

A dynamic splash of water with numerous bubbles and droplets, set against a dark blue background. The water is captured in mid-air, creating a sense of movement and freshness.

Telefónica Czech Republic

Quarterly Results
January – March 2014

14th May 2014



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.

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**January – March 2014
Performance Highlights**

Continued focus on efficiency through simplification... ...and laying foundations for our future business

Future Growth enabled

- **LTE service** commercially available in **Praha and Brno**
- **Ownership of the LTE licences** completed, moving into roll-out phase
- Operational efficiencies further extended by the **LTE Network sharing** deal

We continue to lead the market

- Continued **success of the FREE** proposition...
- ...our **MVNO strategy** winning in the market...
- ...**protecting customer base** and market share in the **business** segment...
- ...sustained **demand for VDSL** and **growing O2 TV** base...
- ...continued **mobile data revenue growth**...
- ...all resulted in maintained market position in a **market that is slowing down**

FREE delivering efficiencies

- **Massive cost reduction** programme agenda to protect OIBDA...
- ... driven by the **simplified operating model** enabled by FREE
- Increasing contribution from our business in Slovakia

FREE tariffs have changed the market by addressing the needs of our customers... ..while simplifying our operational model

We changed the market

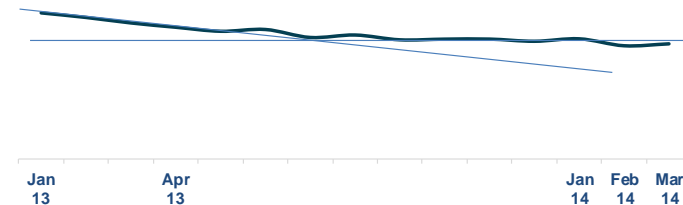
- **Addressing customers' needs** of simplicity, transparency and increasing traffic
- ...while moving from price-oriented to **value-oriented**
- ...through innovative **customer experience**, unique **loyalty program** and best-in-class **NW quality**
- Migration to FREE Tariffs is a **growth opportunity...**
- ...while in the very competitive **business segment** we protect our **strong customer base**



Benefiting from simplification

- FREE **changed spend trend** in Consumer segment
- **95%** of Consumer base **on FREE tariffs**
- **Simplification** drives savings
 - **Reduction of calls** in the call centres
 - **Reduction of handling time** in shops
 - **All FREE** customers on **e-bill**
 - Hardware **subsidies eliminated**

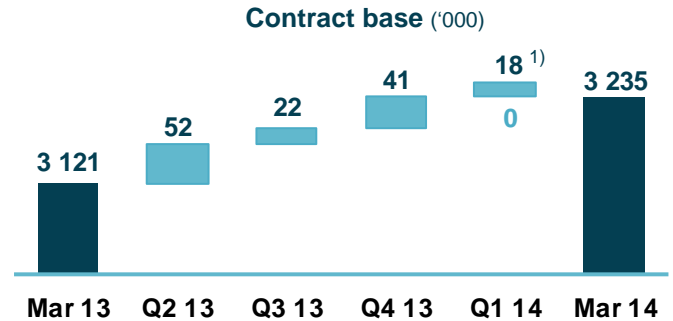
Consumer postpaid spend
illustrative



Continue to execute our strategy...

Grow mobile base

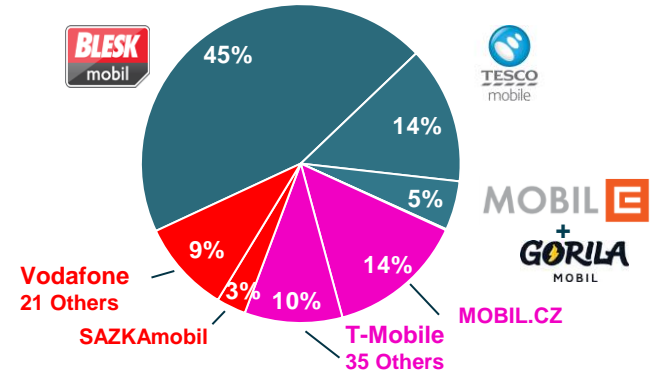
- Total mobile customer base at 5.1 mil.
 - Modest contract growth +3.7% y-o-y
 - Contract customers now 64% of total base (+1,2p.p. y-o-y)



