



Telefónica O2 Czech Republic

Quarterly Results
January – June 2010

28th July, 2010

A *Telefónica* company

CAUTIONARY STATEMENT



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

Although Telefónica O2 Czech Republic, a.s. makes every effort to provide accurate information, we cannot accept liability for any misprints or other errors.



1H 2010 Performance Highlights

1



1H 2010 performance highlights



- Full year guidance¹⁾ for OIBDA and CAPEX reiterated
- CZ mobile contract customers added 35k in 2Q 2010 resulting in +8.6%²⁾ y-o-y growth
- ADSL customer base grew by 11% y-o-y
- Mobile revenues showing improving trends in 2Q (-5.8% y-o-y) compared to 1Q (-11.2% y-o-y) due to stabilization in spend and seasonality
- Fixed revenues (ex-USO) improving performance in 2Q (-5.5% y-o-y) compared to 1Q (-7.3% y-o-y) on the back of solid ICT revenues growth
- Slovakia maintaining its trading momentum and improving financial performance
- Strict cost control (OpEx³⁾: - 7.3% y-o-y in 1H) compensated for revenues drop, resulting in 0.7 p.p. improvement in comparable OIBDA⁴⁾ margin to 43.4% in 1H 2010

¹⁾ OIBDA: -5% to -9% ; OIBDA excludes brand fees, in addition, 2009 OIBDA base excludes non-recurring items (settlement with T-Mobile, universal service and gain from real estate sale) totaling CZK 1,548 million. CAPEX: ~ CZK 6 billion; 2010 Guidance excludes changes in consolidation and assumes constant FX rates of 2009.

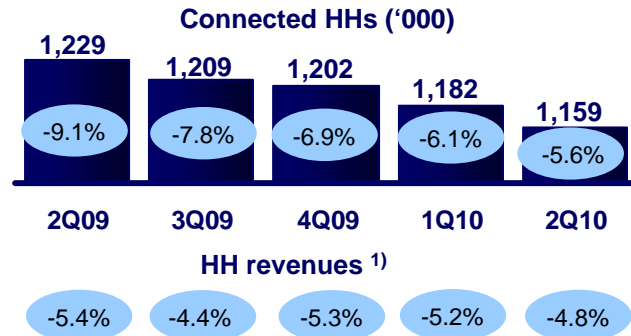
²⁾ excluding 111 thousand adjustment for inactive contract customers in 2Q 2010

³⁾ excluding T-Mobile settlement

⁴⁾ OIBDA excludes brand fees and non-recurring items (1H 2009: universal service, settlement with T-Mobile and gain from real estate sale totaling CZK 1,456 million, 1H 2010: universal service and restructuring costs totaling CZK minus 414 million).

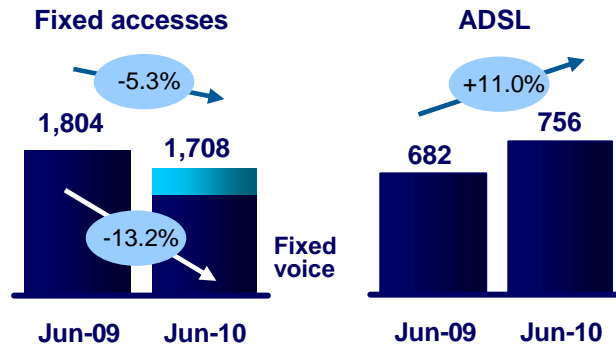
Broadband centric strategy continues to show positive **O₂** trends in household performance

Households



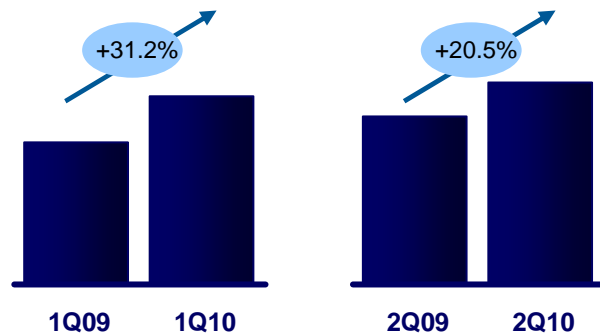
- Broadband centric proposition helping to further slowdown HHs decline
- 43k HHs net losses in 1H 2010, down from 62k in 1H 2009
- Improving customer experience via lower abandoned rate in consumer fixed call centers

