



# FIFTH **INVESTOR** CONFERENCE

Valencia. May 25 th - 26 th. Ciudad de las Artes y las Ciencias

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# Building a fully integrated player – Creating the next growth platform

**Jaime Smith**

Executive Chairman, Český Telecom

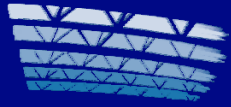


THE BEST COMBINATION OF  
GROWTH AND RETURNS

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Valencia - May 25, 2006

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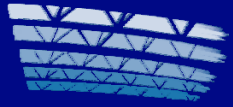
## 01 ČTc turnaround and Telefónica Group synergies

## 02 Fixed-mobile integration

- Strategic rationale
- Proposed approach and timing
- Financial synergies

## 03 Investor guidance

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# 01 Czech Republic – small country with promising future

## Social data

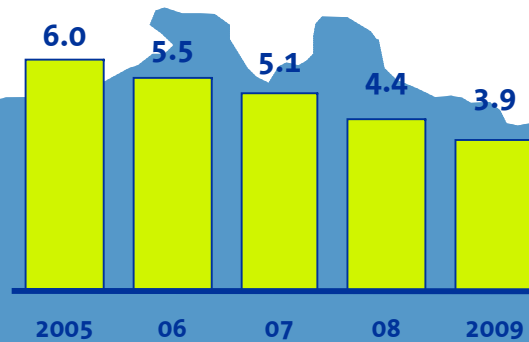


- Population: 10.2 million
- Area: 78,866 km<sup>2</sup>
- Date of accession to EU: May 04

## Macroeconomic data

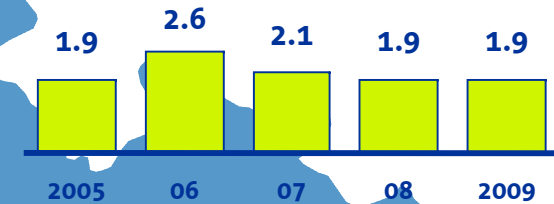
### Real GDP growth

Percent



### Inflation

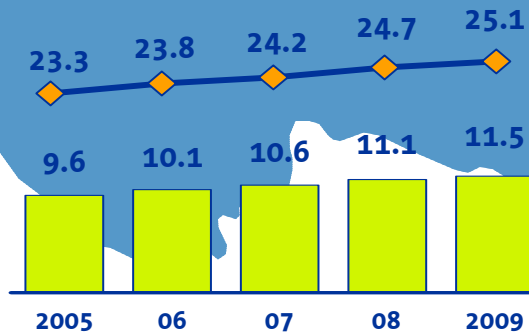
Percent



### Real GDP per capita

EUR thousand (2005)

■ Czech Republic ◆ EU average

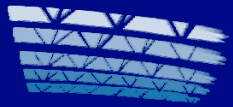


### Unemployment rate

Percent

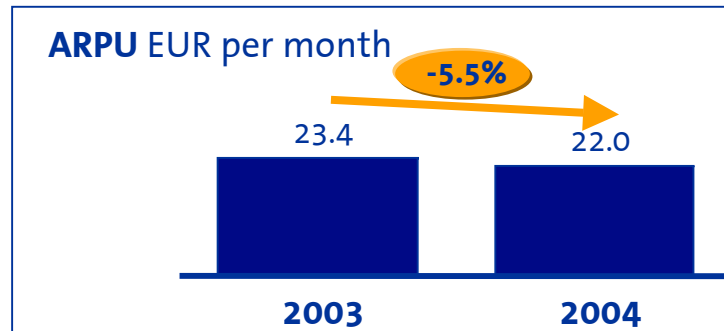
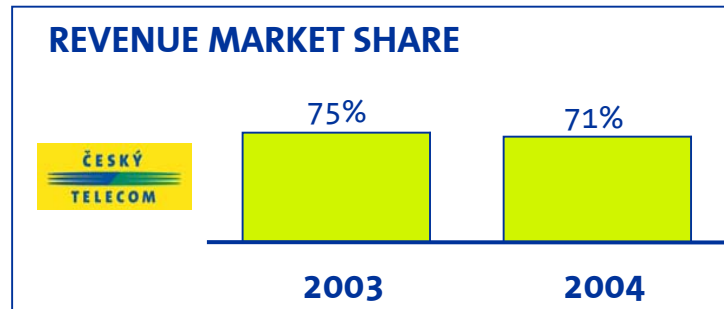
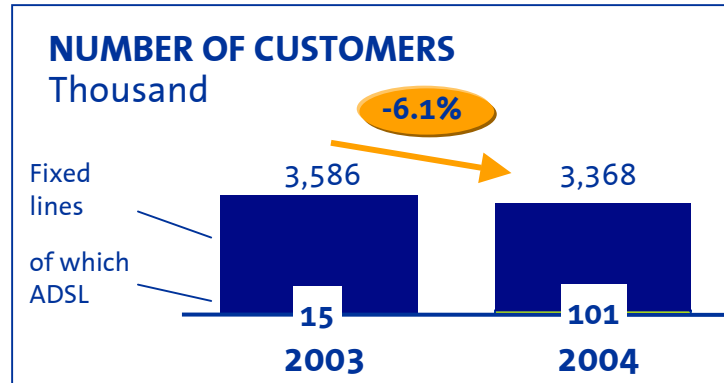


Source: Czech Statistical Office, Economist Intelligence Unit 2006

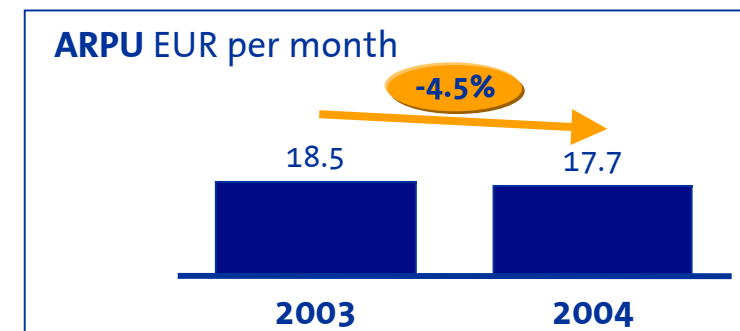
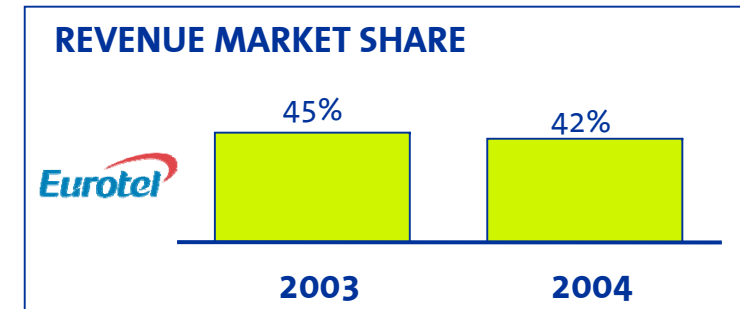
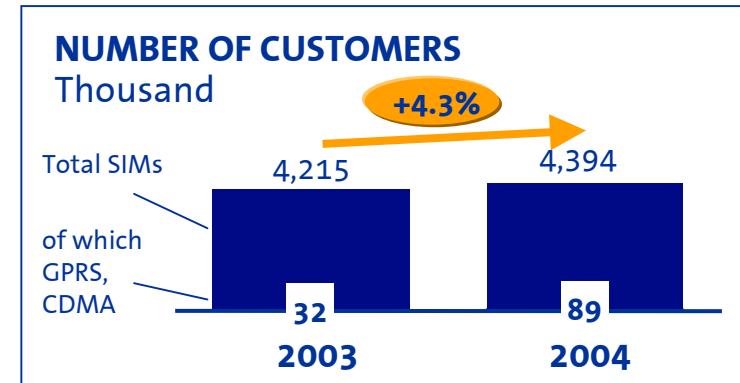


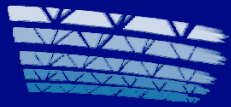
# 01 Český Telecom was facing several challenges before it was acquired by Telefónica

## Fixed – Český Telecom



## Mobile – Eurotel





# 01 Therefore we defined and implemented business initiatives for 2005-06

**Consumer**

**SME**

**Corporate/  
transversal  
/sales channels**

## Fixed – Český Telecom

- Redefine the broadband connectivity market ✓
- Redesign the price plan architecture (flat rate, etc.) and improve price perception ✓
- Reverse the negative trend in line churn ✓
- Increase the capacity and reach of sales channels ✓

