Telefónica Czech Republic

Quarterly Results
January – September 2012

6th November 2012

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.

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9M & Q3 2012 Performance Highlights

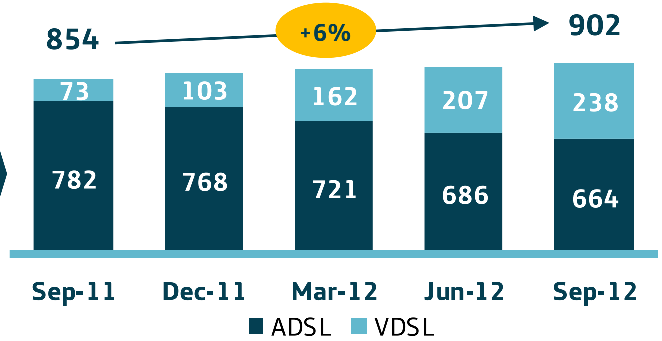
9M & Q3 2012 performance highlights

- **Successful marketing and commercial campaigns** resulting in **sound mobile commercial momentum:**
  - **Maintained low contract churn**
  - **Strong prepay performance** (positive net adds)
  - **Successful launch of new bundled proposition** driving **smartphone penetration growth**
- In **fixed business successfully addressing demand for fixed BB** (already over 60% of addressable base[1)] on VDSL) **via enhanced proposition** and further **penetrating ICT solutions to corporate segment**
- **Spend patterns** in **mobile business diluted** by **competitive pressures, adverse macroeconomic environment** and **focus on customer base protection**
- **Slovakia** keeps its **strong subscribers' growth** and further **increasing its contribution to Group financial performance**
- **Group business revenues** declining 3.8% y-o-y in Q3 due to **worse performance of CZ mobile**
- **Guided OIBDA margin[2)] at healthy 41.9% in Q3**, **up from 40.5% in H1**
- **2012 full year guidance[3)] reiterated for all metrics**

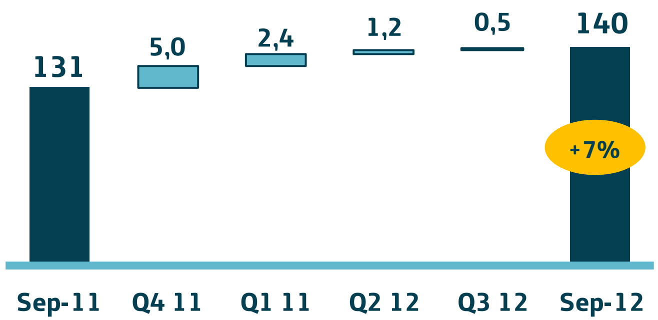
[1)] 48% of total customer base
[2)] OIBDA/Business revenues; OIBDA excludes brand fees and management fees (CZK 834m in 9M 2011 and CZK 780m in 9M 2012); assuming constant FX rates of 2011
[3)] Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions).

Continuous solid 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)

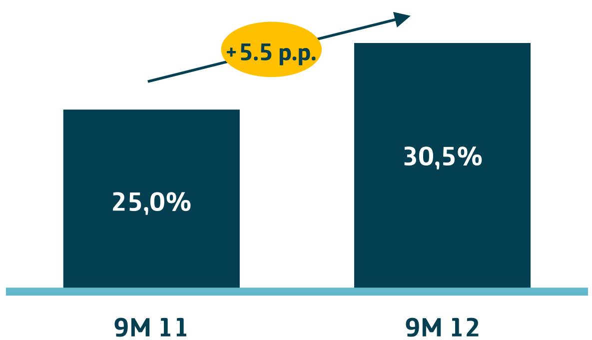


- **Relevant demand for VDSL service – already 30% of FBB base and 62% of addressable base in residential[2)]**

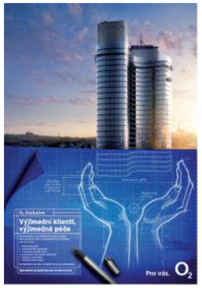
- **VDSL speeds upgraded in Sep-12,** to **strengthen competitive position, reduce BB churn** and **prevent spend dilution**
- **1.5m fixed accesses at Sep-12** (-5% y-o-y), while **line losses** broadly maintained

- **Growing O_2 TV customer base** in Q3, **helped by bundling** with DSL **despite Czech Pay TV market stagnating**

ICT revenues (as % of revenues in business division)



