

# Telefónica Czech Republic

## Quarterly Results January – March 2013

7<sup>th</sup> May 2013



*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.

# 01

## Q1 2013 Performance Highlights

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# Highlights: Solid performance in changing environment

## Q1 market development

- LTE auction cancelled, draft rules for the new one announced
- Increasing public pressure on mobile pricing transparency combined with losing billed traffic y-o-y
- Confirmed market leadership following announcement of competitors' Q4 2012 results
- Relative improvement in customer satisfaction index, already #2 with only 1 point gap to the leader

## We delivered solid results

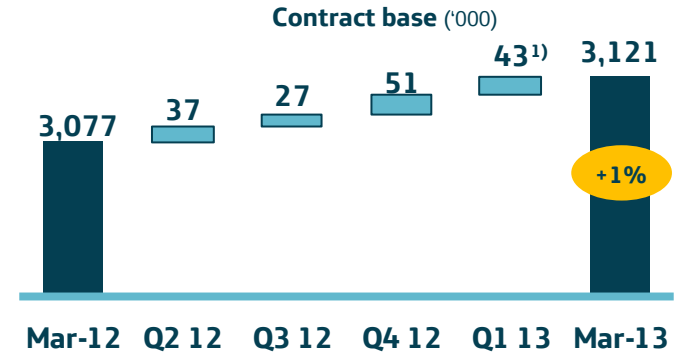
- Continuous growth in key commercial KPIs
- Sustained underlying financial trends...
- ... Solid Free Cash Flow year-on-year
- Q2: new mobile tariffs in CZ and refreshed commercial proposition in SK

# Solid Q1 commercial performance in mobile ...

## ...and changing the market via new proposition in Q2

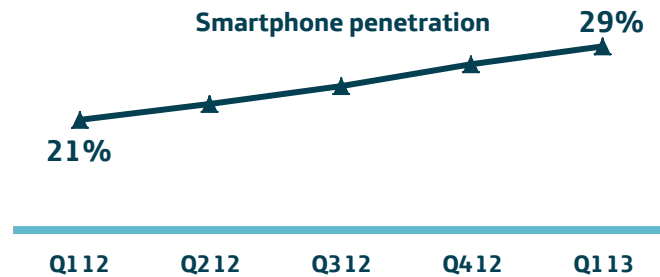
### Growing mobile base

- **Total mobile customer base at 5 mil.** (+5% y-o-y<sup>1)</sup>
  - **Contract** growth helped by low churn
  - **Prepaid** performance **turnaround** (+4% y-o-y) in **third consecutive quarter, helped by MVNO**
- Focus on **bundled proposition**



### Smartphones driving data growth

- **Small screen base growth** (+76% y-o-y)...
- ...driven by **smartphone penetration uptake...** and **successful commercial** and **marketing** activities
- Supported by **mobile network enhancement** (LTE deployment, HSPA+ upgrade)



### FREE tariffs launched in Q2

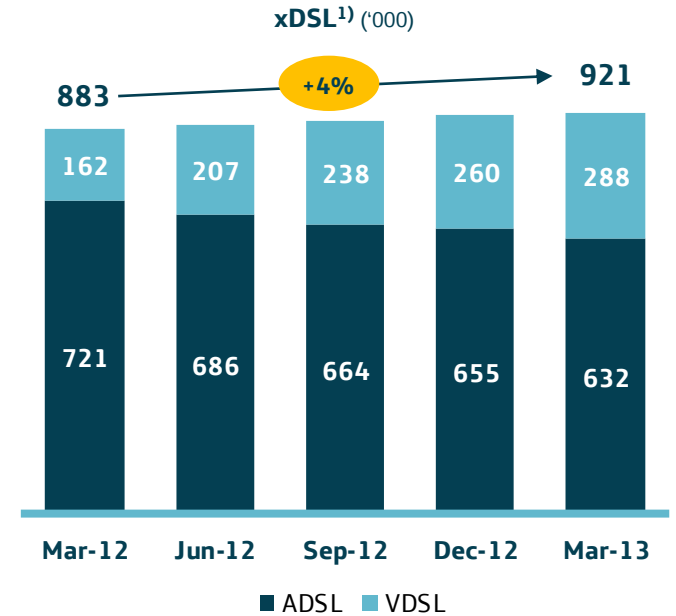
- **Changing** the **market rules, addressing customers' needs**
- **Unlimited voice & SMS proposition** with **tiered data pricing**
- At the same time, **helping** to **simplify** our **operational model** (handset subsidy removed)
- ...and **enabling** our **differentiator factor** based on innovative **customer experience**, unique **loyalty program** and best-in-class **NW quality**



