Telefónica Czech Republic

Quarterly Results
January – September 2011

10th November 2011

CAUTIONARY STATEMENT

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01

Q3 and 9M 2011 Performance Highlights

Q3 and 9M 2011 performance highlights

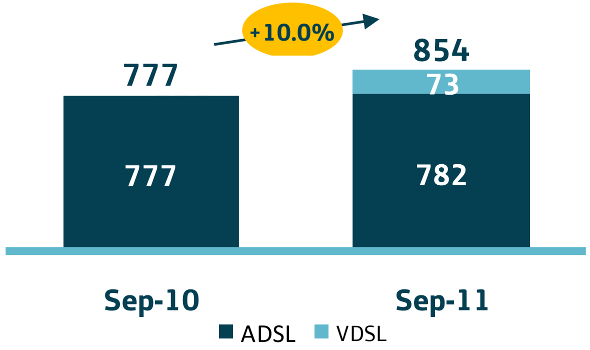
- **Solid commercial momentum in focused areas maintained in Q3:**
  - **CZ mobile contract base**: 6.3% y-o-y, 39k net adds in the quarter,
  - **xDSL customer base** maintained double digit growth: +10.0% y-o-y
- **CZ mobile revenues show some improvement in Q3** on the back of **better spend in residential**, while continued to be impacted by **persisting competitive pressure and additional MTR cuts**
- **CZ fixed revenues y-o-y decline keeps slightly improving in Q3 sequentially**
- **Slovakia** keeps its **subscribers' growth** and **improving financial performance** – positive and growing OIBDA in Q3
- **Guided OIBDA margin**[1)] in 9M 2011 maintained **flat y-o-y** reaching **43%**, as a result of **efficiency agenda in CZ** and **positive OIBDA in SK**
- **2011 full year guidance**[2)] for OIBDA and CAPEX **reiterated**

[1)] OIBDA excludes brand fees and management fees (CZK 634m in 9M 2010 and CZK 834m in 9M 2011) and reversal of the impairment loss of CZK 4,343m in Q3/9M 2010; assuming constant FX rates of 2010

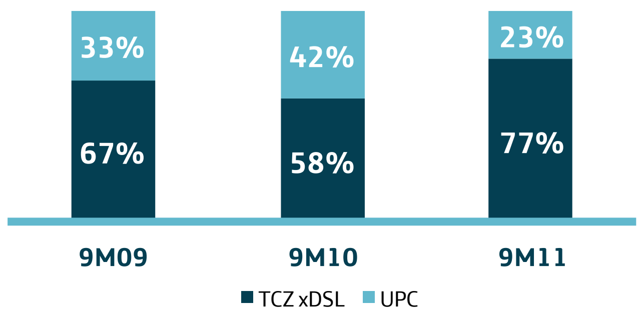
[2)] OIBDA decline of -1% to -5%, CapEx around CZK 5.7 billion. In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes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

Solid xDSL performance maintained in highly competitive market, VDSL launch focusing on protection of existing customer base with higher ARPU

xDSL[1)]
('000)



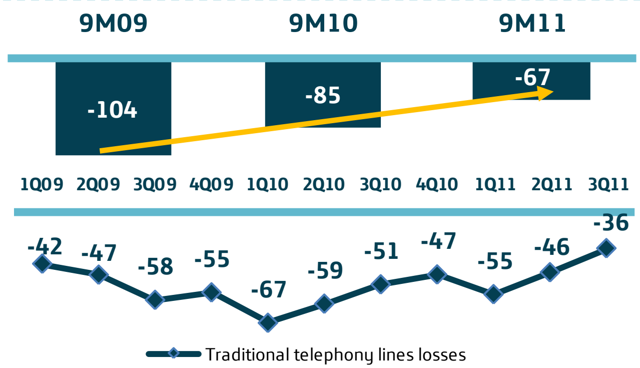
FBB net adds
(market shares)



- **48.5 thousand xDSL net adds in 9M 2011, a relevant figure in highly competitive and slowing market**
- **Promising VDSL performance** (launched in May):
  - **Already ¼ of base addressable by VDSL locked for 12 months**

