

Telefónica Czech Republic

Quarterly Results January – March 2012

10th May 2012



Telefonica

CAUTIONARY STATEMENT

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

Although Telefónica Czech Republic, a.s. makes every effort to provide accurate information, we cannot accept liability for any misprints or other errors.

Contents

- 01 Q1 2012 Performance Highlights
- 02 January – March 2012 Financial Performance
- 03 2011 Shareholder Remuneration

01

Q1 2012 Performance Highlights

Q1 2012 performance highlights

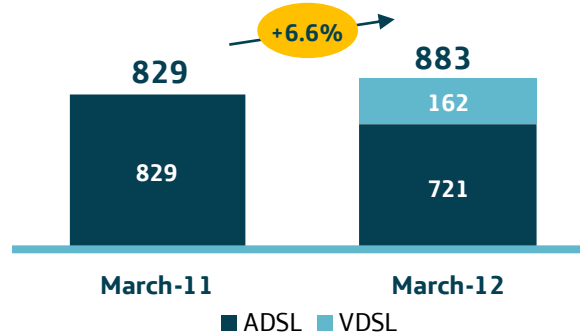
- **Solid commercial momentum in focused areas maintained in highly competitive market:**
 - **Contract base:** 27.5k net adds in the quarter, resulting in 6.1% y-o-y growth
 - **Smartphone penetration growth maintained reaching 21.3%** (+1.8 p.p. q-o-q, +7.5 p.p. y-o-y)
 - **xDSL base** keeping **solid growth**(+6.6% y-o-y) in highly competitive market, **VDSL helping to protect customers/spend**
- **Group business revenues (-3.2% y-o-y)** show **improvement for the 3rd consecutive quarter**
 - **CZ mobile revenues keeps improving** due to **spend stabilization in residential, better data revenues performance**
 - **CZ fixed revenues y-o-y decline decelerating in Q1** compared to previous year
- **Slovakia** keeps its **subscribers' growth** and **further improving financial performance**
- **Guided OIBDA margin¹⁾ at 40.5%**, (-0.8 p.p. y-o-y), as a **result of efficiency agenda in CZ, sale of non-core business, growing OIBDA in SK** and **higher commercial costs**
- **2012 full year guidance²⁾ reiterated for all metrics**
- **AGM approved 2011 Shareholder remuneration and SBB program**

¹⁾ OIBDA/Business revenues; OIBDA excludes brand fees and management fees (CZK 249m in Q1 2011 and CZK 274m in Q1 2012); assuming constant FX rates of 2011

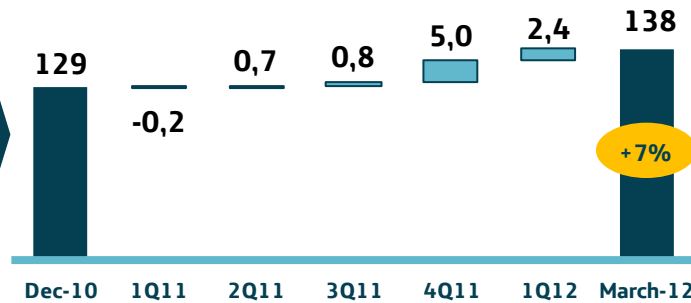
²⁾ Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions).

Continuous strong commercial performance in all fixed categories, increasing ICT revenues share with focus on recurring business, and exclusivity concept

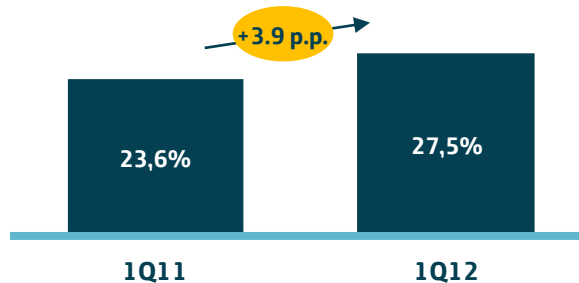
xDSL¹⁾ (‘000)



O₂TV (‘000)



ICT (as % of fixed revenues in business segment)



- Strong VDSL performance in Q1 (+~60k)
- VDSL represents already 21% of total xDSL residential base and close to 45% of addressable base²⁾
- Helping to manage xDSL ARPU and churn, improving competitive position
- 1.6m fixed accesses at March-12 (-5.1% y-o-y)
- Fixed accesses losses continuously decelerating (-26.1k in Q1, -12.6% y-o-y) due to **solid growth of naked and VoIP lines** and **lower telephony lines' churn**
- Growing O₂ TV customer base in Q1, driven by bundle proposition, **while overall Czech Pay TV market stagnates**



