Telefónica Czech Republic

Quarterly Results
January – June 2012

25th July 2012

Telefónica

Contents

01

H1 & Q2 2012 Performance Highlights

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.

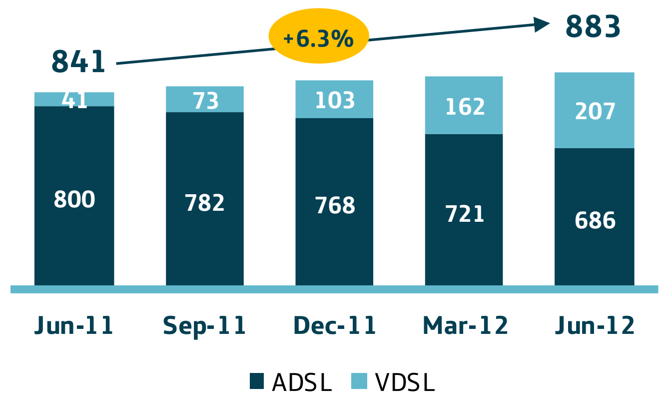
H1 & Q2 2012 performance highlights

- **Strong mobile commercial momentum** driven by:
  - **Contract churn** further **improved**
  - Continuous **smartphone penetration growth**
  - **Launch of first mobile voice/SMS/data bundle** tariffs to protect customer base and revenues
- In **fixed business successfully addressing demand for fixed BB** (already 50% of addressable base[1]) on VDSL) and further **penetrating ICT solutions to corporate segment**
- **Slovakia** keeps its **strong subscribers' growth** and further **increasing its contribution to Group financial performance**
- **Group business revenues** show **improvement for the 4th consecutive quarter**
- **Guided OIBDA margin[2]) at healthy 40.5% in H1 2012**
- **2012 full year guidance[3]) reiterated for all metrics**

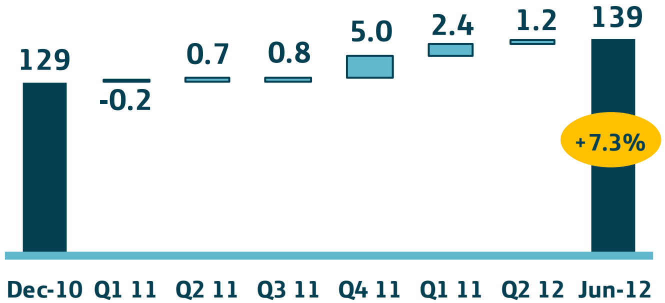
[1]) 48% of total customer base
[2]) OIBDA/Business revenues; OIBDA excludes brand fees and management fees (CZK 551m in H1 2011 and CZK 513m in H1 2012); assuming constant FX rates of 2011
[3]) Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions).

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

xDSL[1)]
('000)



O_2 TV
('000)

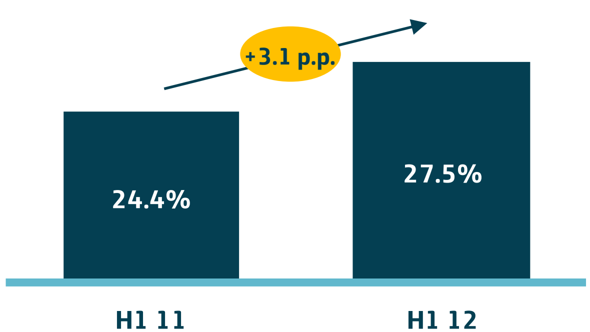


- **Relevant demand for VDSL service – already 55% of addressable base[2)]**

- **VDSL helping** to **strengthen competitive position,** to **reduce BB churn** and to **prevent spend dilution**
- **1.5m fixed accesses at Jun-12** (-4.4% y-o-y), while **decelerating losses**

- **O_2 TV customer base growth sustained** in Q2, **despite Czech Pay TV market stagnating**

ICT revenues
(as % of revenues in business division)