  - **Migrated/locked customers with substantial higher than average xDSL ARPU (>~20%)**
  - **Improving xDSL churn** (1.2% in Q3, -0.2 p.p. y-o-y)
- **Continue to outperform competition despite aggressive cable pricing strategy**

Fixed accesses (net losses)
('000)

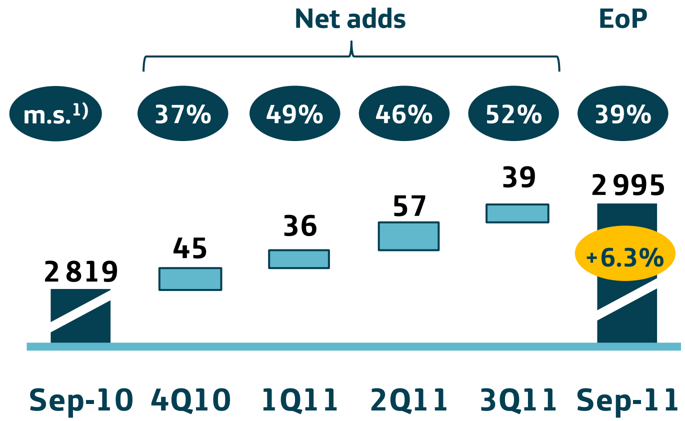


- **1.6m fixed accesses at Sep-11** (-5.0% y-o-y)
- **Fixed accesses' disconnections continue to slowdown reaching 8.9 thousand in Q3 2011**
- **Fixed telephony losses continuously decelerating** and **naked accesses growth maintained**

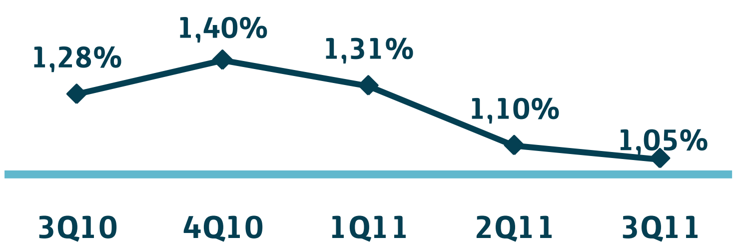
1) retail & wholesale

Outperforming mobile contract market, reducing churn, while underline spend improving in residential

Contract mobile customers ('000)

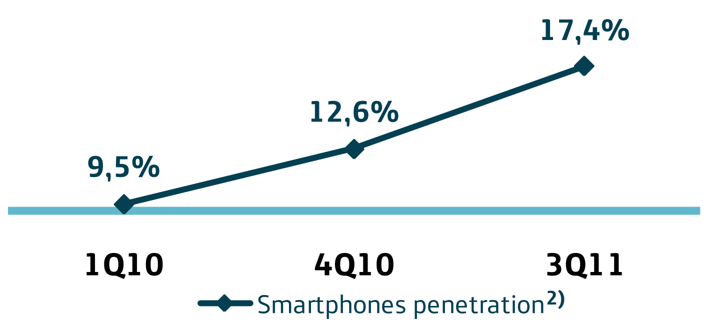


Contract churn (monthly average)



- **Total mobile base** reaching **4.9m** at the end of Sep-11 (+1% y-o-y)
- **Strong contract commercial performance maintained** in Q3, driven by **declining churn** in highly competitive and penetrated market and continuous **MBB customers uptake**
- **Deceleration in prepaid base losses**, -88.1k in 9M 2011 (-5% y-o-y)
- **Underline spend** (ex-MTR ARPU) **improving in residential** due to **better performance** of our **customer value management** (CVM)
- **In Q3**, we have started **CVM roll out in SMB and corporate** segments **to mitigate persisting competitive pressure** (ARPM)

