



ACCELERATE TO
INCREASE OUR
LEADERSHIP

Telefónica O2 Czech Republic, a.s. 1H 2006 Financial Results



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TELECOM**

Eurotel
více ze života



July 24, 2006

CAUTIONARY STATEMENT



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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.



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1 Business Highlights

- Integration
- Fixed Line Business
- Mobile Business

2 1H 2006 Financial Results

- Consolidated
- Fixed Line Business
- Mobile Business

3 Outlook



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1H 2006 Highlights

- Strong financial performance and improved trends seen in 2H 2005 and Q1 2006 confirmed
- F/M integration continued as planned; merger and change of name effective as of 1 July 2006
- Successful mobile customer acquisition and prepaid to contract migration continued
- Continuous rollout of wide range of broadband services helped strong customer base growth
- Changes in statutory bodies
 - Board of Directors enlarged from 5 to 9 members
 - 4 O2 representatives becoming new members of Supervisory Board – Peter Erskine elected the Chairman of Supervisory Board

F/M merger effective as of 1 July 2006



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27 April 2006

- AGM approved merger of ČESKÝ TELECOM and Eurotel and change of name to Telefónica O2 Czech Republic

20 June 2006

- Municipal Court's resolution approved merger and change of name based on legal documentation filed

1 July 2006

- Eurotel dissolved without liquidation and all its business assets transferred to ČESKÝ TELECOM
- ČESKÝ TELECOM changed its name to Telefónica O2 Czech Republic



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Integration continues according to set time plan

- Organization structure and key processes approved by Board of Directors – effective as of 1 July
- 12 key integration projects (“flagships”) approved – execution already started in Q2, aiming at:
 - Integrated point of sales, sales force and customer care
 - Introduction of first F/M products
 - Controlling processes, budget and reporting alignment, SAP integration
 - Cultural alignment
 - Regional network operations integration
 - Re-branding



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Fixed line business highlights

- 386,436 ADSL connections as at end of Q2 2005
 - 112 ths. net adds in 1H 06 vs. 62 ths. In 1H 05 (up by 81%)
 - Connection speed increased 4 times for nearly 100 % of customers, completed as of the end of Q2 2006
 - CESKY TELECOM's ADSL retail market share stable at 84%
- Further step towards rebalancing taken in April and May
 - Higher monthly fees (up to 22.6%) and lower per minute charges (single rate for local and long distance calls, lower rates to mobile networks)
 - New flat voice tariff introduced (nearly 10 ths customers migrated by end of Q2)



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Mobile business highlights

- Customer base growth of 7.9% yoy
 - Net adds of 75 ths. (Q2 06) vs. 19 ths (Q1 06) in highly saturated market with penetration over 112%
 - Contract customers' net adds of 181 ths. in 1H 06 to 1,727 ths. at end of 1H 2006; contract customers account for 36% of total customer base
- New prepaid tariff portfolio launched on 3 April
 - Net losses slow down in Q2 06 (9 ths.) compared to Q1 06 (78 ths.)
- Voice services in NMT network operating in the 450 MHz band ceased at end of Q2 2006
 - All customers migrated to GSM and UMTS networks with their current numbers



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Financial highlights

Confirmed positive trends from previous periods

- Group revenues flat yoy in 1H 2006 (down by 0.7% yoy in Q2 06)
- Group OIBDA up by 5.2% yoy in 1H 06; OIBDA margin at 48.5% in 1H 06 compared to 45.9% in 1H 05
- Operating Income up by 32.6% yoy, Net Income up by 54.7% yoy
- Net gearing negative at minus 2%, gross gearing at 11.4% vs. 17.7% and 18.8% at end of Q2 2005 respectively
- FCF of CZK 7.8 bn (down by 14.5% yoy)

- Fixed line business OIBDA margin at 46.5%, up by 2.9 p.p yoy
- Mobile business OIBDA margin at 47.4%, up by 1.6 p.p. yoy

Consolidated Income Statement



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<i>(CZK mil.)</i>	H1 2005	H1 2006	Y/Y Chg.
Revenues	30,143	30,102	(0.1%)
Internal expenses capitalized in FA	255	403	58.0%
OPEX	(16,611)	(15,956)	(3.9%)
Other operating expenses	(28)	(35)	25.0%
Gain on sale of fixed assets	33	29	(12.1%)
Impairment charge	(9)	(38)	n.m.
OIBDA	13,783	14,505	5.2%
OIBDA margin ¹⁾	45.9%	48.5%	
Depreciation & Amortisation	(9,212)	(8,443)	(8.3%)
Operating Income	4,571	6,062	32.6%
Income before taxes	4,206	5,900	40.3%
Net income	2,768	4,282	54.7%

