

Telefónica Czech Republic

May 2012



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.

Contents

- 01 Business Opportunity, Q1 2012 Performance Highlights
- 02 2012 Outlook & Investor Guidance
- 03 Shareholder Remuneration
- 04 Key Macroeconomic, Competitive & Regulatory Trends
- 05 Investor Relations Contacts
- Appendix Additional Q1 2012 Details & Reference Materials

01

Business Opportunity, Q1 2012 Performance Highlights

Business Opportunity

- 1 **Stable economy**
- 2 **Growth opportunities in telecom industry**
- 3 **TCZ - best positioned in the market**
- 4 **TSK - relevant market player**
- 5 **TCZ delivers on its commitments**



Improving revenue performance, while margin maintained above 40%; Robust shareholder remuneration supported by SBB.

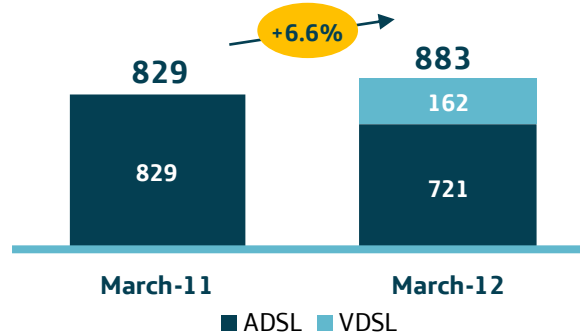
- **Solid commercial momentum in focused areas maintained in Q1 2012 in highly competitive market:**
 - **CZ contract base: +6.1% y-o-y** , with 27.5k net adds in the quarter
 - **xDSL base keeping solid growth (+6.6% y-o-y)** in highly competitive market, **VDSL helping to protect customers/spend**
 - **Smartphone penetration growth maintained reaching 21.3%** (+7.5 p.p. y-o-y)
- **Group business revenues (-3.2% y-o-y in Q1)** show **improvement for the 3rd consecutive quarter**
- **Slovakia keeps its subscribers' growth and further improving financial performance**
- **Guided OIBDA margin¹⁾ at 40.5%**, (-0.8 p.p. y-o-y), as a result of **efficiency agenda in CZ**, sale of non-core business, **growing OIBDA in SK** and higher commercial costs to support future growth
- **2012 full year guidance²⁾ reiterated for all metrics**
- **CZK 40 per share cash shareholder remuneration and 2% share buy-back** offering **best-in-class yield in CEE region**

¹⁾ OIBDA/Business revenues; OIBDA excludes brand fees and management fees (CZK 249m in Q1 2011 and CZK 274m in Q1 2012); assuming constant FX rates of 2011

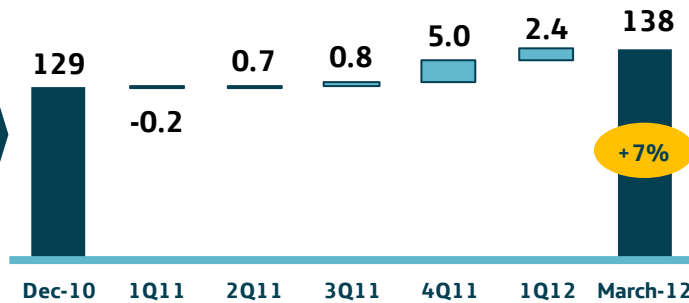
²⁾ Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions).

Continued strong commercial performance in all major fixed KPIs, increasing ICT revenues share with focus on recurring business and exclusivity concept

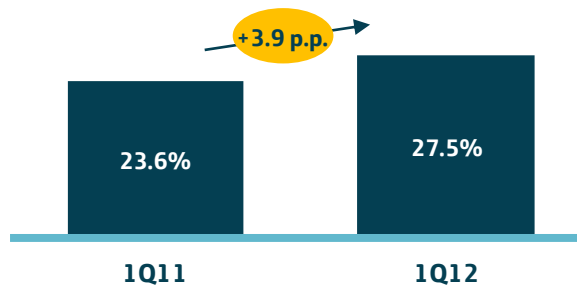
xDSL¹⁾ (‘000)



O₂TV (‘000)



ICT (as % of fixed revenues in business segment)



- Strong VDSL performance in Q1 (+~60k)
- VDSL represents already 21% of total xDSL residential base and close to 45% of addressable base²⁾
- Helping to manage xDSL ARPU and churn, improving competitive position
- 1.6m fixed accesses at March-12 (-5.1% y-o-y)
- Fixed accesses losses continuously decelerating (-26.1k in Q1, -12.6% y-o-y) due to **solid growth of naked and VoIP lines** and **lower telephony lines' churn**
- Growing O₂ TV customer base in Q1, driven by bundle proposition, **while overall Czech Pay TV market stagnates**



- In ICT business:
 - Exploiting new opportunities in recurring services (Managed Services / Cloud / Security / Virtual Desktop) for **business customers**
 - Leveraging on **exclusive care** and **Telefonica Digital scale** (Web Security Gateway)

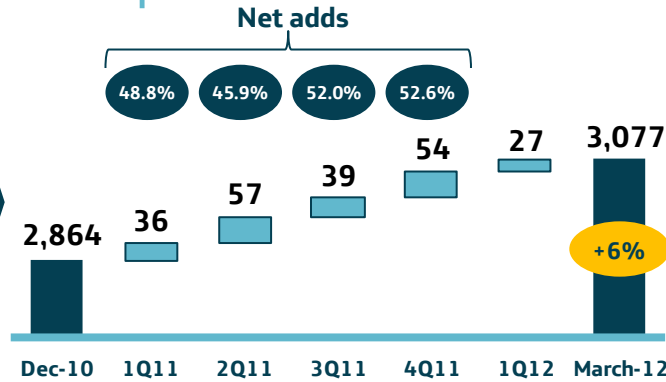


y-o-y change

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

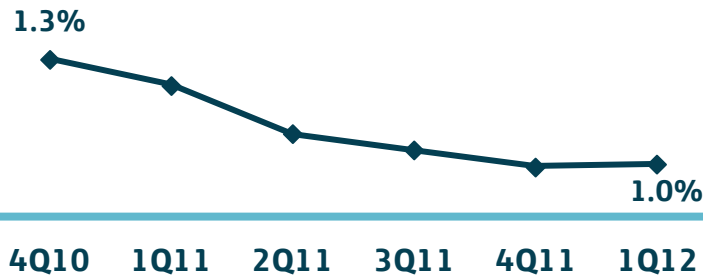
Results of churn and customer value management initiatives already visible with further roll out potential

Contract mobile customers ('000)



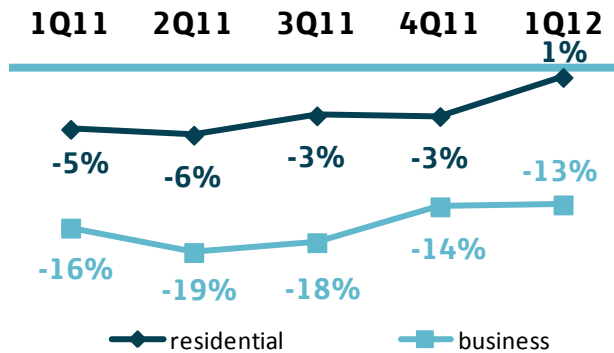
- **Total mobile base** reaching **4.9m** at the end of March 2012 (+2.3% y-o-y)
- **Solid contract commercial performance** maintained in Q1, driven by **sustained trading momentum** and **best-in-class churn**
- **Continuous growth in share of contract** (62.3% of base, +2.2 p.p. y-o-y)

Contract churn (monthly average)



- **Contract ex-MTR ARPU** (CZK 542 in Q1) **y-o-y performance improving for 3rd consecutive quarter**:
 - **Successful execution of CVM²⁾** in residential (spend stabilization) & **positive impact of smartphone uptake, starting CVM in SMB**
 - **Exclusivity (care and proposition)** helps to **decelerate spend erosion in business segment**