Focusing on smartphone adoption to foster data monetisation



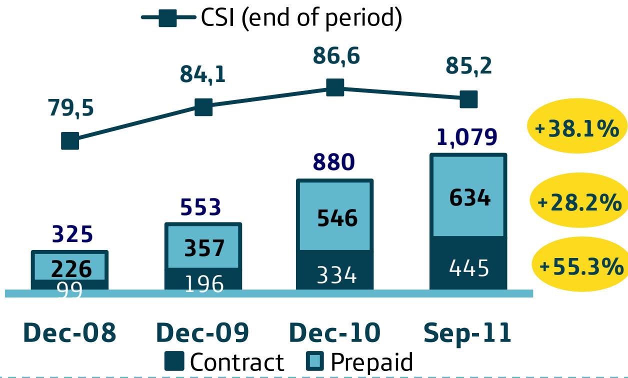
- **Mobile internet marketing campaign** resulted in **accelerated small screen net adds**
- **Best 3G network coverage & capacity, confirmed by independent customer perception research**
- Total **data ARPU still diluted** by **lower roaming prices , CDMA migrations and more SMS/MMS bundling**

y-o-y change

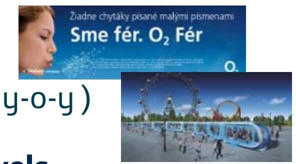
[1)] m.s. = market share
[2)] smartphones as % of total handsets base in TCZ

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

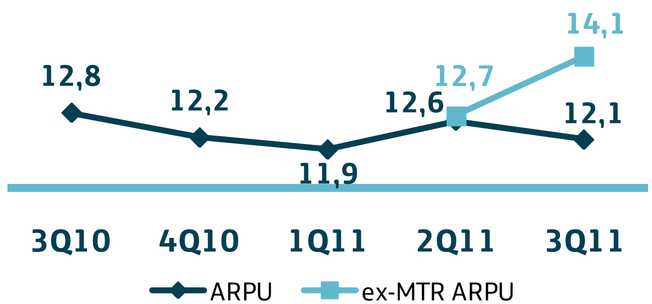
Mobile customers ('000)



- **Strong customers' growth leveraging on simple & value customer proposition**
- **Further mix improvement** (41.2% on contract, +4.6 p.p. y-o-y)
- **Churn maintained at low levels** (2.1% in 3Q 2011, -0.4 p.p. y-o-y)

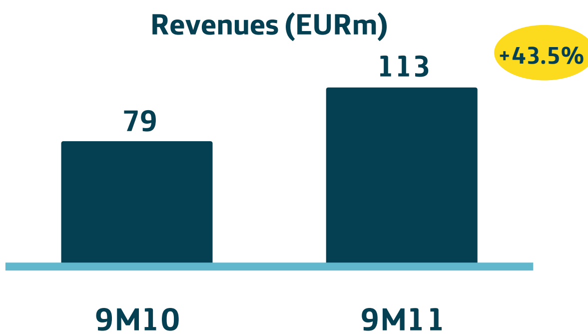


Focusing on value (ARPU in EUR/month)



- **Underlying ARPU improved in Q3** on the back of **enhancement in customer base mix and new propositions** (SMB and 3G)
- **Reported ARPU in 3Q diluted by MTR cuts** effective as of 1st June (-28.3%)

Strong financials



- **Q3 revenues at EUR 40.1m, +33.3% y-o-y** (+53.9% y-o-y ex-MTR impact)
- **Revenue growth driven by subscribers' base increase and mix improvement**
- **Positive and growing OIBDA in Q3 2011** leveraging on **SIM only proposition** and **synergies with CZ**

