



ČESKÝ TELECOM, a.s.

1H 2005 Earnings Results

Investor Conference Call

July 22nd, 2005



Speakers:

Mr. Juraj Šedivý – CFO and 1st Vice Chairman of BoD

Mrs. Marcela Malivánková – CFO of Eurotel and Member of BoD

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Ownership Changes
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Internet & Data
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4 CAUTIONARY STATEMENT

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

Although ČESKÝ TELECOM, a.s. makes every effort to provide accurate information, we cannot accept liability for any misprints or other errors.

- Continued shift from traditional voice fixed line services to broadband and data
- Mobile market penetration in the country exceeded 107%
- Completion of the purchase of 51.1% of ČESKÝ TELECOM by Telefónica
- Changes in the composition of statutory bodies and management following AGM on June 23
- New regulatory decisions on fixed access voice and ADSL tariffs
- Introduction of new tariff structures for fixed access voice and broadband Internet

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1H 2005 Financial Highlights

- Consolidated revenues CZK 30bn, down 3.6% yoy
- Consolidated OPEX CZK 16.5bn, up 3.5% yoy
– increase due to one-off and extraordinary items
- EBITDA CZK 13.5bn, down 11.1% yoy
- EBITDA margin of 45%
- Net Income CZK 2.6bn, down 23.2% yoy
- FCF CZK 9.1bn, down 6.7% yoy
- CAPEX of CZK 2.0bn, down by 13% yoy (6.6% of revenues)
- Net Leverage reduced to 17%, down from 34% in 1H04

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1H 2005 Fixed Business Highlights

- Declining trend in voice traffic
- Subscription revenues affected by ongoing decline in no. of fixed lines (down 6.4% yoy to 3.25 mil. lines)
- Internet, data & VAS growth accelerating (CZK 2.2bn)
 - up 26% yoy compared to 16% in 1H04
 - accounts for 14% of total fixed rev., up from 10% in 1H04
- Cost control keeps OPEX flat
 - total OPEX CZK 9.4bn, down 0.1% yoy
 - 16% yoy headcount reduction (fixed-line employees at 7,935*)
 - impact of one-off and extraordinary items
- EBITDA margin at 42% above the fixed market average

*Note: * Number of employees for ČESKÝ TELECOM only, i.e. without minor subsidiaries and without Eurotel*

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1H 2005 Mobile Business Highlights

- Total mobile revenues flat at CZK 14.6bn
- Total postpaid customers at 1,197 ths., up 19% from YE04
 - 192 ths. postpaid net adds in 1H 2005, up by 144% yoy
- New customer counts methodology for pre-paid customers
 - for better comparability with the rest of the Czech market
 - total pre-paid customers 3,141 ths.
- Total Eurotel's customers at 4,420 ths., up 1% from YE04
- Accelerating growth in SMS, MMS, Internet & data (CZK 2.2bn)
 - up by 18% yoy, compared to 15% in 1Q 05
 - 15% of total mobile revenues, up from 13% in 1H 2004
- OPEX at CZK 7.9bn up by 6% yoy
- EBITDA margin sustained at strong 46%

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Ownership Changes

Sale of 51.1% stake of NPF to Telefónica completed

- One of the most successful and transparent privatization in the Czech Republic
- Transaction closed on June 16, 2005 after the EC approval on June 10; acquisition price paid by Telefónica for 51.1% was CZK 82.6bn (CZK 502 per share)
- Telefónica exercised its majority shareholder's rights at the AGM of ČESKÝ TELECOM on June 23
 - General meeting elected 10 new members of the Supervisory Board - 9 Telefónica's representatives and 1 Czech Government representative
- On July 20, the Czech SEC approved Telefónica's proposal for a minority buyout offer at a price of CZK 456 per share

Changes following ČESKÝ TELECOM's AGM on June 23

- **Board of Directors**
 - New Supervisory Board recalled Gabriel Berdár and Michal Heřman from the BoD and elected two new members – Jaime Smith and Salvador Anglada
 - Jaime Smith assumed the position of Chairman of BoD
 - New Board of Directors: Jaime Smith, Juraj Šedivý, Petr Slováček, Marcela Malivánková and Salvador Anglada
- **Top Management**
 - Jaime Smith appointed as the new CEO of ČESKÝ TELECOM
 - Salvador Anglada appointed as the new CEO of Eurotel
 - New management structure of ČESKÝ TELECOM - implementation of executive Vice President level