- Redesign the price plan architecture and improve price perception ✓
- Build a range of SME business solutions on top of the ADSL offer ✓
- Stimulate performance of the own sales force and develop an indirect channel ✓

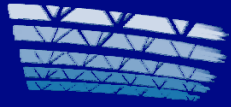
- Corporate**
- Become a personalized, reliable and integrated ICT solutions provider ✓
  - Develop the best commercial sales force ✓
- Transversal**
- Provide the best service to our customers ✓

## Mobile – Eurotel

- Redesign prepaid pricing, modify postpaid pricing, and improve price perception ✓
- Redesign handset strategy ✓
- Develop a segmented marketing machine ✓
- Ensure successful 3G launch ✓

- Improve management of frame and binding contracts ✓
- Boost data services with standardized and horizontal business applications ✓
- Optimize use of discounts ✓

- Sales channels**
- Optimize the residential distribution strategy with focusing on POS ✓
  - Develop an aggressive hunting channel ✓
  - Redesign the indirect channel ✓
  - Enhance performance of sales reps ✓



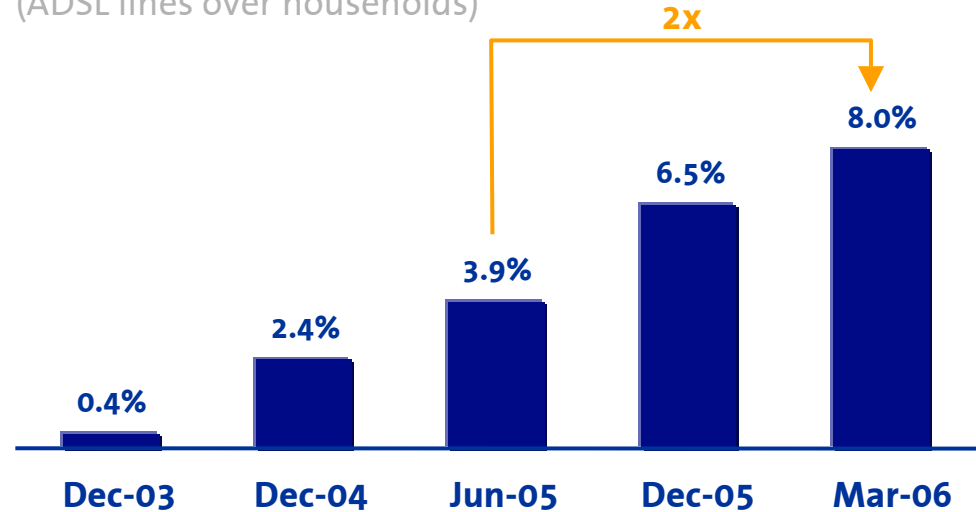
# 01 Telefónica's know-how is being leveraged to increase ADSL penetration in Czech Republic

## OVER THE LAST 9 MONTHS, THE BB VALUE PROPOSITION WAS REDEFINED...

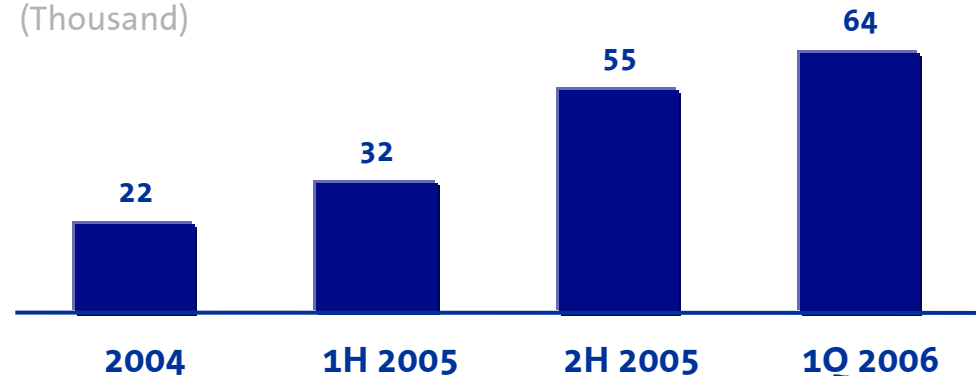
- Redesign of broadband pricing
- Speed upgrade (up to 4x) to deliver a superior offer vis-à-vis competitors
- Aggressive mass media campaign
- Continuous effort to improve service quality and reliability
- Launch of innovative value added services, such as PC security

■ **The number of ADSL lines has doubled over the last 9 months**

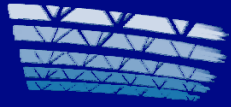
## ADSL PENETRATION GROWTH (ADSL lines over households)



## AVERAGE QUARTERLY NET ADDS (Thousand)







# 01 Synergies worth operating cash flow of EUR 128 million resulting from being part of the Telefónica Group were identified

## SYNERGY AREA

## EXAMPLES OF INITIATIVES

### Purchasing

- Use of Telefónica’s IPTV solution (HW, SW, ST box)
- Renegotiation of 2G (GSM) technology purchasing, SIM card purchasing and cooperation with Telefónica in vendor negotiations
- IT and VAS infrastructure purchasing from 3<sup>rd</sup> parties
- Network infrastructure – price reduction of DSLAMs and splitters, PDH and SDH

### Products

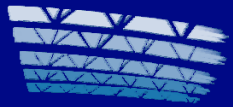
- Roaming – directing roaming traffic of Group customers through Group networks, resulting in decrease of 3<sup>rd</sup> party roaming fees
- E-office – launch of broadband VAS products for SMEs
- Shorter time to market for IPTV

### Other

- Use of Telefónica’s insurance subsidiary (Pleyade) to buy insurance originally contracted to 3<sup>rd</sup> parties
- Quick-win utilization of selected common network platforms

**Total operation cash flow  
2005-2009 of synergies:  
EUR 128 million**

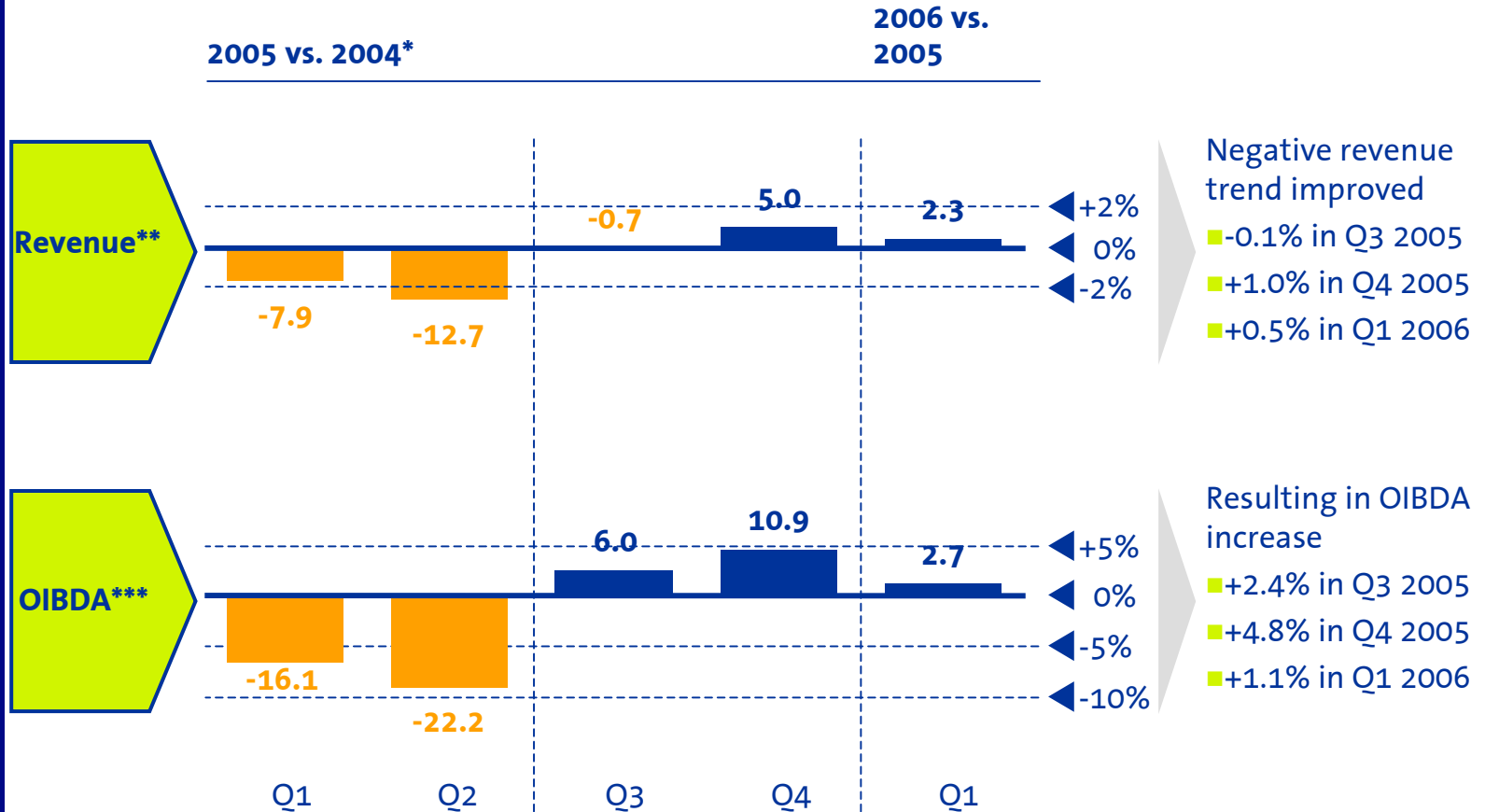
**2H 2005 and 2006 synergies**  
■ By end of Q1 realized EUR 9.5 million (~50% of total)