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



y-o-y change

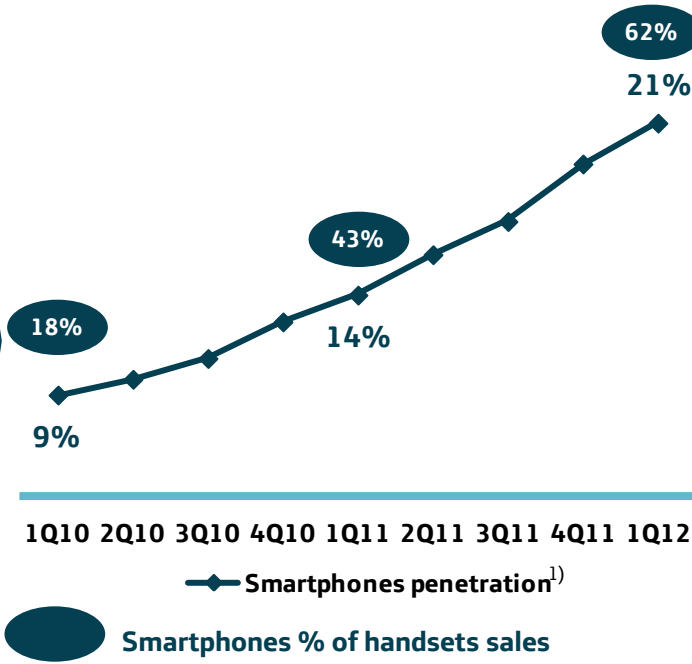
m.s.¹⁾

¹⁾ m.s. + market share

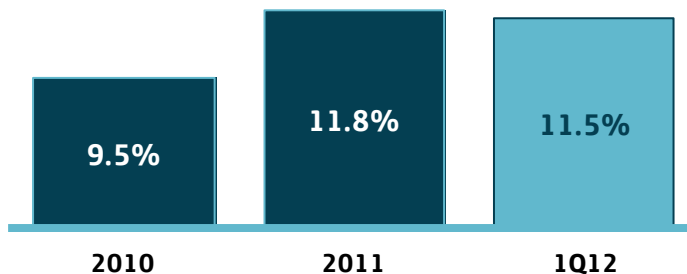
²⁾ CVM = Customer Value Management

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

Smartphone sales & penetration



Commercial costs²⁾ as % of mobile revenues



- Smartphone focused marketing campaign helped to **accelerate sales and penetration & small screen growth ...**
- ... driving **spend upside of smartphone users** (vs. non-smartphone) **across all the segments**
- Selective and rational commercial investments** into **future internet & data growth**
- Tiered pricing & flexible mobile data packages** helping to manage usage
- Data revenues accounts for 28% of mobile service revenues in Q1** (+1 p.p. y-o-y), with **increasing contribution of mobile internet³⁾: 37% of data revenues** (+2 p.p. y-o-y)



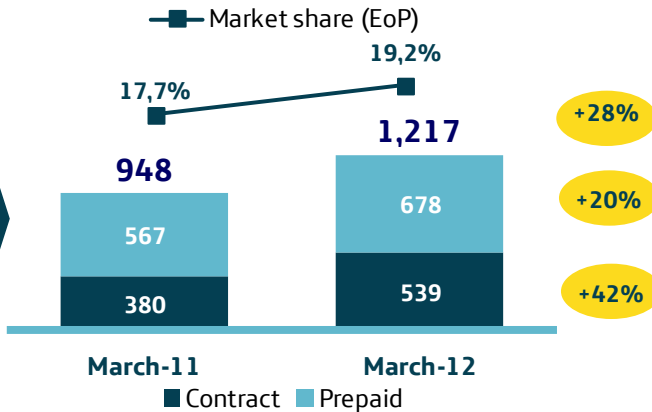
¹⁾ Smartphones as % of total handsets base in TCZ

²⁾ Cost of goods sold, HW subsidies & Commissions

³⁾ Big screens, small screens, Time/Usage based, Push Email

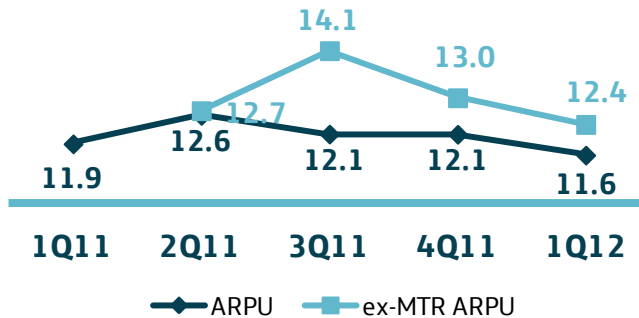
Slovakia - strong satisfaction and customers' growth, while value focused proposition driving further improvement in financial performance

Mobile customers ('000)



- **Sound customers' growth maintained leveraging on simple customer proposition** (+53k in Q1 driven by contract)
- **Further mix improvement** (44.3% of base on contract, +4.2 p.p. y-o-y)
- **Best-in-class customer satisfaction¹⁾** (CSI: 86.4 points), positive gap to best competitor at 7.3 points

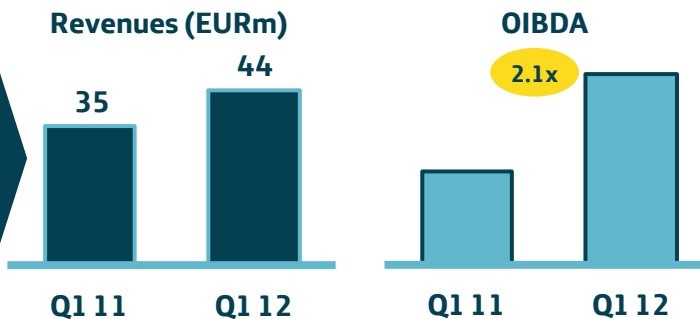
Focusing on value (ARPU in EUR/month)



- **Underlying ARPU (ex-MTR) improved +3.9% y-o-y in Q1 - better customer mix and new propositions** (SMB and 3G)
- **Data ARPU: +4.4% y-o-y** (non-SMS ARPU already at 35% of data ARPU) supported by **smartphone penetration growth** (20% at Mar-12, +6 p.p. y-o-y)



Strong financials



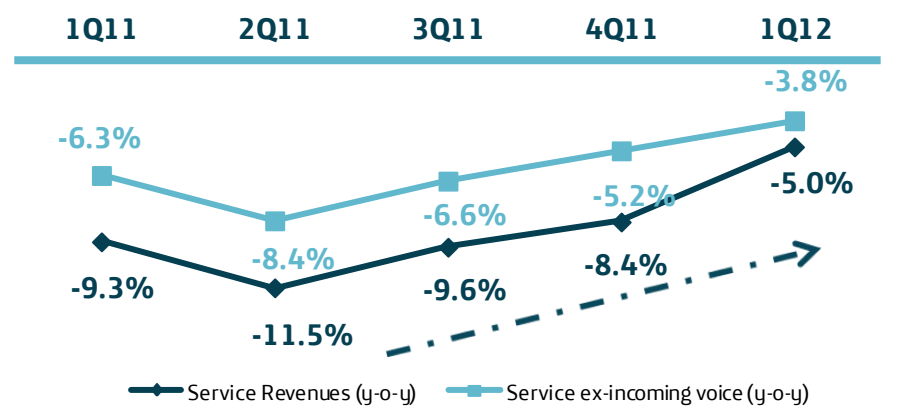
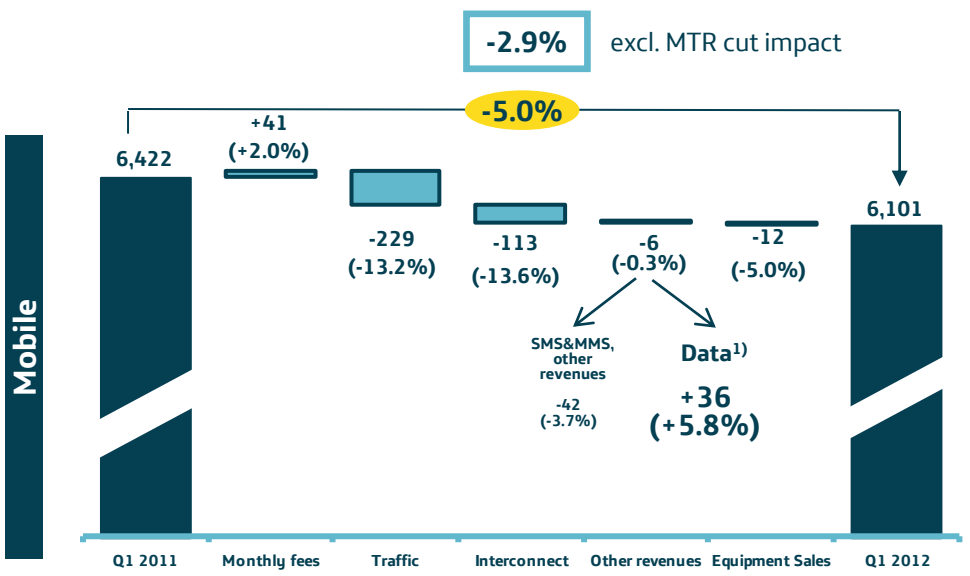
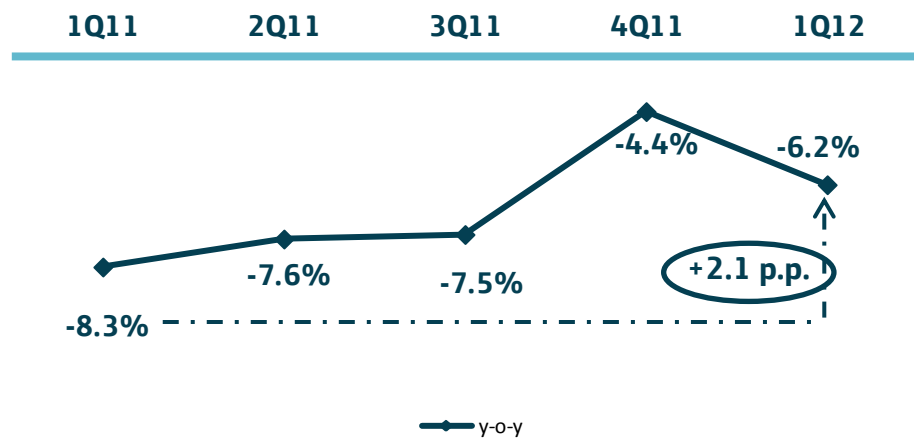
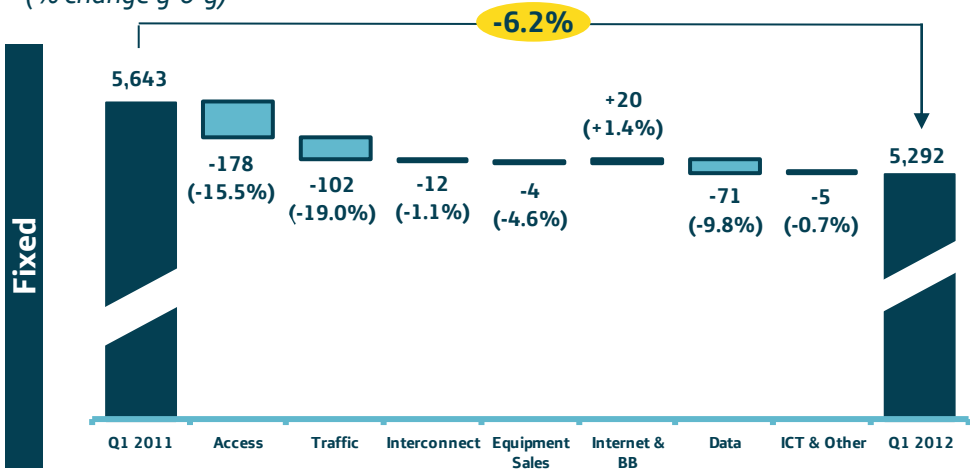
- **Strong revenues growth maintained in Q1 : +34.6% y-o-y** (ex-MTR impact)
- **Growing OIBDA, leveraging on lean operation & synergies with CZ and other OBs in region**
- **Slovakia's improving financials** (close to 10% of Group revenues in Q1 2012) **positively contributing the Group's profitability**

