

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 O_2 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 O_2 TV customers reached 115 thousand representing 57% growth compared to 2007 year end.

Both services - O_2 TV and O_2 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. O_2 Unlimited line (O_2 Neomezená linka) was introduced in June and offers maximum simplicity, comfort and flexibility.





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 O_2 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 O_2 Managed Security, which keeps corporate data secure, and O_2 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 - O_2 NEON. This together with O_2 [:kůl:], 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 O_2 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 O_2 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 O_2 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 O_2 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 Olšanska 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





OIBDA of CZK 28.3 billion, 1% higher than in 2007, which was within the guidance range of 0% to 2%. As a result of slight growth of OIBDA and continuous fall in depreciation, amortisation and financial costs, the Group consolidated net profit in 2008 went up by 12% year on year and reached CZK 11.6 billion.

In 2008, our investments continued to selectively target at growth areas, such as increasing the capacity and coverage of the mobile broadband (mainly UMTS) and GSM networks, ADSL and IPTV. In Slovakia, investments were directed to the GSM network rollout and systems deployment. The total consolidated capital expenditure thus amounted to CZK 8.1 billion in 2008, up 3.6% year-on-year. Again, we confirmed our ability to generate strong cash flows, which reached CZK 19.5 billion, up 6.5% year-on-year. In July, we paid CZK 6 billion of our domestic bonds and the net leverage reached minus 5.1% at the end of 2008.

Delivered results for 2008, together with a thorough analyses regarding expected future performance of the company and the current tax and legal environment, has led the Board of Directors to propose the dividend payment of CZK 50 per share, which represents close to 12% dividend yield. The dividend proposal will be commented in detail by Jesús Pérez de Uriguen later on during today's general meeting.

To conclude, I want to share with you some of our plans and expectations for the year 2009. With regard to the current challenging environment, our strategy in 2009 will continue to focus closely on our customers and their needs, while staying firmly centred on our strategic goals. The cash flow generation through efficiencies in OPEX and CAPEX remains among our key priorities for 2009.

We will continue with our active marketing of the mobile flat rate tariffs introduced in 2008, with a view to further improve the customer mix, and subsequently to accelerate usage and consumption (ARPU) of services. In line with the recently announced plans to expand the 3G coverage, we will focus on improved proposition of new mobile broadband and data services. In the fixed line business, our efforts will be centred on the consolidation of our past year's performance. We believe that the continuing enhancement of ADSL and IPTV, as well as bundling, will further increase the value of the fixed line and result in a deceleration of fixed line losses. We will also continue to concentrate our efforts on the area of ICT and integrated business solutions marketed primarily to corporate and government customers, as well as to small and medium-sized businesses and entrepreneurs. The consolidation of the activities in the field of ICT into one business unit of Professional Services, which already commenced in 2008, will further strengthen our position in the ICT market, and maintain its revenues.

In addition, we will continue to support a gradual deployment of the Slovak operation, including the development of systems, processes and network roll-out, while maximizing the leverage with the Czech operation. In Slovakia we will continue in the active marketing of our customer proposition based on "value and simplicity", which will lead to further growth and improvement in the quality of the customer base with a view to gaining a sizeable market share and strengthening our financial position.

Thank you for your attention.

