

Telefónica O2 Czech Republic

Quarterly Results January – March 2011

12th May 2011

Telefonica

CAUTIONARY STATEMENT

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.

01

1Q 2011 Performance Highlights

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1Q 2011 performance highlights

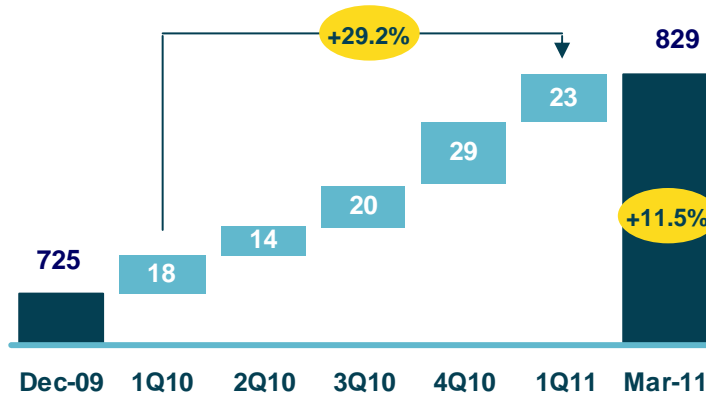
- **Solid commercial momentum in focused areas maintained:**
 - CZ mobile contract base: +36k in the quarter
 - ADSL customer base reported 22.7k net adds in the quarter (+29.2% y-o-y)
- **CZ mobile revenues impacted by competitive pressure, further MTR cuts and slow recovery of spend patterns**
- **ICT revenues remain under pressure, while ICT profitability keeps improving due to recurring business consolidation**
- **Slovakia maintaining its trading momentum (+67k in 1Q) and improving financial performance – third consecutive positive OIBDA in 1Q 2011**
- **Guided OIBDA¹⁾ at -4.1% y-o-y, within the guidance range (-1% to -5%), with a 0.9 p.p. margin improvement to 41.3%, on the back of continuous efficiency agenda in CZ and positive OIBDA in SK**
- **2011 full year guidance²⁾ for OIBDA and CAPEX confirmed**

¹⁾ OIBDA excludes brand fees and management fees (1Q 2010: CZK 210 million, 1Q 2011: CZK 249 million); assuming constant FX rates of 2010

²⁾ OIBDA decline of -1% to -5%, CapEx around CZK 5.7 billion. In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2010

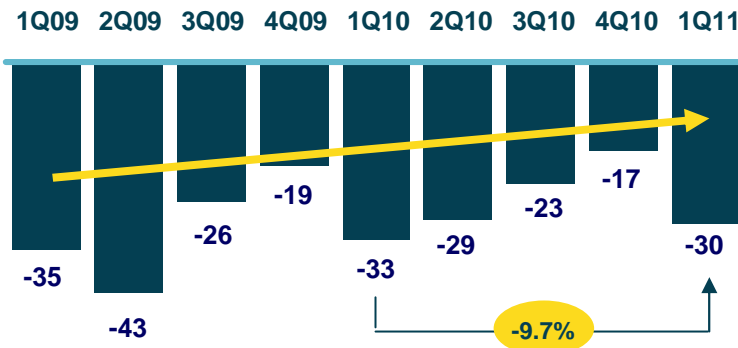
Strong ADSL performance maintained in highly competitive market, VDSL launch scheduled for 2Q to strengthen market position

ADSL¹⁾ (‘000)



- Strong ADSL commercial performance maintained in 1Q 2011 in highly competitive environment
- VDSL deployment aiming at commercial proposition launch on 9th May 2011:
 - Up to 3x higher speeds
 - Available to ~ 2m households (50%)
 - Strengthening competitive position on fixed BB market in CR

Fixed accesses (net losses) (‘000)