- In ICT business:
 - Exploiting new opportunities in recurring services (Managed Services / Cloud / Security / Virtual Desktop) for **business customers**
 - Leveraging on **exclusive care** and **Telefonica Digital scale** (Web Security Gateway)

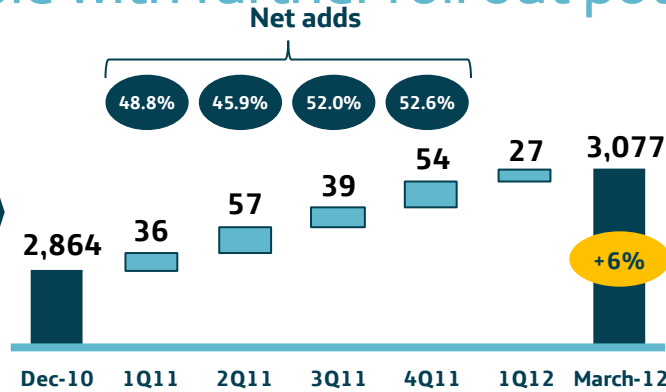


y-o-y change

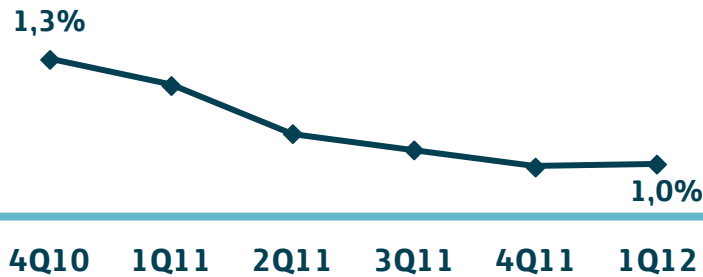
¹⁾ retail & wholesale
²⁾ 48% of total customer base

Results of churn and customer value management initiatives already visible with further roll out potential

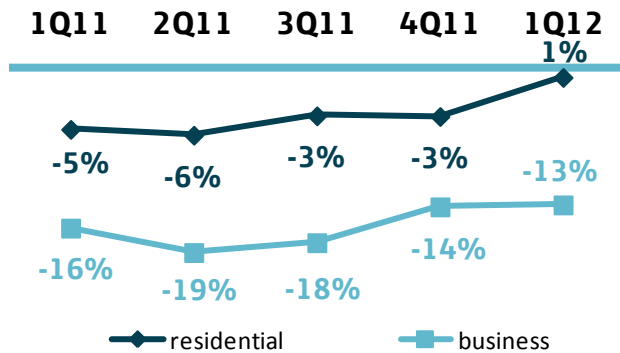
Contract mobile customers ('000)



Contract churn (monthly average)



Improving spend trends in residential & business segments (ex-MTR ARPU, y-o-y change)



- **Total mobile base** reaching **4.9m** at the end of March 2012 (+2.3% y-o-y)
- **Solid contract commercial performance** maintained in Q1, driven by **sustained trading momentum** and **best-in-class churn**
- **Continuous growth in share of contract** (62.3% of base, +2.2 p.p. y-o-y)

- **Contract ex-MTR ARPU** (CZK 542 in Q1) **y-o-y performance improving for 3rd consecutive quarter**:
 - **Successful execution of CVM²⁾** in residential (spend stabilization) & **positive impact of smartphone uptake, starting CVM in SMB**
 - **Exclusivity (care and proposition)** helps to **decelerate spend erosion in business segment**