Regulation & New Tariffs

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New Regulatory Changesoverall positive

New Telco Act

New Electronic Communications Act – effective as of May 1, 2005

- Fairer and more transparent regulatory environment in line with EU NRF
- Revision of current and new regulatory decisions based on market analysis
- Personnel changes in CTO; decision-making shifted to a 5-member Council
- Mobile number portability – expected as of January 1, 2006

Tariff rebalancing

First decision of CTO on rebalancing after three years

- Residential monthly line rental effectively increased by app. 25%
- Full rebalancing of business monthly rental (eff. increase of app. 60%)
- Decision is revenue positive but focus on customer retention is key

Interconnect charges

Termination charges to mobile networks reduced by 2.5% (April 1)

Termination charges to fixed networks reduced by 5% (April 25)

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New Regulatory Changesoverall positive

ADSL

Amended regulatory decision on wholesale ADSL charges

- SUALL fee newly included in wholesale ADSL charges in all cases
- SUALL lowered by 43% - anticipated reduction in retail ADSL charges on the market followed by higher sales volumes

LLU

First regulatory decision on LLU prices

- Shared access monthly charges (SUALL) cut by 43%
Full access monthly charges (FUALL) cut by 18%
One-off charge cut by 53% in line with ČESKÝ TELECOM's strategy
- Setting fair conditions for all parties

Dial-up Internet

Favorable decision on Internet dial-up termination charges

- Minimum termination charge for traffic terminated on OLOs networks cut by 50%
- Maximum origination charges equal to voice charges (cut by 5%)

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New Fixed-Line Tariff Structuretime line

1st April

CTc introduces flat rate tariffs VOLNO and VOLNO PLUS
– free off-peak and weekend calling

25th April

CTO's decision on tariff rebalancing

28th April

CTc announces a completely new tariff portfolio

- New regulated tariffs
- Packages - Czech Weekend, Friends & Family
- New add-on packages (free call minutes)
- Free e-bill, CLIP, Memobox

1st June

CTc migrated all existing customers to new tariffs

Internet Expres
Doma

měsíčně od
399 Kč

[Více informací ▶](#)

An advertisement for 'Internet Expres Doma'. It features a woman with dark hair, wearing a white cardigan over a black top, sitting and laughing joyfully while looking at a laptop. The background is a solid dark blue. The text 'Internet Expres' is in white, with 'Doma' in a larger, bold white font. Below this, it says 'měsíčně od' followed by '399 Kč' in a large, bold white font. At the bottom left, there is a button with the text 'Více informací ▶' in white.

Internet Expres
Profi

měsíčně od
999 Kč

[Více informací ▶](#)

An advertisement for 'Internet Expres Profi'. It features a man in a blue dress shirt and a dark tie, smiling broadly with his hands behind his head. The background is a solid blue. The text 'Internet Expres' is in white, with 'Profi' in a larger, bold white font. Below this, it says 'měsíčně od' followed by '999 Kč' in a large, bold white font. At the bottom left, there is a button with the text 'Více informací ▶' in white.

Internet & Data

Leading the Czech Broadband Market



Internet Expres (fixed broadband ADSL technology)

- 163,216 ADSL connections at June 30, 2005; up 61% from YE 2004
- weekly retail orders – approached 5ths. at end-Jun from 3ths. in 1Q05
- 78% market share on the broadband market
- 81% market share on total new orders
- Over 90% coverage of all fixed lines with ADSL technology

Eurotel Data Expres

Eurotel Data Expres (mobile broadband CDMA technology)

- 49,000 customers at June 30, 2005; up 63% from YE 2004
- weekly orders – currently around 500
- 80% of Czech population covered with CDMA technology

17 New Broadband Portfolios

Internet Expres Doma – New residential broadband offer



- Launched by ČESKÝ TELECOM in June 2005
- Four new products – offer unlimited Internet access at a speed from 128 kbps to 2Mbps
- Based on ADSL technologies (provides also free access to WiFi net)