Accesses ('000)



- Fixed accesses' performance improving on the back of good take-up of naked proposition (-62k net losses in 1H 2010, -30.3% year-on-year)
- Sustained solid commercial performance in fixed BB despite intensifying competitive environment

ICT revenues



- Still healthy ICT growth maintained mainly due to projects for Public Administration
- Cautious outlook for 2H due to proposed cuts in government budget expenditures

y-o-y change

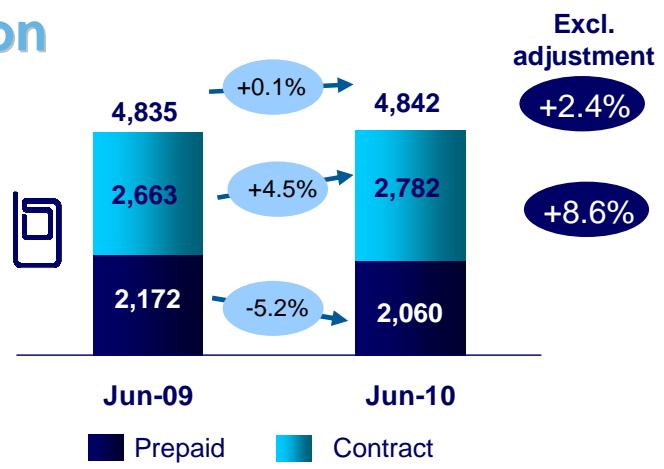
1) ADSL, IPTV, voice monthly charges



Commercial momentum maintained in mobile driven by growth of contract customers while ARPU stabilized on the back of less optimization

Mobile customers
(‘000)

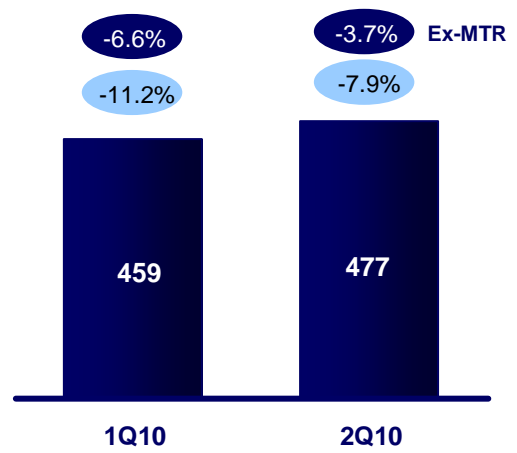
● y-o-y change



- 9 thousand net adds¹⁾ in 1H 2010 in highly penetrated market
- Driven by contract customer growth (+78k¹⁾ in 1H 2010) on the back of continuous success of O₂ NEON tariffs
- Improving customer mix - contract customers represented 57.4% of total base at 1H 2010 (+2.4 p.p. y-o-y)

ARPU
(monthly avg., CZK), restated

● y-o-y change



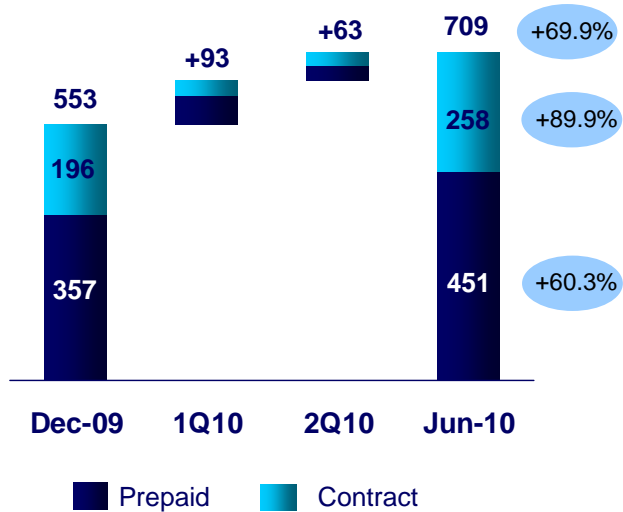
- Improving blended ARPU in 2Q compared to 1Q (+3.3% q-o-q¹⁾) due to decreasing customers' optimization and seasonality
- 2Q contract ARPU¹⁾: +1.8% q-o-q
- Positive impact of prepaid customer' propositions focused on traffic stimulation ("Korunomanie") and regular top-ups (2Q prepaid ARPU: +6.2% q-o-q to CZK 209)
- Improving contract customers experience via lower abandoned rate (2% in 2Q 2010)