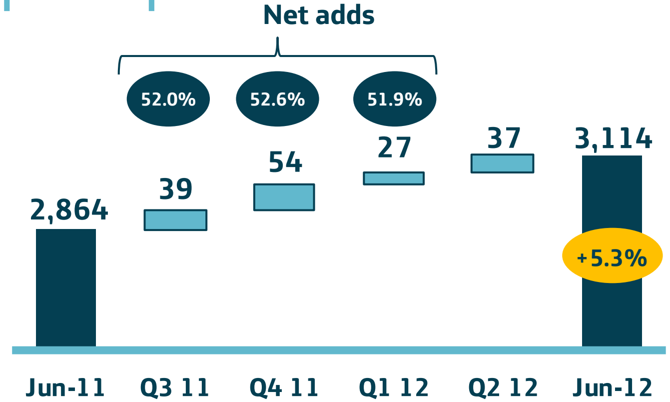
- **Penetrating standard recurring ICT solutions** (Cloud, Virtual Desktop) **to corporate segment …**
- … to **decrease dependence on one-off projects** for **Public Administration** …
- … and secure **sustainable**

y-o-y change

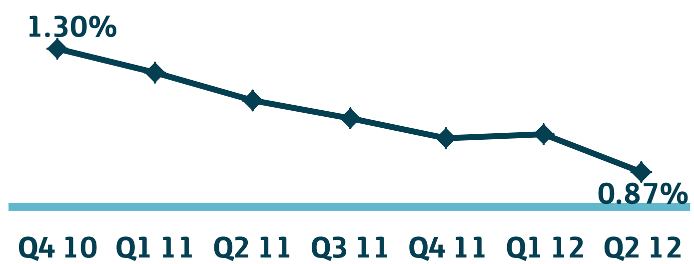
1) retail & wholesale
2) 48% of total customer base

Churn and customer value management initiatives lead to improving spend patterns with further roll out potential

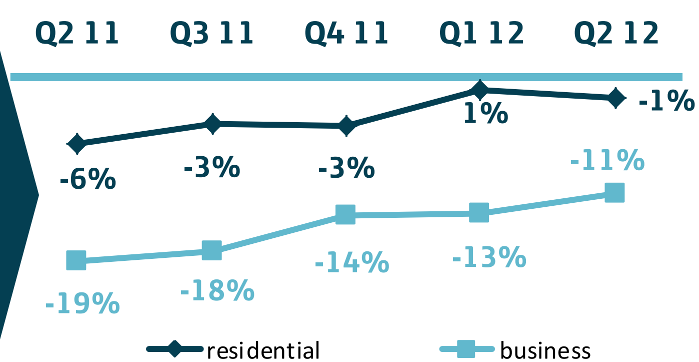
Contract mobile customers ('000)



Contract churn (monthly average)



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



- **Total mobile base** reaching **4,968k** at the end of June 2012 **(+2.0% y-o-y)**
- **Solid contract commercial performance reinforced** in Q2, due to **strong trading in corporate segment** and **further improvement in retention** and **care** activities
- **Q1: 5th consecutive quarter with ~50% market share of contract net adds**

- **New mobile tariffs** (SMART NEON) offering **more value** (unlimited on-net SMS) and **voice/small screen bundles**

- **Contract ex-MTR ARPU performance improving for 4th consecutive quarter:**
  - **Residential segment** sustains **spend stabilization** due to **CVM[2] execution** & **positive impact of smartphone uptake**
  - **Spend dilution in business segment** further **decelerates** on the back of **"O_2 Exclusivity" proposition**

y-o-y change

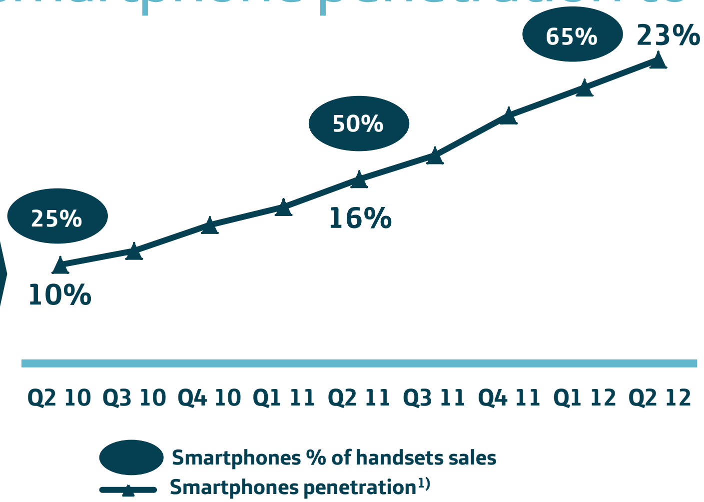
m.s. [1]