- **Successful penetration of standard recurring ICT solutions to corporate segment ...**
- ... driving **ICT revenues growth** (+9.3% y-o-y) and **increasing contribution to fixed revenues** (10%, + 2 p.p. y-o-y) in Q3

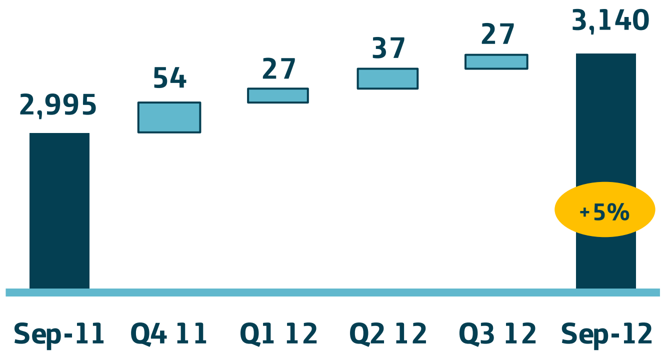


y-o-y change

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

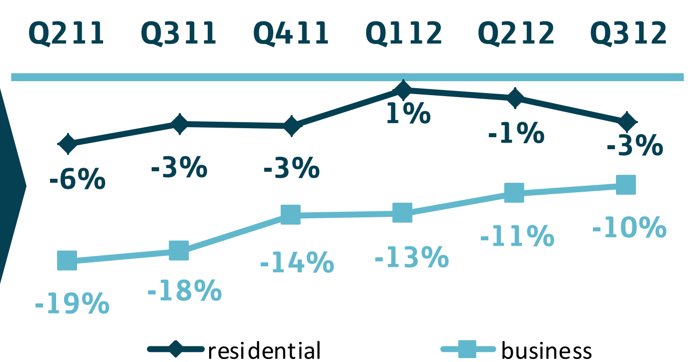
Churn and customer value management initiatives helping to protect the base and mitigate external price pressures

Contract mobile customers
('000)



Contract churn
(monthly average)

Improving spend trends in business segment, while residential slightly diluting
(ex-MTR contract ARPU, y-o-y change)



- **Total mobile base** reaching **5 million** at the end of Sep-2012 **(+3% y-o-y)**
- **Solid contract commercial performance confirmed** in Q3, due to **strong trading in corporate segment** and **sustained low churn**
- **Strong prepay performance in Q3** (+30k) driven by **refreshed proposition** and **successful activities** in **retention** and **churn** (Q3 churn: 2.7%, -0.6 p. p. y-o-y)

- **New mobile voice/small screen bundles** helping to **protect customer base** and **drive mobile internet growth**

- **Contract ex-MTR ARPU performance marginally worsened in Q3** (-8% y-o-y):
  - **Spend dilution in business segment** keeps **decelerating** on the back of **"O_2 Exclusivity" proposition**
  - Despite **positive impact of smartphone uptake residential spend diluted** by **limited CVM[2] impact, competitive price pressure** & **adverse macroeconomic conditions**

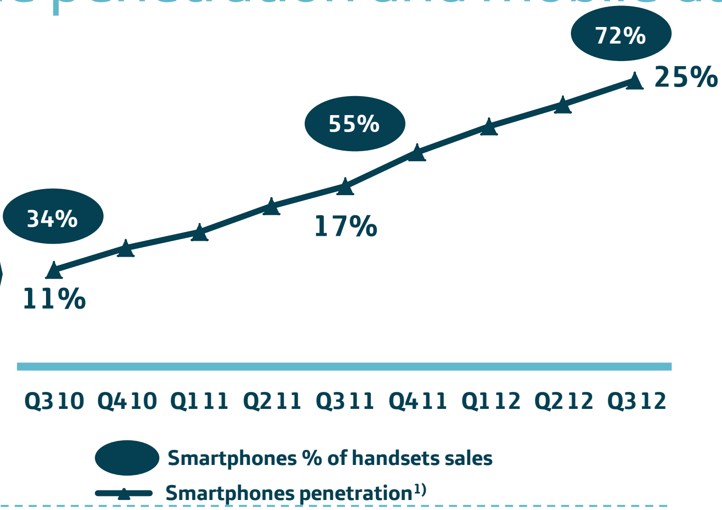
y-o-y change

m.s. [1]