¹⁾ excluding adjustment for 111k inactive contract customers in June 2010

Slovakia – good commercial momentum maintained while focusing O₂ on customer quality

Mobile customers¹⁾
(‘000)

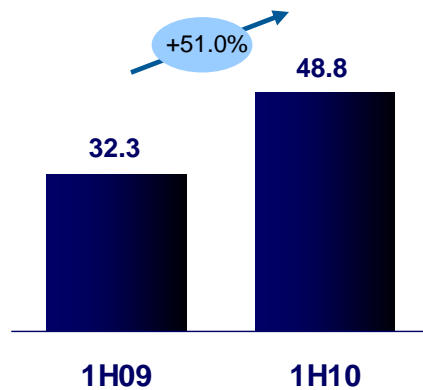
y-o-y change



- Sound customer growth maintained also in 2Q 2010, leveraging on successful marketing proposition based on value, simplicity and customer experience (O₂ Fair)
- 155.7k net adds in 1H 2010 (+69.9% y-o-y)
- Contract representing 36.4% of total customer base at 1H 2010 (+3.8 p.p. y-o-y)

Revenues
(in EUR mil.)

y-o-y change



- 51.0% y-o-y revenue growth in 1H 2010 (+51.0% y-o-y in 2Q) driven by customer base increase and improving customer mix
- Focus on customer quality and loyalty: 2Q churn at 2.5% (-0.5 p.p y-o-y)

¹⁾ Including resale partners



January – June 2010 Earnings Results

2



Key Highlights of Group Financial Performance



CZK millions

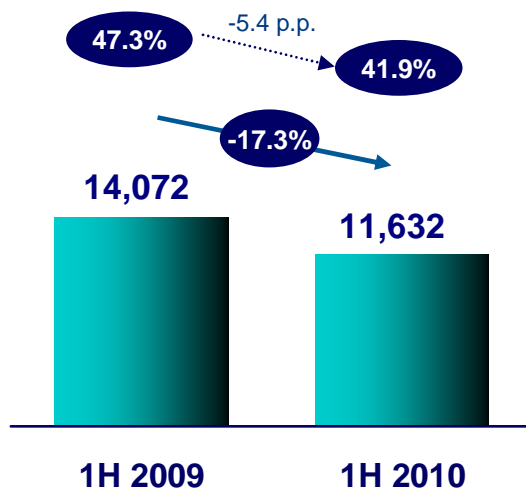
Jan – Jun 2010

Change
1H10/1H09

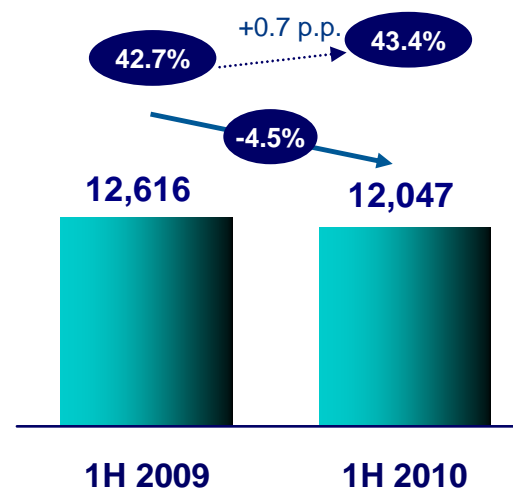
Comparable change¹⁾
1H10/1H09

	Jan – Jun 2010	Change 1H10/1H09	Comparable change ¹⁾ 1H10/1H09
Business revenues	27,765	(6.6%)	(6.2%)
CZ Fixed	12,273	(7.5%)	(6.5%)
CZ Mobile	14,310	(8.5%)	
OIBDA before brand fees	11,632	(17.3%)	(4.5%)
OIBDA margin before brand fees	41.9%	(5.4 p.p.)	0.7 p.p.
OIBDA	11,209	(18.1%)	(5.0%)
OIBDA margin	40.4%	(5.7 p.p.)	0.5 p.p.
Net income	4,354	(23.9%)	

