



# Telefónica O2 Czech Republic

Quarterly Results  
January – December 2010

18<sup>th</sup> February, 2011

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.

# 4Q and FY 2010 Performance Highlights

1

# In 2010, we delivered solid results consistent with our strategy and outlook



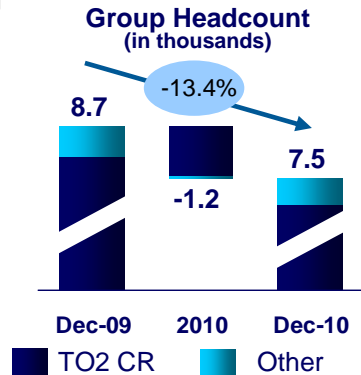
Priority/Strategy	2010 Achievements
<b>1</b> Sustain commercial momentum	✓ Solid growth in mobile contract & fixed BB
<b>2</b> Focus on BB centric proposition to stabilize household accesses' losses	✓ Fixed access' losses keep decelerating
<b>3</b> Continue focusing on mobile BB and exploiting 3G coverage advantage	✓ Substantial expansion of mobile BB networks with positive impact on revenues/ARPU
<b>4</b> Slovakia - keep customer growth and profitability	✓ Improving financial performance, gaining market share
<b>5</b> Maintain focus on OPEX/CAPEX efficiency	✓ Comparable OIBDA margin <sup>1)</sup> maintained at robust 44%; strong FCF growth

<sup>1)</sup> OIBDA before brand fees and management fees, excluding non-recurring items (FY 2009: real estate sale, Universal Service and settlement agreement with T-Mobile totaling CZK 1,548 mil.; FY 2010: Universal Service, restructuring costs and impairment reversal totaling CZK 3,913 mil.),

# We improved customer satisfaction while keeping focus on operational efficiency and quality

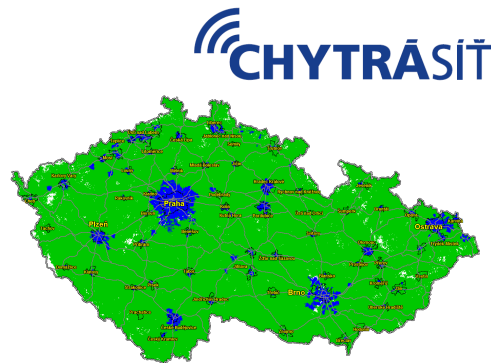


## Restructuring program



- Leaner and efficient organizational structure
- Processes enhancement
- Network transformation, including outsourcing (~ 50% of HC reduction in mother company)
- ~ 30% annual NW costs savings in 2011 – 2015 related to outsourcing<sup>1)</sup>

## Network



- Substantial expansion of mobile BB networks coverage during 2010:
  - EDGE: +81 p.p. y-o-y to 98%
  - 3G: +16 p.p. y-o-y to 42%, well ahead of competition
- Best in class quality and speed in the Czech Republic

## Call centers



- Significant enhancement in call centers efficiency (% of answered calls at ~ 97%<sup>2)</sup>)
- Overall increase in customer satisfaction in call centers<sup>3)</sup>
- + 4.0 p.p. y-o-y increase in customers' requests resolved on the first call to ~ 64%

<sup>1)</sup> personnel costs (including cars and tools) related to outsourced staff

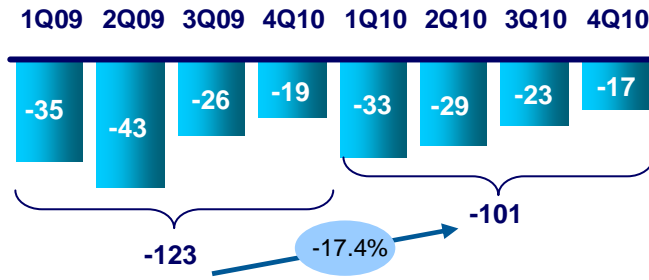
<sup>2)</sup> # answered calls / # incoming calls

<sup>3)</sup> Source: Continuous Customer Satisfaction Survey

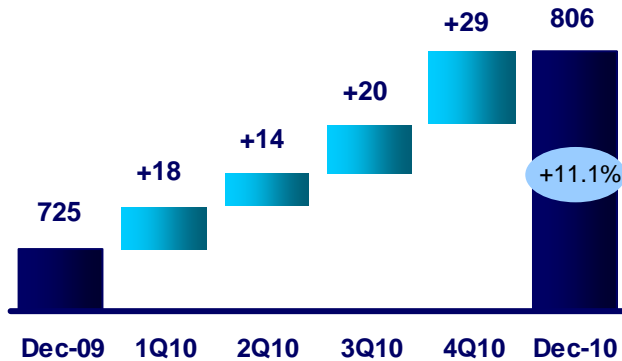
# Broadband centric proposition helped to maintain double-digit ADSL base growth and further decelerate fixed access' losses