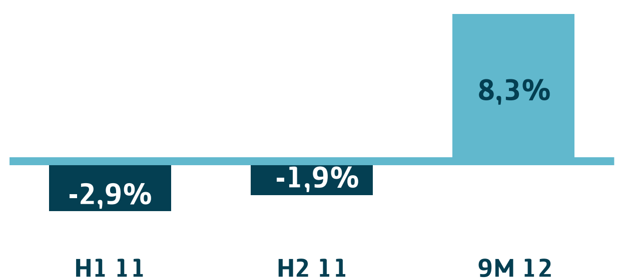
[1] m.s. = market share
[2] CVM = Customer Value Management

Our rational commercial investments led to further growth of smartphone penetration and mobile data revenues uptake

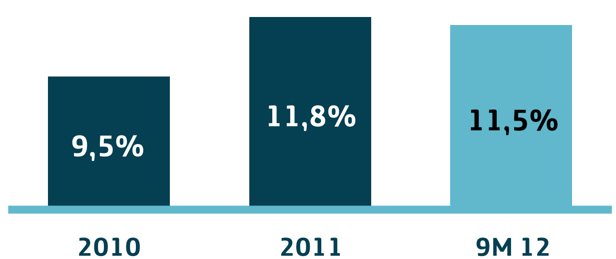
Smartphone sales & penetration



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



Commercial costs[2] as % of mobile revenues



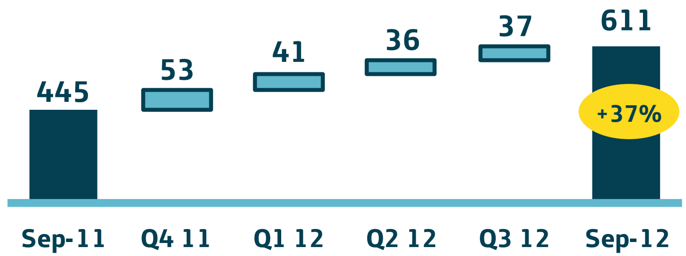
- **Continuous smartphone focused marketing campaigns** helping to **accelerate** smartphone **sales** and maintain **penetration** growth

- **Successful adoption of refreshed small screen proposition** (bundling with SMS) **driving small screen subscribers' growth** (+58% y-o-y) and **mobile data revenues uptake**
- **Data revenues** account for over 28% of mobile service revenues in Q3, with **increasing contribution of mobile internet**[3]: 38% of data revenues (+4 p.p. y-o-y)
- **Selective and rational investments into commercial costs maintained**

[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 keep driving further improvement in financial performance

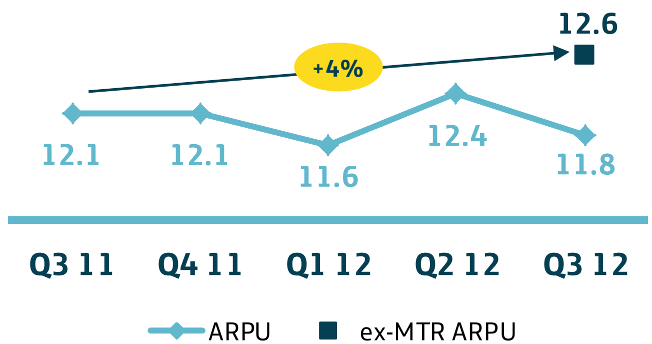
Contract mobile customers ('000)



- **Sound customers' growth maintained in Q3** (+42k) **driven by contract** as a result of successful launch of **new propositions focused on higher value customers** (O_2 Pausal, O_2 Moja Firma)

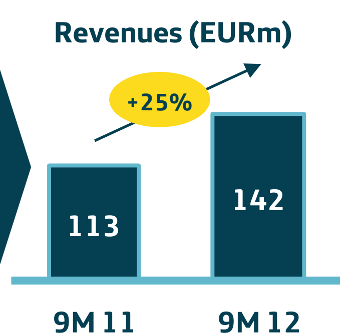
- **Close to 20% market share**[1)]
- **Best-in-class customer satisfaction**[2)] (CSI: 85.4 points), keeping relevant positive gap to best competitor

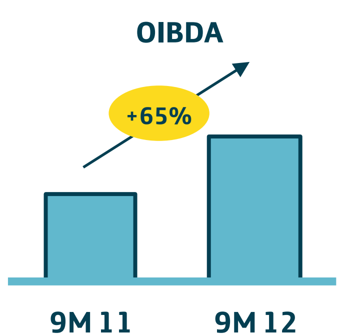
Focusing on value (ARPU in EUR/month)



