



Telefónica O2 Czech Republic

Quarterly Results
January – September 2006

October 27th, 2006

Telefónica

O₂

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.

3

9M 2006 Highlights

- **Healthy financial performance**
- **Customer base - fixed accesses, mobile customers, BB connections**
- **New products introduced**
- **F/M integration on track**
- **Re-branding**
- **Third mobile license in Slovakia awarded**
- **Management changes**
- **2006 YE guidance upgraded**

Key Financial and Operational Highlights

(CZK millions)	Jan - Sep 2005	Jan – Sep 2006	Change 9M06/9M05
Revenues	45,346	45,602	+ 0.6%
OIBDA	21,278	22,151	+ 4.1%
OIBDA margin ¹⁾	47.2%	48,9%	+ 1.7 p.p.

1) OIBDA margin = OIBDA/ Business revenues

(thousands)	30 Sep 2005	30 Sep 2006	Change Sep06/Sep05
Fixed Telephony Accesses ¹⁾	3,003	2,537	(15.5%)
Broadband Connections	221	427	+ 93.2%
Mobile Customers	4,489	4,760	+ 6.0%

1) Excluding incoming only lines – see description later in the presentation

Integration, Re-branding, Convergent Offer

Integration

- F/M integration process on track, Phase 1 (internal integration) to be completed by end of year
- Costs under control, expected neutral OIBDA effect in 2006
- Execution of 12 key integration projects on track

Re-branding

- Successfully launched on 1st September 2006
- O2 brand used for all customer segments in the Czech Republic with Telefónica endorsement in all communications
- Cost conscious approach
- Very positive public perception, well received among business community

Convergent offer

- O2 Internet Komplet – combination of fixed (ADSL) and mobile (CDMA) Internet access
- Team Pevna (Team Fixed) – cheaper mobile to fixed calls to selected numbers
- Call Home For Free - free mobile to fixed calls to one selected number
- CZK 2,000 bonus for customers combining fixed and mobile services

Telefonica O2 entered Slovak mobile market

License

- License for GSM and UMTS network awarded on 25th August 2006, effective on 7th September 2006
- Limited fee of SKK 150 mil. (EUR 4.1 mil) paid
- Reasonable license conditions
 - GSM/UMTS network operation launch in 6/12 months
 - 12%/45% (400/800 BTS) own network coverage in 12/24 months
 - Full service portfolio

Operations

- Maximize leverage of Czech operations to gain competitiveness and save costs
- Innovative technologies & use of national roaming concept
- O2 brand
- Commercial launch planned for 1Q 2007, gradually targeting all segments
- Scope of UMTS rollout driven by business needs

Personnel

- Juraj Sedivy appointed to the position of CEO, key members of top management in place

Outlook

- Upgraded guidance for 2006 YE - flat revenues maintained, around 2% y-o-y OIBDA growth vs flat
- 2005 - 09 long term guidance (CAGR) (0-2% revenues growth, 1-3% OIBDA¹⁾ growth) maintained
- Continuing focus on financial and operational efficiency
- Strong emphasis on development, introduction and marketing of new convergent services
- Fixed Internet revenues turn around – narrowband Internet bottom out, broadband Internet and broadband based services strong growth
- Execution of F/M integration according to set plan with aim to create a customer oriented organization, realization of synergies (F/M, with TEF and O2)
- Slovak project to affect Group financials from 2007

¹⁾ In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures

Group Financials

(CZK millions)

	Jan - Sep 2005	Jan – Sep 2006	Change 9M06/9M05
Revenues	45,346	45,602	0.6%
OPEX	(24,329)	(24,072)	(1.1%)
OIBDA ¹⁾	21,278	22,151	4.1%
OIBDA margin ²⁾	47.2%	48,9%	+1.7 p.p.
Operating Income	7,825	9,521	21.7%
Income before taxes	7,322	9,325	27.4%
Net income	5,114	6,848	33.9%

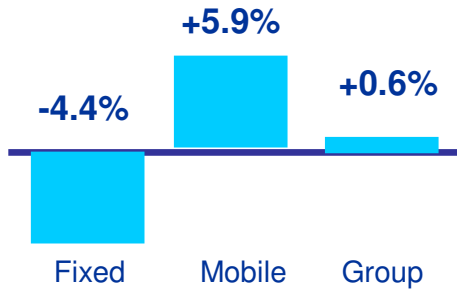
Note: Unaudited, according to IFRS

1) OIBDA = Revenues + internal expenses capitalized in FA – OPEX – other expenses + gain on sale of FA - impairment