y-o-y change

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

3rd consecutive quarterly improvement in CZ Mobile Business Revenues and better year-on-year performance in CZ Fixed Revenues

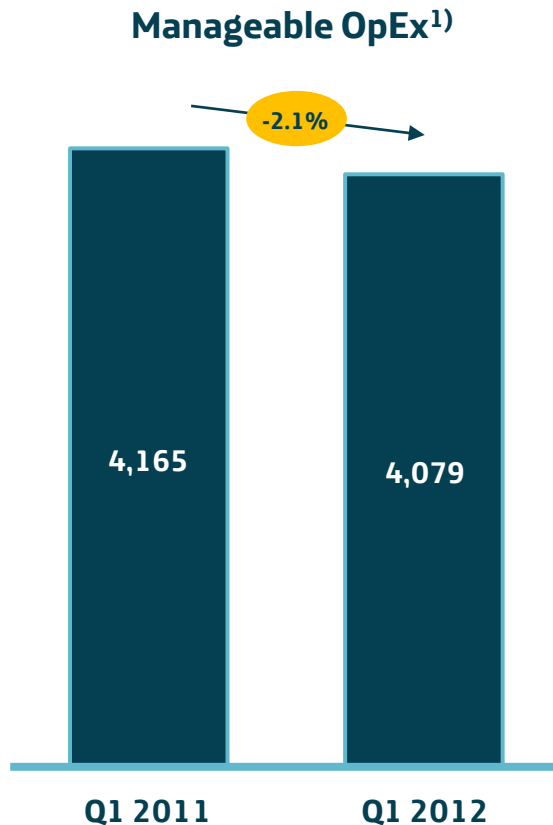
CZK millions
(% change y-o-y)



¹⁾ Big screens, small screens, M2M, Time/Usage based, Push Email, Data Roaming

Efficiency agenda with track record & ambitious efficiency program set also for 2012 - 2013

CZK millions



Transformation program aiming at:

- **Changing business model**
 - Customer care migration to On-line
 - ICT business consolidation (TCZ x TO2 BS integration)
 - Product portfolio simplification
- **Operational efficiencies**
 - Leaner organisational structure (headcount: -10% y-o-y in Q1)
 - Call centres consolidation & efficiency
 - Incoming calls avoidance on the back of enhanced customer satisfaction
 - Back-office optimization
 - Optimisation of real estates utilisation
 - Service contracts optimization
 - Reduction & simplification of applications and systems

¹⁾ Personnel Expenses, External Services (excl. Commissions, Brand & Management Fees), Taxes

Key Highlights of Group Financial Performance

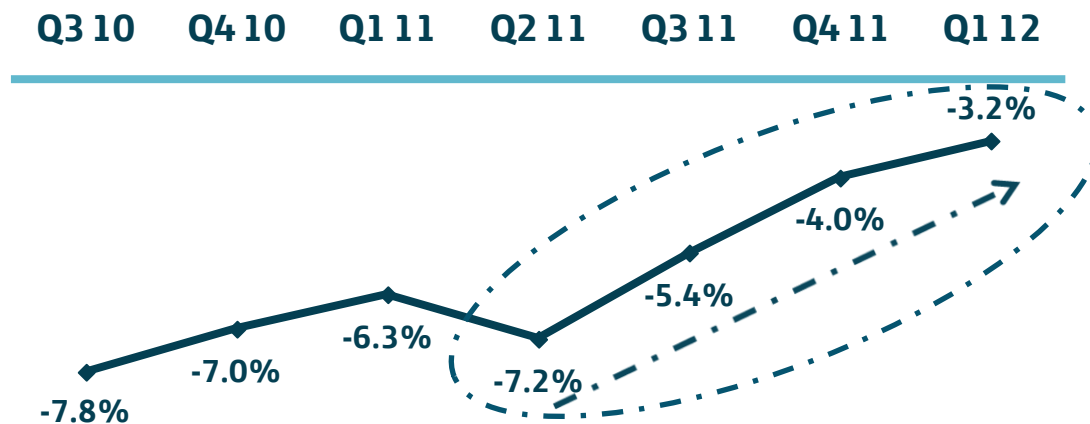
CZK millions

Jan – March 2012

*Change
Q1 12/Q1 11*

	Jan – March 2012	<i>Change Q1 12/Q1 11</i>
Business revenues	12,451	(3.2%)
CZ Fixed	5,292	(6.2%)
CZ Mobile	6,101	(5.0%)
OIBDA before brand fees and management fees	5,049	(5.1%)
<i>OIBDA margin before brand fees and management fees</i>	40.5%	(0.8p.p.)
OIBDA	4,775	(5.8%)
<i>OIBDA margin</i>	38.4%	(1.1p.p.)
Net Income	1,622	(6.8%)

Business revenues (y-o-y)



Guided OIBDA margin²⁾



¹⁾ OIBDA before brand fees & management fees (Q1 2011: CZK 249m, Q1 2012: CZK 274m), guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2011

02

2012 Outlook & Investor Guidance

2012 Outlook

- In **fixed BB**, to continue in **FTTx coverage expansion** including **FTTH rollout in greenfields** to **strengthening market position**
- In **mobile BB**, to further **expand 3G coverage** and **enhance network capabilities** (including backhaul) & **bid for LTE license** to **deploy 4G network**
- To execute **Customer Value & Churn management** in all segments to **mitigate churn & ARPU pressures**
- To **exploit opportunities** in standard **ICT services** to **generate sustainable revenues & focus on development of new revenue streams** (media, financial services)
- In **Slovakia**, to stay focused on **acquisition of higher value customers**, while **improving financials via lean operation**
- To **keep focusing on operational transformation**

2012 Investor Guidance

	2011 base	2012 Guidance
Business Revenues	-5.7% y-o-y	improving trend vs. 2011
OIBDA margin ¹⁾	43.7%	limited margin erosion y-o-y
CapEx ²⁾	CZK 5.6 bn.	up to CZK 6.2 bn. (flexibility to manage CapEx/Revenue evolution)

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 2011

²⁾ excluding business acquisitions

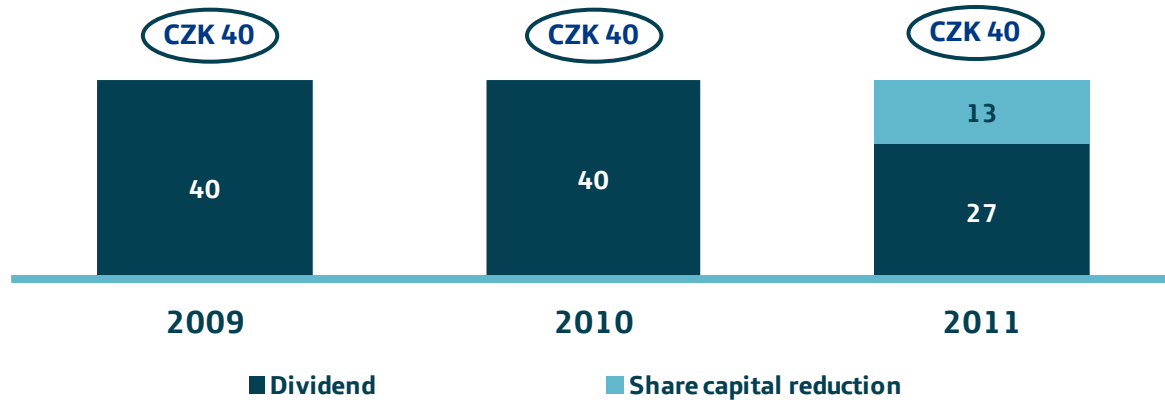
03

Shareholder Remuneration

Shareholder Remuneration

Shareholder Remuneration History

(CZK per share, declared for the year)