[1] m.s. + market share

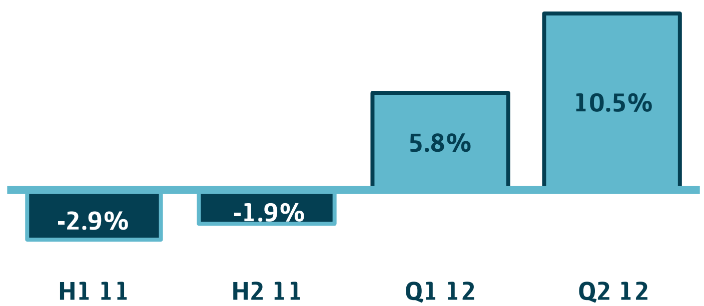
[2] CVM = Customer Value Management

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

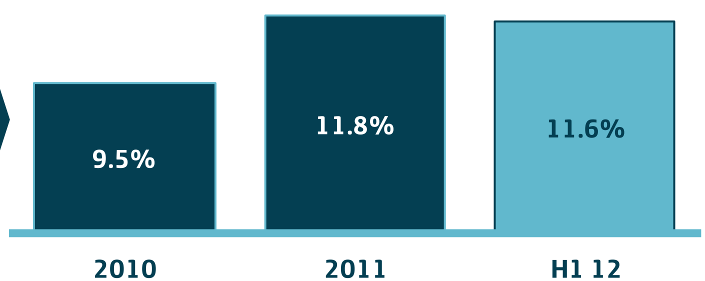
Smartphone sales & penetration



Mobile non-SMS data revenues (y-o-y change)



Commercial costs[2] as % of mobile revenues



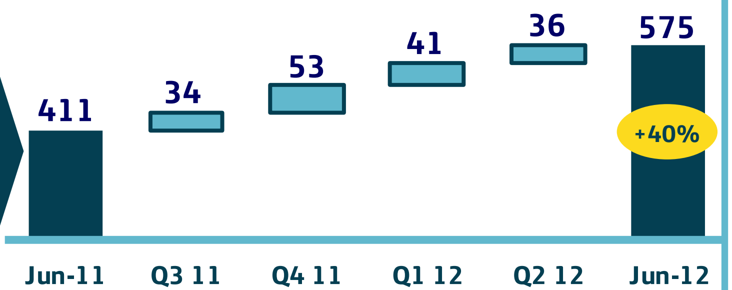
- **Continuous smartphone focused marketing campaigns** helping to **accelerate** smartphone **sales** and **penetration**

- **Refreshed small screen proposition** (bundling with SMS) to **drive mobile data revenues uptake**
- Pilot commercial LTE launch**, confirming mobile BB leadership perception**
- **Data revenues** account for 28% of mobile service revenues in Q2 (+2 p.p. y-o-y), with **increasing contribution of mobile internet**[3]: 36% of data revenues (+3 p.p. y-o-y)
- **Selective and rational investments into commercial costs**

[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

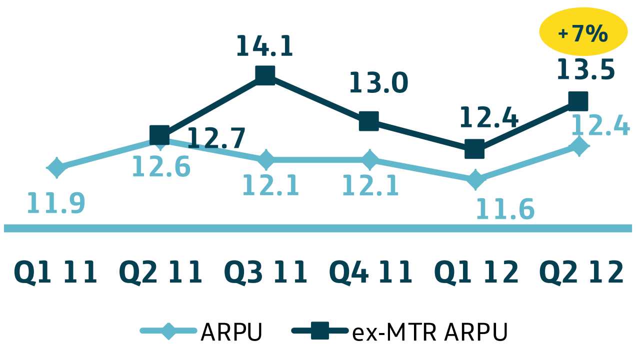
Slovakia - strong customers' growth and new value focused proposition driving further improvement in financial performance

Contract mobile customers ('000)



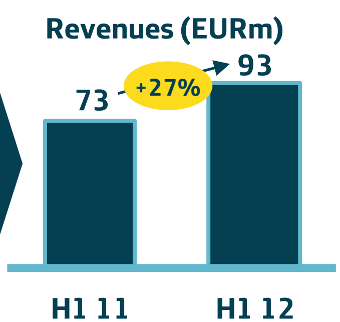
- **Sound customers' growth maintained in Q2** (+33k) **driven by contract** supported by successful launch of **new proposition focused on higher value customers**
- **Close to 20% market share**[1)]
- **Best-in-class customer satisfaction**[2)] (CSI: 85.8 points), positive gap to best competitor at 7.5 points

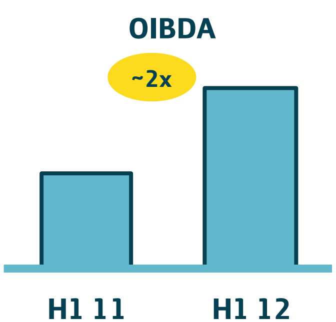
Focusing on value (ARPU in EUR/month)