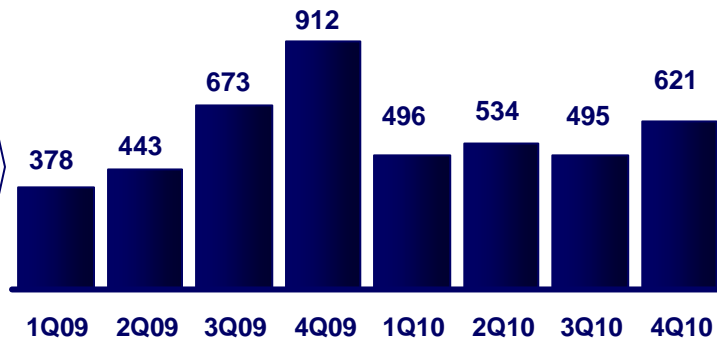
**Fixed accesses (net losses)**  
(‘000)



**ADSL**  
(‘000)



**ICT revenues**  
(CZK million)



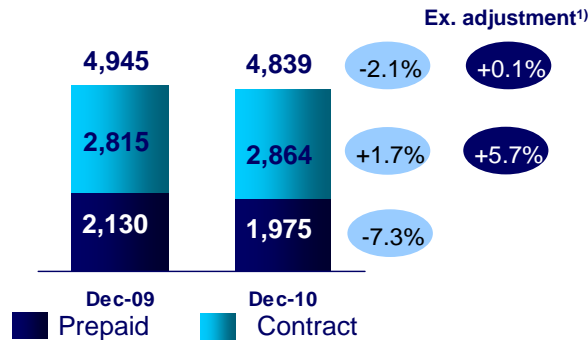
● y-o-y change

- Broadband centric proposition and VoIP lines uptake continue helping to decelerate fixed accesses' disconnections and maintain double-digit ADSL growth
- 1.7 million fixed accesses at the end of 2010, -5.7% y-o-y (voice lines: -13.3% y-o-y)
- Improved ADSL performance in 4Q 2010 on the back of refreshed proposition with 29k net adds (+7.2% y-o-y), impacted also by wholesale uptake
- 10.8% y-o-y decline in ICT revenues in 2010 due to cuts in public administration expenditures, while gross margin (absolute) increased by 17% y-o-y due to recurring business consolidation
- ICT contribution to fixed revenues remained at sizeable ~ 9% in 2010

# Mobile spend continues to stabilize, while BB networks expansion led to promising uptake of customers' growth and ARPU growth O<sub>2</sub>

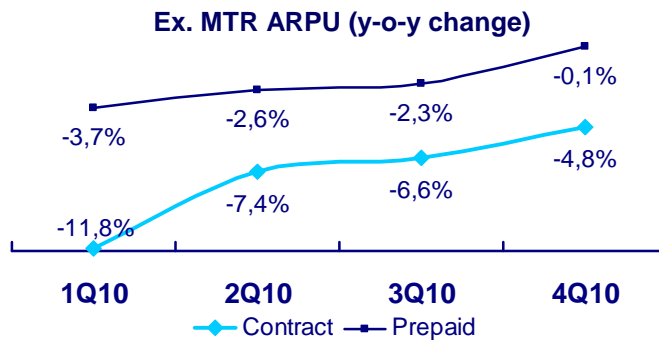
**Mobile customers**  
(‘000)

● y-o-y change



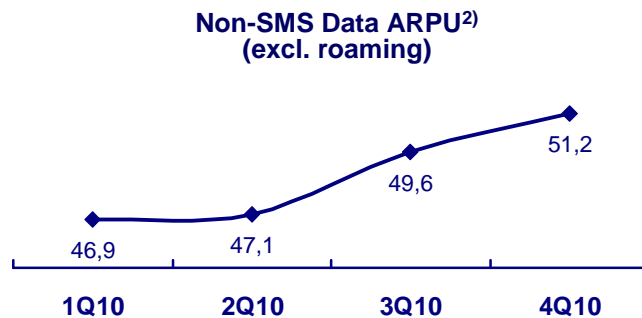
- In highly penetrated market we maintained solid customer growth in 2010 driven by contract base (+160k<sup>1)</sup>) helped also by BB subscribers uptake
- Improving customer mix - contract customers represented 59.2% of total base at 2010 year-end (+2.3 p.p. y-o-y)

**ARPU**



- Underline spend stabilizing – blended ex-MTR ARPU improved from -6.6% y-o-y in 1Q to -1.9% y-o-y in 4Q
- Reported ARPU still impacted by MTR cuts (-8.1% y-o-y to reach CZK 469 in 2010)

**Mobile Data & BB**



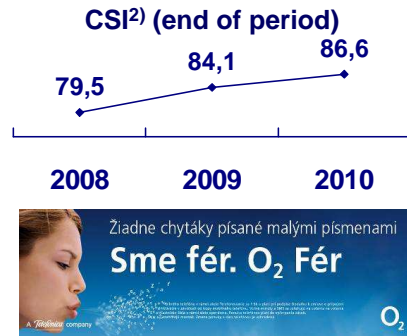
- Promising uptake of broadband customers resulting from successful marketing campaign
- Positive impact on revenues and ARPU seen already in 4Q 2010