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# 01 These initiatives have already led to an improvement of financial performance

EUR million



Negative revenue trend improved

- 0.1% in Q3 2005
- +1.0% in Q4 2005
- +0.5% in Q1 2006

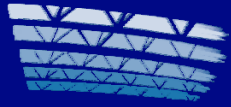
Resulting in OIBDA increase

- +2.4% in Q3 2005
- +4.8% in Q4 2005
- +1.1% in Q1 2006

Acquired by Telefónica

Telefonica

\* Actuals restated for accounting policy change  
 \*\* Business and other revenues  
 \*\*\* OIBDA before one-off items  
 Exchange rate 1 EURO: 29.77963 CZK



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01 ČTc turnaround and Telefónica Group synergies

**02 Fixed-mobile integration**

**- Strategic rationale**

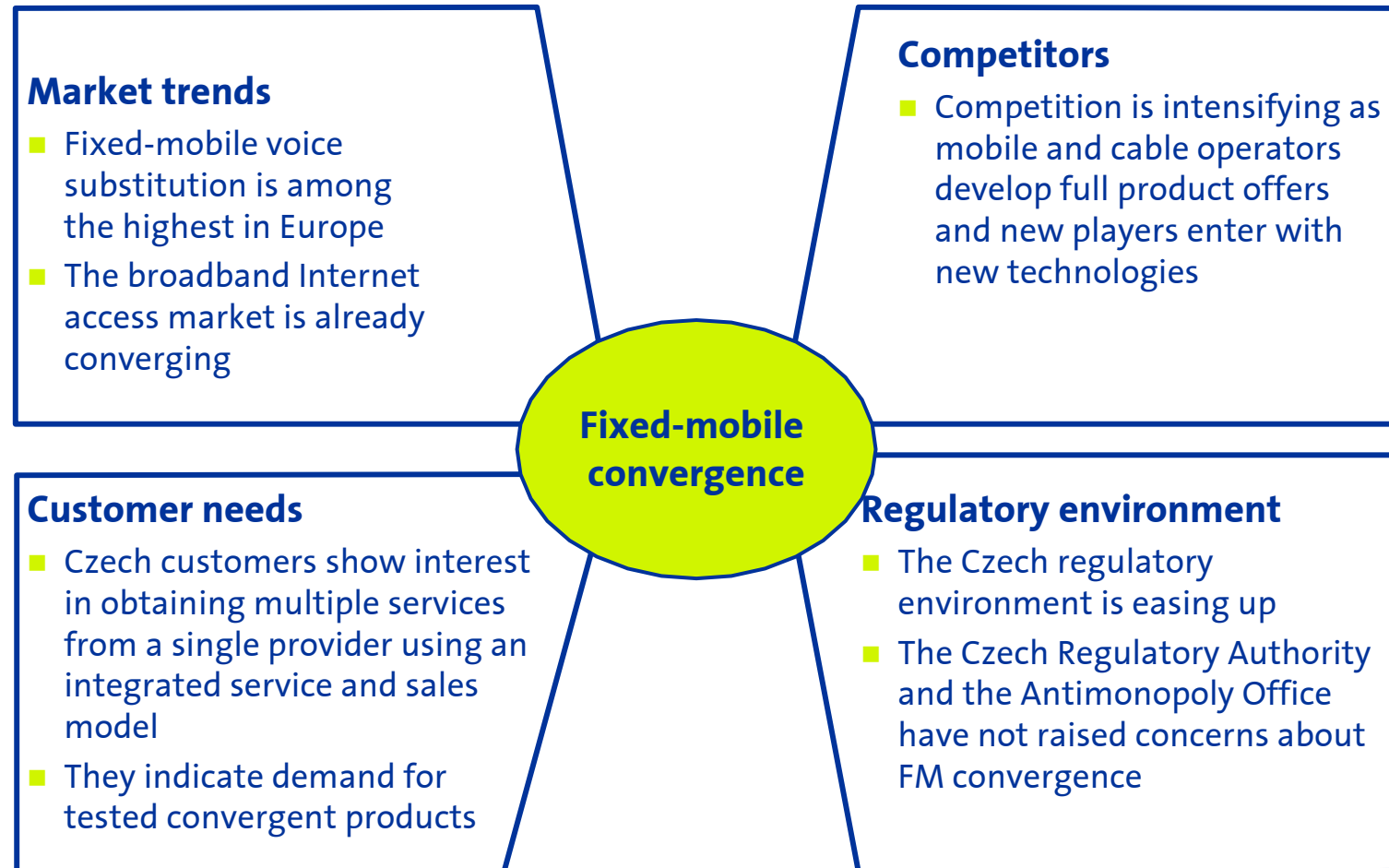
- Proposed approach and timing

- Financial synergies

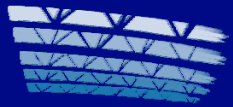
03 Investor guidance



## 02 The unique situation in the Czech market calls for a fixed-mobile convergence strategy

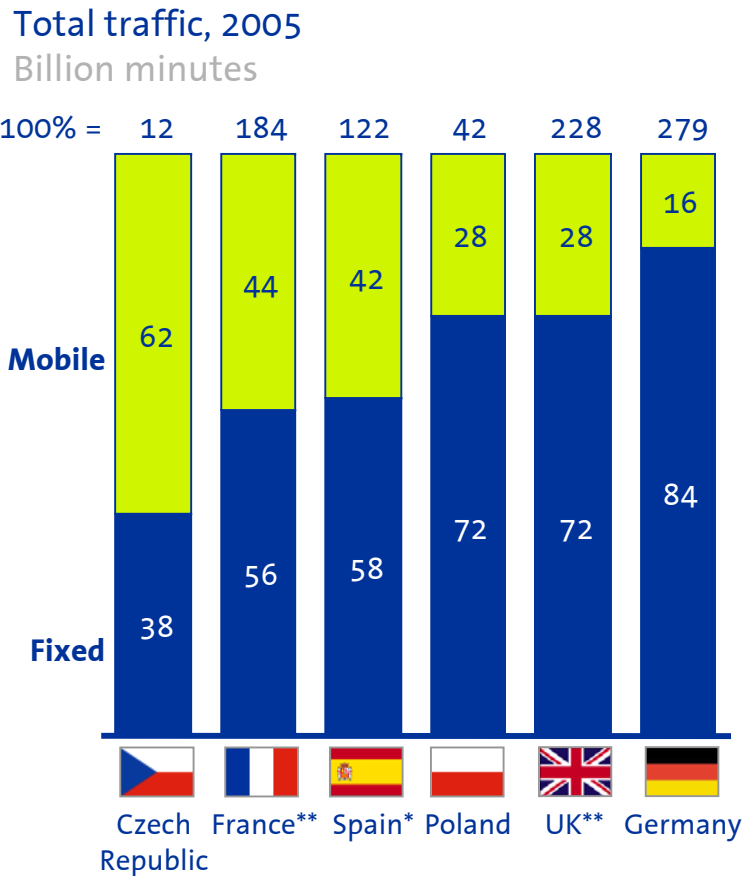


**We want to be the leaders of the fixed-mobile trend**

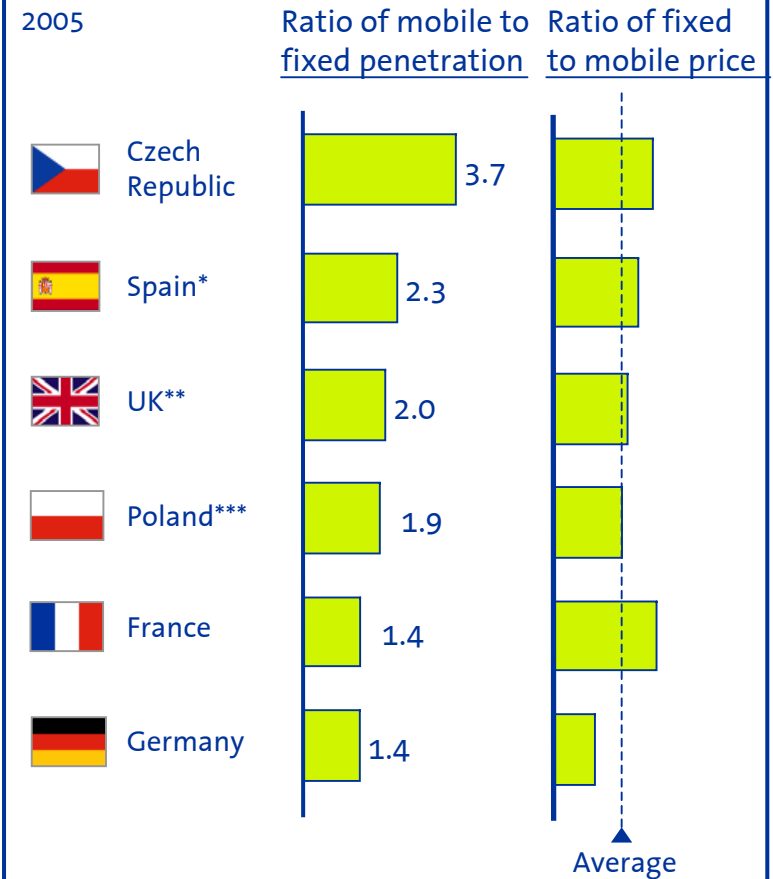


# 02 The Czech Republic is at the forefront of fixed-mobile convergence...

## The Czech market is one of the most advanced in fixed-mobile substitution



## This is driven by a unique situation in mobile penetration and relative F-M prices



\* Based on data for first half of 2005