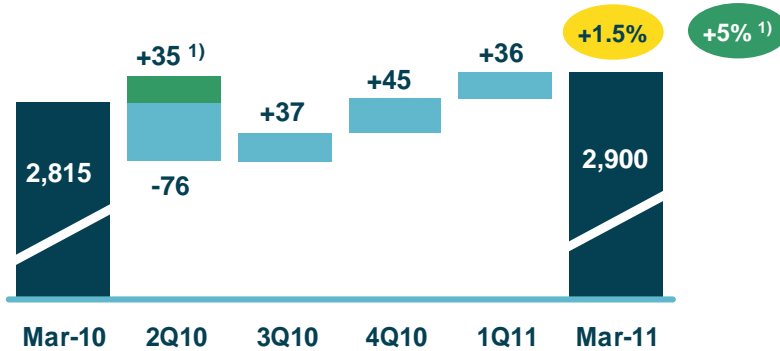
- Fixed accesses' disconnections sustained slowdown y-o-y compared to 1Q 2010
- Driven by naked accesses growth, but fixed voice improving y-o-y
- 1.6m fixed accesses (-5.7% y-o-y)

y-o-y change

¹⁾ retail & wholesale

Outperforming mobile contract market, while underline spend impacted by competition and slow spend recovery

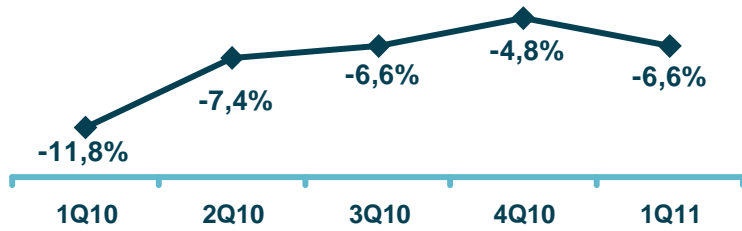
Contract mobile customers ('000)



● y-o-y change

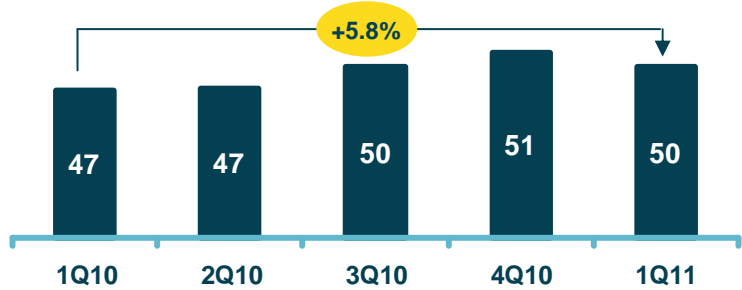
- Solid contract commercial momentum maintained on the back of mobile BB uptake (+25k net adds²) in 1Q 2011
- Total customer base flat year-on-year¹ reaching 4.8m at the end of 1Q11
- Improving prepaid churn (-0.3 p.p. y-o-y) helping to decrease blended churn (-0.2 p.p. y-o-y)

Contract ARPU ex-MTR (y-o-y change)



- Underline spend (blended ex-MTR ARPU down -3.8% y-o-y in 1Q) impacted by competitive pressure (ARPM) in SMB and corporate segments
- Reported ARPU (-7.6% y-o-y to CZK 424.5 in 1Q) diluted by additional MTR cuts

Non-SMS data ARPU excl. roaming (CZK/month)



- Total Data ARPU (-1.3% y-o-y) impacted by lower roaming prices and more SMS/MMS bundling, while ...
- ... uptake in mobile BB customers continues to fuel non-SMS data growth

¹) excluding adjustment for 111k inactive contract customers in 2Q10
²) excluding CDMA

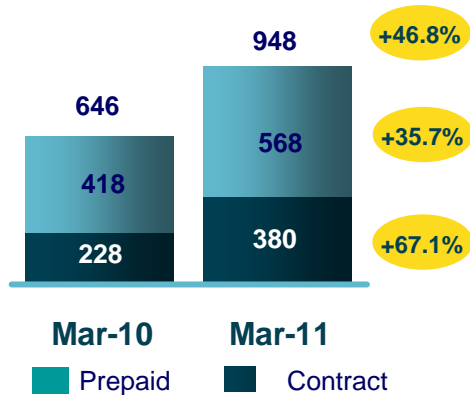
Slovakia – additional simple & smart proposition launched, customers' growth maintained with financial performance further improving