<sup>1)</sup> excluding adjustment for 111k inactive contract customers in 2Q 2010

<sup>2)</sup> Data + Content & VAS per active customer per month

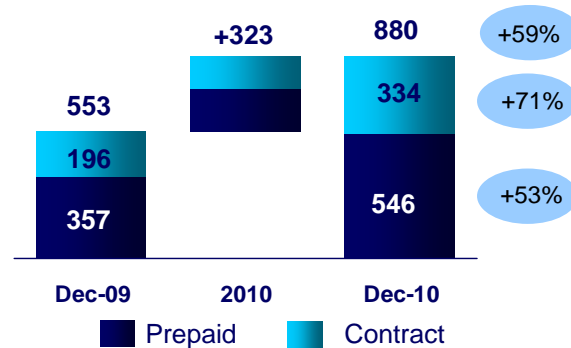
# Slovakia – simple & smart proposition led to customer satisfaction improvement while financial performance keeps consolidating **O<sub>2</sub>**

## Value & Simplicity



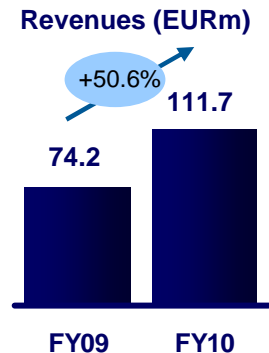
- Successful proposition focused on “Transparency, Value & Simplicity” (O2 Fer) changed significantly development on Slovak market in 2010
- Leading to enhanced customer experience and increasing gap to nearest competitor (>10 p.p.)

## Mobile customers<sup>1)</sup> ('000)



- Robust customer growth maintained in 4Q 2010 with 99k net adds (+10.6% y-o-y), the best figure in last 3 years
- ~ 15% market share (estimated): +5 p.p. y-o-y
- Contract representing 38.0% of total customer base at 2010 year end (+2.6 p.p. y-o-y)
- Improving customer loyalty (2010 FY churn at 2.5%, -0.9 p.p. y-o-y)

## Financials



- Revenue growth driven by subscribers' base increase, higher traffic and increasing non-SMS data ARPU
- Enhanced profitability - positive OIBDA in 4Q 2010 (likewise in 3Q) confirming success of lean cost base model and synergies with mother company

y-o-y change

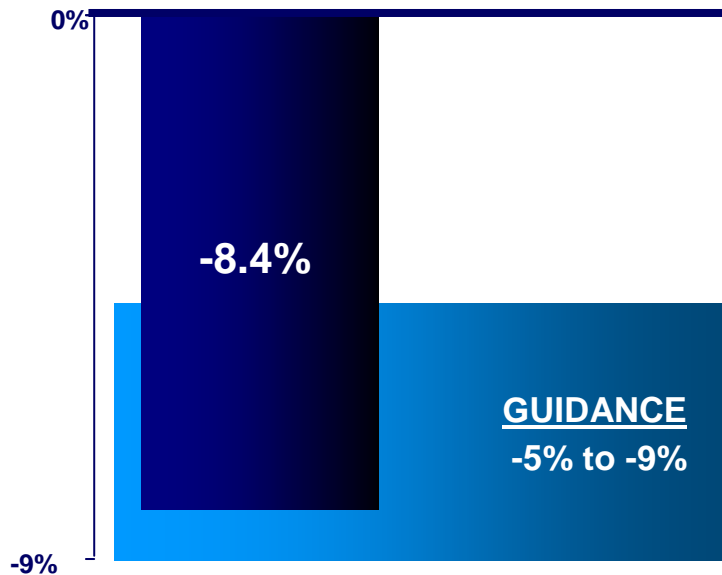
<sup>1)</sup> Including resale partners

<sup>2)</sup> CSI – Customer Satisfaction Index (Source: a survey by the independent agency Ipsos Tambor)

