

# Telefónica Czech Republic

## Quarterly Results January – June 2013

24<sup>th</sup> July 2013



*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

## H1 & Q2 2013 Performance Highlights

# Highlights: Telefónica succeeded in changing the market

## FREE tariffs launched in April

- We again confirmed **market leadership**
- We **disrupted the market in Q2**  
and changed current rules by launching the **FREE tariffs**

## LTE auction

- If the conditions remain as presently known to us, we will be forced to defend the interests of our shareholders before a court of law

## We delivered solid results

- Continuous growth in key commercial KPIs
- Sustained underlying revenue trend...
- ...continuing with costs management agenda
- ... and delivering solid Free Cash Flow year-on-year
- Increasing contribution from our business in Slovakia
- 2013 full year guidance<sup>1)</sup> reiterated

<sup>1)</sup> OIBDA margin: limited margin erosion year-on-year (2012 base: 41.4%), OIBDA before brand fees & management fees excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2012; CapEx: less than CZK 6 billion, increasing proportion of investments into growth areas (mobile data, LTE and new technologies/business).

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

## FREE changed the market

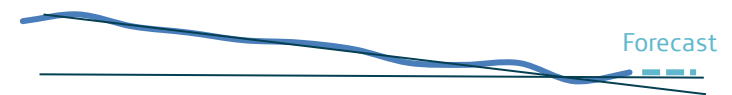
- Addressing customers' needs and changing the environment for a potential new entrant
- ...while moving from price-oriented to value-oriented market
- ...through innovative customer experience, unique loyalty program and best-in-class NW quality
- Migration to FREE Tariffs is a growth opportunity



## Already benefiting from simplification

- FREE changing spend trend in Consumer segment
- Sales staff incentivised to upsell, supported by CRM
- Simplification drives savings
  - Reduction of calls in the call centres
  - All FREE customers on e-bill
  - Hardware subsidies eliminated
  - No extra spend for the marketing campaign

Consumer postpaid spend  
illustrative

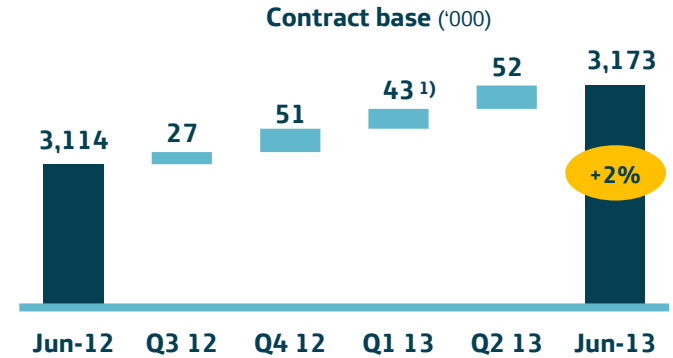


Jul-12	Apr-13	Jun-13	Jul-13
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# Solid Q1 commercial performance in mobile ... ...and changing the market via new proposition in Q2

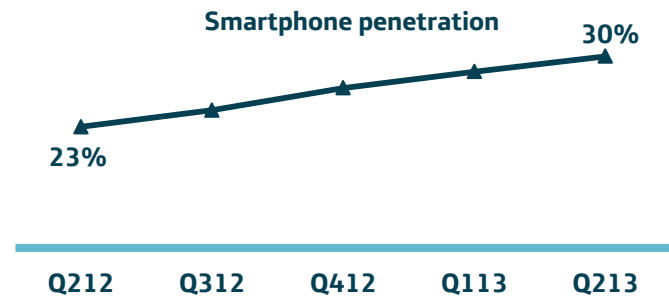
## Growing mobile base

- **Total mobile customer base at 5.1 mil.** (+5% y-o-y<sup>1)</sup>)
  - **Contract** growth helped by low churn
  - **Prepaid** performance **turnaround** (+3% y-o-y), helped by **MVNO**



## FREE driving data growth

- FREE tariffs and **smartphone penetration** uptake driving **small screen base growth** (+102% y-o-y)...
- Supported by **mobile network enhancement** (LTE deployment, HSPA+ upgrade)