Value proposition



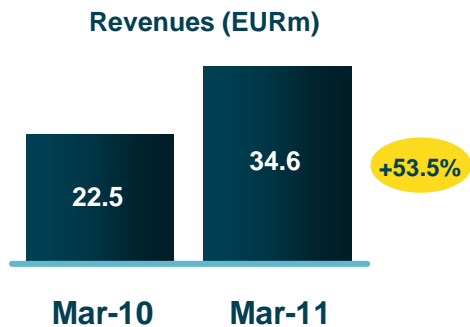
- Continuous marketing of O₂ Fer proposition
- New simple, flexible & transparent tariff launched (O₂ Filip), targeting demanding communities and busy callers

Mobile customers ('000)



- Strong customers' growth confirmed in 1Q 2011 (+67k customers)
- Driven by contract customers growth (+46k) resulting in further mix improvement (contract at 40.1% of base, +4.9 p.p. y-o-y)
- Continued improvement in churn (2.3% in 1Q 2011, -0.2 p.p. y-o-y)
- Customer satisfaction leadership maintained

Financials



- Revenue growth driven by subscribers' base increase and ARPU improvement (EUR 11.9, +1.6% y-o-y)
- Third consecutive positive quarterly OIBDA

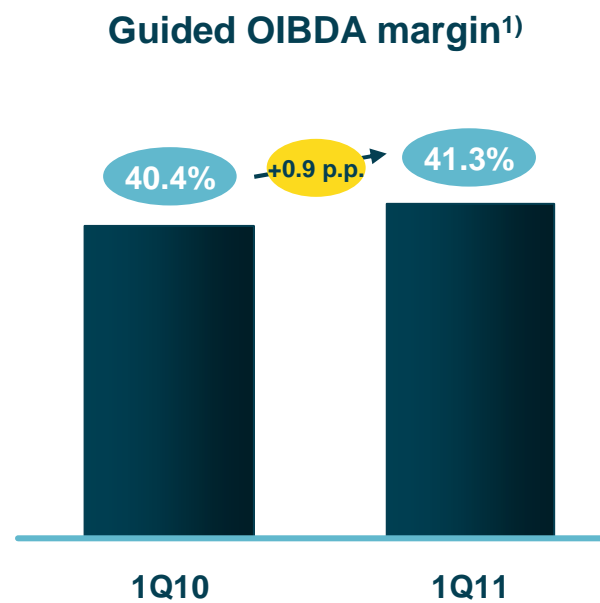
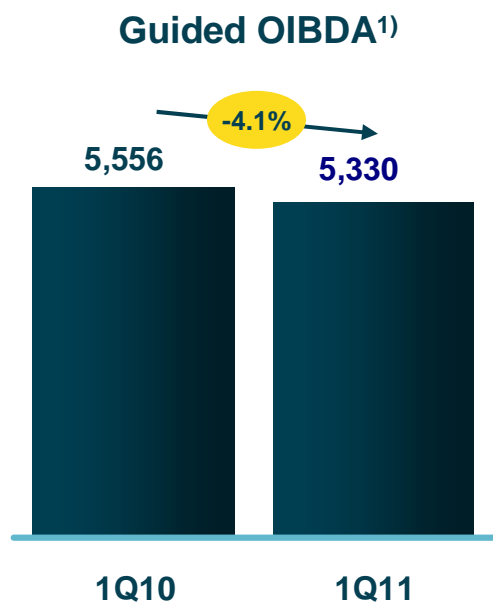
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January - March 2011 Performance

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Key Highlights of Group Financial Performance