y-o-y change

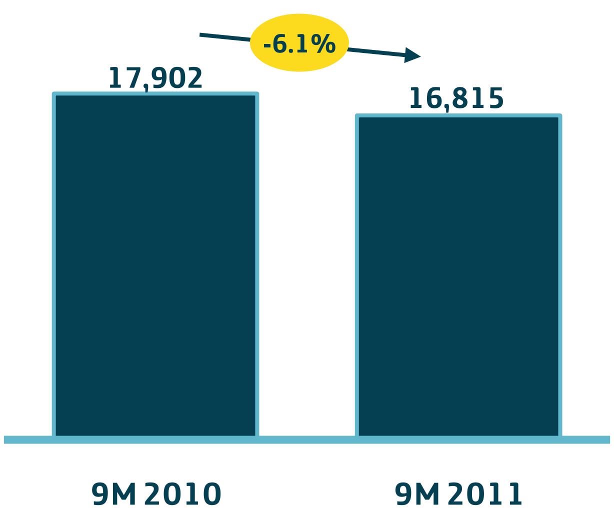
02

January – September 2011 Performance

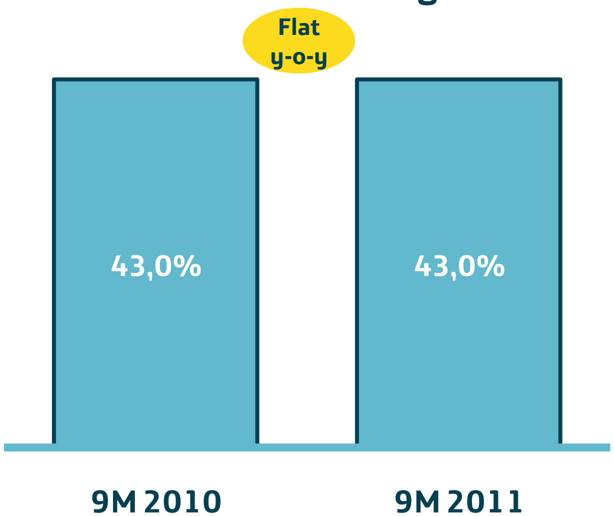
Key Highlights of Group Financial Performance

CZK millions	Jan – Sep 2011	*Change 9M11/9M10*	*Comparable change 9M11/9M10*[1)]
Business revenues	**38,977**	***(6.3%)***	
CZ Fixed	**16,836**	***(7.8%)***	
CZ Mobile	**19,545**	***(8.9%)***	
OIBDA before brand fees and management fees	**16,782**	***(24.6%)***	***(6.3%)***
OIBDA margin before brand fees and management fees	***43.1%***	***(10.4 p.p.)***	***0.0 p.p.***
OIBDA	**15,949**	***(26.2%)***	***(7.6%)***
OIBDA margin	***40.9%***	***(11.0 p.p.)***	***(0.6 p.p.)***
Net Income	**5,816**	***(43.9%)***	***(10.8%)***

Guided OIBDA[2)]



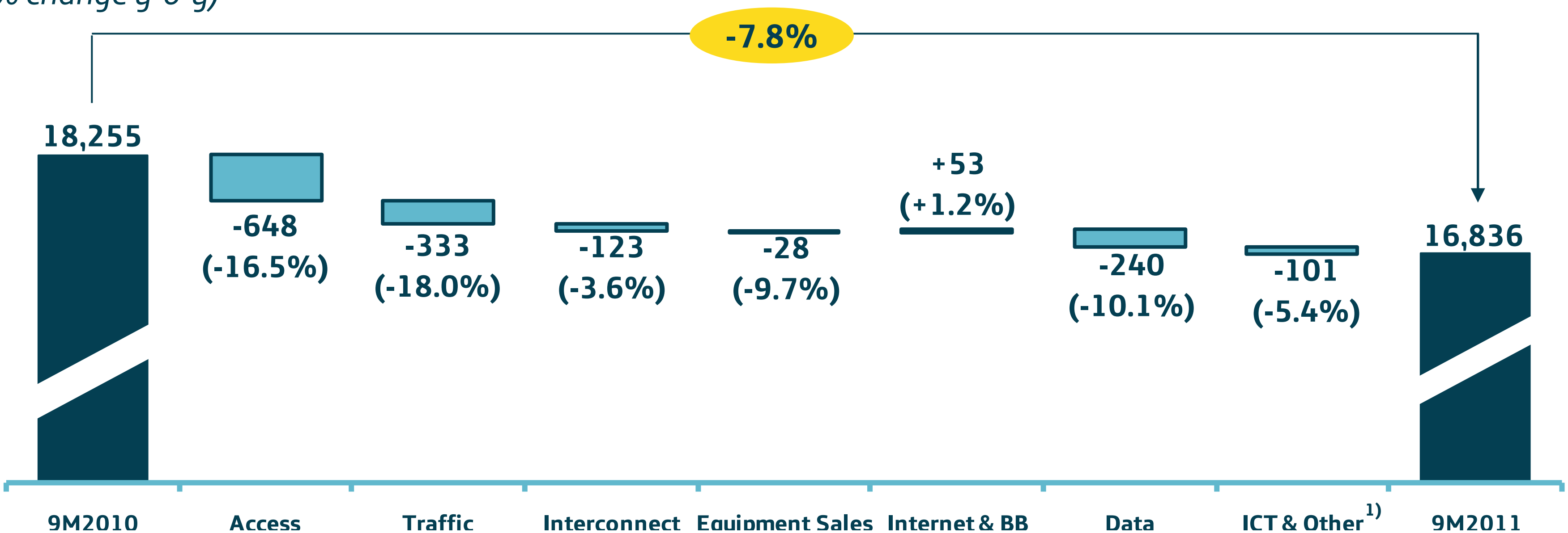
Guided OIBDA margin[2)]

