



Telefónica O2 Czech Republic – 2009 First Half Financial Results

July 29, 2009

Telefónica O2 Czech Republic, a.s. announces its unaudited financial results for the first half of 2009. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of Telefónica O2 Slovakia, DELTAX Systems, Telefónica O2 Business Solutions and other smaller operating companies.

Operational Highlights

- Telefónica O2 Czech Republic maintained solid commercial momentum in fixed and mobile segments in a slower market
- Contract mobile customers in the Czech Republic grew 12.4% year-on-year to 2,663 thousand
- ADSL retail accesses grew by 17.4% year-on-year to 634 thousand
- Telefónica O2 Slovakia reported the best quarterly customer net additions in history and good financial performance
- Consolidated business revenues declined 4.6% year-on-year in 1H 2009 impacted by challenging economic environment and MTR cuts; OIBDA went down 4.4% year-on-year in 1H 2009, maintaining margin at 46.0%
- Full year guidance¹ confirmed for OIBDA and Operating Cash Flow

“The macroeconomic conditions in the Czech Republic have deteriorated significantly, with a visible acceleration in 2Q 2009 impacting mainly the consumption patterns of our mobile customers and service revenues. Our commercial performance remains very strong proving that our proposition meets the customer needs in this difficult environment. Also Slovakia confirms its strong momentum delivering the best quarterly net additions ever. Given this context, our main effort in the second half will stay focused on delivering Operating Cash Flow and OIBDA, while continuing to outperform the market,” says Salvador Anglada, Chief Executive Officer and Chairman of the Board of Directors of Telefónica O2 Czech Republic, when commenting on the operator's financial results.

¹ Revenues (business revenues) decline of -3% to 0%, OIBDA (excluding brand fees and impairment charge) decline of -4% to 0%, Operating Cash Flow (guided OIBDA less CAPEX) growth of +2% to +5%, in constant FX rate

A *Telefónica* company

Consolidated Financial Statements

Financial performance of Telefónica O2 Czech Republic group in the first half of 2009 was negatively impacted by challenging environment and MTR cuts. Consolidated **business revenues** went down 4.6% yoy to CZK 29,737 million in 1H 2009 (-7.5% yoy to CZK 14,631 million in 2Q alone). At the same time fixed business revenues in the Czech Republic declined by 6% yoy to CZK 13,270 million in 1H 2009 (-9.8% yoy to CZK 6,465 million in 2Q), mobile revenues in the Czech Republic declined by 5.5% to 15,640 million in 1H 2009 (-7.9% yoy to CZK 7,726 million in 2Q). On the other hand, revenues in Slovakia went up by 47.5% yoy in local currency in 1H 2009. Consolidated **operating costs** decreased 5.5% yoy to CZK 16,823 million in 1H 2009 (-13.9% yoy to CZK 7,765 million in 2Q) largely due to lower interconnection costs (MTR cuts) and efficiencies in marketing and sales expenses, on top of a positive impact owing to the settlement agreement with T-Mobile (> CZK 900 million) in 2Q. Group **Operating income before depreciation and amortization (OIBDA)** went down 4.4% yoy to CZK 13,692 million in 1H 2009 (-6.9% yoy to CZK 7,078 million in 2Q alone). Settlement agreement with T-Mobile in 2Q 2009 compensated the gain from real estate sale in 2Q 2008.

Consolidated **net income** amounted to CZK 5,722 million, down by 1.4% yoy in 1H 2009 (-8.6% to CZK 3,077 million in 2Q) due to decline in OIBDA which was not fully offset by lower depreciation charge and lower income tax.

Consolidated **CAPEX** reached CZK 2,905 million in 1H 2009, 19.9% up yoy due to accelerated investment in 3G network expansion. In 1H 2009, coverage of a new generation mobile network has been expanded to other five main cities (Pilsen, Ostrava, České Budějovice, Olomouc, and Ústí nad Labem). Group **free cash flows** increased 26.7% yoy to CZK 6,679 million in 1H 2009, positively contributed by the settlement of litigation with T-Mobile.

The consolidated **financial debt** amounted to CZK 3,163 million while **cash and cash equivalents** and short term financial investments reached CZK 13,836 million at the end of 1H 2009, up from CZK 7,153 million at the end of 2008. The Company continued accumulating cash for a dividend payment (CZK 16,104 million) which will be made on 7 October.

CZ Mobile Segment Overview²

Mobile segment reported solid commercial performance leveraging on successful customer proposition. The financial performance was negatively impacted by worsening economic environment and MTR cuts.