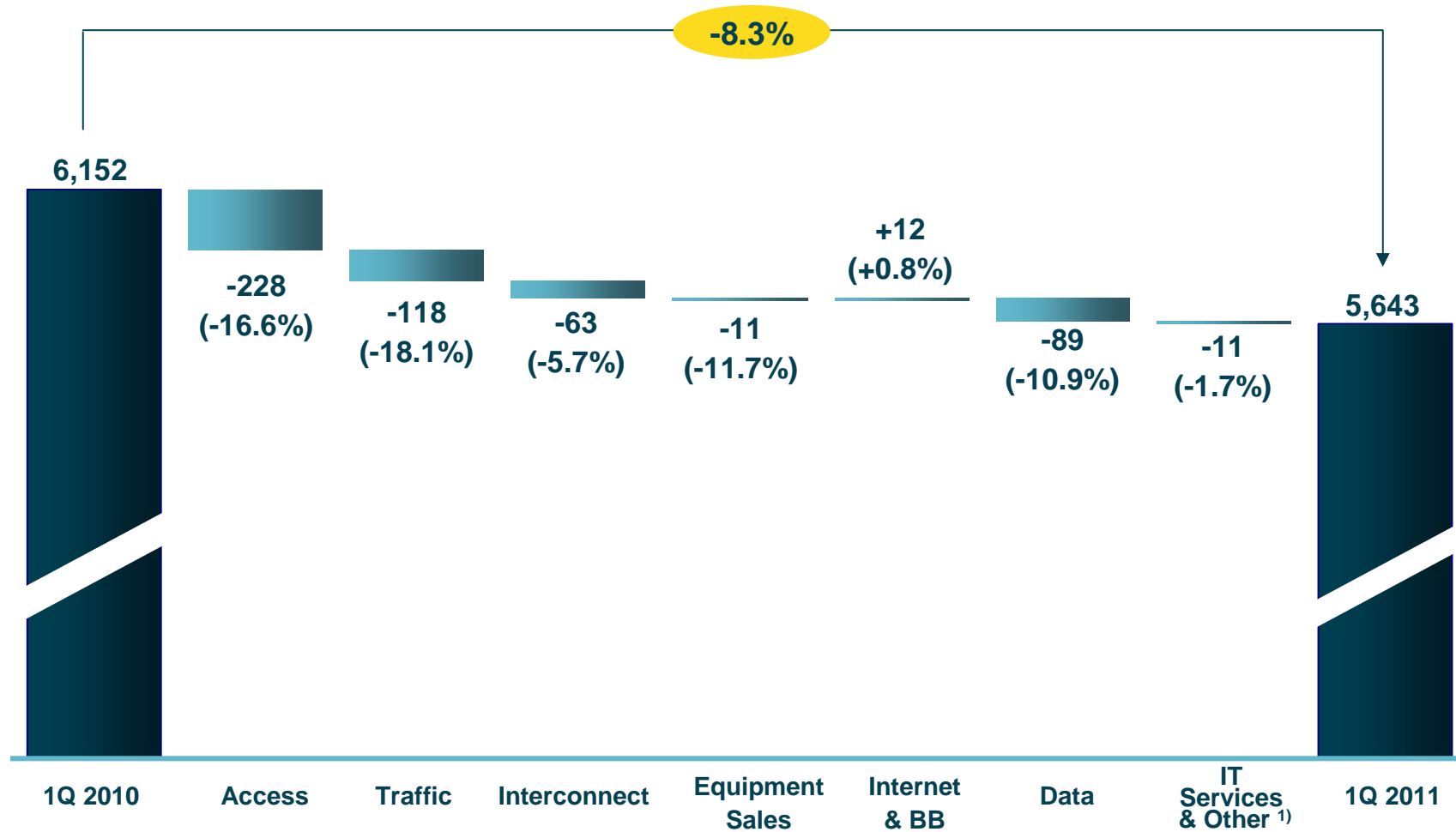
CZK millions	Jan – March 2011	Change 1Q11/1Q10
Business revenues	12,866	(6.3%)
CZ Fixed	5,643	(8.3%)
CZ Mobile	6,422	(8.6%)
OIBDA before brand fees and management fees	5,319	(4.3%)
OIBDA margin before brand fees and management fees	41.3%	+0.9 p.p.
OIBDA	5,070	(5.2%)
OIBDA margin	39.4%	+0.5 p.p.
Net Income	1,740	(13.5%)



