Telefónica Czech Republic

Quarterly Results
January – December 2012

27th February 2013

Telefónica

CAUTIONARY STATEMENT

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FY & Q4 2012 Performance Highlights

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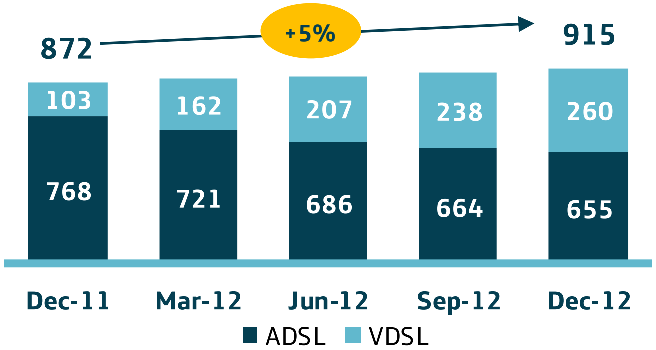
FY & Q4 2012 performance highlights

- **Successful marketing and commercial propositions** resulting in **sound mobile commercial momentum:**
  - **Contract - accelerated net adds** and **maintained low churn**
  - **Prepay – sustained positive performance**
  - **Bundled proposition** driving **smartphone penetration & small screen base growth**
- In **fixed business successfully addressing demand for fixed BB** (already 2/3 of addressable base[1]) on VDSL) **via improved proposition and bundling** and further **penetrating ICT solutions to corporate segment**
- **Spend patterns** in **mobile business diluted** by **competitive pressures** and **adverse consumption patterns**, partially **offset by non-SMS data revenues growth**
- **Slovakia** keeps its **strong subscribers' growth** and **positively contributing to Group financial performance**
- **Group business revenues in Q4** (-2.7% y-o-y ex. MTR impact) with **better performance compared to Q3** due to **improved fixed revenues trends and Slovakia**
- **Guided OIBDA margin[2]) at healthy 42.6% in Q4**, **the highest figure in 2012**
- **2012 full year guidance[3]) delivered for all metrics**

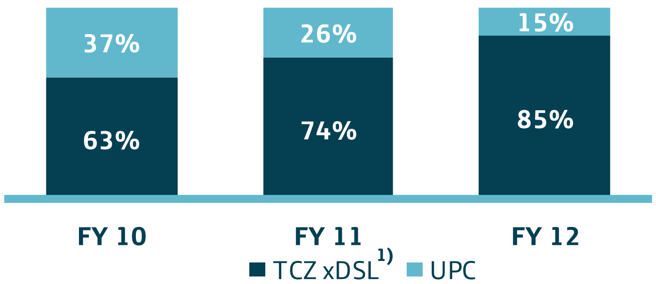
1) 48% of total customer base
2) OIBDA/Business revenues; OIBDA excludes brand fees and management fees; assuming constant FX rates of 2011
3) Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions).

Outperforming main competitors despite aggressive pricing, increasing ICT revenues share with focus on recurring solutions and exclusivity proposition

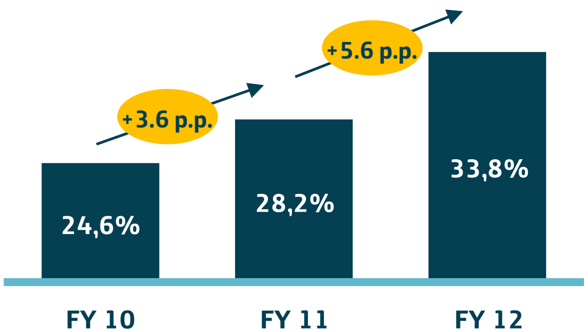
xDSL[1)] ('000)



Fixed BB net adds (market shares)



ICT revenues (as % of revenues in business division)

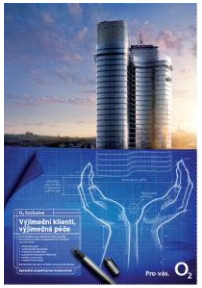


- **Continuous relevant demand for VDSL service supported by enhanced proposition in Q3 – already 32% of FBB base and 66% of addressable base in residential[2)]**

- **Outperforming the main competitors, with increasing net adds market share in 2012**
- **1.5m fixed accesses at Sep-12** (-5% y-o-y), while **line losses** in line with previous quarters

- **Growing O_2 TV customer base** in Q4, **helped by bundling** with DSL **despite Czech Pay TV market stagnating**

- **Continuous penetration of standard recurring ICT solutions** (Cloud, Managed Services) **to corporate segment** being the **key driver** for ...
- ... total **ICT revenues growth** (+6% y-o-y in Q4) and **increasing contribution to fixed revenues** (14%, + 1.2 p.p. y-o-y)

