

Telefónica Czech Republic

Quarterly Results

January – December 2013

26th February 2014



Telefónica

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.

01

FY & Q4 2013 Performance Highlights

Highlights: In 2013 Telefónica delivered its guidance in all metrics

	2013 Guidance	2013 actual	
We delivered on our promises	OIBDA margin ¹⁾ limited erosion (2012 base 41.4%)	41.5%	
	CAPEX < CZK 6 bn.	CZK 5.7 bn.	
We acquired new spectrum... ...and utilised existing assets	<ul style="list-style-type: none"> We acquired what we need for future growth and for reasonable price We closed a new 2G/3G deal with further utilisation potential 		
	<ul style="list-style-type: none"> Continued success of FREE proposition... ...and strong MVNO's in residential... ...protecting customer base and market share in the business segment... ...sustained demand for VDSL and O2 TV in the fixed... ...all resulted in CSI leadership 		
We again confirmed market leadership	<ul style="list-style-type: none"> Continuing with costs management agenda to protect OIBDA... ... and delivering growing Free Cash Flow year-on-year Increasing contribution from our business in Slovakia 		
We delivered solid results	<ul style="list-style-type: none"> Continuing with costs management agenda to protect OIBDA... ... and delivering growing Free Cash Flow year-on-year Increasing contribution from our business in Slovakia 		

¹⁾ OIBDA margin: limited margin erosion year-on-year (2012 base: 41.4%), OIBDA before brand fees & management fees excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2012; CapEx: less than CZK 6 billion, increasing proportion of investments into growth areas (mobile data, LTE and new technologies/business).

FREE tariffs have changed the market by addressing the needs of our customers... ...while simplifying our operational model

We changed the market

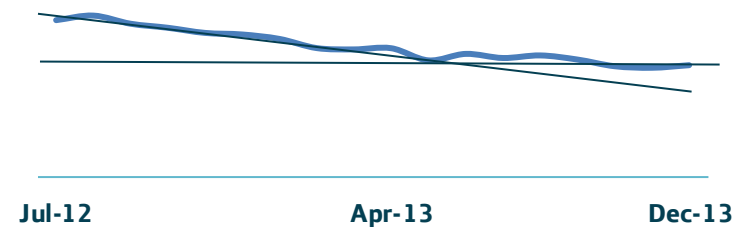
- **Addressing customers' needs** of simplicity, transparency and increasing traffic
- ...while moving from price-oriented to **value-oriented**
- ...through innovative **customer experience**, unique **loyalty program** and best-in-class **NW quality**
- Migration to FREE Tariffs is a **growth opportunity...**
- ...while in the very competitive **business segment** we protect our **strong customer base**



Already benefiting from simplification

- FREE **changed spend trend** in Consumer segment
- Sales staff incentivised to **upsell**, supported by CRM
- **Simplification** drives savings
 - **Reduction of calls** in the call centres
 - All FREE customers on **e-bill**
 - Hardware **subsidies eliminated**
 - No extra spend for the **marketing campaign**

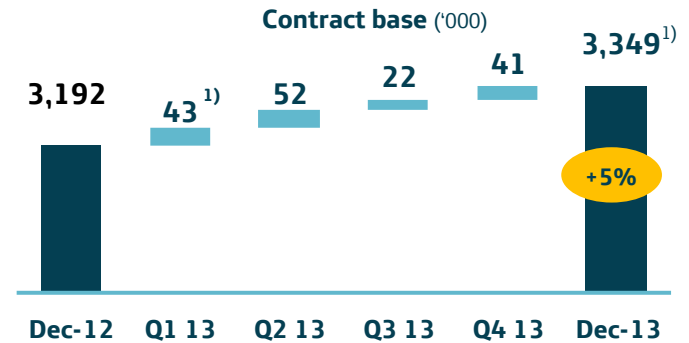
Consumer postpaid spend
illustrative



Changed the market via new proposition in Q2... ...and continue to execute our strategy in Q4

