

# ČESKÝ TELECOM

## 2004 Earnings Results

Analyst Meeting



Prague, March 24, 2005



## 2 CAUTIONARY STATEMENT

Any forward-looking statements concerning future economic and financial performance of ČESKY TELECOM, 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 ČESKY TELECOM, 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 ČESKY TELECOM, a.s. could materially differ from those expressed in the forward-looking statements contained in this Presentation.

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## 3 Panelists



**Gabriel Berdár**  
Chairman of BoD  
and CEO

ČESKÝ TELECOM



**Juraj Šedivý**  
1<sup>st</sup> Vice Chairman  
of BoD and CFO



**Michal Heřman**  
Member of BoD  
and CEO

EUROTEL



**Marcela Malivánková**  
Member of BoD  
and CFO



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## 4 Agenda

**Introduction**

**Czech telecommunications market**

**Fixed-line business**

**Mobile business**

**Financial data**

**Strategy/Outlook**

**Q & A**



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## 5 ČESKÝ TELECOM Group in 2004

### Leading Integrated Telecom Operator

**Leader in fixed-line telecom market with 3.4 m customers dominating all customer segments and data market**

**Leader in mobile telecom market with 4.6 m customers and broadest range of access technologies**

**Improved financial performance - positive impact of a 100% Eurotel consolidation in 2004**

**Operating efficiency leader in the CE region**



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## 6 Key Financial Achievements

**Total Consolidated Revenues of CZK 62.1 bn**

**Consolidated EBITDA of CZK 29.1 bn, EBITDA margin of 47%**

**Net Consolidated Profit of CZK 5.8 bn**

**Free Cash Flow of CZK 19.5 bn, i.e. 31% of revenues**

**CAPEX reduced to CZK 5.8 bn, i.e. 9.3% of revenues**

**Total consolidated debt reduced by 44% yoy to CZK 25.5 bn**



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## 7 Operating Goals on Target or better

### Significant growth in revenues from Internet and data services

- Fixed line revenues from Internet, data and VAS up by 12% yoy
- Mobile revenues from Internet, data, SMS, MMS and VAS up by 16% yoy
- # 1 broadband provider with 130 ths broadband customers (ADSL, CDMA)

### Operating efficiency improvement through cost cutting

- Fixed-line headcount reduction of 19.3% yoy to 8,830 employees
- Fixed lines per employee ratio improved by 16.5% yoy to 383
- Fixed-line revenues per employee up by 18% yoy to CZK 3.89 mil.

### Outsourcing and non-core spin-off projects

- Car fleet reduced by 30%
- Continuous optimization of real estate assets
- Network maintenance – a pilot project launched in Q1 05  
expected increase in operating efficiency, further headcount reduction



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## 8 Strategy Focus

### Defending traditional business

- New products and tariffs introduced, targeted marketing
- Improved customer care (call centers, provisioning, revenue assurance)
- Sustaining strong position in corporate customer segment

### Fixed-mobile convergence

- Fixed-mobile bundle (Eurotel Data Speed – mobile voice & ADSL)
- Fixed-mobile complementary offer in voice and broadband
- Joint synergy projects (retail sales chain, procurement, CAPEX, WiFi)

### Growing new markets

- Focus on broadband & data, shift from dial-up and ISDN to ADSL and CDMA
- Creating the demand – providing content
- New projects/trials – Digital Home, Digital Business, VoIP, IPTV, e-commerce



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## 9 Generating Shareholders' Value

**FCF raised by 31% yoy to CZK 60 per share**

**Dividend of CZK 5.48 bn, i.e. CZK 17 per share, paid out in Q3 04**

- Eurotel's dividend of CZK 8 bn (100% for Český Telecom)
- Current dividend policy of 50-70% pay-out ratio of net consolidated profit