Leadership in MVNO's

- Confirmed our MVNO leadership with best partners
 - ČEZ – dominant energy company, launched in 2013
 - Blesk – leading tabloid with extensive distribution channels
 - Tesco – replicating successful concept from the UK, as part of the Clubcard loyalty scheme
 - Gorila – data centric and youth oriented, launched in March

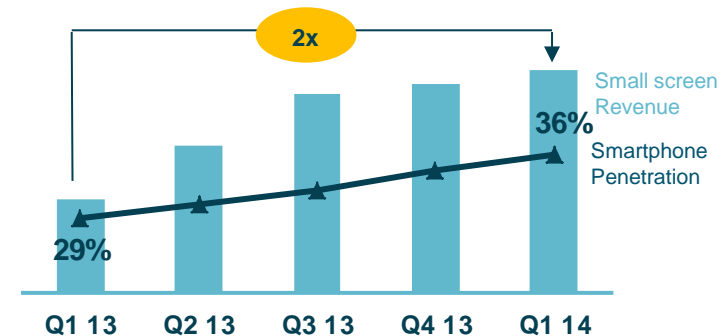
MVNO market overview (%)



FREE driving data growth

- FREE tariffs and smartphone penetration uptake driving small screen base growth (+70% y-o-y)...
- ...doubling the revenues for small screen
- Supported by mobile network enhancement (LTE deployment, HSPA+ upgrade)

Small screen revenue in Q1 doubled Y-o-Y

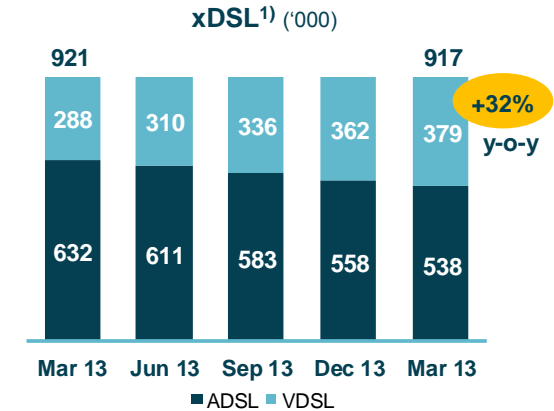


¹⁾ Excluding the estimated 18 thousand churn from the new Open door policy

Maintaining leadership in fixed BB with continuing migration to VDSL... ...refreshed IPTV platform enabling unique features

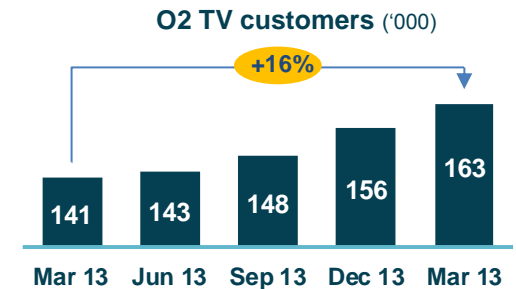
Fixed BB

- Continuous **demand for VDSL service**, with customer base growing by **32% y-o-y...**
- ...helping to **manage churn, spend dilution and improve customer satisfaction**



Pay TV

- Our **new O₂ TV** with the unique **Timeshift** service **continues to win new customers** in a stagnating market segment



ICT

- **ICT** represents **26% of fixed operating revenues in business segment**
- Selective approach maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **increased O₂ Exclusive** concept penetration