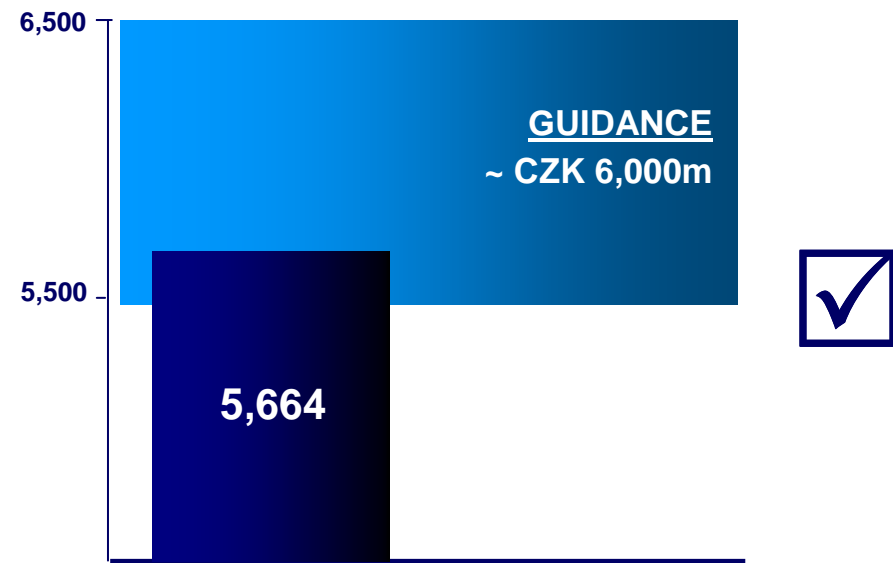


# 2010 Guidance met for OIBDA and CAPEX due to efficiency agenda and selective investments into growth areas

**OIBDA<sup>(1)</sup> growth**  
% Change 2010/2009



**2010 CAPEX**  
(CZK in millions)



<sup>1)</sup> 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, 2010 OIBDA excludes non-recurring items (universal service and impairment reversal) totaling CZK 4,371 million). CAPEX: ~ CZK 6 billion; 2010 Guidance excludes changes in consolidation and assumes constant FX rates of 2009.

# January - December 2010 Performance

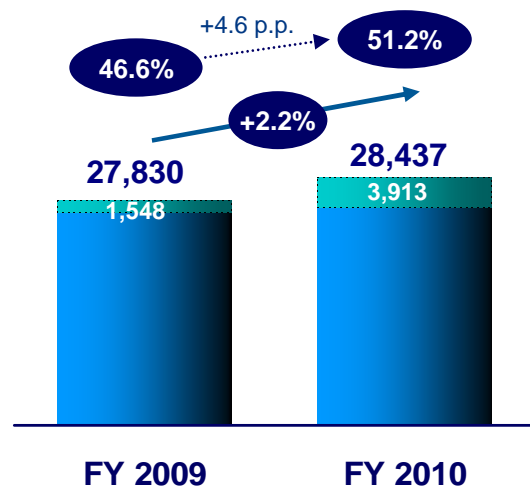
2

# Key Highlights of Group Financial Performance

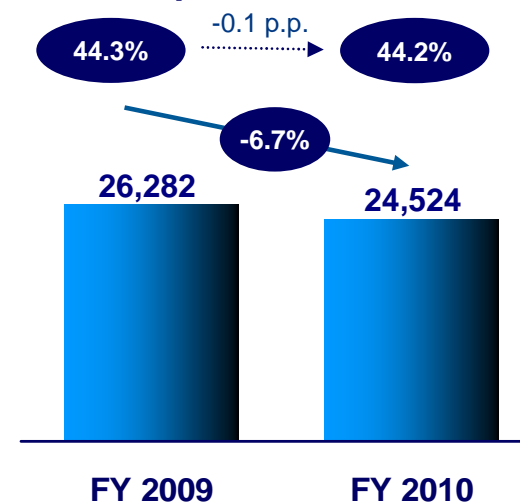


CZK millions	Jan – Dec 2010	Change FY10/FY09	Comparable change <sup>1)</sup> FY10/FY09
<b>Business revenues</b>	55,561	(7.0%)	(6.5%)
CZ Fixed	24,290	(9.6%)	(8.5%)
CZ Mobile	28,592	(7.8%)	
<b>OIBDA before brand fees and management fees</b>	28,437	+2.2%	(6.7%)
<b>OIBDA margin before brand fees and management fees</b>	51.2%	+4.6 p.p.	(0.1 p.p.)
<b>OIBDA</b>	27,380	+1.1%	(8.1%)
<b>OIBDA margin</b>	49.3%	+4.0 p.p.	(0.7 p.p.)
<b>Net Income</b>	12,280	+5.3%	
<b>EPS</b>	38.1	+5.3%	