- **ARPU improvement** on the back of **better customer mix** and **new/refreshed propositions** for SMB and residential
- **Continuous 3G coverage expansion** to support **smartphone penetration uptake** (22% at Jun-12, +7 p.p. y-o-y)

Strong financials





- **Strong underlying** (ex-MTR impact) **revenues growth maintained in Q2: +35.8% y-o-y**
- **Growing OIBDA, leveraging on lean operation**
- **Slovakia's improving financials** (close to 10% of Group revenues in H1 2012) **positively contributing the Group's profitability**

y-o-y change

1) estimated

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

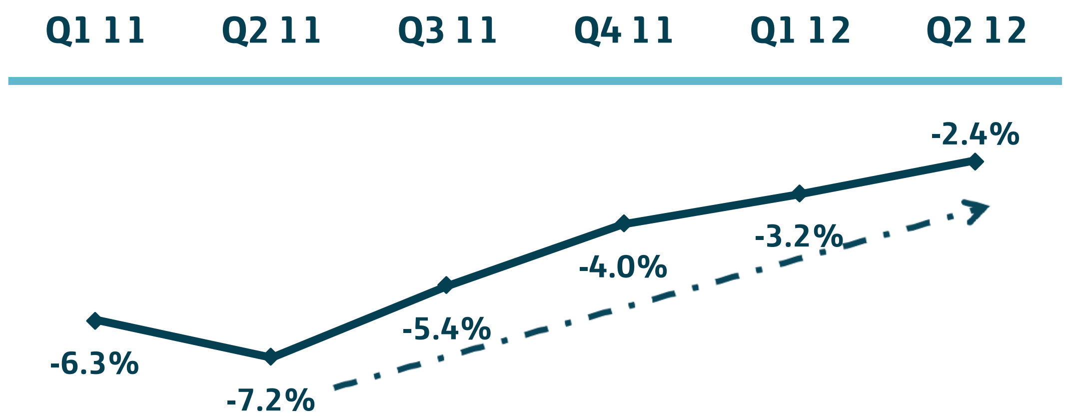
02

January – March2012 Financial Performance

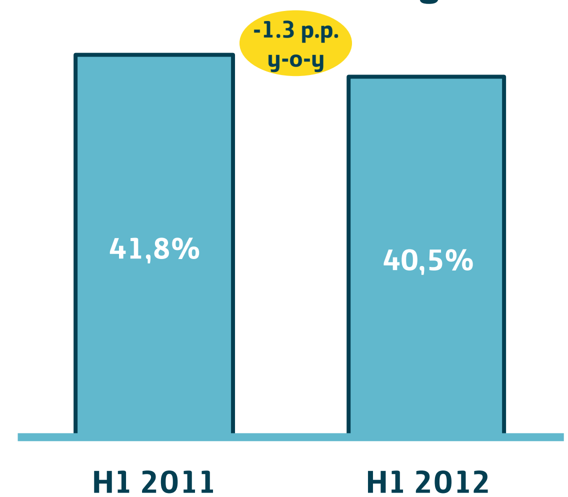
Key Highlights of Group Financial Performance

CZK millions	Jan – June 2012	*Change H1 12/H1 11*
Business revenues	**25,165**	***(2.8%)***
CZ Fixed	**10,584**	***(6.3%)***
CZ Mobile	**12,345**	***(4.5%)***
OIBDA before brand fees and management fees	**10,195**	***(5.8%)***
OIBDA margin before brand fees and management fees	***40.5%***	***(1.3p.p.)***
OIBDA	**9,682**	***(5.8%)***
OIBDA margin	***38.5%***	***(1.2p.p.)***
Net Income	**1,632**	***(9.9%)***

Business revenues (y-o-y)



