

Telefónica Czech Republic

Quarterly Results

January – September 2013

5th November 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.

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01

9M & Q3 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 by launching **FREE tariffs** and in Q3 we delivered **great value for customers** and solid **financial results**

LTE auction

- We are defending the interests of our shareholders before a court of law
- We are attending the spectrum auction

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 guidance¹⁾ reiterated

¹⁾ 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

We changed the market

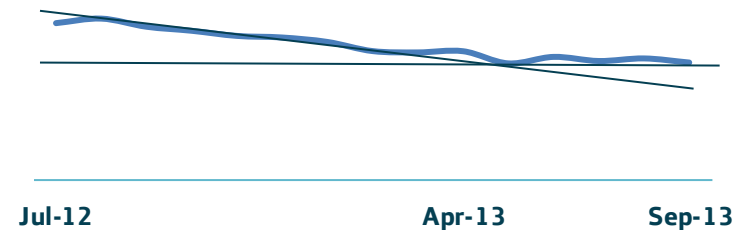
- **Addressing customers' needs** and **changing the environment** for a potential new entrant
- ...while moving from price-oriented to **value-oriented**
- ...through innovative **customer experience**, unique **loyalty program** and best-in-class **NW quality**
- Migration to FREE Tariffs is a **growth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

Already benefiting from simplification

- FREE **changed 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**



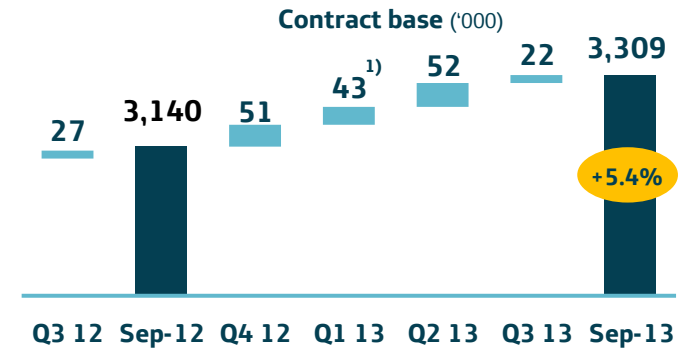
Consumer postpaid spend
illustrative



Changed the market via new proposition in Q2... ...and continue to execute our strategy in Q3

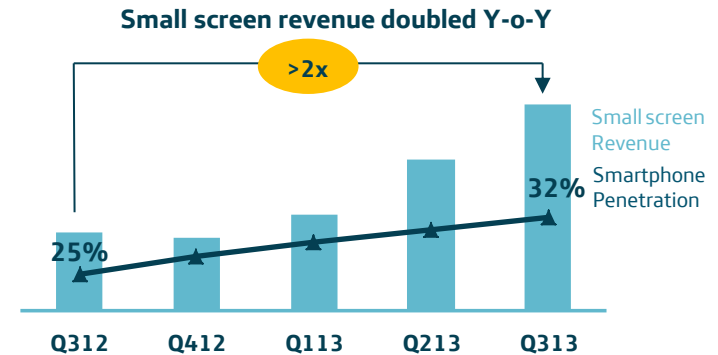
Growing mobile base

- **Total mobile customer base at 5.1 mil.** (+3% y-o-y¹⁾)
 - **Contract** growth +5.4% y-o-y helped by low churn
 - **Prepaid** performance positively manifests in our leadership position in MVNO market



FREE driving data growth

- FREE tariffs and **smartphone penetration** uptake driving **small screen base growth** (+95% y-o-y)...
- ...and **doubling** the revenues for **small screen**
- Supported by **mobile network enhancement** (LTE deployment, HSPA+ upgrade)