**Stock price up by 26% in 2004**

**CT one of the most liquid large-cap companies in the CEE region**

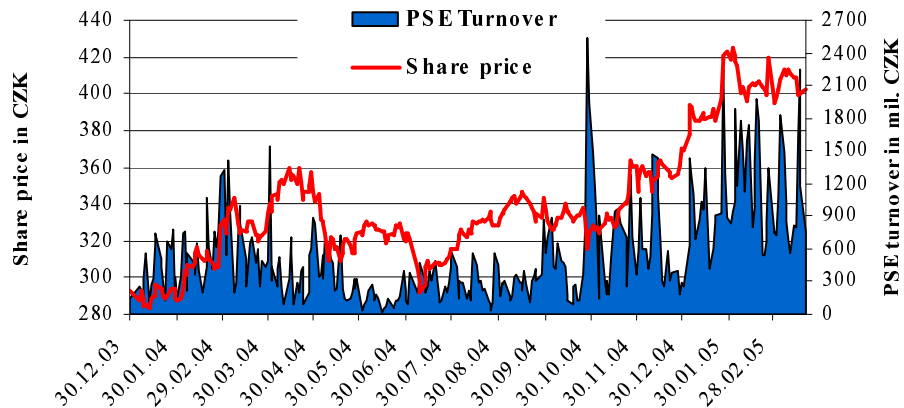
- Market capitalization grew by 26% to CZK 119 bn and avg. daily trading volume grew by 73% to CZK 434 mil. in the year 2004



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## 10 ČESKÝ TELECOM Share Price Performance



Source: Prague Stock Exchange



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## 11

## ČESKÝ TELECOM - Efficiency Leader in CE Region

	ČESKÝ TELECOM		TPSA		MATAV	
	2003	2004	2003	2004	2003	2004
<b>EBITDA margin</b>	46%	47%	40%	43%	41%	37%
<b>Gross Leverage <sup>1)</sup></b>	50%	28%	108%	59%	56%	62%
<b>Net Leverage <sup>2)</sup></b>	45%	27%	95%	41%	52%	55%
<b>Capex / Revenues</b>	14%	9%	22%	16%	15%	14%
<b>FCF / Revenues</b>	29%	31%	22%	30%	18%	18%
<b>FCF / Market cap.</b>	16%	16%	19%	20%	13%	12%
<b>Fixed lines / Employee</b>	329	383	308	373	351	365
<i>(EUR ths)</i>						
<b>Revenues / Employee</b>	121	172	95	112	164	174
<b>EBITDA / Employee</b>	56	81	38	48	68	65

Note: <sup>1)</sup> Interest bearing borrowings / equity; <sup>2)</sup> (interest bearing borrowings – cash and cash equivalents) / equity. Exchange rates used: CZK/EUR 31.904; PLN/EUR 4.529; HUF/EUR 251.676. Market cap. as of the YE 2004 and 2003, respectively. Matav consolidates cable TV and MaKTel; Matav doesn't own 100% network access



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## 12

### Introduction

### Czech telecommunications market

### Fixed-line business

### Mobile business

### Financial data

### Strategy/Outlook

### Q & A



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## 13 Regulatory Environment

The Czech telco market is one of the most liberalized ones in CEE

- After mobile number portability expected at Jan 1, 2006 the Czech telco market will be fully liberalized
- Fixed-line retail tariffs rebalancing and access deficit yet to be resolved, the timeframe of the remedy remains unclear
- New set of retail tariffs are expected to be set by the CTU in Q2 05
- CTc in a dispute with CTU over interconnect and Internet termination charges since 2003
- Decision on LLU prices and DSL termination prices yet to come
- Collection of Universal Service receivables still pending
- No government support on broadband penetration

New Electronic Communication Act to come to effect on May 1, 2005



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## 14 Other governments support Broadband Internet development

### Public Funds Subsidies – examples



**Portugal** – CZK 18.8 bn equiv., 351 ths ADSL lines

- EU Structural Funds – CZK 9.51 bn
- Public (national) funds – CZK 9.29 bn
- App. CZK 1 786 per capita, CZK 53 561 per line



**Spain** – CZK 268.07 bn equiv., 2 227 ths ADSL lines

- EU Structural Funds – CZK 93.82 bn
- Public (national) funds – CZK 40.22 bn
- Private sector support – CZK 134.04 bn
- App. CZK 6 655 per capita, CZK 120 331 per line