Growing mobile base

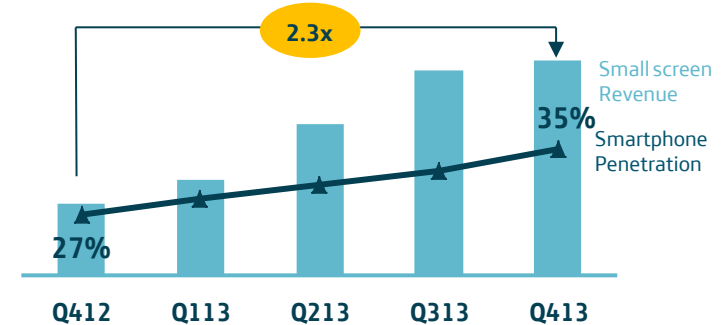
- **Total mobile customer base at 5.1 mil.** (+3% y-o-y¹⁾)
 - **Contract** growth +5% y-o-y¹⁾ helped by low churn
 - Our **leadership position in the MVNO** market manifests in our prepaid performance



FREE driving data growth

- FREE tariffs and **smartphone penetration** uptake driving **small screen base growth** (+85% y-o-y)...
- ...more than **doubling** the revenues for **small screen**
- Supported by **mobile network enhancement** (LTE deployment, HSPA+ upgrade)

Small screen revenue in Q4 more than doubled Y-o-Y



Leadership in MVNO's

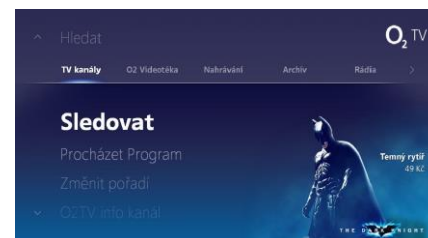
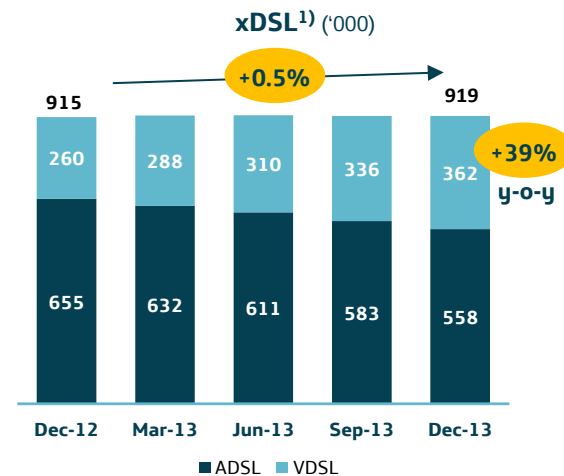
- **Confirmed our MVNO leadership with best partners**
 - **ČEZ** – dominant energy company, launched on Oct-15
 - **Blesk** – leading tabloid with **extensive distribution channels**, more than 200k customers already
 - **Tesco** – replicating successful concept from the UK, as part of the **Clubcard loyalty** scheme



Maintaining our leadership position in fixed BB with continuing migration to VDSL... ...refreshed IPTV platform addressed customer needs

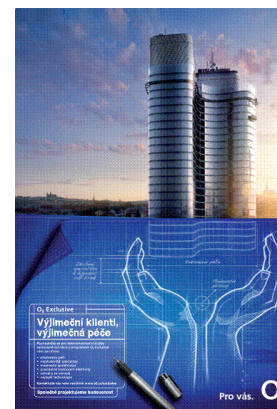
Fixed BB & Pay TV

- Continuous **demand for VDSL service**, with customer base growing by **39% y-o-y**...
- ...helping to manage churn, spend dilution and improve customer satisfaction...
- ...and our **new O₂ TV with Timeshift** service unique in the market is a winner with the customers...



