have trained and deployed a team of over a hundred O_2 Guru consultants who, during the first half-year, handled

over 200 thousand requests for assistance with selecting the right service, smartphone configuration or selecting suitable applications.

In addition to quality service and innovation, our customers enjoy a number of other benefits. We concentrate on customer care and experience. No other operator can offer such a comprehensive service proposition together with such a wide retail network. Furthermore, all our fixed and mobile access customers, including business customers, are eligible for benefits under the loyalty programme *Extra výhody*. Since the launch of the programme, our customers have saved close to CZK 400 m on purchases in more than a thousand of our partner stores. *Extra výhody* ranks among the leading loyalty programmes in the Czech Republic. No loyalty card is needed to claim benefits – it has been replaced with a mobile phone.

Despite the extremely competitive market and the persistent challenges of the economic situation, we are on a good track to deliver on the goals we have set at the beginning of the year. We concentrate on operating efficiency in the commercial and non-commercial areas of our operations, so that any decline of revenues is adequately compensated. We have managed to maintain our operating expenditure at a sound level. The Company forges ahead with its restructuring programme which aims to implement a more streamlined and efficient organisation. This helps us not only to lower our operating expenditure but it also gives us more flexibility in making key decisions.

The Company entered the year with a new majority shareholder, PPF Group. The new majority owner has brought a fresh vision for all areas of our operations. This will help the Company respond – better and faster – to all the changes in the external environment and maintain its market leadership for the future. One of the goals of the new majority shareholder is to implement a simpler and more effective operating model, and introduce a straightforward and fair product and service proposition to our existing and new customers. I am confident that these steps will result in improved customer experience and will help us deliver on our commitment to the shareholders.



Luis Malvido
Chairman of the Board of Directors, O2 Czech Republic a.s.

Board of Directors' report on the business

02

2. Board of Directors' report on the business

2.1 The Czech telecommunications market in the first half of 2014

In the first six months of 2014, the Czech telecommunications market was dominated particularly by innovations in the field of mobile data services. The main innovations brought by O2 Czech Republic a.s. are introduced in section 2.3.2 New products and services.

In February, the Czech Telecommunication Office allocated the 800, 1,800 and 2,600 MHz spectrum to all three local mobile operators for the development of fast LTE mobile networks, which the operators bought in auction last year.

On 2 May 2014, O_2 and T-Mobile signed an agreement to share their fourth-generation mobile networks (LTE). The results of this partnership will come starting from this year – in the form of improved broadband internet service in most of the territory of the Czech Republic, and earlier than the terms and conditions of the spectrum auction. Both operators will benefit from significant savings, which will allow them to invest further in their networks and services. The two companies will continue to use their respective network infrastructure and maintain a completely autonomous business strategy.

In June, O_2, T-Mobile and Vodafone announced, that they had begun talks of potential sharing and consolidation of their 2G, 3G and LTE networks. The negotiations presently focus on analyzing the potential business model for sharing and consolidation of mobile networks. For as long as the options are being analyzed, the operators will continue with their network development activities as they had been planned.

In the first half of the year, the operators forged ahead with rolling out broadband internet to more locations; the maximum connection speed increased and the data allowances for selected tariffs were also expanded.

In January, Vodafone started marketing its new tariff *Mobilní připojení Turbo* with the so-called 'smart FUP' – unlimited online surfing and a 20 GB allowance for data downloads, file sharing and content streaming. The tariff was offered for a limited time. Vodafone also simplified its data tariff proposition. Customers can now choose from five monthly data plans, depending on their usage. The operator also increased the monthly data allowance for its *Red do sítě* tariff from 150 to 250 MB.

In February, T-Mobile introduced the *S námi* tariff for its customers who do not use up all of their data allowance with the option to get a second SIM card to share the data allowance with. The second SIM card costs CZK 99 a month and shares the data allowance of the main SIM card. Starting from March, T-Mobile increased the bandwidth cap (FUP) for its *Mobilní internet 1 GB* service from 1 GB to 1.5 GB while keeping the price the same.

In March, T-Mobile started the roll-out of its LTE network in the Czech Republic in district Plzeň-jih. The operator also increased the LTE service speed in Mladá Boleslav. T-Mobile at the same time continued with its expansion of the LTE mobile network to the remaining parts of Prague. In June, T-Mobile went live with its LTE Advanced (LTE-A) technology in Mladá Boleslav.

In the first half of the year, Vodafone forged ahead with rolling out its mobile broadband *Turbo internet* (3G + LTE 900 MHz) to more locations. At the end of the six-month period, Vodafone's *Turbo internet* service was available to over 82% of the population, which is more than 56% of the

Czech territory in geographical terms. In June, Vodafone started a two-month pilot operation of the first seven LTE transmitters using the spectrum bought in the 2013 auction. Previously, Vodafone had been using the spectrum of 900 and 1,800 MHz only, to which it now added the 800 MHz.

In May, Vodafone announced the launch of a new portable service called *Připojení bez kabelu*. As part of one monthly subscription, customers can connect all their devices at home, in the office and any recreational home, with the speed of up to 4 Mbps.

In the first half of 2014, the Czech market saw also changes in the market proposition of voice services.

On 1 February, T-Mobile introduced the revamped *S námi* tariffs with innovations in international calling. The twelve zones were consolidated into three, plus one for satellite. The prices of calls to Czech Republic's neighbouring states were also brought down to CZK 6.99 per minute.

In June, Vodafone gave subscribers of the tariff *Odepiš* ten times the on-net calling minutes, while the price was increased fourfold. Customers now get 400 minutes for CZK 49.

From 1 April, T-Mobile's proposition includes also a new pre-paid Twist card with the tariff *Twist Našim+*, which offers lower rates on calls and SMS. The operator at the same time de-listed some of its older Twist tariffs and bundles from its proposition.

On 1 April, T-Mobile started offering *T-Mobile Pro jistotu*, insurance cover for devices bought through T-Mobile's distribution network. The devices are insured against loss, damage and theft, and the premiums are paid on a monthly basis as part of the regular bill. From the same date, the operator now offers another complementary service – *T-Mobile Pro jistotu splácení*, which insures for the 'ability to repay'.

During the first half of the year, the Czech market saw the emergence of 15 virtual operators, while ViralMobil was the first MVNO to cease operations. As at 30 June, a total 71 virtual operators offered their services. Their prepaid plans start at CZK 0.49 and CZK 1.10 for on-net and off-net calls, respectively. For postpaid plans, the prices range from CZK 0 to CZK 1,499, from zero calling minutes or SMS to their unlimited allowance, respectively. Calls are priced from CZK 0.39 per minute for on-net calling and from CZK 0.98 per minute for off-net calling.

Virtual operators which use O_2 continue to rank among the key players in the MVNO market. The successful trinity BLESKmobil, Tesco Mobile and Mobil od ČEZ was joined in March by Gorila Mobil.

2.2 Regulation

Several changes occurred in 2014 in the regulatory environment which governs the field of electronic communications in the Czech Republic. The most material changes included the following:

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

Below are the main changes to the legislation which governs the area of electronic communications and substantially affects the operations of O2 Czech Republic a.s.:

- Coming into effect of the new Civil Code, Business Corporations Act and Private International Law as of 1 January 2014.
  - This represents a major re-codification of the whole body of private law in the Czech Republic, which replaced the previous body of legislation, in particular the Civil Code from 1964 and the Commercial Code from 1991. The Company adapted its internal functions to the new law (amendment to the Articles of Association) and its procedures (particularly its signing rules, rules for acting on behalf of the Company and the rules of negotiating and entering into commitments for the Company) and contractual documents with customers and business partners. The application of the new legislation is undergoing a process of review (particularly in the case law of higher courts), which is followed up with an analysis of risks which the Company is exposed to as a result, and the ways they can be mitigated through adjustments of procedures and contractual documentations of the Company;
- Implementation of the amendment to the Act No. 214/2013 Coll., which introduced new provisions into the Electronic Communications Act, which serve the purpose of protecting consumers who entered into a fixed-term contract for a public service of electronic communications or for connection to a public communication network with a provider of electronic communications (including O2 CZ).
  - The amendment granted to consumers the right to an early termination of the contract with the same terms and conditions as with an open-ended contract, and introduced a limit on the sum which the customer has to pay under contract to one fifth of the sum of monthly subscriptions or minimum charges remaining until the end of the agreed term of the contract, plus the amount corresponding to the cost of the terminal equipment provided to the customer at preferential terms. The amendment at the same time introduced the duty of the service provider to inform the customer about his right to terminate a contract which contains a clause on automatic renewal, and about the statutory requirements of a contract after it has been concluded or amended by means of remote communication; the amendment also defines changes imposable on the service provider in the event of his breach of the above duties. To accommodate the requirements introduced by the amendment, O2 CZ adapted its customer-facing systems and processes and contractual documents. As the practice of application of the amendment is not yet established, further developments can be expected in the above areas.
- Changes expected in the regulation of mobile payments, which are an additional service to the service of electronic communications.
  - The Company is also a provider of premium toll services, which are billed for together with the telephone charges (e.g. premium SMS, DMS or *m-platba*); the Company is also developing new products of a similar nature (e.g. electronic wallet). For this reason, the Company acts as a mobile payments provider, and as such will be subject to the new EU legislation in this area which is now in the legislative process: proposed amendments to Directive 2007/64/EC on payment services in the internal market submitted by the European Commission. The proposal seeks to consolidate the treatment of payment services in the EU, especially for electronic and mobile payments and new technologies, through which their provider allows the consumer to access information or make payments from an account managed for the consumer by another provider. The proposal was passed by the European Parliament on 3 April 2014 with amendments to the original version proposed by the European Commission; it is presently with the EU Council working groups as the EU Council is the next instance of approval. The Company, through industry associations, participated in the process of drafting of the new European legislation.

Relevant markets analysis and product regulation

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

As part of its relevant markets review, the CTO issued on 15 May 2014 a new relevant market analysis no. 1 – access to a public telephone network at a fixed location, based on which it proposed to re-introduce the duty to provide the service of Carrier Selection and Carrier Pre-selection (CS/CPS).

In its price decision CEN/2/03.2014-33, the CTO changed the maximum price which the Company may charge for the service of call origination in a telephone network at a fixed location. As of 1 June 2014, the call origination rates[1] were changed to CZK 0.31 per minute, exclusive of VAT.

In its price decision CEN/3/05.2014-87 and reflecting the new BU-LRIC cost-plus model, the CTO also brought down the rates of call termination in public telephone network to CZK 0.03 per minute. The new rates apply as of 1 August, newly including also call termination to non-geographical numbers. The price decision CEN/7/06.2014-97 did not change the rates[2] of call termination in public telephone network. The regulated call termination rates in fixed and mobile networks will, according to the above price decisions, apply only to calls from telephone numbers bearing the country codes of the European Economic Area member states.

In 2014, the CTO continued with the third round of the relevant markets analysis and invited comments to draft market analysis papers for market no. 4 – wholesale (physical) access to network infrastructure (including shared or full local loop unbundling) at fixed location; no. 5 – wholesale broadband access in electronic communications networks; no. 6 – wholesale terminating segments for leased lines regardless the technology used for making leased or reserved capacity available, which it had, in the previous period, unsuccessfully notified with the European Commission.

International roaming regulation

A new regulation of international roaming, which defines the regulated roaming services and prices in the EU until 2022, was passed by the European Parliament and the EU Council in the first half of 2012. The adopted roaming regulation brought down further the regulated roaming voice, SMS and data prices, and strengthened the protection of the end users. As required by the roaming regulation, the Company published its mandatory reference offers.

The regulated retail prices published as of 1 July 2013 continued to apply without changes also in the first half of 2014.

Imposition of duties related to the Universal Service

The Company provided the following services during the first half of 2014 as part of meeting its duties imposed by the CTO in relation to the Universal Service provision:

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

[1] Local exchange: CZK 0.31 per minute (peak); CZK 0.16 per minute (off peak)
First transit exchange: CZK 0.36 per minute (peak); CZK 0.18 per minute (off peak)
[2] CZK 0.27 per minute excl. VAT

For the service under (a), the CTO charged O2 CZ with the duty to provide the service in municipalities under 1,999 residents from 1 January 2013. In municipalities over 2,000 and under 4,999 residents, the Company is bound to operate one public payphone or similar equipment if the location in question is not covered with a GSM signal of sufficient quality. The arrangement under (a) applies until the end of 2014.

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

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

To provide for access to services under (c) in the period from 3 July 2014 until 2 July 2017, the CTO published on 25 June 2014 a decision charging the Company with ensuring such access.

Funding of the Universal Service

In the first half of the year, O2 CZ commenced the work on its application for compensation of loss incurred as a result of Universal Service provision in 2013, including the loss incurred as a result of offering special price plans for people with disabilities. The Company anticipates that it will tender its application officially in the second half of 2014. The CTO will then take time to review the underlying documentation and the amount of the claim.

State policy and support in the area of broadband internet access

With respect to the objectives stated by the European Commission in the Digital Agenda 2020 for Europe, the Czech government approved an updated version of its digital policy - Digital Czech Republic 2.0. To meet the objectives of the state policy, the CTO carried out a survey of penetration of the country with infrastructure for broadband internet access. The conclusions of this survey will be used as one of the arguments for decisions on the potential application of state aid to the deployment of new generation networks.

The Czech government continued with the drafting of operational programmes of the EU Structural Funds for the programming period 2014–2020. The ICT area falls, for the most part, under the Operational Programme Enterprise and Innovation for Competitiveness, managed by the Ministry of Industry and Trade, which offers also subsidies for project to roll out broadband internet networks.

The European Parliament passed into law a draft regulation of the European Parliament and the EU Council on measures to reduce the cost of deployment of high-speed electronic communications networks.

The Company is constantly monitoring funding options offered to customers by the Structural Funds, and modifies its products and services so that they are eligible for subsidies. O2 CZ is a member of prominent industry associations that work to develop the market in electronic communications in the Czech Republic: ICTU (Association for Information Technologies and Telecommunications), APMS (Association of Mobile Network Operators), ČAT (Czech Telecommunications Association) and ČAEK (Czech Association of Electronic Communications).

The Company is also a member of several other structures that are important for its activities: HK ČR (Chamber of Commerce of the Czech Republic) and others.

2.3 O2 Czech Republic Group in the first half of 2014

2.3.1 O2 Slovakia

As at 30 June 2014, O2 Slovakia had over 1.6 million customers; of that number, more than 821 thousand were contract customers. This represents a year-on-year increase in the customer base by close to 13%. Since the start of 2014, customers ported more than 42 thousand telephone numbers to the O_2 network in Slovakia.

The revenues of O2 Slovakia reached EUR 102.8 m in the first half of 2014. O2 Slovakia also posted a positive operating profit before depreciation and amortisation (OIBDA), which was up 16% year on year.

Also in the first half of 2014, the number of customers increased, particularly contract customers who subscribed the successful *O_2 Fér* and *O_2 Paušál* products designed for the consumer segment. As part of its programme *O_2 Moja Firma* targeting self-employed and small and medium business customers, in April O2 Slovakia debuted two innovations: the framework contract was abolished and new benefits were introduced. By abolishing the commitment period for all its customers, O2 Slovakia took another step in revolutionizing the Slovak telecommunication market.

In June, O2 Slovakia came out with a new service for customers travelling to the Czech Republic: calling, SMS and small-screen internet charged at the same rates as in Slovakia. All new contract and prepaid customers travelling to the Czech Republic no longer have to deal with roaming charges. According to a survey, Slovaks see the Czech Republic as their second home, and O2 Slovakia's revolutionary innovation allows them to stay in contact as if they never left the country.

During the first half of 2014, O2 Slovakia forged ahead with the expansion of its own 3G network. The company rolled out the network to 90 new locations in the first six months of the year. As part of the second phase, the 3G network will be rolled out to 20 new locations and the signal will be reinforced in 90 existing locations. O2 Slovakia also announced its plans to develop its own infrastructure for the fast LTE service.

An independent survey by the agency Ipsos Tambor carried out in collaboration with O2 Slovakia revealed that O_2 had the highest customer satisfaction index among all operators active in the Slovak market. O_2 is also leading the customer satisfaction index in the business segment.

2.3.2 New products and services

Mobile segment

At the end of the first half of 2014, all contract residential customers were already using the unlimited *FREE* tariffs. The unlimited calling drove the ongoing increase of the volume of mobile voice traffic, which, during the first half-year, increased 11.9% year on year to 5,744 million minutes.