Leadership in MVNO's

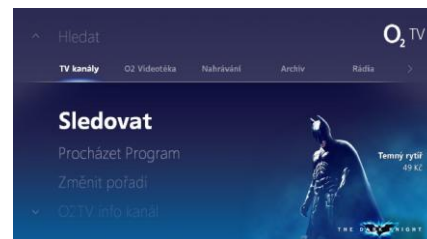
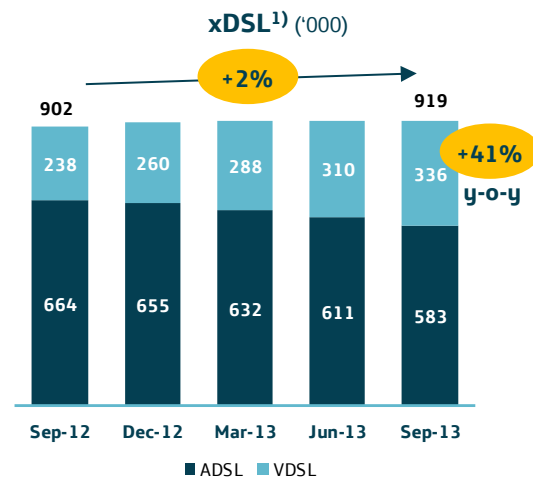
- **Confirmed our MVNO leadership with best partners**
 - **ČEZ** – dominant energy company, launched on Oct-15
 - **Blesk** – leading tabloid with **extensive distribution channels**, more than 200k customers already
 - **Tesco** – replicating successful concept from the UK, as part of the **Clubcard loyalty** scheme



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

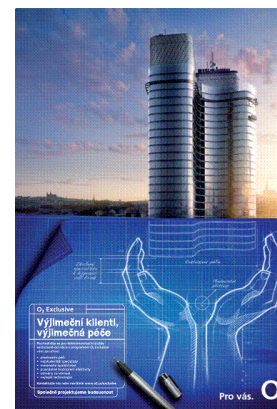
Fixed BB & Pay TV

- Continuous **demand for VDSL service**, with customer base growing by **41% y-o-y**...
- ...helping to manage churn, spend dilution and improve customer satisfaction...
- ...and we launched **new O₂ TV** with **Timeshift** service unique in the market...



ICT

- ICT represents already **30% of fixed operating revenues in business segment** (+3.3 p.p. y-o-y)
- Selective approach maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **increased O₂ Exclusive** concept penetration

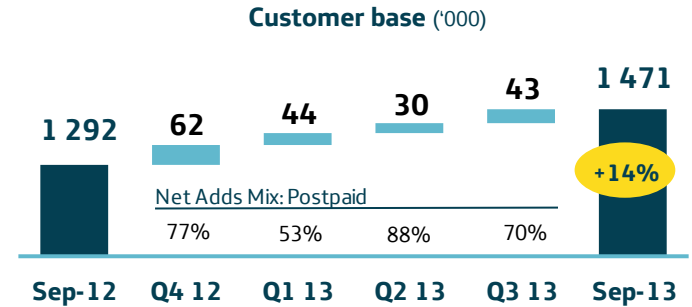


¹⁾ retail & wholesale

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

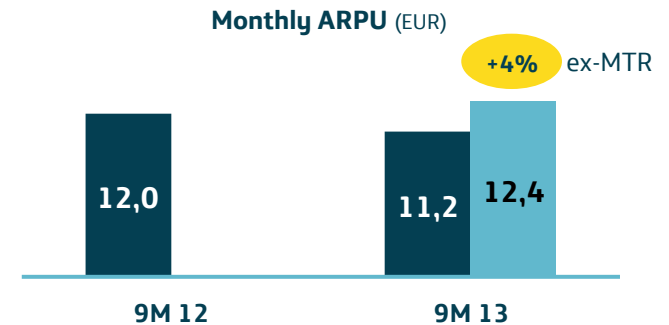
Mobile customers

- **Strong customers' growth** (+14% y-o-y)
- Churn continues to go down (contract: 0.95% in Q3)
- **Refreshed proposition for all customers – all prices adjusted in one month, contract as well as pre-paid**
- **Over 22% market share¹⁾ (+3 p.p. y-o-y)**



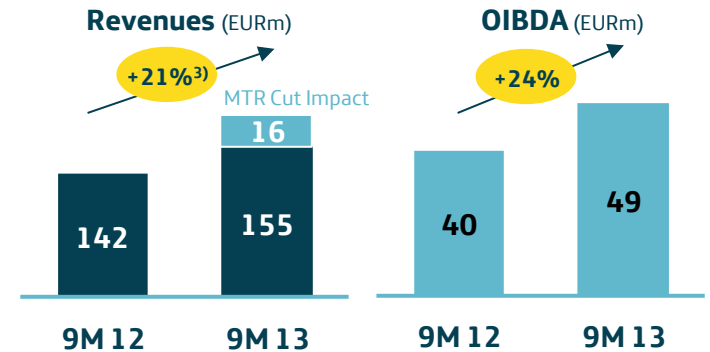
Growing customer value

- **ARPU improvement²⁾ 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 underlying²⁾ revenues growth maintained**
- **OIBDA margin 32% in 9M 2013, leveraging on lean operation and synergies with CZ**
- **Increasing and positive contribution to the Group's financials**