Note: Unaudited, according to IFRS

1) OIBDA margin = OIBDA/ Business revenues



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Consolidated Balance Sheet

(CZK mil.)	30/06/05	30/06/06	Y/Y Chg.
Non-current assets	116,995	105,558	(9.8%)
Current assets	10,989	21,005	91.1%
- Cash & cash. Equiv.	973	11,301	<i>n.m.</i>
- Short term fin.investments	75	63	(16.0%)
Total assets	128,302	126,810	(1.2)
Equity	91,505	84,772	(7.4%)
Non-current liabilities	20,411	17,199	(15.7%)
- Long-term financial debt	10,204	9,268	(9.2%)
Current liabilities	16,386	24,839	51.6%
- Short-term financial debt	6,998	407	(94.2%)
Gross gearing	18.8%	11.4%	
Net gearing	17.7%	(2.0%)	

Note: Unaudited, according to IFRS

* Net gearing = (Long and short term fin. debt – cash and short-term fin. investments) / equity



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Consolidated Cash Flow Statement

(CZK mil.)	H1 2005	H1 2006	Y/Y Chg.
Interest paid	(167)	(2)	<i>n.m.</i>
Interest received	25	68	<i>n.m.</i>
Income tax paid	(1,935)	(2,146)	10.9%
Net cash from operating activities	11,731	11,187	(4.6%)
Net cash from investing activities	(2,465)	(3,415)	38.5%
- purchase/disposal of PPE and intangibles	(2,590)	(3,374)	30.3%
- marketable securities	125	-	<i>n.m.</i>
- grant/(payment) of loan	-	(41)	<i>n.m.</i>
Free cash flow I ¹⁾	9,141	7,813	(14.5%)
Free cash flow II ²⁾	9,238	7,747	(16.5%)
Net cash from financing activities	(8,784)	-	<i>n.m.</i>

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

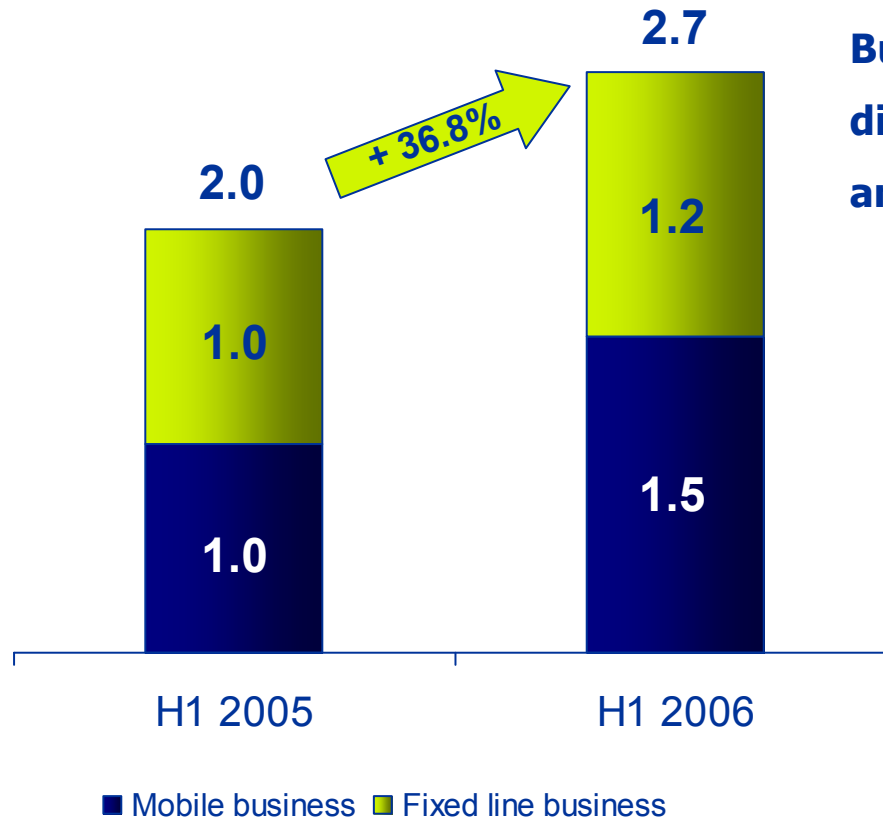


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Consolidated CAPEX

(CZK bn)



**Bulk of the investments
directed to the growth
areas**

- ADSL rollout
- UMTS network
- IPTV project



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Fixed Line Business Financial Performance