The rollout of the fastest mobile 4G LTE networks continued in the Czech Republic. Mobile data remains a key growth area in the mobile segment. The Company plans to reach 90% of the Czech population with fast mobile internet by the end of the year.

The number of smartphone users in the customer base increases with every year. This trend is also visible in the Company`s sales figures: seven out of ten phones sold are smartphones. The share of smartphones in the O_2 network increased to 38% year on year.

On 13 January 2014, the Company increased the data allowance to all its customers subscribed to tariffs *FREE O_2 Plus* and *FREE CZ*. With *FREE O_2 Plus*, the data allowance increased from 150 MB to 200 MB; the data allowance of *FREE CZ* increased from 1 GB to 1.5 GB. The increases applied also to mobile internet tariffs for notebooks or tablets. Corporate and business tariff users also get a more generous data plan.

In February, the fast LTE from O_2 became available for mobile phones. From 17 February 2014, O_2 customers can have the fastest data service in their modems and tablets, as well as in their mobile phones.

In April, the Company defended, according to a survey of mobile internet providers by Ipsos Tambor, its leadership in this area and again came out as the best mobile internet provider. In a speed survey, conducted by DSL.cz in May 2014, the Company placed first among mobile internet providers with 6.4 Mbps, and maintained its leadership for LTE speed (26.3 Mbps).

In June, the Company forged a partnership with Apple. The latest models will go on sale in the O_2 retail network on the day of their official launch in the Czech Republic. All owners of iPhone handsets with 4G LTE support can now use the fastest 4G LTE service in the Czech Republic.

Fixed segment

O_2 TV

In the first half of 2014, O_2 TV saw a 10% increase in its subscriber base: as at 30 June, it had 171 thousand customers.

In April, the Company launched *O_2 Video Library* with more than one thousand film releases for legal rental and viewing; the service can be used also by people who are not customers of the Company. In May the Company brought the movie rental and viewing functionality of *O_2 Video Library* to the Android and iOS smarthpone and tablet.

In May, the Company became the first to introduce to the Czech market a solution for viewing television live on mobile devices: smartphones, tablets, computers and notebooks. The *O_2TV Go* application for smartphones and tablets allows subscribers of the O_2 TV digital television service watch 20 channels live or play back any content within 30 hours from the original broadcast time. The *O_2TV Go* application is free to download for anybody; it comes with easy-to-navigate TV listings of more than 100 channels and access to the *O_2 Video Library*. As of 30 June, the *O_2TV Go* application recorded 83 thousand downloads.

In May, the Company introduced *HBO Go* to its O_2 TV portfolio; the service is available to subscribers of HBO and Cinemax channels and features functionality for viewing HBO-produced content on smart devices.

Broadband internet and fixed access

In the first half of 2014, the Company forged ahead with its improvements of the broadband internet service. During the period from January until June 2014, the Company made the VDSL-based service available to 49 thousand homes using remote DSLAMs. The highest downlink speed of 30-40 Mbps is now available to just under one million of Czech homes. At the end of the first half-year, the VDSL broadband internet service was used already by 391 thousand customers, which represents 42% of the total xDSL customer base. Approximately 51% of homes can be reached by the VDSL service. As at 30 June 2014, the fixed internet service was used by 914 thousand customers. The Company also succeeded in stabilising the churn. The revolving fixed-rate

tariffs (for broadband internet and O_2 TV) proved to be effective in containing churn, together with the revamped O_2 TV and new fixed tariffs *Volání CZ*.

The total number of fixed voice accesses was down 14% year on year, reaching 909 thousand at the end of June 2014. Compared with the first quarter, in the second quarter of 2014, the Company managed to slow down the rate of fixed access attrition.

2.3.3 Comments on the financial results

Consolidated financial results

Consolidated operating revenues[3] reached CZK 21,773 m in the first half of 2014, down 8.9% year on year. Excluding the effect of the MTR cuts, the revenues would decline 6.1% (last change in the Czech Republic was in Q3 2013 from CZK 0.41 to CZK 0.27 per minute, in Slovakia in Q3 2013 from EUR 0.0318 to EUR 0.0123 per minute).

Fixed operating revenues in the Czech Republic reached CZK 9,667 m, declining 5.1% year on year in the first half of the 2014, showing a stabilized trend in the operating revenues quarter on quarter.

Mobile operating revenues in the Czech Republic were CZK 9,447 m, reporting a 15.9% year-on-year decline in the first half of 2014, which was largely driven by the intensified competitive pressures, in combination with the decline in traditional voice and messaging revenues, as well as by the continued impact of the MTR cuts. Excluding the impact of the MTR cuts, mobile operating revenues would be down 13.2% year on year. On the other hand, the Company continues to benefit from its data-centric proposition, with a year-on-year growth of 25.6% in non-messaging data revenues (excluding CDMA), reaping the benefits of the introduction of the data centric tariffs in 2013.

Revenues in Slovakia reached EUR 103 m, up 14.0% year on year excluding the impact of the MTR cuts; revenue growth denominated in the CZK currency was 7.6% year on year.

The O2 Czech Republic Group intensified its effort to deliver efficiencies in both the commercial and non-commercial area of its operations. Total consolidated operating expenses went down 7.4% year on year to CZK 14,178 m in the first half of 2014. Personnel expenses (excluding restructuring costs) fell 11.2% year on year as the Company continued with its restructuring programme focused on building a lean and flexible organization structure. The total Group headcount[4] has been further optimised to 5,055 personnel at the end of June 2014, which represents a 11% year-on-year reduction. The Company also continues to benefit from the ongoing simplification of its business model.

The comparable operating income before depreciation and amortization (OIBDA)[5] decreased 11.6% year on year, and the comparable OIBDA margin reached 36.4% in the first half of 2014, down 1.1 pp year on year. Reported OIBDA in the first half of 2014 reached CZK 7,581 m, with OIBDA margin of 34.8%, down 1.2 pp year on year. OIBDA margin in the second quarter of 2014 reached 36.7%, same as in the second quarter of last year, due to the Company's ongoing focus on operating efficiency and to the growing profitability of the Slovak operation.

Depreciation and amortization charges went down 4.4% year on year and reached CZK 5,275 m in the first half of 2014. Consolidated net income excluding restructuring costs declined 22.6% year on year, while the reported net income reached CZK 1,776 m.

[3] Figures are shown net of inter-segment charges between fixed and mobile businesses
[4] Excluding the headcount of Bonerix, the Group subsidiary
[5] OIBDA excluding restructuring costs

Consolidated CapEx reached CZK 5,546 m in the first half of 2014. The figure includes the acquisition costs of the LTE spectrum in both the Czech Republic and in Slovakia. Excluding the LTE spectrum acquisition costs, the consolidated CapEx reached CZK 1,637 m, down 25.8% year on year. This is in line with the usual quarterly profile of spend, with a prudent start of the year and a gradually increasing investment during the second half of the year, helped by the positive impact from the procurement review, which brought about significant levels of savings on most supplier contracts. The Company continued to focus on efficient investments in growth areas. In the mobile business, these largely included investments in extending LTE coverage using the new spectrum; implementation of mobile network sharing; further capacity expansion; and quality improvements to the mobile broadband network, which were necessitated by the growing demand for mobile data services. On the fixed access side of its operations, the Company channelled its investments into capacity enhancements in its fixed broadband networks by extending the VDSL technology to more locations.

Consolidated free cash flow, excluding the acquisition of LTE spectrum, was positive at CZK 3,492 m in the first half of 2014, which represents a year-on-year 24.8% decline. The total free cash flow in the period was dominated by the payment of CZK 3,908 m for the strategic acquisition of the LTE spectrum in the Czech Republic and Slovakia. The consolidated long-term financial debt stood at CZK 3,000 m at the end of June 2014, with no change compared to the end of 2013. At the same time, cash and cash equivalents reached CZK 3,478 m at the end of the period, following the payment for the LTE spectrum.