y-o-y change

¹⁾ Q2 2013

²⁾ ex-MTR cut impact

³⁾ reported revenue growth 9% u-o-y while ex-MTR impact growth 21%

02

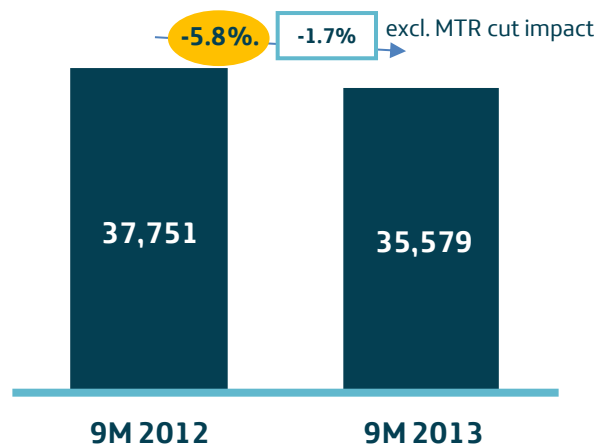
January – September 2013
Financial Performance

Solid comparable¹⁾ OIBDA margin on the back of efficiency agenda

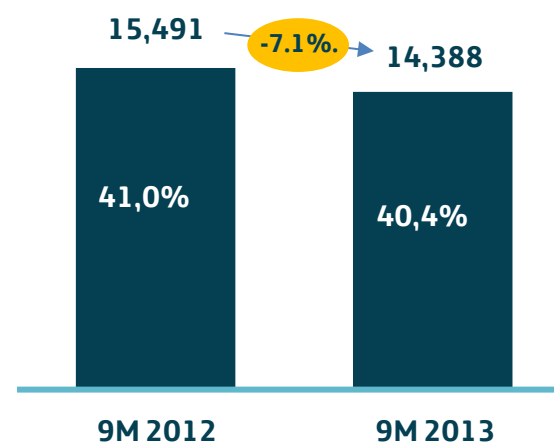
CZK millions

	Jan – Sep 2013	Change 9M 13/9M 12
Operating Revenues	35,579	(5.8%)
CZ Fixed	15,182	(4.1%)
CZ Mobile	16,641	(10.2%)
Slovakia	3,988	12.1%
OIBDA before brand fees and management fees	14,034	(9.3%)
<i>OIBDA margin before brand fees and management fees</i>	39.4%	(1.5 p.p.)
Free Cash Flow	7,466	6.7%