## Leadership in MVNO's

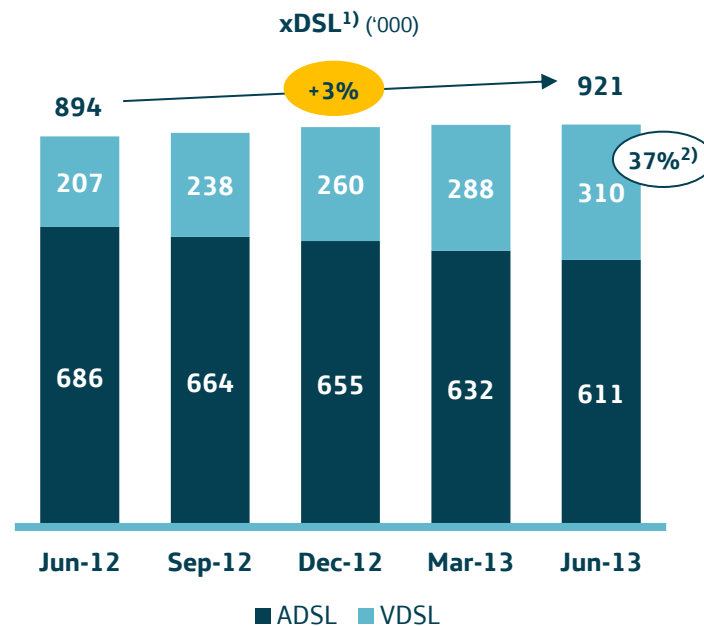
- **Leading the market** also in the this area, **first** to the market and partnering with **the strongest brands**
  - **Blesk** – leading tabloid with **extensive distribution channels**, more than 200k customers already
  - **Tesco** – replicating successful concept from the UK, as part of the **Clubcard loyalty** scheme



# Maintaining our leadership position in fixed BB with continuing migration to VDSL... ...refreshed IPTV platform addressed customer needs

## Fixed BB & Pay TV

- Continuous **relevant demand for VDSL service**, **37%** of total xDSL (vs 26% in Q1 2012) and **74%** of addressable base in residential (vs 72% in Q1 2013)...
- ...helping to **manage churn, spend dilution** and **improve customer satisfaction**
- Maintained **O<sub>2</sub> TV growth** helped by **bundling with DSL** in **stagnating Pay TV market**



## ICT

- **ICT** represents already **29%** of **fixed operating revenues** in **business segment** (+4 p.p. y-o-y)
- Maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **increased O<sub>2</sub> Exclusive** concept penetration



y-o-y change

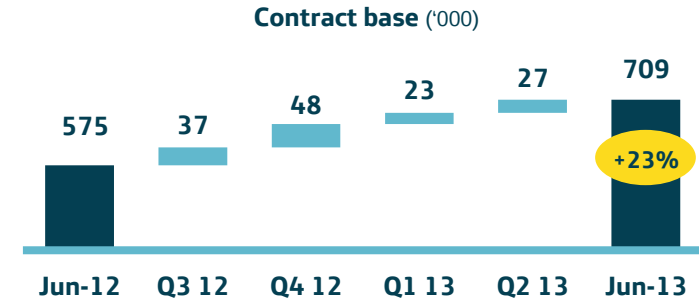
<sup>1)</sup> retail & wholesale

<sup>2)</sup> VDSL 37% of total xDSL and 74% of all addressable VDSL base in residential

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

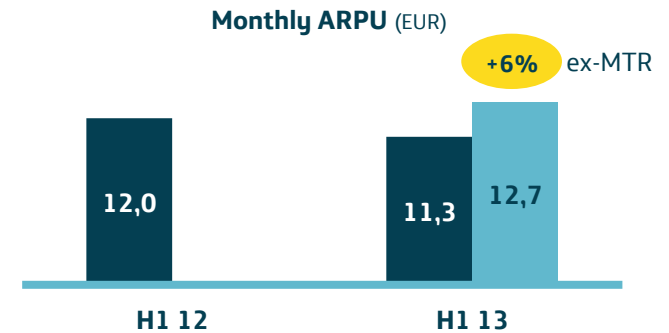
## Mobile customers

- **Strong customers' growth** (+14% y-o-y)
- Churn continues to go down (contract: 1.06% in Q2)
- **Refreshed proposition for all customers – all prices adjusted in one month, contract as well as pre-paid**
- **Almost 22% market share<sup>1)</sup>**