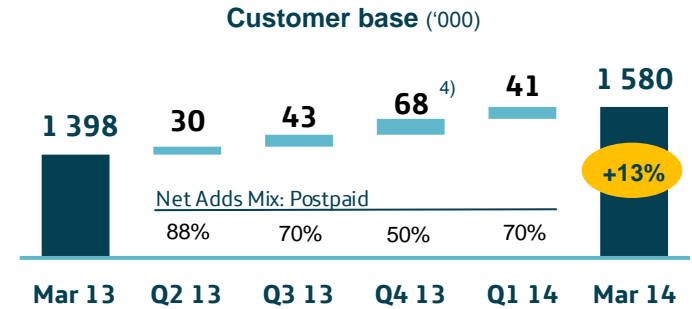


¹⁾ retail & wholesale

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

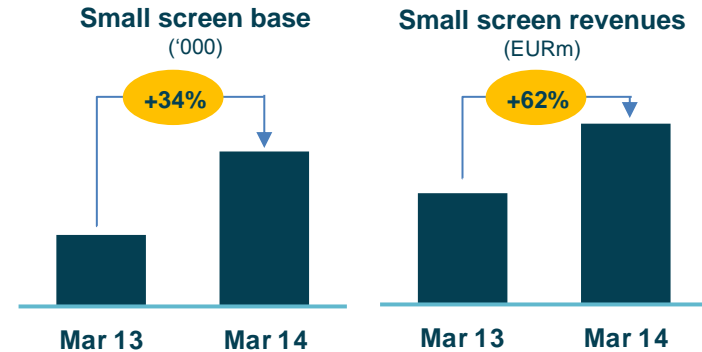
Mobile customers

- Sustained strong customers' growth (+13% y-o-y)
- Churn remains low (contract: 1.1% in Q1)
- Refreshed proposition still popular with customers, contract as well as pre-paid
- Almost 24% market share¹⁾ (+2.6 p.p. y-o-y)



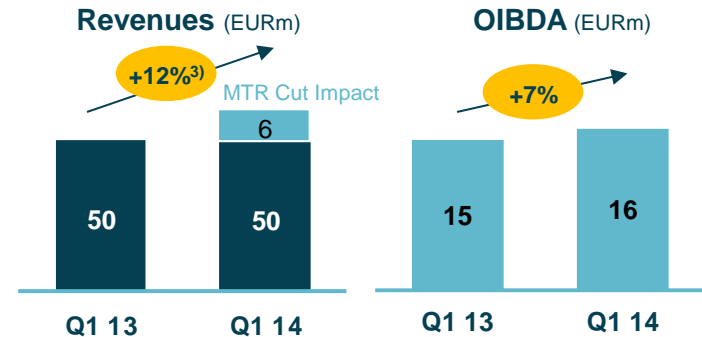
Growing data revenues

- Increasing the **quality of 3G coverage** driving **smartphone penetration** and **data ARPU uptake**
- **Generous data packages** driving growth of the mobile internet base **+34% y-o-y**, translating into **data revenue growth +62% y-o-y**



Strong financials (EURm)

- Strong underlying ²⁾ **revenues growth maintained**
- **OIBDA margin 33%** in 1Q 2014, leveraging on **lean operation** and synergies with CZ
- Increasing and positive **contribution to the Group's financials**



¹⁾ Q4 2013, ²⁾ ex-MTR cut impact, ³⁾ reported revenue growth y-o-y almost flat while ex-MTR impact growth 12%, ⁴⁾ incl. 18 thousand adjustment of prepaid customers

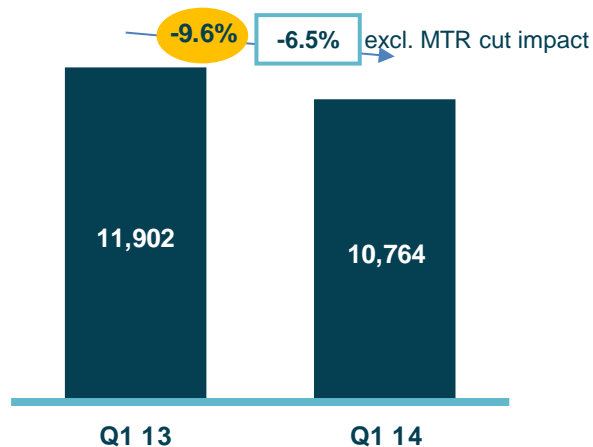
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**January – March 2014
Financial Performance**

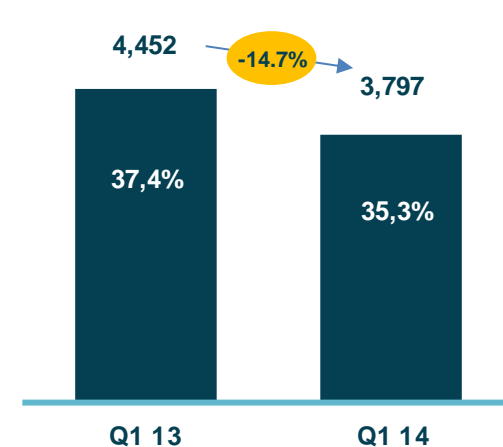
Strong efficiency agenda partly offsetting revenue pressures