Internet Expres Profi – New broadband offer for business customers

- Unlimited access at a speed from 256 kbps to 2Mbps; also for LAN

Internet for Everyone – Full range of mobile high-speed Internet



- Launched by Eurotel in April 2005
- Four new products – offer different access mobility and speed
- Based on CDMA/ADSL, GPRS/EDGE and WiFi technologies

Eurotel Mobile Exchange Plus – convergence of telco and IT services

- Launched by Eurotel in May 2005 as part of strategic co-operation with Microsoft

ČESKÝ TELECOM and Eurotel opened co-branded store in Prague designed to new Digi Home / Digi Biz product concept

- Retailers Digi Home and Digi Biz products – e.g. Home network
- Full range of services of ČESKÝ TELECOM and Eurotel
- Fixed and mobile broadband Internet trials

ČESKÝ TELECOM has joined the Fixed-Mobile Convergence Alliance

***Growing new markets...
...creating the demand***



1H 2005 Earnings Results

Consolidated Income Statement

<i>(CZK mil.)</i>	1H 2004	1H 2005	yoy
Revenues	31,143	30,019	(3.6%)
OPEX ¹⁾	(15,965)	(16,531)	3.5%
EBITDA	15,178	13,488	(11.1%)
<i>EBITDA margin</i>	49%	45%	
Depreciation & Amortisation	(10,441)	(9,205)	(11.8%)
EBIT	4,737	4,283	(9.6%)
EBT	4,347	3,918	(9.9%)
Net Income	3,331	2,557	(23.2%)

Note: Data are fully consolidated with 100% of Eurotel. Data are unaudited and according to IFRS.

1) Includes one-off and extraordinary items

Consolidated Balance Sheet

<i>(CZK mil.)</i>	1H 2004	1H 2005	yoy
Fixed assets	131,098	116,663	(11.0%)
Current assets	12,215	11,183	(8.4%)
- Cash & cash eq. ¹⁾	1,371	1,036	(24.4%)
Total assets	143,313	127,846	(10.8%)
Total Equity	88,023	92,789	5.4%
- Share capital	32,209	32,209	0.0%
- Reserves	55,807	60,580	8.6%
Liabilities	55,290	35,057	(36.6%)
- Loans & overdrafts	31,165	16,531	(47.0%)
Gross gearing	35%	18%	
Net gearing	34%	17%	

Note: Data are fully consolidated with 100% of Eurotel. Data are unaudited and according to IFRS.

1) Including available-for-sale and held-to-maturity investments

Consolidated Cash Flow Statement

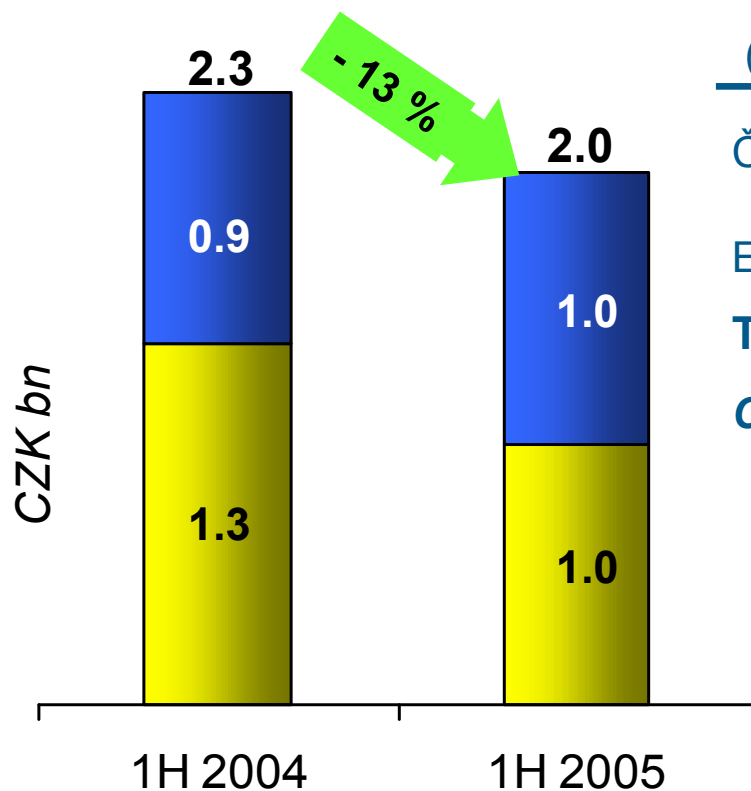
(CZK mil.)	1H 2004	1H 2005	Yoy
Interest paid	(366)	(167)	(54.4%)
Interest received	51	25	(51.0%)
Income tax paid	(1,410)	(1,935)	37.2%
Net cash from operating activities	12,644	11,731	(7.2%)
Net cash from investing activities	(2,632)	(2,465)	(6.3%)
- purchase/disposal of PPE	(2,693)	(1,911)	(29.0%)
- purchase of intangible assets	(154)	(679)	n.m.
- purchase of financial investments	0	0	n.m.
- marketable securities	215	125	(41.9%)
Free cash flow I ¹⁾	9,797	9,141	(6.7%)
Free cash flow II ²⁾	10,112	9,283	(8.2%)
Net cash from financing activities	(13,446)	(8,784)	(34.7%)

