Telefónica Czech Republic

Morgan Stanley 11th Annual TMT Conference

Barcelona
16th & 17th November 2011

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.

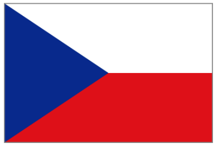
Although Telefónica Czech Republic, a.s. makes every effort to provide accurate information, we cannot accept liability for any misprints or other errors.

Contents

01

Key Highlights

Telefonica Group's vision is to make the possibilities offered by this new digital world real, and to be one of the leaders in this area



1. **Further accelerate Customer Journey**
2. **Be #1 Fixed / Mobile Broadband Company**
3. **Strengthen telco market leadership**
4. **Improve efficiency**
5. **Create a better place to work**

Business Opportunity

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

In a challenging environment, we continue delivering solid results consistent with our strategy and outlook

- **Solid commercial momentum in focused areas maintained in Q3:**
  - **CZ mobile contract base:** 6.3% y-o-y, 39k net adds in the quarter,
  - **xDSL customer base** maintained double digit growth: +10.0% y-o-y
- **CZ mobile revenues show some improvement in Q3** on the back of **better spend in residential**, while continued to be impacted by **persisting competitive pressure** and **additional MTR cuts**
- **CZ fixed revenues y-o-y decline keeps slightly improving in Q3 sequentially**
- **Slovakia** keeps its **subscribers' growth** and **improving financial performance** – positive and growing OIBDA in Q3
- **Guided OIBDA margin[1)]** in 9M 2011 maintained **flat y-o-y** reaching **43%**, as a result of **efficiency agenda in CZ** and **positive OIBDA in SK**
- **Based on our results through 9M 2011, we expect year 2011 OIBDA and CapEx figures within our guidance[2)]: -1% to -5% of 2010 OIBDA, CapEx of ~ CZK 5.7 bn.**

1) OIBDA excludes brand fees and management fees (CZK 634m in 9M 2010 and CZK 834m in 9M 2011) and reversal of the impairment loss of CZK 4,343m in Q3/9M 2010; assuming constant FX rates of 2010

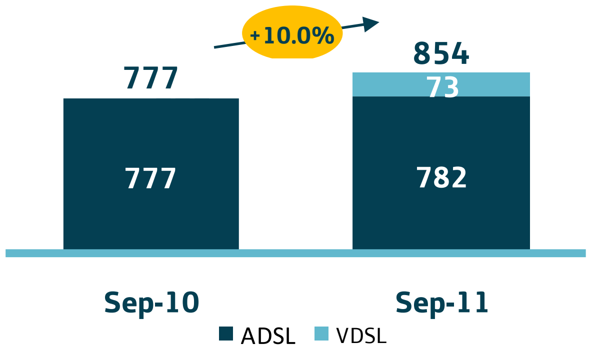
2) OIBDA decline of -1% to -5%, CapEx around CZK 5.7 billion. In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2010

02

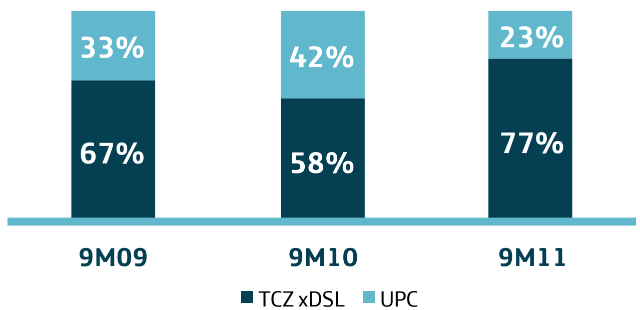
Q3 & 9M 2011 Performance

Solid xDSL performance maintained in highly competitive market, VDSL launch focusing on protection of existing customer base with higher ARPU

xDSL[1] ('000)



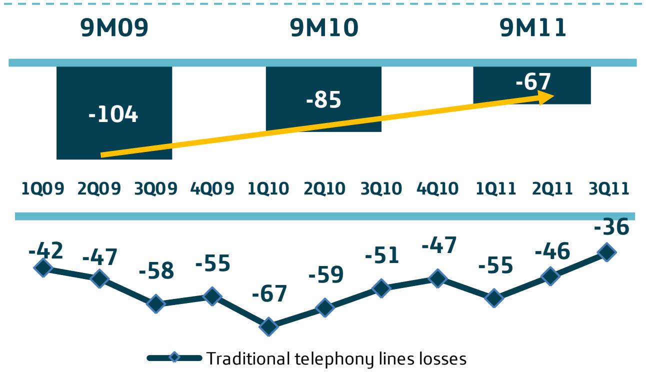
FBB net adds (market shares)



- **48.5 thousand xDSL net adds in 9M 2011, a relevant figure in highly competitive and slowing market**
- **Promising VDSL performance** (launched in May):

  - **Already ¼ of base addressable by VDSL locked for 12 months**
  - **Migrated/locked customers with substantial higher than average xDSL ARPU (>~20%)**
  - **Improving xDSL churn** (1.2% in Q3, -0.2 p.p. y-o-y)
  - **Continue to outperform competition despite aggressive cable pricing strategy**

Fixed accesses (net losses) ('000)

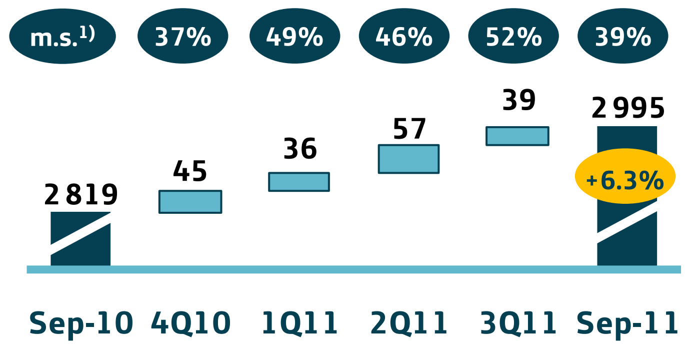


- **1.6m fixed accesses at Sep-11** (-5.0% y-o-y)
- **Fixed accesses' disconnections continue to slowdown reaching 8.9 thousand in Q3 2011**
- **Fixed telephony losses continuously decelerating** and **naked accesses growth maintained**

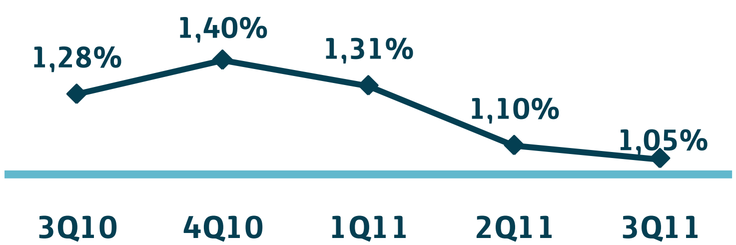
[1] retail & wholesale

Outperforming mobile contract market, reducing churn, while underline spend improving in residential

Contract mobile customers ('000)

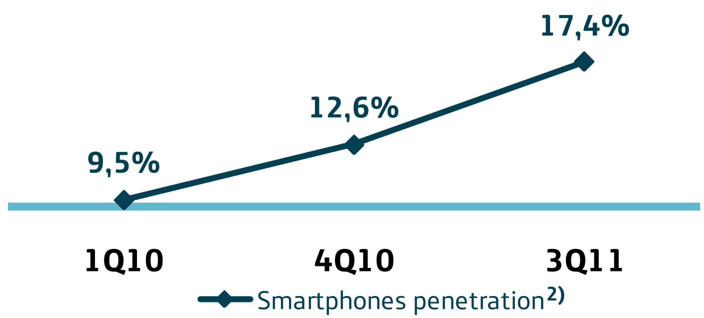


Contract churn (monthly average)



- **Total mobile base** reaching **4.9m** at the end of Sep-11 (+1% y-o-y)
- **Strong contract commercial performance maintained** in Q3, driven by **declining churn** in highly competitive and penetrated market and continuous **MBB customers uptake**
- **Deceleration in prepaid base losses**, -88.1k in 9M 2011 (-5% y-o-y)
- **Underline spend** (ex-MTR ARPU) **improving in residential** due to **better performance** of our **customer value management** (CVM)
- **In Q3**, we have started **CVM roll out in SMB and corporate** segments **to mitigate persisting competitive pressure** (ARPM)

Focusing on smartphone adoption to foster data monetisation



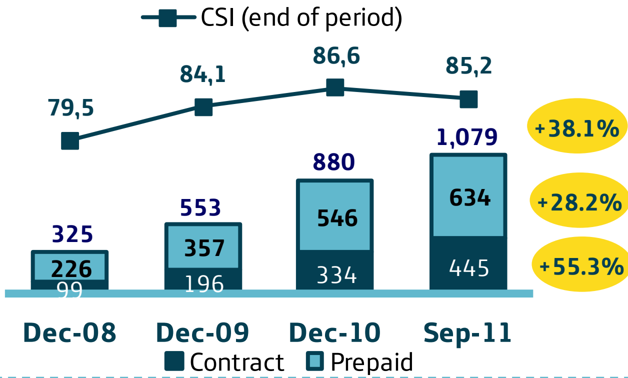
- **Mobile internet marketing campaign** resulted in **accelerated small screen net adds**
- **Best 3G network coverage & capacity, confirmed by independent customer perception research**
- Total **data ARPU still diluted** by **lower roaming prices , CDMA migrations and more SMS/MMS bundling**

y-o-y change

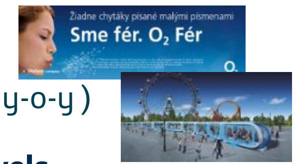
[1)] m.s. = market share
[2)] smartphones as % of total handsets base in TCZ

Slovakia - strong customer growth and value focused proposition driving improvement in financial performance

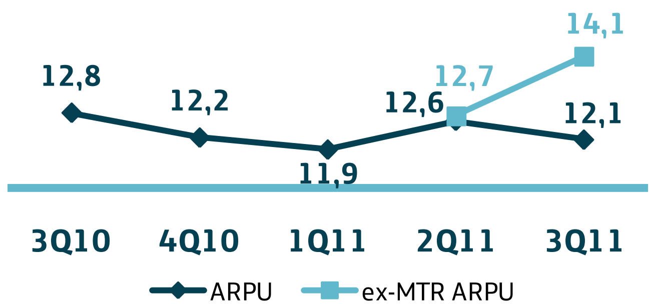
Mobile customers ('000)