- **ARPU improvement** on the back of **enhanced customer mix** (47.3% on contract) and **new propositions** for SMB and residential
- **3G coverage already above 50%** at Sep-12, to support **smartphone penetration uptake** (25% at Sep-12, +9 p.p. y-o-y)

Strong financials





- **Strong underlying** (ex-MTR impact) **revenues growth maintained in Q3: +29.6% y-o-y**
- **Growing OIBDA q-o-q, leveraging on lean operation**
- **Slovakia's improving financials** (close to 10% of Group revenues in 9M 2012) **positively contributing the Group's profitability**

y-o-y change

1) Q2 2012
2) Based on the survey by an independent agency Ipsos Tambor and Telefónica Slovakia

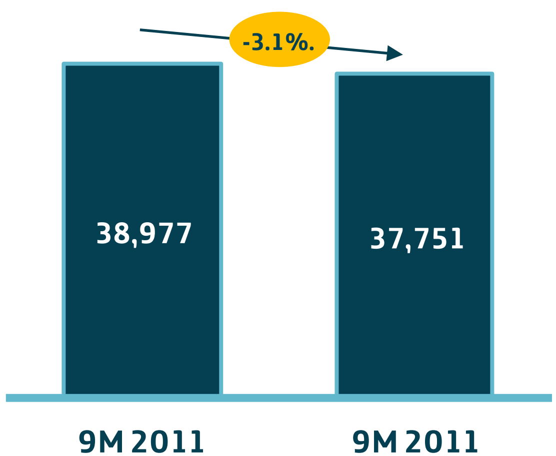
02

January – September 2012 Financial Performance

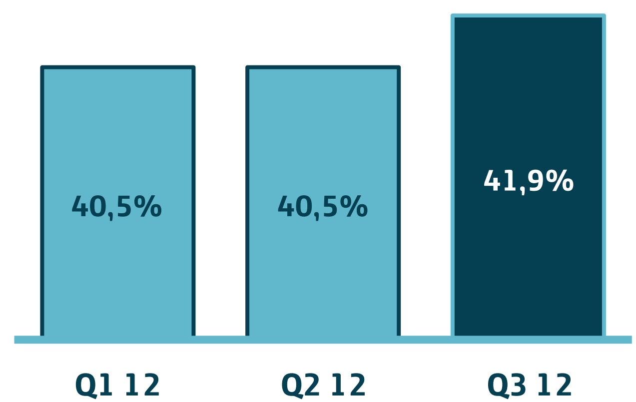
Key Highlights of Group Financial Performance

CZK millions	**Jan – Sep 2012**	***Change 9M 12/9M 11***
Business revenues	**37,751**	***(3.1%)***
CZ Fixed	**15,826**	***(6.0%)***
CZ Mobile	**18,531**	***(5.2%)***
OIBDA before brand fees and management fees	**15,470**	***(7.8%)***
OIBDA margin before brand fees and management fees	***41.0%***	***(2.1p.p.)***
OIBDA	**14,690**	***(7.9%)***
OIBDA margin	***38.9%***	***(2.0p.p.)***
Net Income	**5,019**	***(13.7%)***

Business revenues (y-o-y)



Guided OIBDA margin[1)]