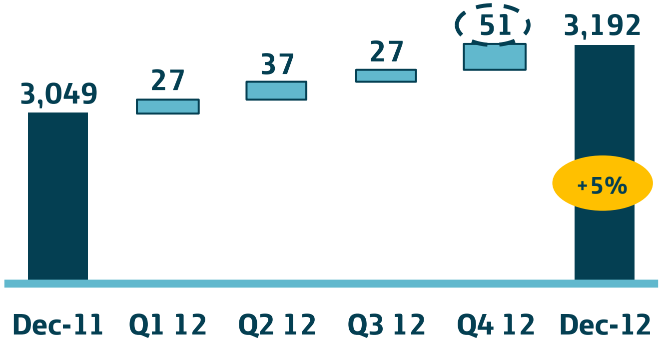


y-o-y change

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

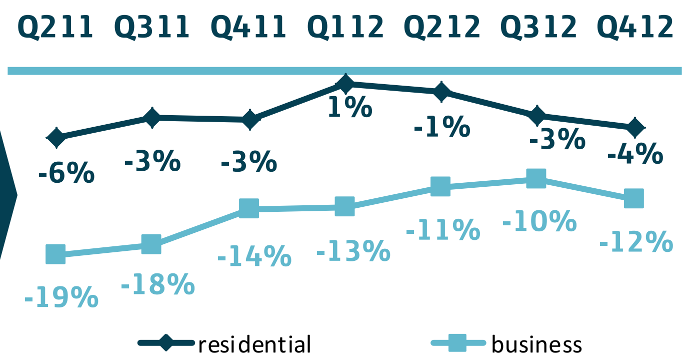
Churn and customer value management initiatives helping to protect the base, not fully offsetting external pressures diluting spend patterns

Contract mobile customers ('000)



Contract churn (monthly average)

Spend trends slightly diluting (ex-MTR contract ARPU, y-o-y change)



- **Total mobile base** reaching **5.1 million** at the end of Dec-2012 **(+3% y-o-y)**
- **Contract base growth accelerated** in Q4 on the back of **solid trading** and **sustained low churn**
- **Positive prepay performance maintained in Q4** (+7k) driven by **successful marketing proposition** and **helped by BLESKmobil** (MVNO) **launch**

- **Focus on customer satisfaction** via **differentiation & experience**
- **New mobile voice/small screen bundles** helping to **protect customer base** and **drive mobile internet growth**

- **Contract ex-MTR ARPU performance worsened in Q4** (-10% y-o-y):
  - **Lower spend dilution in business segment** compared to Q4 11 on the back of **"O₂ Exclusivity" proposition**
  - Despite **positive impact of smartphone uptake, residential spend diluted** by **limited CVM**[2] **impact, competitive price pressure** & **adverse macroeconomic conditions** (lower consumption)

y-o-y change

m.s. [1]

[1] m.s. + market share

[2] CVM = Customer Value Management

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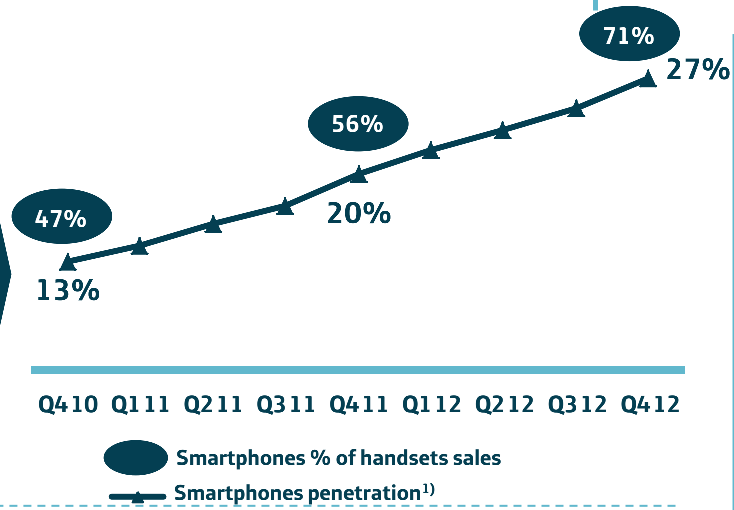
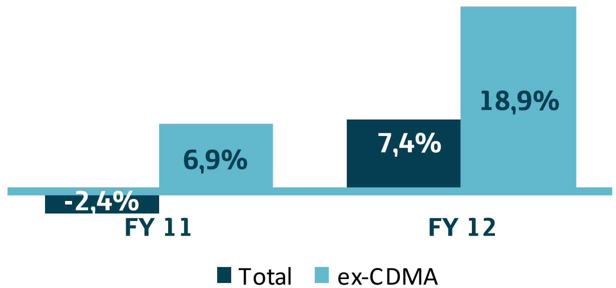
Our rational commercial investments led to further growth of smartphone penetration and mobile data revenues uptake