- **Strong customers' growth leveraging on simple & value customer proposition**
- **Further mix improvement** (41.2% on contract, +4.6 p.p. y-o-y)
- **Churn maintained at low levels** (2.1% in 3Q 2011, -0.4 p.p. y-o-y)

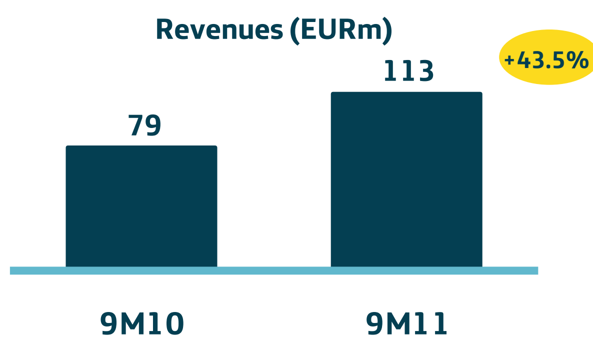


Focusing on value (ARPU in EUR/month)



- **Underlying ARPU improved in Q3** on the back of **enhancement in customer base mix and new propositions** (SMB and 3G)
- **Reported ARPU in 3Q diluted by MTR cuts** effective as of 1st June (-28.3%)

Strong financials



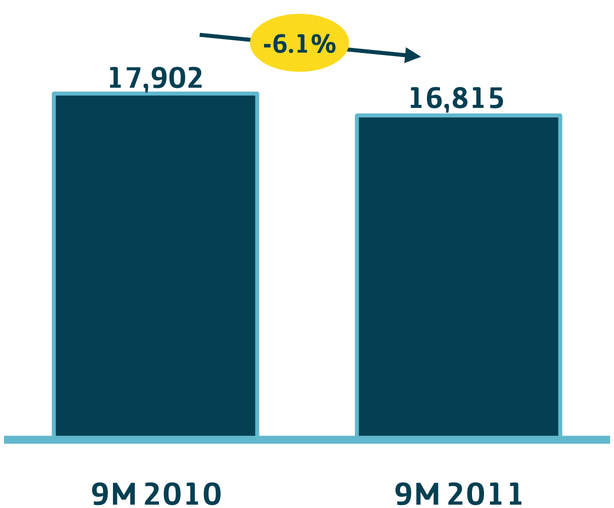
- **Q3 revenues at EUR 40.1m, +33.3% y-o-y** (+53.9% y-o-y ex-MTR impact)
- **Revenue growth driven by subscribers' base increase and mix improvement**
- **Positive and growing OIBDA in Q3 2011** leveraging on **SIM only proposition** and **synergies with CZ**

y-o-y change

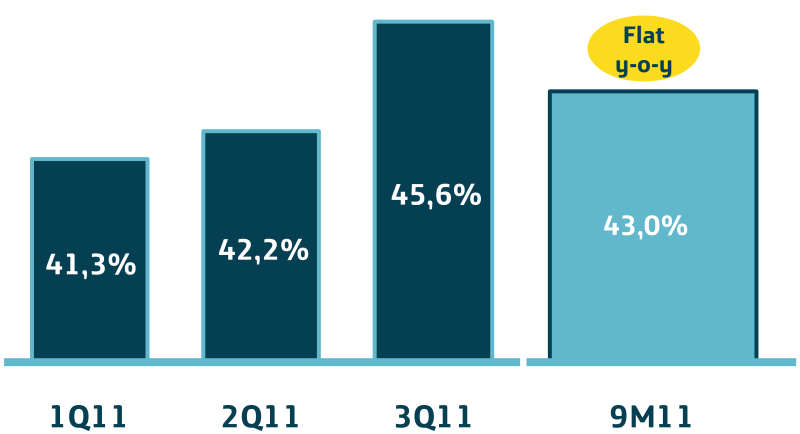
Key Highlights of Group Financial Performance

CZK millions	Jan – Sep 2011	*Change 9M11/9M10*	*Comparable change 9M11/9M10[1)]*
Business revenues	38,977	*(6.3%)*	
CZ Fixed	16,836	*(7.8%)*	
CZ Mobile	19,545	*(8.9%)*	
OIBDA before brand fees and management fees	16,782	*(24.6%)*	*(6.3%)*
OIBDA margin before brand fees and management fees	*43.1%*	*(10.4 p.p.)*	*0.0 p.p.*
OIBDA	15,949	*(26.2%)*	*(7.6%)*
OIBDA margin	*40.9%*	*(11.0 p.p.)*	*(0.6 p.p.)*
Net Income	5,816	*(43.9%)*	*(10.8%)*

Guided OIBDA[2)]



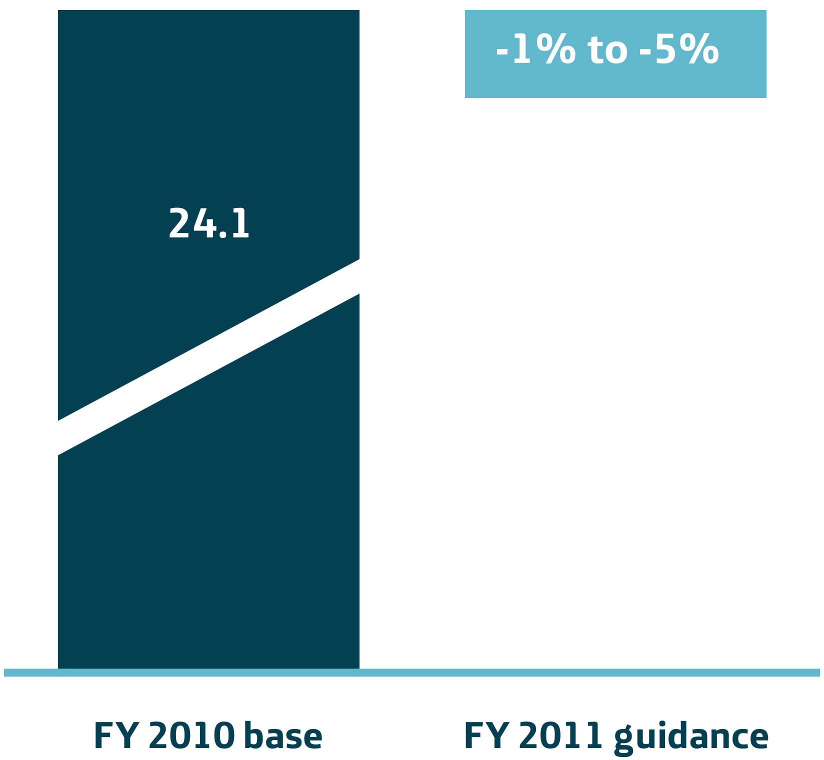
Guided OIBDA margin[2)]



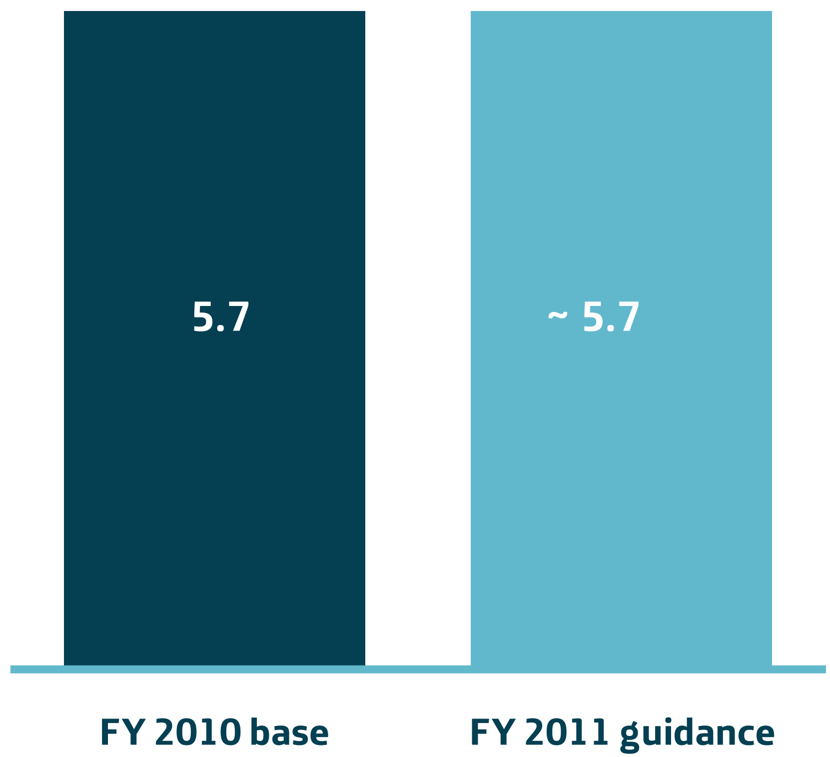
[1)] Excluding the impact of impairment reversal on OIBDA, D&A and income tax
[2)] OIBDA before brand fees & management fees (9M 2010: CZK 634m, 9M 2011: CZK 834m), excluding impairment reversal in 3Q/9M 2010 (CZK 4,343m); assuming constant FX rates of 2010

2011 Full Year Outlook: Investor Guidance

OIBDA[1)] (CZK in billions)



CAPEX (CZK in billions)



[1)] 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.

