



Speech of Salvador Anglada

Regarding item 3) of the agenda of the regular General Meeting of Telefónica O2 Czech Republic, a.s., taking place on 3 April 2009

REPORT BY THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES OF THE COMPANY AND STATE OF ITS ASSETS AS A PART OF THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR 2008

Ladies and Gentlemen, dear shareholders,

Let me briefly review performance of the Telefónica O2 Czech Republic Group in 2008. I am glad to tell you that our delivered results met all our expectations from the beginning of the year and confirmed our leadership on the Czech telecommunications market. Our successful offer of new and innovated services, which were very well received by customers, asserted our reputation as innovator in the field of telecommunications and integrated business solutions. As in previous years, our activities concentrated on the maximum satisfaction of customer needs and on responding to the current trends on the Czech telecommunications market.

In our fixed line business, we accomplished our goal to increase the attractiveness and value of the fixed telephony lines, which resulted in a 47% slowdown in the rate of fixed line losses.

From September 2008 we increased the connection speed of our ADSL service up to four times. The new basic connection speed thus reached 8 Mb/s and was increased gradually and at no cost to our customer base. Additionally, during the year, we abolished Fair User Policy data limits making our offer even more competitive in the market. These activities helped us to increase the total number of retail ADSL connections by 14% reaching 579 thousand at the year end confirming our leadership on ADSL market in the Czech Republic.

We also improved the quality of our O₂ TV service. We introduced new programme bundles and added new feature films and television programmes to the TV Archive. We also brought out Multi – a new feature which allows for watching different channels on two television sets at the same time. At the end of 2008 the number of O₂ TV customers reached 115 thousand representing 57% growth compared to 2007 year end.

Both services – O₂ TV and O₂ Internet ADSL – continued to be the key building blocks in our bundled proposition which combine several fixed and mobile services, all for a flat monthly fee. The total number of customers who opted for such a service bundle reached 270 thousand at the end of 2008, which means that service bundles are now subscribed by 14% of all fixed lines.

With the goal to slow down the declining voice traffic generated in fixed lines, and to increase the penetration of broadband internet, we introduced the first Voice over IP service to small and medium enterprises. O₂ Unlimited line (O₂ Neomezená linka) was introduced in June and offers maximum simplicity, comfort and flexibility.

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In 2008, we also expanded our portfolio of Managed Services that give the customer a professional ICT solution on a fee-for-service basis, without having to procure hardware, software or hire human resources. The various components of our O₂ Managed Hosting come with a dedicated server capacity and system administration, with the possibility of data backup for the eventuality of its loss. Other innovations included O₂ Managed Security, which keeps corporate data secure, and O₂ Managed Desktop, a comprehensive, multi-level administration of the corporate IT infrastructure.

Our innovations in the mobile segment were a clear example of the fact that we give customers the services they call for. In May, we became the first operator on the Czech market to come out with a new concept of simple and straightforward flat rate tariffs - O₂ NEON. This together with O₂ [:kúl:], a tariff intended for our young customers, was aimed at stimulating voice traffic in our network. Both new mobile tariffs were received with enthusiasm by the market, and almost 400 thousand customers activated them by the end of the year. A similar offer was extended to customers from the small and medium business segment. Under the brand O₂ Business Unlimited we began to market a tariff with unlimited calls to all fixed line and mobile networks in the Czech Republic.

We responded to the fast-growing demand for mobile internet access by introducing O₂ Internet in Mobile, a new flat rate service which came with unlimited mobile internet access, including e-mail service. Entrepreneurs and self-employed people were our targets for O₂ Business Mail, a virtual mobile office which, in addition to an e-mail box, also contained a shared calendar, shared workspace and an address book.

At the end of 2008 we had the broadest portfolio of mobile data access products, which gave us a considerable competitive edge over other mobile operators in the Czech Republic. In August we announced our plans to roll out our 3G network to other relevant cities during next few years.

In Slovakia, we introduced new and in many ways revolutionary tariff called O₂ Fair, which came with a single rate for all calls to all networks in Slovakia and which abolished the mandatory monthly fee. This customer proposition quickly became popular. It boosted the number of active customers reaching 325 thousand at the end of the year, which translates into a 19% year-on-year increase. Growing customer base and its improving profile resulted in more than double revenues in 2008 compared to 2007. We also made a great progress with our GSM network rollout. Our goal was to reduce the dependency on the national roaming arrangement with T-Mobile Slovensko, and to improve operating efficiency. By the end of 2008, more than 850 base stations were put in operation and our network covered more than 90% of the Slovak population fulfilling all the license requirements.

In the financial area, we continued to put our emphasis on revenues growth whilst maintaining the profitability, on efficient investments in growth areas and on healthy free cash flow generation. I am delighted to say that we met all key financial targets for the year. The total consolidated revenues in 2008 grew 2.6% year on year and reached CZK 64.7 billion. Business revenues grew 2.9% to CZK 64.4 billion, well within the 2% to 4% range we expected. The mobile segment in the Czech Republic recorded a steady growth with a 3.1% increase of business revenues. In fixed line business we recorded the positive development with business revenues growth at 0.6%. Financial performance in 2008 was positively impacted by a CZK 727 million gain from a sale of part of our countrywide real estate portfolio. Together with a sell of the former headquarters at Olšanská street in early 2009, we completed a several-year long project aiming at optimisation and efficient utilisation of our real estate portfolio. In the transaction we disposed of buildings which were redundant or with a low occupancy. Real estate which is needed for our core telecommunications business will remain in our ownership. The total Group operating costs in 2008 increased 5.3% year on year to reach CZK 37.7 billion. This resulted in a consolidated

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