OIBDA before brand fees



Comparable OIBDA²⁾



¹⁾ Revenues do not include universal service; OIBDA does not include non-recurring items (1H 2009: real estate sale, Universal Service and settlement agreement with T-Mobile totaling CZK 1,456 mil.; 1H 2010: Universal Service and restructuring costs totaling CZK -414 mil.),

²⁾ OIBDA before brand fees, excluding non-recurring items and restructuring costs

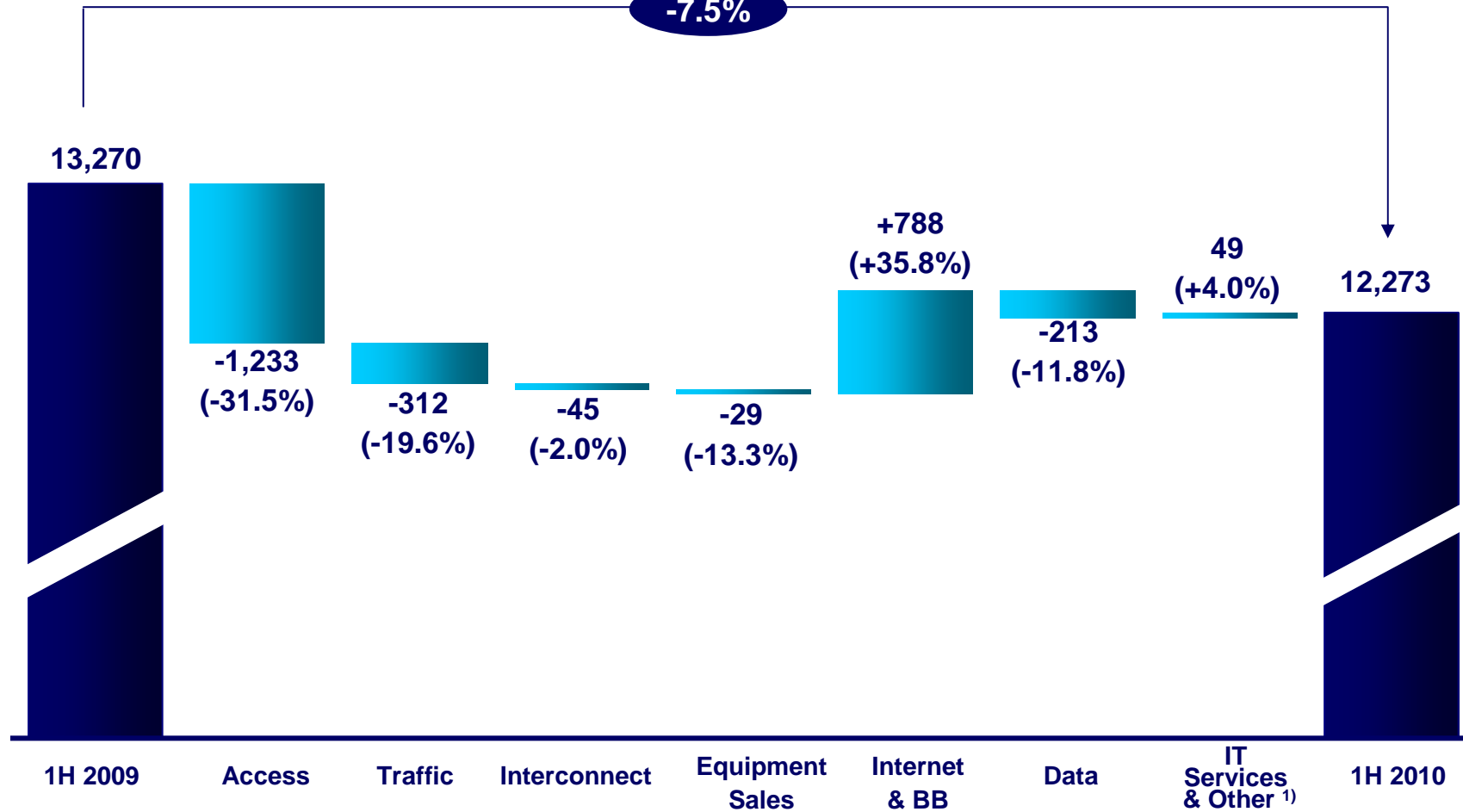
CZ Fixed Business Revenues – sources of variation