03

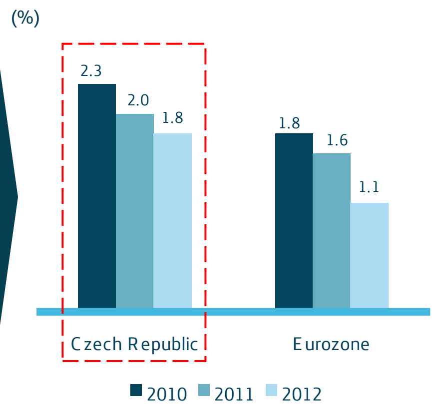
Key Macroeconomic, Competitive & Regulatory Trends

Telefónica

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

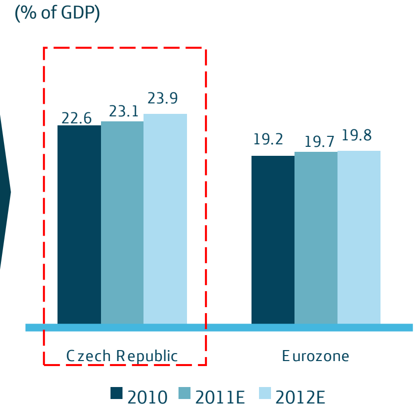
Economy Continues to Grow

GDP Growth 1)



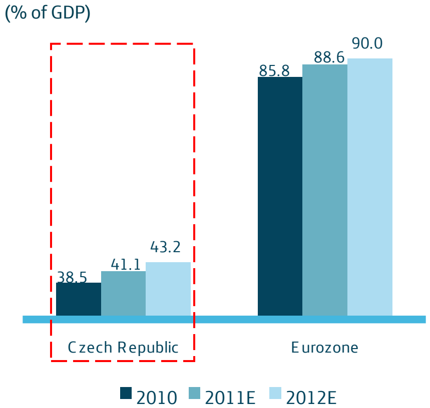
Attractive Level of Investment

Total Investment



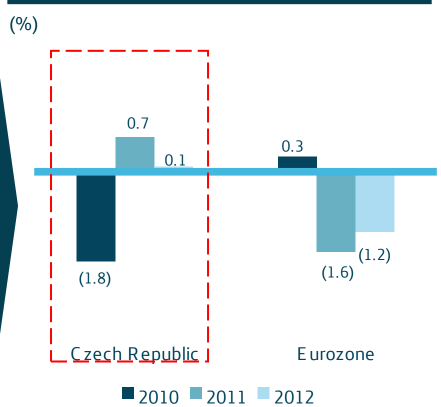
Government Debt Remains Low

Gross Government Debt



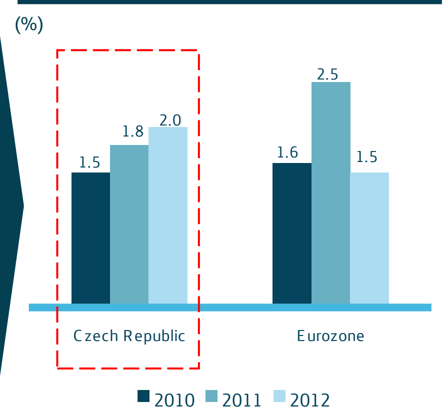
Improving Retail Sales Outlook in 2011-12

Retail Sales Growth



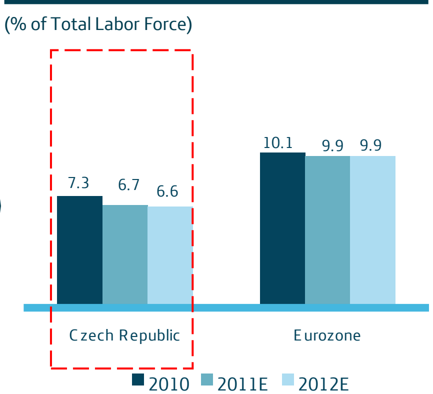
Manageable Inflation

Inflation 2)



Low Level of Unemployment

Un-Employment Rate

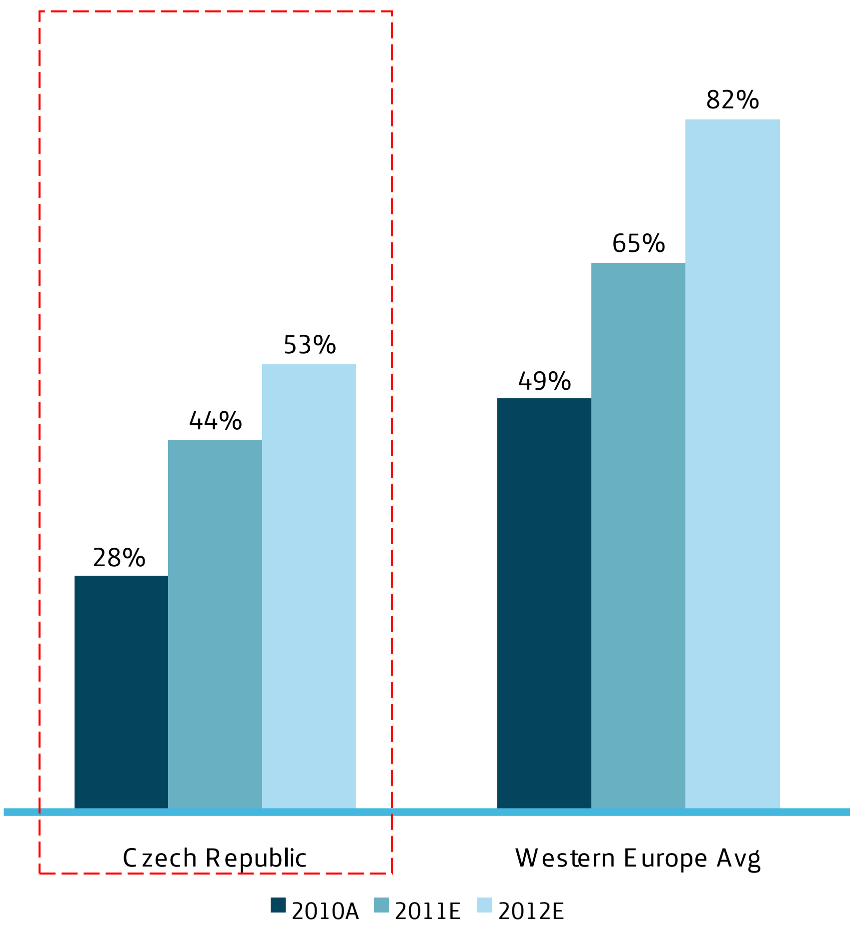


Source: IMF

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

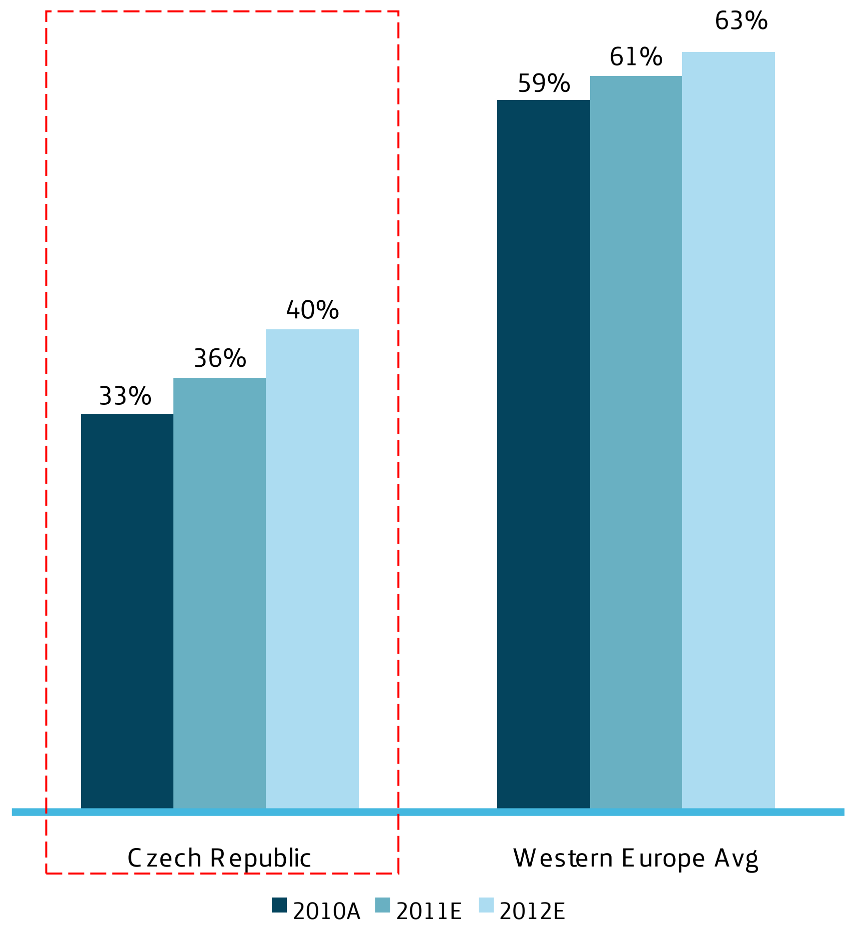
Broadband Penetration Remains Low Relative to Western Europe

Mobile BB Penetration[1]



Source: WCIS, Global Insight

Home BB Access[1]



Source: IDC, 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

Telecom Market: Key Trends

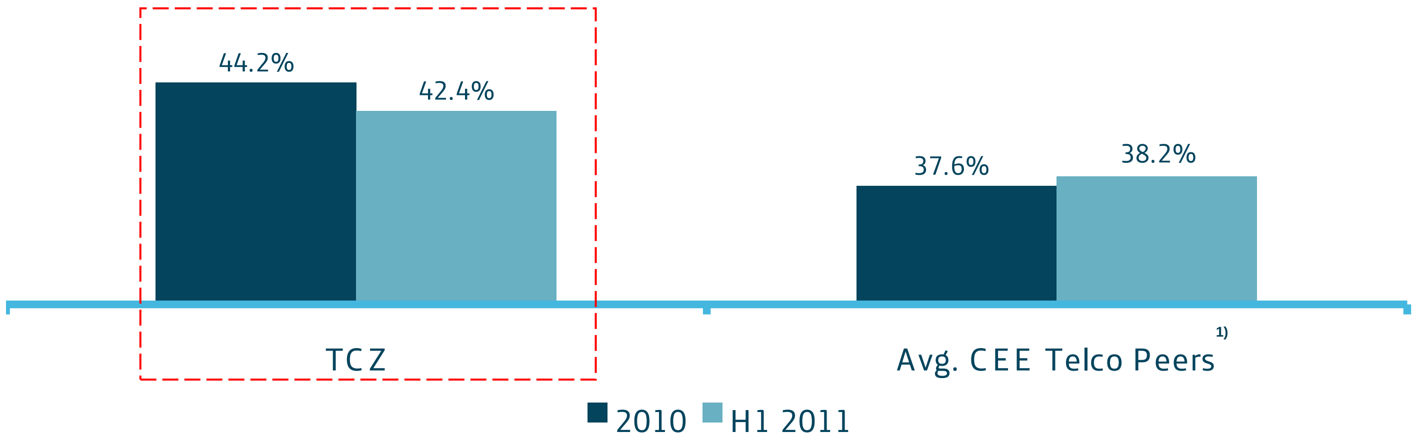
- **Mobile market**
  - Postpaid focus - operators focus on prepay to post-pay migration
  - Flat rates / community - operators started to provide flat rate tariff & ad-ons (e.g. group VPN, unlimited calling up to 5 numbers) and/or tariffs with flat-rate calling or SMS feature
  - Strong pricing competition in SMB & Corporate segments
  - Strong mobile broadband focus: all operators accelerated expansion of 3G network, TCZ and T-Mobile agreed on infrastructure sharing, Vodafone aggressive rollout, U:Fon focussing on co-operation with Vodafone and basically on MBB wholesale offer, all operators are tailoring Internet in Handset according subscribers needs
  - MTR reduction continues (-28.1% in 2010, -35% in 2011)