Mobile business overview in the Czech Republic

The Company continues to build on the data centric platform brought about by the *FREE* tariffs. The fact that the whole consumer contract base has been migrated to the new platform represents a foundation for future propositions to these customers. In the business contract base, the Company continues to defend its leadership 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 internet continued to grow, largely thanks to the Company's improved tariff proposition with increased data package, and its ongoing support of smartphone sales through the introduction of an instalment model and keeping the best price guarantee on the bestselling smartphone models. As a result, non-messaging data revenues (excluding CDMA) in the first half of 2014 went up 25.6% year on year . The small screen base[6] at the end of June 2014 was up37.4% year on year. The smartphone penetration[7] grew further to38.1% at the end of June, up 7.7 pp year on year.

The total mobile customer base reached 5,060 thousand at the end of June. Total net additions stood at negative 42 thousand, driven by the movements in the prepaid base. The number of contract customers grew 2.5% year on year to 3,253 thousand. The number of prepaid customers reached 1,807 thousand at the end of June 2014, down 5.3% year on year as a result of the ongoing migration to the contract segment and the transition to MVNOs.

The blended monthly average churn rate was 2.2% in the first half of 2014. The contract churn was at 1.3%. The monthly average churn rate in the prepaid segment was 3.9% in the same period.

In terms of usage, the total mobile traffic[8] carried in our network in the Czech Republic reached 5,744 million minutes in the first half of 2014, up 11.9% year on year; the trend was aided by the

[6] Customer base using mobile internet in handsets
[7] Smartphones as % of total handsets base
[8] Inbound and outbound, including roaming abroad, excluding inbound roaming

introduction of unlimited on-net voice calling in the Czech Republic in all *FREE* tariffs and in the *FREE CZ* Tariff also unlimited all net voice calling.

The total mobile ARPU in the first half of 2014 was CZK 284, down 15.8% year on year, and was affected mainly by the MTR cuts and pricing pressures in the market. Excluding the impact of the MTR cuts, the total ARPU would fall 12.9%. The contract ARPU in the first half of 2014 went down 15.8% year on year to CZK 379. The prepaid ARPU decreased 22.3% year on year to CZK 117.

Total mobile operating revenues in the Czech Republic reached CZK 9,447 m in the first half of 2014, down 15.9% year-on-year. Over the same period, the mobile gross service revenues went down 15.5% year on year to CZK 8,724 m. Ongoing competitive pressures, mainly in business segment, which led to a lower spend, in combination with the effect of the MTR cuts, were the key drivers of the erosion. Excluding the impact of the mobile termination rate cuts, mobile gross service revenues would see a year-on-year decline of 12.6%. Mobile originated voice revenues were down 22.2% year on year to CZK 4,999 m, while messaging (SMS & MMS) revenues were 35.6% lower due to the lower effective per-unit price. Terminated revenues went down 13% year on year to CZK 1,001 m, largely as a result of the MTR cuts, which were not fully compensated by the higher incoming traffic.

Fixed business overview in the Czech Republic

In the highly competitive and declining market in the first half of 2014 the Company reported a continued downturn of the customer base and the fixed access revenues. The Company stabilised the declining trend through its VDSL and O_2 TV proposition and to the broadband retail customer base, and by growing its voice wholesale revenues. The ongoing migration of the existing ADSL customers to the VDSL service and the innovated O_2 TV with added features, such as multi-screen access (O_2TV Go Multiscreen) including replay of any content within 30 hours of its original broadcast time, are helping the Company manage the fixed broadband ARPU dilution and keep the churn low.

The total number of fixed accesses declined 7.1% year-on-year and reached 1,337 thousand at the end of June 2014, with 52 thousand net losses during the period.

The number of xDSL accesses reached 914 thousand at the end of June; the share of the fast VDSL accesses in the total xDSL base has increased. Already 391 thousand customers (+26.2% year on year) have subscribed for the upgraded VDSL-based service. The total number of O_2 TV customers exceeded 171 thousand at the end of the period, up 20% year on year as a result of the continuing popularity of the O_2 TV service launched in 2013.

Total fixed operating revenues in the first half of 2014 reached CZK 9,667 m, down 5.1% year on year. Revenues from voice retail services continued in trend and fell 21.2% year on year, in line with the performance in the previous periods, and reached CZK 1,858 m, as a result to the losses in the fixed access segment. Voice wholesale revenues improved 18.7% year on year to CZK 2,646 m. Internet & broadband revenues (incl. O_2 TV) declined 8.3% year on year to CZK 2,838 m, which was caused by pressures on the ARPU from our competition and a slight decline in the xDSL customer base. This was compensated by a combination of the migration of customers to VDSL and the growing O_2 TV customer base. Total ICT revenues in the first half of 2014 went down 14.4% year on year to CZK 880 m.

Slovakia

O2 Slovakia continues to be one of Group's key growth drivers. In the first half of 2014 it posted

a solid commercial and financial performance, despite the tough competition. The total number of customers exceeded 1.6 million at the end of June 2014, up 12.6% year on year. The customer base increased by nearly 69 thousand in the first half of 2014, with the majority of net adds in the contract customer base. The number of contract customers grew 15.7% year on year and reached 821 thousand at the end of June 2014 (47 thousand net adds in the first half of 2014), while the number of prepaid customers increased 9.5% year on year ending up at 787 thousand. The share of contract customers in Slovakia at the end of June 2014 was 51% of the total customer base, up 1.4 pp year on year.

In terms of financial performance, the total operating revenues of O2 Slovakia in the local currency grew 0.8% in the first half of 2014 year on year to EUR 103 m. Excluding the impact of the MTR cuts, the growth rate would be14.0%. The growth was fuelled by the customer additions, refreshed proposition, improving customer mix and the focus on acquiring higher-value customers both in the residential and the SME segment. At the same time, the OIBDA went up 8.3% year on year and reached EUR 34 m, which resulted in a healthy 33% OIBDA margin. The total ARPU in Slovakia reached EUR 9.8 in the first half of 2014 (EUR 11.2 when excluding the impact of the MTR cuts). The contract ARPU reached EUR 13.3, while the prepaid ARPU was at EUR 6.0.

Outlook for the second half of 2014

In the second half of 2014, the Company expects a gradual improvement of the revenue trend in the residential contract segment. Capex[9] in the second half of 2014 will be directed predominantly to the growth areas (mobile data, LTE and new technology), with the Company keeping the total investment up to the level of the previous year at a maximum.

[9] Group Capex. Excluding investments for spectrum license and business acquisitions

Calendar of key events

03

3. Calendar of key events

January

The Company increased the data allowance for mobile data tariffs. The new more generous conditions also apply to users with corporate or business tariffs.

Telefónica, S.A., the majority owner of the Company to date, announced that the sale of 65.9% shares in the Company to PPF Group, which had been announced in November 2013, had received a go-ahead from the European Commission, and would thus be concluded. Telefónica, S.A. kept a 4.9% in the Company and will remain an industry and trading partner for the next four years.

The Supervisory Board approved personnel changes in its composition and in the Board of Directors of the Company.

February

The management of the Company decided to forge ahead with a major reorganisation, which reduced the number of divisions from nine to seven.

From February, customers can use the fastest LTE data network service in their modems, tablets and mobile phones.

O_2 and T-Mobile started negotiations on fourth-generation mobile network sharing.

The Company released its audited consolidated financial results prepared in accordance with International Financial Reporting Standards for the year 2013.

The Czech Telecommunications Office granted the Company the 800, 1,800 and 2,600 MHz spectrum for fast LTE networks, which the Company bought at auction in 2013. The Company started using the frequencies to boost its LTE service in Prague and in Brno.

March

A General Meeting of the Company's shareholders was held; it confirmed the co-opted members of the Supervisory Board and approved amended Articles of Association.

In collaboration with partners, the Company introduced mTicket, a new ticketing service.

April

Martin Vlček was appointed Director, Finance Division.

The Company debuted its revamped O_2 Video Library, now offering close to a thousand film releases for legal viewing online.

The Company announced that, based on an agreement with the majority shareholder, Luis Malvido would remain as Chief Executive Officer until the end of June 2014; he will also remain Chairman of the Company's Board of Directors until the end of 2014.

May

O_2 and T-Mobile signed a fourth-generation (LTE) network sharing agreement.

The Company released its financial and operating results for the period January-March 2014.

The Company became the first to bring to the Czech market a solution for watching television live on mobile devices – the *O_2TV Go* application.

A General Meeting of the Company's shareholders was held. The supreme governing body of the Company approved, among other things, a change in the company name to O2 Czech Republic a.s. The Company filed for this change to become effective as of 21 June 2014.

