

Telefónica Czech Republic

Quarterly Results January – June 2011

27th July 2011



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

2Q and 1H 2011 Performance Highlights

2Q and 1H 2011 performance highlights

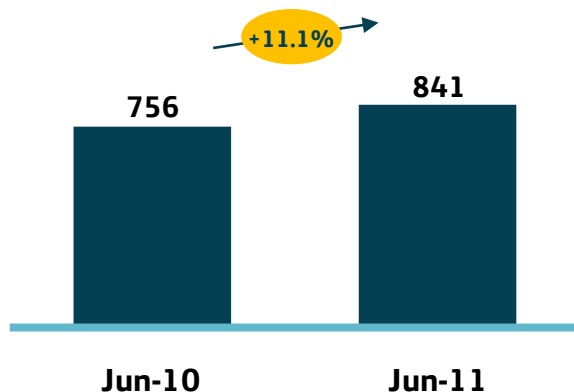
- **Solid commercial momentum in focused areas reported:**
 - **CZ mobile contract base:** +57k in the quarter, **prepaid:** -14.8k
 - **xDSL customer base** maintained double digit growth: +11.1% y-o-y
- **CZ mobile revenues** continued to be impacted by **persisting competitive pressure**, MTR cuts and **slow recovery of household consumption**
- **CZ fixed revenues y-o-y decline slowed down in 2Q 2011**
- **Slovakia** maintaining its **strong trading momentum** (+55k in 2Q) and **improving financial performance** – positive OIBDA in 1H 2011
- **Guided OIBDA margin¹⁾** in 1H 2011 maintained basically **flat y-o-y** reaching close to **42%**, as a result of **efficiency agenda in CZ** and **positive OIBDA in SK**
- **2011 full year guidance²⁾** for OIBDA and CAPEX **reiterated**

¹⁾ OIBDA excludes brand fees and management fees ((CZK 423 million in 1H 2010 and CZK 551 million in 1H 2011); 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

xDSL¹⁾
(‘000)

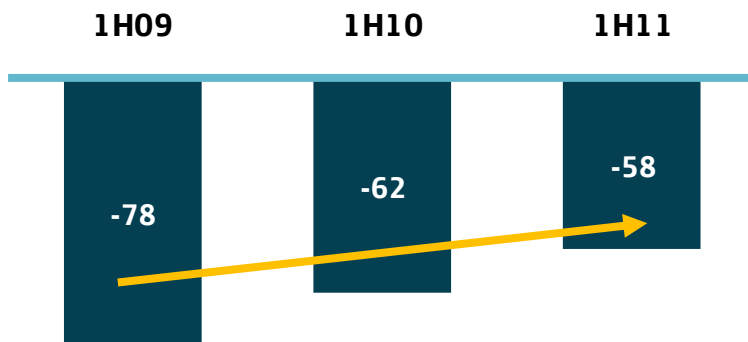


- 34.7 thousand net adds in 1H 2011, +11.3% year-on-year



- VDSL launch on 9th May:
 - Promising performance: 41 thousand at the end of 2Q driven by migrations
 - Focusing on protection of existing high value customers and churn enhancement

Fixed accesses (net losses)
(‘000)

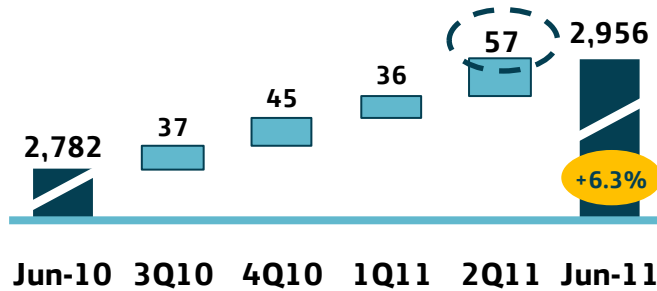


- 1.6m fixed accesses at 2Q (-5.7% y-o-y)
- Fixed accesses' disconnections continue to slowdown reaching 28.5 thousand in 2Q 2011 (-2.3% y-o-y)
- Driven by naked accesses growth, but fixed voice losses continuously decelerating