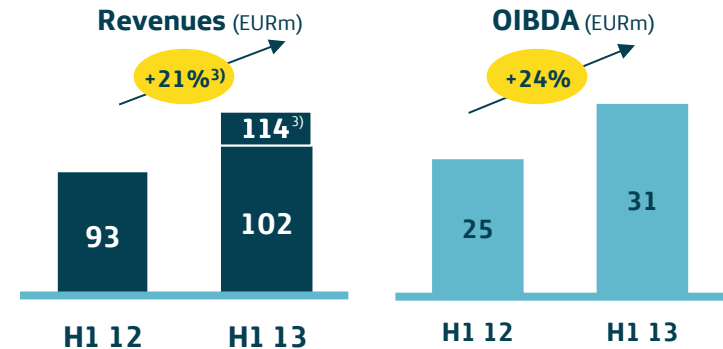
## Growing customer value

- **ARPU improvement<sup>2)</sup>** on the back of **enhanced customer mix** and **successful adoption of commercial propositions** by **high value customers**
- **Increasing the quality of 3G coverage driving smartphone penetration** and **data ARPU uptake**



## Strong financials (EURm)

- **Strong underlying<sup>2)</sup> revenues growth maintained**
- **OIBDA margin over 31% in H1 2013, leveraging on lean operation and synergies with CZ**
- **Increasing and positive contribution to the Group's financials**



y-o-y change

<sup>1)</sup> Q1 2013

<sup>2)</sup> ex-MTR cut impact

<sup>3)</sup> reported revenue growth 10% y-o-y while ex-MTR impact growth 21%



# 02

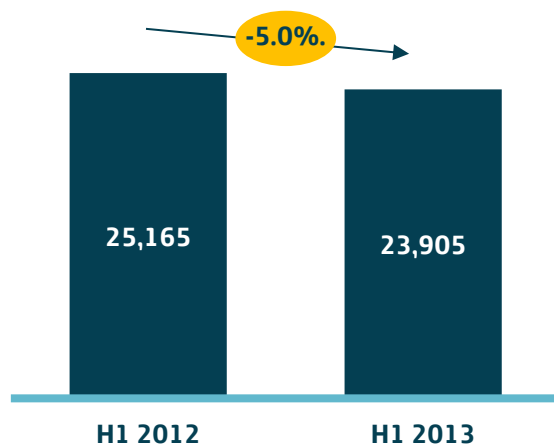
## January – June 2013 Financial Performance

# Solid comparable<sup>1)</sup> OIBDA margin on the back of efficiency agenda

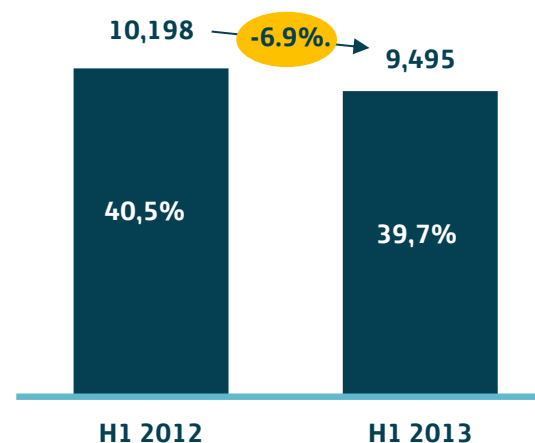
CZK millions

	Jan – June 2013	Change H1 13/H1 12
<b>Operating Revenues</b>	<b>23,905</b>	<b>-5.0%</b>
<b>CZ Fixed</b>	<b>10,144</b>	<b>-4.2%</b>
<b>CZ Mobile</b>	<b>11,269</b>	<b>-8.7%</b>
<b>Slovakia</b>	<b>2,621</b>	<b>+12.3%</b>
<b>OIBDA before brand fees and management fees</b>	<b>9,141</b>	<b>-10.3%</b>
<b><i>OIBDA margin before brand fees and management fees</i></b>	<b>38.2%</b>	<b>-2.3 p.p.</b>
<b>Free Cash Flow</b>	<b>4,642</b>	<b>+7.8%</b>

Operating revenues (y-o-y)