\*\* Based on data for 1-3Q 2005

\*\*\* Based on 2004 data

Source Regulators; company annual reports; IDC; Pyramid; analysis



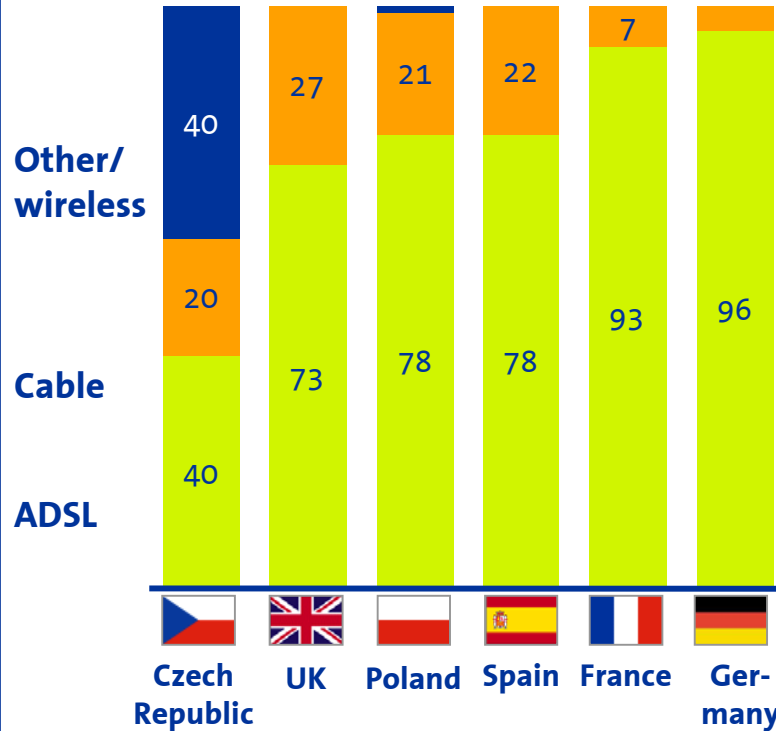
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# 02 ...which together with advanced broadband convergence results in fixed line churn

## The broadband market convergence is advanced due to late ADSL introduction

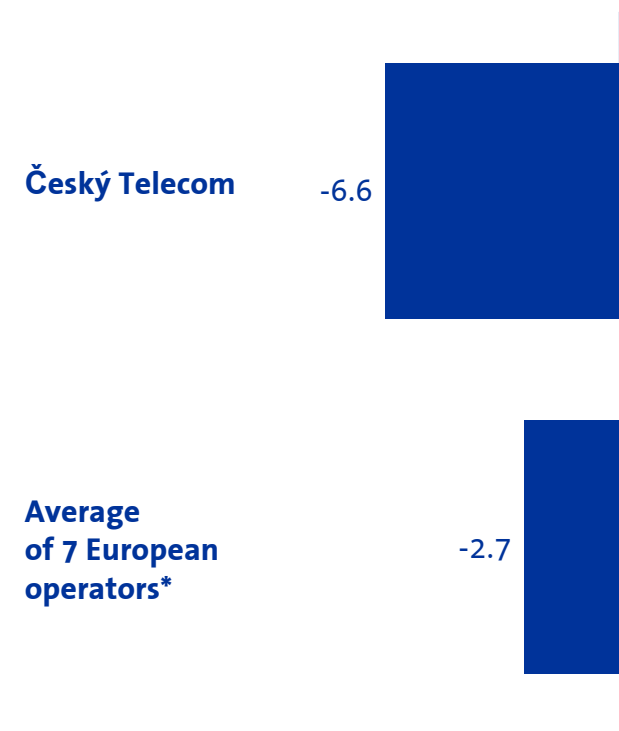
### Broadband connections by access technology, 2005

Percent



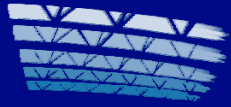
## As a consequence of this access line churn becomes a reality

Incumbent	PSTN+ISDN channels change CAGR 2003-2005
-----------	------------------------------------------



\* Includes Telefónica de España, France Telecom, Deutsche Telekom, British Telecom, Telecom Italia, Portugal Telecom and TPSA

Source: Analysis – March 2006; Company annual reports



## 02 Competition is intensifying as operators develop full product offers and new players enter

### Cable operators/ fixed players

- Cable operators are moving from TV-only offers to 2P and 3P value propositions
- Other fixed players are building full-scale voice and data offers



### Mobile players

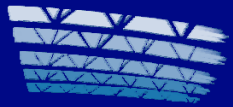
- Mobile players are building full-scale voice, Internet access and content offers for consumers and corporate clients