# Maintaining solid commercial growth in fixed BB and Pay TV, increasing ICT profitability on the back of recurring services with focus on exclusivity proposition

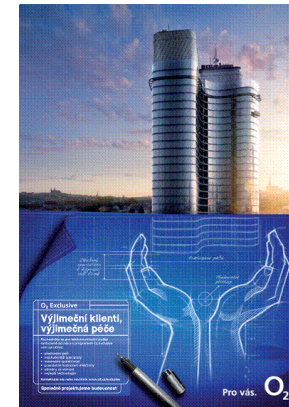
## Fixed BB & Pay TV

- Growing **xDSL** base despite **slower market growth**
- Continuous **relevant demand for VDSL** service...
- ... helping to **reduce xDSL churn** and **improve customer satisfaction**
- Maintained **O<sub>2</sub> TV growth** helped by **bundling with DSL** in **stagnating Pay TV market**



## ICT

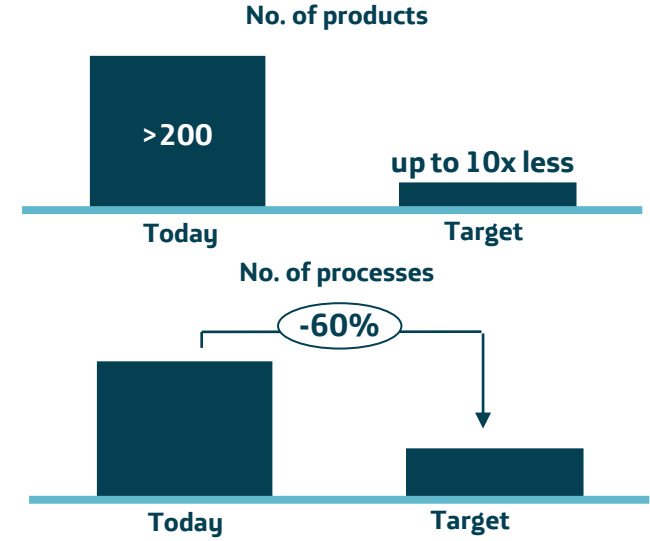
- ICT represents already **26% of fixed operating revenues** in **business division** (+2 p.p. y-o-y)
- Maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **increased O<sub>2</sub> Exclusive** concept penetration



# Transformational initiatives focused on simplification and operational efficiencies with visible track record and further potential

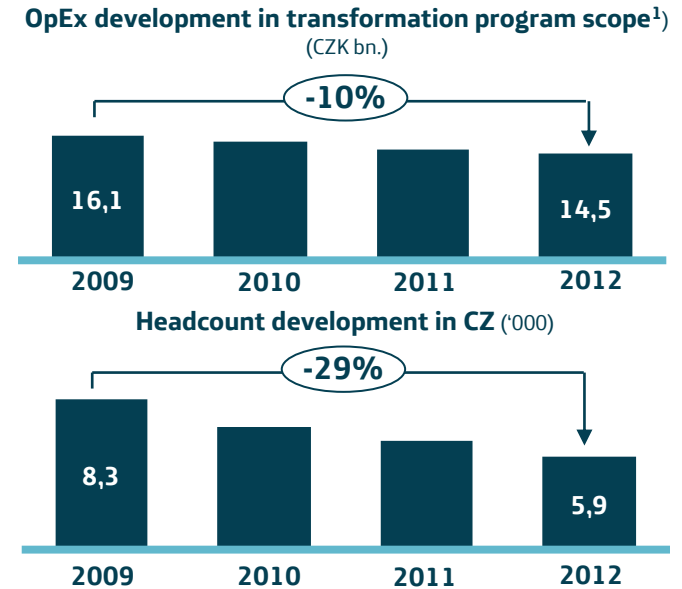
## Simplification

- **Simplification & reduction of:**
  - **Product portfolio**
  - **Sales and customer care processes**
  - **IT systems & platforms...**
- ... will help us **to realise** full extent of **benefits:**
  - **Simplified operational model & improved customer experience**
  - **Further OpEx reduction**
  - **Shorter time to market**