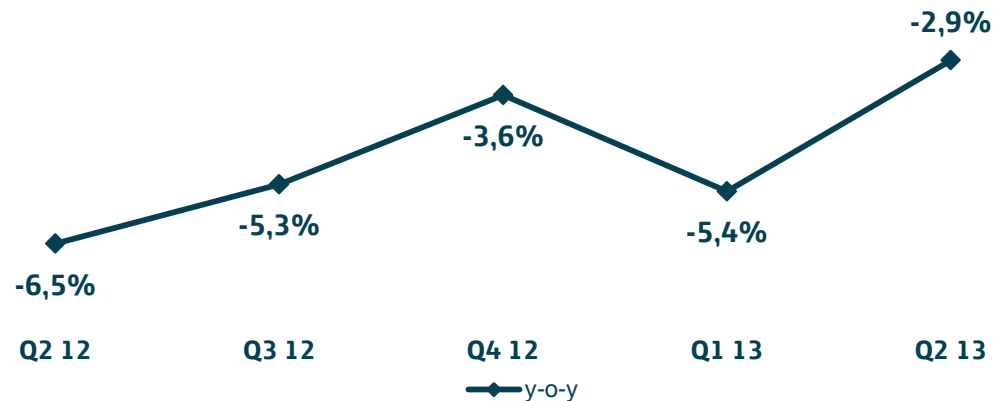
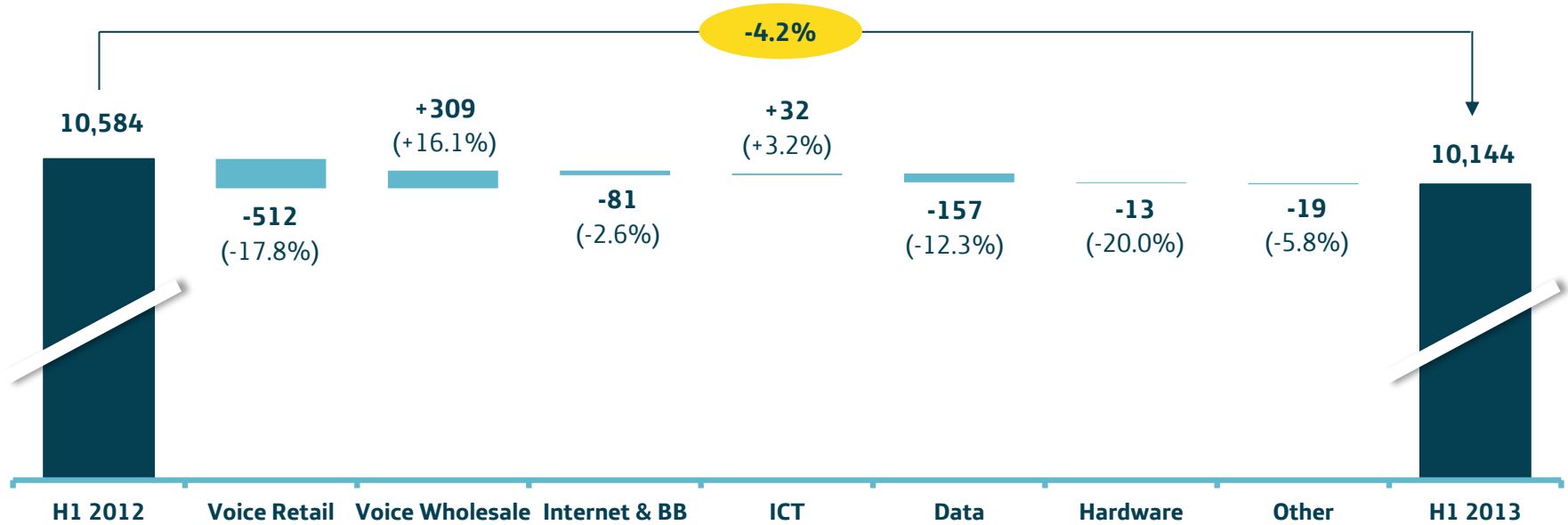
Comparable OIBDA and margin<sup>1)</sup>




<sup>1)</sup> OIBDA before brand fees & management fees, excluding gain on sale of 80% stake in Informacni linky, a.s. in H1 2012 (CZK 220m) and excluding restructuring costs in H1 2012 (CZK 223m) and H1 2013 (CZK 354m)