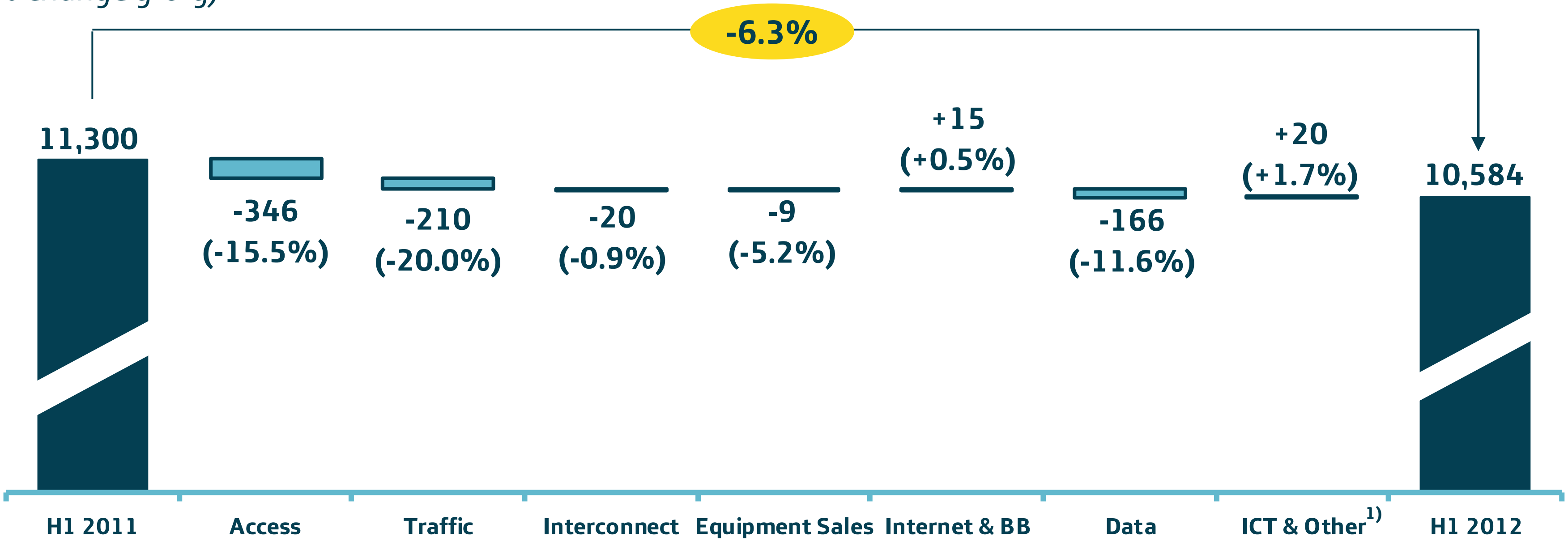
Guided OIBDA margin[2)]

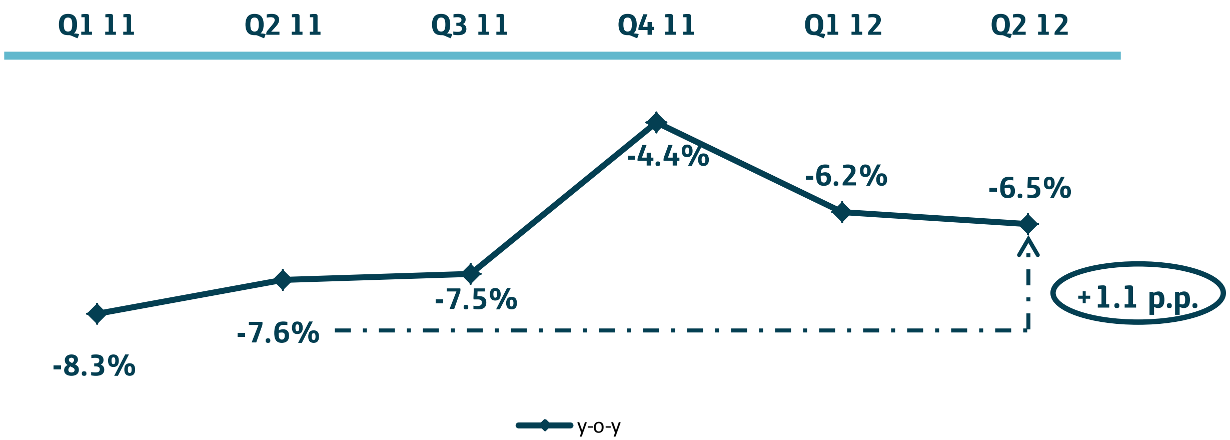


[1)] OIBDA before brand fees & management fees (H1 2011: CZK 551m, H1 2012: CZK 513m), guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2011

CZ Fixed Business Revenues – sources of variation

CZK millions
(% change y-o-y)