- **Fixed line market**
  - Fixed-mobile substitution trend slowing down
  - Non-standard technology (WiFi based, mostly for FBB)
  - Take-up of alternative market after its consolidation
  - Fixed and mobile bundles (TCZ – BB based, T-Mobile - Mobile & xDSL)
  - TCZ VDSL launch in 2011 to further improve customer proposition
  - Corporate segment VoIP proposition in place
  - ICT projects with added value focus

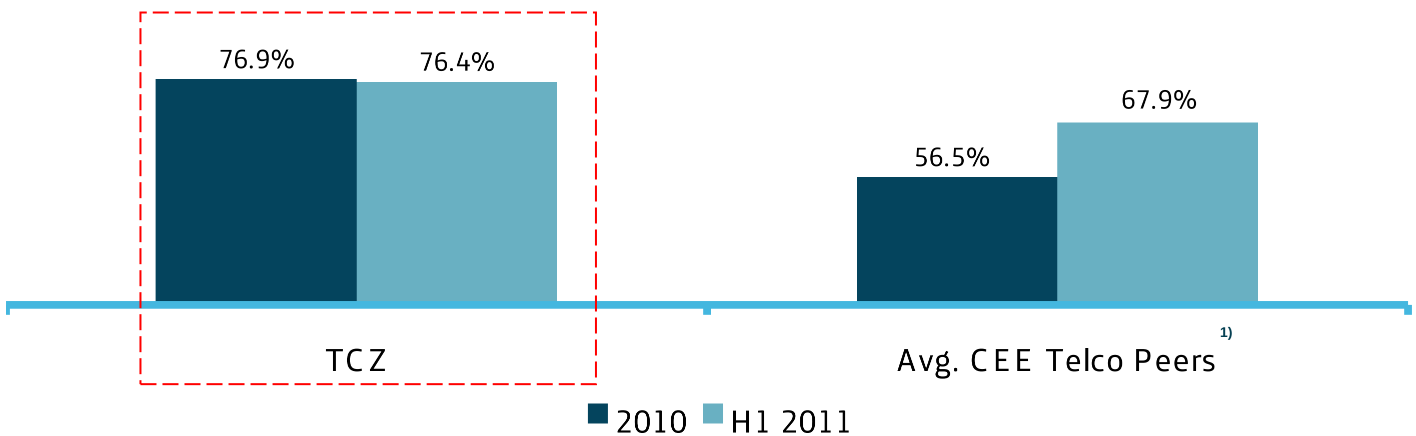
Leading Profitability and Cash Flow Generation Relative to CEE Peers

Among Best in Class Profitability

(OIBDA Margin)



Robust Cash Conversion (2)



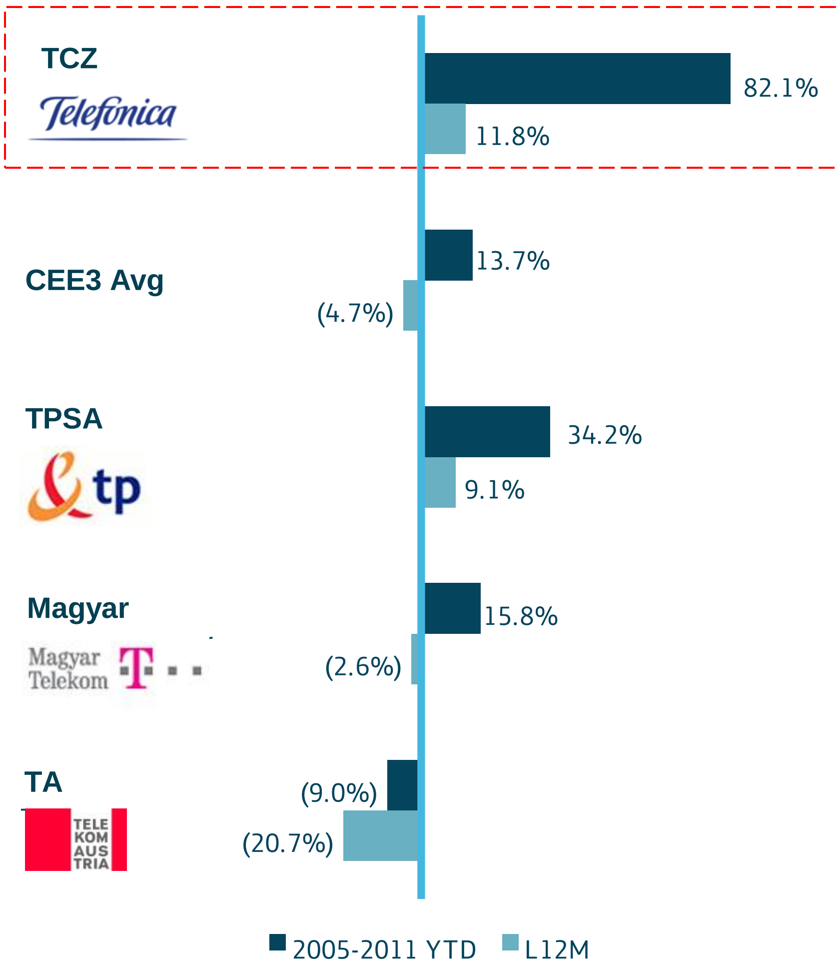
Source: Press releases, Factset

1) Represents average of TPSA, MTEL and TA

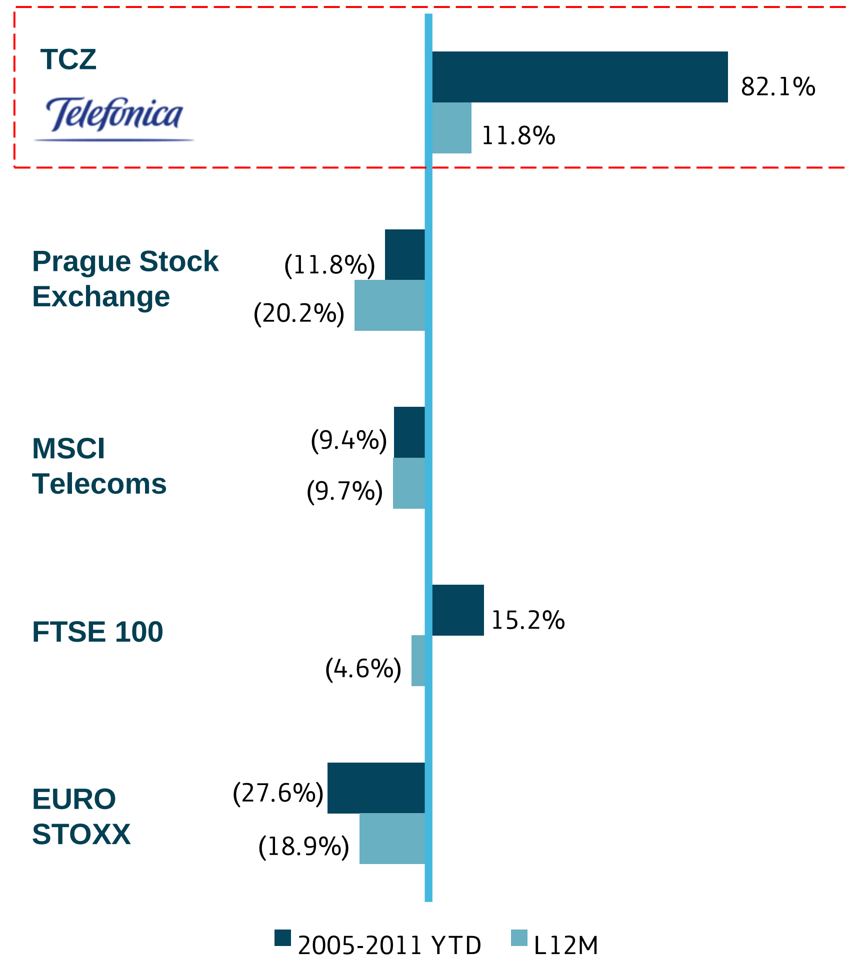
2) Cash Conversion = (OIBDA – Capex/OIBDA)

TCZ Has Consistently Outperformed in Terms of Total Shareholder Return[1)]

CEE Telco Operators



Broader Equity Indices



1) Includes dividends plus capital gains as of 11 November 2011

CZ Regulatory Update

Mobile Termination Rates

- MTR currently at CZK 1.08 /min (cca EUR 0.04)
- New MTR expected to be announced in 4Q11/1Q12 after completion of LRIC cost model analysis
- Next MTR cut expected to apply from July 2012 onwards

Roaming

- Regulated roaming prices were decreased since July 1st 2011

Spectrum Auction

- Auction is expected in Q2/Q3 2012
  - Combined auction of 800 MHz (Digital Dividend), 1,800 MHz, 2.6 GHz (FDD and TDD) spectrum bands
  - Public consultation on auction conditions expected in Q1/Q2 2012
  - All interested parties, including current spectrum licence holders, should be able to participate