2011 shareholder remuneration approved by AGM

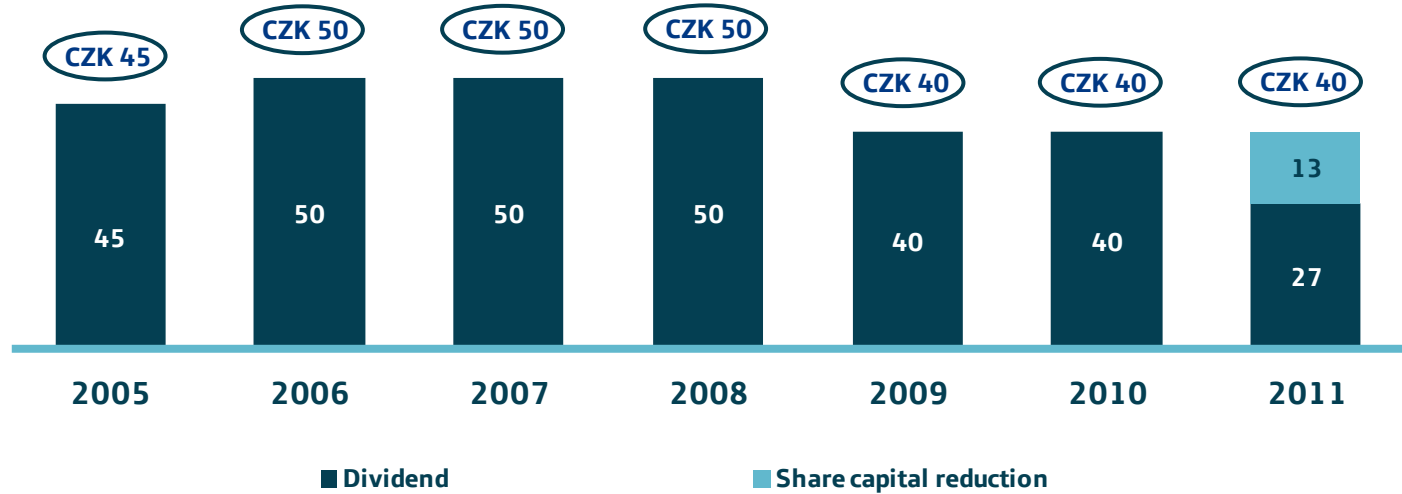
- **Cash payment of CZK 12,884m, equal to CZK 40 per share, will be paid in 2 parts:**
 - **CZK 27 ordinary dividend** – record date: 12th Sep (ex-date: 10th Sep), payment date: 10th Oct
 - **CZK 13 share capital reduction** (from current CZK 100) – record date (date of capital reduction's entry in the Commercial Register) will be announced after all legal requirements are met (expected October/November), payment date: in 22 working days from record date
- **Implies ~ 10% yield¹⁾**
- **Generic authorisation for potential share buy-back up to 10% of shares for 5 years**
 - **Board of Directors approved initiation of the first up to 2% tranche of SBB program**

¹⁾ Based on the average share price since 30 December 2011 and 8 May 2012

Committed to Robust Shareholder Remuneration...

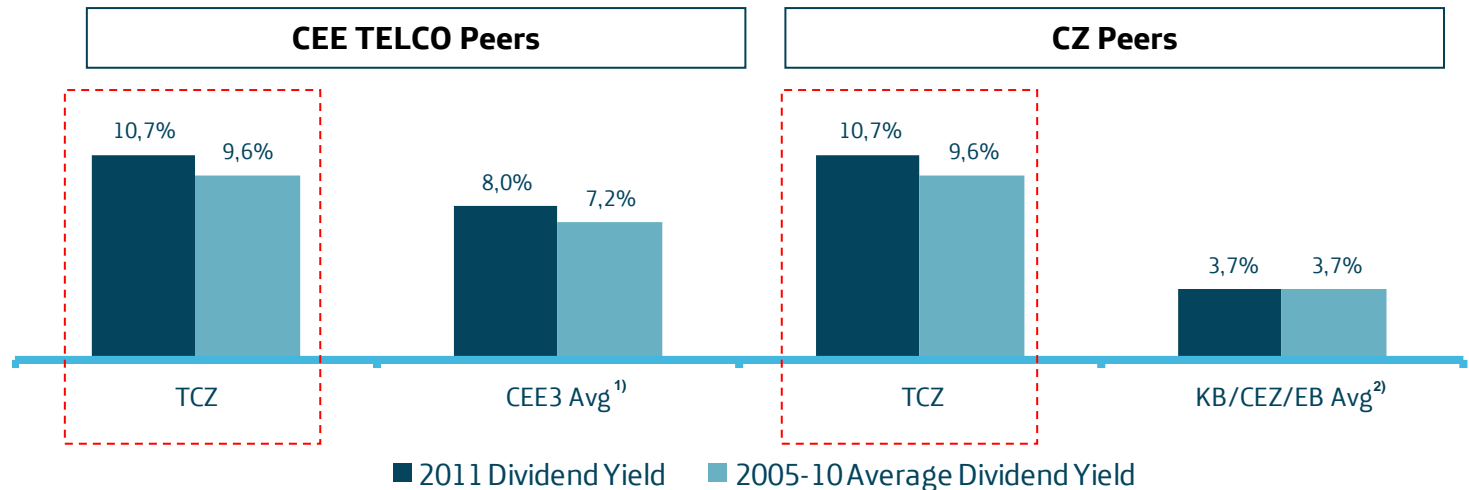
Shareholder Remuneration History

(CZK per share, declared for the year)



...Which has Consistently Exceeded that of Our Peers...