¹⁾ retail & wholesale

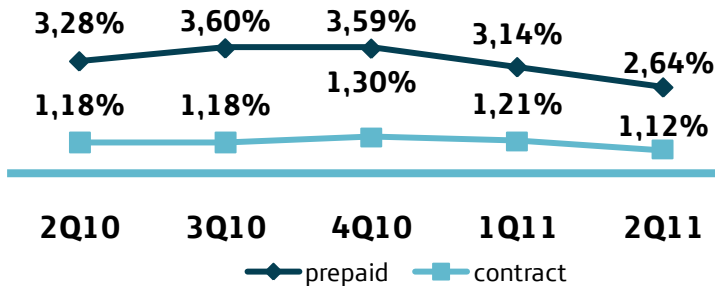
Outperforming mobile contract market, reducing churn, while underline spend impacted by challenging competition and slow spend recovery

Contract mobile customers ('000)

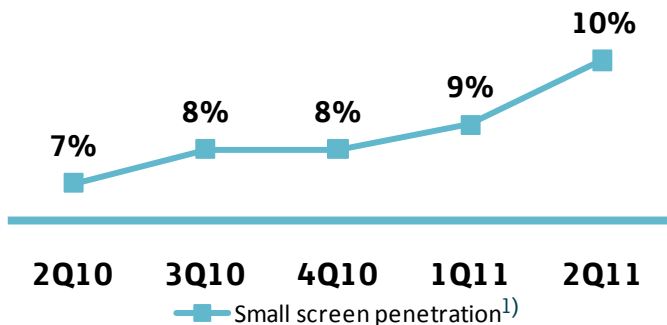


y-o-y change

Churn (monthly average)



Focusing on smartphone adoption to foster data monetisation



- **Total mobile base** reaching **4.9m** at the end of 1H11 (+1% y-o-y)
- **Strong contract commercial performance** in 2Q, driven by continuous **3G customers uptake**
- Significant **deceleration in prepaid base losses**, -14.8k in 2Q (-57% y-o-y)
- 2Q blended **churn reduction** due to **lower prepaid churn**
- **Underline spend** (ex-MTR ARPU) impacted by **persisting competitive pressure** (ARPM) in SMB and corporate segments and **slow consumer consumption recovery**

- Non-SMS data ARPU growth fuelled by **uptake in MBB and liH penetration** supported by the educative marketing campaign

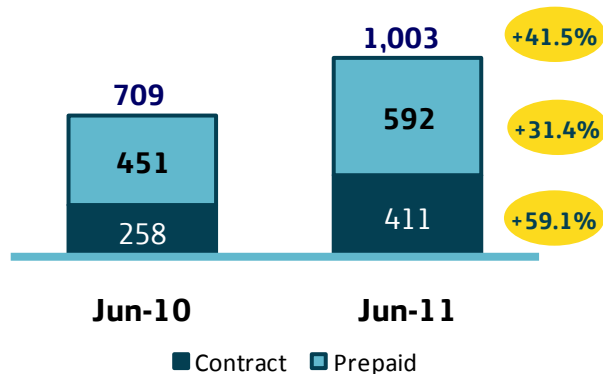


- Total **data ARPU diluted** by **lower roaming prices, CDMA migrations and more SMS/MMS bundling**

¹⁾ Small screen (Internet in Handset) paid/Contract voice SIMs

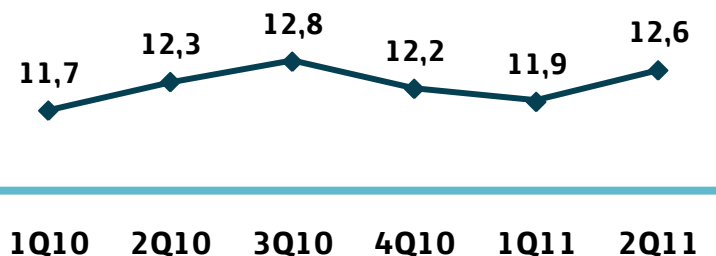
Slovakia – new proposition focusing on higher value segments, customers' growth maintained with financial performance further improving

Mobile customers ('000)