June

PPF Arena 2 B.V. published a mandatory take-over bid for the shares of the Company.
The company bodies issued a joint position statement regarding the bid.

O2 Slovakia announced it would distribute its 2013 profit and the retained earnings of previous period to the sole shareholder O2 Czech Republic a.s.

The majority shareholder announced its plans for personnel changes in the executive management of the Company. Effective from 1 July, Tomáš Budník is the new Chief Executive Officer. Tomáš Kouřil, who had led Finance and Investor Relations, is the new Director, Finance Division.

O_2, T-Mobile and Vodafone announced that they start discussing potential sharing and consolidation of 2G, 3G and LTE mobile networks.

The Company reclaimed its victory in the 12th Sodexo Employer of the Year national competition.

The change in the company name to O2 Czech Republic a.s., which had been approved by the General Meeting of the Company, became effective as of 21 June.

A General Meeting of the Company's shareholders was held. The supreme governing body discussed, among other things, the overview of the Company's business in 2013, and resolved on the payment of dividends for the year 2013.

The Company re-introduced iPhone by Apple into its portfolio.

The Supervisory Board of the Company approved certain personnel changes in the Company's Board of Directors.

Corporate governance

04

4. Corporate governance

In the area of corporate governance, the first half of 2014 was significant particularly with regard to the sale of a majority holding of shares in the Company to the investment group PPF.
The transaction secured an approval from the European Commission in mid-January 2014, and was settled on 28 January 2014. The PPF Group acquired a 65.9% stake in O2 Czech Republic a.s., including 100% of the subsidiary O2 Slovakia, s.r.o. and other ownership interests of the Company. Telefónica, S.A. kept a 4.9% share and remains an industry and business partner for a period of four years.

General Meeting

During the first half of 2014, three Ordinary General Meetings of the Company were held, which passed the following decisions:

12 March 2014

- Recall of three members of the Supervisory Board; confirmation of co-opted members of the Supervisory Board by election; and election of new members of the Audit Committee (for further details see below).
- Approval of executive service agreements with new members of the Supervisory Board and the Audit Committee.
- Amendment to the Company's Articles of Association, with the most significant changes being the following: reduction of the number of members of the Company's governing bodies and more flexible rules for the termination of their service; abolishment of the rule to reserve one third of seats in the Supervisory Board for members elected by employees of the Company; elimination of the mandatory allocations to the Reserve Fund from profit; greater involvement of the Supervisory Board in significant decisions; elimination of the Company Secretary function from the Articles of Association. The other changes were required particularly by the new Business Corporations Act.

19 May 2014

- Amendment to the Company's Articles of Association. The most significant change was in the company name to O2 Czech Republic a.s., which came into effect as of 21 June 2014, following its registration in the Commercial Register. The other changes related in particular to the determination of the ex-dividend date, and adjustments to some of the controlling powers of the Supervisory Board over the Board of Directors.

25 June 2014

- Approval of the annual (unconsolidated) financial statements and consolidated financial statements of the Company for the year 2013, prepared in accordance with International Financial Reporting Standards (IFRS). Both sets of financial statements were recommended by the Board of Directors for approval; they had been reviewed by the Supervisory Board and audited by the auditor Ernst & Young Audit, s.r.o., which gave an unqualified opinion on both sets of statements. The Company's financial statements for the year 2013 show a net consolidated profit of CZK 5,695 m and net unconsolidated profit of CZK 5,743 m.
- Approval of distribution of a part of the Company's retained unconsolidated earnings for the year 2013 in the amount of CZK 5,682 m in the form of dividends. This represents a dividend of CZK 18 before tax per each share in the nominal value CZK 87. A dividend of CZK 180 before tax will be due on the share in the nominal value CZK 870. The record date for the payment of

dividends, which will be arranged by Česká spořitelna, was set to be 27 October 2014. The dividend will be paid on 26 November 2014.

- On recommendation from the Audit Committee, the General Meeting appointed the auditor KPMG Česká republika Audit, s.r.o., to perform the statutory audit of the Company for the year 2014.

For the full list of results of the General Meetings please visit the Company's website (www.o2.cz/spolecnost).

Board of Directors

The Board of Directors held 22 meetings during the first half of 2014. Within that period, the following personnel changes occurred in the Board of Directors:

- On 30 January 2014, members David Melcon Sanchez-Friera, Jakub Chytil and Ramiro Lafarga Brollo resigned from their membership in the Board of Directors.
- Martin Vlček and Michal Frankl were elected members of the Board of Directors by the Supervisory Board as of 31 January 2014. Martin Vlček was subsequently elected as Vice-chairman of the Board of Directors.
- By decision of the General Meeting (approving the amendment to the Articles of Association), the position of 2nd Vice-chairman of the Board of Directors was abolished, and the number of seats in the Board of Directors was reduced from seven to five, as of 12 March 2014.
- On 23 June 2014, Martin Bek resigned from his membership in the Board of Directors; as of the same date, Tomáš Budník was elected to the Board of Directors in his stead.
- On 1 July 2014, Martin Vlček resigned from the position of Vice-chairman of the Board of Directors; and, as of 2 July Tomáš Budník was elected by the Board of Directors in his stead.

Personnel composition of the Board of Directors

Luis Antonio Malvido	Chairman
Tomáš Budník	Vice-chairman
Petr Slováček	member
Martin Vlček	member
Michal Frankl	member

Supervisory Board

The Supervisory Board held five meetings during the first half of 2014. Within that period, the following personnel changes occurred in the Supervisory Board:

- On 28 January 2014, María Pilar López Álvarez, Antonio Manuel Ledesma Santiago and Ivan Varela Sanchez resigned from their membership in the Supervisory Board. At the same time, Martin Štefunko, Vladimír Mlynář and Ladislav Bartoníček were co-opted to the Supervisory Board substitute members.
- A day later, on 29 January 2014, María Eva Castillo Sanz, Francisco de Borja de Nicolás Benito and Jesús Pérez de Uriquen resigned from their membership in the Supervisory Board. As of the same date, Martin Štefunko and Ladislav Bartoníček were elected by the Supervisory Board as Chairman and Vice-chairman, respectively.
- The General Meeting of 12 March 2014 confirmed the co-opted members of the Supervisory Board; recalled the Supervisory Board members Lubomír Vinduška, Jiří Trupl and Antonín Botlík, and, as part of the amendment to the Company's Articles of Association, resolved to reduce the number of seats in the Supervisory Board from nine to three.

Personnel composition of the Supervisory Board

Martin Štefunko	Chairman
Ladislav Bartoníček	Vice-chairman
Vladimír Mlynář	member

Audit Committee

The Audit Committee held two meetings during the first half of 2014. Within that period, the following personnel changes occurred in the Audit Committee:

- As of 28 January 2014, Maria Pilar López Álvarez, Jesús Pérez de Uriquen, Pavel Herštík, Antonio Manuel Ledesma Santiago and Francisco de Borja de Nicolás Benito resigned from their membership in the Audit Committee. Lubomír Vinduška and Ivan Varela Sanchez resigned as substitute members of the Audit Committee as of the same date.
- The General Meeting of 12 March 2014 elected Martin Štefunko, Ondřej Chaloupecký and Radek Neužil as members of the Audit Committee, and, as part of the amendment to the Company's Articles of Association, resolved to reduce the number of seats in the Audit Committee from five to three.
- On 24 March 2014, Martin Štefunko and Radek Neužil were elected Chairman and Vice-chairman, respectively, of the Audit Committee.

Personnel composition of the Audit Committee

Martin Štefunko	Chairman
Radek Neužil	Vice-chairman
Ondřej Chaloupecký	member

Executive management of the Company

In the first half of 2014, particularly until the close date of the Half-year Report, some changes occurred in the executive management of the Company, chiefly as a result of re-organisation (for details please see the Organisation structure of the Company further below). The following changes occurred in the executive management of the Company from the situation described in the 2013 Annual Report:

Tomáš Budník	Vice-chairman of the Board of Directors, acting Chief Executive Officer, deputy for Director, IT Division
Tomáš Kouřil	Director, Finance Division
Petr Slováček	member of the Board of Directors, acting Director, Operations Division
Jindřich Fremuth	Director, Consumer Division
Vít Šubert	Director, Business Division
Jiří Hrabovský	Director, Legal and Regulatory Affairs Division
Ctirad Lolek	Director, Human Resources Division
Petr Mádle	Director, Wholesale Division

Organisation structure of the Company

In the interest of simplicity and effectiveness, several changes were implemented in the organisation of the Company during the first half of 2014. The main changes along the reporting line of the Chief Executive Officer were: (i) transfer of activities from the Marketing Division to the divisions Business and Consumer, followed by a dissolution of the Marketing Division; (ii) transfer of activities from the Support Services Division to divisions Operations and Finance, followed by a dissolution of the Support Services Division; (iii) establishment of a new IT Division; (iv)

establishment of a new Wholesale Division; (v) establishment of a new unit Media & Data Management.