Note: Data are fully consolidated with 100% of Eurotel. Data are unaudited and according to IFRS.

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

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

Consolidated CAPEX



(CZK mil)	1H 04	1H 05	yoy
ČESKÝ TELECOM ¹⁾	922	1,002	9%
Eurotel	1,337	965	(28%)
Total CAPEX	2,259	1,967	(13%)
CAPEX/Revenues	7.3%	6.6%	

■ ČESKÝ TELECOM
■ Eurotel

Note: Data are fully consolidated with 100% of Eurotel. Data are unaudited and according to IFRS.

1) CAPEX for ČESKÝ TELECOM including minor subsidiaries

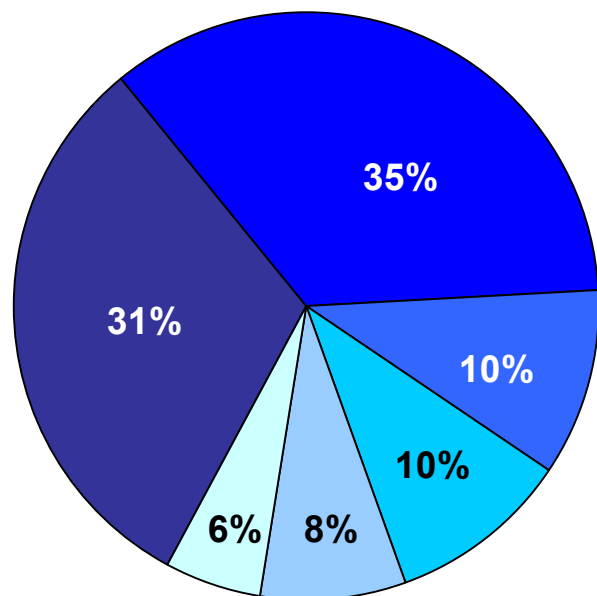
Fixed Business Financial Performance

<i>(CZK mil)</i>	1H 2004	1H 2005	yoy
Revenues	17,424	16,067	(7.8%)
OPEX	(9,368)	(9,361)	(0.1%)
EBITDA	8,056	6,706	(16.8%)
<i>EBITDA margin</i>	46%	42%	

Note: Data are for ČESKÝ TELECOM and minor subsidiaries without Eurotel, i.e. data are before consolidation and shareholding adjustments between fixed and mobile segments. All data are according to IFRS.