- Strong customers' growth maintained in 2Q 2011 (+55k customers)
- Driven by contract customers growth (+30k) resulting in further **mix improvement** (contract represent already 40.9% of base, +4.5 p.p. y-o-y)
- Continued improvement in churn (2.2% in 2Q 2011, -0.4 p.p. y-o-y)
- Customer satisfaction leadership and gap over competition maintained

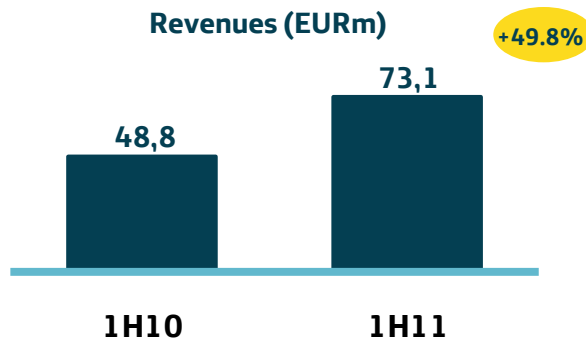
Focusing on value (ARPU in EUR/month)



- New proposition (O₂ Filip) targeting higher value residential customers
- 3G based services launched in mid-July to **strengthen position in business segment**



Financials



- 2Q revenues at EUR 38.5m, +11.4% q-o-q
- Revenue growth driven by subscribers' base increase and ARPU enhancement
- Positive OIBDA in 1H 2011

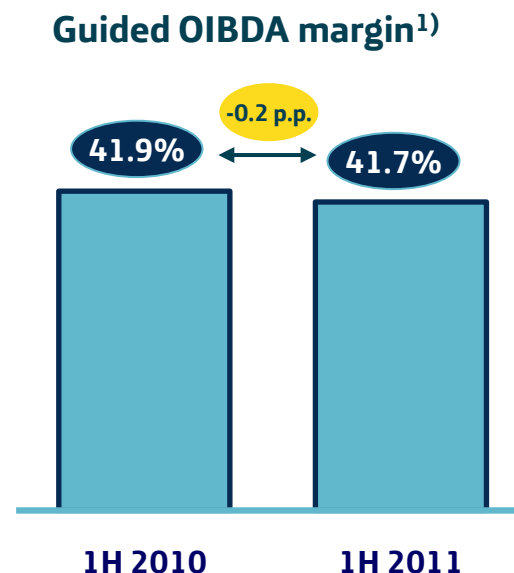
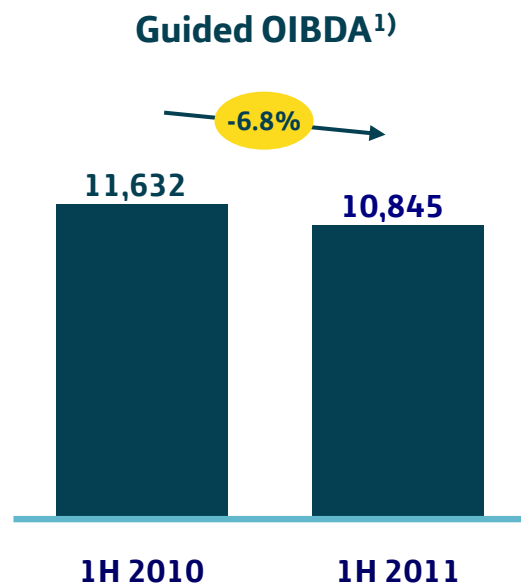
02

January - June 2011 Performance

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Key Highlights of Group Financial Performance