Dividend Yield

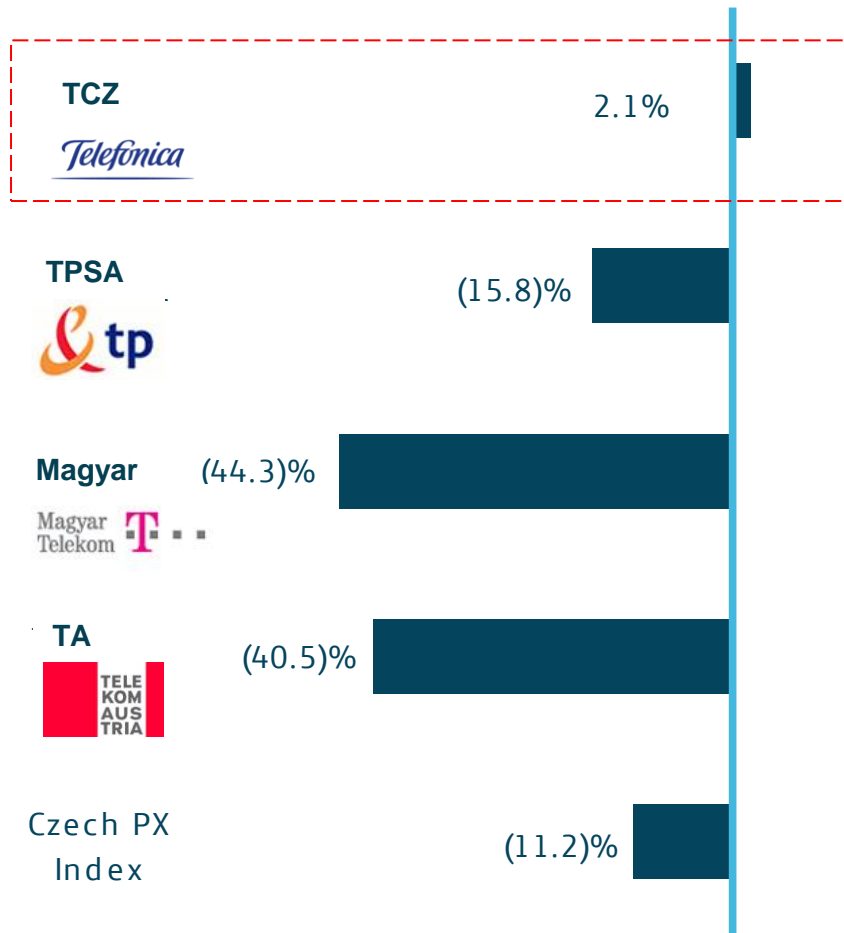


¹⁾ Represents average of TPSA, MTEL and TA

²⁾ Represents average of KB, CEZ and EB
Based on share price as of 8 May 2012

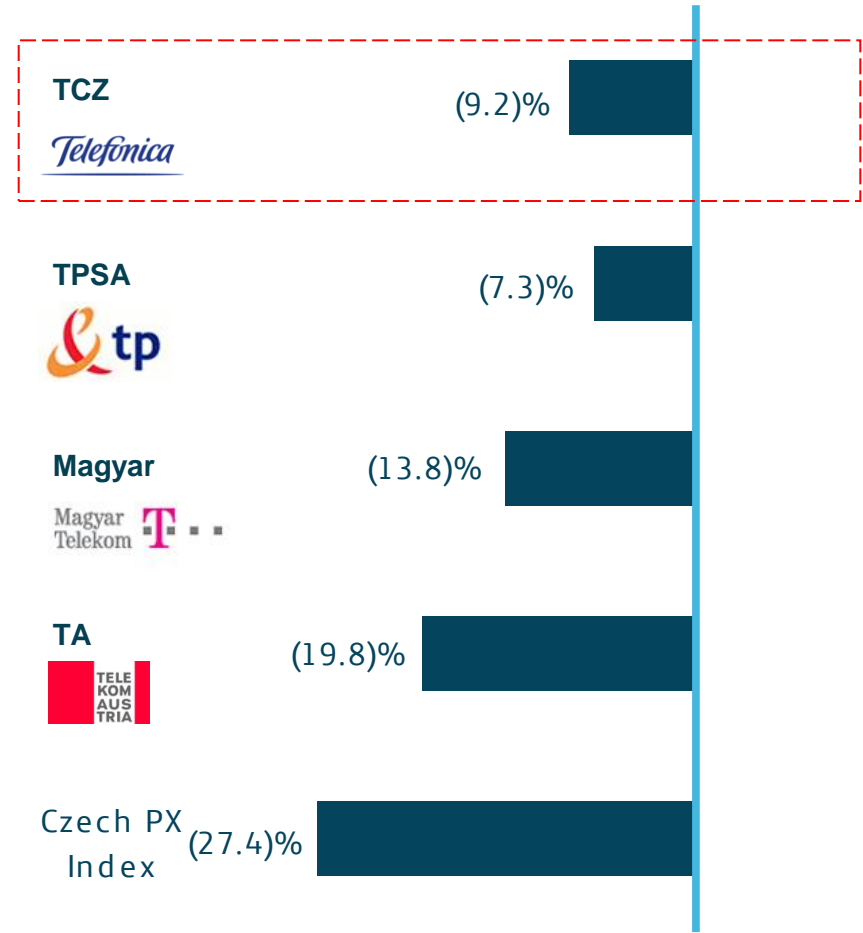
...Our Stock Has Thus Been Perceived as Defensive

TCZ Share Price Performance vs. Peers Since 2005



Source: CapIQ

TCZ Share Price Performance vs. Peers Over L12M¹⁾

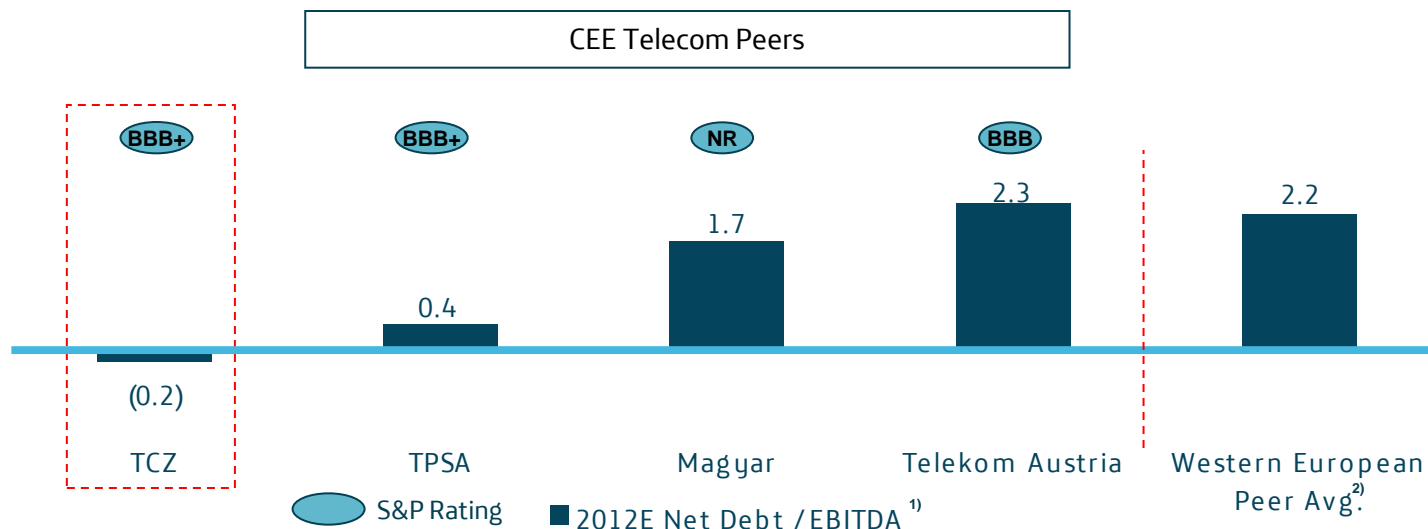


Source: CapIQ

¹⁾ As of 8 May 2012

We Have Ample Financial Flexibility

Net Debt/ OIBDA



Strong & Flexible Balance Sheet

- Net cash position
- High interest coverage
- Ability to restructure balance sheet (share premium, share capital)

Cash Flow Generative Business

- Leading OIBDA margins among peers
- Reduced capital intensity through network sharing agreement
- High free cash flow conversion

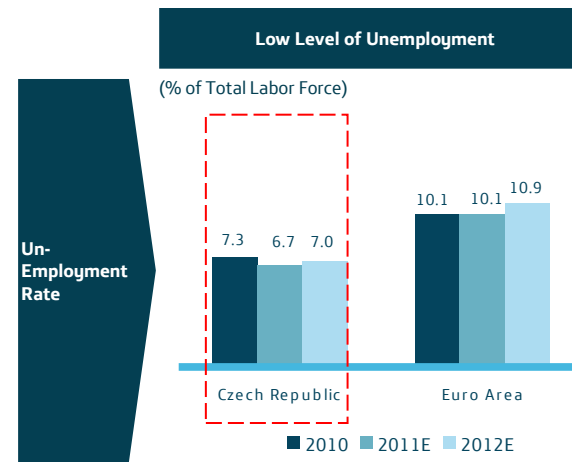
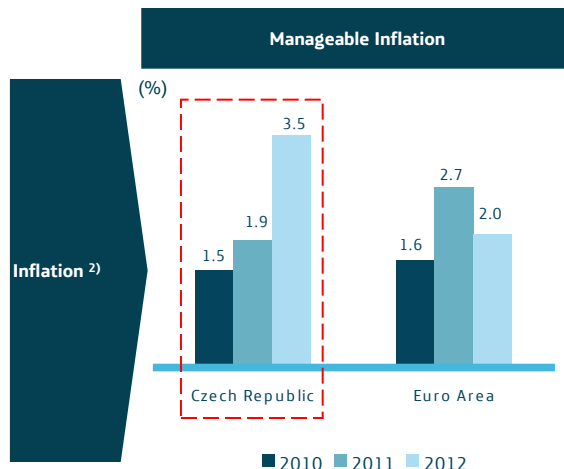
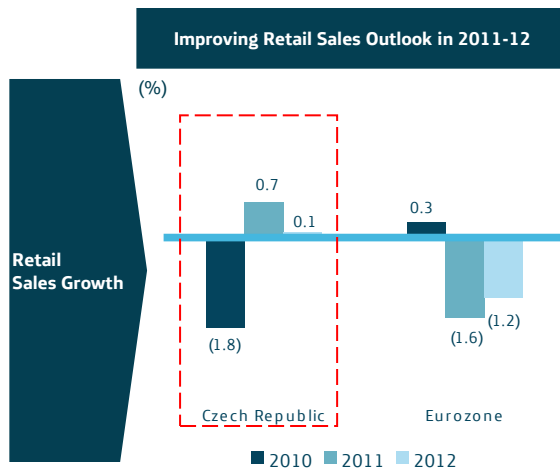
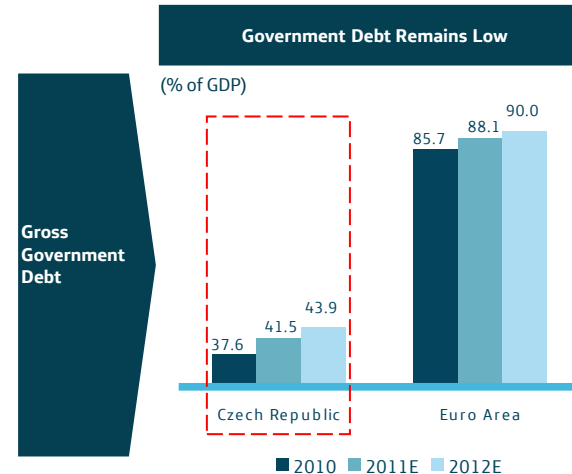
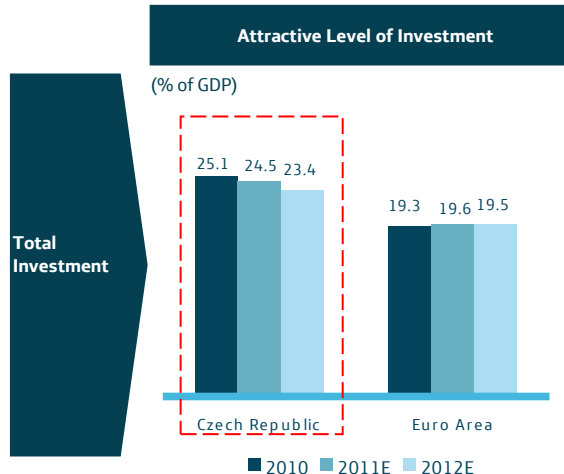
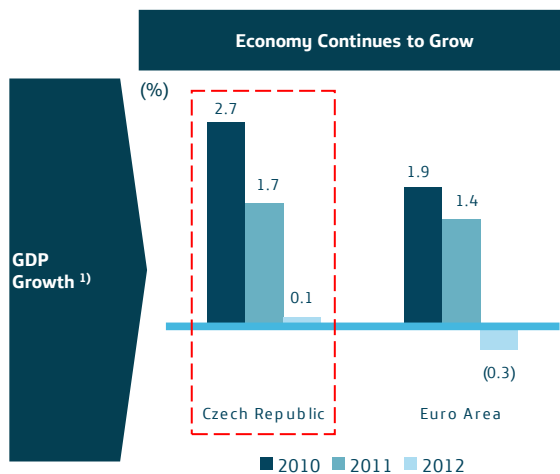
¹⁾ Net debt as of Q4 2011