**OIBDA before brand and mng. fees**



**Comparable OIBDA<sup>2)</sup>**



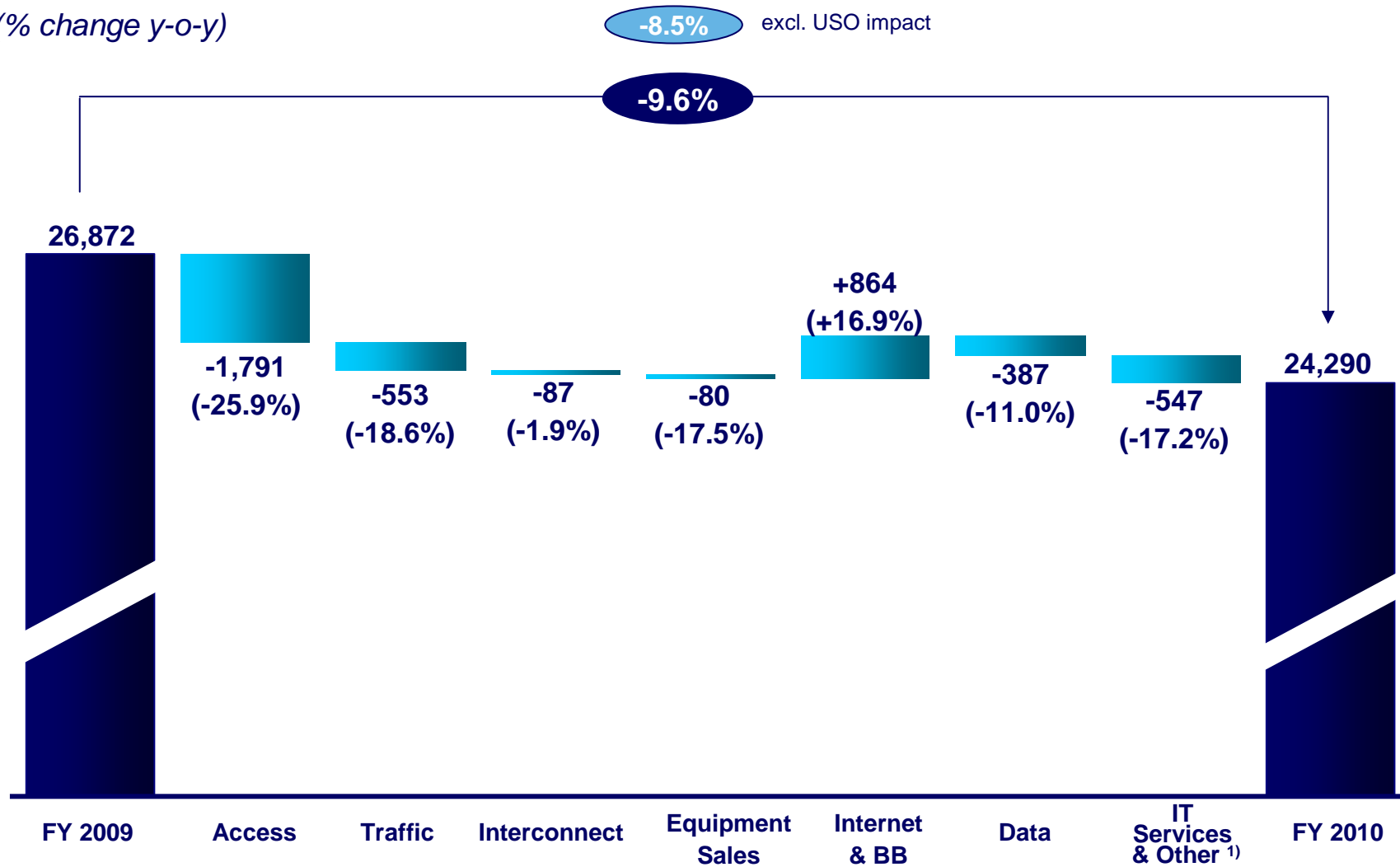
<sup>1)</sup> Revenues do not include universal service; OIBDA does not include non-recurring items (FY 2009: real estate sale, Universal Service and settlement agreement with T-Mobile totaling CZK 1,548 mil.; FY 2010: Universal Service, restructuring costs and impairment reversal totaling CZK 3,913 mil.),

<sup>2)</sup> OIBDA before brand fees and management fees, excluding non-recurring items

# CZ Fixed Business Revenues – sources of variation



CZK millions  
(% change y-o-y)