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



Comparable OIBDA and margin¹⁾

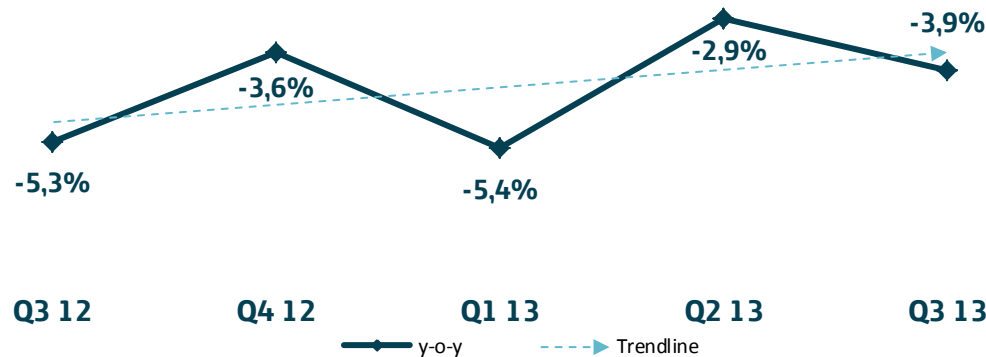
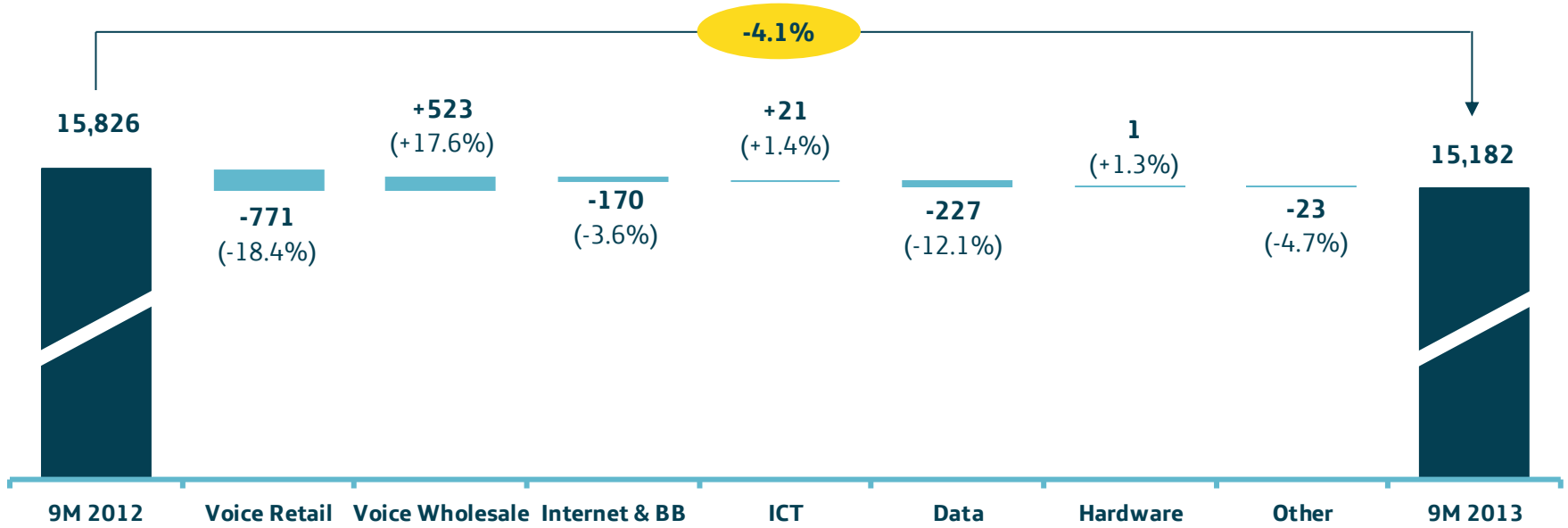


y-o-y change

¹⁾ OIBDA before brand fees & management fees, excluding gain on sale of 80% stake in Informacni linky, a.s. in Q1 2012 (CZK 220m) and excluding restructuring costs in 9M 2012 (CZK 242m) and 9M 2013 (CZK 354m)