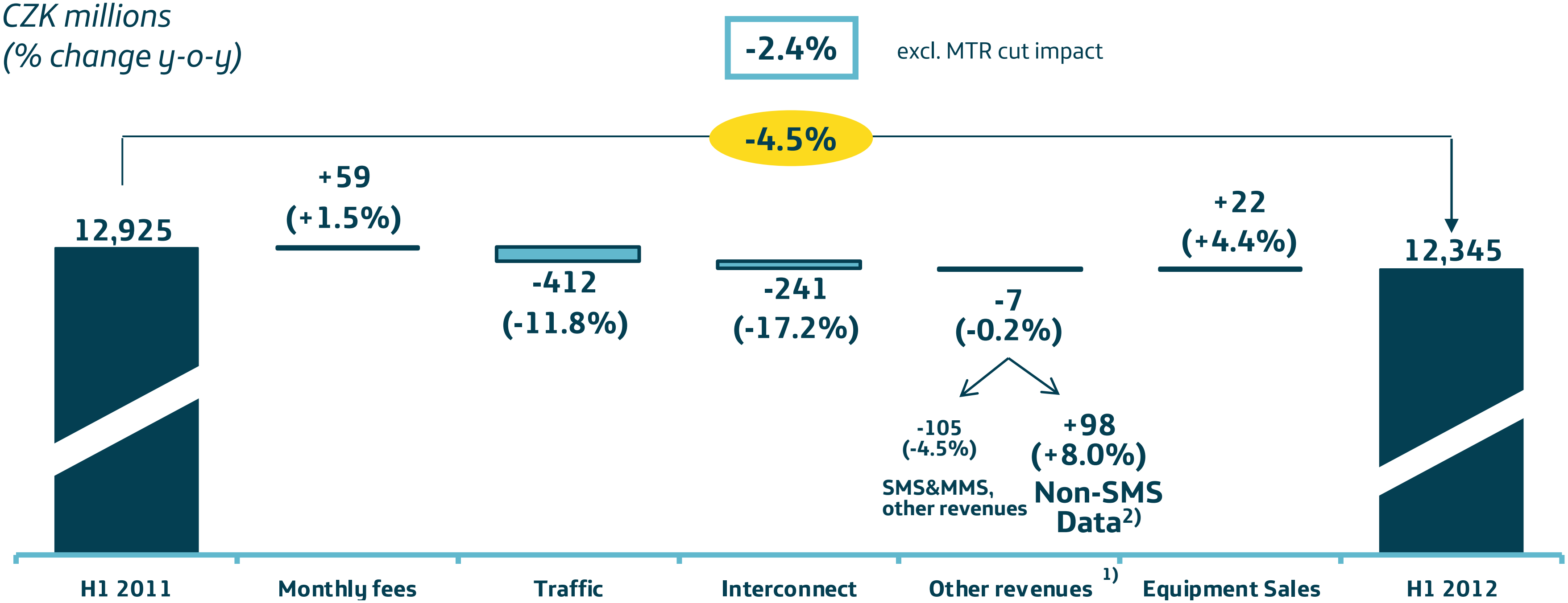


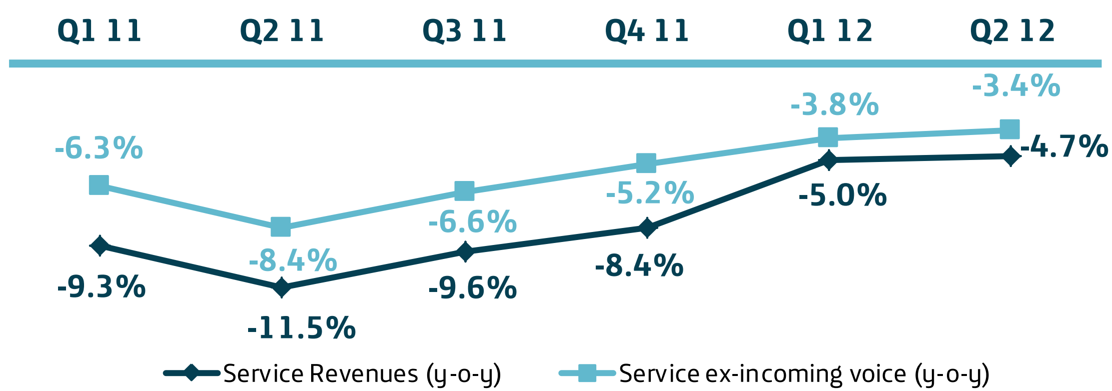


[1] ICT & Other – incl. ICT, universal service and other revenues
Figures excluding inter-segment charges between fixed and mobile businesses