<i>(CZK mil.)</i>	H1 2005	H1 2006	Y/Y Chg.
Revenues	16,202	15,447	(4.7%)
Internal expenses capitalized in FA	146	285	95.2%
OPEX	(9,374)	(8,644)	(7.8%)
Other operating expenses	(4)	(1)	<i>n.m.</i>
Gain on sale of fixed assets	33	28	(15.2%)
Impairment charge	(9)	(38)	<i>n.m.</i>
OIBDA	6,994	7,077	1.2%
OIBDA margin ¹⁾	43.6%	46.5%	

Note: Unaudited, according to IFRS

1) OIBDA margin = OIBDA/ Business revenues

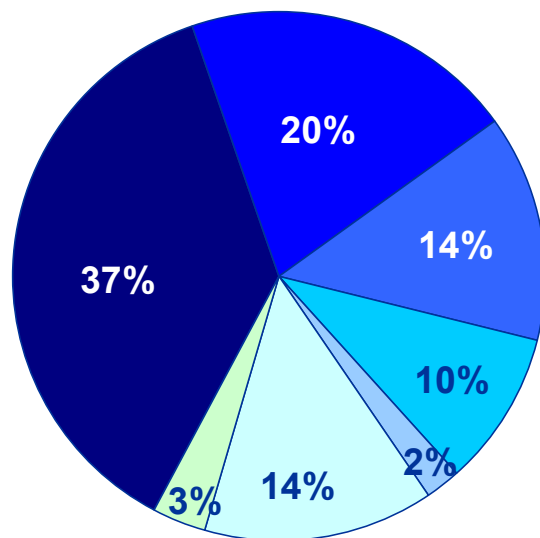
Fixed Line Business Business Revenues Breakdown



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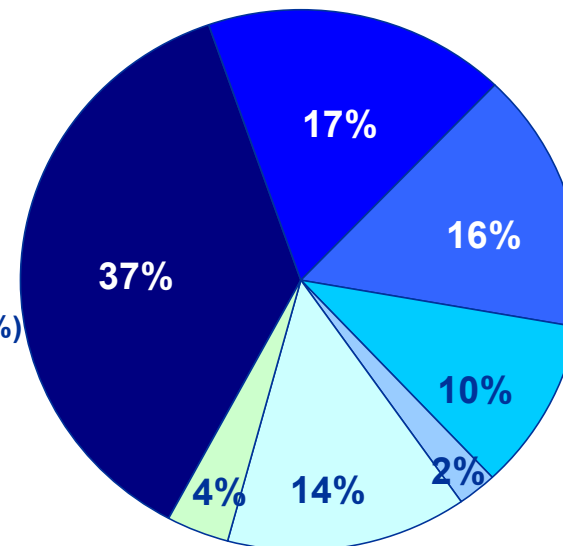


CZK 16.0 bn



H1 2005

CZK 15.2 bn



H1 2006

- Traditional Access (- 5%)
- Traffic (- 19%)
- Interconnection (+ 6%)
- Internet & Broadband (+ 4%)
- Equipment (- 9%)
- Data Services (- 5%)
- Other (+ 6%)

Other = IT Services and Other Telco Revenues

Fixed Line Business Operating Costs Breakdown

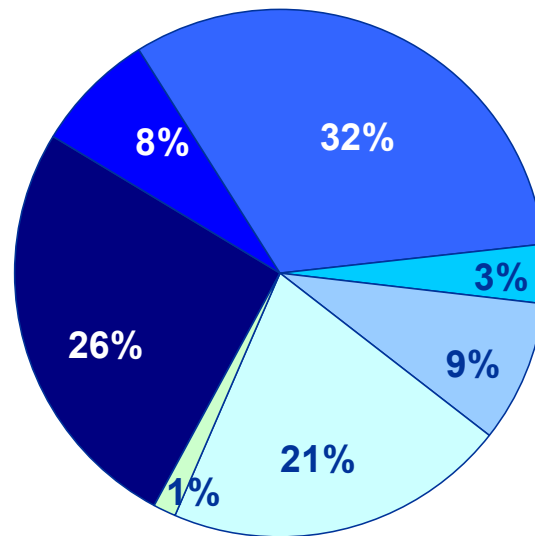


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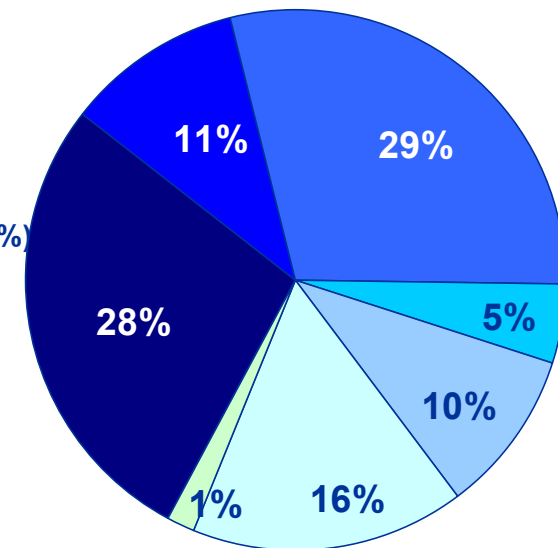
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CZK 9.4 bn