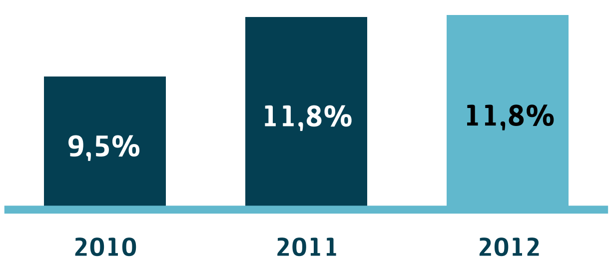
Smartphone sales & penetration



Mobile non-SMS data revenues[2] (y-o-y change)



Commercial costs[3] as % of mobile revenues



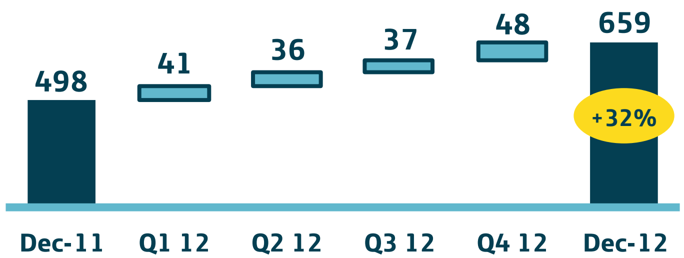
- **Continuous smartphone focused marketing campaigns** helping to **drive** smartphone **sales** and maintain **penetration** growth

- **Successful adoption of enhanced small screen proposition** (bundling with voice and SMS) **driving small screen subscribers' growth** (+66% y-o-y) and **non-SMS mobile data revenues uptake**
- **Total data revenues** account for 30% of mobile service revenues in Q4, with **increasing contribution of non-SMS data**[2] (ex-CDMA): 35% of data revenues (+7 p.p. y-o-y)
- **Selective and rational investments into commercial costs maintained**

[1] Smartphones as % of total handsets base in TCZ
[2] Big screens, small screens, Time/Usage based, Data Roaming, M2M, Push Email . Other Data
[3] Cost of goods sold, HW subsidies & Commissions

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

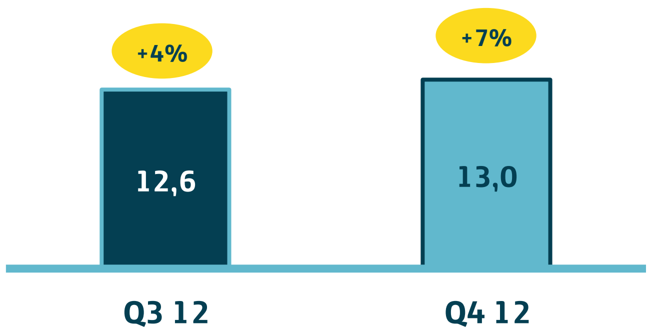
Contract mobile customers ('000)



- **Strong customers' growth maintained** (+62k in Q4) **driven by contract - transparent & fair offer,** successful propositions focused on **higher value customers**

- **Above 20% market share**[1)]
- **Best-in-class customer satisfaction**[2)]**,** with increasing positive gap to best competitor (8.4 points in Dec-12)

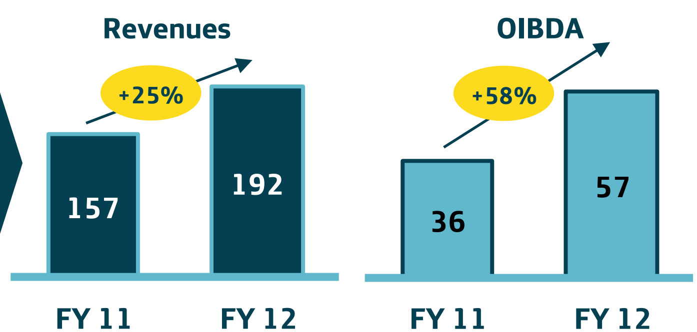
Growing customer value (ex-MTR ARPU)



- **ARPU improvement** on the back of **enhanced customer mix** (48.3% on contract) and **new propositions** for SMB and residential

- **3G coverage already at 53%** at Dec-12, supporting **smartphone penetration** (27%) and non-SMS data **uptake**

Strong financials (EURm)



- **Strong underlying** (ex-MTR impact) **revenues growth maintained** in Q4: **+27% y-o-y**
- **OIBDA margin** already **close to 30% in FY 2012, leveraging on lean operation**
- **Slovakia's improving financials** continue to **positively contribute to the Group's profitability**

y-o-y change

1) Q3 2012
2) Based on the survey by an independent agency Ipsos Tambor and Telefónica Slovakia