ICT

- ICT represents already **31% of fixed operating revenues in business segment** (+1.8 p.p. y-o-y)
- Selective approach maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **increased O₂ Exclusive** concept penetration

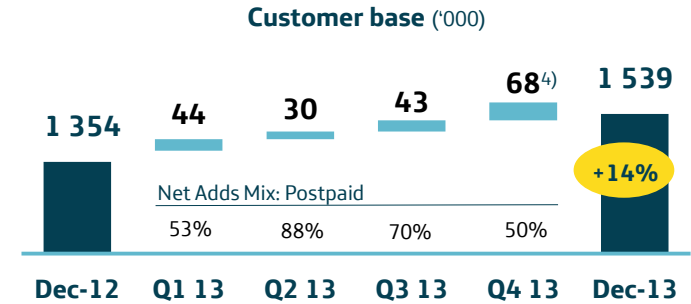


¹⁾ retail & wholesale

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

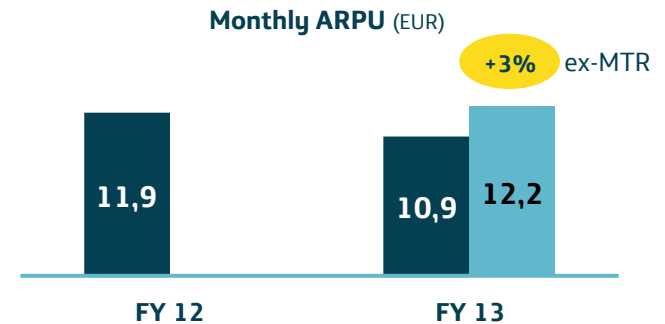
Mobile customers

- Sustained strong customers' growth (+14% y-o-y)
- Churn remains low (contract: 1% in Q4)
- Refreshed proposition still popular with customers, contract as well as pre-paid
- Over 23% market share¹⁾ (+2.5 p.p. y-o-y)



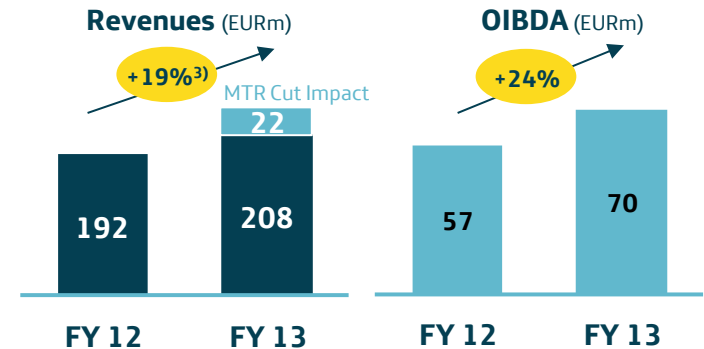
Growing customer value

- ARPU improvement²⁾ on the back of enhanced customer mix and successful adoption of commercial propositions by high value customers
- Increasing the quality of 3G coverage driving smartphone penetration and data ARPU uptake



Strong financials (EURm)

- Strong underlying²⁾ revenues growth maintained
- OIBDA margin 34% in FY 2013, leveraging on lean operation and synergies with CZ
- Increasing and positive contribution to the Group's financials



■ y-o-y change

¹⁾ Q3 2013
²⁾ ex-MTR cut impact
³⁾ reported revenue growth 8% y-o-y while ex-MTR impact growth 19%
⁴⁾ incl. 18 thousand adjustment of prepaid customers