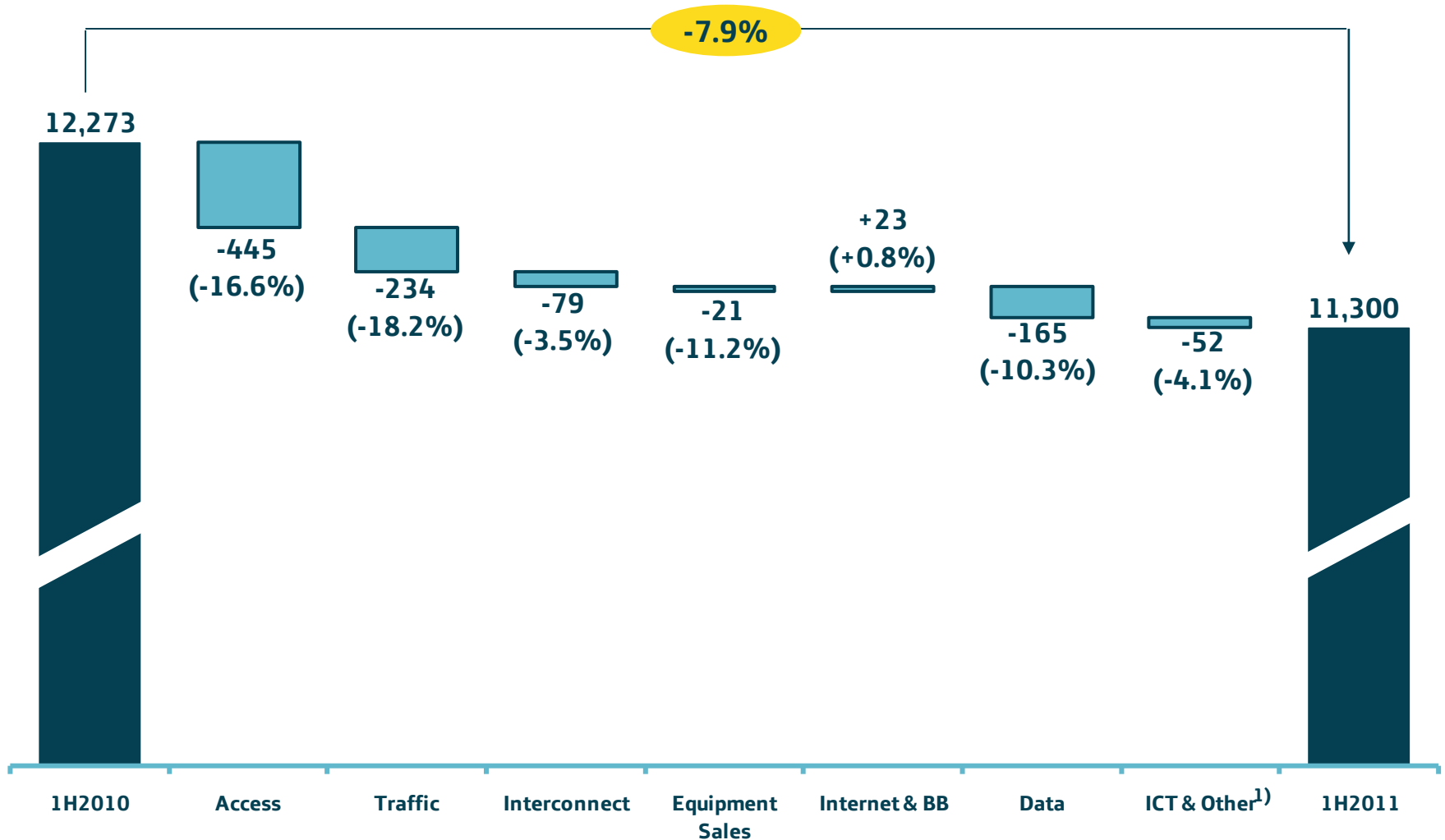
CZK millions	Jan – Jun 2011	Change 1H11/1H10
Business revenues	25,898	(6.7%)
CZ Fixed	11,300	(7.9%)
CZ Mobile	12,925	(9.7%)
OIBDA before brand fees and management fees	10,825	(6.9%)
<i>OIBDA margin before brand fees and management fees</i>	41.8%	(0.1 p.p.)
OIBDA	10,274	(8.3%)
<i>OIBDA margin</i>	39.7%	(0.7 p.p.)
Net Income	3,611	(17.1%)



¹⁾ OIBDA before brand fees & management fees (1H 2010: CZK 423m, 1H 2011: CZK 551m); assuming constant FX rates of 2010