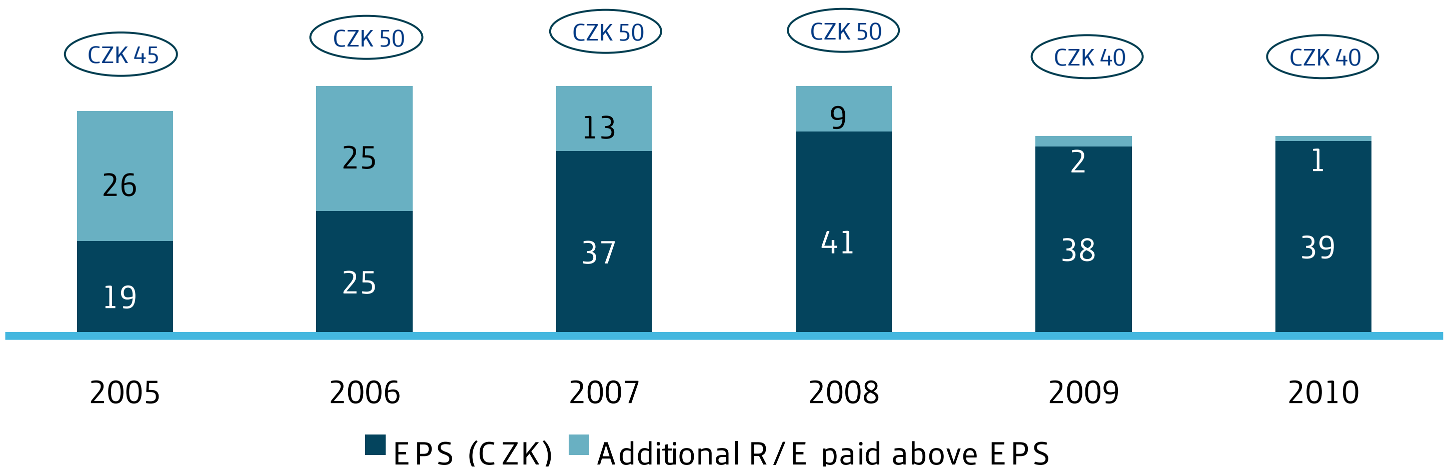
04

Shareholder Remuneration

Committed to Robust Shareholder Remuneration…

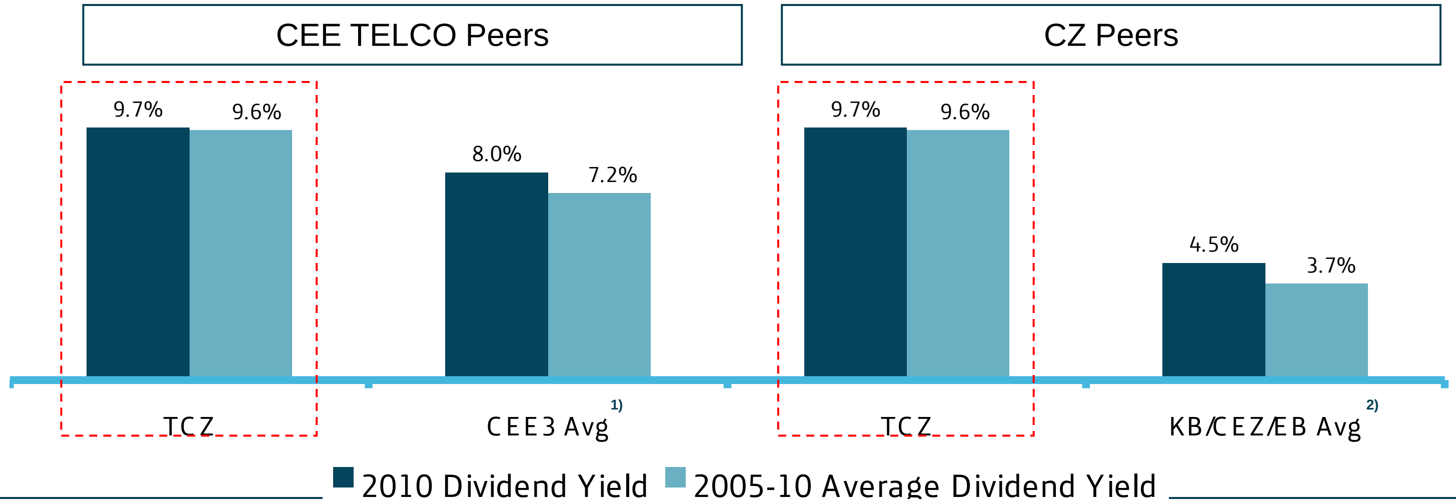
Dividend History

(DPS declared for the year)



…Which has Consistently Exceeded that of Our Peers…

Dividend Yield

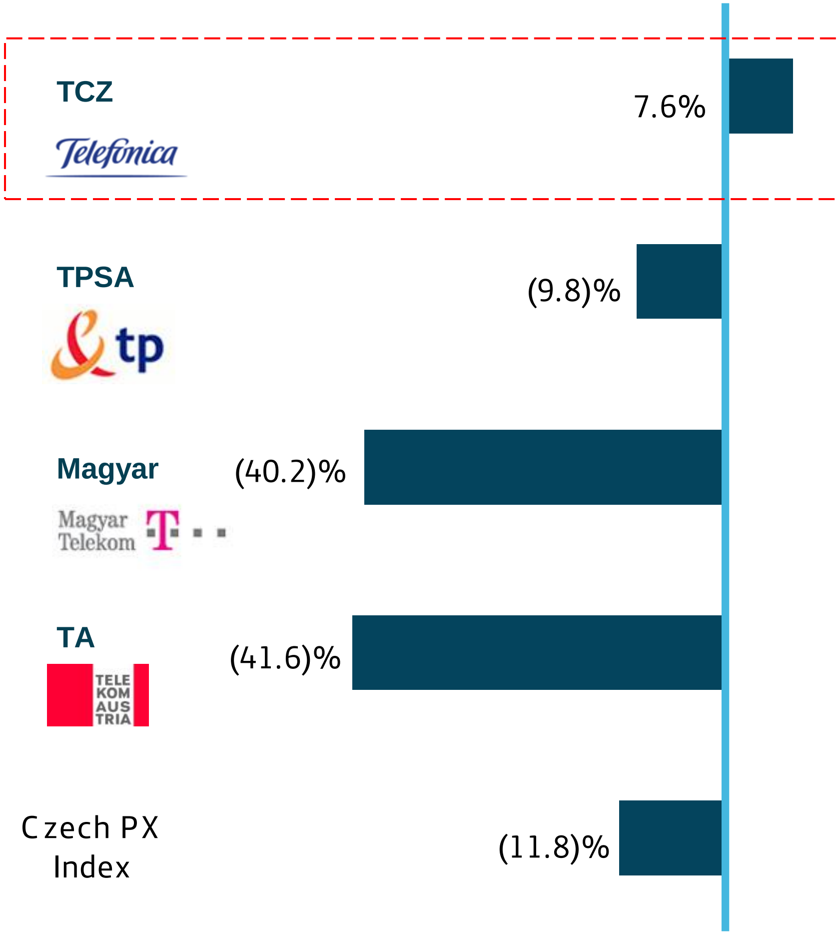


1) Represents average of TPSA, MTEL and TA

2) Represents average of KB, CEZ and EB

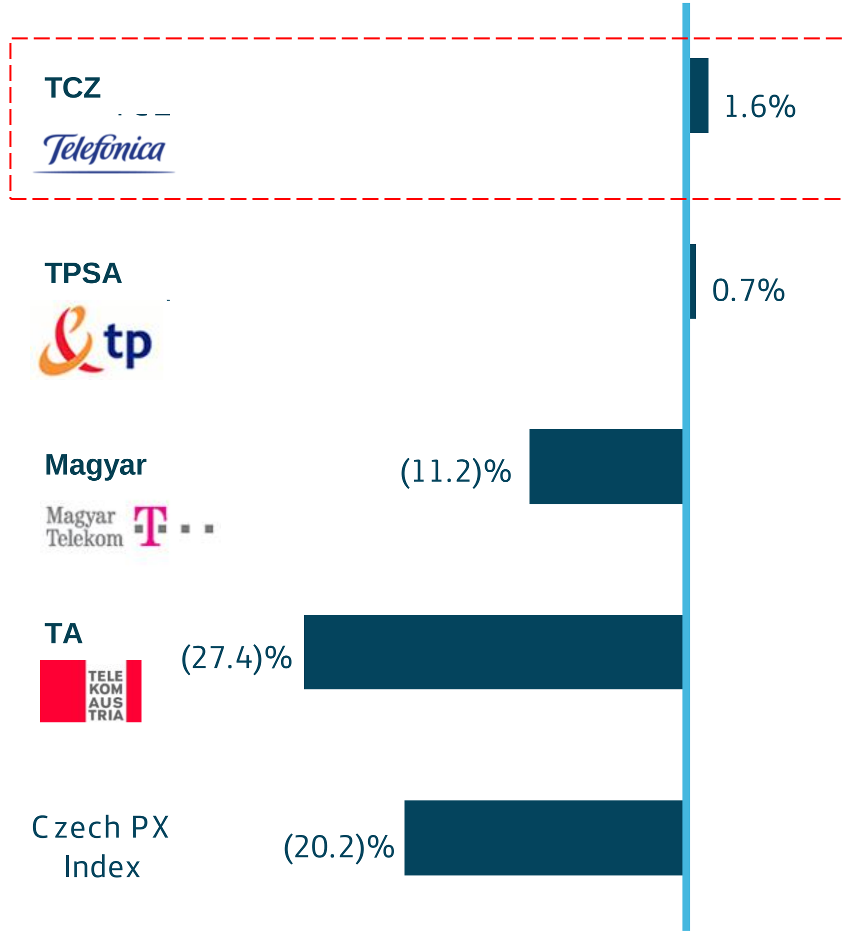
…Our Stock Has Thus Been Perceived as Defensive

TCZ Share Price Performance vs. Peers Since 2005



Source: Factset

TCZ Share Price Performance vs. Peers Over L12M[1)]