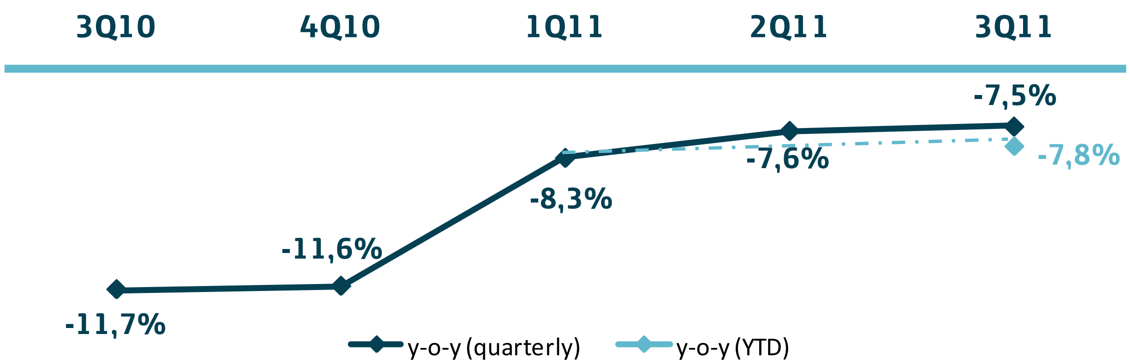


[1)] Excluding the impact of impairment reversal on OIBDA, D&A and income tax
[2)] OIBDA before brand fees & management fees (9M 2010: CZK 634m, 9M 2011: CZK 834m), excluding impairment reversal in Q3/9M 2010 (CZK 4,343m); assuming constant FX rates of 2010

CZ Fixed Business Revenues – sources of variation

CZK millions
(% change y-o-y)