## Operational efficiencies

- Close to 200 **measures defined to drive true efficiency, not just cut discretionary resource costs:**
  - **Stop doing** - demand management, migration to on-line
  - **Stop wasting** - reduction of unnecessary activities
  - **Do better** - processes and organizational efficiencies
  - **Do cheaper** - reduction of resource and unit costs
- **Positive results already delivered & clear execution plan** in place to further **progress in transformation**

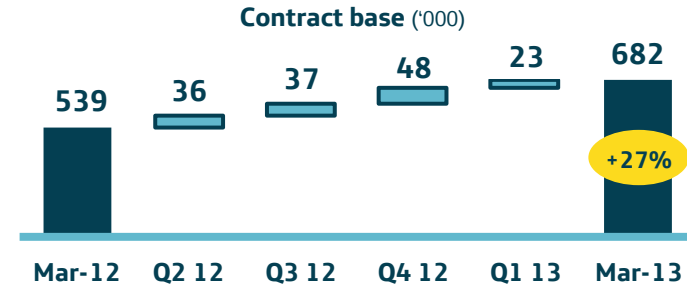


<sup>1)</sup> Includes staff costs, manageable OpEx (external Services excl. commissions, taxes), excludes new businesses

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

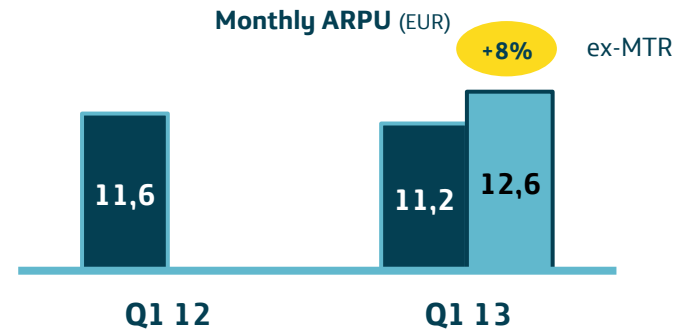
## Mobile customers

- Strong customers' growth (+14% y-o-y)
- Improved prepay net adds on the back of refreshed proposition
- Above 21% market share<sup>1)</sup>



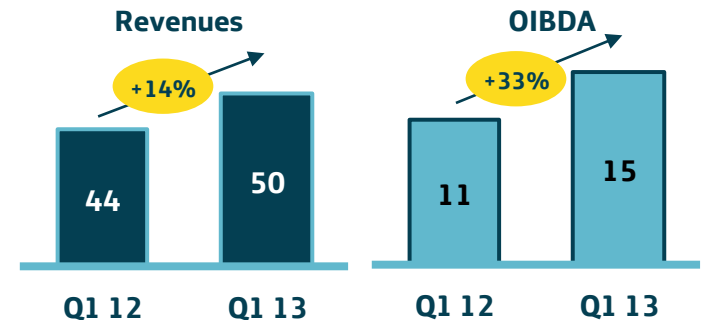
## Growing customer value

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



## Strong financials (EURm)

- Strong underlying<sup>2)</sup> revenues growth maintained
- OIBDA margin over 30% in Q1 2013, leveraging on lean operation and synergies with CZ
- Increasing and positive contribution to the Group's financials