²⁾ Consists of A+ to BBB- rated European telecom peers including Belgacom, Swisscom, France Telecom, TeliaSonera, Telenor, Vodafone, Telefónica, KPN, DT, Telecom Italia, BT and PT

04

Key Macroeconomic, Competitive & Regulatory Trends

Macroeconomic Trends: Outlook Remains Challenging But Still Attractive on a Relative Basis

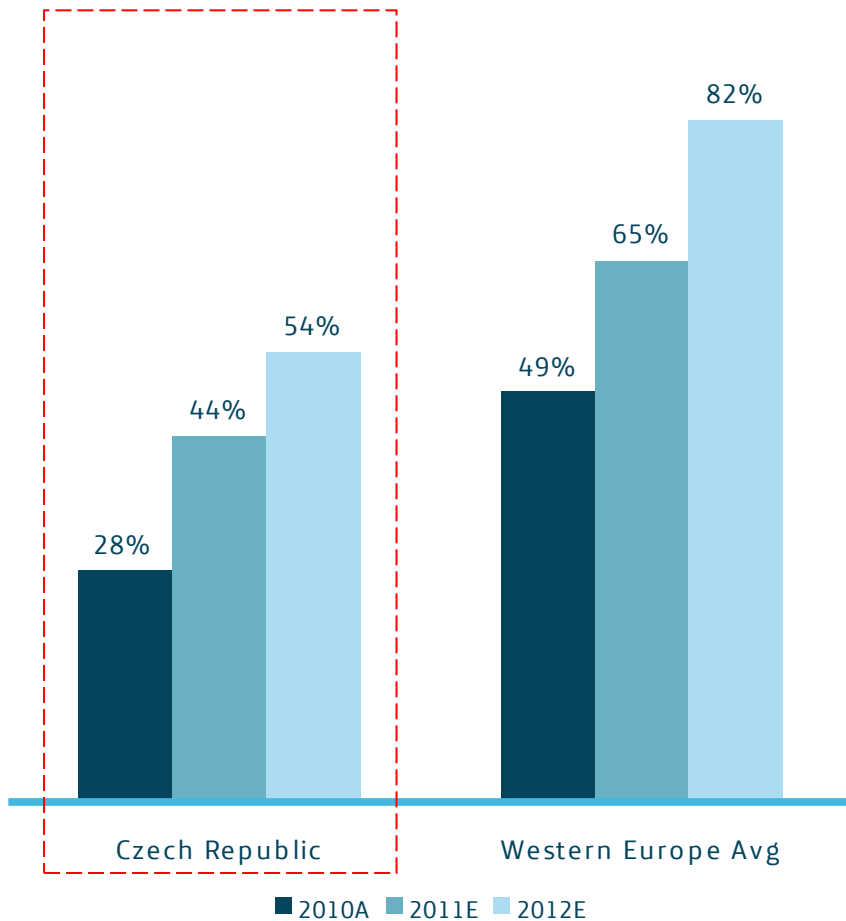


Source: IMF

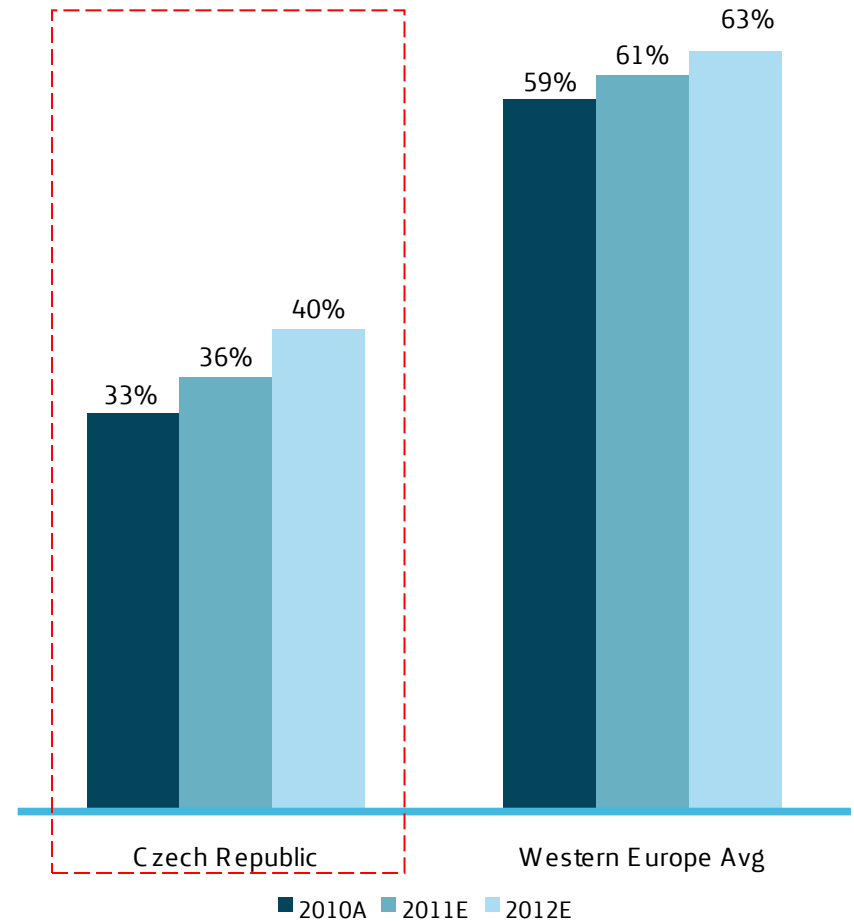
¹⁾ Real GDP based on constant prices
²⁾ Based on average consumer prices

Broadband Penetration Remains Low Relative to Western Europe

Mobile BB Penetration¹⁾



Home BB Access¹⁾



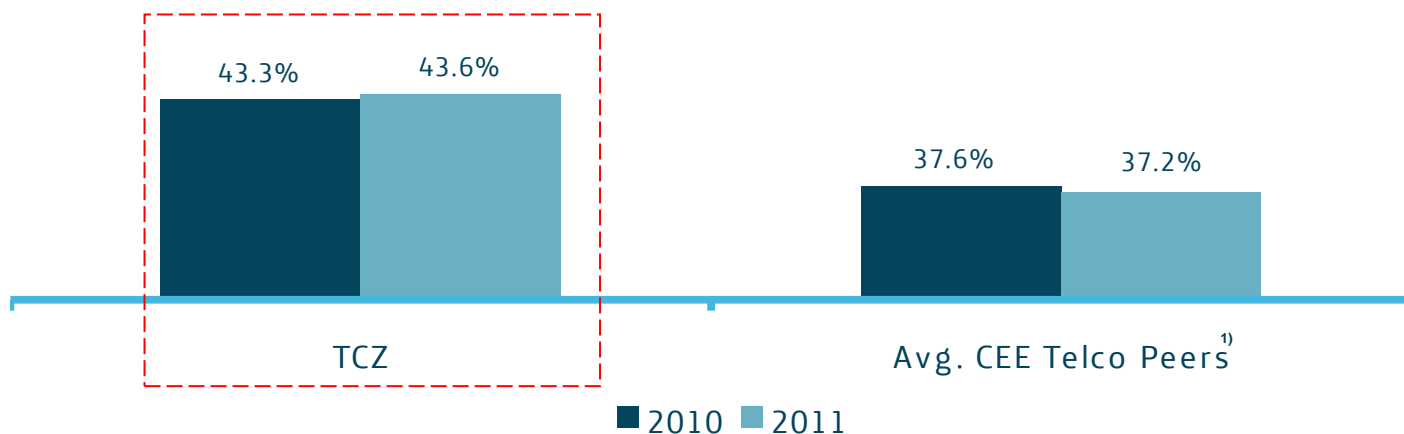
Source: Ovum as of August 2011, Global Insight