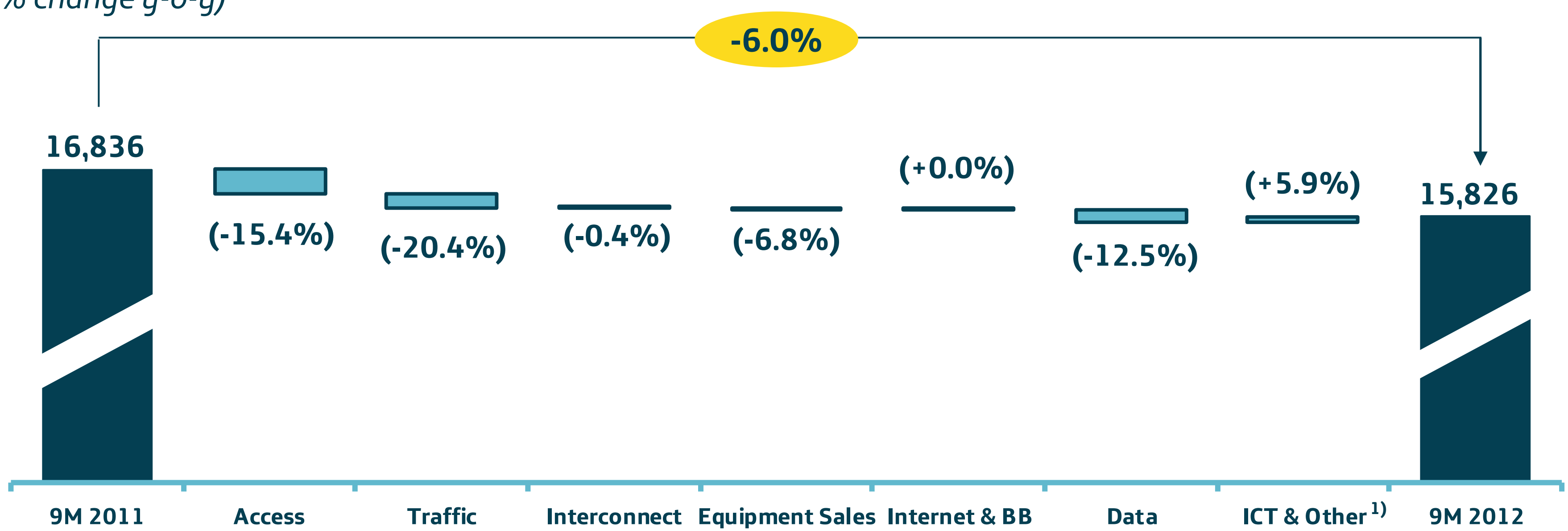


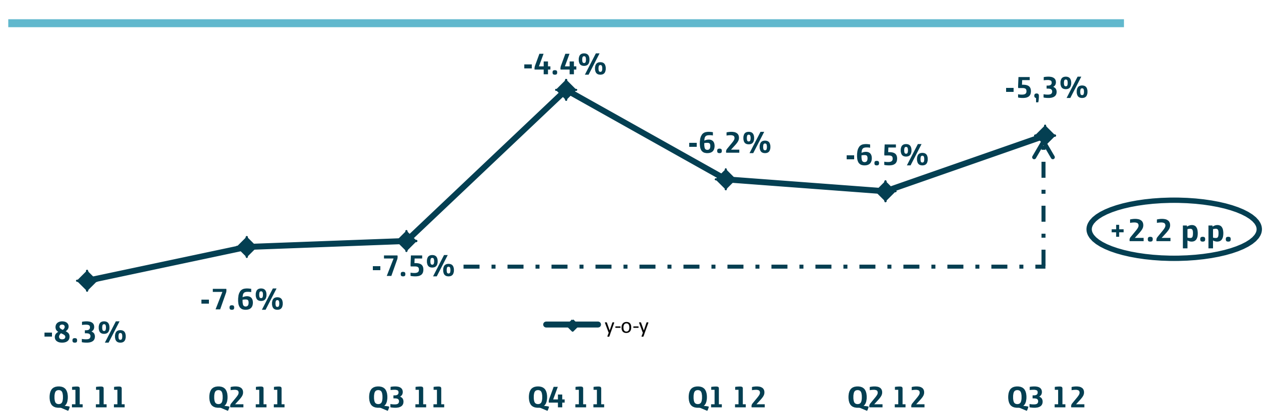
y-o-y change

[1)] OIBDA before brand fees & management fees (9M 2011: CZK 834m, 9M 2012: CZK 780m), 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)