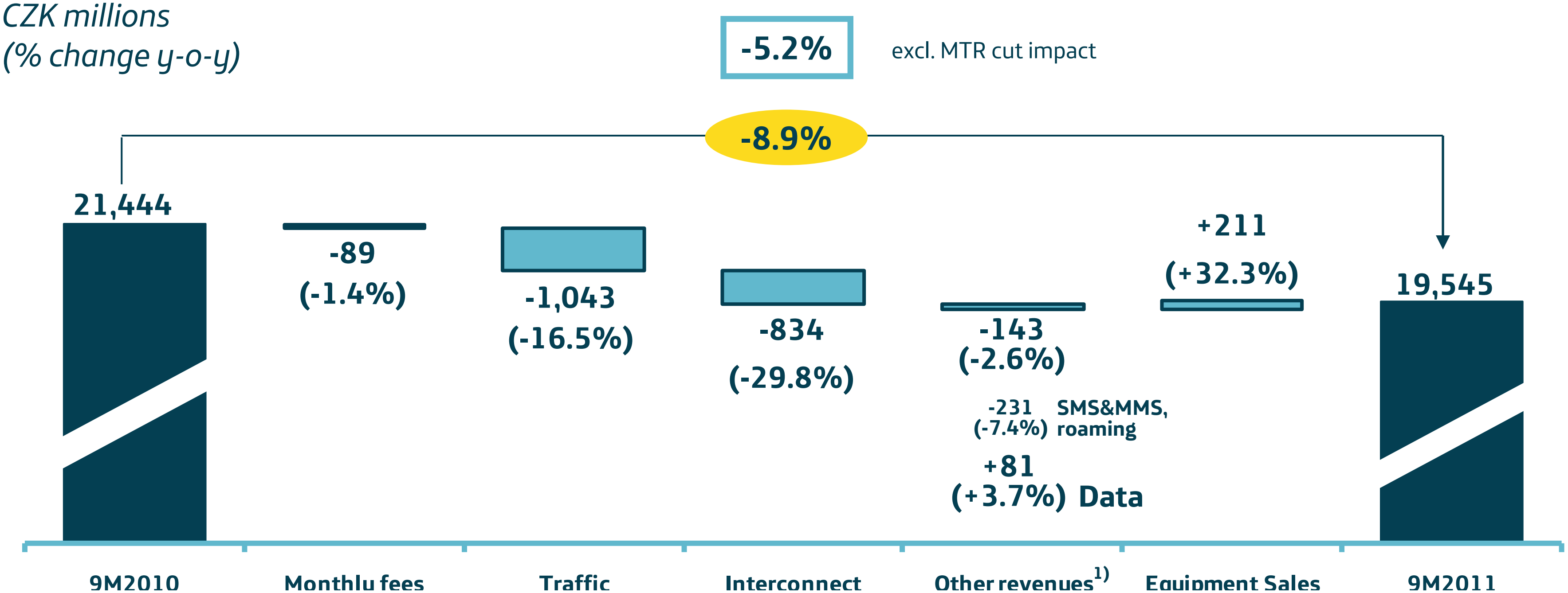


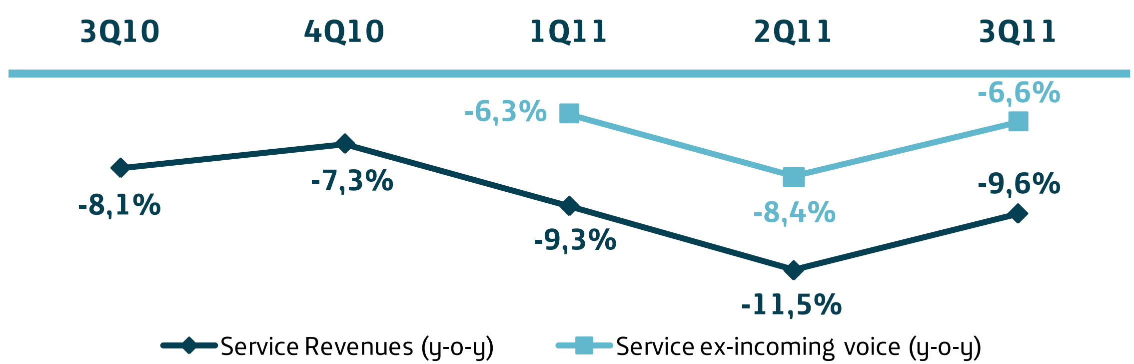


[1] ICT & Other – incl. ICT, universal service and other revenues
Figures excluding inter-segment charges between fixed and mobile businesses