y-o-y change

<sup>1)</sup> Q4 2012

<sup>2)</sup> ex-MTR cut impact



# 02

## January – March 2013 Financial Performance

# Solid comparable<sup>1)</sup> OIBDA margin on the back of efficiency agenda

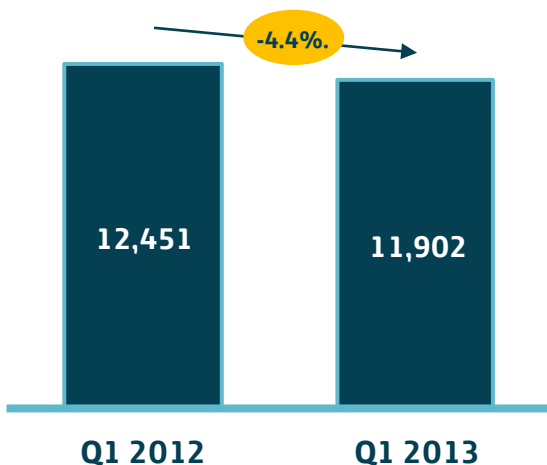
CZK millions

Jan – March 2013

*Change  
Q1 13/Q1 12*

	Jan – March 2013	<i>Change Q1 13/Q1 12</i>
<b>Operating Revenues</b>	11,902	-4.4%
<b>CZ Fixed</b>	5,004	-5.4%
<b>CZ Mobile</b>	5,679	-6.9%
<b>Slovakia</b>	1,277	+16.0%
<b>OIBDA before brand fees and management fees</b>	4,346	-13.9%
<i>OIBDA margin before brand fees and management fees</i>	36.5%	-4.0 p.p.
<b>Free Cash Flow</b>	2,423	+6.4%

Operating revenues (y-o-y)



Comparable OIBDA and margin<sup>1)</sup>

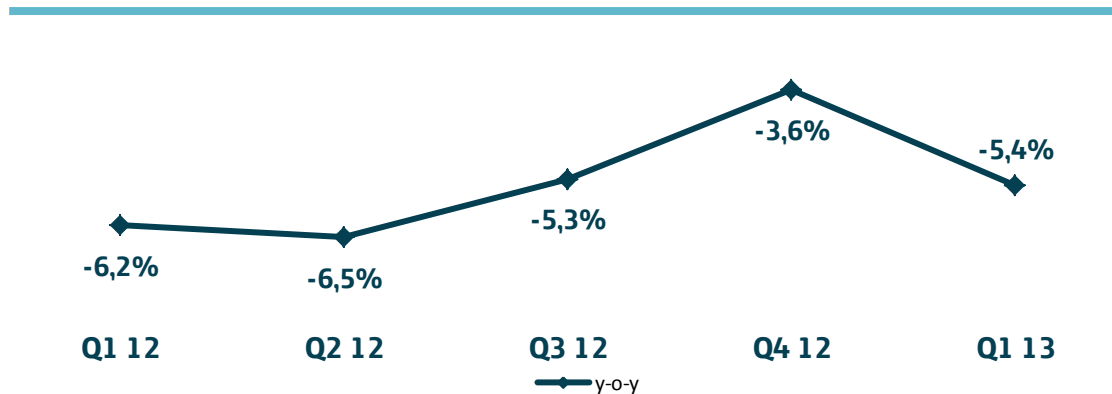
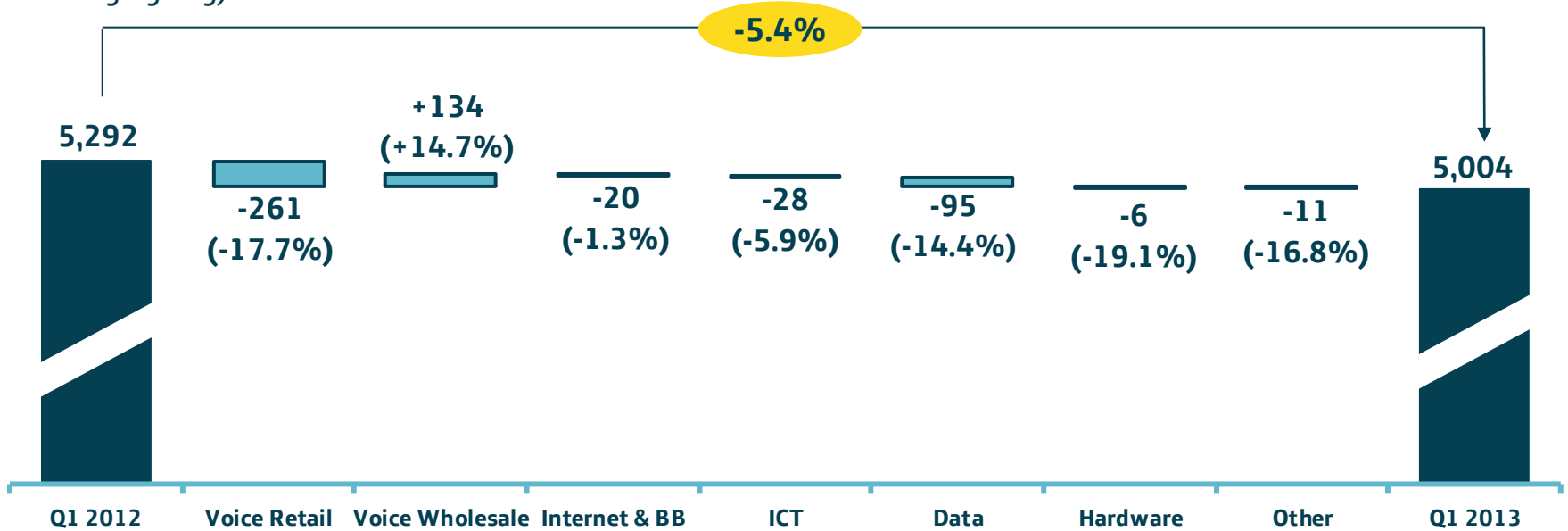