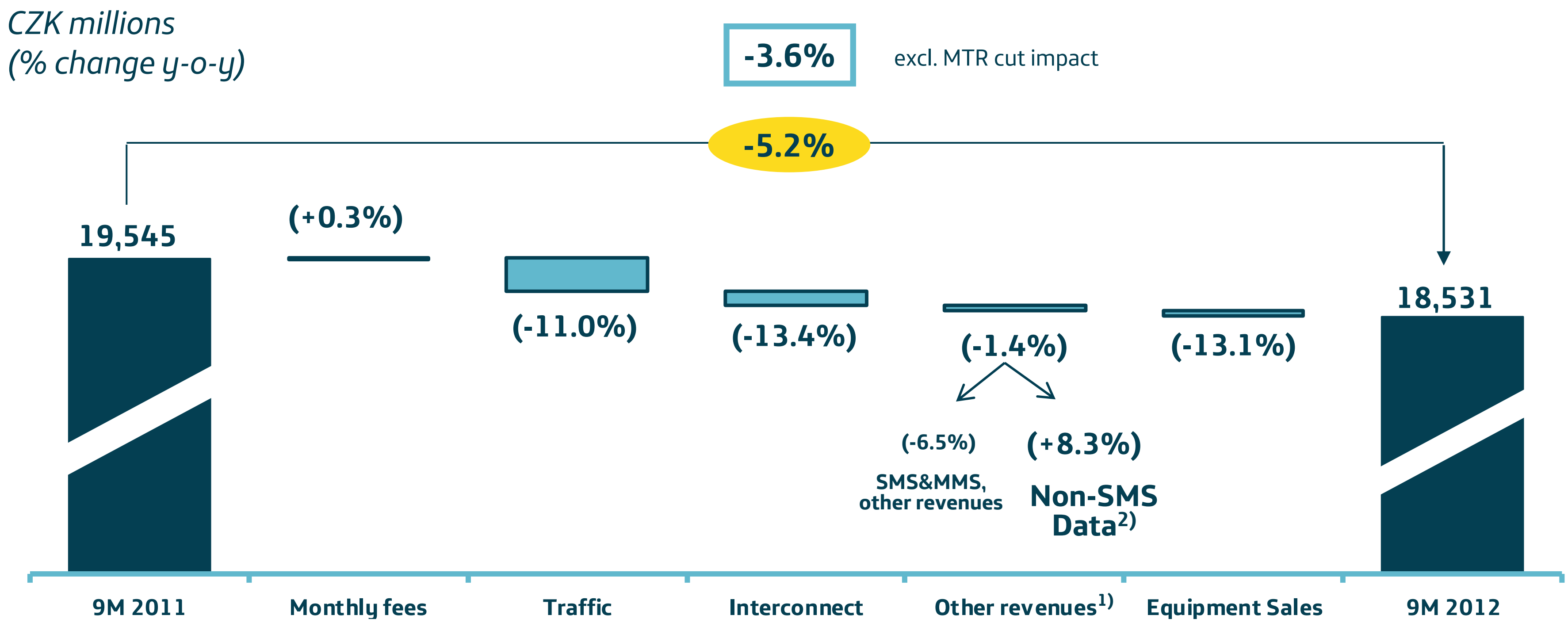


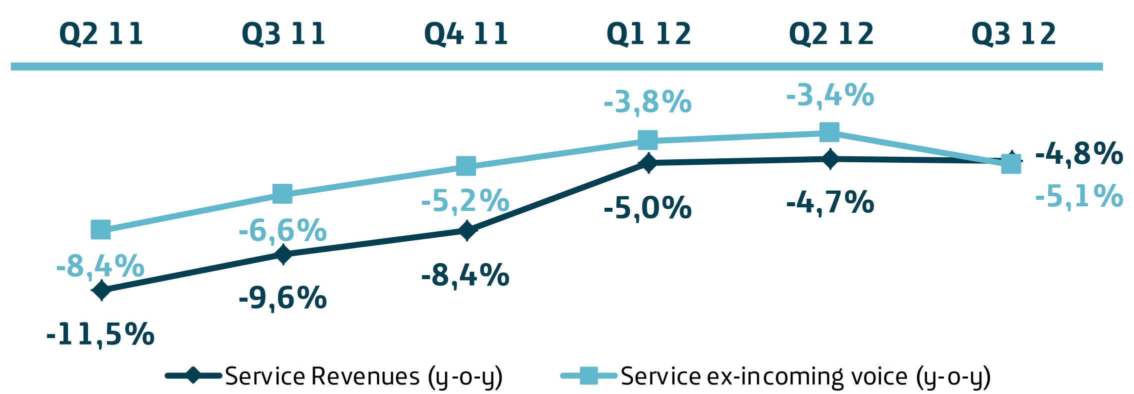


y-o-y change

[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

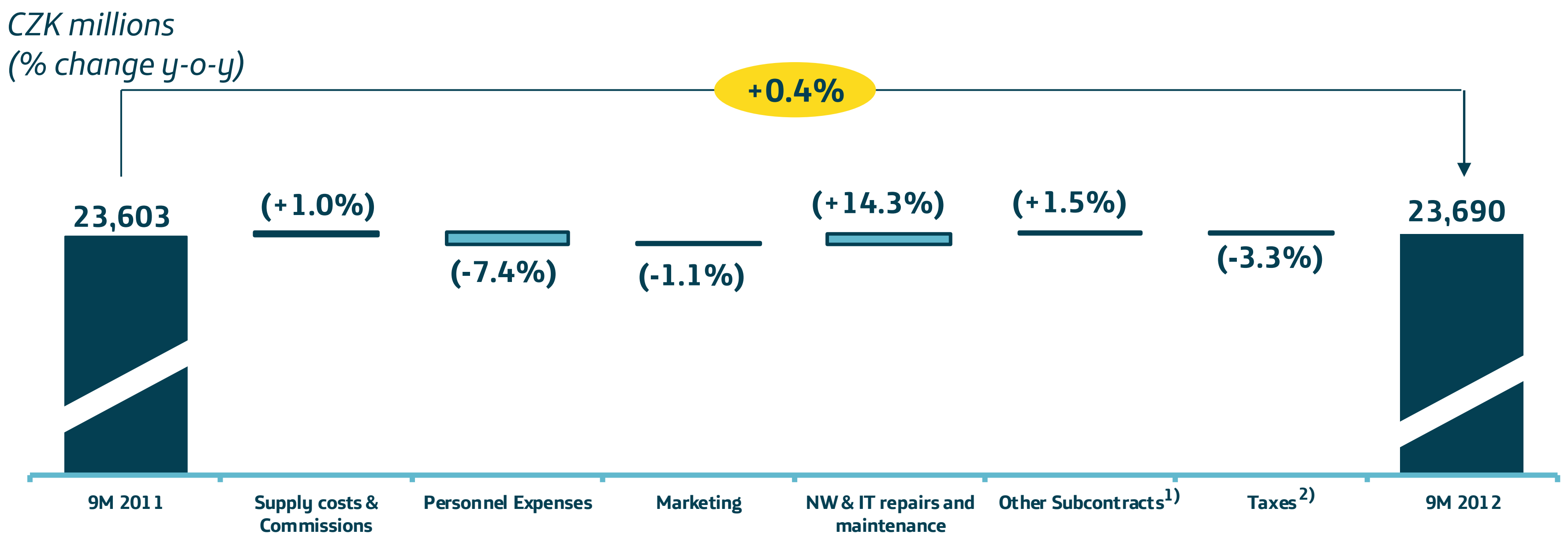


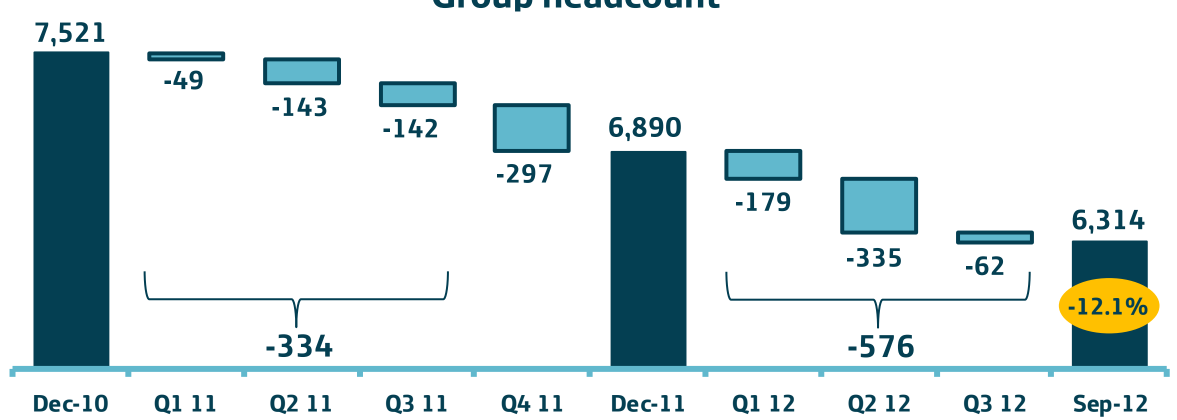


y-o-y change

[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



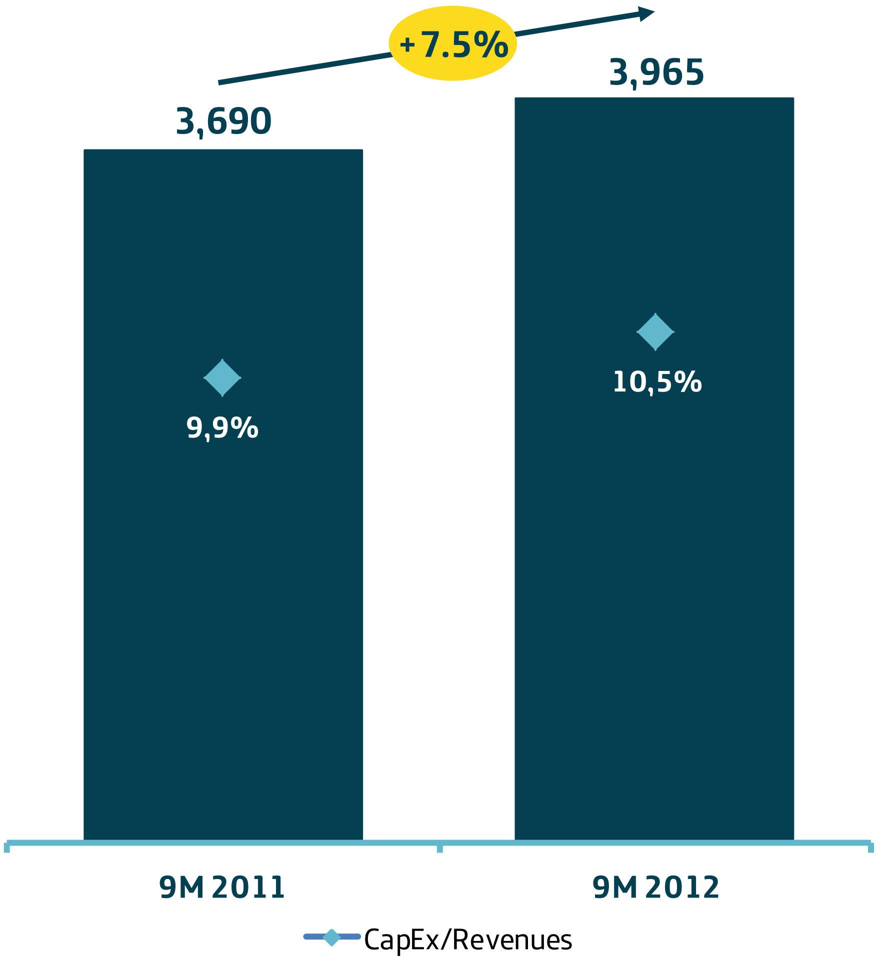


y-o-y change

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 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 Sep 2012	*Change Sep12/Dec11*
Non-current assets	**73,100**	**68,382**	***(6.5%)***
Current assets	**15,881**	**20,972**	***+32.1%***
- of which Cash & cash. Equiv.	6,955	12,495	*+79.1%*
Total assets	**88,982**	**89,354**	***+0.4%***
Equity	**69,097**	**63,813**	***(7.6%)***
Non-current liabilities	**3,870**	**22,192**	***(13.5%)***
- Long-term financial debt	-	-	-