CZ Mobile Business Revenues – sources of variation

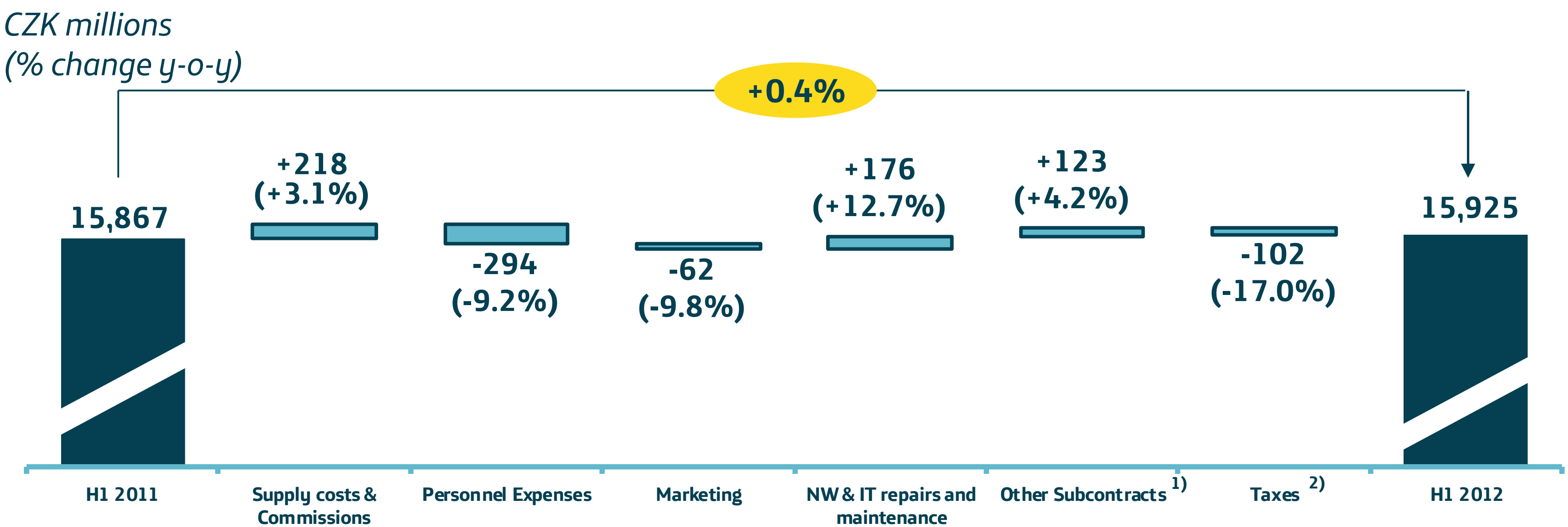
CZK millions
(% change y-o-y)

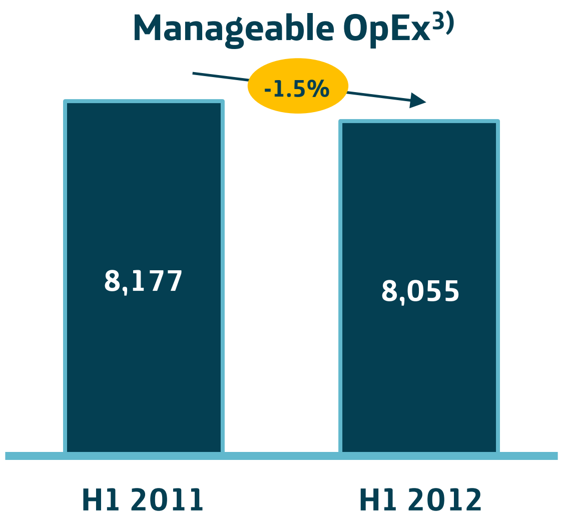




[1] Other – incl. VAS, Internet & Data and Other revenues
[2] Big screens, small screens, M2M, Time/Usage based, Push Email, Data Roaming
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