CZ Fixed Business Revenues – sources of variation

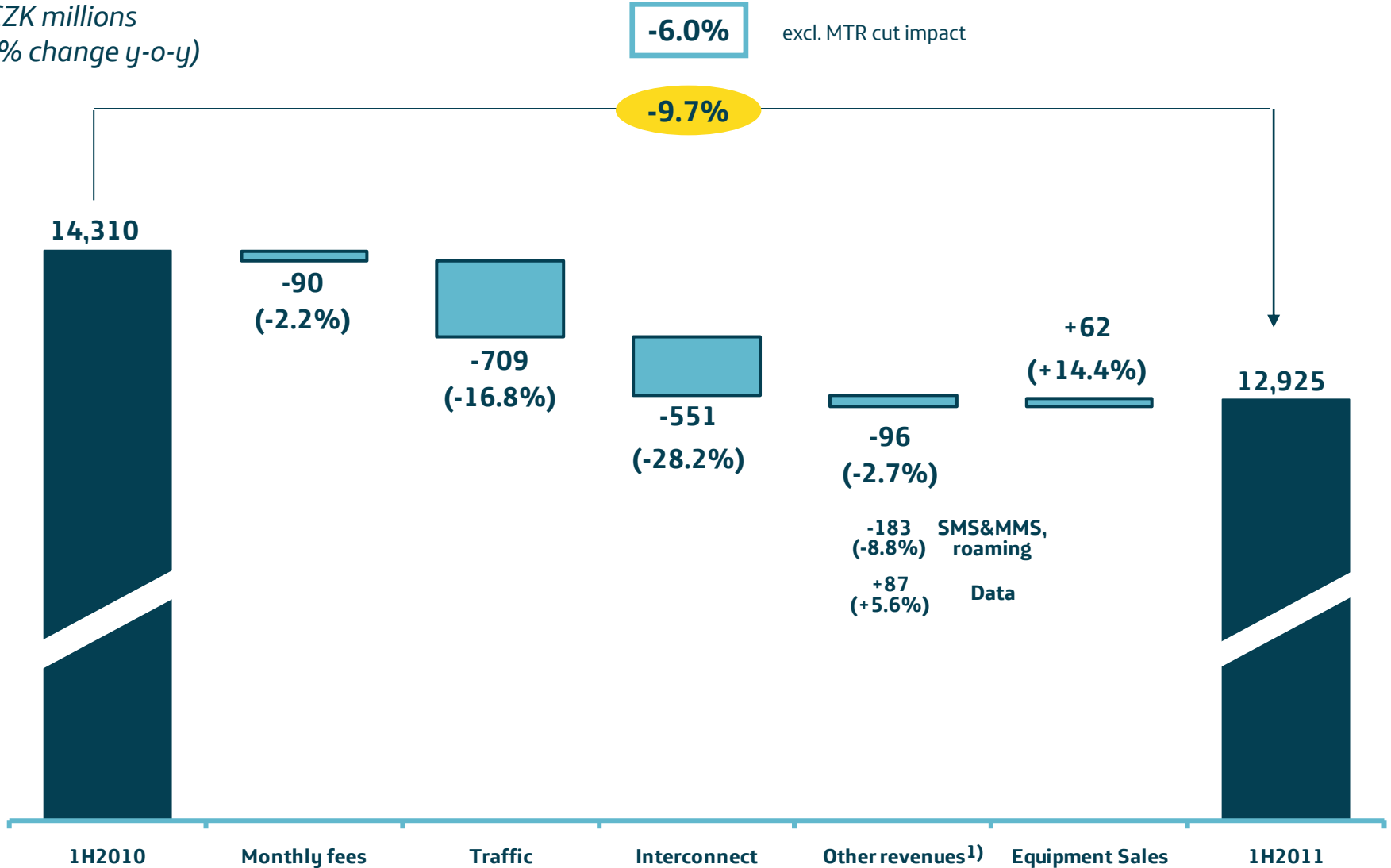
CZK millions
(% change y-o-y)