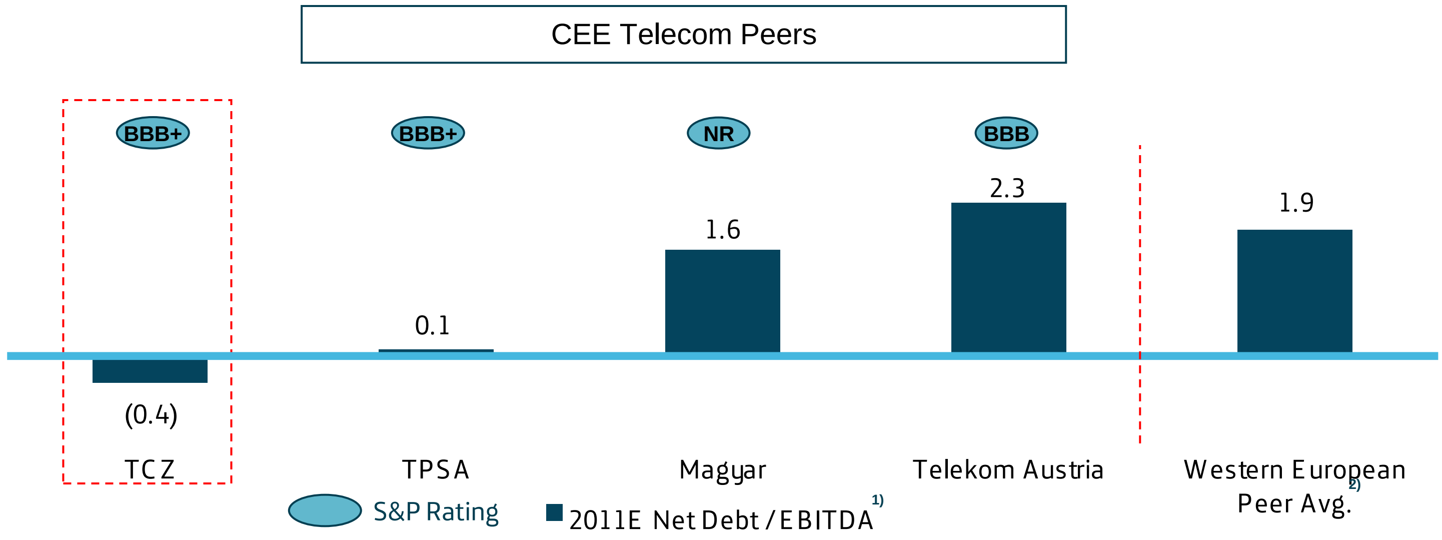


Source: Factset

1) As of 11 November 2011

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 Q2 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

… and Alternatives to Support an Attractive Shareholder Remuneration

Intention not to hold any surplus cash and pay the excess cash to shareholders

Possible Remuneration Alternatives	
Dividends	**Share Buyback**
Distribution of retained earnings	**Purchase of own shares through internal funds**
Distribution of share premium	**Leveraged recapitalisation with share repurchase**
Share capital reduction through a decrease in face value of shares	

Balance Sheet Flexibility as of Sept

		CZK / Share[2)]
• Share Capital[1)]:	CZK 32,209 MM	100
• Share Premium:	CZK 24,374 MM	76
• Funds and Reserves[3)]:	CZK 6,496 MM	
• Retained Earnings from Previous Years	CZK 1,658 MM	5
• 9M 2011 Profit	CZK 5,633 MM	17
• **Standalone Equity as at 30 Sep 2011**	**CZK 70,370 MM**	~200

1) Assumes availability for distribution of all share capital except 20MM CZK floor
2) Based on 322.1 MM of shares outstanding
3) Not available for distribution

05

Investor Relations Contacts

Investor Relations Contacts

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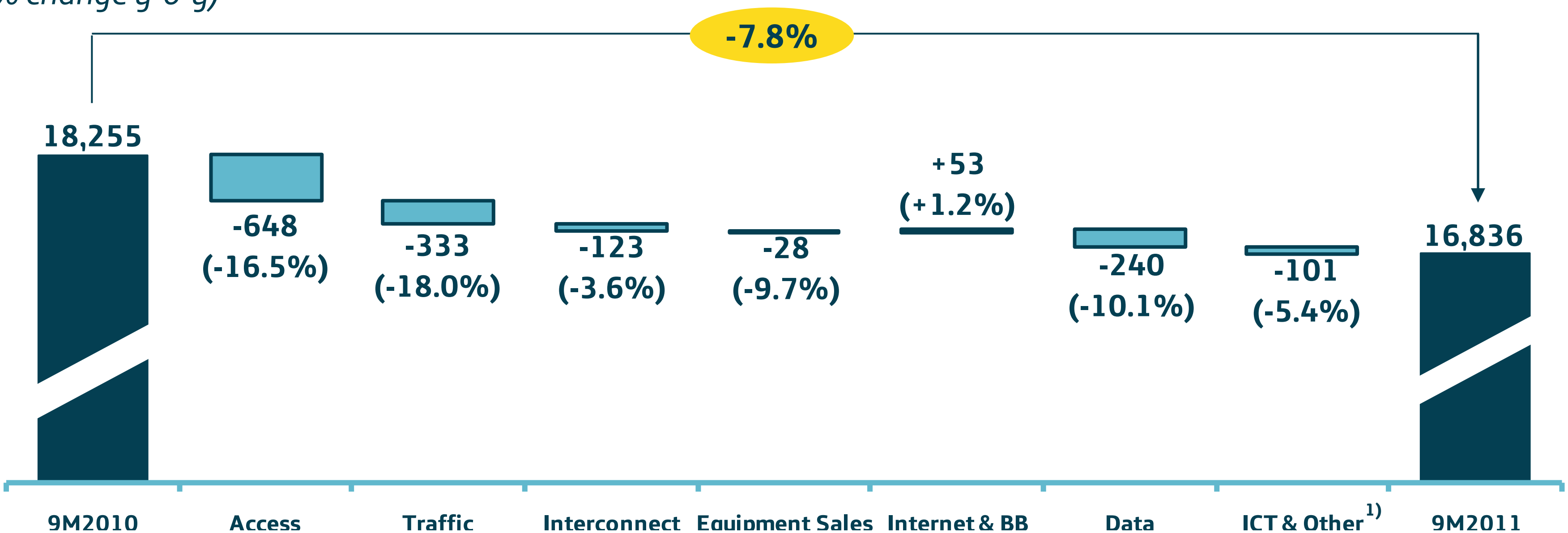
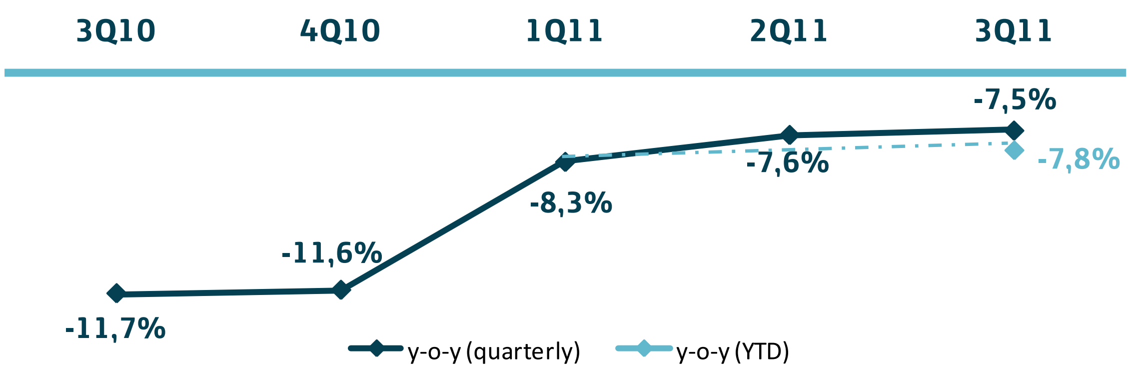
Appendix

Additional 9M 2011 Details & Reference Materials

CZ Fixed Business Revenues – sources of variation

CZK millions
(% change y-o-y)