 y-o-y change

<sup>1)</sup> OIBDA before brand fees & management fees, excluding gain on sale of 80% stake in Informacni linky, a.s. in Q1 2012 (CZK 220m) and excluding restructuring costs in Q1 2012 (CZK 169m) and Q1 2013 (CZK 354m)

# CZ Fixed Operating Revenues with better trend year-on-year

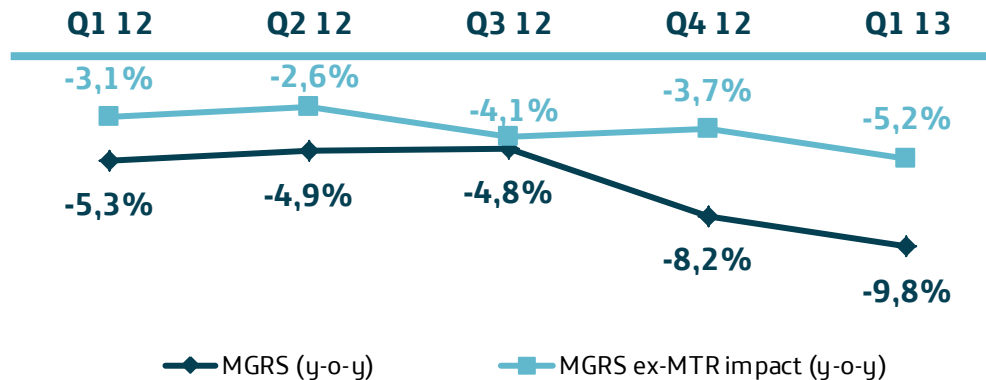
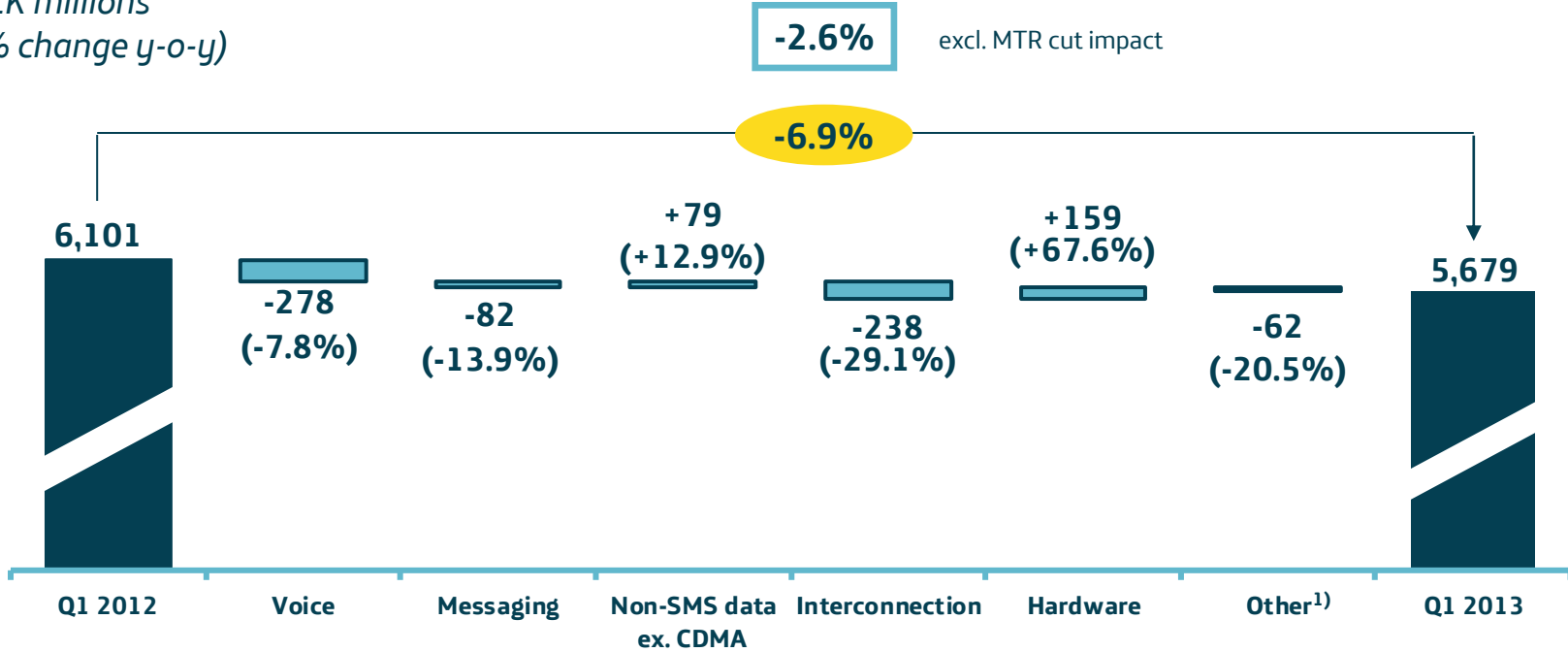
CZK millions  
(% change y-o-y)