y-o-y change

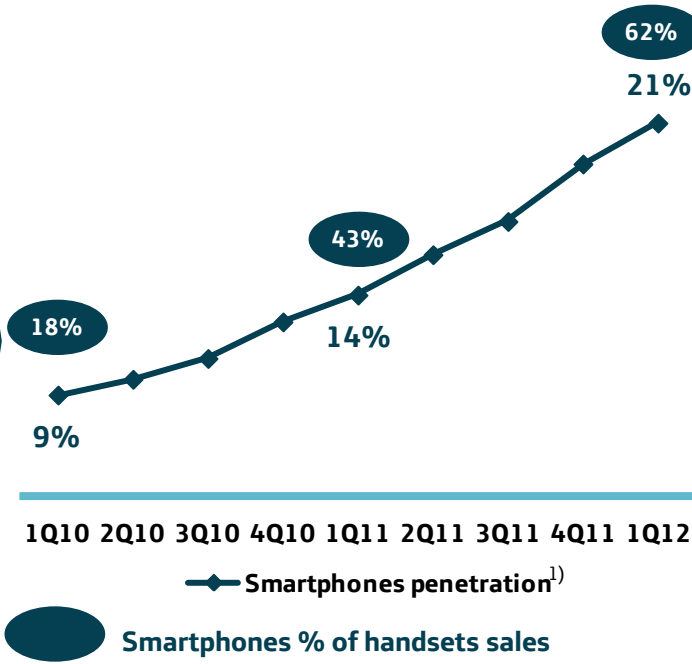
m.s. ¹⁾

¹⁾ m.s. + market share

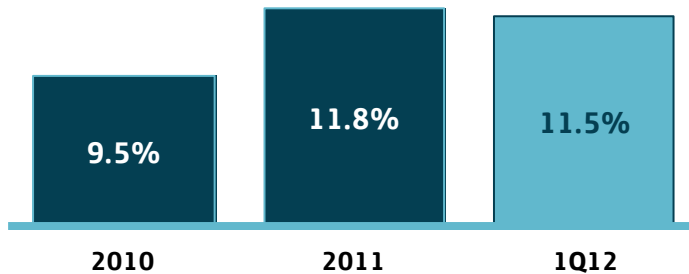
²⁾ CVM = Customer Value Management

Our rational investment into commercial activities led to accelerated growth of smartphone penetration to foster data monetization

Smartphone sales & penetration



Commercial costs²⁾ as % of mobile revenues



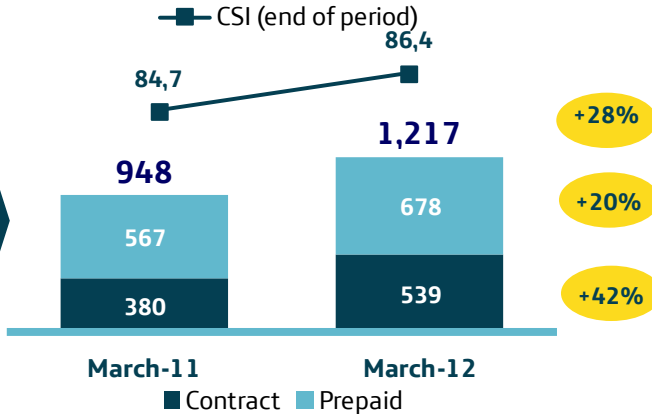
- Smartphone focused marketing campaign** helped to **accelerate sales and penetration & small screen growth ...**
- ... driving spend upside of smartphone users (vs. non-smartphone) across all the segments**
- Selective and rational commercial investments – retention HW subsidies at ~1.5% of total mobile residential revenues**
- Tiered pricing & flexible mobile data packages helping to manage usage**
- Data revenues accounts for 28% of mobile service revenues in Q1 (+1 p.p. y-o-y), with increasing contribution of mobile internet³⁾: 37% of data revenues (+2 p.p. y-o-y)**



¹⁾ Smartphones as % of total handsets base in TCZ
²⁾ Cost of goods sold, HW subsidies & Commissions
³⁾ Big screens, small screens, Time/Usage based, Push Email

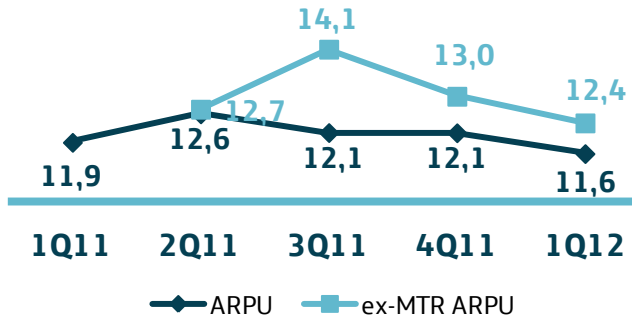
Slovakia - strong customers' growth and value focused proposition driving further improvement in financial performance

Mobile customers ('000)



- **Sound customers' growth maintained leveraging on simple & value customer proposition** (+53k in Q1 driven by contract)
- **Further mix improvement** (44.3% of base on contract, +4.2 p.p. y-o-y)
- **Best-in-class customer satisfaction¹⁾**, positive gap to best competitor at 7.3 points