**Hungary** – CZK 6.95 bn equiv., 176 ths ADSL lines

- EU Structural Funds – CZK 3.01 bn
- Public (national) funds – CZK 3.94 bn
- App. CZK 693 per capita, CZK 39 456 per line



**South Korea** – CZK 966.6 bn equiv., 6 717 ths ADSL lines

- Public (national) funds – CZK 270.72 bn
- Private sector support – CZK 695.88 bn
- App. CZK 19 890 per capita, CZK 143 898 per line



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## 15 ČESKÝ TELECOM Group Position

**Market size of approximately CZK 118.5 bn in 2004 (4.3% GDP);  
(mobile market of CZK 70 bn vs. fixed-line market of CZK 48.5 bn)**

**Limited fixed-line penetration (34%) vs. mobile penetration (105%)**

**Fixed-line market is becoming more competitive**

- Competition stabilized on four main alt. operators
- Main focus on business customer segment and residential broadband

**Mobile market becoming increasingly saturated and sophisticated**

- Eurotel maintaining leading market share in both SIM cards (43%) and revenues (42%)
- Relative market share stability in 2004, reflecting Eurotel's and T-Mobile's time-to-market and technology innovation advantage vs. Oskar



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## 17 Fixed-line Operational Overview

	2003	2004	Y/Y chg.
<b>Number of lines (in thousands)</b>	<b>3,585</b>	<b>3,368</b>	<b>(6%)</b>
- of which ISDN channels	477	492	3%
<b>ADSL connections</b>	15	101	<b>575%</b>
<b>Internet users (in thousands) <sup>1)</sup></b>	<b>865</b>	<b>1,040</b>	<b>20%</b>
<b>Avg. Monthly MOU per customer <sup>2)</sup></b>	<b>289</b>	<b>262</b>	<b>(10%)</b>
<b>Employees</b>	<b>10,935</b>	<b>8,830</b>	<b>(19%)</b>
<b>Lines per employees</b>	<b>329</b>	<b>383</b>	<b>17%</b>

Note: 1) Paid access (IOL), free access (Quick.cz) and Internet Express (Český Telecom)

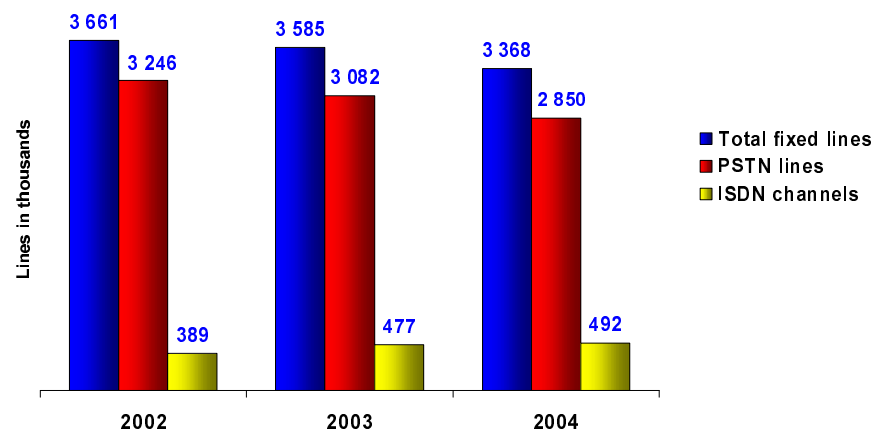
2) In + outbound



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## 18 Development of Fixed Lines