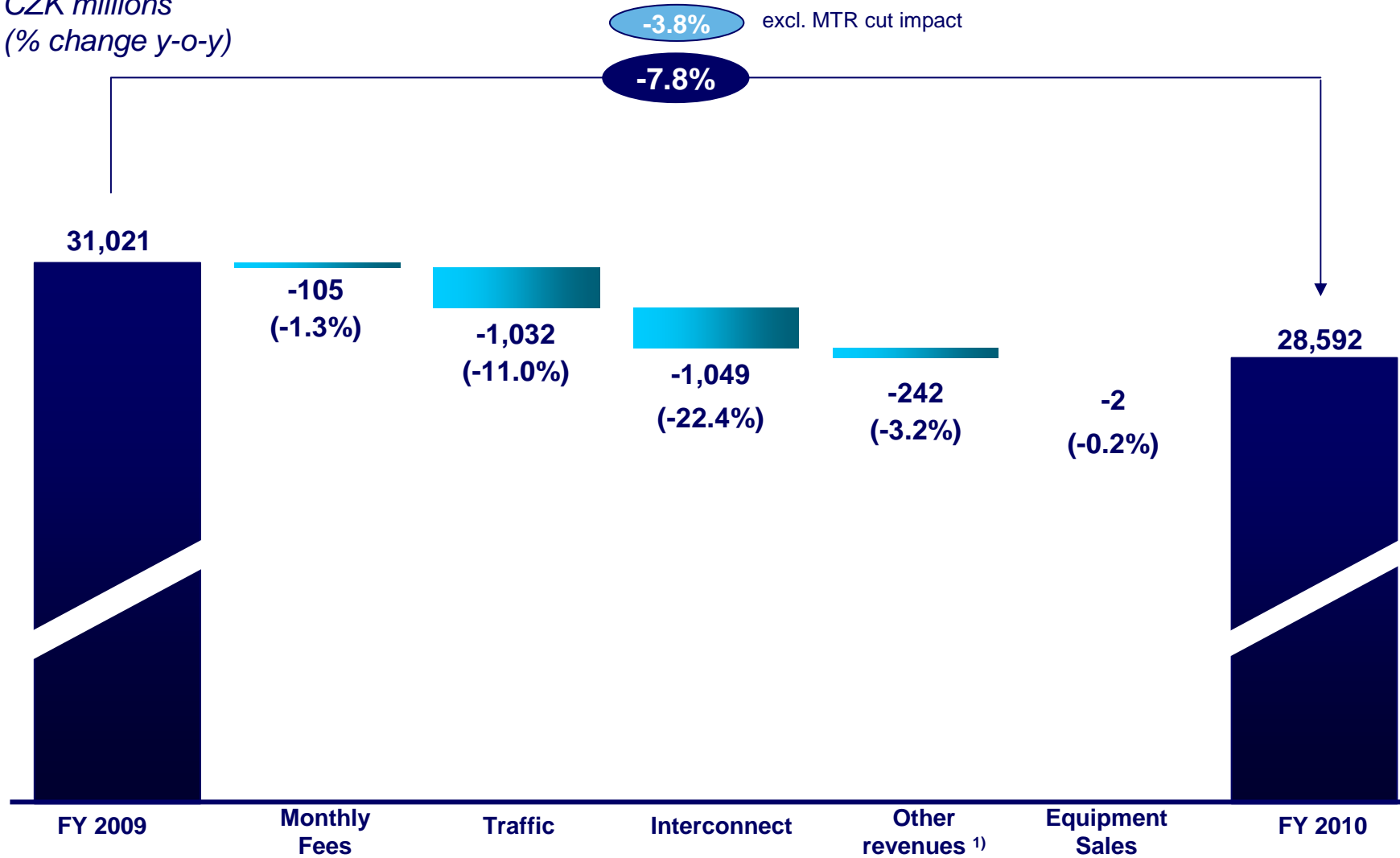


<sup>1)</sup> IT services and Other – incl. ICT, universal service and other revenues  
Figures excluding inter-segment charges between fixed and mobile businesses

# CZ Mobile Business Revenues – sources of variation



CZK millions  
(% change y-o-y)



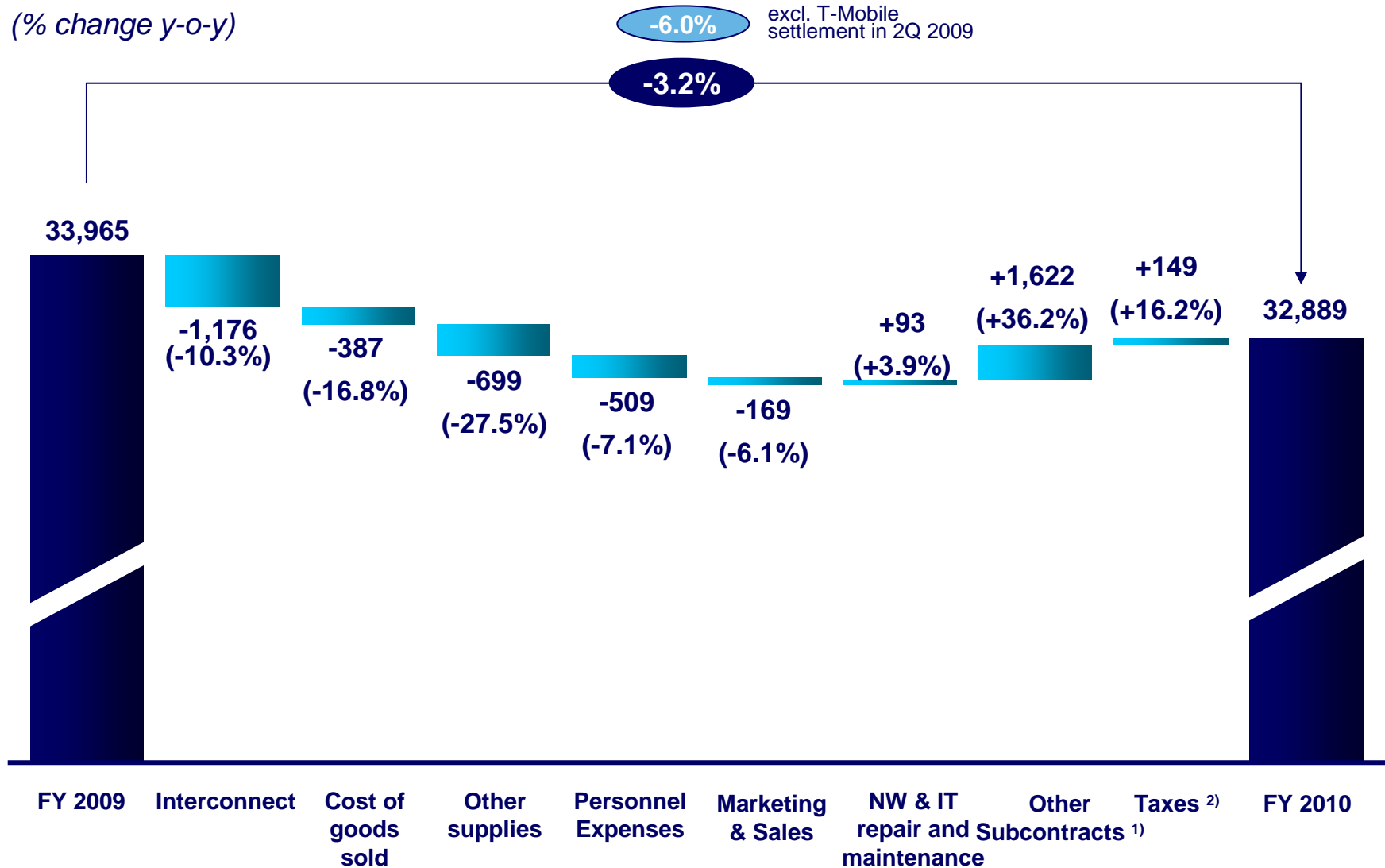
<sup>1)</sup> Other – incl. VAS, Internet & Data and Other revenues