Total **mobile customer base** in the Czech Republic reached 4,835 thousand at the end of June 2009 (+2.1% yoy). Number of **contract customers** went up 12.4% yoy reaching 2,663 thousand at the end of 2Q 2009 with 66.4 thousand net adds in the quarter (+4.4% yoy). This positive performance was a result of continuous **prepay to contract migration** and success of O₂ NEON flat rate tariffs among the customers. At the end of 2Q 2009, number of **prepaid active customers** reached 2,172 thousand, (-8.2% yoy). It is worth highlighting significantly lower net losses of prepaid active customers in 2Q 2009 (-14.2 thousand) compared to 1Q 2009 (-96.1 thousand) and also compared to the same period in 2008 (-85.0 thousand) due to successful launch of a new customer proposition "NA!VÍC", which is based on rewarding regular top ups. At 30 June 2009, contract customers represented 55.1% of the base (50.0% at the end of June 2008).

Total **data customers** on flat rate tariffs reached 226 thousand at the end of June 2009 (+6.8% yoy).

The blended monthly average **churn rate** reached 1.9% in 1H 2009, down from 2.1% in 1H 2008, while it reached 1.7% in 2Q 2009, down by 0.2 p.p. and by 0.4 p.p. compared to 2Q 2008 and 1Q 2009 respectively, mainly due to the strong performance of the customer base.

² Figures are shown net of inter-segment charges between fixed and mobile segment

In terms of usage, **mobile traffic**³ carried in the Czech Republic in 1H 2009 grew by 10.1% yoy to 3,987 million minutes (+11.3% yoy in 2Q alone) due to higher contract base and successful proposition of flat rate tariffs (O2 NEON).

In 1H 2009, **blended ARPU**⁴ reached CZK 526, down 5.9% yoy largely due to customers optimizing their behavior and MTR cuts. **Contract ARPU** reached CZK 784 in 1H 2009, down by 11.8% yoy from CZK 889 in 1H 2008 (CZK 758 in 2Q 2009 compared to CZK 894 in 2Q 2008). The main reason for the lower contract ARPU is a dilution coming from customer migration from prepaid to the contract tariffs. **Prepaid ARPU** decreased by 10.5% yoy to CZK 223 in 1H 2009, and by 10.7% yoy to CZK 228 in 2Q 2009 impacted by customers optimizing their behavior in the current environment and migration of high value prepaid customers to contracts, but improvement has been seen between 1Q and 2Q 2009 (+3.9%) due to good acceptance of the new proposition.

Total **business revenues** in the mobile segment in the Czech Republic declined by 5.5% to CZK 15,640 million in 1H 2009 and by 7.9% in 2Q alone, while mobile service revenues went down by 4.8% yoy and 7.6% yoy in these periods. By items:

- **Monthly fees** increased by 9.9% yoy to CZK 4,135 million in 1H 2009 (+9.0% yoy in 2Q alone) driven by the growth in the contract customer base.
- **Traffic revenues** declined by 14.3% yoy to CZK 4,712 million in 1H 2009 (-14.5% yoy in 2Q alone) due to increasing number of flat rate customers and decreasing roaming revenues.
- **Interconnection revenues** went down by 7.1% yoy to CZK 2,426 million in 1H 2009 (-8.5% yoy in 2Q alone) due to MTR cuts and lower roaming.
- **Other revenues** (including revenues from value added services, internet & data and other revenues) decreased by 4.2% yoy to CZK 3,893 million (-13.0% yoy in 2Q alone). This is mainly a result of customers optimizing their consumption behavior (SMS, MMS, content and mobile solutions) and also customers optimization abroad (roaming data and SMS).

CZ Fixed Segment Overview⁵

The fixed line segment continued to report solid operational performance with a lower year-on-year losses of fixed telephony accesses and strong additions in broadband customers. In May 2009, the Company launched a new concept of services for households, changing the proposition from voice centric to broadband centric, enabling full flexibility to combine fixed and mobile services meeting all customers' needs.

Total number of **fixed telephony accesses** reached 1,804 thousand in 2Q 2009, -6.9% yoy which represents 47.1 thousand net losses in 2Q 2009 (-18.7% yoy compared to 2Q 2008) confirming year-on-year deceleration from previous quarters.

Voice traffic generated in the fixed network went down 13.2% in 1H 2009 to 1,063 million minutes as the result of continued fixed lines losses and fixed to mobile substitution.

Retail ADSL accesses reached 634 thousand at the end of June 2009, with 21.7 thousand net additions in 2Q 2009 (1.7 times higher compared to the same period in 2008) due to continuous strong commercial activities around fixed broadband. Number of wholesale ADSL accesses decreased 16.9% yoy to 48 thousand, total number of ADSL accesses thus reached 682 thousand at the end of June 2009. The total number of **O₂ TV customers** reached 133 thousand at the end of June 2009, up by 35% yoy.