2) OIBDA margin = OIBDA/ Business revenues

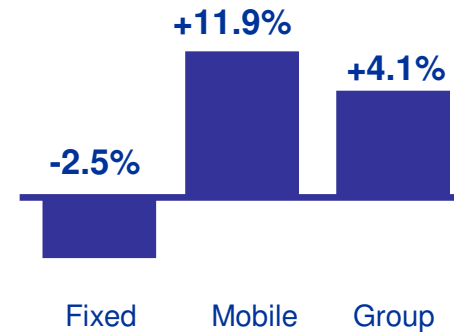
Mobile business driving Group revenues and OIBDA growth

9M y-o-y revenue growth



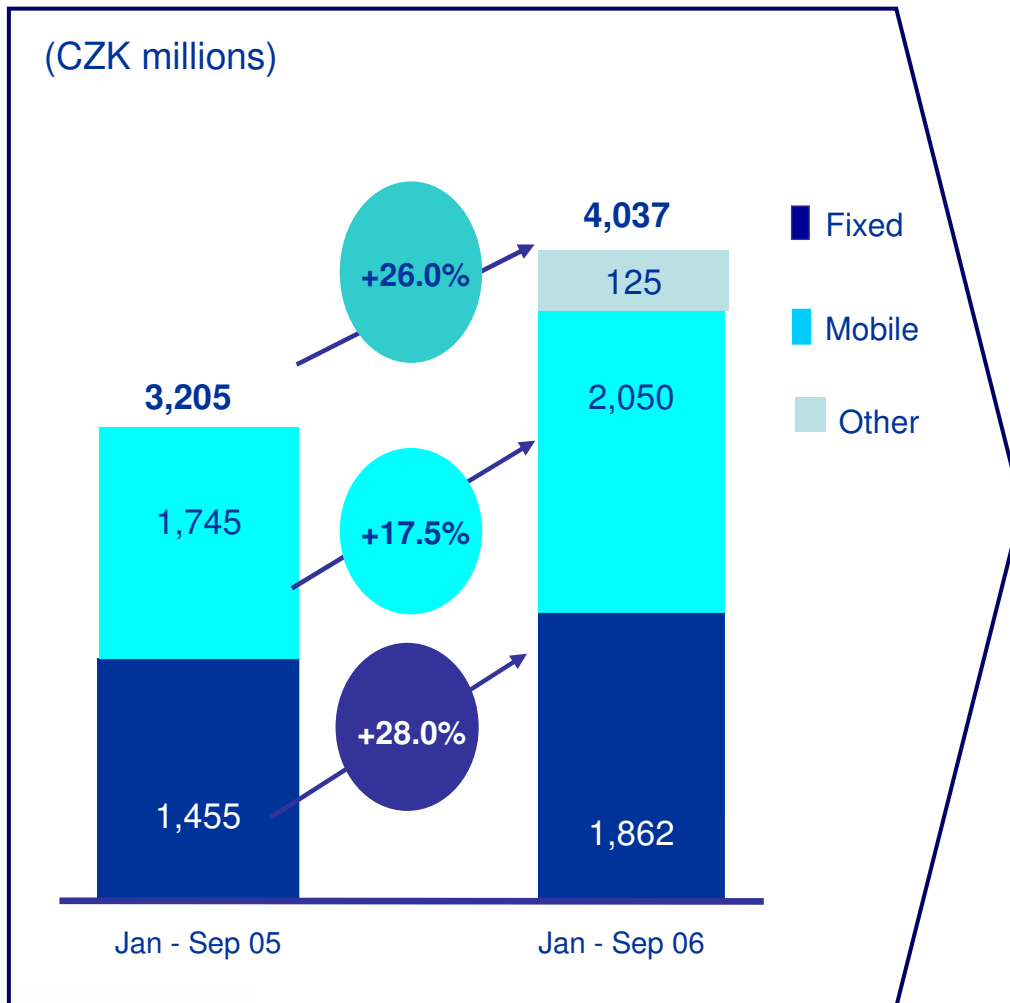
- Continuing decrease in fixed traditional revenues partially compensated by broadband revenues growth
- Mobile revenues growth in all categories
- Group revenue growth of 0.6% y-o-y in 9M06 and 2.0% y-o-y in 3Q06