Source: Český Telecom

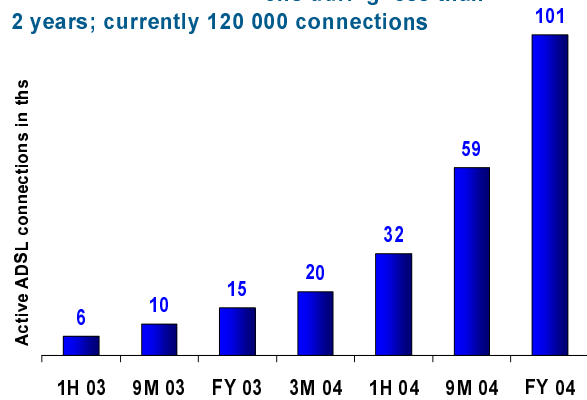


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## 19 ADSL connections

101 ths. ADSL connections during less than 2 years; currently 120 000 connections



Source: Český Telecom

- Major pick-up of net adds boosted by introduction of unlimited monthly tariff in May 2004
- CTC's has a 80% market share on broadband market and 82% of new adds
- Coverage broadened to 88% of CTC's customers at YE 04; current coverage at 90%, i.e. 3 mil. customers



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## 21 Eurotel in 2004

**Eurotel is the largest mobile operator in the Czech Republic - nearly 4.6 million customers at YE 2004**

**Leading position in all the key parameters:**

- Number 1 in revenues
- Number 1 in the number of customers
- Number 1 in EBITDA
- Number 1 in innovation
- Number 1 in global connectivity - 376 roaming partners in 150 countries of the world



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## 22 Eurotel in 2004

**First year under the new owner**

- Improved organization and staffing on top management level
- Growth continued despite saturated market and tough competition - 43% market share of activated SIM cards retained
- 17% more new SIM cards than in 2003 - the most dynamic growth in the market

**The fastest growth in the Q4 measured by the number of SIM cards**

**The highest number of business clients in the segment of businesses with over 5 employees**

**Eurotel has joined the Starmap Mobile Alliance**



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## 23 2004 Success

**Launch of the Eurotel Data Express service – network coverage of 80% of the population + almost 30 thousand customers**

**Almost 60 thousand customers use Eurotel Data Nonstop – 178% growth of customers using unlimited Internet access compared to 2003**

**In first nine months since Eurotel Live! portal launch, the number of customers grew to nearly 110 thousand**



**2004 Real Mobility and 2004 Product of the Year for Eurotel Data Express**

**1<sup>st</sup> place at the Mobile Entertainment Forum for the Jukebox service**

**The International Stevie Award for the best web design**



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## 24 Key areas of focus in 2004

### Data services and Internet

- Eurotel Data Express – in the 450 MHz band as the first operator in the world
- Eurotel Office Connector – development and launch

### Innovation and leadership in many other products and services

- Top packages
- Eurotel Jukebox
- The first integrated web and wap portal Eurotel Live!
- Eurotel Star service
- Eurotel Data Speed
- Push to Talk



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## 26 Consolidated Income Statement

<i>(CZK mil.)</i>	2003	2004
<b>Revenues</b>	<b>51,476</b>	<b>62,141</b>
OPEX	(27,662)	(33,076)
<b>EBITDA</b>	<b>23,814</b>	<b>29,065</b>
<b>EBITDA margin</b>	<b>46%</b>	<b>47%</b>
Depreciation & Amortisation	(19,444)	(20,748)
Impairment charge	(9,909)	-
<b>EBIT</b>	<b>(5,539)</b>	<b>8,317</b>
EBT	(6,667)	7,914
<b>Net income/ (loss)</b>	<b>(1,780)</b>	<b>5,568</b>

Note: Data according to IFRS; Consolidation based on a 51% proportional consolidation of Eurotel to 30 November 2003 and full consolidation from December 2003 on



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## 27 Consolidated Balance Sheet

(CZK mil.)	2003	2004
Fixed assets	139,599	123,874
Current assets	15,107	10,329
- Cash & cash. Eq.	4,926	675
<b>Total assets</b>	<b>154,706</b>	<b>134,203</b>
<b>Total Equity</b>	<b>90,157</b>	<b>90,199</b>
- Share capital	32,209	32,209
- Reserves	57,939	57,984
<b>Liabilities</b>	<b>64,549</b>	<b>44,004</b>
- Debt	45,065	25,482
<b>Gross gearing</b>	<b>50%</b>	<b>28%</b>
<b>Net gearing</b>	<b>45%</b>	<b>27%</b>