<i>CZK millions</i>	Jan – Mar 2014	<i>Change Q1 14/Q1 13</i>
Operating Revenues	10,764	-9.6%
CZ Fixed	4,763	-5.2%
CZ Mobile	4,713	-16.7%
Slovakia	1,364	6.8%
OIBDA	3,447	-15.9%
OIBDA margin	32.0%	(2,4 p.p.)
Free Cash Flow	-1,278	-152.8%
Underlying²⁾ Free Cash Flow	2,077	-14.3%

Operating revenues ex-MTR cut (y-o-y)



Comparable OIBDA and margin¹⁾

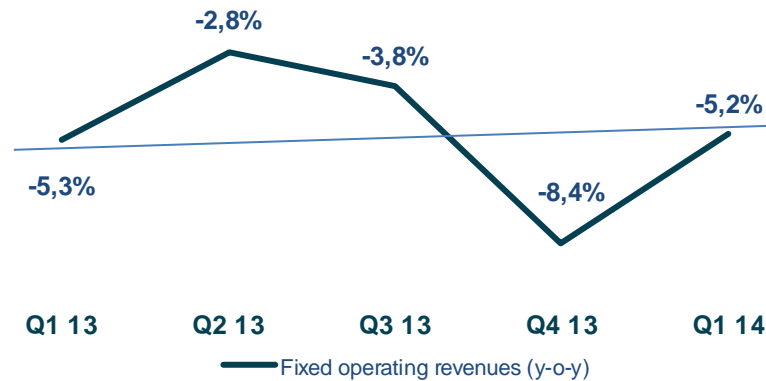
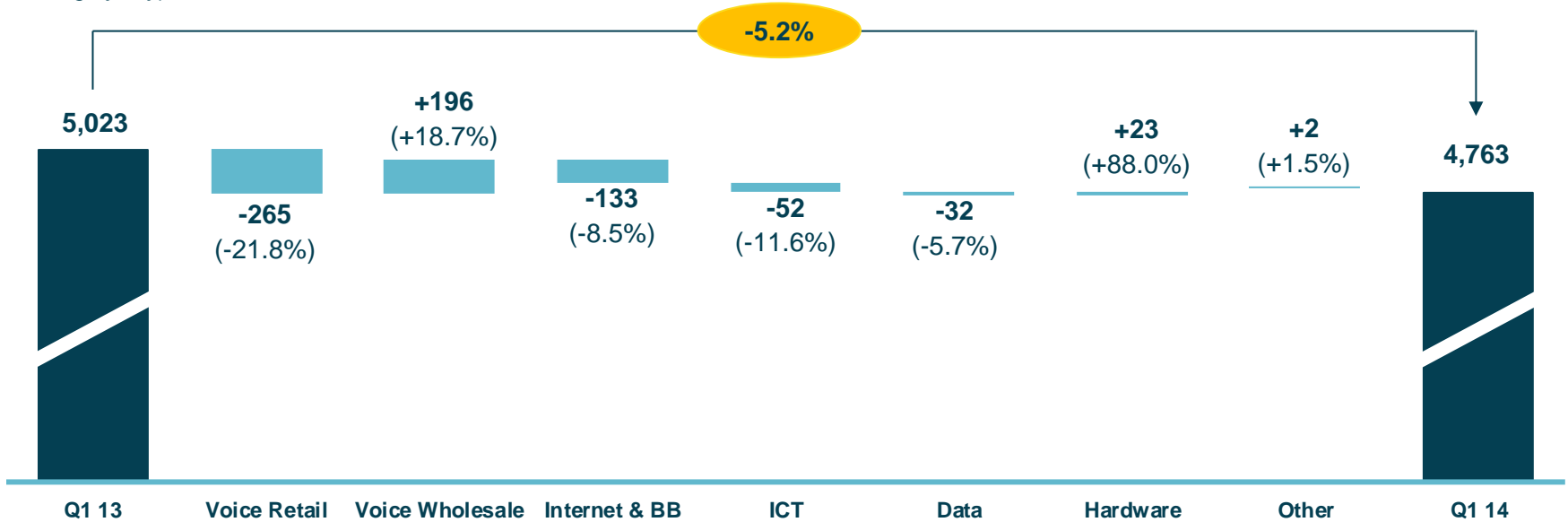


¹⁾ OIBDA in Q1 excluding restructuring costs in Q1 13 (CZK 354m) and Q1 14 (CZK 350m),

²⁾ Excluding payments for LTE spectrum CZK2,8bn in Czech Republic (100%) and CZK550m in Slovakia (50%)