CZ Fixed Operating Revenues in continuous Y-o-Y improving trend

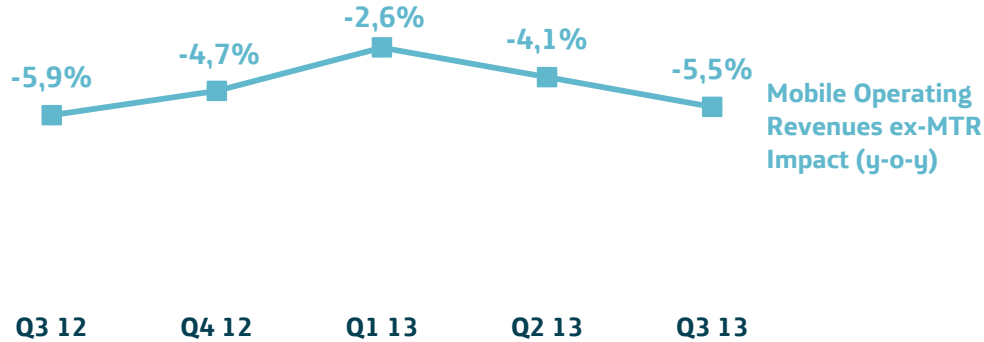
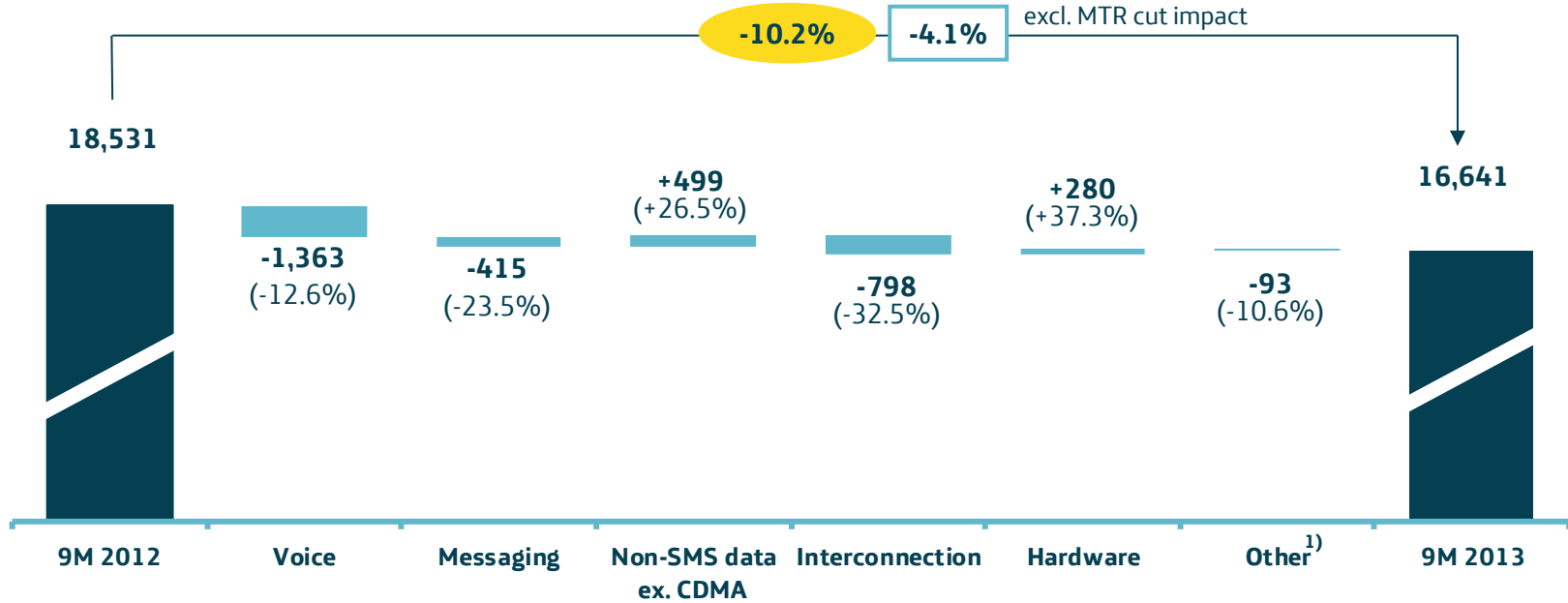
CZK millions
(% change y-o-y)



y-o-y change

CZ Mobile Operating Revenues confirm uptake in non-SMS data

CZK millions
(% change y-o-y)