9M y-o-y OIBDA growth



- Fixed OPEX under control, down 3.2% y-o-y
- Mobile OPEX up 0.7% y-o-y due to increase in interconnection and marketing expenses
- Group OPEX down 1.1% y-o-y in 9M 06

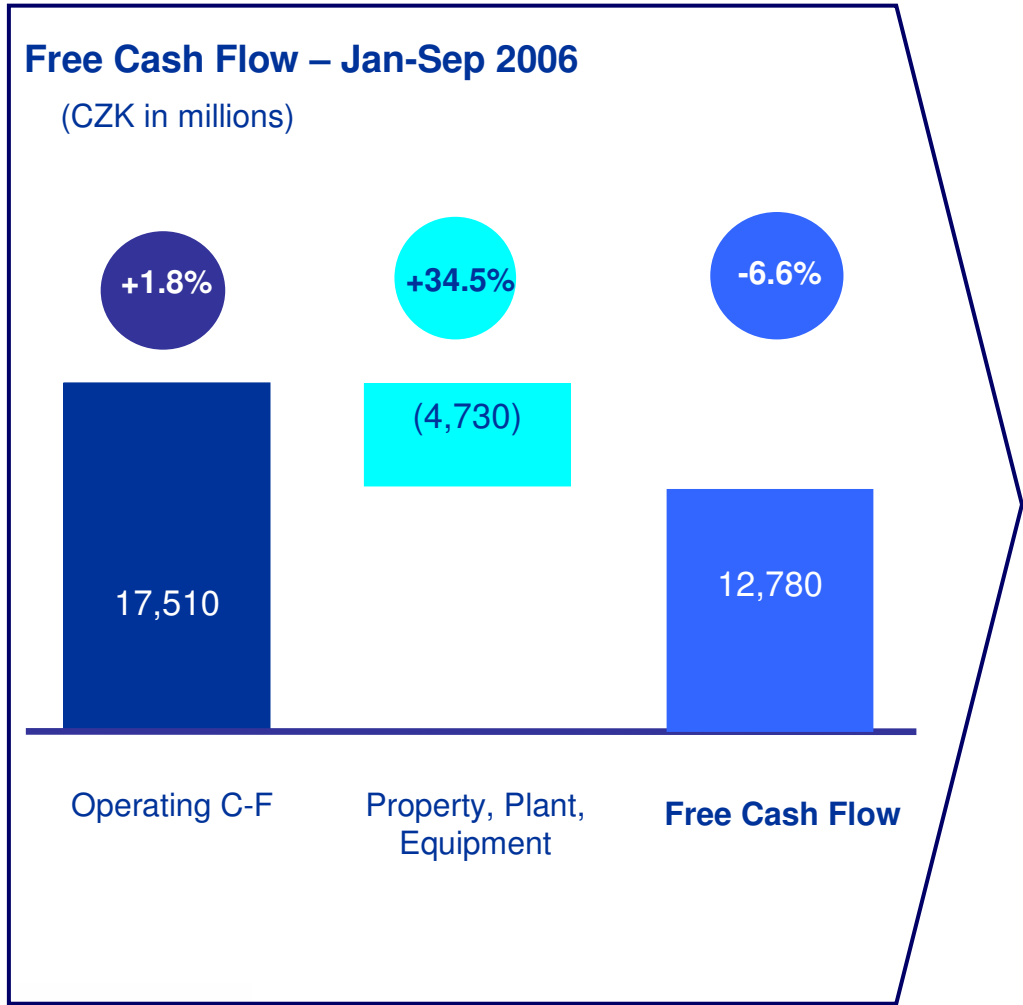
CAPEX



- Bulk of the investments directed to the growth areas
 - ADSL rollout
 - UMTS network
 - IPTV project
 - CDMA

- CAPEX/Sales ratio of 8.9% in 9M 06, year-end target of 10-12% maintained

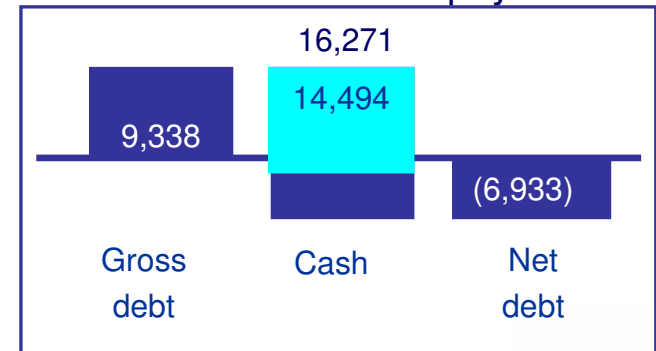
Cash Flow & Debt



Strong CF generation and CAPEX and OPEX discipline



- Strong cash position and low indebtedness – net gearing at minus 8% at 30 Sep 2006 prior dividend payment
- Cash accumulation due to dividend payment – net gearing at 9% after dividend payment