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

# Group OPEX – sources of variation



CZK millions  
(% change y-o-y)



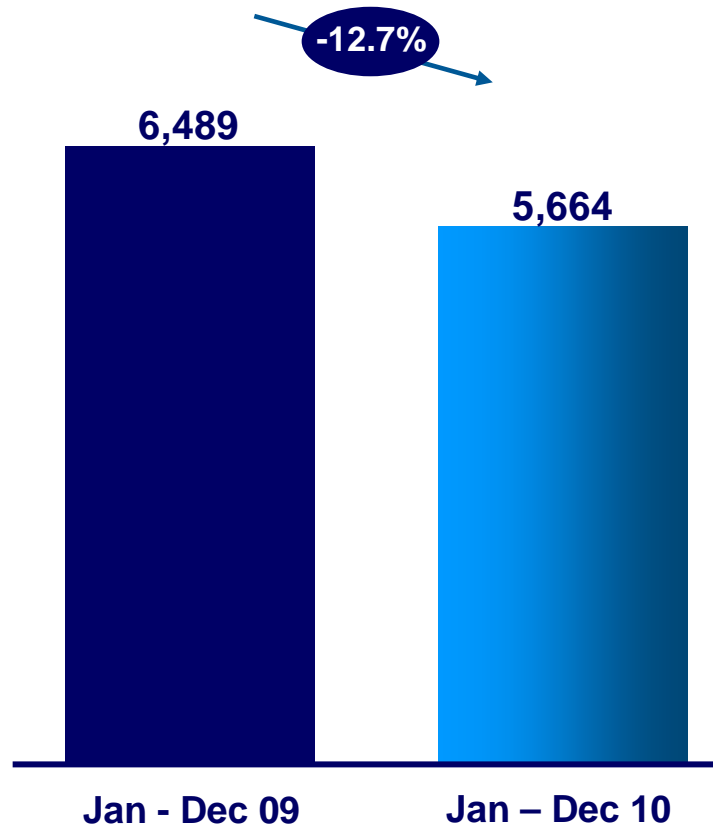
<sup>1)</sup> Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy & Brand fees

<sup>2)</sup> 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 to improve processes, operational efficiency and consequently customer experience
- CAPEX to Revenues at 10.2% in 2010, down by 0.7 p.p. y-o-y

# Group Balance Sheet & Cash Flow Statement



<i>CZK millions</i>	31 Dec 2009	31 Dec 2010	<i>Change Dec10/Dec09</i>
<b>Non-current assets</b>	<b>80,316</b>	<b>78,285</b>	<b>(2.5%)</b>
<b>Current assets</b>	<b>12,357</b>	<b>14,495</b>	<b>17.3%</b>
- of which Cash & cash. Equiv.	1,269	4,798	278.1%
<b>Total assets</b>	<b>92,768</b>	<b>92,792</b>	<b>0.0%</b>
<b>Equity</b>	<b>73,879</b>	<b>73,176</b>	<b>(1.0%)</b>
<b>Non-current liabilities</b>	<b>6,422</b>	<b>6,896</b>	<b>7.4%</b>
- Long-term financial debt	3,044	2,883	(5.3%)
<b>Current liabilities</b>	<b>12,466</b>	<b>12,720</b>	<b>2.0%</b>
- Short-term financial debt	87	141	61.7%
	<b>Jan – Dec 2009</b>	<b>Jan – Dec 2010</b>	<b>Change FY10/FY09</b>
<b>Cash flow from operations</b>	<b>24,984</b>	<b>24,147</b>	<b>(3.4%)</b>
Dividends received	5	3	(25.0%)
Net interest and other financial expenses paid	(167)	(218)	30.0%
Payment for income tax	(3,659)	(2,193)	(40.1%)
<b>Net cash from operating activities</b>	<b>21,163</b>	<b>21,739</b>	<b>2.7%</b>
Proceeds on disposals of PPE and intangibles	891	224	(74.9%)
Payments on investments in PPE and intangibles	(8,486)	(5,539)	(34.7%)
<b>Net cash used in investing activities</b>	<b>(7,595)</b>	<b>(5,315)</b>	<b>(30.0%)</b>
<b>Free cash flow</b>	<b>13,568</b>	<b>16,424</b>	<b>21.0%</b>