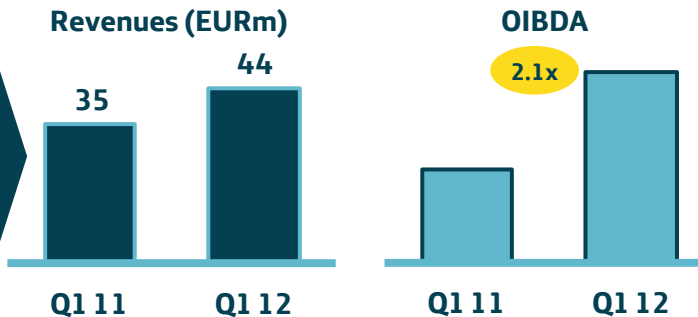
Focusing on value (ARPU in EUR/month)



- **Underlying ARPU (ex-MTR) improved +3.9% y-o-y in Q1** on the back of **better customer mix and new propositions** (SMB and 3G)
- **Data ARPU: +4.4% y-o-y** (non-SMS ARPU already at 35% of data ARPU) supported by **smartphone penetration growth** (20% at Mar-12, +6 p.p. y-o-y)



Strong financials



- **Strong revenues growth maintained in Q1 : +34.6% y-o-y** (ex-MTR impact)
- **Growing OIBDA, leveraging on lean operation & synergies with CZ and other OBs in region**
- **Slovakia's improving financials** (close to 10% of Group revenues in Q1 2012) **positively contributing the Group's profitability**

■ y-o-y change

¹⁾ Based on the survey by an independent agency Ipsos Tambor and Telefónica Slovakia

02

January – March 2012 Financial Performance

Key Highlights of Group Financial Performance

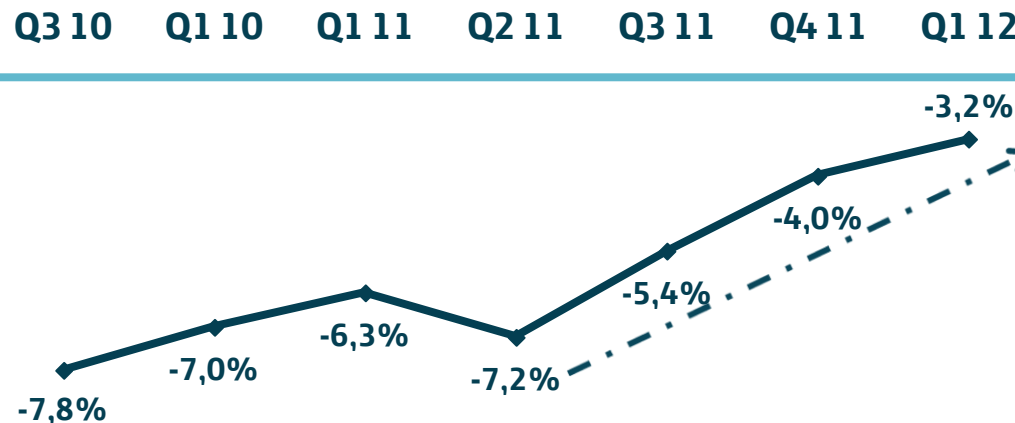
CZK millions

Jan – March 2012

*Change
Q1 12/Q1 11*

	Jan – March 2012	<i>Change Q1 12/Q1 11</i>
Business revenues	12,451	(3.2%)
CZ Fixed	5,292	(6.2%)
CZ Mobile	6,101	(5.0%)
OIBDA before brand fees and management fees	5,049	(5.1%)
<i>OIBDA margin before brand fees and management fees</i>	40.5%	(0.8p.p.)
OIBDA	4,775	(5.8%)
<i>OIBDA margin</i>	38.4%	(1.1p.p.)
Net Income	1,622	(6.8%)

Business revenues (y-o-y)