■ Reserved for dividend

Selected Operational Indicators

(thousands)	30 Sep 2005	30 Sep 2006	Change Sep06/Sep05
Fixed Telephony Accesses ¹⁾	3,003	2,537	(15.5%)
Fixed Broadband	221	427	93.2%
- retail	176	364	106.8%
- wholesale	45	63	40.0%
Mobile Customers	4,489	4,760	6.0%
- contract	1,388	1,782	28.4%
- prepaid	3,101	2,978	(4.0%)
Mobile Data Customers ²⁾	121	160	32.2%

¹⁾ PSTN (including payphones) x1; ISDN Basic x 1; ISDN Primary Access x 30,
Adjusted for incoming only lines – see description later in the presentation

²⁾ CDMA and GPRS

Fixed telephony and mobile accesses comments

Fixed Telephony Accesses re-classification for incoming only lines

- Change of policy for fixed telephony accesses counting as of 30 Sep 06
- Incoming only lines now excluded from total number of fixed telephony accesses
- Incoming only line (IOL):
 - win-back tool – offered to customers who decide to disconnect
 - available for incoming calls only
 - CZK 1 monthly fee
- Historical data adjusted accordingly

Mobile Accesses – NMT customers switched off

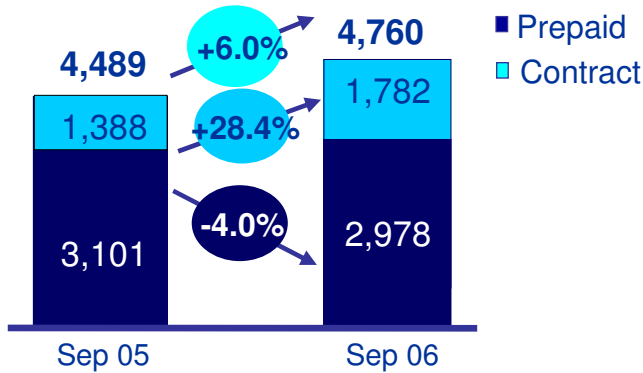
- Voice services in NMT network ceased at the end June 2006 to free up capacity for dynamically growing CDMA data product with higher ARPU
- 29 thousand customers offered to migrate to GSM
- By 30 Sep 2006, 10 thousand migrated to GSM services
- From remaining 19 thousand
 - 6 thousand churned by 30 Sep 2006
 - 13 thousand pending migration

(thousands)	Sep 05	Dec 05	Mar 06	Jun 06	Sep 06
Fixed Telephony Accesses incl. IOL	3,019	2,961	2,911	2,835	2,746
Incoming only	17	52	95	169	209
Fixed Telephony Accesses excl. IOL	3,003	2,908	2,817	2,666	2,537

Development of main operational drivers

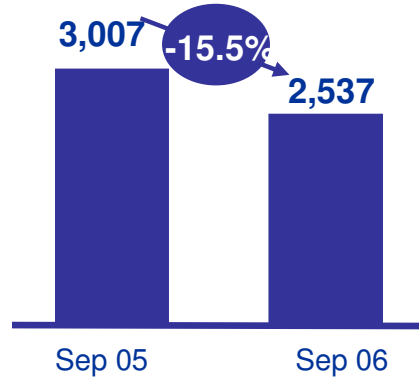
Mobile Accesses

(thousands)



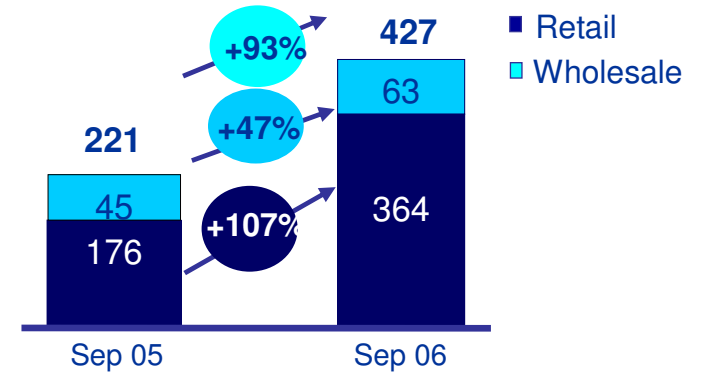
Fixed Telephony Accesses

(thousands)