 y-o-y change

# CZ Mobile Operating Revenues confirm uptake in non-SMS data

CZK millions  
(% change y-o-y)

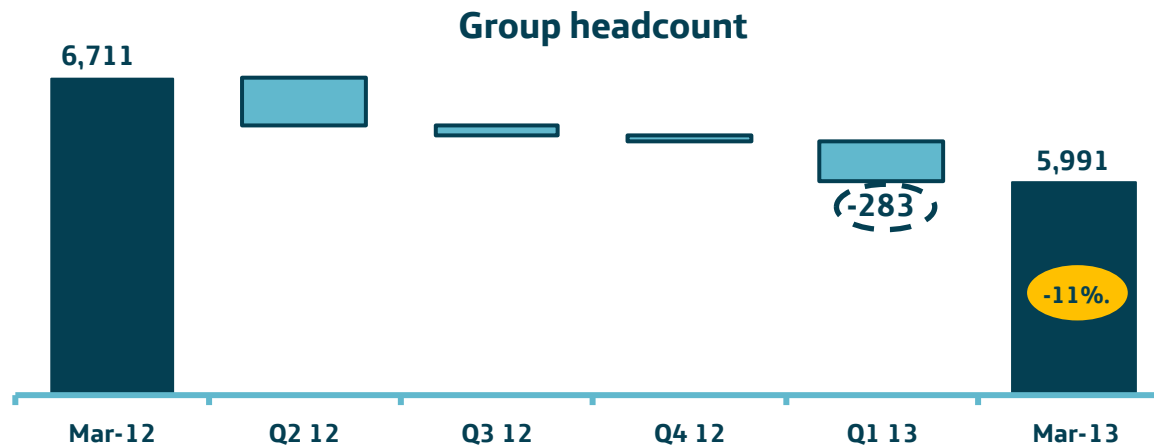
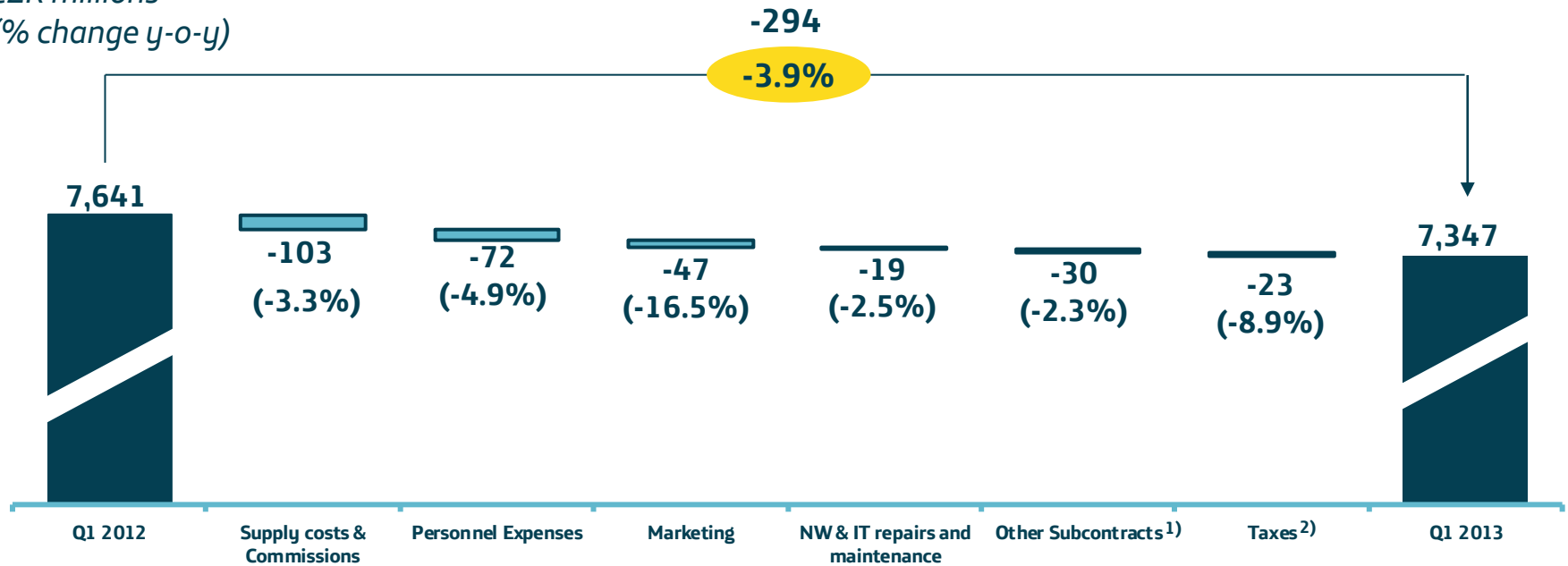