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

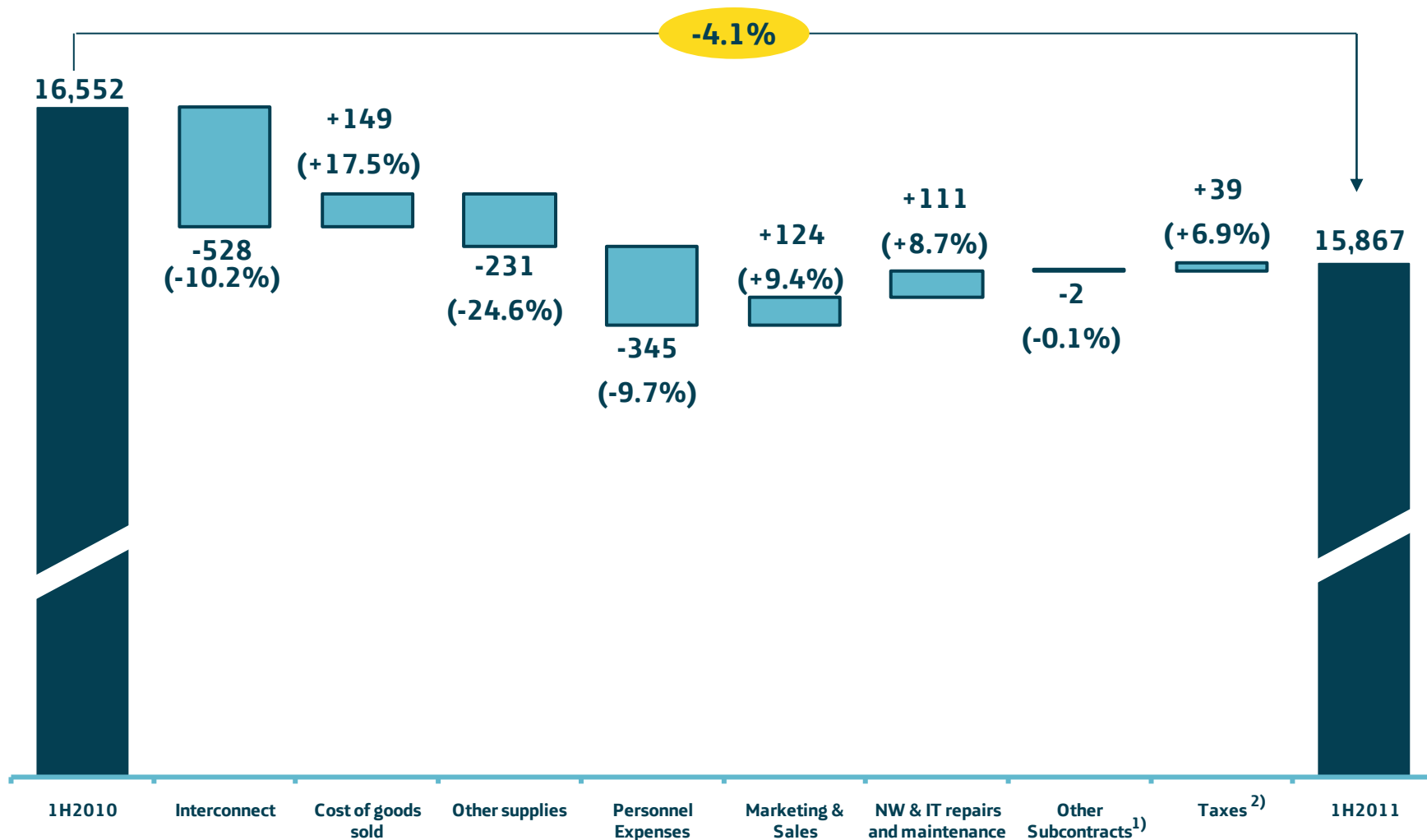
CZK millions
(% change y-o-y)



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

CZK millions
(% change y-o-y)