BB Internet base

(thousands)



- 6% y-o-y customer base growth
- Contract customers up by 28.4% y-o-y to 1,782 ths. at end of 9M 2006 as a result of active prepaid to postpaid migration
- Contract customers account to 37% of customer base

- 15.5% y-o-y decrease of fixed telephony accesses
- Affected by incoming only lines exclusion

- Broadband (BB) Accesses – 93% y-o-y BB subscribers growth to 427 ths at 9M 2006
- 85% market share on total BB ADSL subscribers and 91% market share on net additions

15

ANNEX

Consolidated Income Statement

(CZK millions)	Jan - Sep 2005	Jan - Sep 2006	change 9M06/9M05
Revenues	45,346	45,602	0.6%
Internal expenses capitalized in FA	406	622	53.2%
OPEX	(24,329)	(24,072)	(1.1%)
Other operating expenses	(34)	(46)	35.3%
Gain on sale of fixed assets	69	87	26.1%
Impairment charge	(180)	(42)	n.m.
OIBDA	21,278	22,151	4.1%
OIBDA margin ¹⁾	47.2%	48.9%	1.7 p.p.
Depreciation & Amortisation	(13,453)	(12,630)	(6.1%)
Operating Income	7,825	9,521	21.7%
Net financial expenses	(503)	(196)	(61.0%)
Income before taxes	7,322	9,325	27.4%
Income taxes	(2,209)	(2,477)	12.1%
Net income	5,114	6,848	33.9%

Consolidated Balance Sheet

(CZK millions)	30 Sep 2005	30 Sep 2006	change 9M06/9M05
Non-current assets	113,155	102,669	(9.3%)
Current assets	10,279	26,262	155.5%
- Cash & cash. Equiv.	799	16,271	n.m.
- Short term fin.investments	18	64	251.6%
Total assets	123,887	129,143	4.2%
Equity	94,124	87,335	(7.2%)
Non-current liabilities	19,301	16,823	(12.8%)
- Long-term financial debt	9,760	9,250	(5.2%)
Current liabilities	10,462	24,985	138.8%
- Short-term financial debt	2,071	88	(95.8%)
Gross gearing	13%	11%	
Net gearing ¹⁾	12%	(8%)	

Consolidated Cash Flow Statement

(CZK millions)	Jan - Sep 2005	Jan - Sep 2006	change 9M06/9M05
Interest paid	(843)	(429)	(49.1%)
Interest received	38	127	234.2%
Income tax paid	(2,758)	(2,855)	3.5%
Net cash from operating activities	17,203	17,510	1.8%
Net cash from investing activities	(3,333)	(4,771)	43.1%
- purchase/disposal of PPE and intangibles	(3,517)	(4,730)	34.5%
- marketable securities	184	-	n.m.
- grant/(payment) of loan	-	(41)	n.m.
Free cash flow I ¹⁾	13,686	12,780	(6.6%)
Free cash flow II ²⁾	14,491	13,082	(9.7%)
Net cash from financing activities	(13,580)	-	n.m.

Note: Unaudited, according to IFRS

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

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

Change of fixed and mobile intra-company disclosure

- As of 1 July 2006, CESKY TELECOM (fixed) and Eurotel (mobile) merged into one company
- All inter-company revenues and costs previously included in fixed and mobile segment financials became intra-company as of 3Q 2006 and are not accounted for in fixed and mobile segment financials



- Inter-segment revenues and costs excluded from segment financials as of 3Q 2006 with effect from 1 January 2006
- Financials for FY 2004 and 2005 and 9M 2005 adjusted accordingly to allow for relevant year on year comparison
- Mobile ARPU calculation not adjusted for inter-segment revenues to allow for comparison with Czech mobile peer operators