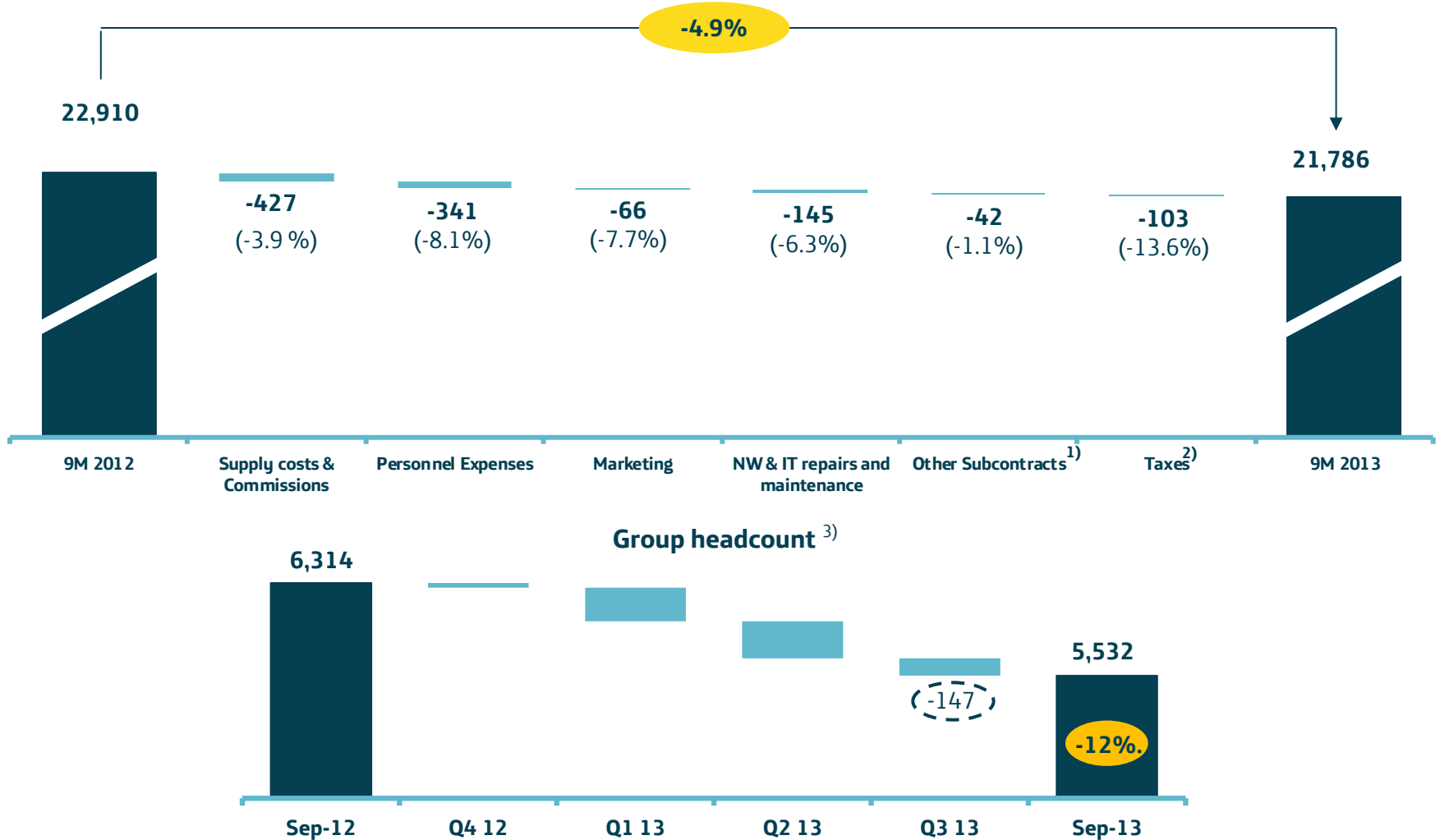


y-o-y change

¹ CDMA, Inbound Roaming, M2M, Other revenues

Group OPEX – operating transformation delivering tangible savings

CZK millions
(% change y-o-y)



¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables and Consultancy

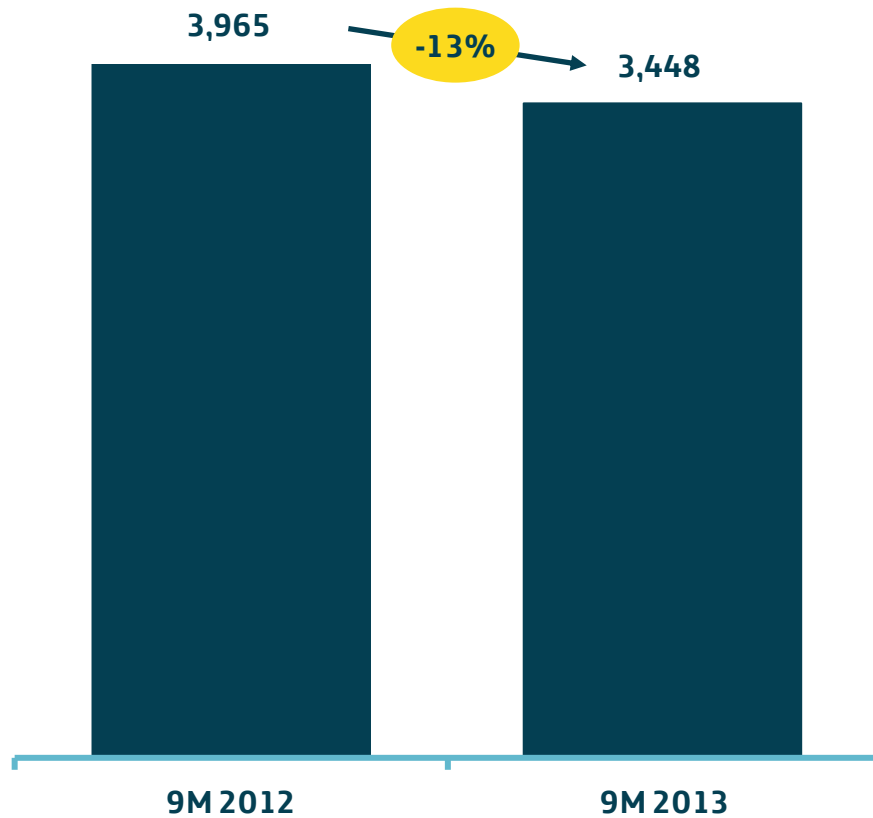
²⁾ Taxes = taxes other than income taxes, provisions and fees