# CZ Fixed Operating Revenues with better trend year-on-year

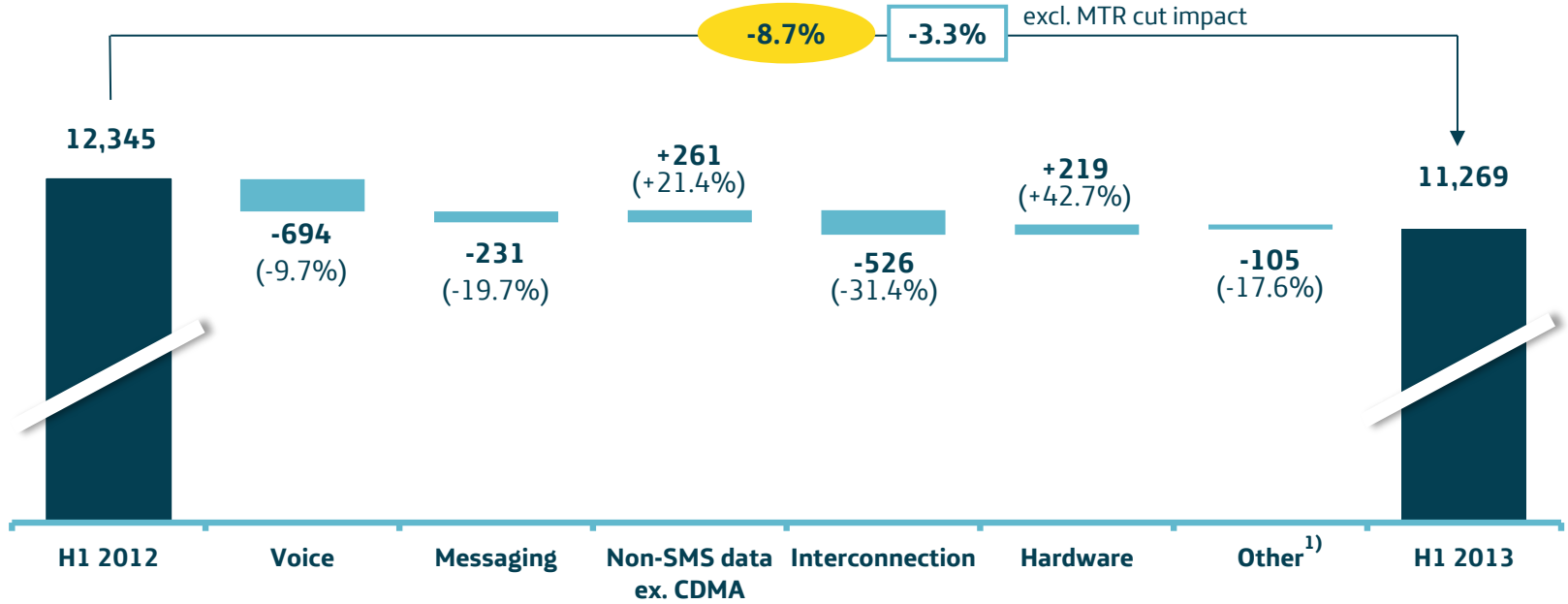
CZK millions  
(% change y-o-y)



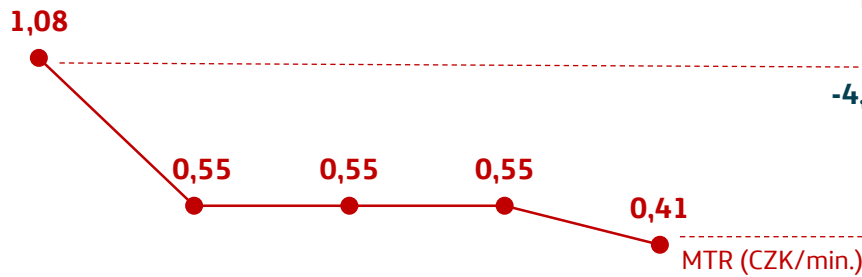
 y-o-y change

# CZ Mobile Operating Revenues confirm uptake in non-SMS data

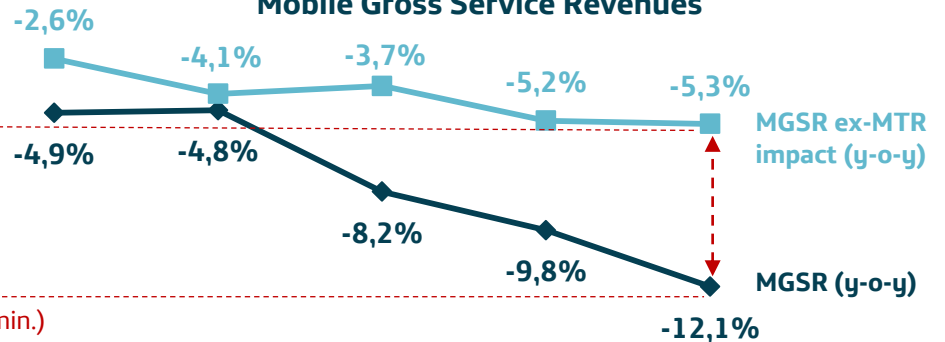
CZK millions  
(% change y-o-y)