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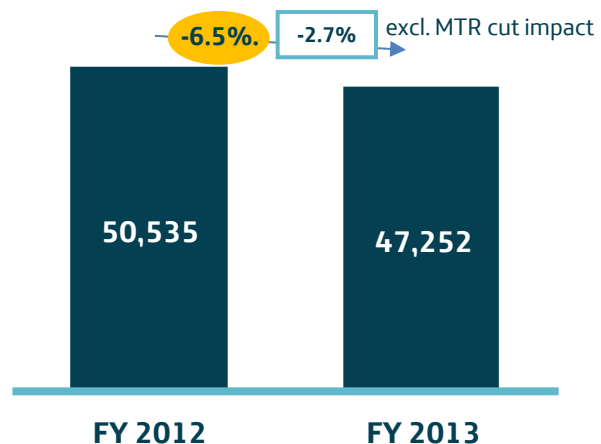
January – December 2013
Financial Performance

Solid comparable¹⁾ OIBDA margin on the back of efficiency agenda

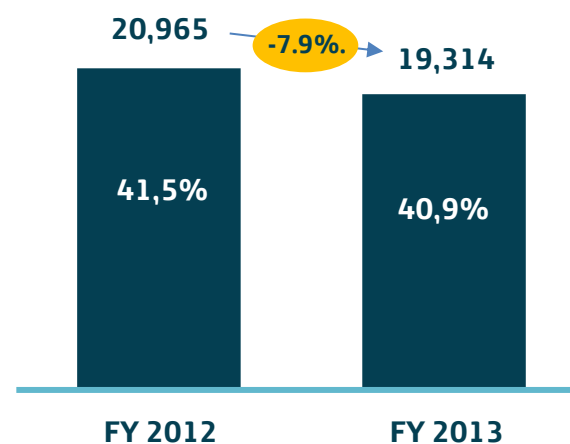
CZK millions

	Jan – Dec 2013	Change FY 13/FY 12
Operating Revenues	47,252	(6.5%)
CZ Fixed	20,275	(5.2%)
CZ Mobile	21,897	(10.7%)
Slovakia	5,399	11.7%
OIBDA before brand fees and management fees	19,588	(6.4%)
<i>OIBDA margin before brand fees and management fees</i>	41.5%	0.1 p.p.
Free Cash Flow	11,582	3.2%

Operating revenues ex-MTR cut (y-o-y)