³⁾ Excluding Bonerix subsidiary headcount of 90

y-o-y change

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>	31 Dec 2012	30 Sep 2013	<i>Change Sep13/Dec12</i>
Non-current assets	67,835	62,817	(7.4%)
Current assets	11,364	16,711	47.1%
- of which Cash & cash. Equiv.	3,044	9,085	198.5%
Total assets	79,199	79,528	0.4%
Equity	60,574	53,334	(12.0%)
Non-current liabilities	6,322	5,852	(7.4%)
- Long-term financial debt	3,000	3,000	0.0%
Current liabilities	12,303	20,342	65.3%
- Short-term financial debt	31	16	(47.4%)
	Jan – Sep 2012	Jan – Sep 2013	<i>Change 9M 13/9M 12</i>
Cash flow from operations	13,202	12,900	(2.3%)
Net interest and other financial expenses paid incl. dividends	(140)	(38)	(73.0%)
Payment for income tax	(1,230)	(998)	(18.8%)
Net cash from operating activities	11,833	11,863	0.3%
Proceeds on disposals of PPE and intangibles	310	62	(79.9%)
Payments on investments ¹	(5,144)	(4,460)	(13.3%)
Net cash used in investing activities	(4,834)	(4,398)	(9.0%)
Free cash flow	6,998	7,466	6.7%

¹⁾ Includes Investments in PPE, intangibles, financial investments, and temporary financial investments

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)
- **Cancellation** recorded at the Trade registry, **effective 15 November 2013**
- **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**
- On 29 October 2013, Board of Directors decided to terminate the second SBB tranche
- **5,428,035** of **treasury shares** (1.69% of ordinary shares) was **repurchased** in 2013 for a **total amount of CZK 1,595m (CZK 294 per share** in average)

Backup

Shareholder remuneration declared for 2012 approved by General Meeting

2012 Shareholder Remuneration

- **Total shareholder remuneration of CZK 9,663 million¹⁾, 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: 14th October 2013 (ex-date: 10th October)**
 - **Payment date: 11th November 2013**

¹⁾ 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**
 - 11th November – start of the bidding phase; results, new spectrum assignments
- **Principal conditions:**
 - **One 2x10MHz block** in the 800MHz band **reserved for a new entrant**
 - **Ban on the sale** and rental of the spectrum **for 7 years**; spectrum **sharing is allowed**
 - **Spectrum limit in 800 MHz** band of **2x10MHz** for all participants – the new entrant cannot obtain more
 - Other participant will be able to bid on the reserved blocks if a new entrant chooses not to participate
 - **Deployment conditions relaxed** – no obligation to cover regions A (low density) before B (high density)
 - **Guaranteed adjacent blocks** for pooling partners
 - Less strict deployment obligations for 2600 MHz band – minimum population coverage down to 10 %
 - Minimum requested LTE portfolio condition has been removed
 - **Penalty for highest bid withdrawal**; maximum two withdrawals are allowed
 - **National roaming obligation** in 2G/3G/4G network **for 8 years**; access for MVNO's for 12 years

2013 Investor Guidance

	2012 base	2013 Guidance
OIBDA margin¹⁾	41.4%	Limited margin erosion y-o-y on the back of continuous efficiency agenda
CapEx²⁾	CZK 6.2 bn.	Less than CZK 6 bn. , increasing proportion of investments into growth areas (mobile data, LTE and new technologies/businesses)

¹⁾ OIBDA before brand fees & management fees; guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2012

²⁾ Excluding investments for spectrum license (2013) and business acquisitions