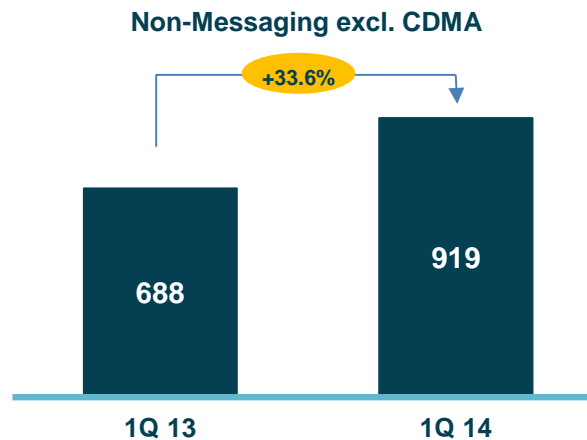
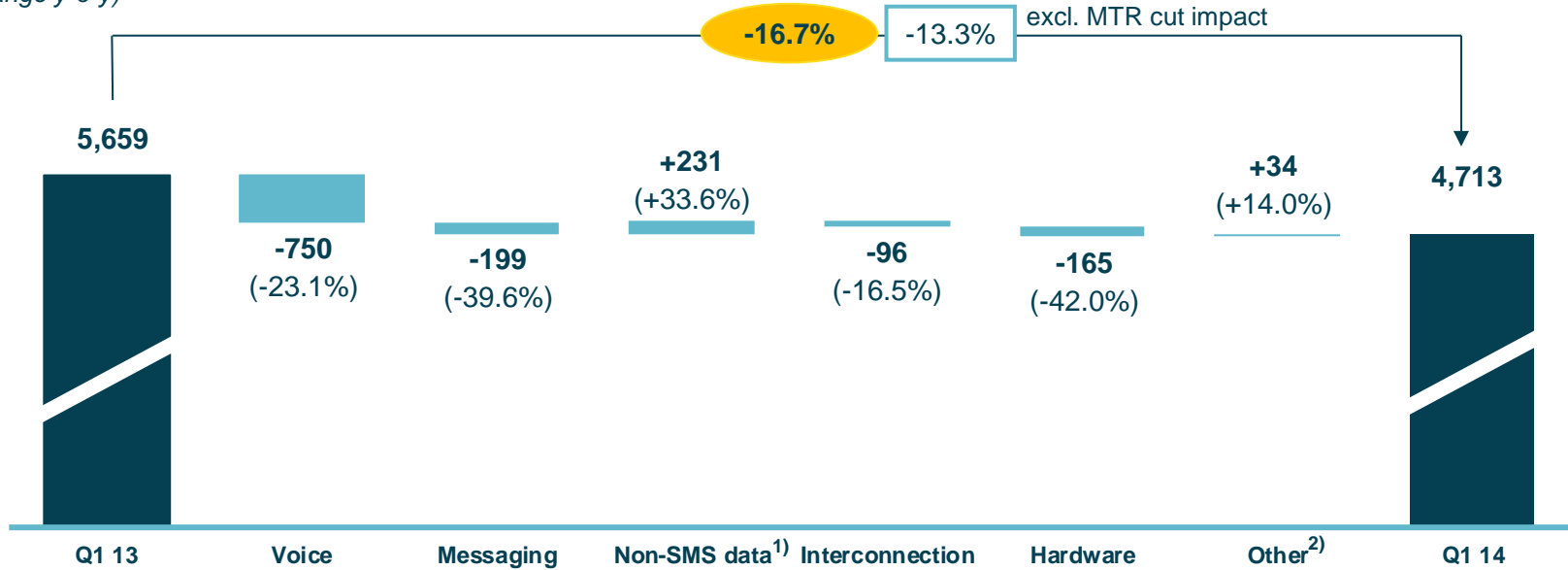
CZ Fixed Operating Revenues - managing churn via O2TV and VDSL proposition

CZK millions
(% change y-o-y)



CZ Mobile Operating Revenues - data revenues continue to be the growth element, protecting the business segment

CZK millions
(% change y-o-y)