Fixed Financials

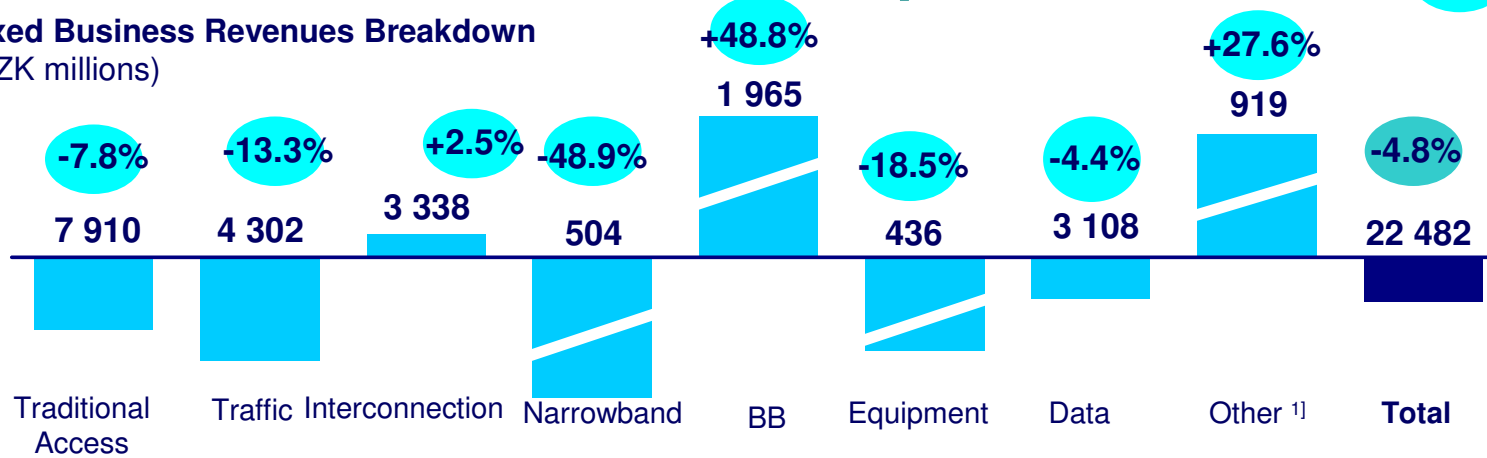
(CZK millions)	Jan - Sep 2005	Jan – Sep 2006	Change 9M06/9M05
Revenues	23,836	22,782	(4.4%)
Internal expenses capitalized in FA	237	444	+87.3%
OPEX	(12,808)	(12,402)	(3.2%)
Other operating expenses	(6)	(1)	(83.3%)
Gain on sale of fixed assets	68	86	+26.5%
Impairment charge	(180)	(42)	(76.6%)
OIBDA	11,147	10,867	(2.5%)

Note: Unaudited, according to IFRS

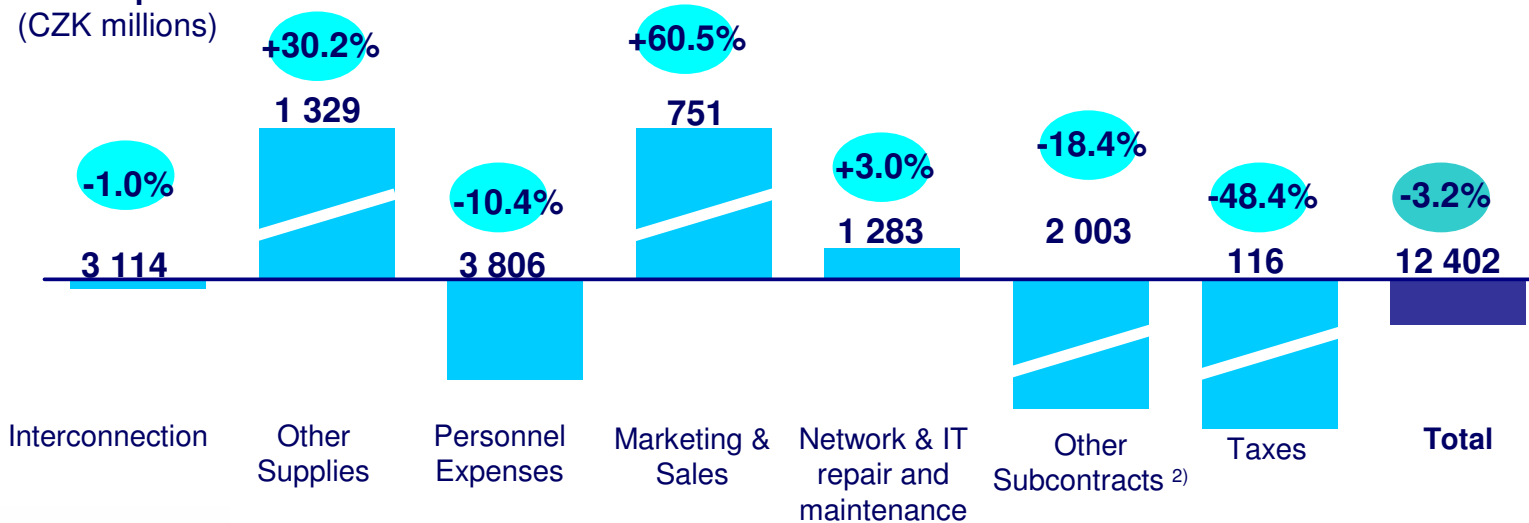
Figures do not include inter-segment charges between fixed and mobile segment, see explanatory note on Slide 20