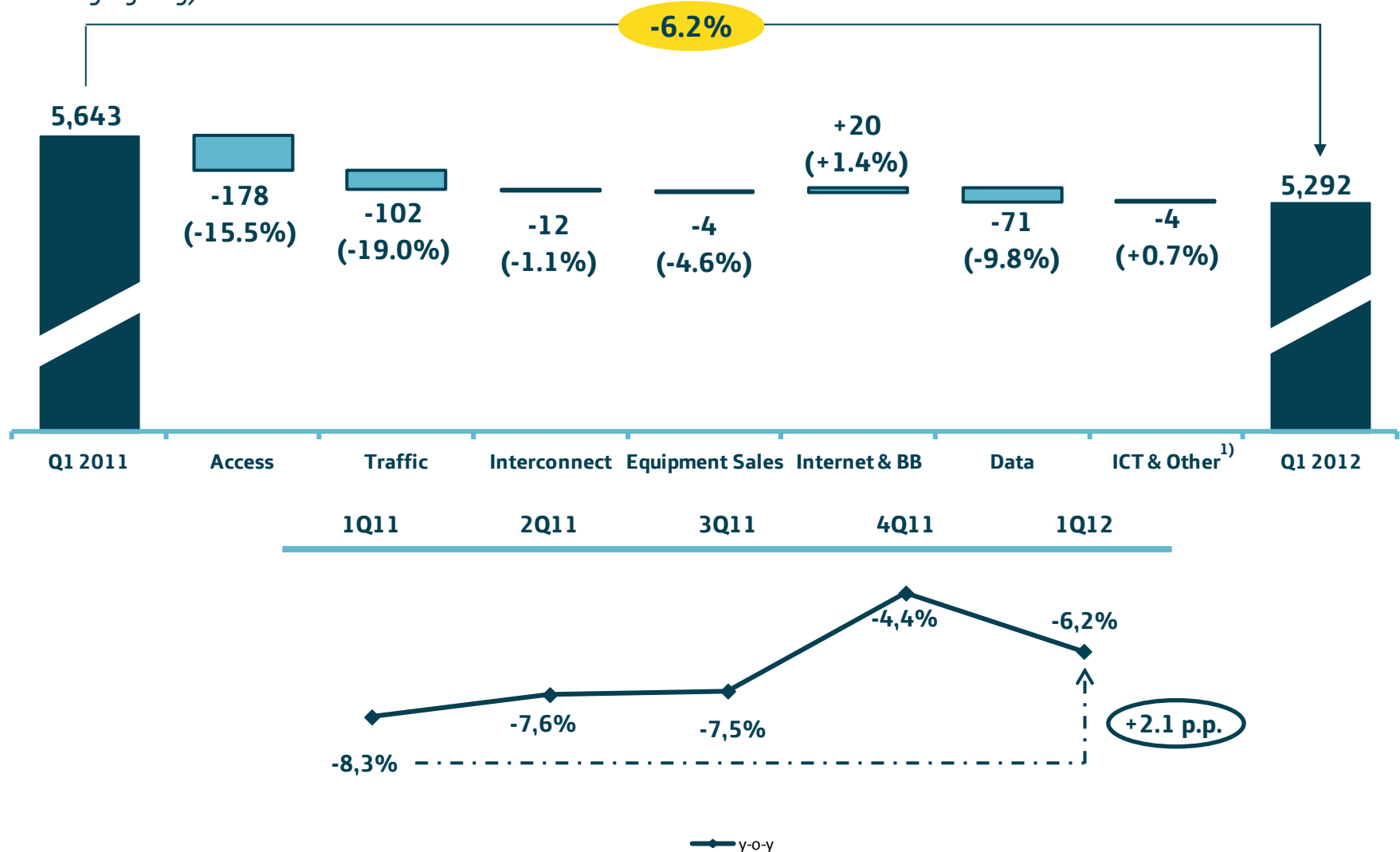
Guided OIBDA margin²⁾



¹⁾ OIBDA before brand fees & management fees (Q1 2011: CZK 249m, Q1 2012: CZK 274m), guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2011