H1 2005

CZK 8.6 bn



H1 2006

- Interconnection (- 2%)
- Other Supplies (+ 33%)
- Personnel Expenses (- 17%)
- Marketing & Sales (+24%)
- Network & IT repair and maint.(+ 3%)
- Other subcontracts (-27%)
- Taxes (+6%)

Other Supplies = Cost of Goods Sold and Other Supplies

Other Subcontracts = Rentals, Buildings and Vehicles, Utilities Supplies and Other Subcontracts

Taxes = Other than income tax; Including Provisions



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Fixed Line Business Operational Performance

	30/06/05	30/06/06	Y/Y Chg.
Accesses (x '000)			
<i>Final Client Accesses</i>	3,727	3,398	(8.8%)
Fixed Telephony Accesses ¹⁾	3,075	2,835	(7.8%)
Internet and Data Accesses	652	563	(13.7%)
- Narrowband	511	224	(56.1%)
- Broadband (ADSL)	128	326	155.5%
- Other ²⁾	14	13	(7.1%)
Wholesale Accesses	45	79	75.6%
Unbundled loops	2	12	n.m.
Wholesale ADSL	36	60	66.7%
Other ³⁾	7	7	0.0%
Total Accesses	3,772	3,477	(7.8%)
Voice outgoing traffic (mil. minutes)	1,886	1,785	(5.4%)
Dial-up outgoing traffic (mil. minutes)	1,730	767	(55.7%)
ČESKÝ TELECOM employees	7,935	7,466	(5.9%)

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

²⁾ Leased lines

³⁾ Wholesale circuits



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Mobile Business Financial Performance

<i>(CZK mil.)</i>	H1 2005	H1 2006	Y/Y Chg.
Revenues	14,567	15,294	5.0%
Internal expenses capitalized in FA	109	118	8.3%
OPEX	(7,979)	(8,139)	2.0%
Other operating expenses	(23)	(28)	21.7%
Gain on sale of fixed assets	-	1	<i>n.m.</i>
Impairment charge	-	-	<i>n.m.</i>
OIBDA	6,674	7,246	8.6%
OIBDA margin ¹⁾	45.8%	47.4%	

Note: Unaudited, according to IFRS

1) OIBDA margin = OIBDA/ Business revenues

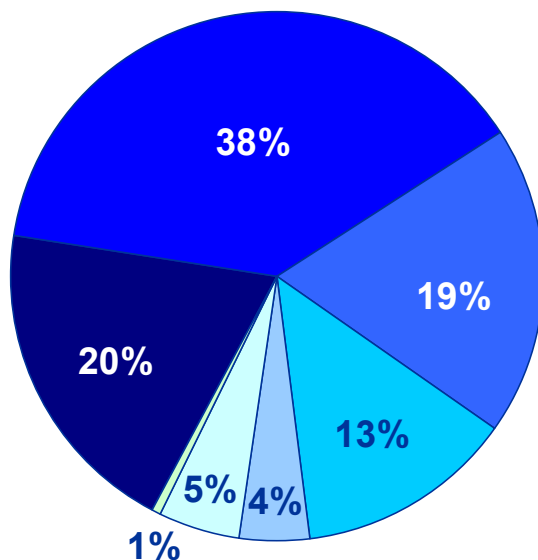
Mobile Business Business Revenues Breakdown



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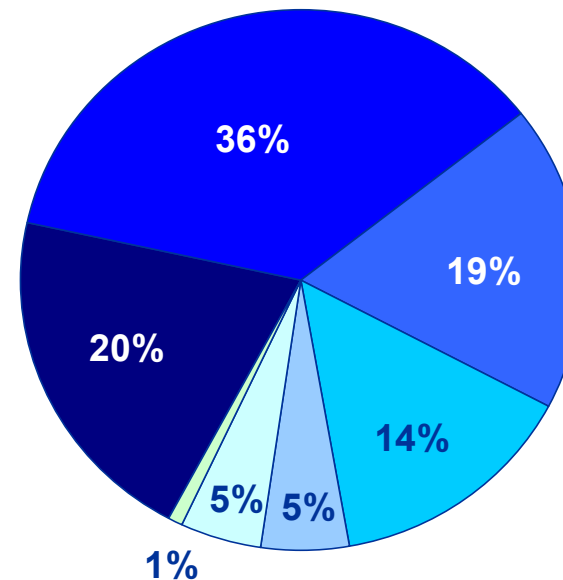
CZK 14.6 bn