¹⁾ OIBDA before brand fees & management fees (1Q 2010: CZK 210 million, 1Q 2011: CZK 249 million); assuming constant FX rates of 2010

CZ Fixed Business Revenues – sources of variation

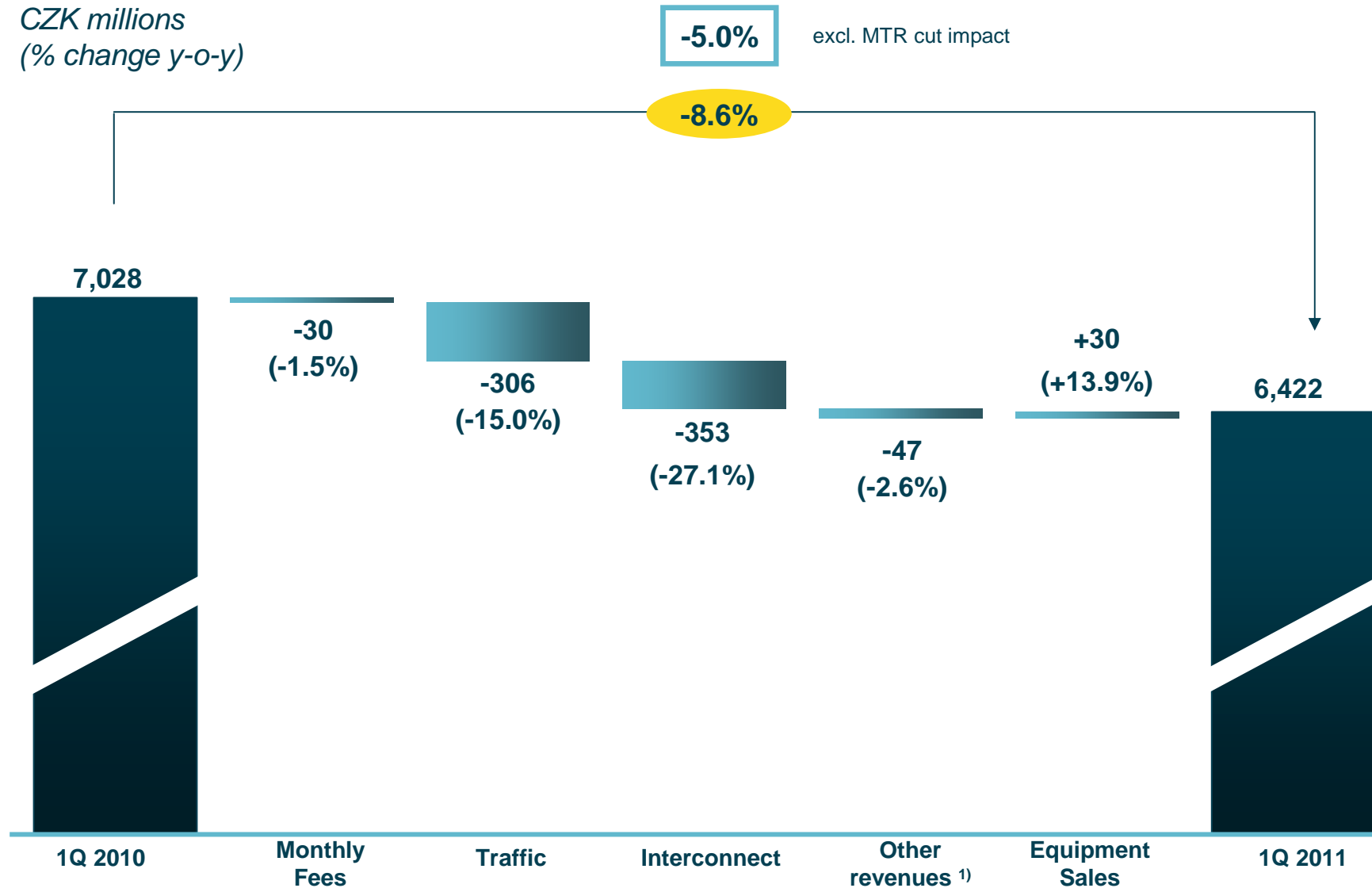
CZK millions
(% change y-o-y)