Comparable OIBDA and margin¹⁾

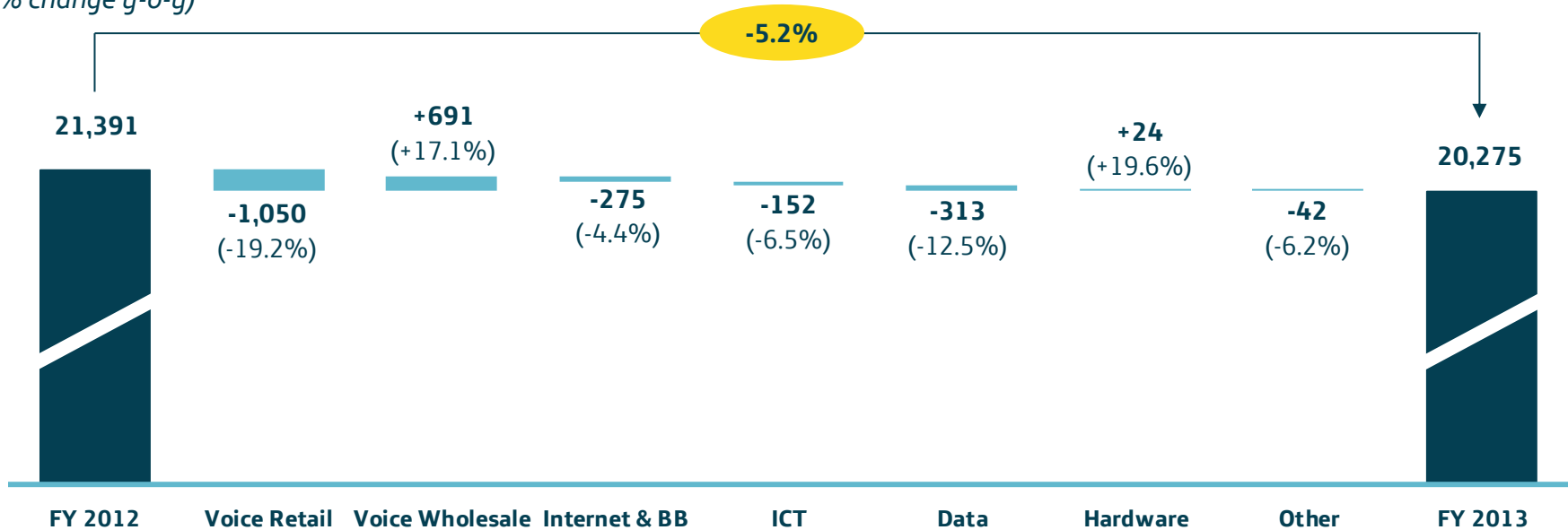


y-o-y change

¹⁾ OIBDA before brand fees & management fees, excluding gain on sale of 80% stake in Informacni linky, a.s. in Q1 2012 (CZK 220m), restructuring costs in FY 2012 (CZK 265m) and FY 2013 (CZK 