Fixed Business Revenues Breakdown

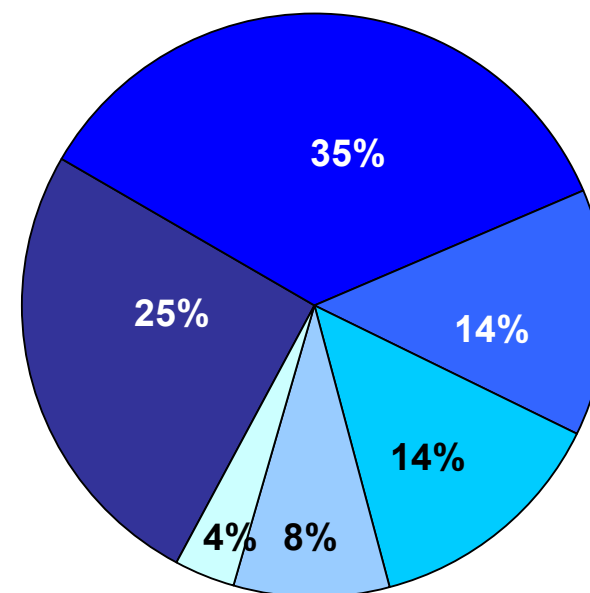
CZK 17.42 bn



1H 2004

- Communications traffic revenues (-25%)
- Subscription and connection charges (-7%)
- Rev. from operators (+23%)
- Internet, data, VAS and other serv. (+26%)
- Leased circuits (-3%)
- Other (-41%)

CZK 16.07 bn



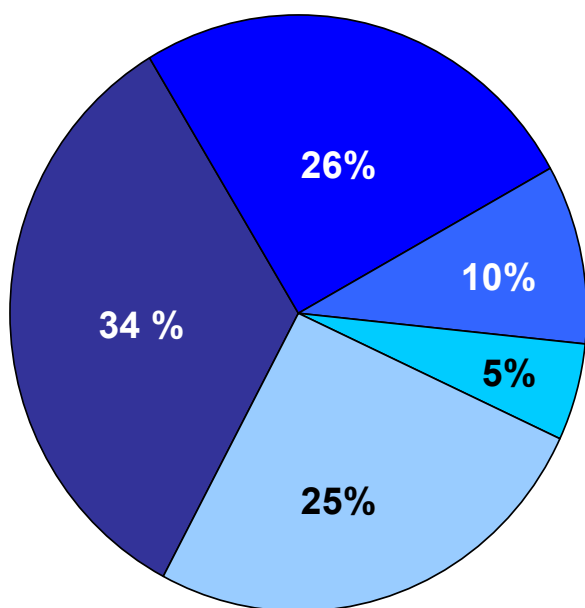
1H 2005

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

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Fixed Business Operating Costs Breakdown

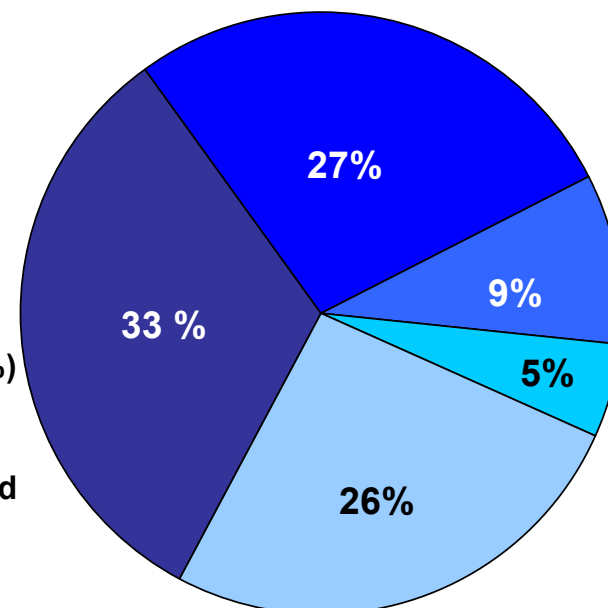
CZK 9.37 bn



1H 2004

- Staff costs (-4%)
- Payments to operators (+7%)
- Repairs and maintenance (-5%)
- Material and energy consumed (-6%)
- Other (+1%)

CZK 9.36 bn



1H 2005

Note: Other include equipment and material COS, commissions and subcontractors, marketing and sales, operating leasing, consultancy and other costs

Fixed Business Operational Performance

	1H 2004	1H 2005	yoy
Fixed Lines (x '000)	3,471	3,249	(6%)
Total data customers (x '000) ¹⁾	536	629	17%
of which ADSL connections	32	163	410%
Internet customers (x '000) ²⁾	937	1,118	19%
Fixed-line employees ³⁾	9,421	7,935	(16%)
Lines / fixed line employee	368	409	11%

Note: 1) ISDN channels plus ADSL connections

2) Paid access (IOL), free access (Quick.cz) and Internet Express (ČESKÝ TELECOM)