Corporate governance of the O2 Czech Republic Group

The ownership rights of O2 CZ in subsidiaries are exercised by the Company's Board of Directors, acting within a mandate from the Supervisory Board.

Subsidiaries and ownership interests in other companies

In the first half of 2014, the following changes were implemented in the structure of companies within the O2 CZ group:

O2 Slovakia, s.r.o.

By decision of sole member acting as the general meeting, the following decisions were made:

- As of 31 January 2014, David Melcon Sanchez-Friera, Martin Bek and Jakub Chytil resigned from their membership in the supervisory board; Martin Štefunko, Jan Tomaník and Martin Vlček were appointed as new supervisory board members as of 1 February 2014.
- As of 4 June 2014, the company name was changed to O2 Slovakia, s.r.o. (from Telefónica Slovakia, s.r.o. originally), and amendments to the articles of incorporation were approved.
- As of 4 June 2014, Dávid Durbák finished as the company's proxy and was, as of the same date, appointed as the statutory executive of the company.
- As of 18 June 2014, Martin Vlček resigned from his membership in the supervisory board. Ramiro Lafarga Brollo resigned as statutory executive; Tomáš Budník was appointed member of the supervisory board and Martin Vlček was appointed statutory executive.

Internethome, s.r.o.

Pavel Jiroušek resigned from his function as statutory executive in January 2014; Tomáš Elbl was appointed statutory executive by decision of a sole member as of 16 January 2014.

Bonerix s.r.o.

By decision of sole member acting as the general meeting, the following decisions were made:

- On 11 April 2014, Luboš Bojanovský's resignation from his function as statutory executive was accepted; at the same time, the number of statutory executives was reduced by an amendment to the memorandum of association to two.
- On 31 May 2014, Luboš Lukasík's resignation from his function as statutory executive was accepted; Luboš Vaněk was appointed statutory executive with effect from 1 June 2014.

CZECH TELECOM Austria GmbH

By decision of sole member acting as the general meeting, Luděk Jaroš was recalled from his function as statutory executive as of 28 March 2014, and Martin Oravec was appointed in his stead.

CZECH TELECOM Germany GmbH

By decision of sole member acting as the general meeting, Luděk Jaroš was recalled from his function as statutory executive as of 28 March 2014, and Martin Oravec was appointed in his stead.

Tesco Mobile ČR s.r.o. (O2 CZ owns a 50% interest)

The general meeting of Tesco Mobile ČR s.r.o. held on 26 June 2014 adopted the following resolutions:

- Recalled David Melcon Sanchez-Friera, Felix Geyr and Wojciech Henryk Wieronsky from their functions as statutory executives.
- Elected Tomáš Kouřil, Tomáš Budník and Kamal Chauhan as new statutory executives of the company.
- Approved the related amendments to the memorandum of association in those parts that concern acting on behalf of the company and making management decisions.

První certifikační autorita, a.s. (O2 CZ owns a 23.25% interest)

On 18 April 2014, Tomáš Kouřil was appointed as member of the supervisory board by decision of the general meeting.

All principal information and documents in the area of corporate governance are available at the Company's website (www.o2.cz/spolecnost/en).

Financial part

05

5. Financial part

O2 Czech Republic a.s.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

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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., Bonerix s.r.o., Internethome, s.r.o., CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH. The Group operates a joint venture Tesco Mobile ČR s.r.o. with Tesco Stores ČR a.s.

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

The Group is a member of the PPF Group (the "PPF Group") with a parent company, PPF Arena 2 B.V. („PPF").

The interim condensed consolidated financial statements were not audited.

Main events in the first half of 2014

Sale to PPF Group

The agreement between the company Telefónica S.A. and PPF Group to sell 65.9% of the Company's shares was approved by the European Commission on mid-January 2014 and was closed on 28 January 2014.

Name change

Based on the decision of the Annual General Meeting of 19 May 2014 the Company changed its name to O2 Czech Republic a.s. with effect from 21 June 2014.

The subsidiary operating in the Slovak Republic changed its name to O2 Slovakia, s.r.o with effect from 4 June 2014.

Restructuring

During the first half of 2014, the Group continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure and on the elimination of duplicate positions, consolidation and optimisation of call centres, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2014

In CZK million	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Revenues		21,774	23,905
Other income		396	395
Expenses		(14,585)	(15,680)
Impairment loss		(4)	(5)
Operating income before depreciation and amortization (OIBDA)	1	**7,581**	**8,615**
Depreciation and amortisation		(5,275)	(5,517)
Operating profit	1	2,306	3,098
Finance income		10	52
Finance costs		(57)	(138)
Results attributed to joint venture		3	(6)
Profit before tax	1	2,262	3,006
Corporate income tax	1, 2	(486)	(614)
Profit for the period	1	**1,776**	**2,392**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		3	117
Other comprehensive income, net of tax		3	117
Total comprehensive income, net of tax		**1,779**	**2,509**
Profit attributable to:			
Equity holders of the Company		1,776	2,392
Total comprehensive income attributable to:			
Equity holders of the Company		1,779	2,509
Earnings per share (CZK) – basic*	3	6	8

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

INTERIM CONSOLIDATED BALANCE SHEET
As at 30 June 2014

In CZK million	Notes	30 June 2014	31 December 2013
ASSETS			
Property, plant and equipment		38,535	41,857
Intangible assets		23,591	20,008
Investment in associate	12	12	9
Other financial assets		151	169
Deferred tax asset		349	417
Non-current assets		**62,638**	**62,460**
Inventories		473	536
Receivables		6,738	7,062
Income tax receivable		1	1
Cash and cash equivalents	6	3,478	3,890
Current assets		**10,690**	**11,489**
Total assets		**73,328**	**73,949**
EQUITY AND LIABILITIES			
Ordinary shares		27,461	27,461
Treasury shares		(1,596)	(1,596)
Share premium		19,349	19,349
Retained earnings, funds and reserves		6,584	10,535
Total equity		**51,798**	**55,749**
Long-term financial debts		3,000	3,000
Deferred tax liability		2,482	2,735
Non-current provisions for liabilities and charges		11	26
Non-current other liabilities		65	64
Non-current liabilities		**5,558**	**5,825**
Short-term financial debts		4	4
Trade and other payables		15,686	12,199
Income tax liability		117	155
Provisions for liabilities and charges		165	17
Current liabilities		**15,972**	**12,375**
Total liabilities		**21,530**	**18,200**
Total equity and liabilities		**73,328**	**73,949**

Tomáš Budník
Vice-chairman
of the Board of Directors
Chief Executive Officer

Petr Slováček
Member
of the Board of Directors

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

In CZK million	Notes	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained Earnings/ Accumulated losses	Total
At 1 January 2013		**28,022**	**24,374**	**(2,483)**	**(117)**	**31**	**6,499**	**4,248**	**60,574**
Currency translation differences – amount arising in period		-	-	-	117	-	-	-	117
Net profit	1	-	-	-	-	-	-	2,392	2,392
Total comprehensive income		-	-	-	117	-	-	2,392	2,509
Capital contribution and other reclassifications		-	-	-	-	20	44	(37)	27
Distribution declared in 2013	3	-	(3,221)	-	-	-	-	(6,442)	(9,663)
Treasury share acquisition		-	-	(832)	-	-	-	-	(832)
At 30 June 2013		**28,022**	**21,153**	**(3,315)**	**-**	**51**	**6,543**	**161**	**52,615**
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)
Distributions declared in 2014	3	-	-	-	-	-	-	(5,682)	(5,682)
Treasury share acquisition		-	-	-	-	-	-	-	-
At 30 June 2014		**27,461**	**19,349**	**(1,596)**	**259**	**-**	**6,587**	**(262)**	**51,798**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