¹⁾ IT services and Other – incl. ICT, universal service and other revenues
Figures excluding inter-segment charges between fixed and mobile businesses

CZ Mobile Business Revenues – sources of variation

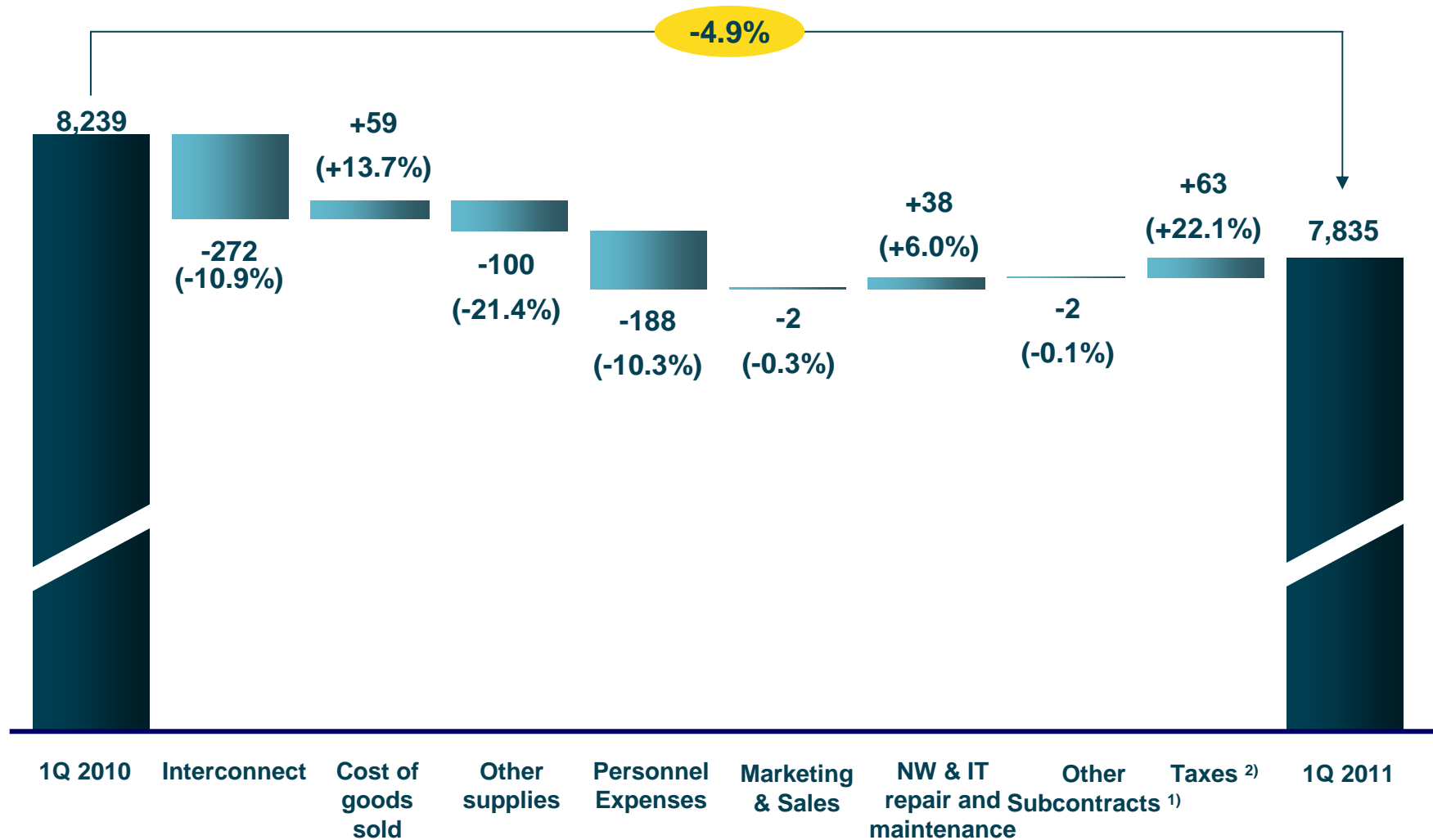
CZK millions
(% change y-o-y)