02

January – December 2012 Financial Performance

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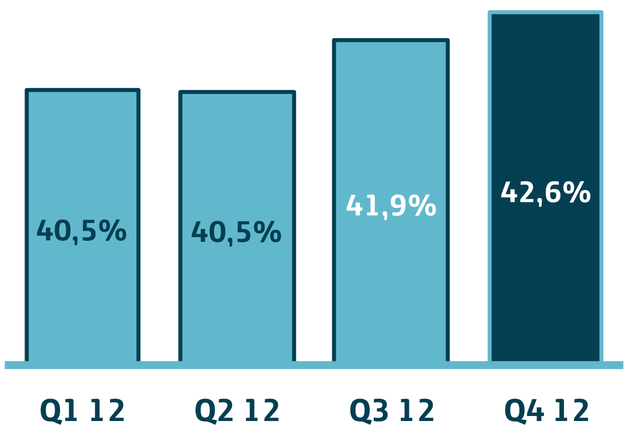
Key Highlights of Group Financial Performance

CZK millions	**Jan – Dec 2012**	***Change FY 12/FY 11***
Business revenues	**50,535**	***(3.5%)***
CZ Fixed	**21,391**	***(5.4%)***
CZ Mobile	**24,532**	***(6.1%)***
OIBDA before brand fees and management fees	**20,919**	***(8.5%)***
OIBDA margin before brand fees and management fees	***41.4%***	***(2.3 p.p.)***
OIBDA	**19,781**	***(9.2%)***
OIBDA margin	***39.1%***	***(2.5 p.p.)***
Net Income	**6,776**	***(22.0%)***

Business revenues (y-o-y)

Guided OIBDA margin[1)]