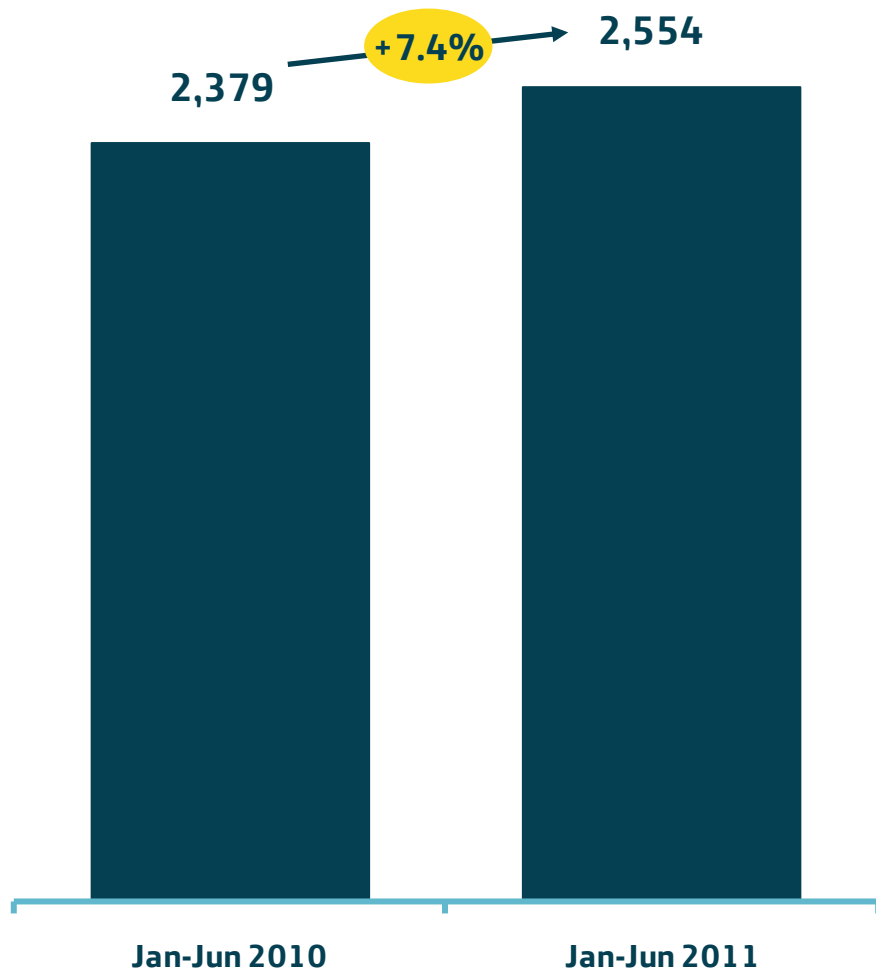


¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees

²⁾ Taxes = taxes other than income taxes, provisions and fees

Group CAPEX

CZK millions



- Continuous focus on selective and efficient investments to growth areas
- Capacity & quality enhancement and further expansion of 3G network in CZ
- Deployment of VDSL network covering ~ 50% households
- 3G deployment in SK to reach ~ 30% population coverage
- CAPEX to Revenues at 9.8% in 1H 2011, + 1.3 p.p. year-on-year

Group Balance Sheet & Cash Flow Statement

<i>CZK millions</i>	31 Dec 2010	30 June 2011	<i>Change Jun11/Dec10</i>
Non-current assets	78,285	74,989	(4.2%)
Current assets	14,495	20,245	+39.7%
- of which Cash & cash. Equiv.	4,798	10,820	n.m.
Total assets	92,792	95,239	+2.6%
Equity	73,176	63,880	(12.7%)
Non-current liabilities	6,896	6,565	(4.8%)
- Long-term financial debt	2,883	2,801	(2.9%)
Current liabilities	12,720	24,794	+94.9%
- Short-term financial debt	141	310	n.m.
	Jan – June 2010	Jan – June 2011	<i>Change 1H11/1H10</i>
Cash flow from operations	11,516	11,029	(4.2%)
Dividends received	3	5	+33.3%
Net interest and other financial expenses paid	(20)	(14)	(29.7%)
Payment for income tax	(1,466)	(1,599)	+9.1%
Net cash from operating activities	10,034	9,421	(6.1%)
Proceeds on disposals of PPE and intangibles	49	42	(13.1%)
Payments on investments in PPE and intangibles	(2,980)	(3,443)	+15.5%
Net cash used in investing activities	-	-	0.0%
Free cash flow	7,103	6,021	(15.2%)