CZ Fixed Business Revenues – sources of variation

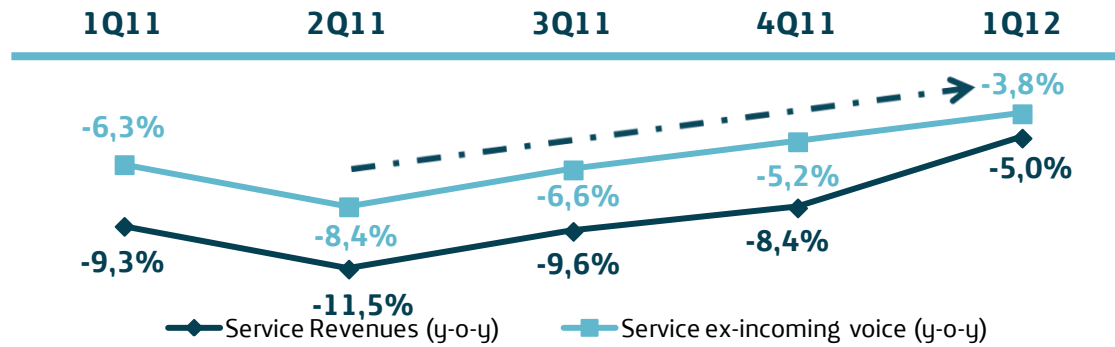
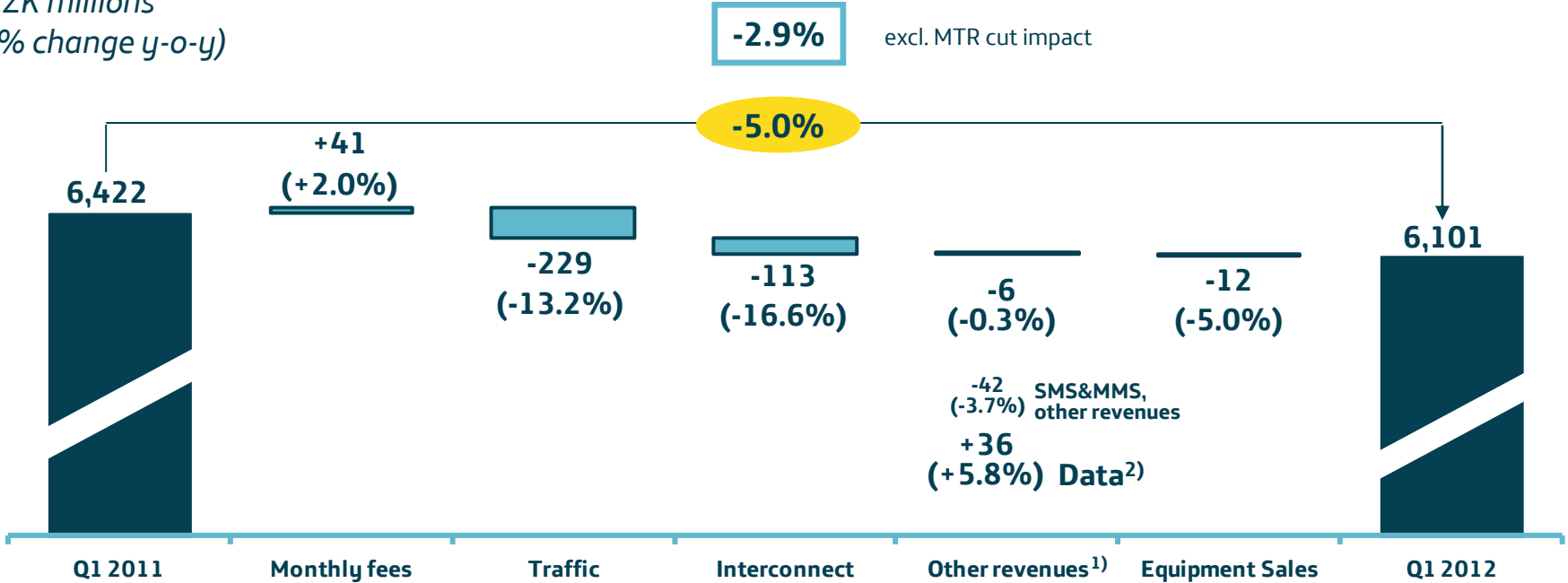
CZK millions
(% change y-o-y)



¹⁾ ICT & 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)