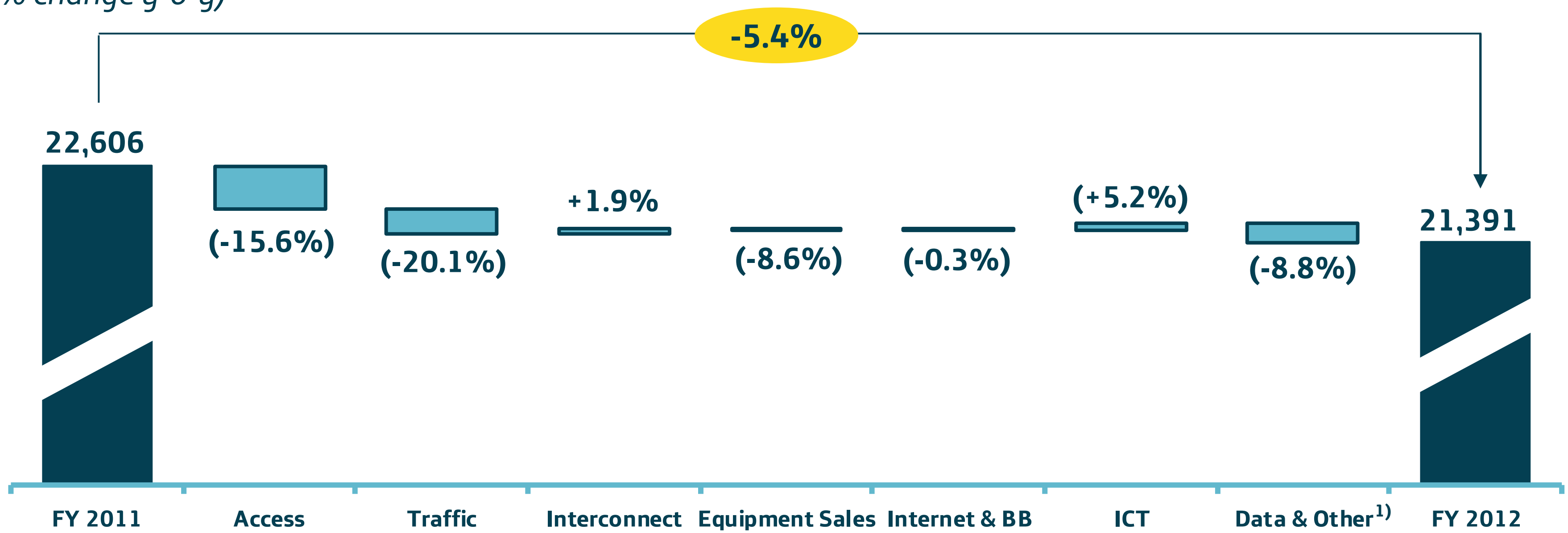


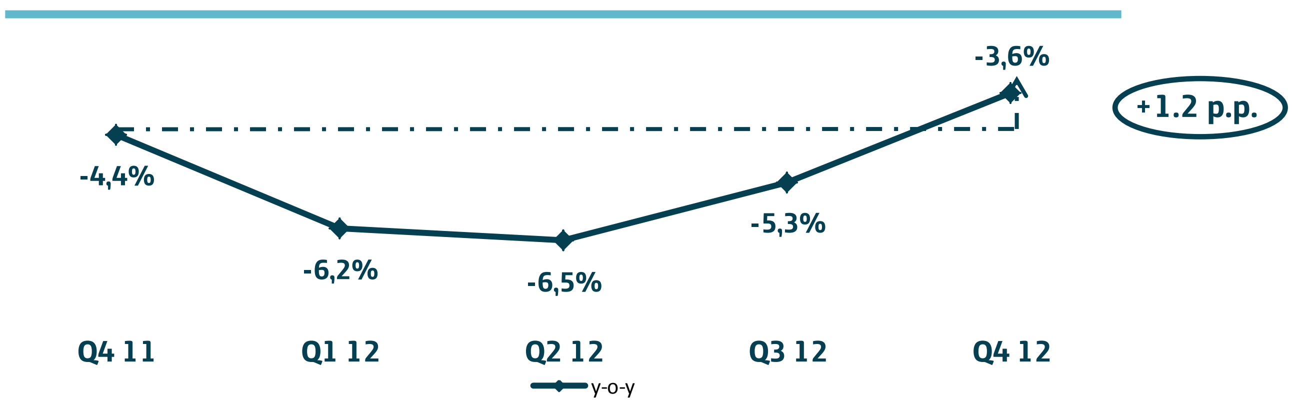
y-o-y change

[1)] OIBDA before brand fees & management fees (FY 2011: CZK 1,080m, FY 2012: CZK 1,138m), 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)



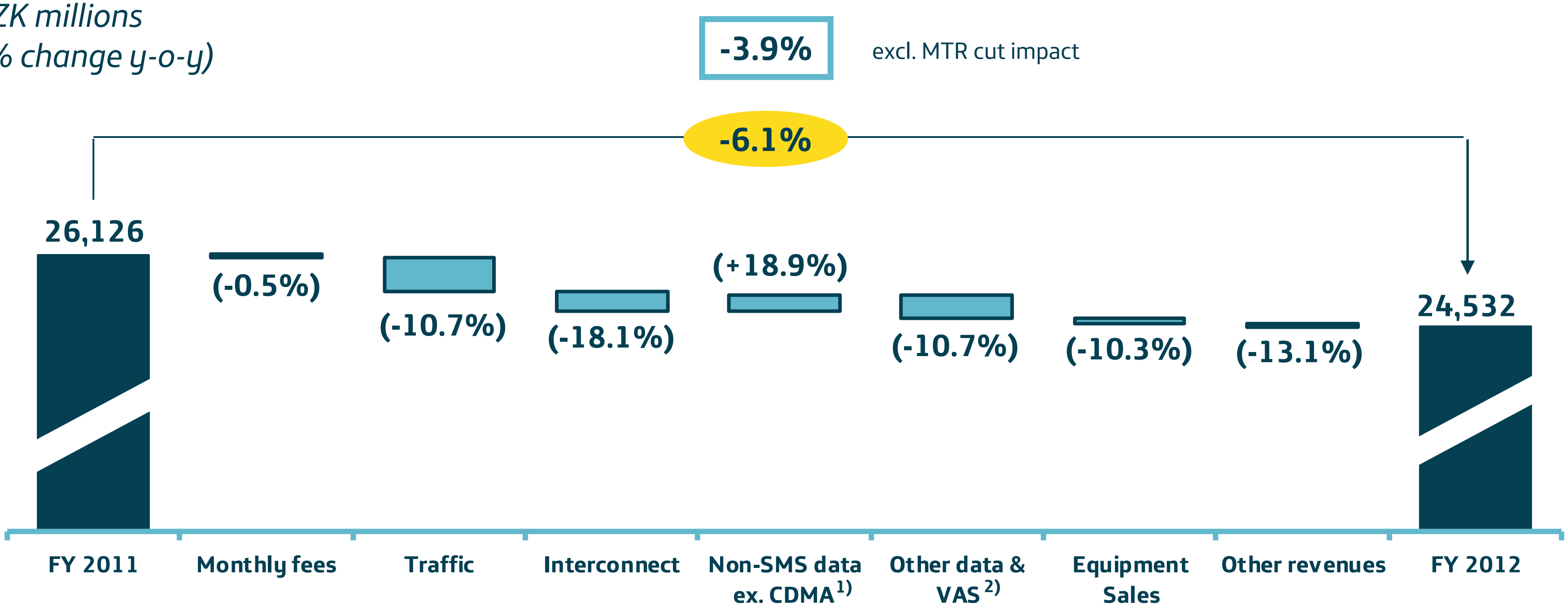


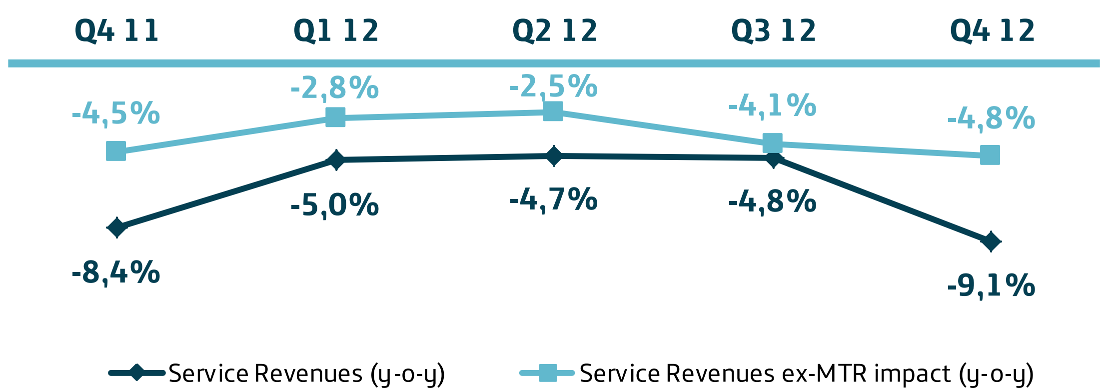
y-o-y change

[1] Data & Other – incl. Data revenues, 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)