Fixed Business Revenues & OpEx breakdown ● y-o-y change

Fixed Business Revenues Breakdown
(CZK millions)



Fixed OpEx Breakdown
(CZK millions)



¹⁾ Other – incl. value added services

²⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles and Utilities

Figures do not include inter-segment charges between fixed and mobile segment, see explanation on Slide 20

Mobile Financials

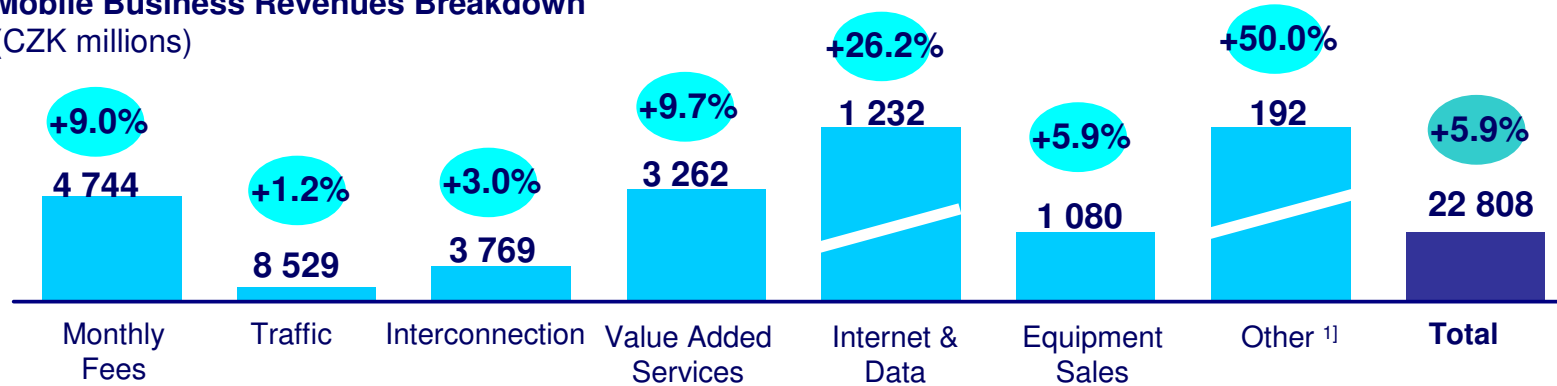
(CZK millions)	Jan - Sep 2005	Jan – Sep 2006	Change 9M06/9M05
Revenues	21,540	22,817	5.9%
Internal expenses capitalized in FA	169	178	5.3%
OPEX	(11,636)	(11,723)	0.7%
Other operating expenses	(27)	(34)	25.9%
Gain on sale of fixed assets	1	1	0.0%
Impairment charge	-	-	n.m.
OIBDA	10,047	11,239	11.9%