CZK millions
(% change y-o-y)

-6.5% excl. USO impact

-7.5%

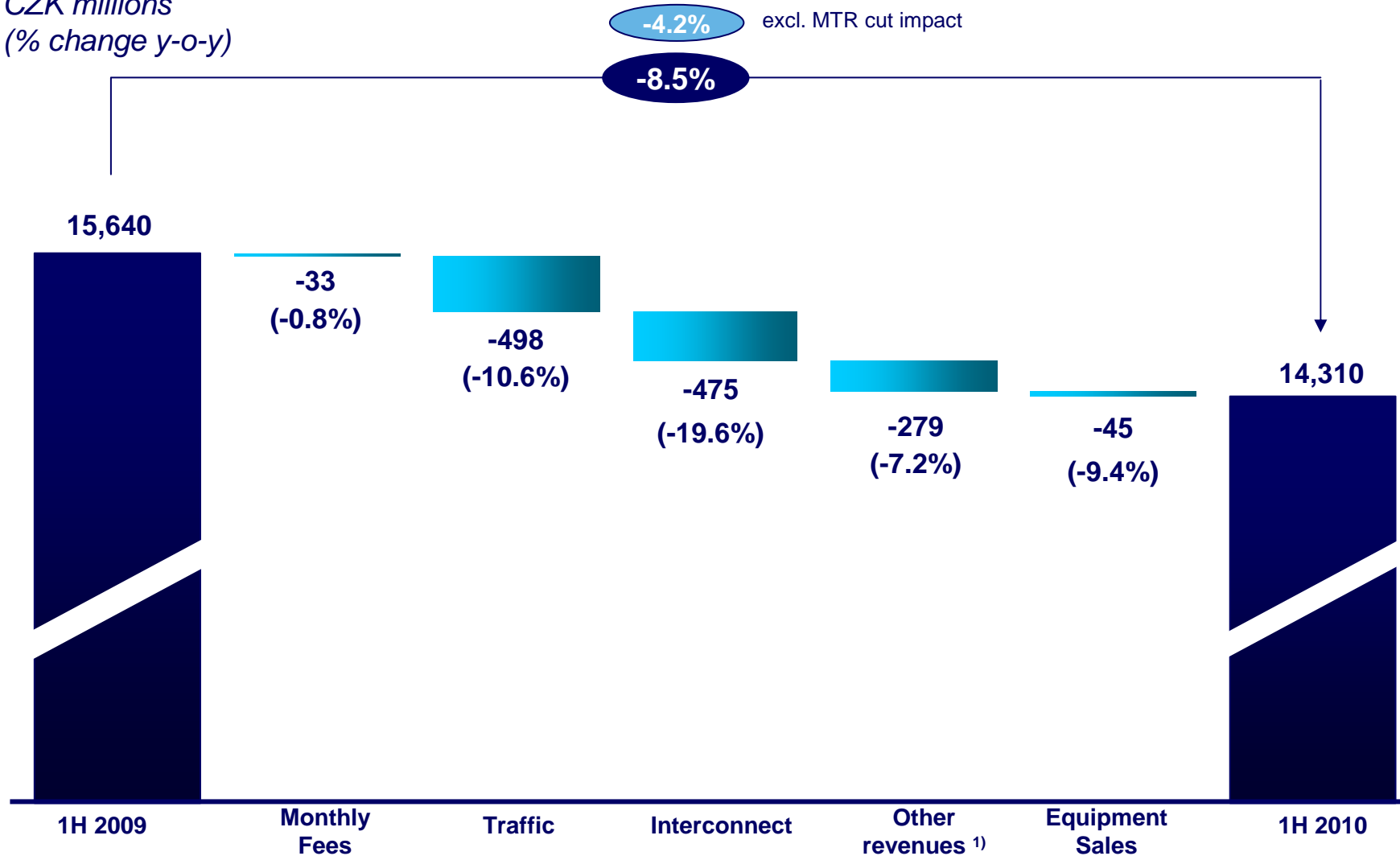


¹⁾ IT services and Other – incl. ICT, universal service and other revenues
Figures excluding inter-segment charges between fixed and mobile businesses

