

# ČESKÝ TELECOM

## 2003 Preliminary Results

Conference call



Gabriel Berdár, Chairman of the Board of Directors and CEO  
Juraj Šedivý, 1st Vice-chairman of the Board of Directors and CFO

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## CAUTIONARY STATEMENT:

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

# ČESKÝ TELECOM in 2003

- Leader in fixed-line communications market with 3.6 million customers
- Leader in mobile communications with 4.2 million SIM cards
- Solid financial performance of CESKY TELECOM Group in terms of EBITDA margin, capex/revenue ratio, free cash flow yields and capital strength
- Full ownership of Eurotel has changed financial profile and provides both companies with opportunities to differentiate in the market place

# Key events and shareholders' decisions in 2003

- Dividend pay-out of CZK 18.5 billion, i.e. CZK 57.50 per share
- Eurotel's dividend of CZK 10.98 billion (51% for CTc)
- Acquisition of 49% stake in Eurotel for USD 1.05 billion
- Successful acquisition financing via EUR 850 million credit facility
- Free float increased to 49% from 15.4%

# Corporate Governance Changed

## New Management Team Appointed

- Changed Management model of ČESKÝ TELECOM and company governance – executive powers of the Board of Directors
- New Board of Directors reduced to 5 members
- CEO appointed in June 2003
- New senior management team appointed in September 2003
- Ambitious transformation goals introduced to with material deliverables by 2005

# Current shareholder structure

51.1% National Property Fund of Czech Republic

48.9% Private/Institutional Investors

## Changes in ownership in 2003

- June 19, 2003 – KPN Telecom sold its 6.48% stake
- December 1, 2003 – The NPF and TelSource ceased to act in concert with respect to ČESKÝ TELECOM
- December 10, 2003 – TelSource N.V. sold its 27% stake

Note: TelSource was a JV of KPN and Swisscom

# Regulation – Inconsistent Environment

- Market liberalization: all EU's New Regulatory Framework instruments implemented (CS, CPS, NP, RIO, RAO), mobile number portability not implemented
- Regulatory decisions are in many cases subject to disputes via special appeal procedures that are not aligned with standard and transparent regulatory environment
- Inconsistencies between Czech Telecommunications Office (CTO) and Anti-monopoly office
- New Act on electronic communications is expected to be in line with EU's New regulatory framework – a promise of more transparent and fair regulatory environment

# Asset Impairment

- Significant part of ČESKÝ TELECOM's investments into Czech republic's telecommunications infrastructure from 1995 – 2000 was driven by the Authorization and the telco market regulatory framework
- ČTc agreed to make the investments provided that the rebalancing would be achieved by the time of market liberalization in order to allow investment returns
- Un-balanced market regulation has extended beyond 2001 and has lasted until today – harming CESKY TELECOM results
- Lack of regulatory transparency into the future has a negative impact on expected returns on parts of ČESKÝ TELECOM's assets



# Asset Impairment

- IFRS 36 rule requires that accounting value of the assets is represented at recoverable value
- Inadequate regulatory environment is reflected in 2003 impairment charge of CZK 9,909 mil.
- Impact on fixed assets base in the B/S, EBIT and net income

# 2003 Operational Highlights

- Continued growth in data, internet related services for both the fixed and mobile segments
- Dial-up traffic continued to dominate fixed-line traffic (54% in 2003)
- Broadband offerings launched
- Focus on investment and operating efficiencies incl. significant staff reductions

# Operational Data

	2002	2003	Chg. in %
<b>Fixed</b>			
Lines (x '000)	3,661	3,586	(2%)
ISDN channels (x '000)	389	477	23%
ADSL connections (x '000)	0	15	<i>n.m.</i>
Internet customers (x '000)	702	855	22%
Fixed line employees (x '000)	13.7	10.9	(21%)
Lines / fixed line employee	267	329	23%
<b>Mobile</b>			
Mobile customers (x '000)	3,891	4,215	8%
Mobile employees (x '000)	2.4	2.4	(0%)
Customers / mobile employee	1,590	1,726	8%

# Consolidated Financial Data

(in CZK bn.)	2002	2003	Chg. in %
Revenues	52.9	51.5	(3%)
Payments to other operators + extra items	(6.2)	(8.5)	37%
Other OPEX	(20.5)	(19.1)	(7%)
EBITDA	26.2	23.8	(9%)
<i>EBITDA margin</i>	49%	46%	
Impairment charge		(9.9)	<i>n.m.</i>
D&A	(19.1)	(19.4)	2%
EBIT	7.1	(5.5)	<i>n.m.</i>
EBT	6.1	(6.8)	<i>n.m.</i>
Net income	4.2	(1.8)	<i>n.m.</i>

Note: consolidated, under IFRS; 2003 preliminary and unaudited results

## Consolidated Financial Data – cont'd.

	2002	2003	Chg. in %
CAPEX (CZK bn.)	11.3	7.0	(38%)
<i>CAPEX / Rev. %</i>	21%	14%	
FCF (CZK bn.)	11.7	10.9	(7%)
<i>FCF / Rev. %</i>	22%	21%	
Total Debt (CZK bn.)	22.0	45.0	105%
<i>Net gearing</i>	6%	44%	
<i>Gross gearing</i>	20%	50%	

Note: consolidated, under IFRS; 2003 preliminary and unaudited results

# Outlook for 2004

- Further streamlining of internal processes to support significant staff reductions (billing, customer care)
- CAPEX to remain below 12% of revenues
- Relative decline of Depreciation & Amortization
- Potential deviation in the regulatory environment may result in negative impact on expected margins
- EBITDA margin expected to remain above the industry comparables
- Focus on growth areas

# Calendar of Events

March 29, 2004 at 1 p.m. CET

- Release of 2003 audited results

March 30, 2004 at 12 a.m.

- Analyst Meeting (invitations will be sent out in due time)

April 29, 2004

- 3M 3004 results