Mobile termination rates



Mobile Gross Service Revenues



Q2 12

Q3 12

Q4 12

Q1 13

Q2 13

Q2 12

Q3 12

Q4 12

Q1 13

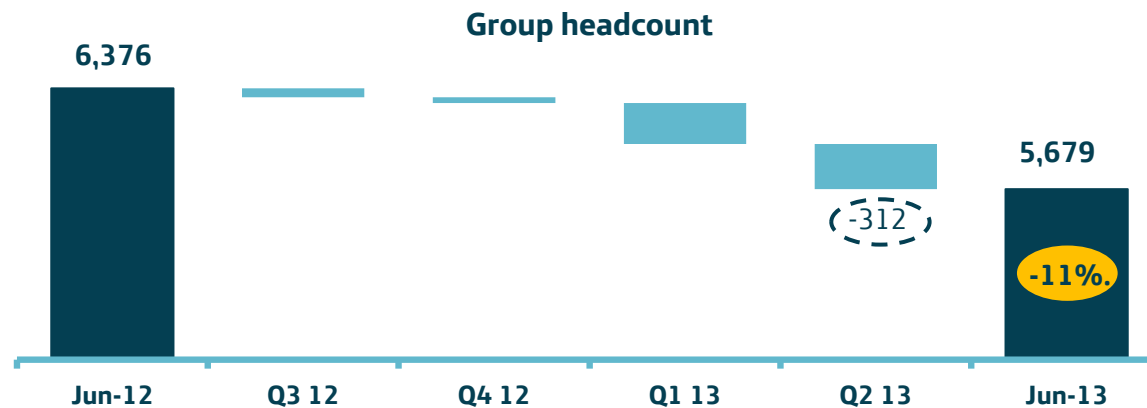
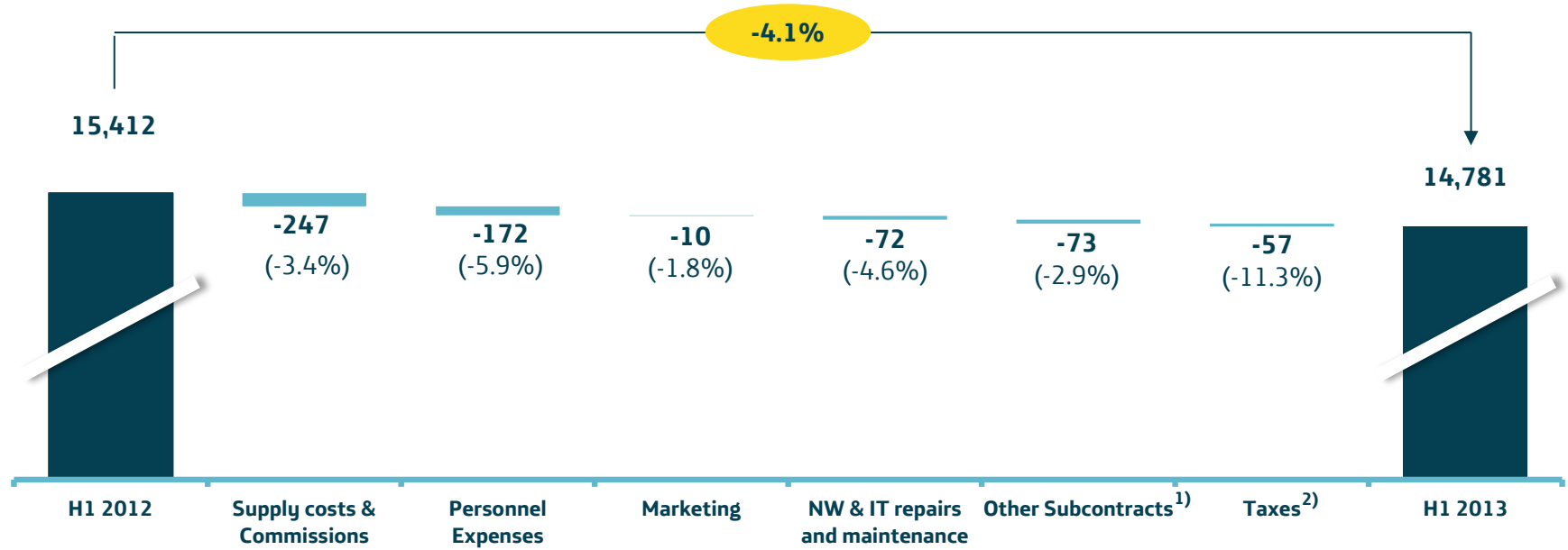
Q2 13