CZ Mobile Business Revenues – sources of variation

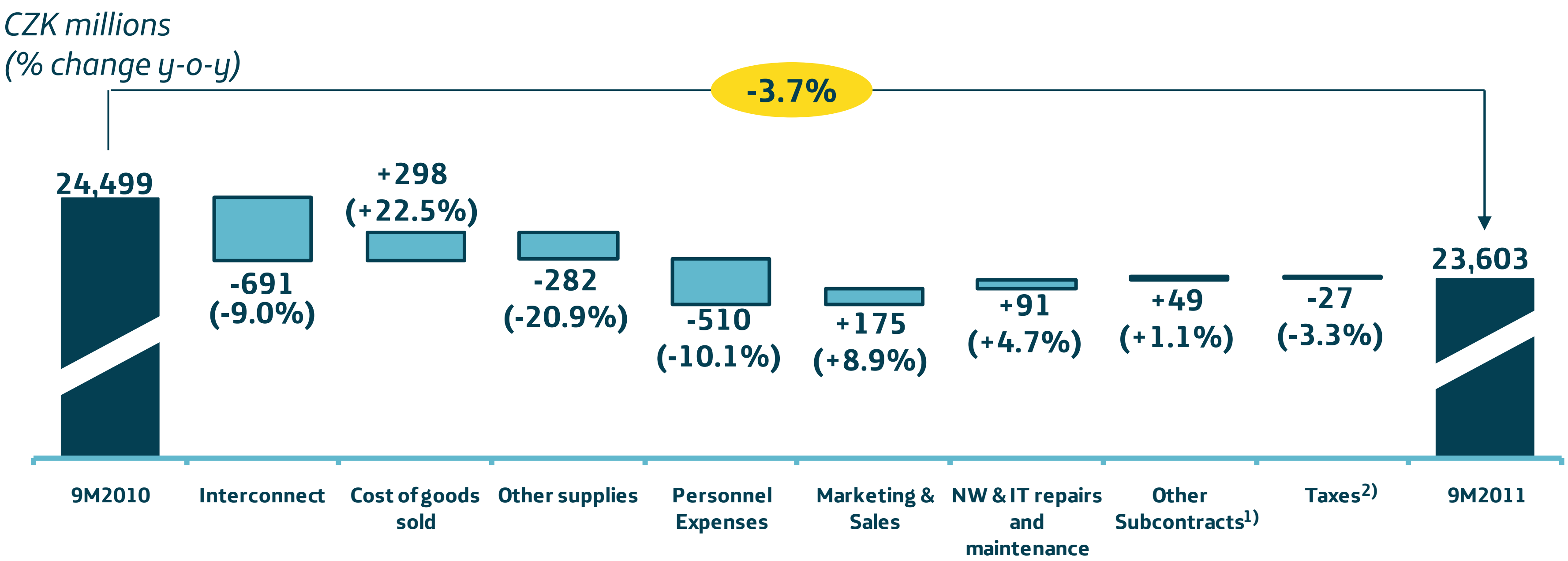
CZK millions
(% change y-o-y)

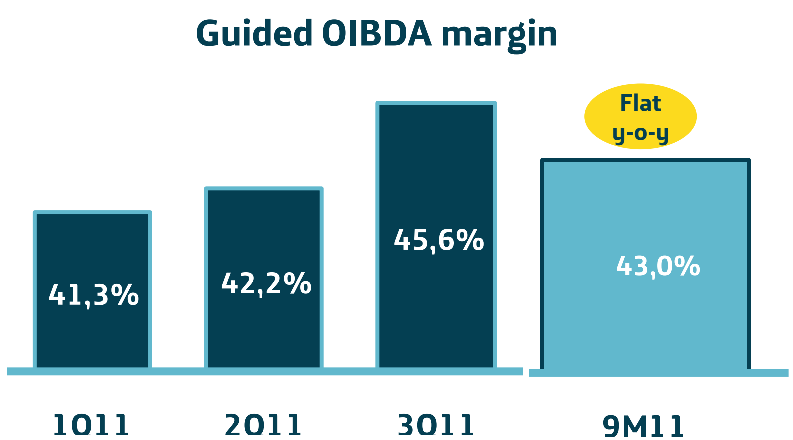




[1] Other – incl. VAS, Internet & Data and Other revenues
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