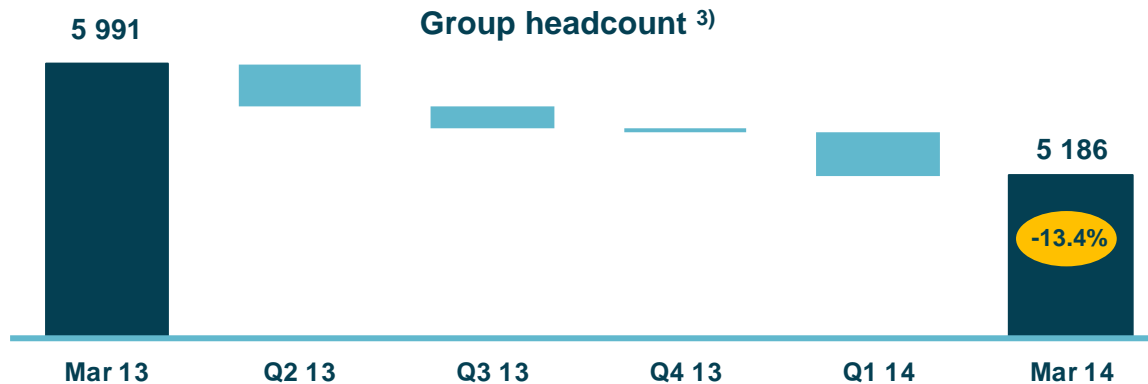
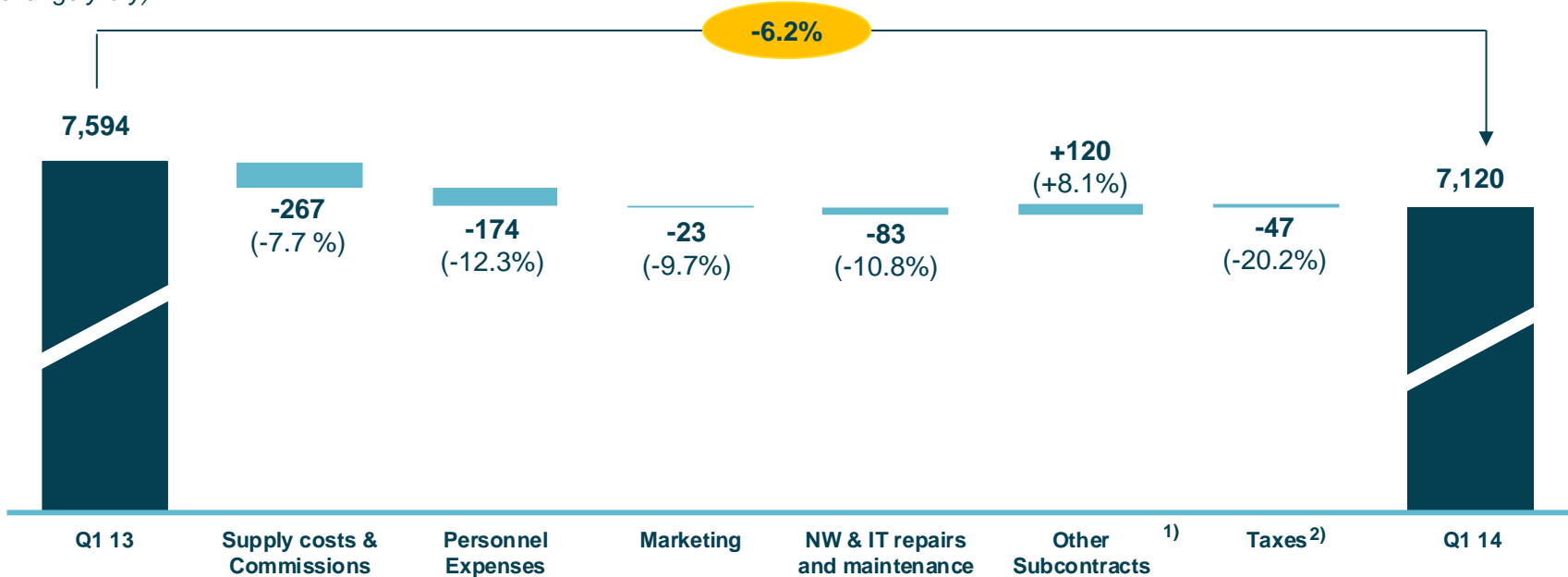


¹ Non-SMS data excluding CDMA

² CDMA, Inbound Roaming, M2M, Other revenues

Group OPEX – transformation delivering significant savings

CZK millions
(% change y-o-y)