¹⁾ Other – incl. VAS, Internet & Data and Other revenues
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

CZK millions
(% change y-o-y)

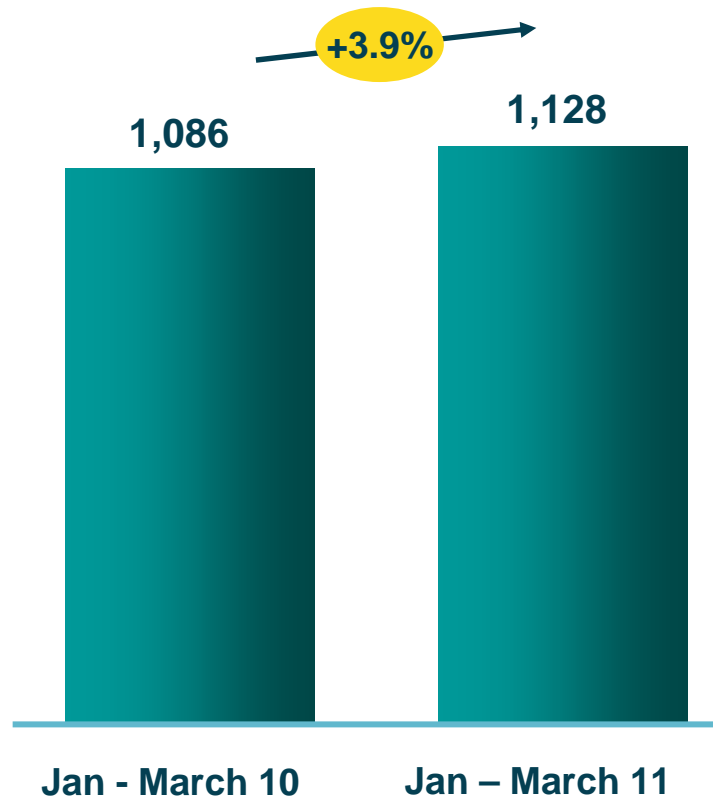


¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy & Brand fees

²⁾ Taxes = taxes other than income taxes, provisions and fees

Group CAPEX

CZK millions



- Continuous focus on selective and efficient investments to core areas
- Enhancement of 3G network capacity and quality in CZ
- Deployment of VDSL network aiming to cover ~ 50% households
- 3G network rollout in SK to reach ~30% population coverage
- CAPEX to Revenues at 8.8% in 1Q 2011, + 1.0 p.p. y-o-y

Group Balance Sheet & Cash Flow Statement

<i>CZK millions</i>	31 Dec 2010	31 March 2011	<i>Change Mar11/Dec10</i>
Non-current assets	78,285	76,487	(2.3%)
Current assets	14,495	17,166	+18.4%
- of which Cash & cash. Equiv.	4,798	7,644	+59.3%
Total assets	92,792	93,664	+0.9%
Equity	73,176	74,891	+2.3%
Non-current liabilities	6,896	6,658	(3.5%)
- Long-term financial debt	2,883	2,823	(2.1%)
Current liabilities	12,720	12,155	(4.8%)
- Short-term financial debt	141	244	(73.6%)
	Jan – March 2010	Jan – March 2011	Change 1Q11/1Q10
Cash flow from operations	5,199	5,356	+3.0%
Dividends received	-	-	0.0%
Net interest and other financial expenses paid	(27)	(16)	(39.6%)
Payment for income tax	(921)	(800)	(13.2%)
Net cash from operating activities	4,251	4,540	+6.8%
Proceeds on disposals of PPE and intangibles	19	26	+33.3%
Payments on investments in PPE and intangibles	(1,396)	(1,747)	+25.1%
Net cash used in investing activities	(1,377)	(1,721)	+25.0%
Free cash flow	2,874	2,819	(1.9%)

03

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