**y-o-y change**

<sup>1</sup> CDMA, Inbound Roaming, M2M, Other revenues

# Group OPEX – operating transformation delivering tangible savings

CZK millions  
(% change y-o-y)

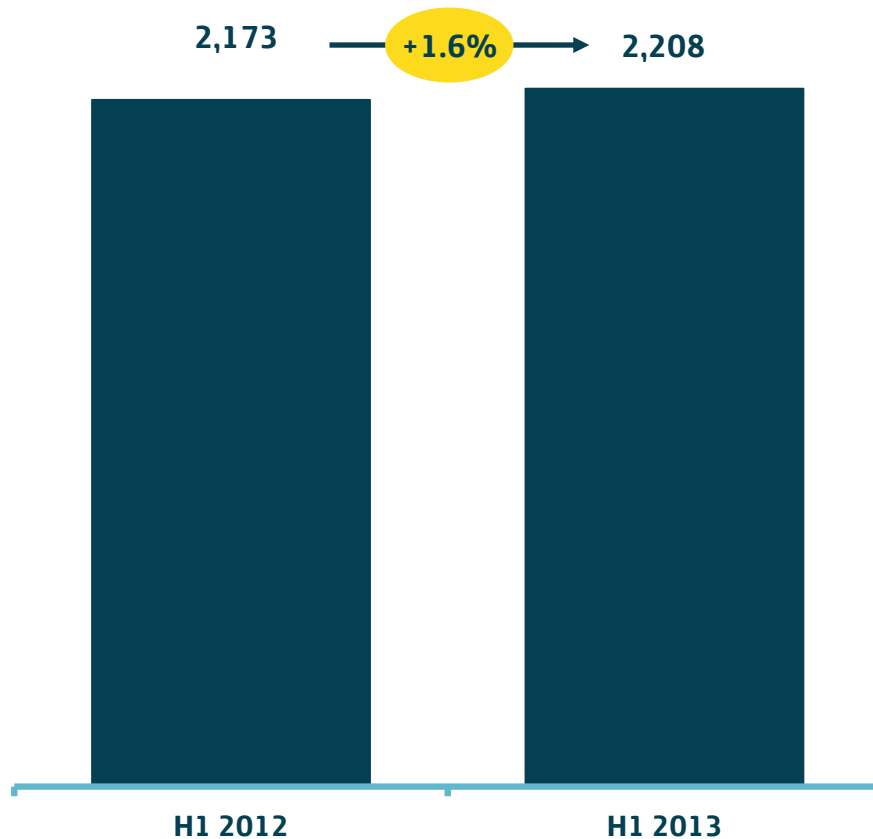


y-o-y change

<sup>1)</sup> Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables and Consultancy  
<sup>2)</sup> Taxes = taxes other than income taxes, provisions and fees