CZ Mobile Business Revenues – sources of variation



CZK millions
(% change y-o-y)



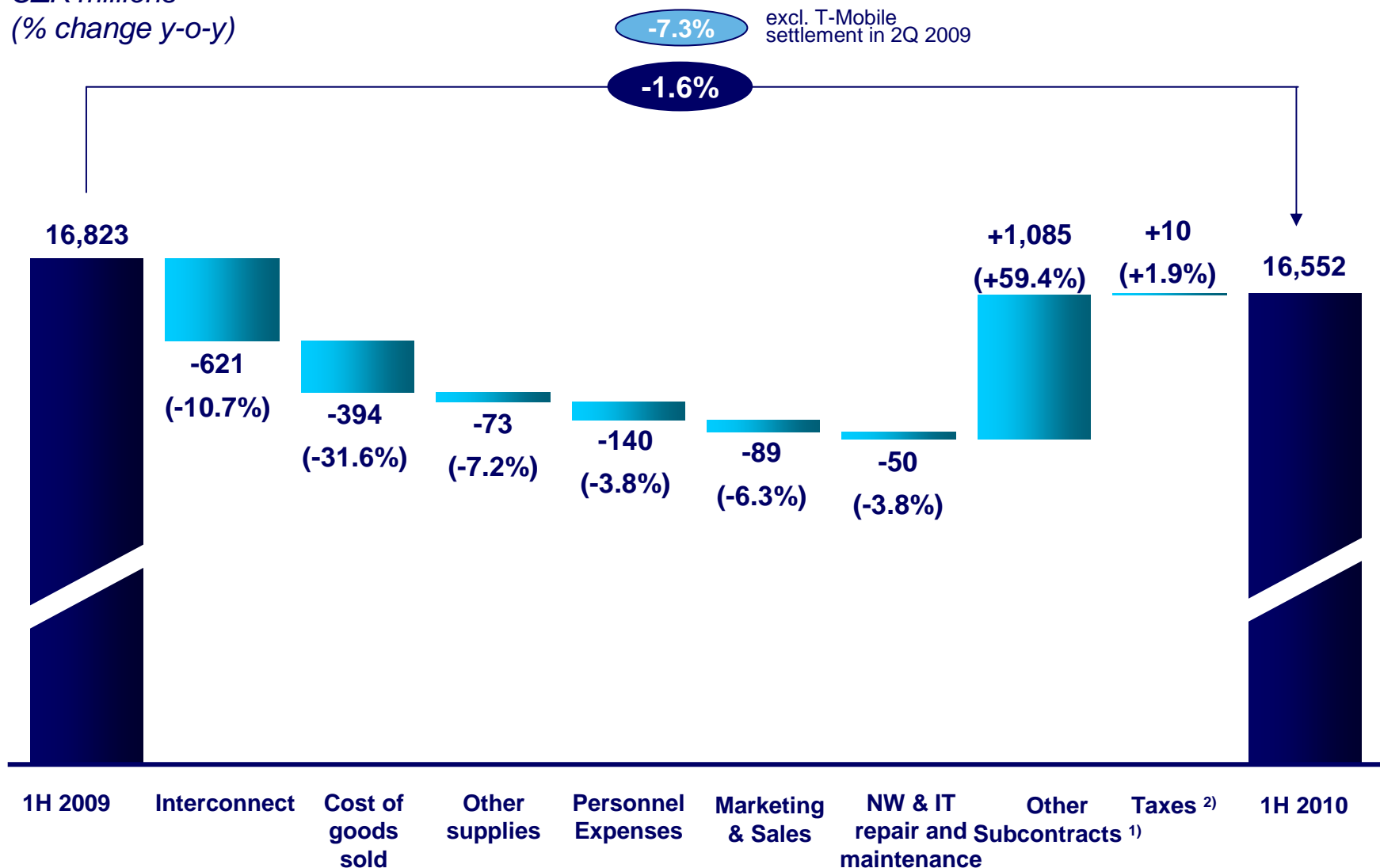
¹⁾ Other – incl. VAS, Internet & Data and Other revenues

Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation



CZK millions
(% change y-o-y)



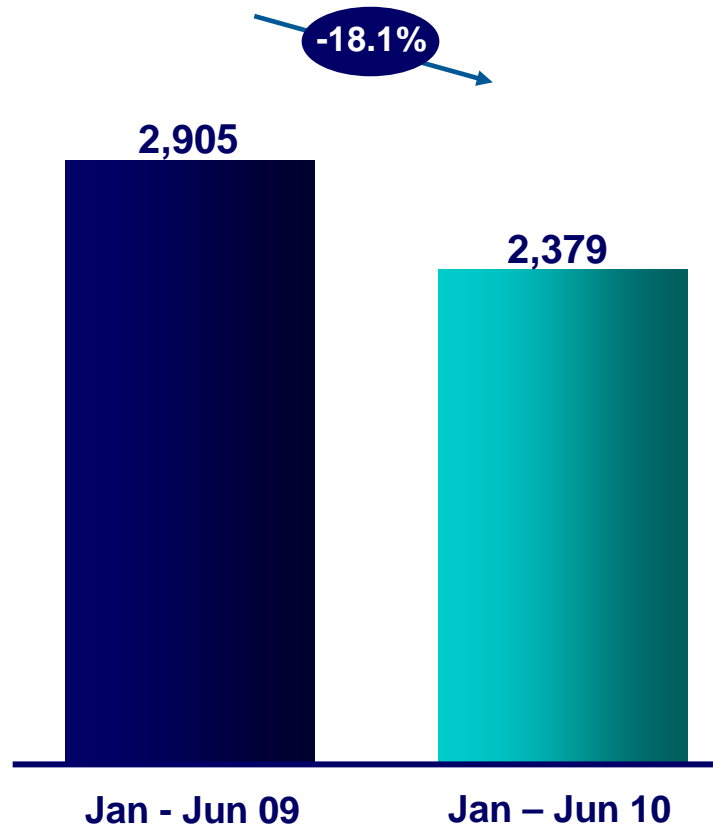
¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy & Brand fees

²⁾ Taxes = taxes other than income taxes, provisions and fees

Group CAPEX – Focus on selective investments into core areas



CZK millions



- Continuous focus on selective and efficient investments to core areas
- Expansion of mobile broadband networks (EDGE and UMTS), fixed broadband network (ADSL and IPTV)
- Development of IT systems
- CAPEX to Revenues at 8.5% in 1H 2010, down by 1.3 p.p. y-o-y

Group Balance Sheet & Cash Flow Statement



<i>CZK millions</i>	31 Dec 2009	30 June 2010	<i>Change Jun10/Dec09</i>
Non-current assets	80,316	76,846	(4.3%)
Current assets	12,357	18,680	51.2%
- of which Cash & cash. Equiv.	1,269	8,373	559.8%
Total assets	92,768	95,688	3.1%
Equity	73,879	65,304	(11.6%)
Non-current liabilities	6,422	6,069	(5.5%)
- Long-term financial debt	3,044	2,956	(2.9%)
Current liabilities	12,466	24,314	95.0%
- Short-term financial debt	87	191	119.8%
	Jan - June 2009	Jan - June 2010	Change 1H10/1H09
Cash flow from operations	12,427	11,516	(7.3%)
Dividends received	5	3	(25.0%)
Net interest and other financial expenses paid	82	(20)	<i>n.m.</i>
Payment for income tax	(2,103)	(1,466)	(30.3%)
Net cash from operating activities	10,410	10,034	(3.6%)
Proceeds on disposals of PPE and intangibles	849	49	(94.3%)
Payments on investments in PPE and intangibles	(5,094)	(2,980)	(41.5%)
Net cash used in investing activities	(4,245)	(2,931)	(31.0%)
Free cash flow	6,165	7,103	15.2%