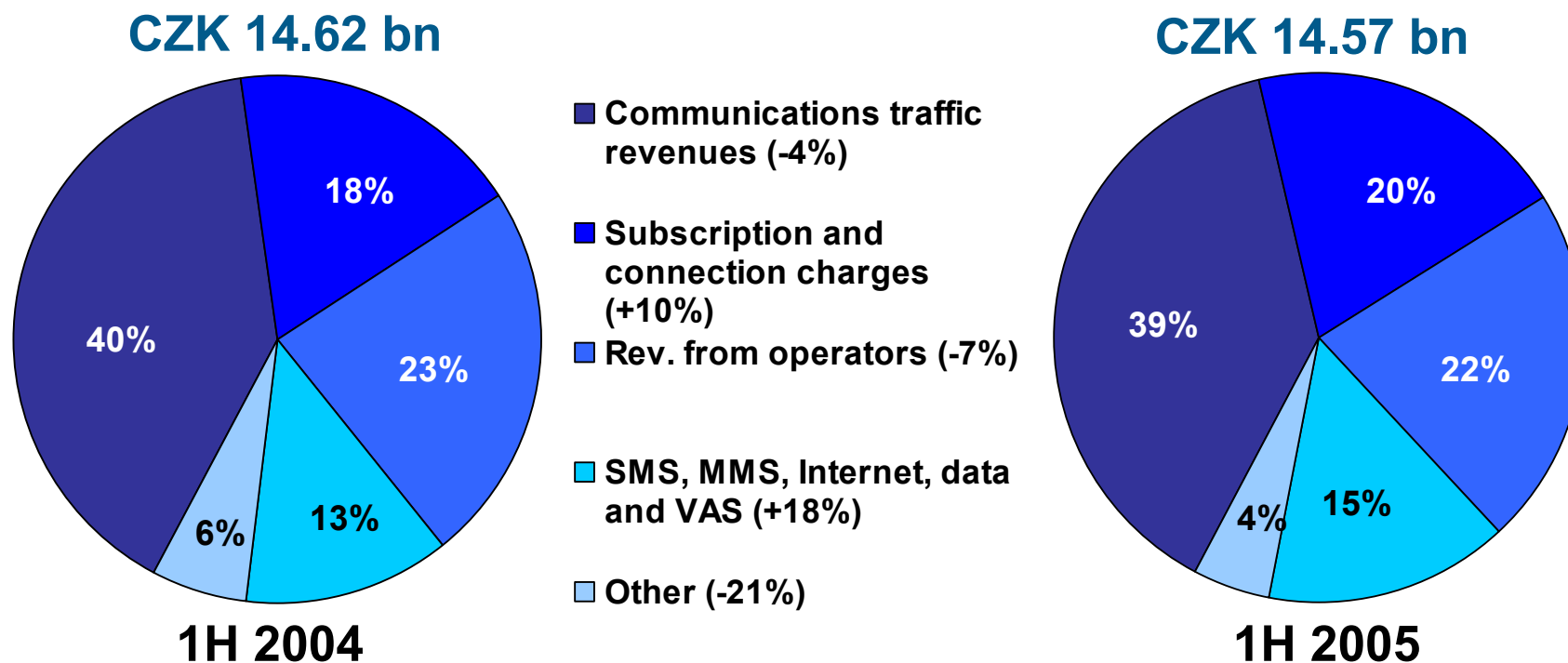
3) Number of employees for ČESKÝ TELECOM only, i.e. without minor subsidiaries and without Eurotel

Mobile Business Financial Performance

<i>(CZK mil)</i>	1H 2004	1H 2005	yoy
Revenues	14,619	14,569	(0.3%)
OPEX	(7,425)	(7,896)	6.3%
EBITDA	7,194	6,673	(7.2%)
<i>EBITDA margin</i>	49%	46%	

Note: Data are for Eurotel, i.e. before consolidation and shareholding adjustments between fixed and mobile segments. All data are according to IFRS.