368m), excluding One-off compensation from T-Mobile for Telefonica's contribution to network sharing partnership in Q4 2013 (CZK 643m)

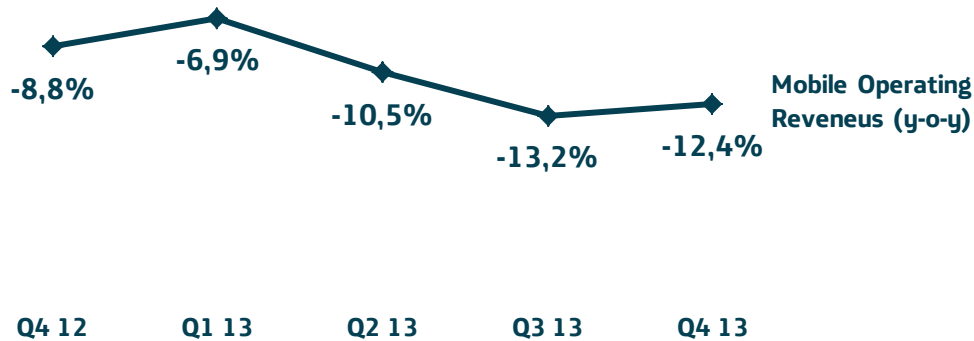
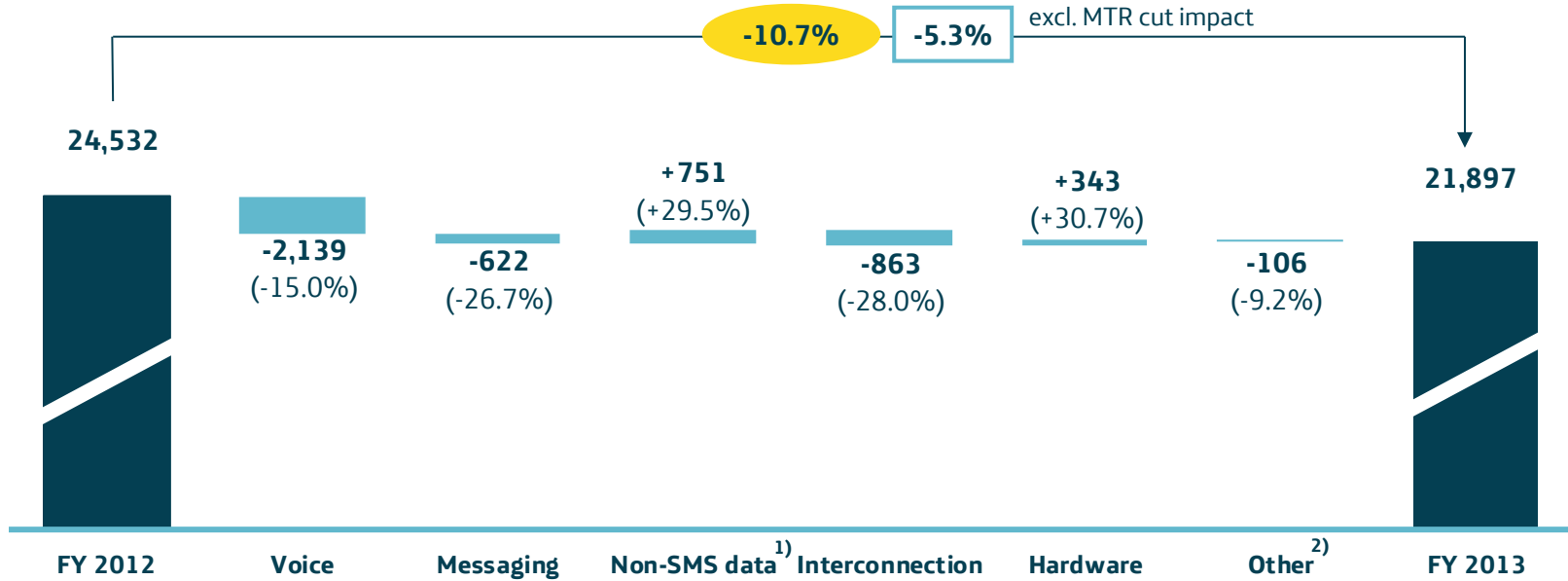
CZ Fixed Operating Revenues influenced by weaker Q4 ICT as anticipated