Note: Data according to IFRS; Consolidation based on a 51% proportional consolidation of Eurotel to 30 November 2003 and full consolidation from December 2003 on

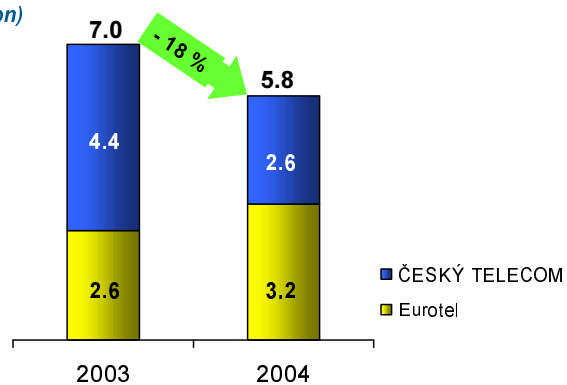


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## 28 Consolidated CAPEX

(CZK bn)



CAPEX in 2004 directed primarily to access technologies, data & VAS, network maintenance and regulatory driven investments (LLU)



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## 29 Consolidated Cash Flow Statement

(CZK mil.)	2003	2004
Interest paid	(2,186)	(1,248)
Income tax paid	2,154	(2,655)
<b>Net cash from operating activities</b>	<b>19,815</b>	<b>24,725</b>
<b>Net cash from investing activities</b>	<b>(27,447)</b>	<b>(4,978)</b>
- purchase/disposal of PPE	(5,098)	(4,810)
- purchase of intangible assets	(920)	(508)
- purchase of financial investments	(29,220)	-
- marketable securities	7,078	265
- interest received	1,071	75
Free cash flow I <sup>1)</sup>	14,867	19,482
Free cash flow II <sup>2)</sup>	15,983	20,655
<b>Net cash from financing activities</b>	<b>2,282</b>	<b>(23,911)</b>

Note: Audited; Consolidated under IFRS; Consolidation based on 51% consolidation of Eurotel to 30 Nov 2003 and full consolidation from Dec 2003 on

<sup>1)</sup> Net cash from operating activities less Net cash from investing activities excl. marketable securities and purchase of financial investments

<sup>2)</sup> Net operating cash less Net investing cash excl. marketable securities, purchase of financial investments and interest



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## 30 Fixed Business Financial Performance

(CZK mil.)	2003	2004	Y/Y Chg.
<b>Revenues</b>	<b>36,507</b>	<b>34,369</b>	<b>(6%)</b>
<b>OPEX</b>	<b>(21,216)</b>	<b>(19,051)</b>	<b>(10%)</b>
<b>EBITDA</b>	<b>15,291</b>	<b>15,318</b>	<b>0%</b>
<b>EBITDA margin</b>	<b>42%</b>	<b>45%</b>	<b>3%</b>

Note: Audited under IFRS; Data are for Český Telecom and minor subsidiaries (excluding Eurotel), i.e. before consolidation and shareholding adjustments with Eurotel