Total **business revenues** in the fixed segment went down 6.0% to CZK 13,270 million in 1H 2009 with a 9.8% decline to CZK 6,465 million in 2Q alone. By items:

³ Inbound and outbound, excluding inbound roaming and roaming abroad

⁴ Including inter segment revenues

⁵ Figures are shown net of inter-segment charges between fixed and mobile segment

- **Traditional access revenues** fell by 12.8% yoy to amount of 3,917 million in 1H 2009 due to continuous fixed lines losses
- **Traditional voice services revenues** (voice traffic and interconnection) declined in total by 6.9% yoy in 1H 2009 (-11.8% yoy in 2Q alone).
 - Traffic revenues dropped by 18.2% yoy to CZK 1,593 million in 1H 2009 (-20.9% yoy in 2Q alone), as a result of lower voice traffic generated by the customers.
 - Interconnection revenues went up by 1.5% yoy to CZK 2,306 million in 1H, while declined by 5.6% yoy in 2Q alone due to lower transit traffic.
- **Internet & broadband revenues** increased in total by 7.0% yoy to CZK 2,201 million in 1H 2009 (+14.1% yoy in 2Q alone)
- **IT services and business solutions revenues** decreased 5.6% yoy to CZK 821 million in 1H (-9.1% yoy in 2Q alone).
- **Data services revenues** went down by 6.7% yoy to CZK 1,816 million in 1H 2009 (-8.6% in 2Q alone).

Slovakia

Telefónica O2 Slovakia continued to perform well also in the 2Q 2009 leveraging on successful customer proposition based on value and simplicity strategy (O2 Fair). Total **number of active customers** reached 417 thousand at the end of 1H 2009, up by 51.7% yoy. In 2Q, net additions reached 51.8 thousand, the best quarterly net additions in history. Number of **contract customers** went up by 81.4% to 136 thousand, while **prepaid active customers** reached 281 thousand, +40.5% yoy, with 34 thousand net additions in a quarter.

Total revenues of Telefónica O2 Slovakia increased by 47.5% yoy in local currency in 1H 2009 (+55.1% yoy in 2Q). The revenue growth comes as a result of a strong customer base performance leveraging on the successful customer proposition. **ARPU** reached EUR 25.4 for contract customers and EUR 7.9 for prepaid customers in 1H 2009.

Attachment:

The consolidated balance sheet and income statement of Telefónica O2 Czech Republic prepared in accordance with International Financial Reporting Standards (all figures in CZK million).

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About Telefónica O2 Czech Republic

Telefónica O2 Czech Republic is a major integrated operator in the Czech Republic. It is now operating more than seven million lines, both fixed and mobile, making it one of the world's leading providers of fully converged services. The organization offers the most comprehensive portfolio of voice and data services in this country. It is paying special attention to the exploitation of the growth potential, particularly in the data and Internet sector. Telefónica O2 Czech Republic operates the largest fixed and mobile network including a 3rd generation network, CDMA (for data), and UMTS, enabling voice, data and video transmission. Telefónica O2 Czech Republic is also a notable provider of ICT services.

About Telefónica O2 Europe

Telefónica Europe is a business division of Telefónica comprising mobile, fixed, and DSL operations in the UK, Ireland, the Isle of Man, Germany, the Czech Republic, and Slovakia. With the exception of Isle of Man, all the operating businesses use 'O2' as their consumer brand. Telefónica Europe also has 50% ownership of the UK and Irish Tesco Mobile and German Tchibo Mobilfunk joint venture businesses. Telefónica Europe is headquartered in Slough, UK, and has 43 million mobile and fixed customers.

INCOME STATEMENT	Jan - Jun 2009	Jan - Jun 2008
Business revenues	29,737	31,160
Other recurring revenues	52	116
Revenues	29,789	31,276
Internal expenses capitalized in fixed assets	391	199
Operating expenses	(16,823)	(17,805)
Other operating income/(expenses)	-	(22)
Gain on sale of fixed assets	356	764
Impairment of fixed assets	(20)	(87)
OIBDA	13,692	14,325
Depreciation and amortization	(6,234)	(6,570)
Operating Income	7,459	7,756
Net financial income (expense)	(132)	(3)
Income before tax	7,327	7,752
Income tax	(1,605)	(1,951)
Net Income	5,722	5,801
BALANCE SHEET	30.06.2009	31.12.2008
Non-current assets	82,606	86,166
- Intangible assets	8,854	8,900
- Goodwill	13,448	13,448
- Property, plant and equipment and investment property	59,923	63,429
- Long-term financial assets and other non-current assets	380	389
- Deferred tax assets	-	-
Current assets	23,983	17,361
- Inventories	763	779
- Trade and other receivables	8,745	9,203
- Current tax receivable	638	226
- Short-term financial investments	14	37
- Cash and cash equivalents	13,822	7,116
Non-current assets classified as held for sale	57	96
Total assets	106,645	103,623
Equity	67,898	78,168
Non-current Liabilities	6,488	6,977
- Long-term financial debt	2,978	3,098
- Deferred tax liabilities	3,201	3,300
- Long/Term Provisions	197	403
- Other long/term liabilities	112	176
Current Liabilities	32,260	18,478
- Short-term financial debt	185	98
- Trade and Other payables	12,825	15,004
- Current tax payable	-	9
- Short-term provisions and other liabilities	19,249	3,367
Liabilities assoc. with non-current assets classified as held for sale	-	-
Total Equity and Liabilities	106,645	103,623