CZK millions
(% change y-o-y)



CZ Mobile Operating Revenues confirm uptake in non-SMS data

CZK millions
(% change y-o-y)

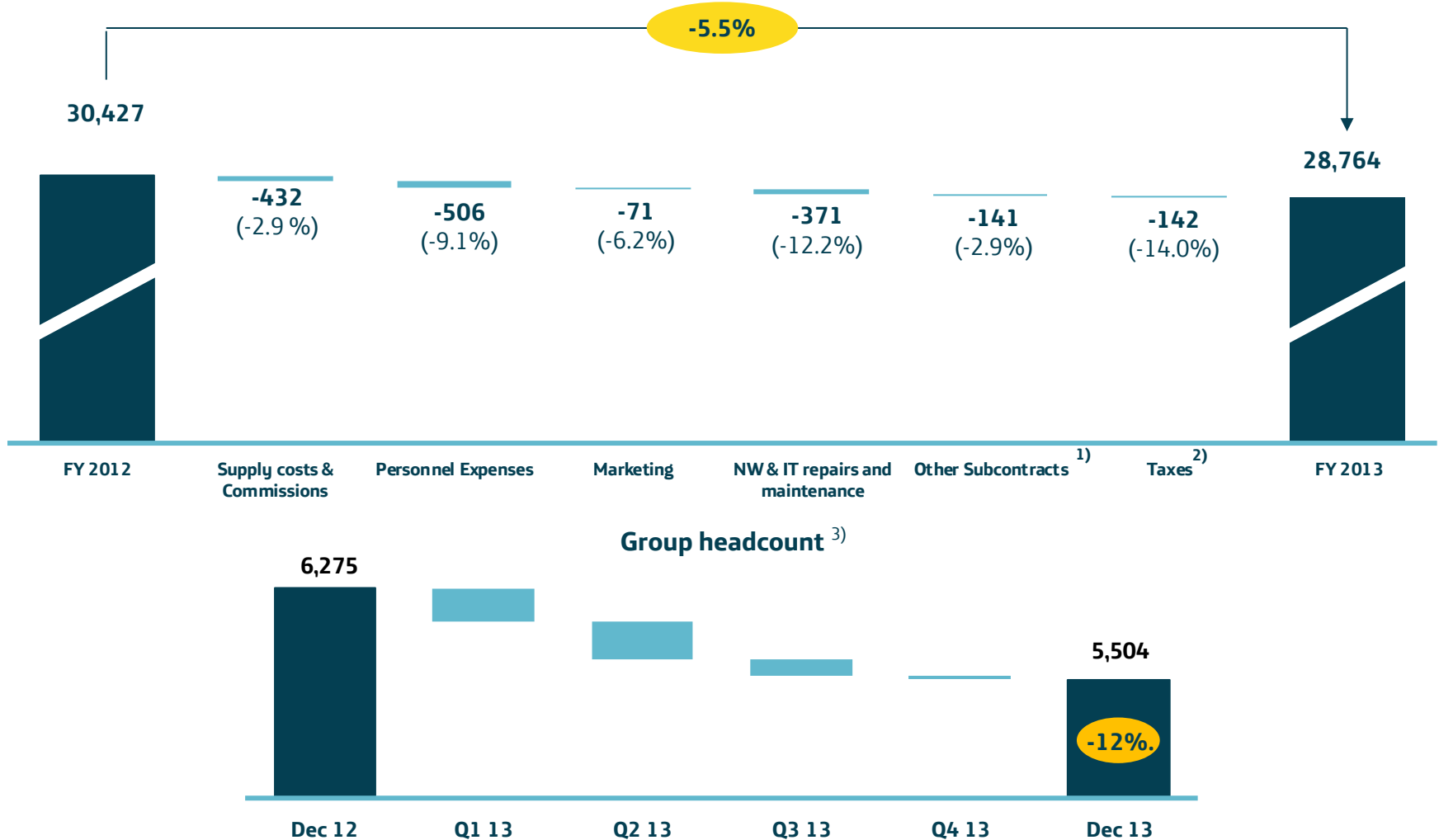


y-o-y change

¹ Non-SMS data excluding CDMA
² CDMA, Inbound Roaming, M2M, Other revenues

Group OPEX – operating transformation delivering tangible savings

CZK millions
(% change y-o-y)



¹⁾ Rentals, Buildings, Vehicles, Consumables, Consultancy, Billing, Collection, Call Centers and other

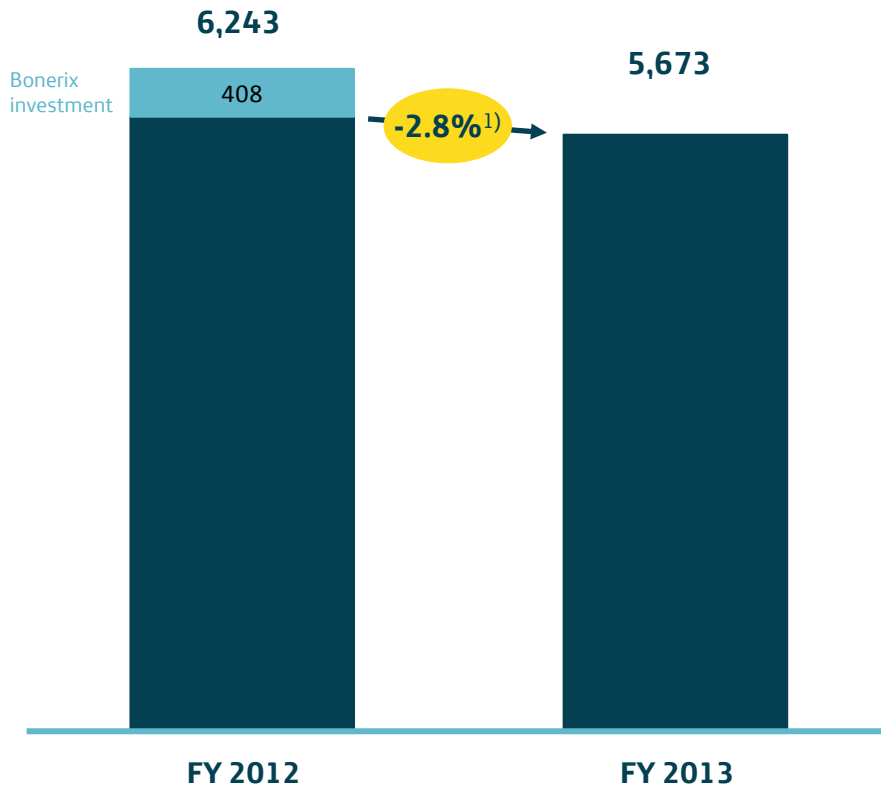
²⁾ Taxes other than income taxes, provisions and fees