### New entrants

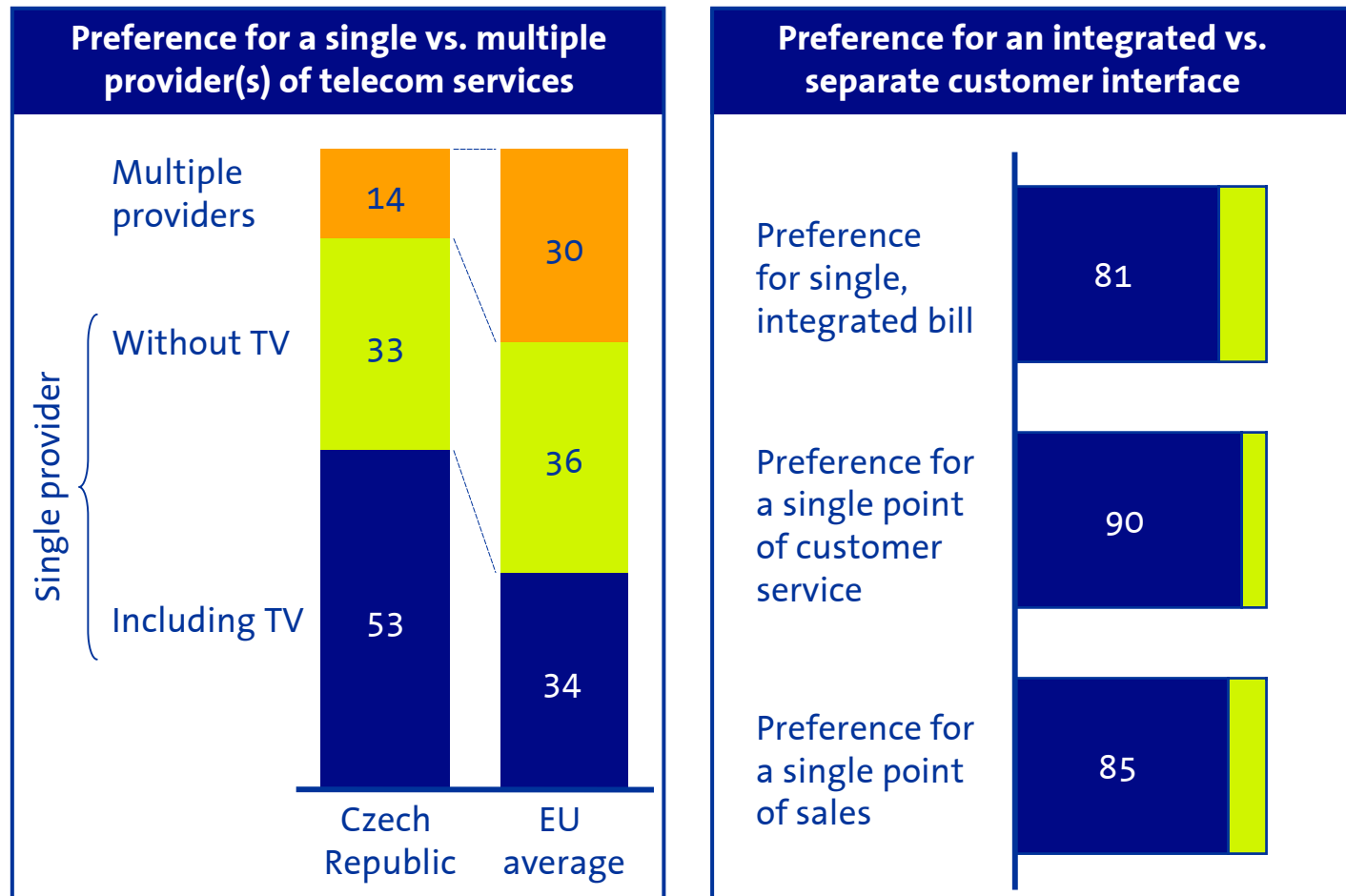
- New players are entering with innovative business models and technologies (e.g., free voice services, VoIP-based offers)





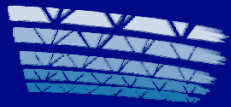
## 02 Czech customers are interested in an integrated value proposition

Percent



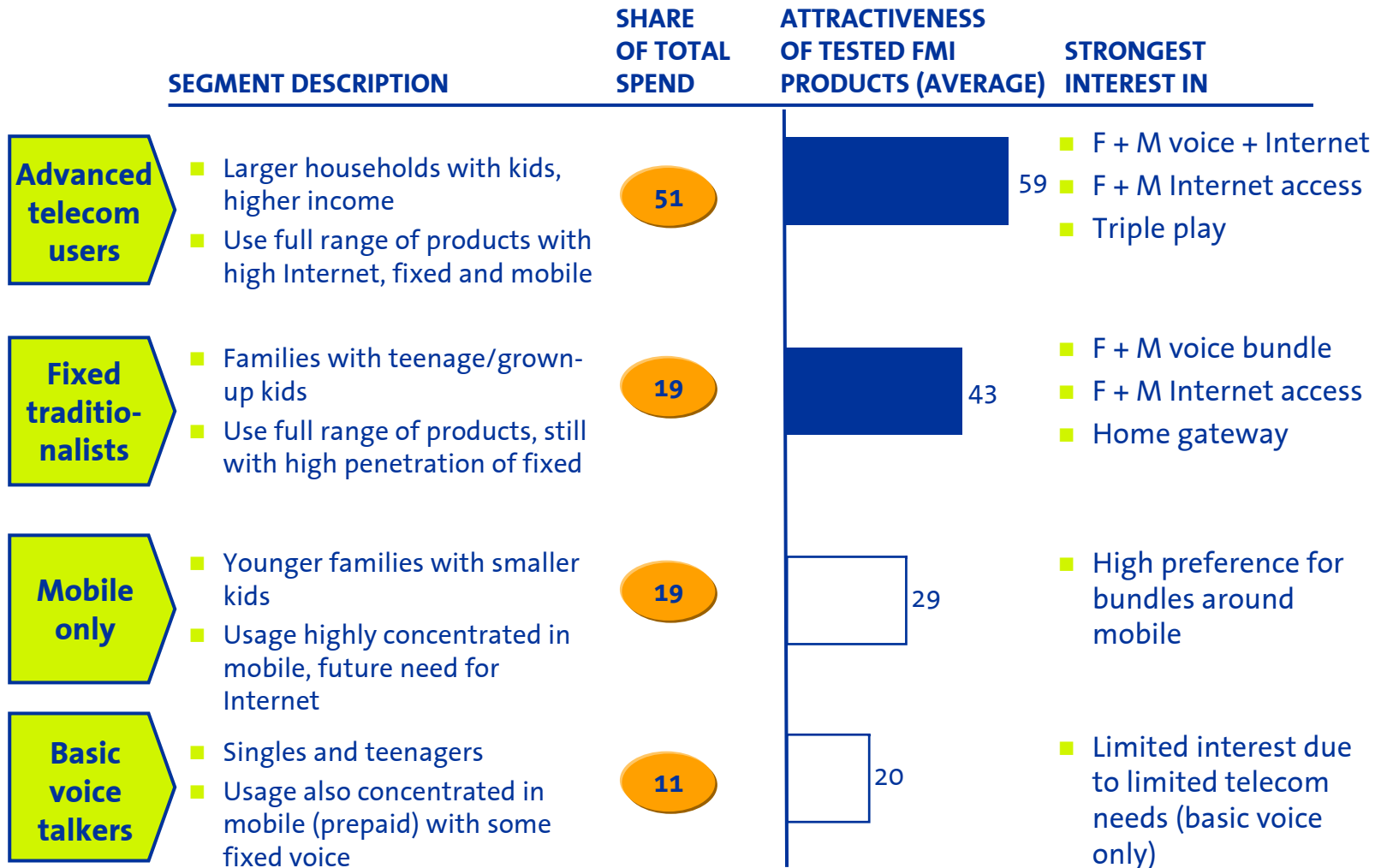
Source: Quantitative market research in the Czech Republic, N=700; Factum Invenio, in 2006; EU results from fixed-mobile market research in 8 European countries, N=5,364, in 2004





# 02 And 2 target segments indicate high demand for fixed-mobile convergent offers

Percent



Source: Quantitative market research in the Czech Republic, N=700, Factum Invenio



## 02 The Czech regulatory environment indicates support for fixed-mobile convergence

### During ongoing analysis of 18 relevant markets, the Czech regulator has been easing selected regulatory measures

- In the markets of the fixed public telephony access (markets 1 and 2) and the fixed local, national and international telephone services for residential (markets 3 and 4) Český Telecom found in an SMP position, therefore
  - CS/CPS offer and wholesale line rental regulatory measures required, however retail price regulation eliminated
- Analysis of the wholesale broadband access (market 12) is currently ongoing
- Mobile access and call origination (market 15) found competitive, no regulation imposed on Eurotel, MVNO not required
- All operators found in SMP on the market of mobile voice call termination on individual networks (market 16), therefore interconnect fees remain regulated

- The Czech Regulatory Authority and the Antimonopoly Office have not raised concerns about fixed-mobile convergence
- New convergent products will not be subject to any additional regulation on top of current regulations for fixed and mobile services (the general condition of offer replicability still holds)
- Legal requirements for customer data-sharing will be eased as a consequence of legal integration into a single company



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**02 Fixed-mobile integration**