Current liabilities	**16,015**	**22,192**	***+38.6%***
- Short-term financial debt	3,061	2,966	*(3.1%)*

	Jan – Sep 2011	Jan – Sep 2012	*Change 9M 12/9M 11*
Cash flow from operations	**16,486**	**13,202**	***(19.9%)***
Dividends received	5	5	*0.0%*
Net interest and other financial expenses paid	(168)	(145)	*(13.9%)*
Payment for income tax	(1,550)	(1,230)	*(20.7%)*
Net cash from operating activities	**14,772**	**11,833**	***(19.9%)***
Proceeds on disposals of PPE and intangibles	206	310	*+50.1%*
Payments on investments in PPE and intangibles	(4,736)	(4,894)	*+3.3%*
Payments on temporary financial investments	-	(250)	*n.m.*
Net cash used in investing activities	**(4,530)**	**(4,834)**	***+6.7%***
Free cash flow	**10,242**	**6,998**	***(31.7%)***

03

Shareholder remuneration update

Shareholder remuneration update

Dividends

- **Cash dividend** of **CZK 27 per share** (CZK 8,605 million[1)]) **paid out** to the shareholders **on 10th October 2012**, in line with AGM resolution

Share capital reduction

- **Share capital reduction** to be registered in the Commercial Register on **14th November 2012**, which will be also the relevant **record date** (ex-date: 12th November 2012)
- **The payments** shall **commence starting on 14th December 2012**

Share buy back

- **By 31st October,** the Company acquired and settled **4,981,383** of its **own shares (1.55% of registered capital)** at an **average price of CZK 391.3 per share,** i.e. for a **total amount of CZK 1,949 million**

[1)] No dividends were paid out to the Company on repurchased shares (3,373,228 shares owned by the Company at record date – 12th September 2012)