**y-o-y change**

<sup>1</sup> CDMA, Inbound Roaming, M2M, Other revenues

# Group OPEX – operating transformation delivering tangible savings

CZK millions  
(% change y-o-y)

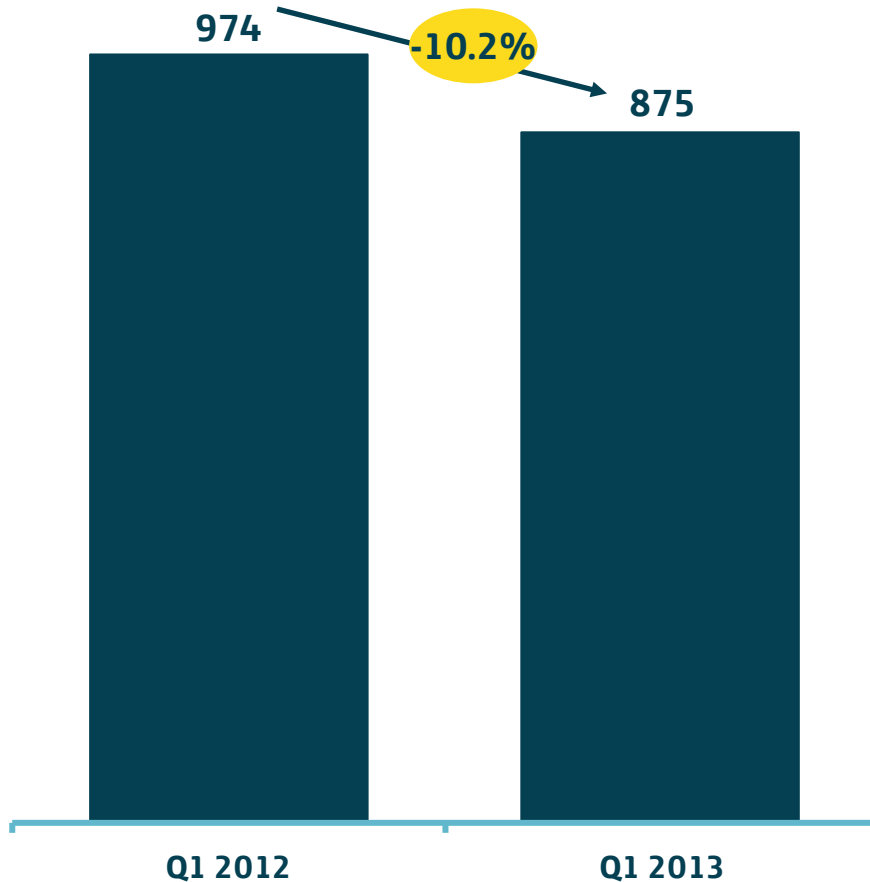


y-o-y change

<sup>1)</sup> Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables and Consultancy  
<sup>2)</sup> Taxes = taxes other than income taxes, provisions and fees

# 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**

# Healthy Balance Sheet & Growing Free Cash Flow

<i>CZK millions</i>	<b>31 Dec 2012</b>	<b>31 Mar 2013</b>	<b><i>Change Mar13/Dec12</i></b>
<b>Non-current assets</b>	<b>67,835</b>	<b>65,941</b>	<b>-2.8%</b>
<b>Current assets</b>	<b>11,364</b>	<b>13,350</b>	<b>+17.5%</b>
- of which Cash & cash. Equiv.	3,044	5,350	+75.8%
<b>Total assets</b>	<b>79,199</b>	<b>79,291</b>	<b>+0.1%</b>
<b>Equity</b>	<b>60,574</b>	<b>61,531</b>	<b>+1.6%</b>
<b>Non-current liabilities</b>	<b>6,322</b>	<b>6,116</b>	<b>-3.3%</b>
- Long-term financial debt	3,000	3,000	0.0%
<b>Current liabilities</b>	<b>12,303</b>	<b>11,643</b>	<b>-5.4%</b>
- Short-term financial debt	31	11	-63.8%
	<b>Jan – Mar 2012</b>	<b>Jan – Mar 2013</b>	<b><i>Change Q1 13/Q1 12</i></b>
<b>Cash flow from operations</b>	<b>4,281</b>	<b>4,254</b>	<b>-0.6%</b>
Net interest and other financial expenses paid	18	(30)	n.m.
Payment for income tax	(424)	(361)	-14.9%
<b>Net cash from operating activities</b>	<b>3,875</b>	<b>3,863</b>	<b>-0.3%</b>
Proceeds on disposals of PPE and intangibles	246	17	-93.1%
Payments on investments in PPE and intangibles	(1,843)	(1,457)	-20.9%
<b>Net cash used in investing activities</b>	<b>(1,597)</b>	<b>(1,440)</b>	<b>-9.8%</b>