# Group CAPEX – efficient investments into growth areas

CZK millions



## ■ 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**

# Healthy Balance Sheet & Growing Free Cash Flow

<i>CZK millions</i>	<b>31 Dec 2012</b>	<b>30 Jun 2013</b>	<b><i>Change Jun13/Dec12</i></b>
<b>Non-current assets</b>	<b>67,835</b>	<b>64,439</b>	<b>(5.0%)</b>
<b>Current assets</b>	<b>11,364</b>	<b>14,457</b>	<b>27.2%</b>
- of which Cash & cash. Equiv.	3,044	6,922	127.4%
<b>Total assets</b>	<b>79,199</b>	<b>78,896</b>	<b>(0.4%)</b>
<b>Equity</b>	<b>60,574</b>	<b>52,615</b>	<b>(13.1%)</b>
<b>Non-current liabilities</b>	<b>6,322</b>	<b>5,957</b>	<b>(5.8%)</b>
- Long-term financial debt	3,000	3,000	0.0%
<b>Current liabilities</b>	<b>12,303</b>	<b>20,323</b>	<b>65.2%</b>
- Short-term financial debt	31	5	(82.2%)
	<b>Jan – Jun 2012</b>	<b>Jan – Jun 2013</b>	<b><i>Change H1 13/H1 12</i></b>
<b>Cash flow from operations</b>	<b>8,274</b>	<b>8,351</b>	<b>+0.9%</b>
Net interest and other financial expenses paid incl. dividends	85	(29)	-133.7%
Payment for income tax	(848)	(655)	-22.7%
<b>Net cash from operating activities</b>	<b>7,511</b>	<b>7,667</b>	<b>+2.1%</b>
Proceeds on disposals of PPE and intangibles	262	23	-91.0%
Payments on investments in PPE and intangibles	(3,465)	(3,299)	-4.8%
Payments on temporary financial investments	0	250	n.m.
<b>Net cash used in investing activities</b>	<b>(3,203)</b>	<b>(3,025)</b>	<b>-5.6%</b>
<b>Free cash flow</b>	<b>4,308</b>	<b>4,642</b>	<b>7.8%</b>

# 03

## Update on share buy-back



# Share buy-back update – AGM approved cancellation of 2% shares acquired in 2012; additional 1% already repurchased in 2013

## Share buy-back program

- **AGM held in April 2012** approved a **generic authorisation** for potential **share buy-back (SBB) up to 10% of shares** for **5 years**

## 2% executed in 2012 to be cancelled by AGM resolution

- **2% SBB tranche executed in 2012** (18 May to 27 November) for **total amount of CZK 2,483m**
- **AGM held in April 2013** approved **cancellation of shares acquired in 2012** via **non-cash reduction** of:
  - **share capital** (CZK 560m)
  - **share premium** (CZK 1,922m)
- **New number of shares** (after 2% cancellation): **315,648,092**

## Second 2% tranche approved and commenced in 2013

- On 26 February 2013, **Board of Directors approved** the **second up to 2%** (6,441,798 shares) **SBB tranche**, which **commenced on 5 March 2013**
- By **30 June**, **2,935,513** of **treasury shares** in total (0.91% of ordinary shares) **repurchased** for a **total amount of CZK 867m** (**CZK 295 per share** in average)

## 3% threshold

- By 18 July 2013, the Company acquired 3,293,919 treasury shares, **exceeding 3% threshold**

Backup

# Shareholder remuneration declared for 2012 approved by General Meeting

## 2012 Shareholder Remuneration

- **Total shareholder remuneration of CZK 9,663 million<sup>1)</sup>, equal to CZK 30 cash per share, composed of:**
  - **Dividend of CZK 6,442m, equal to CZK 20 per share**
  - **Share premium reduction of CZK 3,221m, equal to CZK 10 per share**
- **Relevant dates (applicable for both parts)**
  - **Record date: 14<sup>th</sup> October 2013 (ex-date: 10<sup>th</sup> October)**
  - **Payment date: 11<sup>th</sup> November 2013**

<sup>1)</sup> This total amount for the distribution (CZK 9,663m) could be lower depending on future number of own shares held by the Company. The Company will not be entitled to distribute the shareholder remuneration to the acquired shares. .

# LTE Spectrum Auction

## LTE Spectrum Auction

- **Combined auction of 800 MHz (Digital Dividend), 1'800 MHz and 2.6 GHz (FDD and TDD) bands**
- **Indicative timetable**
  - End of July (earliest) – official publication of the final rules, conditions and timeline of the auction
  - End of August – deadline for applications
  - September, October – registration of bidders, training, two mock-up auctions
  - November – start of the bidding phase; results, new spectrum assignments
- **Key changes to the conditions:**
  - Spectrum limit in 800 MHz band of 2 blocks for all participants – the new entrant cannot obtain more
  - Deployment conditions relaxed – no obligation for simultaneous deployment in regions A and B
  - Guaranteed adjacent blocks for pooling partners
  - Other participant will be able to bid on the reserved blocks if a new entrant chooses not to participate
  - Less strict deployment obligations for 2600 MHz band – minimum population coverage down to 10 %
  - Minimum requested LTE portfolio is cancelled
- **Other conditions remain materially the same.**