Source: IDC as of August 2011, Global Insight

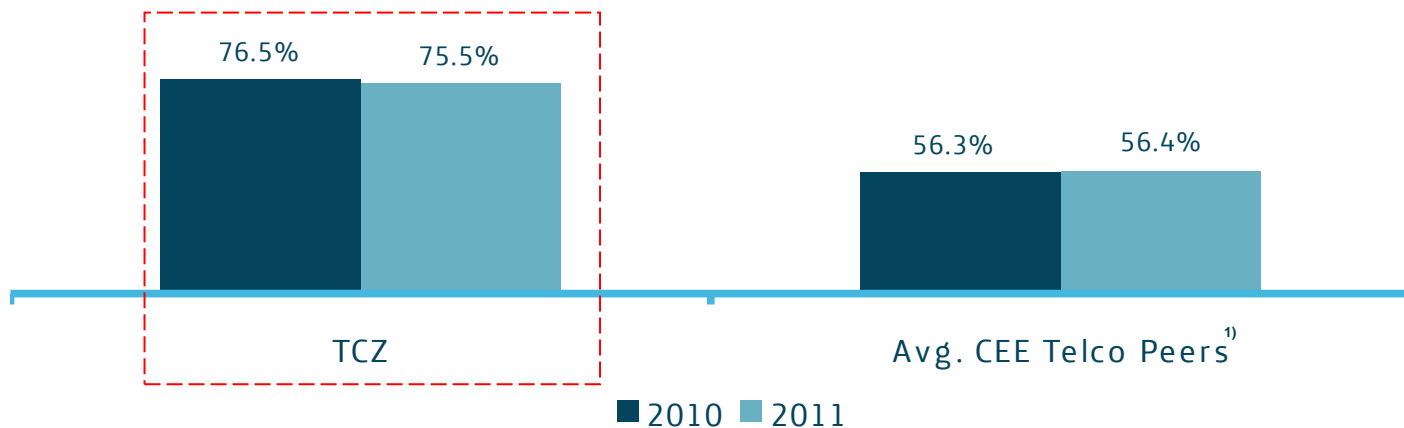
¹⁾ Mobile BB penetration, home BB access and PC & total devices penetration calculated by taking total number of users respectively over country population estimated by Global Insight

Leading Profitability and Cash Flow Generation Relative to CEE Peers

Among Best in Class Profitability (OIBDA Margin) ³⁾



Robust Cash Conversion ²⁾



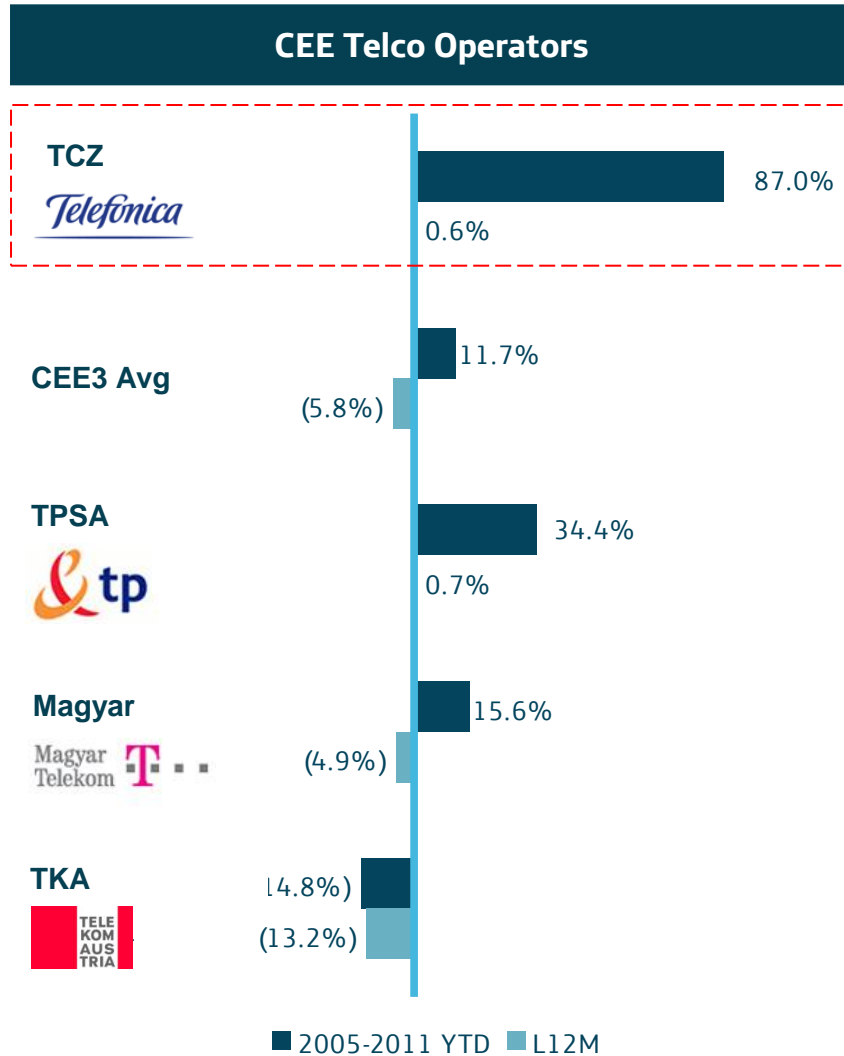
Source: Press releases

¹⁾ Represents average of TPSA, MTEL and TA

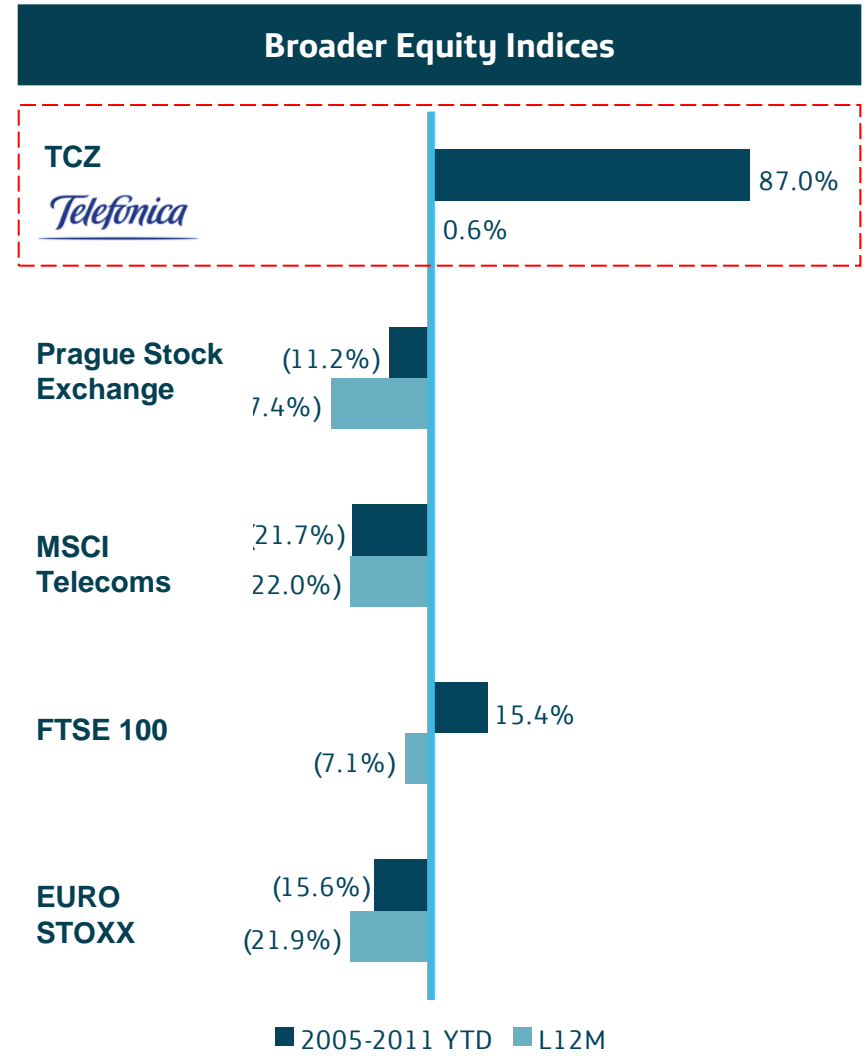
²⁾ Cash Conversion = (OIBDA – Capex)/OIBDA