H1 2005

- Monthly fees (+ 10%)
- Traffic (- 1%)
- Interconnection (+ 3%)
- VAS (+ 13%)
- Internet & Data (+26%)
- Equipment Sales (- 0%)
- Other (+ 85%)

CZK 15.3 bn



H1 2006

Other = IT Services and Other Revenues

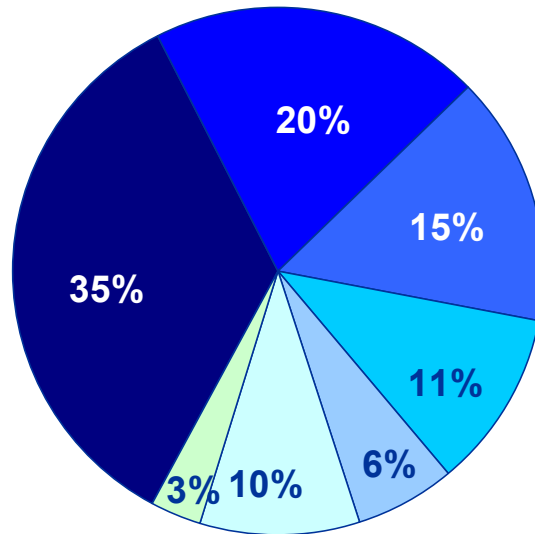


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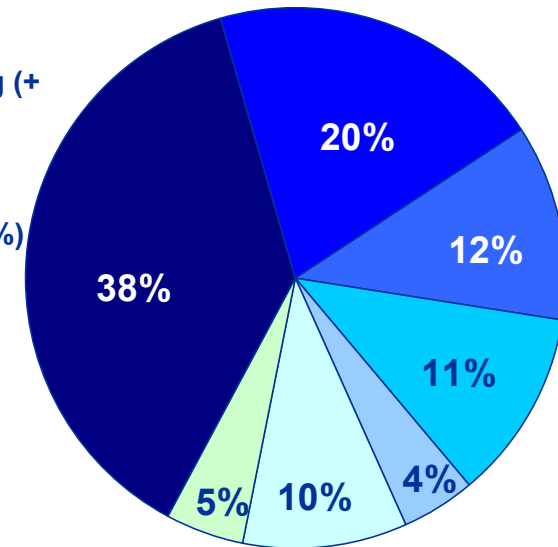
Mobile Business Operating Costs Breakdown

CZK 8.0 bn



H1 2005

CZK 8.1 bn



H1 2006

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Mobile Business Operational Performance

	30/06/05	30/06/06	Y/Y Chg.
No. of registered customers (x '000) ¹⁾	4,420	4,770	7.9%
- contract (x '000) ²⁾	1,269	1,727	36.1%
- prepaid (x '000) ²⁾	3,151	3,043	(3.4%)
No. of CDMA customers (x '000) ^{1) 3)}	49	85	73.5%
ARPU blended (CZK) ¹⁾	503	498	(1.0%)
contract ARPU (CZK)	1,236	992	(19.7%)
prepaid ARPU (CZK)	240	232	(3.3%)
data ARPU blended (CZK)	97	105	8.2%
non-SMS data ARPU as % of data ARPU	37%	39%	2 p.p.
Average MOU blended (in&outbound) ¹⁾	88	99	12.5%
Total no. of SMS (x '000 000)	1,201	1,382	15.1%
Eurotel's employees	2,500	2,486	(0.6%)

1) Based on new methodology of prepaid customers counts

2) GSM, CDMA and NMT customers

3) Mobile broadband Internet customers

Outlook



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- Execution of key integration projects in line with the communicated schedule
- Introduction of new broadband, Internet, data and value added services
- Continuing focus on financial and operational efficiencies; material synergies arising from F/M integration and closer co-operation with Telefónica and O2
- Real estate sales and lease back project re-launched (advisor for TO2 to be selected)
- Telefónica O2 Slovakia (100% owned by Telefónica O2 Czech Republic) participating in tender for 3rd Slovak mobile license)
- Guidance for 2006 confirmed - flat Revenues and OIBDA

Event Calendar



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By end of October 2006
Q3 2006 Financial Results

25 September 2006
Dividend Record Date

2 October 2006
Dividend Payment Date