# 2011 Outlook & Guidance

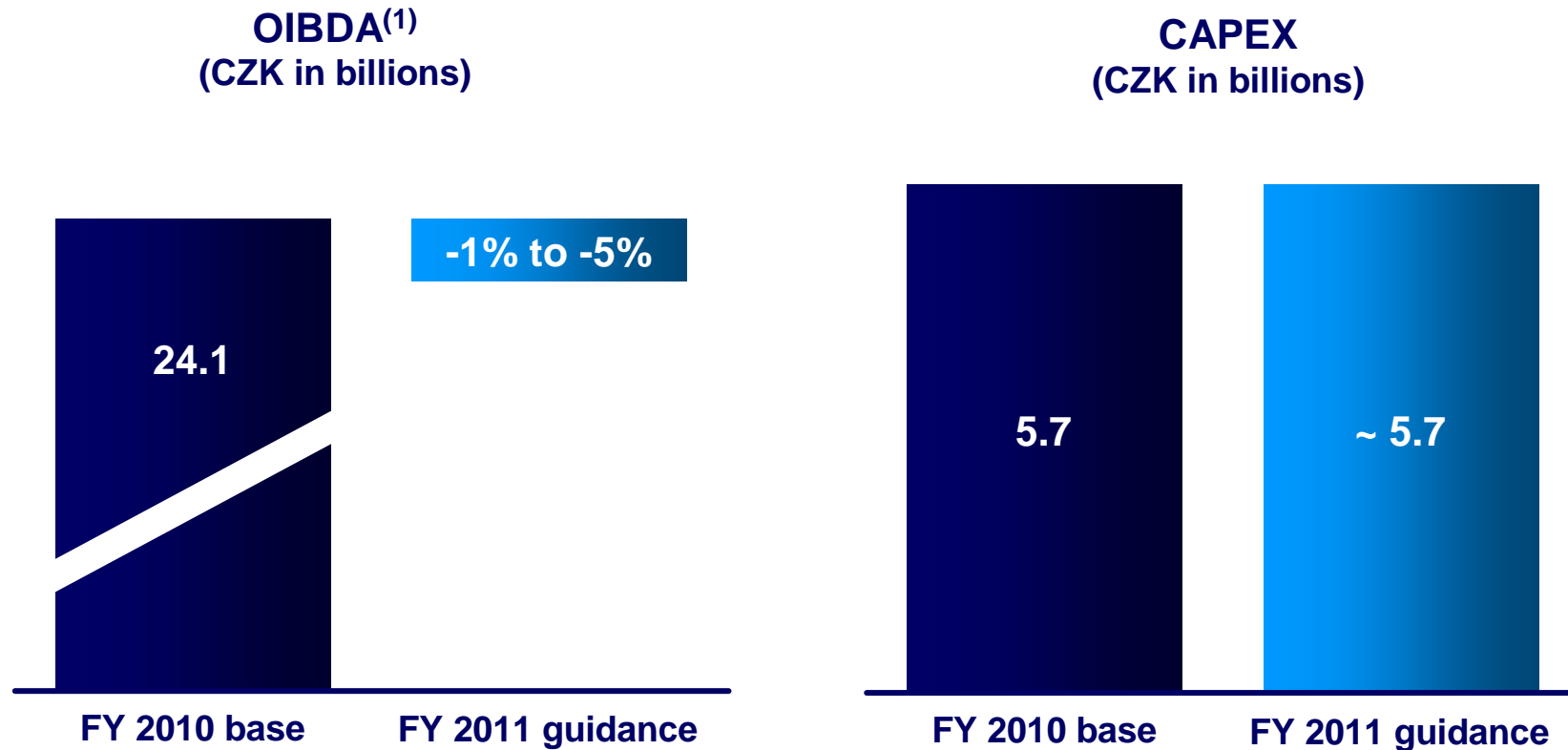
3

## 2011 Outlook



- **Strengthen further relation with our customers to build a truly customer centric organization**
- **Enhance fixed broadband value proposition (VDSL launch) to stabilize fixed access losses and maintain competitiveness**
- **Continue focusing on mobile BB subscribers growth and exploiting mobile BB networks coverage & quality advantage**
- **Deepen customer value management**
- **Slovakia - increase focus on financial performance while maintaining solid customer growth**
- **Keep focus on efficiency**

# 2011 Investor Guidance



<sup>1)</sup> In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2010.

# 2010 Dividend proposal



- **Proposal to AGM of CZK 40 per share**
- **Total payment of CZK 12,884 million**
- **101% payout ratio<sup>1)</sup>**
- **~ 10% dividend yield<sup>2)</sup>**

<sup>1)</sup> *DPS/EPS standalone*

<sup>1)</sup> *Based on average share price between 3 January and 18 February 2011*