Note: Unaudited, according to IFRS

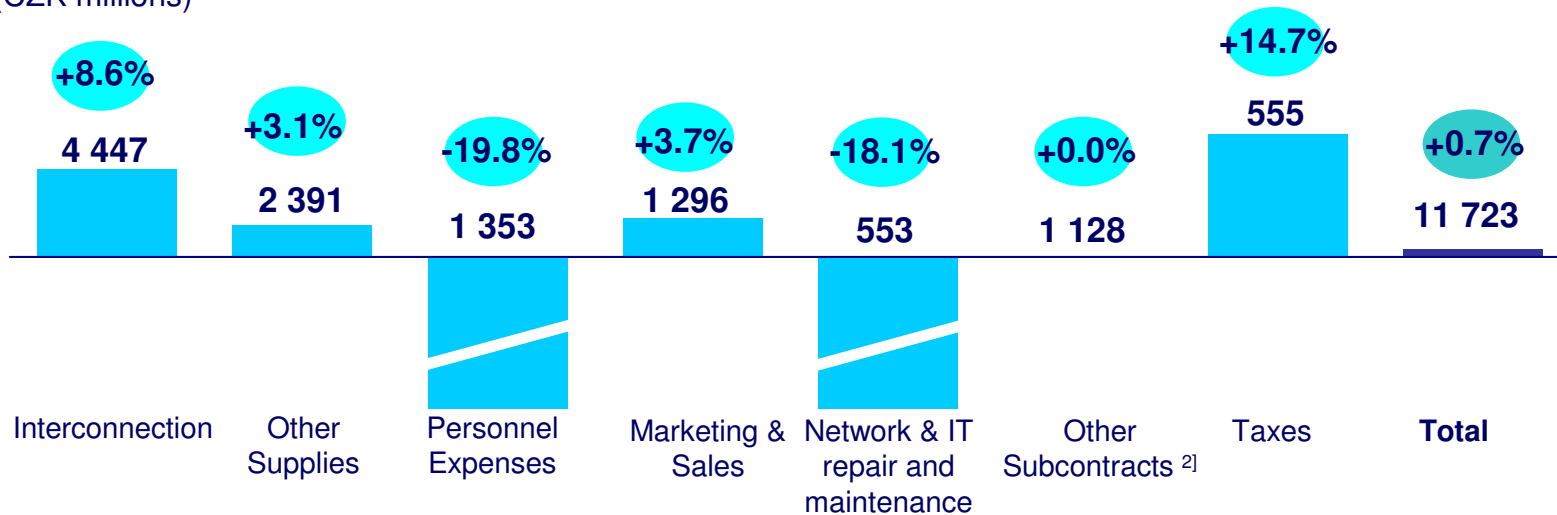
Figures do not include inter-segment charges between fixed and mobile segment, see explanatory note on Slide 20

Mobile Business Revenues & OpEx breakdown ● y-o-y change

Mobile Business Revenues Breakdown
(CZK millions)



Mobile OpEx Breakdown
(CZK millions)



¹⁾ Other – incl. IT services

²⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles and Utilities

Figures do not include inter-segment charges between fixed and mobile segment, see explanatory note on Slide 20

Fixed Operational Performance

(thousands)	30 Sep 2005	30 Sep 2006	change 9M06/9M05
Accesses	3,680	3,180	(13.6%)
<i>Final Client Accesses</i>	<i>3,624</i>	<i>3,094</i>	<i>(14.6%)</i>
Fixed Telephony Accesses ¹⁾	3,003	2,537	(15.5%)
Internet and Data Accesses	621	555	(10.6%)
- Narrowband	431	179	(58.6%)
- Broadband (ADSL)	176	364	106.8%
- Other ²⁾	13	12	(9.0%)
Pay TV	-	3	n.m.
<i>Wholesale Accesses</i>	<i>56</i>	<i>85</i>	<i>52.3%</i>
Unbundled loops	5	16	n.m.
Wholesale ADSL	45	63	40.0%
Other ³⁾	7	7	1.5%
Voice outgoing traffic (mil. minutes)	2,697	2,541	(5.6%)
Dial-up outgoing traffic (mil. minutes)	2,300	989	(57%)

¹⁾ PSTN (including payphones) x1; ISDN Basic x 1; ISDN Primary Access x 30

²⁾ Leased lines

³⁾ Wholesale circuits

Mobile Operational Performance

(thousands)	30 Sep 2005	30 Sep 2006	change 9M06/9M05
No. of registered customers ¹⁾	4,489	4,760	6.0%
- contract ²⁾	1,388	1,782	28.4%
- prepaid ^{1) 2)}	3,101	2,978	(4.0%)
Data customers ³⁾	121	160	32.2%
ARPU blended (CZK) ¹⁾	508	505	(0.6%)
contract ARPU (CZK)	1,200	991	(17.4%)
prepaid ARPU (CZK)	244	236	(3.4%)
data ARPU blended (CZK)	99	106	6.6%
non-SMS data ARPU as % of data ARPU	38%	40%	1.8%
Average MOU blended (in&outbound) ¹⁾	90	100	10.9%
Total no. of SMS (millions)	1,832	2,080	13.5%

1) Based on new methodology of prepaid customers counts

2) GSM, CDMA and NMT customers

3) GPRS flat fee and CDMA (mobile broadband Internet) customers