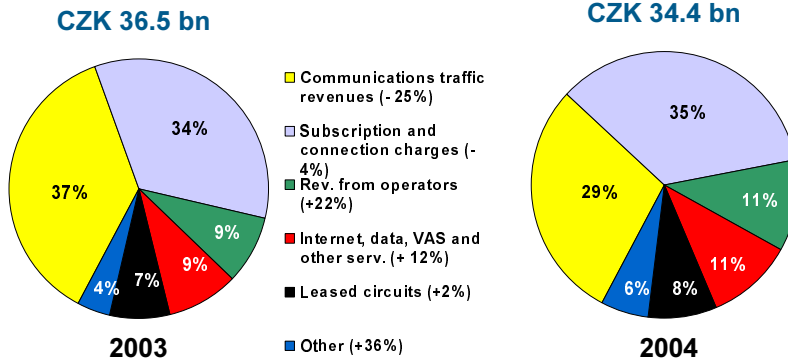


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# 31

## Fixed Business Revenues Breakdown



Note: Other include equipment sales and sales of material and other revenues

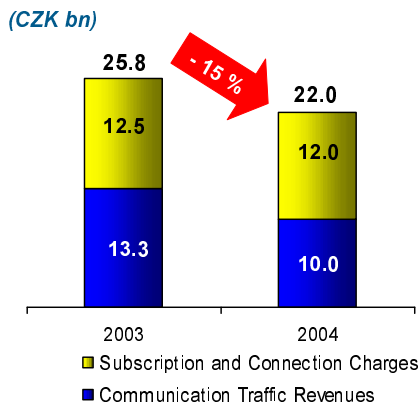


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# 32

## Voice & Dial-up Revenues, Subscription and Connection Charges



- No. of lines down by 6% while ISDN channels up by 3% to 492 ths as of YE 2004
- Continuing decrease in overall outgoing traffic (18% decline in 2004)
  - VAT charge increase from 5% to 19%
  - Fixed to mobile substitution
  - Migration of internet dial-up traffic to ADSL



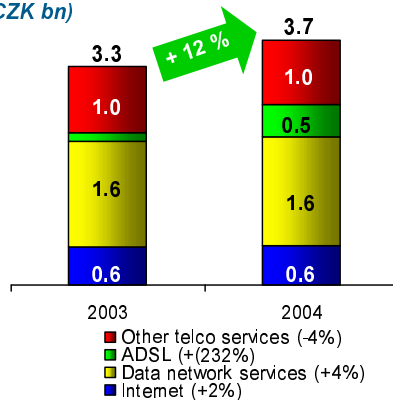
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## 33 Internet, Data and VAS Revenues

(CZK bn)



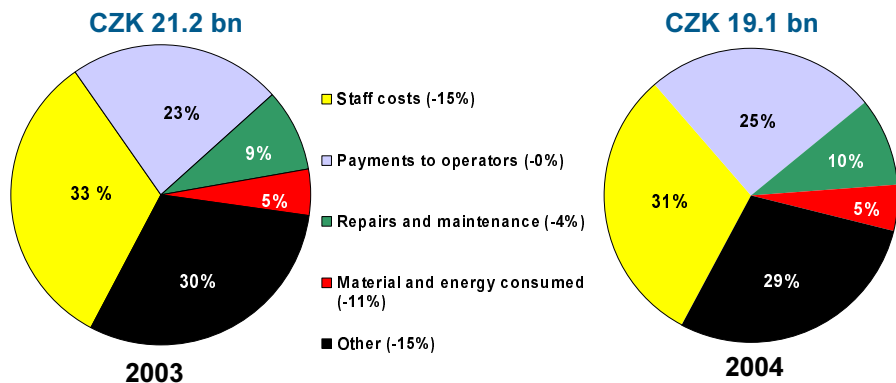
- **Internet** – number of IOL customers increased by 20%; revenues up 2% yoy to CZK 586 million
- **Data network services** – significant yoy growth of IP Connect and IP VPN connections; revenues up 4% yoy to CZK 1.7 billion
- **ADSL** – 5.8 times growth in ADSL connections to 101 thousand; a number of marketing campaigns to boost the customer base



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## 34 Fixed Business Operating Costs Breakdown



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# 35

## Mobile Business Financial Performance

(CZK mil.)	2003	2004	Y/Y Chg.
<b>Revenues</b>	<b>29,078</b>	<b>29,480</b>	<b>1%</b>
<b>OPEX</b>	<b>(14,880)</b>	<b>(15,842)</b>	<b>6%</b>
<b>EBITDA</b>	<b>14,198</b>	<b>13,638</b>	<b>(4%)</b>
<b>EBITDA margin</b>	<b>49%</b>	<b>46%</b>	<b>(3%)</b>

Note: Audited under IFRS; Mobile business comprises data for Eurotel, i.e. before consolidation and shareholding adjustments with Český Telecom