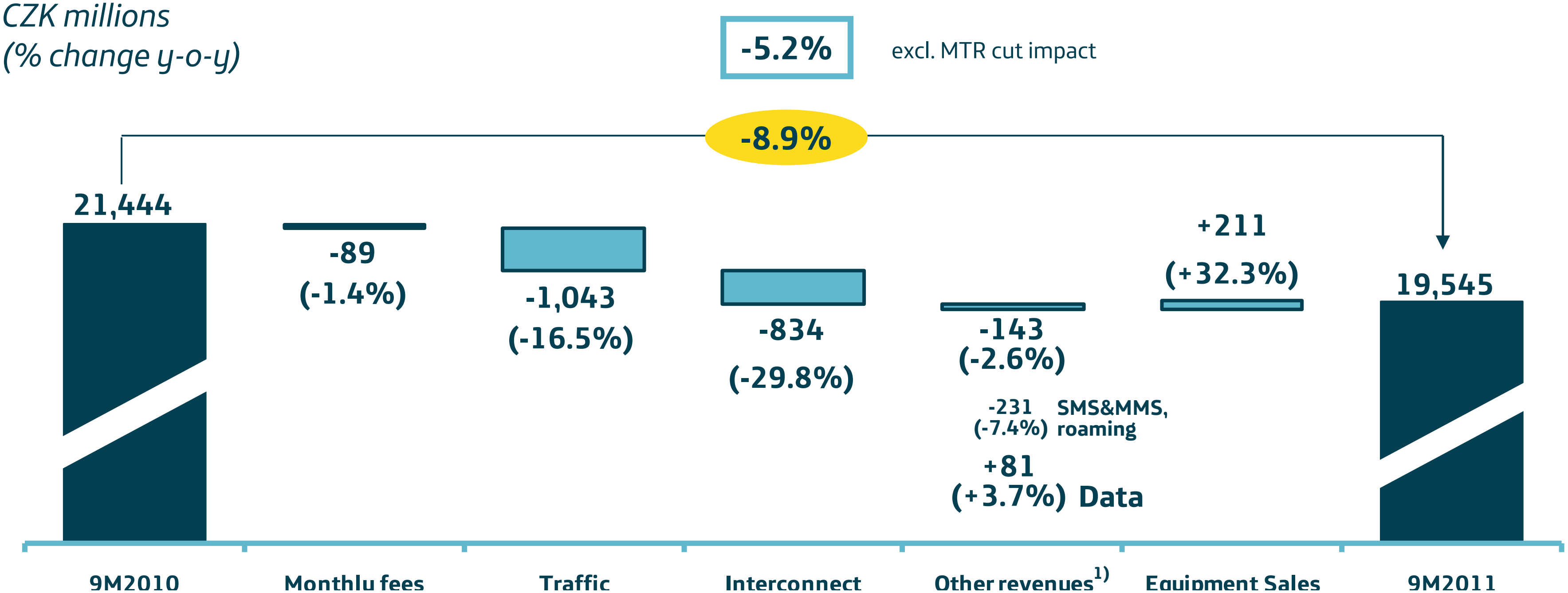


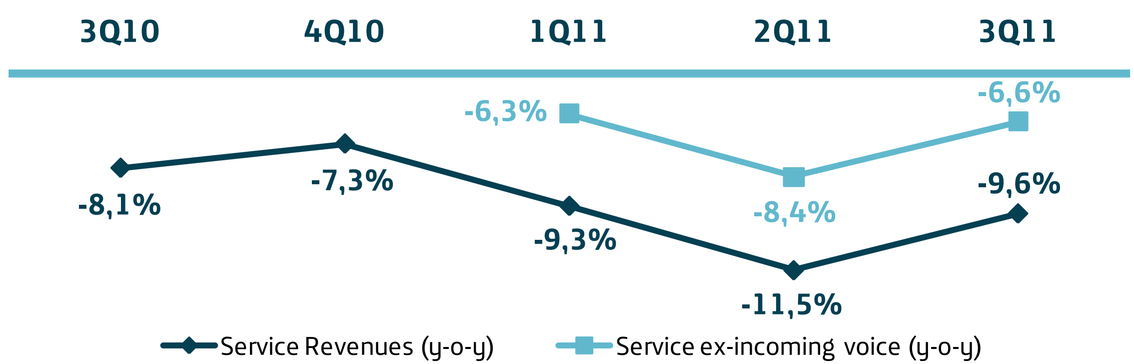


[1] ICT & Other – incl. ICT, universal service and other revenues
Figures excluding inter-segment charges between fixed and mobile businesses

CZ Mobile Business Revenues – sources of variation

CZK millions
(% change y-o-y)

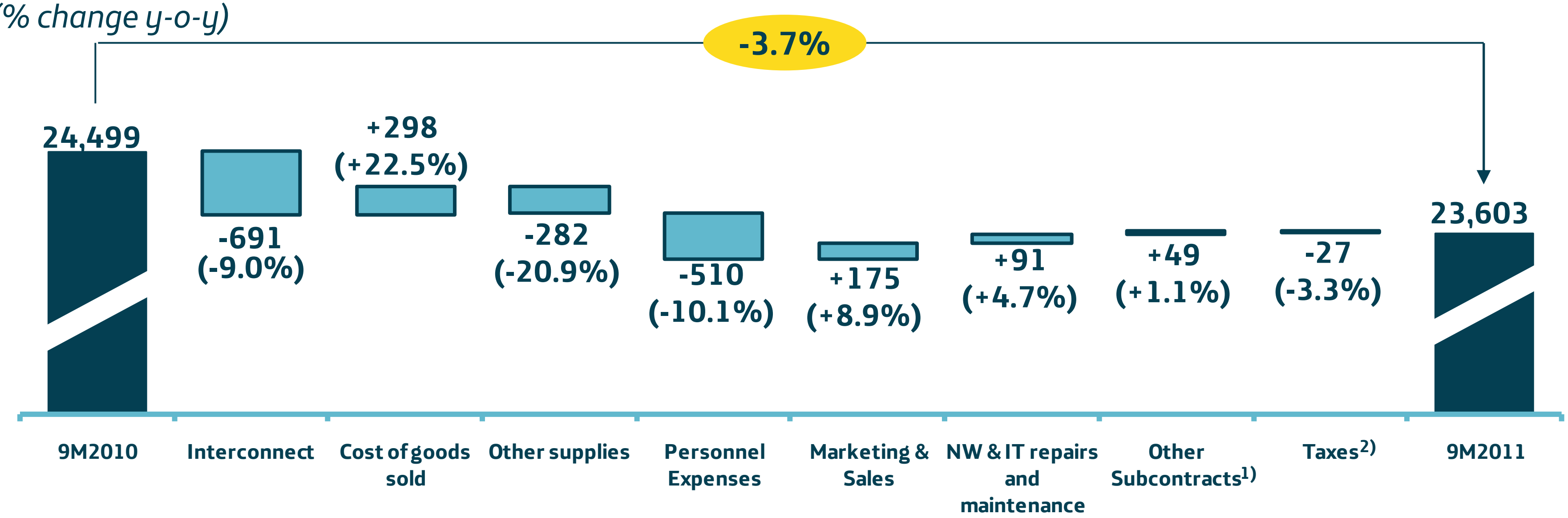




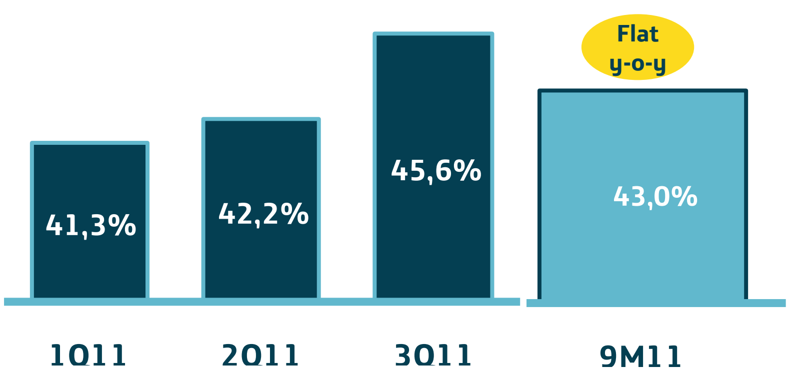
[1] Other – incl. VAS, Internet & Data and Other revenues
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

CZK millions
(% change y-o-y)



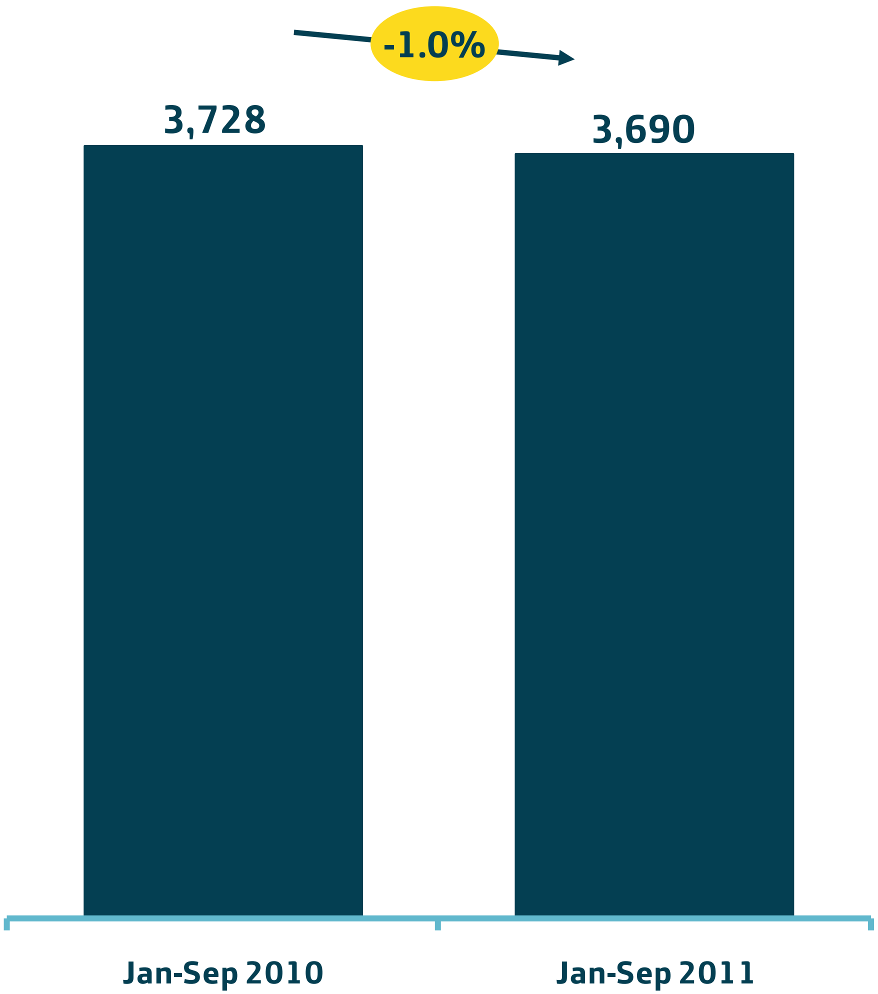
Guided OIBDA margin



[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



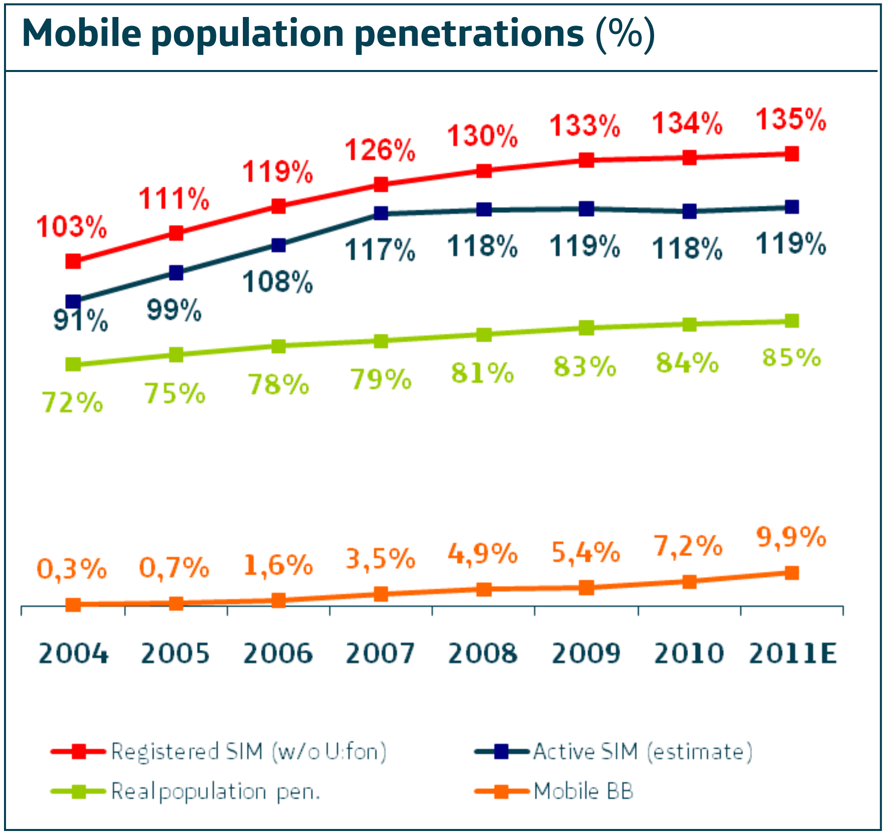
- **Continuous focus on selective and efficient investments to growth areas**
- **Capacity & quality enhancement and further expansion of 3G network in CZ** (65% at Sep-11)
- **VDSL network deployment**
- **3G deployment in SK** (reaching above 30% population coverage at the end of Sep-11)
- **IT/Systems investments to improve processes and customer satisfaction**
- **CAPEX to Revenues at 9.5% in 9M 2011**