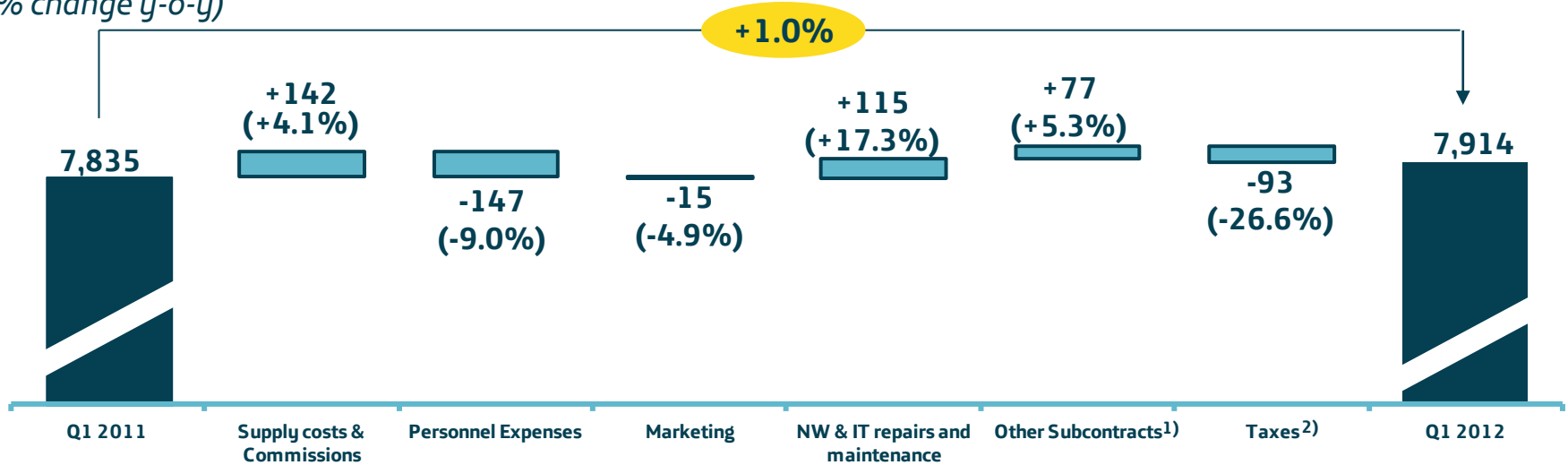


¹⁾ Other – incl. VAS, Internet & Data and Other revenues

²⁾ Big screens, small screens, M2M, Time/Usage based, Push Email, Data Roaming
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

CZK millions
(% change y-o-y)



Manageable OpEx³⁾



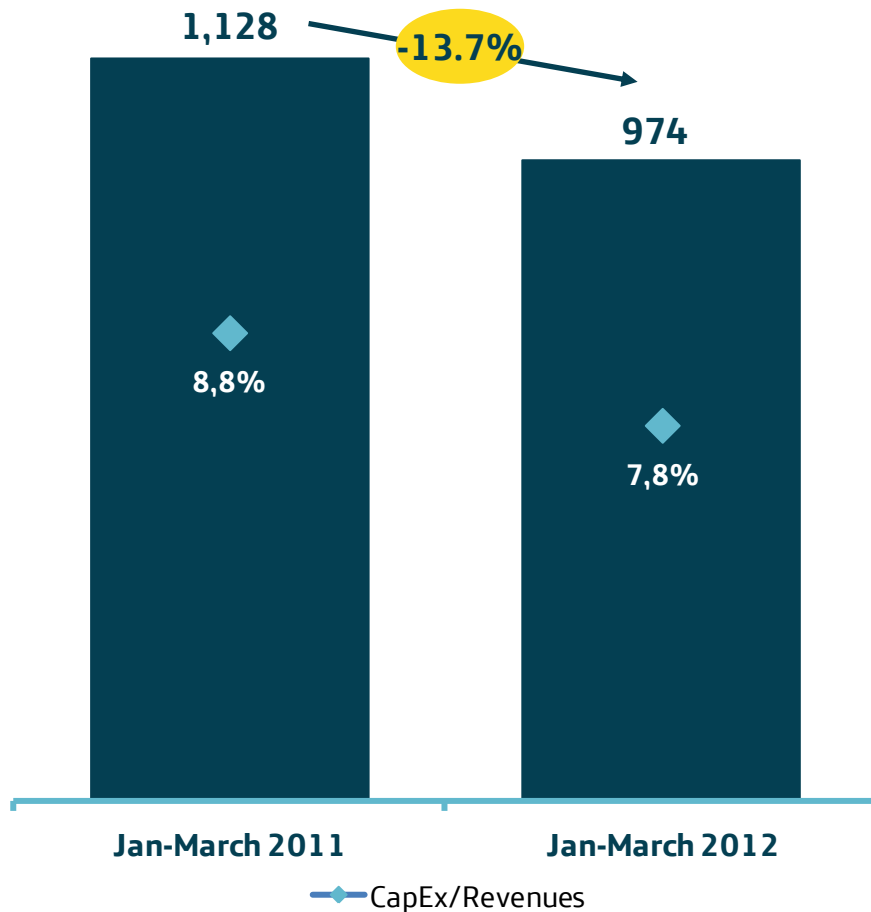
¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees

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

³⁾ Personnel Expenses, External Services (excl. Commissions, Brand & Management Fees), Taxes

Group CAPEX in fixed tangible and intangible assets

CZK millions



- Continuous focus on selective and efficient investments to growth areas
- Capacity & quality enhancement of MBB network in CZ, including backhaul
- FBB network improvement (coverage & capacity)
- IT/Systems investments to improve processes and customer satisfaction

Group Balance Sheet & Cash Flow Statement

<i>CZK millions</i>	31 Dec 2011	31 March 2012	<i>Change Mar12/Dec11</i>
Non-current assets	73,100	71,050	<i>(2.8%)</i>
Current assets	15,881	17,664	<i>+11.2%</i>
- of which Cash & cash. Equiv.	6,955	9,243	+32.9%
Total assets	88,982	88,715	<i>(0.3%)</i>
Equity	69,097	70,611	<i>+2.2%</i>
Non-current liabilities	3,870	3,605	<i>(6.8%)</i>
- Long-term financial debt	-	-	0.0%
Current liabilities	16,015	14,499	<i>(9.5%)</i>
- Short-term financial debt	3,061	3,082	+0.7%
	Jan – March 2011	Jan – March 2012	<i>Change Q1 12/Q1 11</i>
Cash flow from operations	5,384	4,281	<i>(20.5%)</i>
Dividends received	-	-	0.0%
Net interest and other financial expenses paid	(16)	18	n.m.
Payment for income tax	(800)	(424)	(47.0%)
Net cash from operating activities	4,658	3,875	<i>(15.2%)</i>
Proceeds on disposals of PPE and intangibles	26	246	n.m.
Payments on investments in PPE and intangibles	(1,747)	(1,843)	+5.5%
Net cash used in investing activities	(1,721)	(1,597)	<i>(7.2%)</i>
Free cash flow	2,847	2,278	<i>(20.0%)</i>

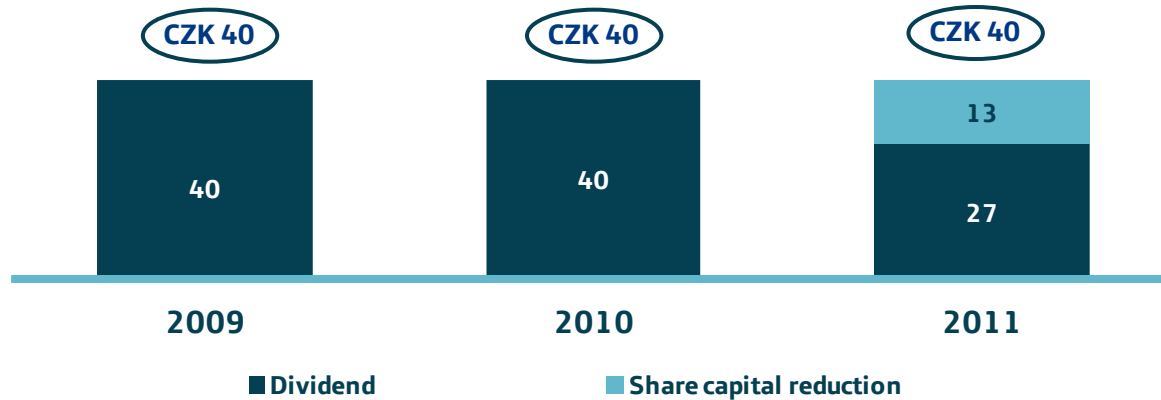
03

2011 Shareholder Remuneration

Shareholder Remuneration

Shareholder Remuneration History

(CZK per share, declared for the year)



2011 shareholder remuneration approved by AGM

- **Cash payment of CZK 12,884m, equal to CZK 40 per share, will be paid in 2 parts:**
 - **CZK 27 ordinary dividend** – record date: 12th Sep (ex-date: 10th Sep), payment date: 10th Oct
 - **CZK 13 share capital reduction** (from current CZK 100) – record date (date of capital reduction's entry in the Commercial Register) will be announced after all legal requirements are met (expected October/November), payment date: in 22 working days from record date
- **Implies ~ 10% yield¹⁾**
- **Generic authorisation for potential share buy-back up to 10% of shares for 5 years**
 - **On 9th May, BoD approved the first up to 2% tranche of SBB program**

¹⁾ Based on the average share price since 30th December 2011 and 4th May 2012