³⁾ Comparable OIBDA as per company definition

TCZ Has Consistently Outperformed in Terms of Total Shareholder Return¹⁾



Source: CapIQ



Source: CapIQ

¹⁾ Includes dividends plus capital gains as of 8 May 2012

Regulatory Update – MTR cuts, Spectrum Auction

Mobile Termination Rates

- **CZ:**
 - MTR currently at CZK 1.08 /min (cca EUR 0.04)
 - Next expected cut: **to CZK 0.72 as of July 2012** (-33.3%) and to **CZK 0.55 as of January 2013** (-23.6%); this glide path expected to be officially announced in 2Q 2012
- **SK**
 - MTR currently at EUR 0.0551, no asymmetry since June 2011
 - Regulator proposed **cut to EUR 0.0367 as of June 2012**, subject to notification at EU level

Spectrum Auction

- **Draft of “Spectrum Auction Rules” announced on 20 March**
 - Combined auction of 800 MHz (Digital Dividend), 1,800 MHz, 2.6 GHz (FDD and TDD) spectrum bands
 - 1 concrete block of 2x15 MHz in 1,800 Mhz band reserved for the 4th operator
 - Proposed national roaming and wholesale offer (MVNO) obligation
- **Indicative timetable (any delay likely)**
 - 11 May 2012 - deadline for comments
 - June 2012 - Auction start, call for applications
 - 10 August 2012 – Deadline for applications
 - 14 September 2012 – Confirmation/disqualification of applicants
 - 24 September 2012 – Invitation to the “auction phase”, subsequent training + mock auction
 - 12 to 28 November 2012 – Bidding phase
 - December 2012 – Assignment of concrete blocks
 - January 2013 – Announcement of final Auction results, License payment

05

Investor Relations Contacts

Investor Relations Contacts

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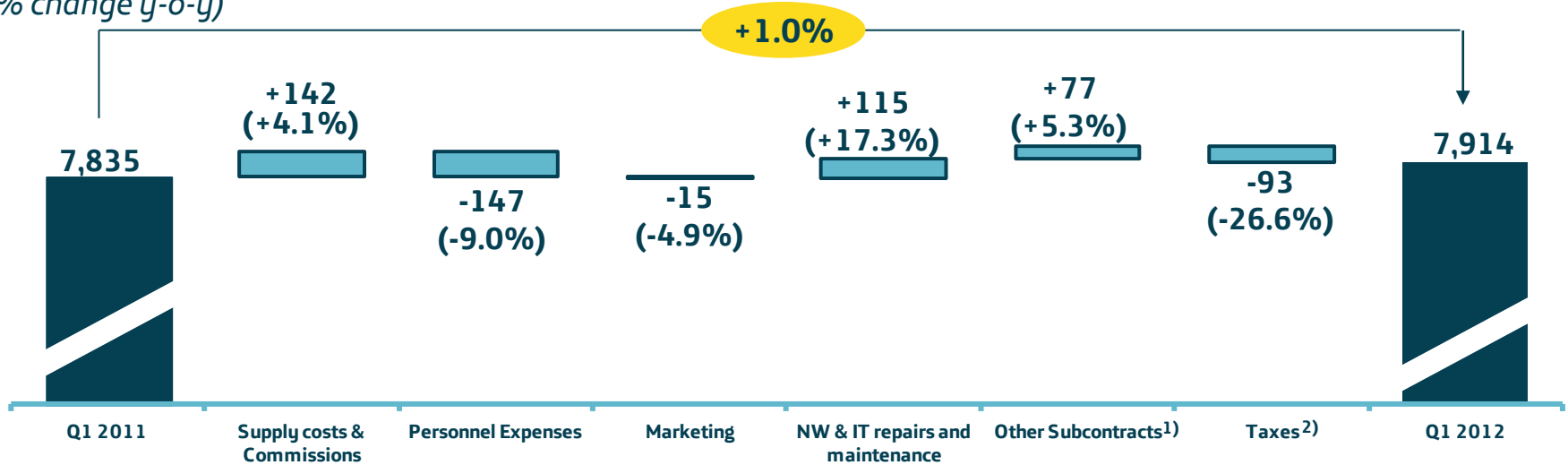
<http://www.telefonica.cz/en/investor-relations/>

Appendix

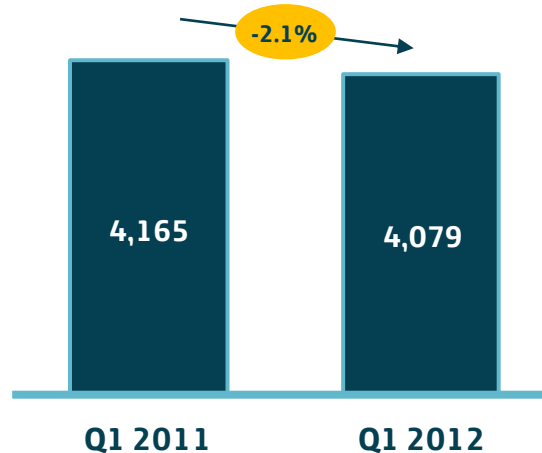
Additional Q1 2012 Details & Reference Materials

Group OPEX – sources of variation

CZK millions
(% change y-o-y)



Manageable OpEx³⁾



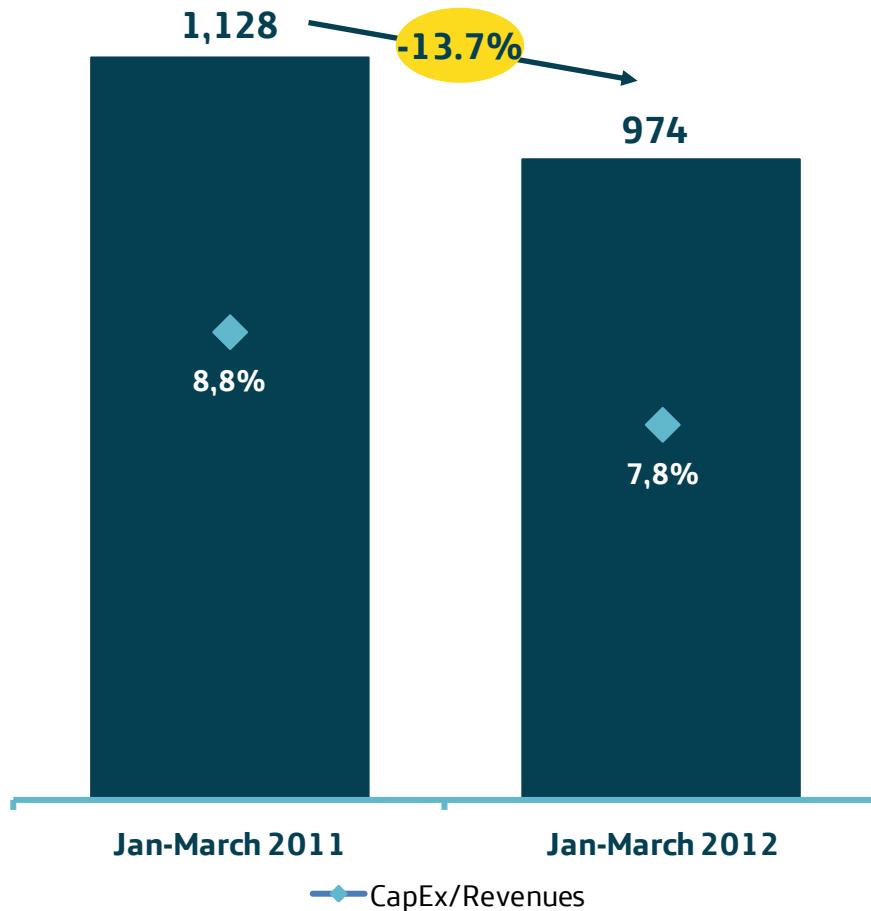
¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees

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**
- **Different CapEx phasing year-on-year**

Group Balance Sheet & Cash Flow Statement

<i>CZK millions</i>	31 Dec 2011	31 March 2012	<i>Change Mar12/Dec11</i>
Non-current assets	73,100	71,050	<i>(2.8%)</i>
Current assets	15,881	17,664	<i>+11.2%</i>
- of which Cash & cash. Equiv.	6,955	9,243	+32.9%
Total assets	88,982	88,715	<i>(0.3%)</i>
Equity	69,097	70,611	<i>+2.2%</i>
Non-current liabilities	3,870	3,605	<i>(6.8%)</i>
- Long-term financial debt	-	-	0.0%
Current liabilities	16,015	14,499	<i>(9.5%)</i>
- Short-term financial debt	3,061	3,082	+0.7%
	Jan – March 2011	Jan – March 2012	<i>Change Q1 12/Q1 11</i>
Cash flow from operations	5,384	4,281	<i>(20.5%)</i>
Dividends received	-	-	0.0%
Net interest and other financial expenses paid	(16)	18	n.m.
Payment for income tax	(800)	(424)	(47.0%)
Net cash from operating activities	4,658	3,875	<i>(15.2%)</i>
Proceeds on disposals of PPE and intangibles	26	246	n.m.
Payments on investments in PPE and intangibles	(1,747)	(1,843)	+5.5%
Net cash used in investing activities	(1,721)	(1,597)	<i>(7.2%)</i>
Free cash flow	2,847	2,278	<i>(20.0%)</i>

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