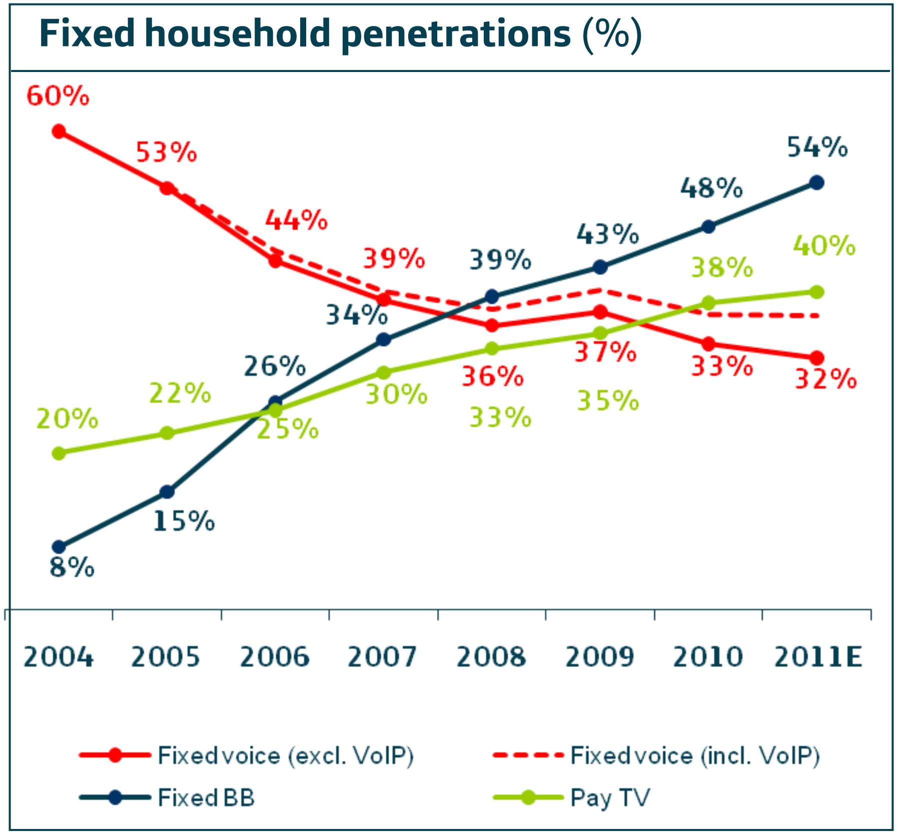
Group Balance Sheet & Cash Flow Statement

CZK millions	**31 Dec 2010**	**30 Sep 2011**	***Change Sep11/Dec10***
Non-current assets	**78,285**	**73,262**	***(6.4%)***
Current assets	**14,495**	**23,683**	***+63.4%***
- of which Cash & cash. Equiv.	4,798	15,050	*n.m.*
Total assets	**92,792**	**97,092**	***+4.6%***
Equity	**73,176**	**66,104**	***(9.7%)***
Non-current liabilities	**6,896**	**3,708**	***(46.2%)***
- Long-term financial debt	2,883	-	*n.m.*
Current liabilities	**12,720**	**27,280**	***+114.5%***
- Short-term financial debt	141	2,969	*n.m.*

	Jan – Sep 2010	**Jan – Sep 2011**	***Change 9M11/9M10***
Cash flow from operations	**17,481**	**16,486**	***(5.7%)***
Dividends received	3	5	*+33.3%*
Net interest and other financial expenses paid	(223)	(168)	*(24.7%)*
Payment for income tax	(1,460)	(1,550)	*+6.2%*
Net cash from operating activities	**15,802**	**14,772**	***(6.5%)***
Proceeds on disposals of PPE and intangibles	71	206	*n.m.*
Payments on investments in PPE and intangibles	(4,254)	(4,736)	*+11.3%*
Net cash used in investing activities	**(4,183)**	**(4,530)**	***+8.3%***
Free cash flow	**11,619**	**10,242**	***(11.8%)***

Telecom Market: Penetration of Telecom Services

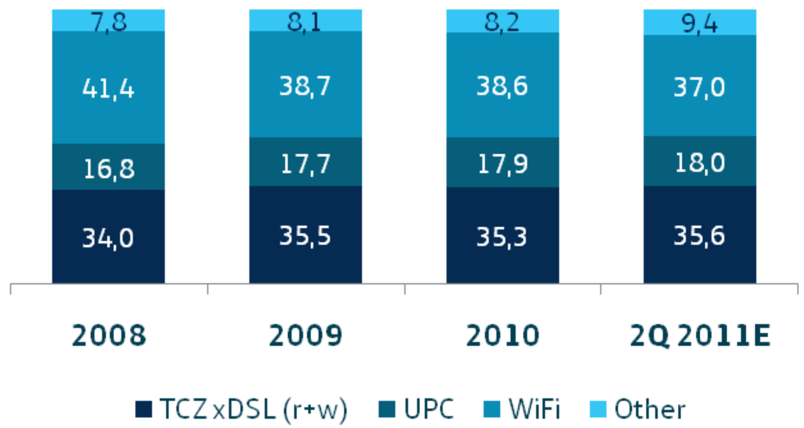




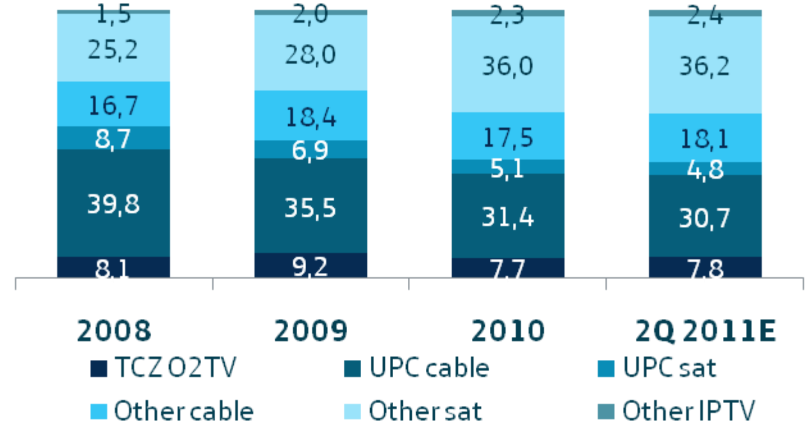
Source: Czech regulator, Operators published results, RT and T researches, TCZ estimates

Telecom Market: Market Shares

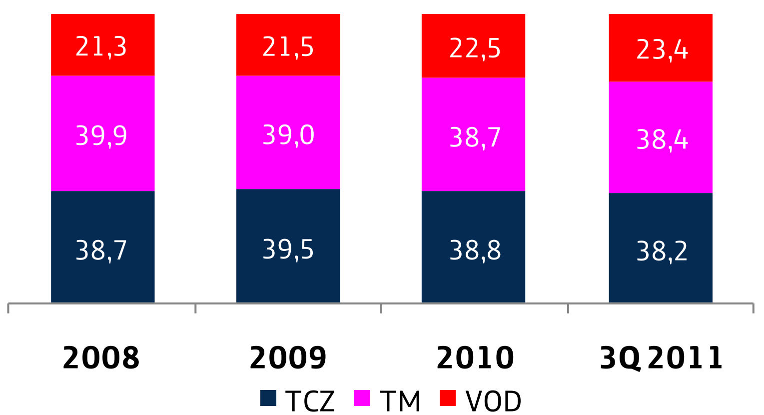
Fixed BB market shares [%]



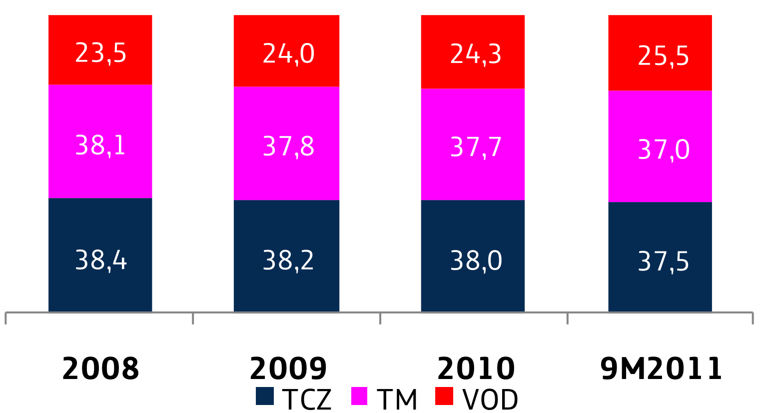
Pay TV market shares by provider [%]



Mobile registered customers - market shares [%]



Mobile service revenues market shares: [%]



Source: UPC: Quarterly report, Other Cable: estimate (UPC about 70% of cable market), Digi TV & Other SAT: Estimate based on UPC SAT & RT audit shares, operators' company web pages, TCZ estimates

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