- Strategic rationale

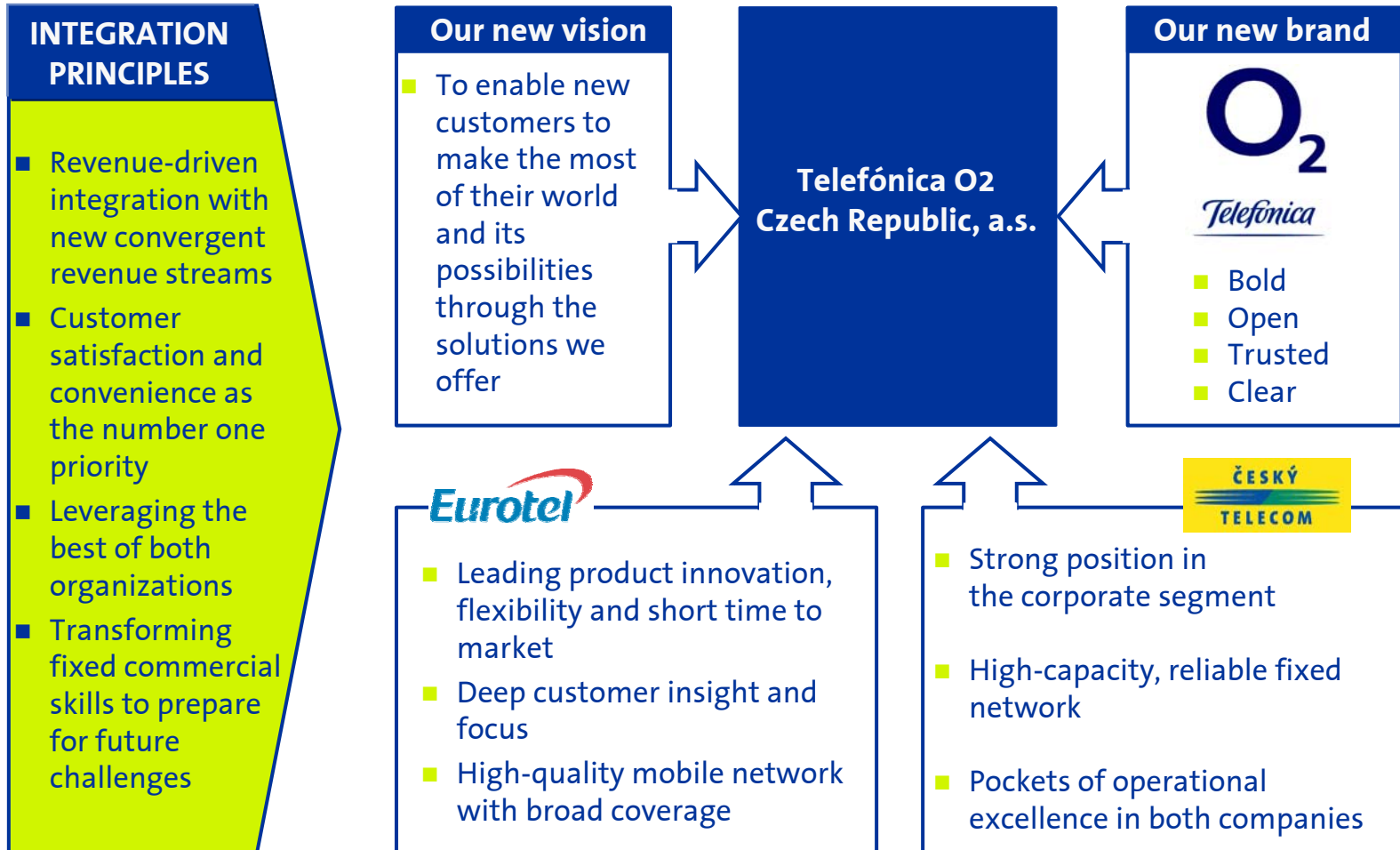
**- Proposed approach and timing**

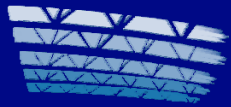
- Financial synergies

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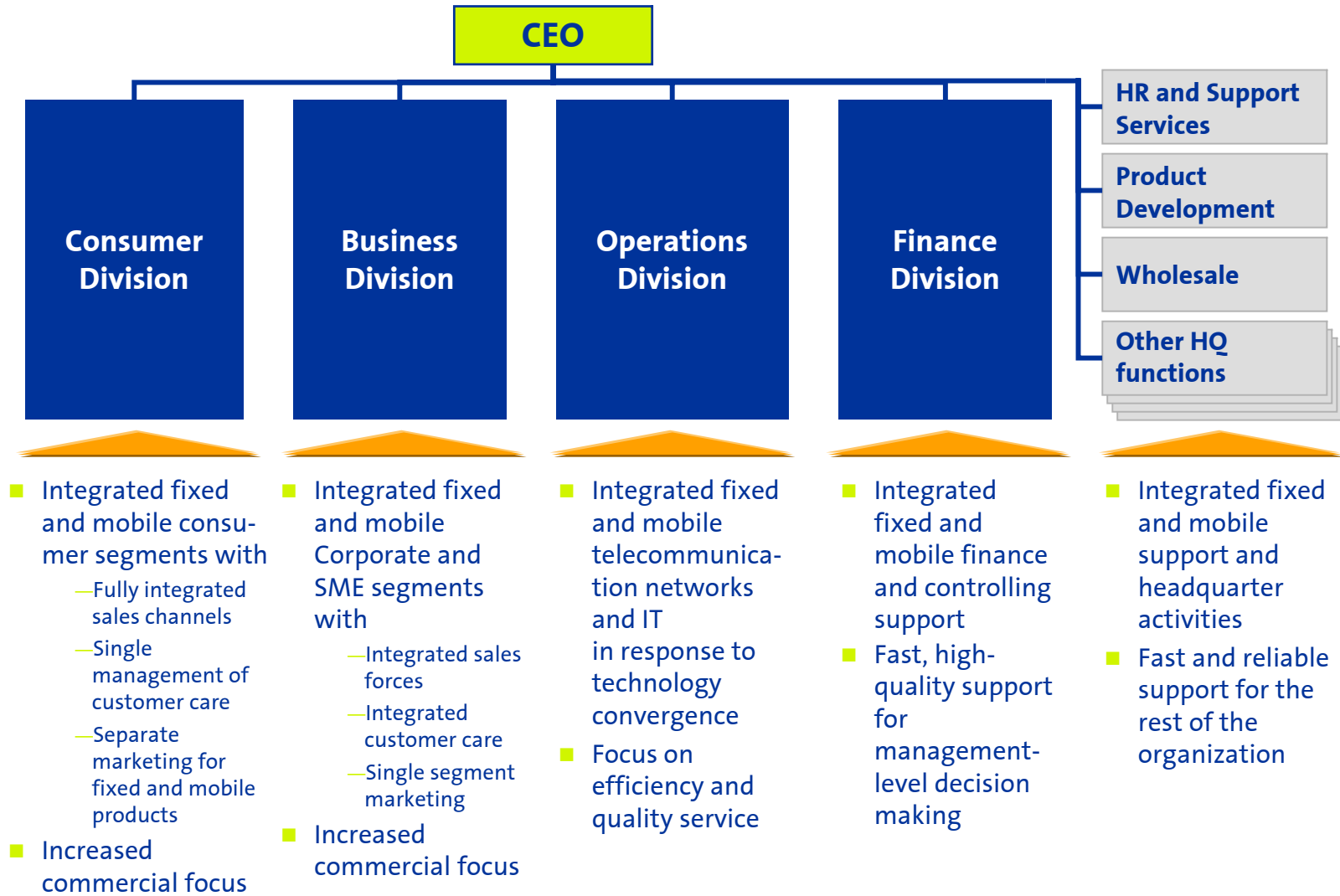


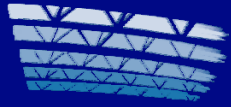
## 02 Our fully integrated organization is designed around customer segments