<b>Free cash flow</b>	<b>2,278</b>	<b>2,423</b>	<b>+6.4%</b>

# 03

## Update on share buy-back



# Share buy-back update – AGM approved cancellation of 2% shares acquired in 2012, additional 0.4% already repurchased in 2013

## Share buy-back program

- **AGM held in April 2012** approved a **generic authorisation** for potential **share buy-back (SBB) up to 10% of shares for 5 years**

## 2% executed in 2012 to be cancelled by AGM resolution

- **2% SBB tranche executed in 2012** (18 May to 27 November) for **total amount of CZK 2,483m**
- **AGM held in April 2013** approved **cancellation of shares acquired in 2012** via **non-cash reduction of:**
  - **share capital** (CZK 560m)
  - **share premium** (CZK 1,922m)
- **New number of shares** (after 2% cancellation): **315,648,092**

## Second 2% tranche approved and commenced in 2013

- On 26 February 2013, **Board of Directors approved** the **second up to 2%** (6,441,798 shares) **SBB tranche**, which **commenced on 5 March 2013**
- By **30 April**, in total **1,246,126** of **treasury shares** (0.39% of ordinary shares) **repurchased** for a **total amount of CZK 376m (CZK 302 per share in average)**

Backup

# Shareholder remuneration declared for 2012 approved by General Meeting

## 2012 Shareholder Remuneration

- **Total shareholder remuneration of CZK 9,663 million<sup>1)</sup>, 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**
- **Relevant dates (applicable for both parts)**
  - **Record date: 14<sup>th</sup> October 2013 (ex-date: 11<sup>th</sup> October)**
  - **Payment date: 11<sup>th</sup> November 2013**

<sup>1)</sup> 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. .