³⁾ Excluding Bonerix subsidiary headcount of 102

y-o-y change

Group CAPEX – efficient investments into growth areas

CZK millions



■ Continuous investments to growth areas

- Capacity & quality enhancement of MBB network in CZ (incl. LTE deployment in large cities), including backhaul
- FBB network improvement (VDSL/VDSL+ coverage & capacity expansion)
- IT/Systems investments to simplify processes and improve operational efficiency
- CAPEX for LTE spectrum acquisition will be posted in Q1 2014
 - CZK 2.8 billion for CZ LTE spectrum
 - EUR 40.3 million for SK LTE spectrum

Healthy Balance Sheet & Growing Free Cash Flow

<i>CZK millions</i>	31 Dec 2012	31 Dec 2013	<i>Change Dec13/Dec12</i>
Non-current assets	67,835	62,460	(7.9%)
Current assets	11,364	11,489	1.1%
- of which Cash & cash. Equiv.	3,044	3,890	27.8%
Total assets	79,199	73,950	(6.6%)
Equity	60,574	55,749	(8.0%)
Non-current liabilities	6,322	5,825	(7.9%)
- Long-term financial debt	3,000	3,000	0.0%
Current liabilities	12,303	12,376	0.6%
- Short-term financial debt	31	4	(87.6%)
	Jan – Dec 2012	Jan – Dec 2013	<i>Change FY13/FY 12</i>
Cash flow from operations	19,164	18,783	(2.0%)
Net interest and other financial expenses paid incl. dividends	(145)	(18)	(87.6%)
Payment for income tax	(1,783)	(1,463)	(17.9%)
Net cash from operating activities	17,235	17,301	0.4%
Proceeds on disposals of PPE and intangibles	322	72	(77.6%)
Payments on investments ¹	(6,337)	(5,791)	(8.6%)
Net cash used in investing activities	(6,015)	(5,719)	(4.9%)
Free cash flow	11,220	11,582	3.2%



¹⁾ Includes Investments in PPE, intangibles, financial investments, and temporary financial investments

03

2013 Investor Guidance

2014 Shareholder remuneration proposal

We have delivered 2013 Investor Guidance in all metrics

	2012 base	2013 Guidance	FY 2013 Actual	
OIBDA margin¹⁾	41.4%	Limited margin erosion y-o-y on the back of continuous efficiency agenda	41.5% (+0.1 p.p. y-o-y)	
CapEx²⁾	CZK 6.2 bn.	Less than CZK 6 bn. , increasing proportion of investments into growth areas (mobile data, LTE and new technologies/businesses)	CZK 5.7 bn. (-9.1% y-o-y)	

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 and business acquisitions

2014 Investor Guidance and 2013 Shareholder remuneration proposal

	2013 base	2014 Guidance
Revenues¹⁾	-6.5% y-o-y	Still declining but improving y-o-y revenue trend
Capex²⁾	5.7bn	Capex up to the previous year level, increasing proportion of investments into growth areas (mobile data, LTE and new technologies/businesses)

Shareholder remuneration proposal

The Board of Directors will make a 2013 shareholder remuneration proposal to the Annual General Meeting in Q2, **ranging between CZK 18 and CZK 30 per share**, depending mainly on the outcome of a legal analysis of the new Commercial Corporations Act.

¹⁾ Group Operating Revenues

²⁾ Excluding investments for spectrum license and business acquisitions