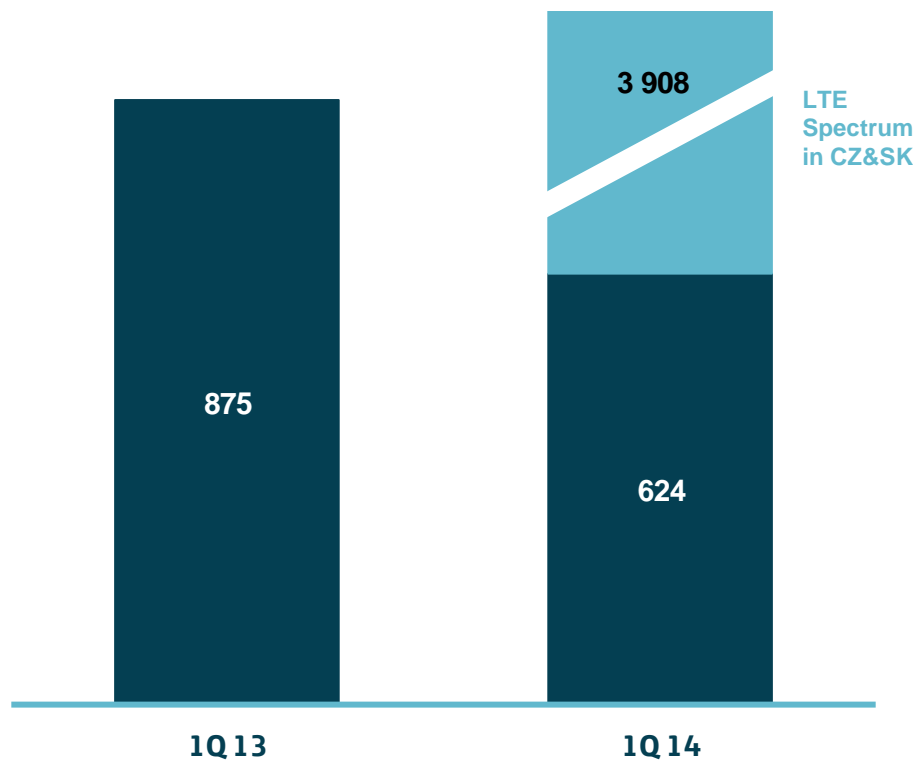
¹⁾ Rentals, Buildings, Vehicles, Consumables, Consultancy, Billing, Collection, Call Centers, Brand and Partnership fees and other

²⁾ Taxes other than income taxes, provisions and fees

³⁾ Excluding Bonerix subsidiary headcount of 90

Strategic LTE Spectrum investment completed in Q1

CZK millions
(% change y-o-y)



- **Q1 Capex dominated by the acquisition of the LTE spectrum**
 - CZK 2.8 billion for CZ LTE spectrum
 - EUR 40.3 million for SK LTE spectrum
- **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**

¹⁾ Excluding LTE Spectrum acquisition costs

Underlying¹ Free Cash Flow declines less than OIBDA

<i>CZK millions</i>	31 Dec 2013	31 Mar 2014	Change Mar14/Dec13
Non-current assets	62,460	64,266	2,9%
- of which Intangible Assets	6,509	10,053	54,4%
Current assets	11,489	9,392	-18,3%
- of which Cash & cash. Equiv.	3,890	2,606	-33,0%
Total assets	73,950	73,658	-0,4%
Equity	55,749	56,272	0,9%
Non-current liabilities	5,825	5,678	-2,5%
- Long-term financial debt	3,000	3,000	0,0%
Current liabilities	12,376	11,708	-5,4%
	Jan – Mar 2013	Jan – Mar 2014	Change Q1 14/Q1 13
Cash flow from operations	4,254	3,315	-22,1%
Net interest and other financial expenses paid incl. dividends	-30	7	<i>n.a.</i>
Payment for income tax	-361	-466	29,2%
Net cash from operating activities	3,863	2,856	-26,1%
Proceeds on disposals of PPE and intangibles	17	12	-32,2%
Payments on investments ²	-1,457	-4,146	184,5%
Net cash used in investing activities	-1,440	-4,134	187,0%
Free cash flow	2,423	-1,278	-152,8%
Underlying¹ Free cash flow	2,423	2,077	-14,3%

¹ Excluding payments for LTE spectrum CZK2,8bn in Czech Republic (100%) and CZK550m in Slovakia (50%)

² Includes Investments in PPE, intangibles, financial investments, and temporary financial investments and payments for LTE spectrum