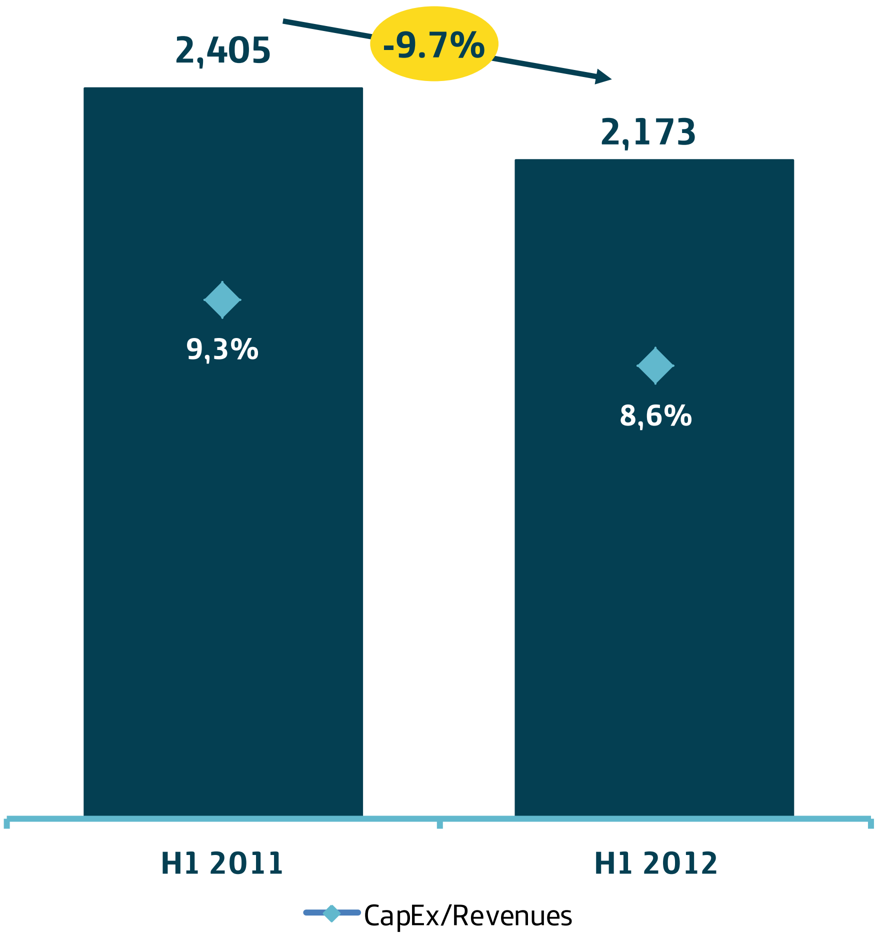




[1] Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees
[2] Taxes = taxes other than income taxes, provisions and fees
[3] Personnel Expenses, External Services (excl. Commissions, Brand & Management Fees) , Taxes

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

CZK millions	**31 Dec 2011**	**30 Jun 2012**	***Change Jun12/Dec11***
Non-current assets	**73,100**	**69,474**	***(5.0%)***
Current assets	**15,881**	**19,032**	***+19.8%***
- of which Cash & cash. Equiv.	6,955	10,886	*+56.5%*
Total assets	**88,982**	**88,506**	***(0.5%)***
Equity	**69,097**	**63,255**	***(8.5%)***
Non-current liabilities	**3,870**	**3,423**	***(11.5%)***
- Long-term financial debt	-	-	*0.0%*
Current liabilities	**16,015**	**21,828**	***+36.3%***
- Short-term financial debt	3,061	3,146	*+2.8%*

	Jan – Jun 2011	**Jan – Jun 2012**	***Change H1 12/H1 11***
Cash flow from operations	**11,029**	**8,274**	***(25.0%)***
Dividends received	5	5	*0.0%*
Net interest and other financial expenses paid	(14)	80	*n. m.*
Payment for income tax	(1,599)	(848)	*(47.0%)*
Net cash from operating activities	**9,421**	**7,511**	***(20.3%)***
Proceeds on disposals of PPE and intangibles	42	262	*n. m.*
Payments on investments in PPE and intangibles	(3,443)	(3,465)	*+0.6%*
Net cash used in investing activities	**(3,400)**	**(3,203)**	***(5.8%)***
Free cash flow	**6,021**	**4,308**	***(28.5%)***

03
Share buy back update

Share buy-back update

Share buy-back program

- **AGM** held on 19th April approved a **generic authorisation for potential share buy-back up to 10% of shares for 5 years**
- On 9th May**, Board of Directors approved** the first **tranche of share buy-back program** of **up to 2%** (6,441,798 shares), which **commenced on 18th May**
- **Completion of 2% tranche expected** by **Q4 2012**
- **Board of Directors** intends submitting a proposal to **cancel the acquired shares** on the next AGM and to **reduce registered capital** by amount of the nominal value of the acquired shares

Current status

- **By 20th July,** the Company acquired and settled **1,729,692 of its own shares** (0.54% of registered capital) at an **average price of CZK 383.3** per share, i.e. for **total amount of CZK 663 million**