In CZK million	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Cash flow from operating activities			
Cash received from operations		24,477	26,374
Cash paid to suppliers and employees		(17,665)	(18,024)
Dividends received		5	5
Net interest and other financial income/expenses paid	6	(2)	(34)
Taxes paid		(735)	(655)
Net cash from operating activities		**6,080**	**7,666**
Cash flow from investing activities			
Proceeds on disposals of property, plant and equipment and intangible assets		18	23
Payments on investments in property, plant and equipment and intangible assets		(6,908)	(3,254)
Payments on investments in WiFi acquisition		-	(34)
Payments made on financial investments		-	(10)
Returned warranty deposit for spectrum auction		375	250
Repayments of loans made to joint ventures		18	-
Net cash used in investing activities		**(6,497)**	**(3,025)**
Cash flow from financing activities			
Dividends returned		-	26
Cash payments to owners for acquisition of treasury shares		-	(832)
Net cash used in financing activities		**-**	**(806)**
Effect of foreign exchange rate changes on collections and payments		**5**	**43**
Net increase / (decrease) in cash and cash equivalents during the period		**(412)**	**3,878**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**3,890**	**3,044**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**6**	**3,478**	**6,922**
BALANCE AT THE BEGINNING OF THE PERIOD		**3,890**	**3,044**
Cash on hand and at banks		3,874	3,025
Other cash equivalents		16	19
BALANCE AT THE END OF THE PERIOD		**3,478**	**6,922**
Cash on hand and at banks		3,465	6,903
Other cash equivalents		13	19

ACCOUNTING POLICIES

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A Basis of preparation

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

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

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

B Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 December 2013.

Other income in the Statement of total comprehensive income contains own work capitalized. In the interim condensed consolidated financial statements for the six months ended 30 June 2013, this item was presented in category Other expenses. In order to match internal and external reporting, this item is presented within category Other income for the six months ended 30 June 2014 and 2013.

The Group recognises foreign exchange gains and losses and fair value adjustments on net basis.

C Change in accounting policy

No significant changes in accounting policies were applied in the interim period of 2014 and 2013.

D Seasonality of operations

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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1 Segment information

Operating segments recognised by the Group are as follows:

- fixed - network communication services using own fix network and WiFi infrastructure and ICT services provided by the Company and other consolidated subsidiaries
- mobile - mobile communication services provided by the Company and Bonerix s.r.o.
- O2 Slovakia – mobile communication services provided by O2 Slovakia, s.r.o.

The Company newly reports separately the information about O2 Slovakia, s.r.o., an operating segment which in 2013 met the quantitative and qualitative thresholds. Its reported revenues constitute more than 10 % of the combined revenues of all operating segments. The operating results of the O2 Slovakia, s.r.o. segment are regularly controlled and reviewed by the accounting unit's chief officer who holds the power to make decisions about resource allocation to the segment and to assess its performance.

For the six months ended 30 June 2014 **In CZK million**	**Czech Republic**		**Slovak Republic**	
	Fixed	**Mobile**	**O2 Slovakia**	**Group**
Revenues	9,841	9,668	2,821	22,330
Other income	238	148	8	396
Inter-segment sales	(263)	(231)	(60)	(556)
Total consolidated income	9,816	9,585	2,769	22,170
Total consolidated costs	(6,408)	(6,511)	(1,666)	(14,585)
Impairment charge	(3)	(1)	-	(4)
Depreciation and amortization	(3,297)	(1,695)	(283)	(5,275)
Operating income	108	1,378	820	2,306
Net financial loss				(47)
Results attributed to joint venture				3
Profit before tax				2,262
Corporate income tax				(486)
Profit for the period				**1,776**
Assets (excluding goodwill)	31,952	23,109	4,771	59,832
Goodwill	176	13,320	-	13,496
Total assets	**32,128**	**36,429**	**4,771**	**73,328**
Trade and other payables	(7,337)	(7,233)	(1,146)	(15,716)
Other liabilities	(3,205)	(2,532)	(77)	(5,814)
Total liabilities	**(10,542)**	**(9,765)**	**(1,223)**	**(21,530)**
Fixed assets additions	**2,475**	**1,857**	**1,214**	**5,546**

For the six months ended 30 June 2013 In CZK million	Czech Republic		Slovak Republic	
	Fixed	**Mobile**	**O2 Slovakia**	**Group**
Revenues	10,300	11,434	2,621	24,355
Other income	249	137	7	395
Inter-segment sales	(223)	(175)	(50)	(450)
Total consolidated income	10,326	11,396	2,578	24,300
Total consolidated costs	(6,617)	(7,365)	(1,698)	(15,680)
Impairment charge	(4)	(1)	-	(5)
Depreciation and amortization	(3,459)	(1,827)	(231)	(5,517)
Operating income	246	2,203	649	3,098
Net financial loss				(86)
Results attributed to joint venture				(6)
Profit before tax				3,006
Corporate income tax				(614)
Profit for the period				**2,392**
Assets (excluding goodwill)	37,856	23,663	3,878	65,397
Goodwill	179	13,320	-	13,499
Total assets	**38,035**	**36,983**	**3,878**	**78,896**
Trade and other payables	(8,890)	(9,931)	(1,243)	(20,064)
Other liabilities	(3,539)	(2,671)	(7)	(6,217)
Total liabilities	**(12,429)**	**(12,602)**	**(1,250)**	**(26,281)**
Fixed assets additions	**1,094**	**961**	**153**	**2,208**

The inter-segment pricing rates applied in 2014 and 2013 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

2 Income tax

In CZK million	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Total income tax expense is made up of:		
Current income tax charge	679	836
Deferred income tax credit	(193)	(222)
Income tax	486	614

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. For 2014 and 2013 19% tax rate is applied.

3 Dividends proposed, other distribution and earnings per share

In CZK million	30 June 2014	30 June 2013
Dividends declared (including withholding tax)	5,682	6,442
Other distribution	-	3,221
Total declared distribution	5,682	9,663

Dividends include a withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2014 and 2013. The approval of the 2013 profit and the decision regarding the amount of any dividend payment for this financial year took place at the Annual General Meeting on 25 June 2014 (2012: 22 April 2013). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 18 per share from the 2013 profit is expected to be paid out on 26 November 2014 (2012: CZK 20).

The Annual General Meeting on 22 April 2013 also approved the distribution of a part of the Company's share premium in the amount of CZK 10 before tax per share to shareholders. Own shares are not be eligible for the share premium distribution.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

	30 June 2014	30 June 2013
Weighted number of ordinary shares outstanding (thousands)	310,220	314,750
Net profit attributable to shareholders (in CZK million)	1,776	2,392
Basic earnings per share (CZK)	6	8

4 Property plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired assets at a cost of CZK 904 million (as at 30 June 2013: CZK 1,395 million). Assets with a net book value of CZK 7 million were disposed of by Group during the six months ended 30 June 2014 (as at 30 June 2013: CZK 23 million).

The Group achieved a total gain from the sale of the above fixed assets (including assets held for sale) amounting to CZK 14 million (as at 30 June 2013: CZK 31 million) and total losses in the amount of CZK 4 million (as at 30 June 2013: CZK 4 million) during the six months ended 30 June 2014.

5 Intangible assets

Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired assets at a cost of CZK 4,642 million (as at 30 June 2013: CZK 813 million) including LTE licence for Czech Republic amounting CZK 2,808 million and for Slovak Republic CZK 1,106 million.

6 Cash and cash equivalents

In CZK million	30 June 2014	31 December 2013
Cash at current bank accounts and other cash equivalents	172	352
Cash at cash-pooling structures (inter-company) (Note 11)	3,306	3,538
Total cash and cash equivalents	3,478	3,890

As at 30 June 2014, the Group had available equivalent of CZK 1,454 million (as at 31 December 2013: CZK 1,454 million) of undrawn committed facilities.

As of 30 June 2014 and 31 December 2013 no cash and cash equivalents were pledged.

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

In CZK million	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Interest paid	(32)	(46)
Interest received	-	5
Bank commissions	(13)	(12)
Other financial incomes	43	19
Total	(2)	(34)

7 Inventories

As at 30 June 2014 the inventories are stated net of an allowance of CZK 48 million (as at 31 December 2013: CZK 44 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 1,181 million (2013: CZK 1,353 million).