Mobile Business Revenues Breakdown

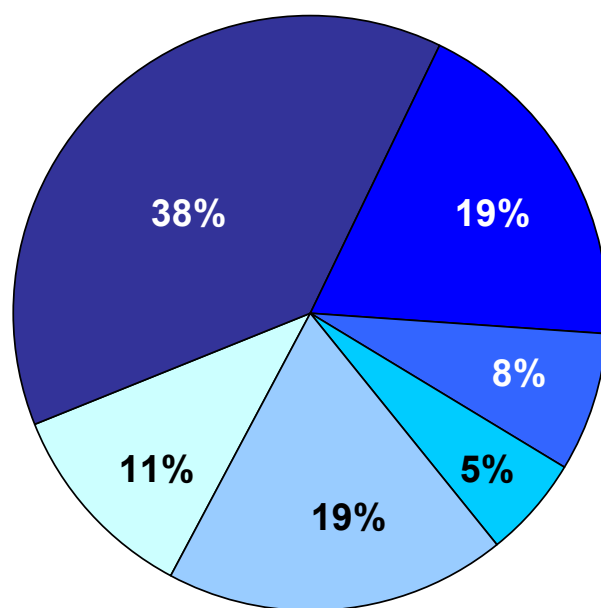


Note: Other include equipment sales and sales of material and other revenues

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Mobile Business Operating Costs Breakdown

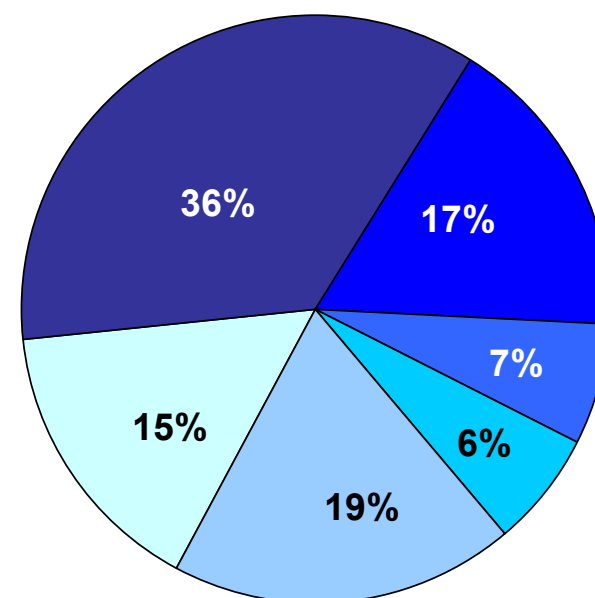
CZK 7.43 bn



1H 2004

- Staff costs (+49%)
- Payments to operators (-1%)
- Equipment and material cost of sales (-5%)
- Marketing and sales (-6%)
- Repairs and maintenance (+20%)
- Other (+9%)

CZK 7.90 bn



1H 2005

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

Mobile Business Operational Performance

	1H 04	1H 05	yoy
No of registered customers (x '000) ¹⁾	4,114	4,420	7%
of which postpaid (x '000)	936	1,197	28%
Total flat fee data customers (x '000) ²⁾	56	114	104%
of which CDMA customers (x '000)	0	49	n.m.
ARPU blended (CZK) ¹⁾	528	503	(5%)
Average MOU blended (in&outbound) ¹⁾	89	88	(1%)
Total no of SMS (x '000 000)	1,126	1,201	7%

Note: 1) Based on new methodology of pre-paid customers counts

2) Total flat fee GPRS/EDGE and CDMA customers

Mobile Business

Pre-paid Methodology as of June 30, 2005

- **Methodology in line with the rest of the Czech mobile market**
 - Counts prepaid customers who recharged over past 13 months
 - No. of prepaid: 3,141 ths; Total no. of customers: 4,420 ths
 - Comparability with the other Czech mobile operators
- **Additional information reporting in line with prevailing industry standards**
 - Counts prepaid customers who generated revenue over past 3 months
 - No. of prepaid: 2,830 ths; Total no. of customers: 4,027 ths
 - A more common methodology among major foreign operators
- **No changes to the post-paid customer counts**



Strategic Outlook

- Interaction of ČESKÝ TELECOM with Telefónica Group
- Maintaining its market positions as a leading provider of full range of voice, data & broadband services on the Czech market
- Revenue retention in the fixed segment (new tariff structure and attractive value proposition for customers)
- Focus on key revenue areas, EBITDA margin and strong FCF
- Innovations
 - Launch of UMTS network
 - Preparation for IPTV commercial launch
 - IP platform roll-out
 - Telco/IT services integration
 - Video & TV over tel. line - Digi Home/Digi Biz



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