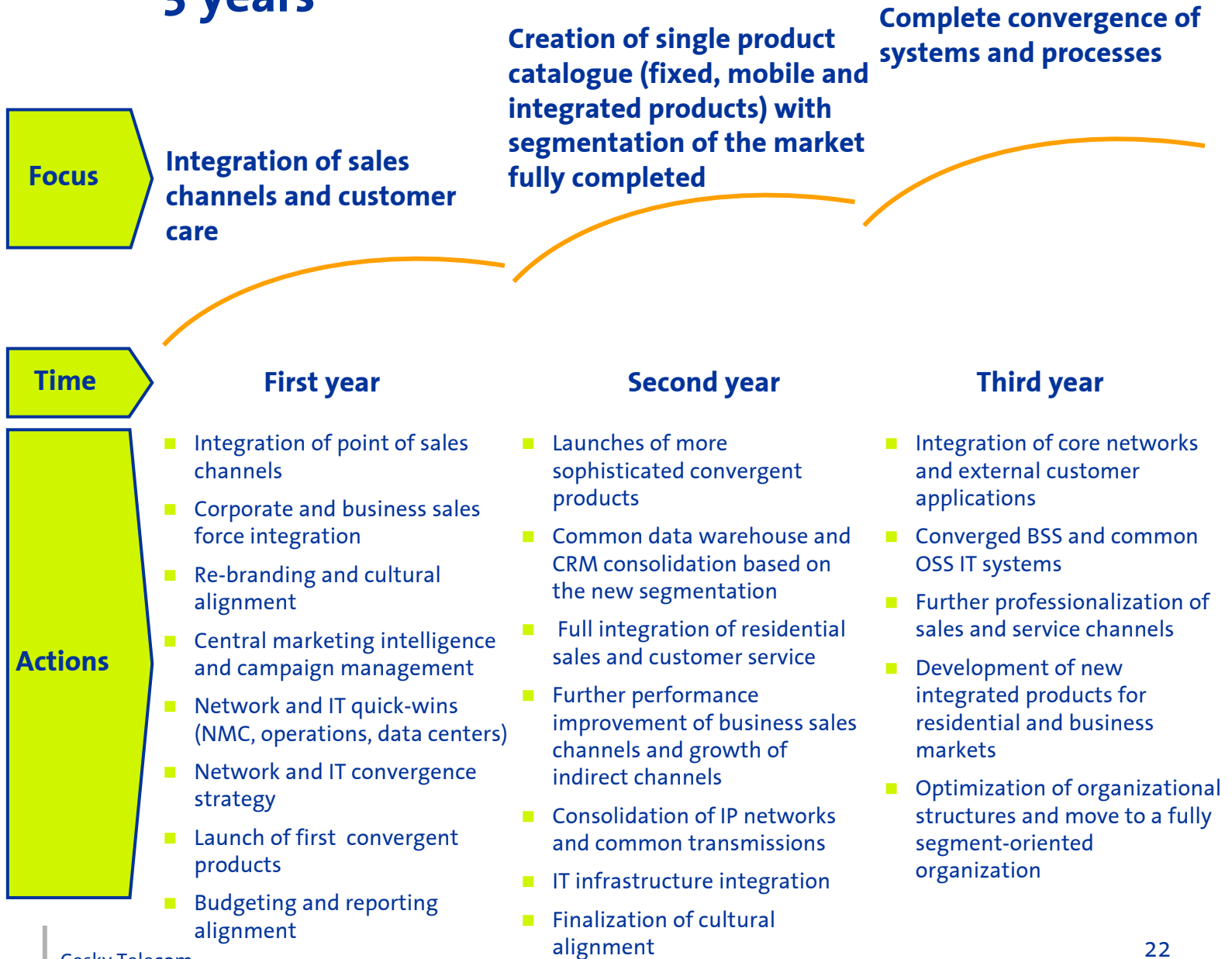


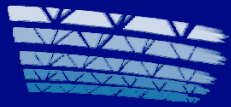
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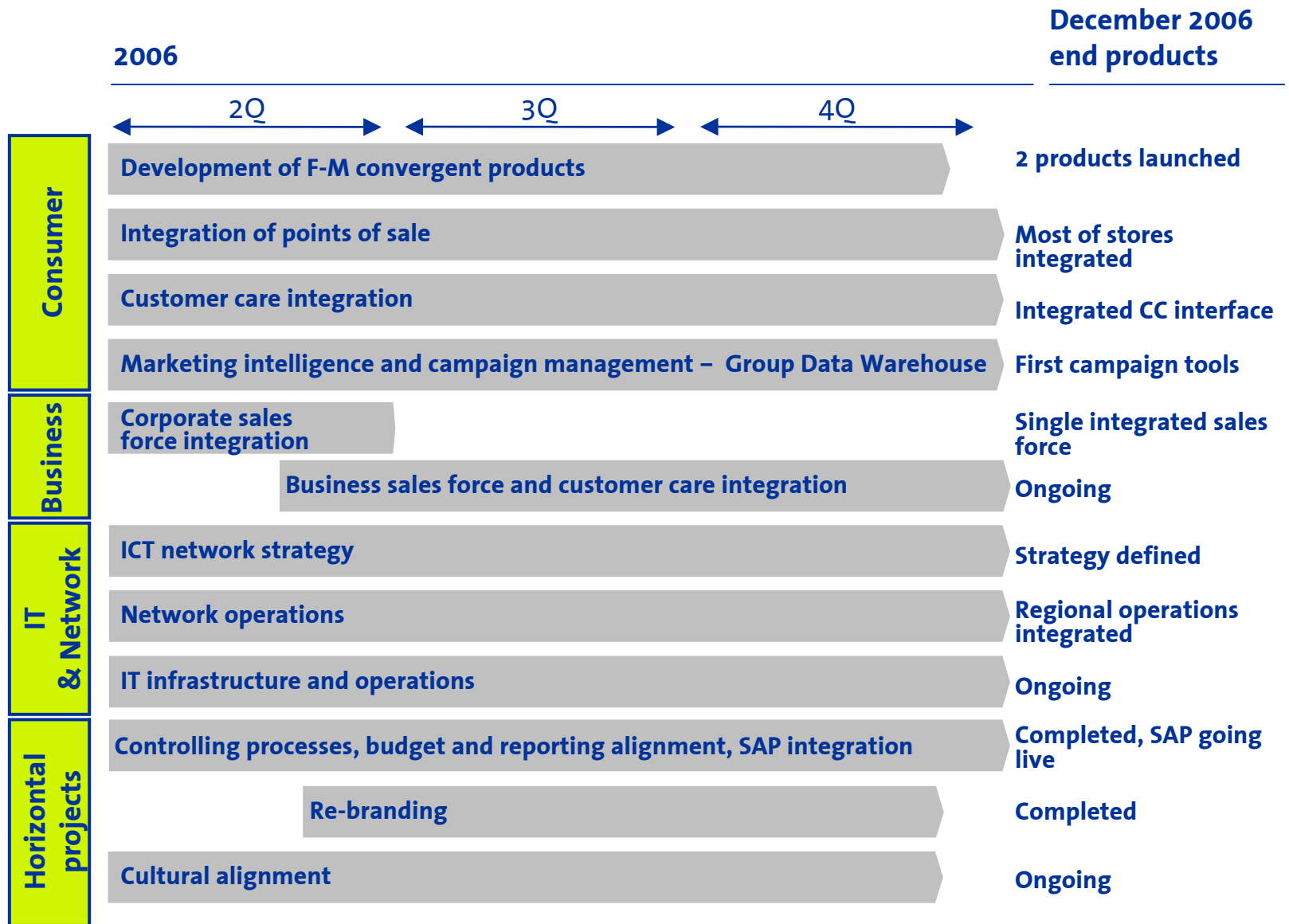


# 02 The integration program is scheduled over 3 years





# 02 Management will focus on 12 priorities in 2006





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01 ČTc turnaround and Telefónica Group synergies