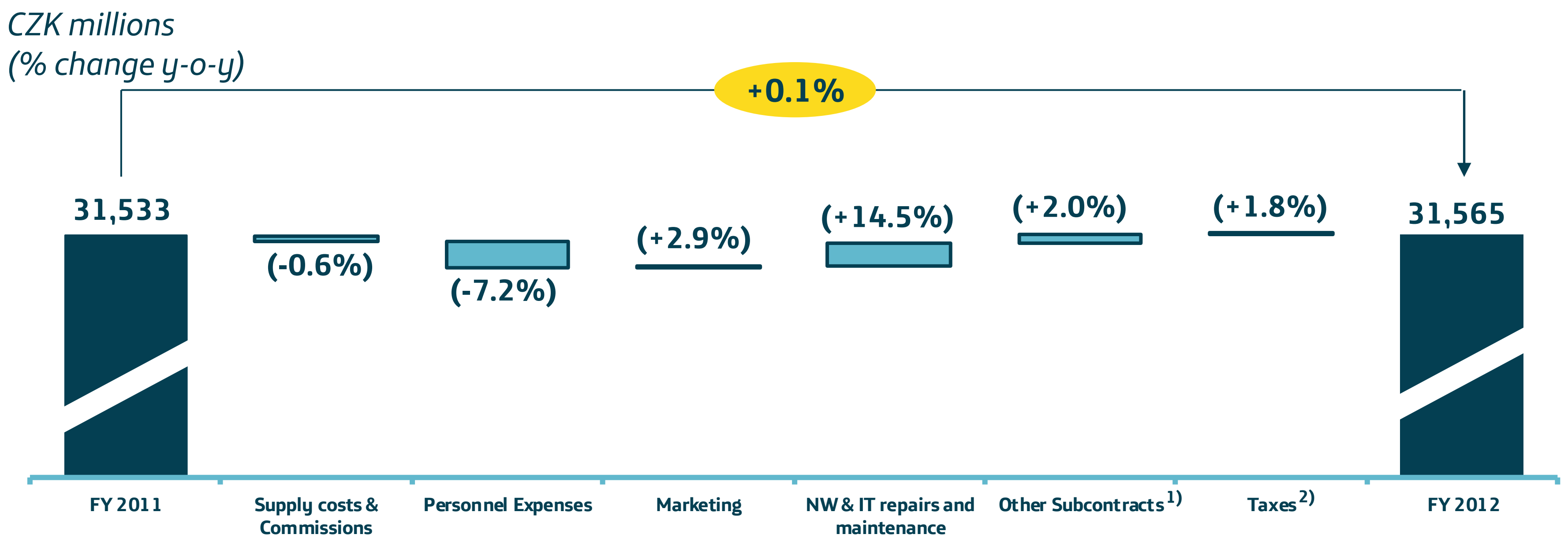




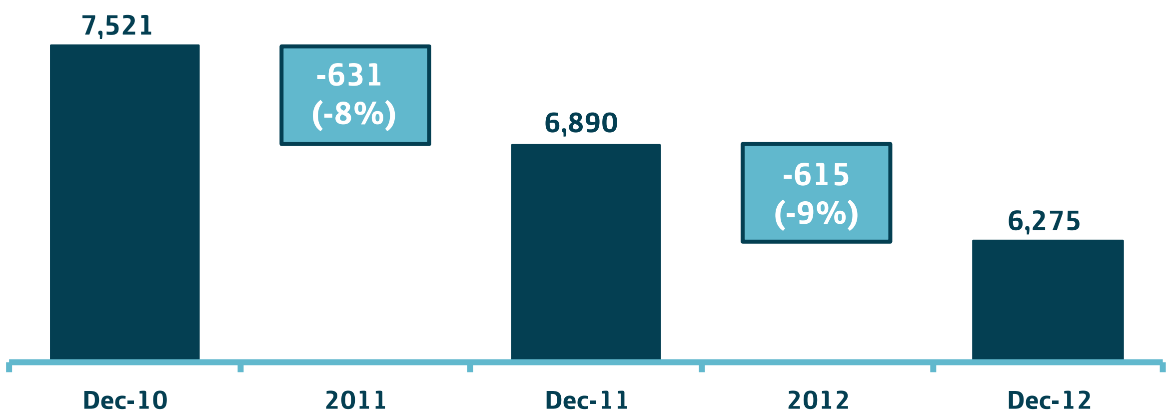
y-o-y change

[1] Big screens (excl. CDMA), small screens, M2M, Time/Usage based, Push Email, Data Roaming
[2)] CDMA, SMS & MMS, Content, Mobile Solutions
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation



Group headcount

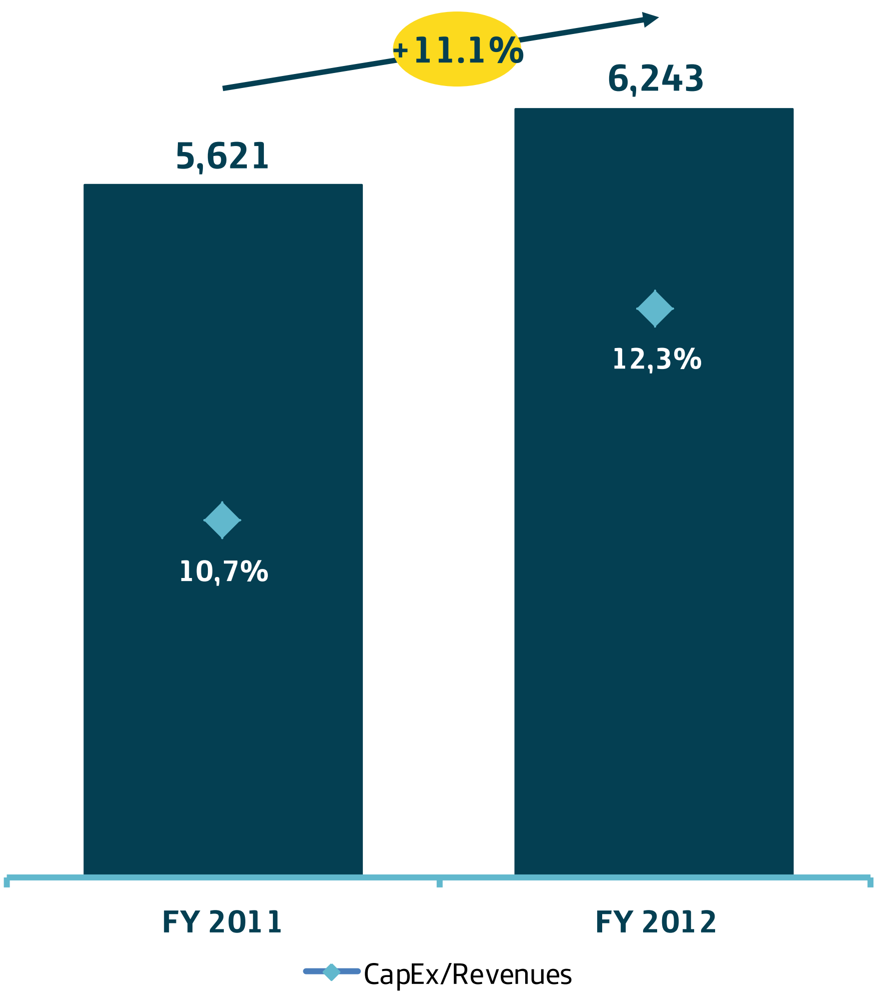


y-o-y change

1) Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees
2) Taxes = taxes other than income taxes, provisions and fees

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** (3G coverage close to 80% of population in Dec-12)**, including backhaul**
  - **FBB network improvement** (coverage & capacity)
  - **Slovakia – 3G network expansion** (53% population coverage in Dec-12)
- **IT/Systems investments to improve processes and customer satisfaction**

Group Balance Sheet & Cash Flow Statement

CZK millions	31 Dec 2011	31 Dec 2012	*Change Dec12/Dec11*
Non-current assets	**73,100**	**67,835**	***(7.2%)***
Current assets	**15,881**	**11,364**	***(28.4%)***
- of which Cash & cash. Equiv.	6,955	3,044	*(56,2%)*
Total assets	**88,982**	**79,199**	***(11.0%)***
Equity	**69,097**	**60,574**	***(12.3%)***
Non-current liabilities	**3,870**	**6,322**	***+63.4%***
- Long-term financial debt	-	3,000	*n.m.*
Current liabilities	**16,015**	**12,303**	***(23.2%)***
- Short-term financial debt	3,061	31	*n.m.*

	Jan – Dec 2011	Jan – Dec 2012	*Change FY 12/FY11*
Cash flow from operations	**22,566**	**19,164**	***(15.1%)***
Dividends received	5	5	*0.0%*
Net interest and other financial expenses paid	(101)	(150)	*+48.9%*
Payment for income tax	(1,938)	(1,783)	*(8.0%)*
Net cash from operating activities	**20,532**	**17,235**	***(16.1%)***
Proceeds on disposals of PPE and intangibles	601	322	*(46.5%)*
Payments on investments in PPE and intangibles	(6,116)	(6,087)	*(0.5%)*
Payments on temporary financial investments	-	(250)	*n.m.*
Net cash used in investing activities	**(5,515)**	**(6,015)**	***+9.1%***
Free cash flow	**15,017**	**11,220**	***(25.3%)***
Net cash used in financing activities	**(12,880)**	**(15,107)**	***+17.3%***