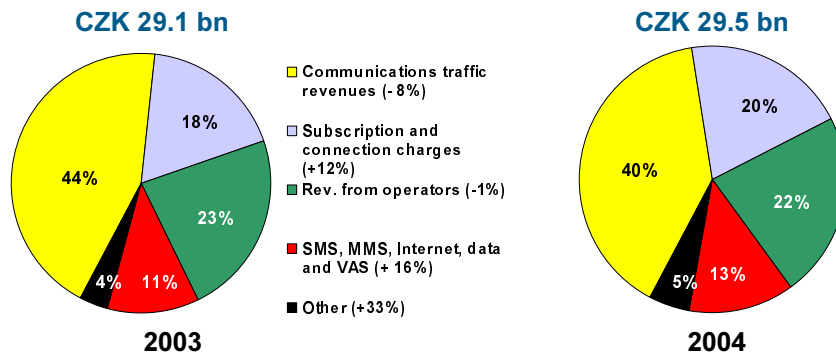


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# 36

## Mobile Business Revenues Breakdown



Note: Other include equipment sales and sales of material and other revenues

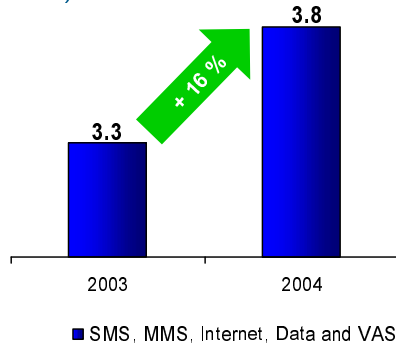


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## 37 SMS, MMS, Internet, Data and VAS

(CZK bn)



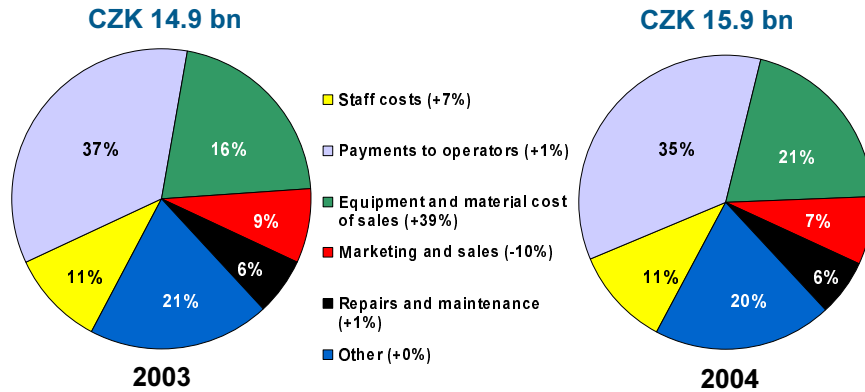
- Increasing popularity of data and Internet services and value added services among mobile customers
- **SMS** – total number of SMS up 2% to 2,292
- **Internet** – broadband Internet access based on CDMA technology launched in Aug 2004 (30 thousand customers at 2004 YE)
  - GPRS flat fee customers up 84% yoy to 59 thousand at YE 04



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## 38 Mobile Business Operating Costs Breakdown



Note: Other include commissions and subcontractors, material and energy consumed, operating leasing, consultancy and other costs



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## Introduction

### Czech telecommunications market

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## 40 Strategic Focus

*Our ambition is to maintain a position of the leading telecom company*

- **Maintaining the leadership in voice, data and broadband access**
- **Maintaining the leadership in operating efficiency among peers**
- **Enhancement of customer focus**
- **Integrated fixed-mobile services**

Joint F-M integrated strategy - comprehensive F-M solutions, joint product development initiatives, procurement, distribution channels, Back Office functions

- **Telco-IT convergence**

Further development of content, wireline&wireless broadband offerings (Digi Home, Digi Business), IPTV... and many others



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## 41 Event Calendar for 1H 2005

### April 27, 2005

- Q1 2005 Earnings Announcement

### May 5 – 6, 2005

- Investor Conference, London

### 1H May, 2005

- Management Roadshow in the US

### June 23, 2005

- Annual General Meeting



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