8 Restructuring costs

During the six months period ended 30 June 2014 the Group recognised restructuring costs of CZK 350 million (as at 30 June 2013: CZK 354 million).

9 Contingencies

The Company is involved in a number of legal disputes arising from the usual course of business. Compared to the situation described in the 2013 Annual Report, the following changes occured during the first half of 2014:

I. ČESKÉ RADIOKOMUNIKACE a.s. – a claim for CZK 3.1 billion

On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. CRa filed an extraordinary appeal but it was declined by the Supreme Court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. First oral hearing has been ordered on 7 October 2014.

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

BELL TRADE sent a letter to the Company in February 2014 with information that alleged claim was transferred to MILLBURN LIMITED Company based in Hong Kong and also announced that extension of the legal action up to the amount CZK 9.7 billion. The court hasn´t decided on extension of the legal action yet. The Slovak Constitutional Court by its decision from 18 March 2014 suspended the decision of the Regional Court in Bratislava and on 2 June 2014 published information on its website that our constitutional complaint was successful. The decision of Regional Court in Bratislava which originally left the case in the jurisdiction of the Slovak courts (namely County Court in Malacky), was canceled as unconstitutional.

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

The Company is convinced that all litigation risk has been faithfully reflected in the financial statements.

10 Commitments

Operating leases - lessee

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

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	1,206	2,862	2,618

Capital commitments

Capital expenditure contracted but not yet included in the financial statements as at 30 June 2013 amounted to CZK 624 million. The majority of contracted amounts relate to the telecommunications network and service contracts.

11 Related party transactions

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

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 2014	31 December 2013
Payables (excl. dividend payable)	-	685

Statement of total comprehensive income In CZK million	For the period from 1 February to 30 June 2014	For the period ended 31 January 2014	For the six months ended 30 June 2013
a) Sales of services and goods	27	-	-
b) Purchases of services and goods	-	3	24
c) Royalty fees	-	51	336

There was no dividend paid during the six months period ended 30 June 2014 to the parent company. The liability from distribution of a portion of the dividend payable to the PPF is in the amount of CZK 3,746 million (31 December 2013: CZK 0 million).

II. Other related parties:

Balance sheet In CZK million	30 June 2014	31 December 2013
a) Receivables	35	469
b) Payables	181	2,088
c) Short-term receivables (interest)	-	18
d) Cash equivalents (see Note 6)	3,306	3,538

Statement of total comprehensive income In CZK million	For the period from 1 February to 30 June 2014	For the period ended 31 January 2014	For the six months ended 30 June 2013
a) Sales of services and goods	44	70	431
b) Purchases of services and goods	191	109	666
c) Management fees	41	35	192
d) Interest income	1	1	6

The capital purchases for the six months period ended 30 June 2014 were not implemented (for the six months period ended 30 June 2013: CZK 3 million).

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 and in 2013 includes the following entities: Telefónica S.A., Telefónica de Espaňa, 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 Espaňa 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 2014	For the six months ended 30 June 2013
Salaries and other short-term benefits	48	49
Personal indemnification insurance	1	1
Total	49	50

b) Loans to related parties

No loans were given to members of Board of Directors and Supervisory Board in 2014 and 2013.

No loans were given by the Group to related parties.

12 Subsidiaries, associates and joint ventures

As at 30 June 2014

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. CZECH TELECOM Germany GmbH	100 %	10	Germany	Data transmission services	Full consolidation
2. CZECH TELECOM Austria GmbH	100 %	6	Austria	Data transmission services	Full consolidation
3. O2 Slovakia, s.r.o.	100 %	6,116	Slovakia	Mobile telephony, internet and data transmission services	Full consolidation
4. Internethome, s.r.o.	100 %	72	Czech Republic	Provision of WiFi internet access	Full consolidation
5. Bonerix s.r.o.	100 %	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
Associates					
6. První certifikační autorita, a.s.	23 %	9	Czech Republic	Certification services	Not consolidated
7. AUGUSTUS, spol. s r.o.	40 %	-	Czech Republic	Auction sales and advisory services	Not consolidated

Joint ventures

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

13 Post balance sheet events

As of 1 July 2014, Tomáš Budník serves as the new CEO of the Company. Tomáš Budník replaced Luis Malvido, who served as the CEO for five years; Luis Malvido remains in his post as Chairman of the Board.

On 2 July 2014 the Board of Directors of the Company has elected Tomáš Budník as the new Vice-chairman of the Board. The vote followed the resignation of Martin Vlček from the position. Martin Vlček continues to serve as a Member of the Board of Directors.

Other information for shareholders and investors

06

6. Other information for shareholders and investors

The key shareholders of O2 CZ as at 31 December 2013 were:

Name	Share in equity
Telefónica, S.A.	70.83%
Investment funds and individual shareholders	27.45%
Telefónica Czech Republic, a.s. (treasury shares)	1.72%

In November 2013, an agreement to sell the majority shareholding in the Company by Telefónica, S.A. to the financial group PPF was announced. The transaction received an approval from the European Commission in the middle of January 2014, and it was settled as of 28 January 2014.

The shareholder structure of O2 CZ as at 30 June 2014 was:

PPF Arena 2 B.V.	65.93%
Telefónica, S.A.	4.90%
Investment funds and individual shareholders	27.45%
O2 Czech Republic a.s. (treasury shares)	1.72%

In June 2014, PPF Arena 2 B.V. made a mandatory tender offer to buy shares from the minority shareholders. The results of the mandatory tender offer were published in July 2014, and in August 2014 the share ownership was transferred. PPF Arena 2 B.V. has increased its share in the Company by 7.16%. At the same point UniCredit Group has announced a substantial increase of their stake in the Company.

The structure of key shareholders of O2 CZ as of the publication date of the Half-year Report was:

PPF Arena 2 B.V.	73.09%
UniCredit Group	5.68%
Telefónica, S.A.	4.90%
Investment funds and individual shareholders	14.62%
O2 Czech Republic a.s. (treasury shares)	1.72%

Trading in O2 CZ shares

The total volume of O2 CZ shares traded on the stock market of the Prague Stock Exchange (PSE) reached CZK 8.8 bn in the first half of 2014, compared to CZK 10.8 bn in the first half of 2013. This ranked the Company among the four most traded stocks, and accounted for more than 10% of all equity trades. The average daily trading volume in the first half of 2014 was CZK 71 m. As at 30 June 2014, the market capitalisation of the Company was CZK 89.6 bn, which put O2 CZ in the fifth position among companies traded on the stock market of the PSE. This represented 8% of the total market capitalisation of the PSE stock market at the end of the first half of 2014.

Between the start of the year and 30 June 2014, the price of O2 CZ shares went down 3.7% to CZK 284. The performance of the PSE stock market, measured by the PX Index, went up 2.0% to 1009 points over the same period.

General Meetings

Three general meetings of the Company were held during the first half of 2014. At the last General Meeting of the Company, held on 25 June 2014, a decision was made to pay a dividend for 2013.

For an overview of the most important conclusions of all general meetings please refer to Section 4 Corporate Governance of this Half-year Report.

Dividend

The key parameters of the 2013 dividend are given in Section 4 Corporate Governance of this Half-year Report. The record day for the dividend is 27 October 2014 and the payment will be made on 26 November 2014. Česká spořitelna will handle the payment. Česká spořitelna will advise all shareholders eligible to collect the dividend of the method of payment after the record day.

Acquisition of the Company's own shares

The General Meeting of 19 April 2012 approved a programme of acquisition of the Company's own shares. The programme was stopped by the Board of Directors on 29 October 2013. As a result of this decision, the Company did not purchase any own shares in 2014.

Institutional investors and shareholders may contact:

Investor Relations
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E-mail: investor_relations@o2.cz, http://www.o2.cz/spolecnost/en/investor-relations/

Declaration of mandated persons

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7. Declaration of mandated persons

Luis Antonio Malvido, Chairman of the Board of Directors of O2 Czech Republic a.s.

Tomáš Budník, 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.

Luis Antonio Malvido
Chairman of the Board of Directors

Tomáš Budník
Vice-chairman of the Board of Directors

In Prague on 29 August 2014