03

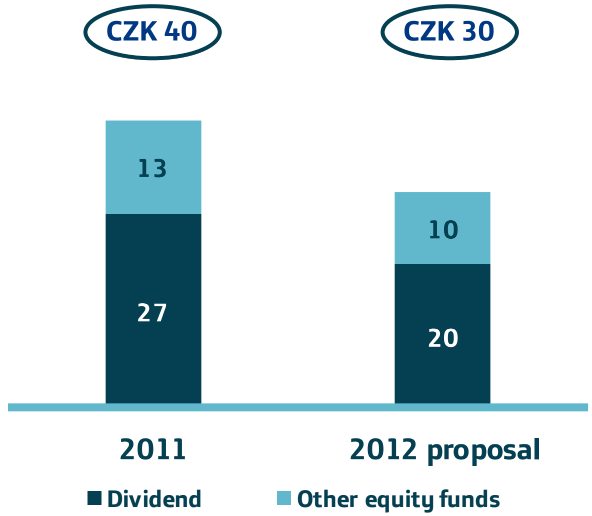
2012 Shareholder remuneration proposal

Dividend proposal offers ~10%[1)] yield to be paid in 2013 …
… in addition, next 2% tranche of share buy-back to be executed

Shareholder Remuneration proposal

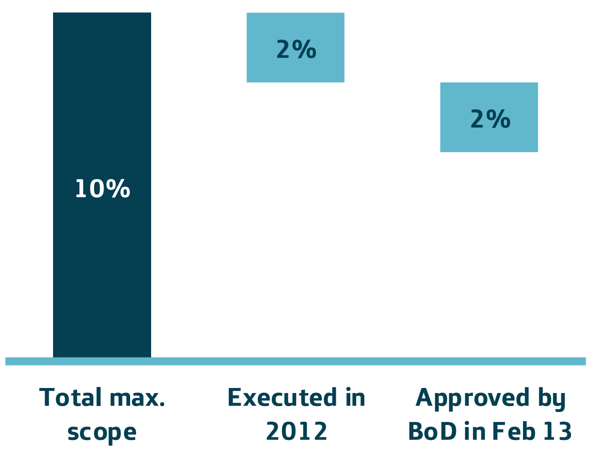
(CZK per share, declared for the year)

- **Total shareholder remuneration** of **CZK 9,663 million[2)], equal to CZK 30 cash per share, composed of:**
  - **Dividend** of CZK 6,442m, equal to **CZK 20 per share**
  - **Share premium reduction** of CZK 3,221m, equal to **CZK 10 per share**



Share buy-back

- **SBB** program **on top of shareholder remuneration**
- **Next 2% tranche approved** by the Board of Directors in addition to 2% already executed in 2012. Aimed at completing by 2013 year-end depending on actual market conditions
- **Flexible execution,** considering **business opportunity vs. SBB alternative**



1) Considering dividend and share premium reduction of total CZK 30 per share (excluding SBB), based current share price

2) This total amount for the distribution (CZK 9,663m) could be lower depending on future number of own shares held by the Company. The Company will not be entitled to distribute the shareholder remuneration to the acquired shares. .

04

2013 Outlook & Investor Guidance

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2013 Outlook

- In **challenging macro and operating environments**, we will **continue building on our strengths**:
  - **Best value** and **unique proposition** to **maintain leadership**
  - Continuous **execution of Customer Value Management** (incl. O_2 Exclusive proposition for corporates) to **mitigate churn & ARPU pressures**
  - **Leveraging strong position in corporate segment** via **development and promotion** of **ICT & Digital services** to **secure sustainable revenues** and to **grow profitable business**
- Our **investments will focus on:**
  - **Increasing VDSL coverage** via selective FTTN deployment to **strengthen market position**
  - **Enhancement of 3G network capabilities and speed**, while **commencing 4G deployment**
- In **Slovakia,** we will focus on **growing market share** and **exploiting opportunities in data**, while **maintaining profitability via lean operation**
- We will **continue** with realisation of **transformation plan** to **protect margin**

2013 Investor Guidance

	2012 base	2013 Guidance
OIBDA margin[1)]	41.4%	**Limited margin erosion y-o-y** on the back of continuous efficiency agenda
CapEx[2)]	CZK 6.2 bn.	**Less than CZK 6 bn.,** increasing proportion of investments into growth areas (mobile data, LTE and new technologies/businesses)

[1)] OIBDA before brand fees & management fees; guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2012
[2)] Excluding investments for spectrum license (2013) and business acquisitions