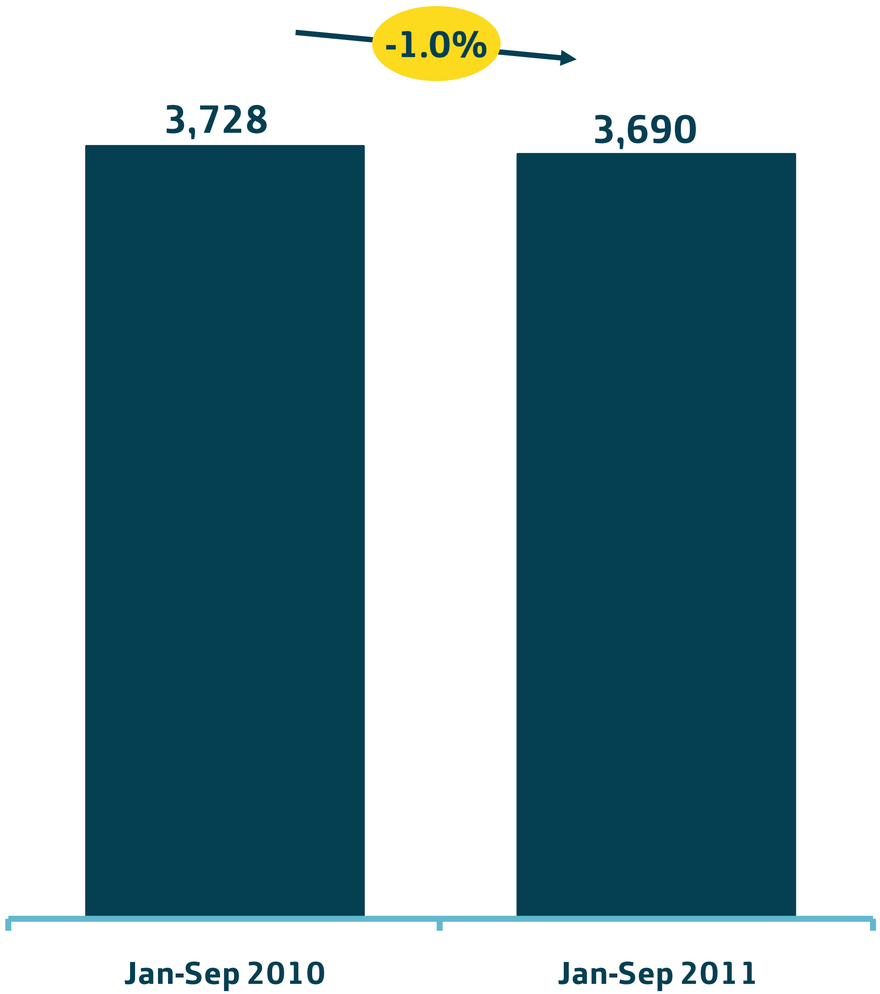




[1] Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees
[2] Taxes = taxes other than income taxes, provisions and fees

Group CAPEX in fixed tangible and intangible assets

CZK millions



- **Continuous focus on selective and efficient investments to growth areas**
- **Capacity & quality enhancement and further expansion of 3G network in CZ** (65% at Sep-11)
- **VDSL network deployment**
- **3G deployment in SK** (reaching above 30% population coverage at the end of Sep-11)
- **IT/Systems investments to improve processes and customer satisfaction**
- **CAPEX to Revenues at 9.5% in 9M 2011**

Group Balance Sheet & Cash Flow Statement

CZK millions	**31 Dec 2010**	**30 Sep 2011**	***Change Sep11/Dec10***
Non-current assets	**78,285**	**73,262**	***(6.4%)***
Current assets	**14,495**	**23,683**	***+63.4%***
- of which Cash & cash. Equiv.	4,798	15,050	*n.m.*
Total assets	**92,792**	**97,092**	***+4.6%***
Equity	**73,176**	**66,104**	***(9.7%)***
Non-current liabilities	**6,896**	**3,708**	***(46.2%)***
- Long-term financial debt	2,883	-	*n.m.*
Current liabilities	**12,720**	**27,280**	***+114.5%***
- Short-term financial debt	141	2,969	*n.m.*

	Jan – Sep 2010	**Jan – Sep 2011**	***Change 9M11/9M10***
Cash flow from operations	**17,481**	**16,486**	***(5.7%)***
Dividends received	3	5	*+33.3%*
Net interest and other financial expenses paid	(223)	(168)	*(24.7%)*
Payment for income tax	(1,460)	(1,550)	*+6.2%*
Net cash from operating activities	**15,802**	**14,772**	***(6.5%)***
Proceeds on disposals of PPE and intangibles	71	206	*n.m.*
Payments on investments in PPE and intangibles	(4,254)	(4,736)	*+11.3%*
Net cash used in investing activities	**(4,183)**	**(4,530)**	***+8.3%***
Free cash flow	**11,619**	**10,242**	***(11.8%)***