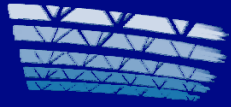
**02 Fixed-mobile integration**

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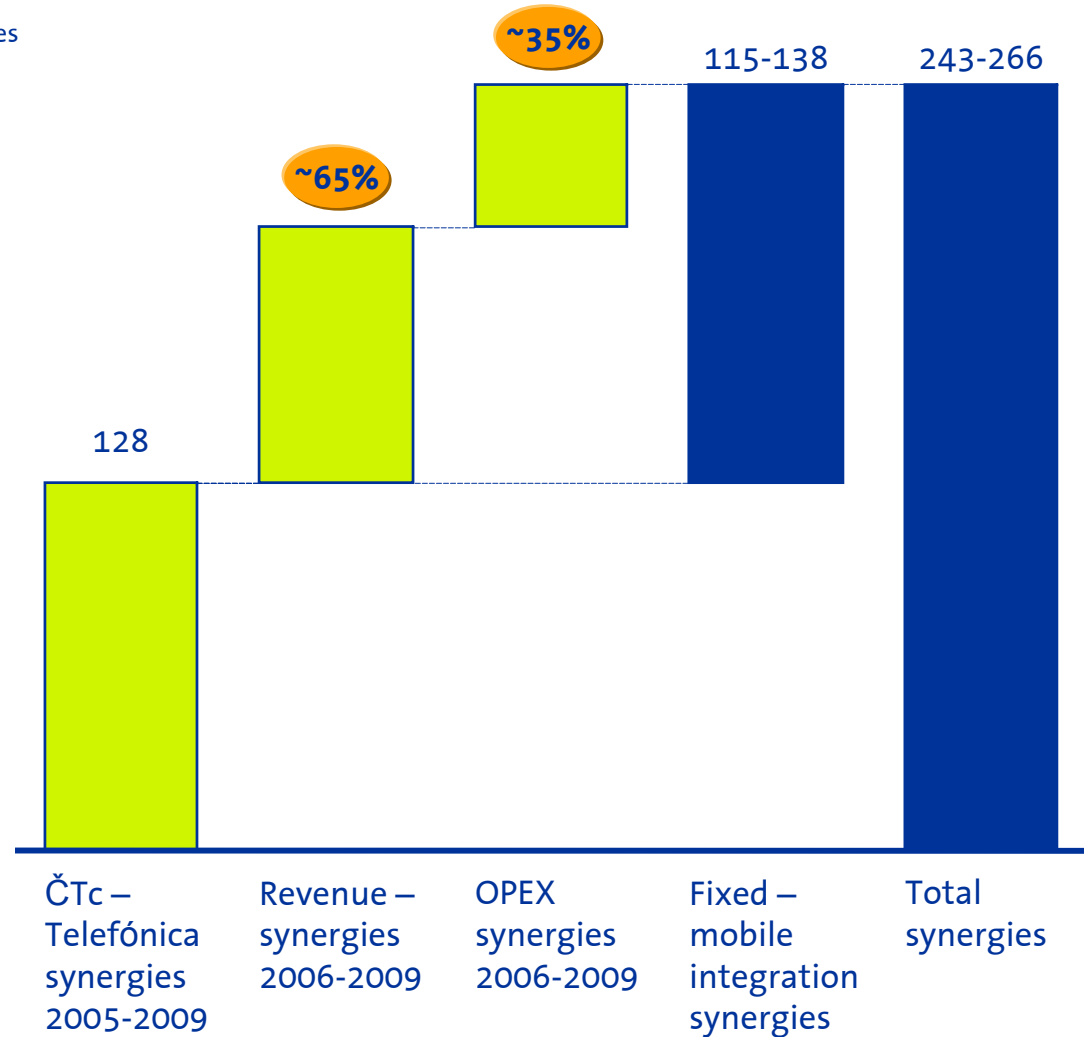
# 02 Substantial financial synergies related to fixed-mobile integration exist

EUR million

X% Share of expected FMI synergies

### FINANCIAL IMPACT

- Expected FMI synergies amounting to OpCF\* = EUR 115-138 million
- In addition to the already announced synergies resulting from being part of Telefónica Group OpCF\* = EUR 128million
- Neutral OIBDA impact in Year 1 (2006)

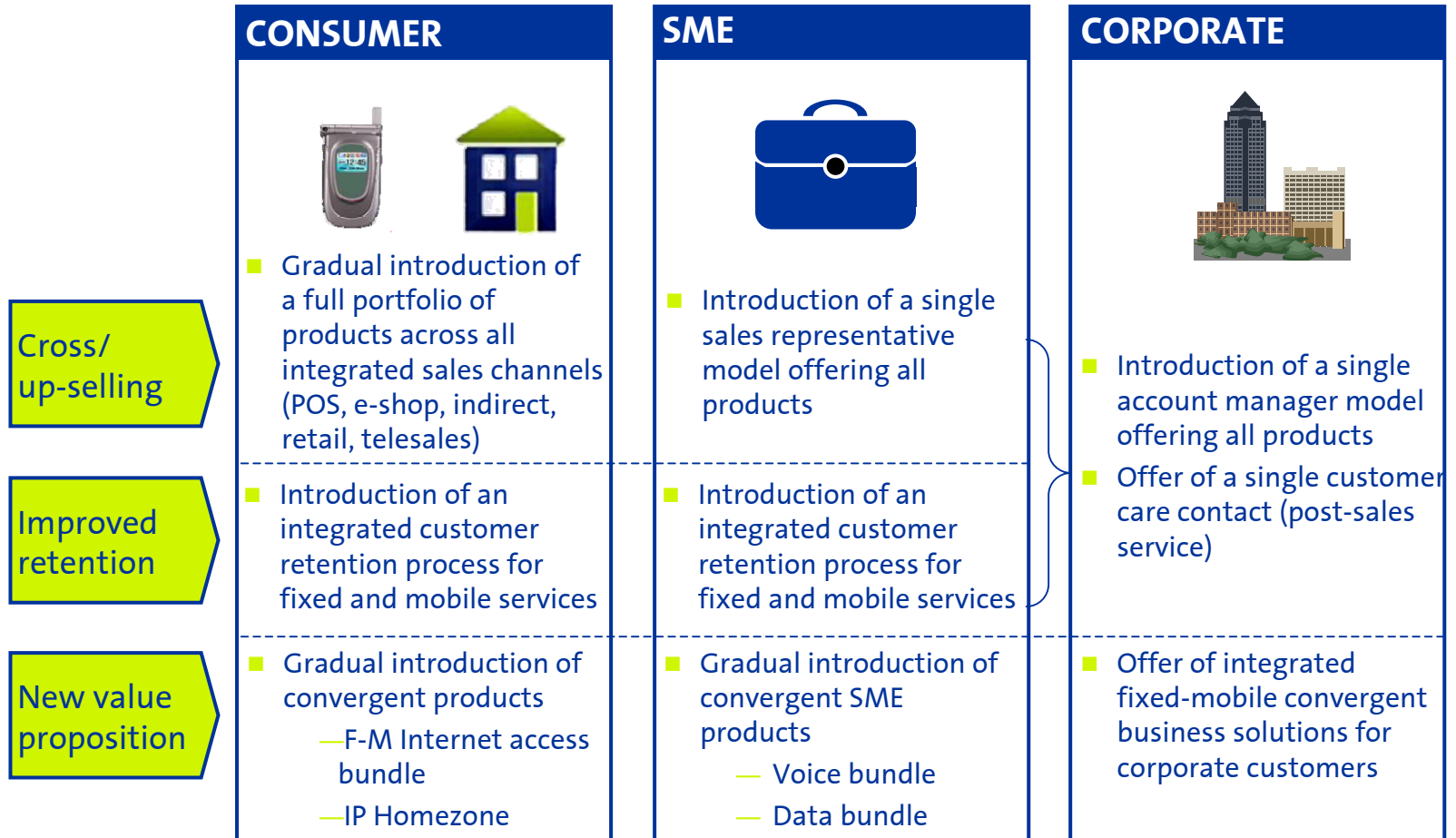


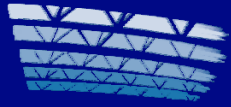
·In terms of guidance calculation, operating Income before D&A excludes other exceptional revenues/expenses not foreseeable in 2006-09; for comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures  
Exchange rate 1 EURO: 29.77963 CZK





## 02 Creating shareholder value – revenue synergies account for ~65%





## 02 Creating shareholder value – OPEX synergies account for ~35%

### SYNERGY AREA

#### Sales and marketing

#### Network

#### IT

#### Support and HQ functions

### EXAMPLES OF INITIATIVES

- Optimization of sales channel structure with single management
- Streamlining and customer care performance improvement
- Integration of back office sales channels
  
- Operational savings from
  - Integrated network operations and maintenance
  - Single network supervision
  - Integrated core network planning and coordination in access network planning
  
- Operational savings from
  - Using an integrated infrastructure and middleware
  - Using unified IT service platforms
  - Selective integration of Business Support Systems
  
- Leveraging scale and eliminating duplications in
  - Support functions such as Procurement, Logistics, Real Estate, Security, etc.
  - Headquarter functions such as Finance, HR, Controlling, Legal, Communications, etc.

■ **Operating cash flow of total OPEX synergies: EUR 40-49 million**



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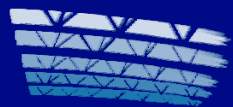
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## 03 Telefónica O2 Czech Republic financial commitments

EUR million	FY 2005	CAGR 2002-05	2005-09E CAGR*
Revenues	2,049	-2%	0-2%
Operating Income before D&A**	970	-4%	1-3%
Operating Income**	371	-2%	14-18%
			<b>EUR million 2006-2009</b>
CAPEX	204	-23%	900-1,000

\* CAGR 2005-2009E guidance assumes constant exchange rates as of 2005 and excludes changes in consolidation

\*\* In terms of guidance calculation, Operating Income before D&A and Operating Income excludes other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures

Exchange rate 1 EURO: 29.77963 CZK

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