

Telefónica Czech Republic

Quarterly Results

January – December 2011

17th February 2012



Telefónica

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.

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01

Q4 and FY 2011 Performance Highlights

Q4 and FY 2011 performance highlights

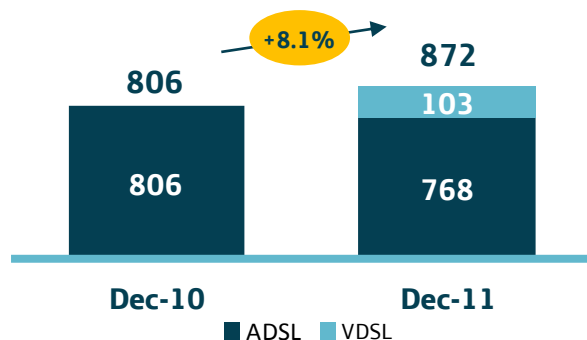
- **Sound commercial momentum in CZ mobile area delivered in 4Q** helped by **successful Christmas campaign**:
 - **Contract base**: 54k net adds in the quarter, resulting in 6.5% y-o-y growth at year-end
 - **Prepay base**: 6k net adds, the best quarterly performance since 4Q 2009
 - **Smartphone penetration accelerated growth** (+2.1 p.p. q-o-q in 4Q) to reach **19.5% at year-end**
- **xDSL base** keeping solid growth(+8.1% y-o-y) in highly competitive market
- **Group business revenues** show **further improvement in 4Q** on the back of **better spend in mobile residential, strong ICT performance** and **continued healthy growth in Slovakia**
- **Slovakia** keeps its **subscribers' growth** and **improving financial performance**
- **Guided OIBDA margin¹⁾** reaching **43.6% in 2011** (+0.2 p.p. y-o-y), as a result of **efficiency agenda in CZ** and **positive OIBDA in SK**
- **2011 full year guidance²⁾** for OIBDA and CAPEX **delivered**

¹⁾ OIBDA excludes brand fees and management fees (CZK 1,057m in 2010 and CZK 1,080m in 2011) and reversal of the impairment loss of CZK 4,343m in Q3/FY 2010; assuming constant FX rates of 2010

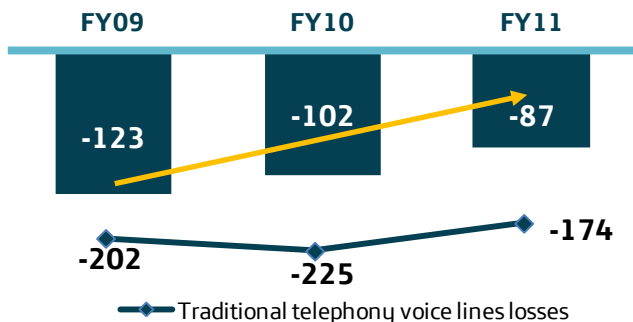
²⁾ OIBDA decline of -1% to -5%, CapEx around CZK 5.7 billion. In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes in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

Continuous good commercial performance in fixed business helped by VDSL offer & positive ICT contribution in Q4

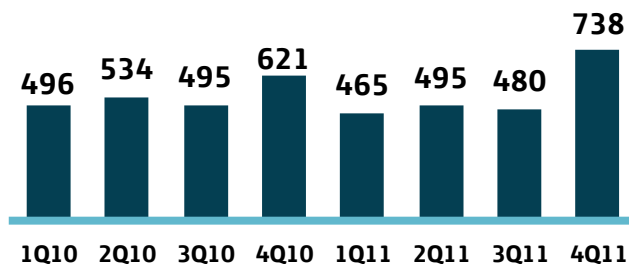
xDSL¹⁾ (‘000)



Fixed accesses (net losses) (‘000)



ICT revenues (CZKm)



- 66k xDSL net adds in 2011, a relevant figure in highly competitive market
- Promising results of VDSL offer (launched in May):
 - 25% of base addressable by VDSL²⁾ locked for 12 months
 - Helping to manage xDSL ARPU and churn
- O₂ TV performance improved in H2/Q4 driven by successful bundle proposition (Internet & TV)
- 1.6m fixed accesses at Dec-11 (-5.2% y-o-y)
- Fixed telephony losses continuously decelerating (-22.4% y-o-y)



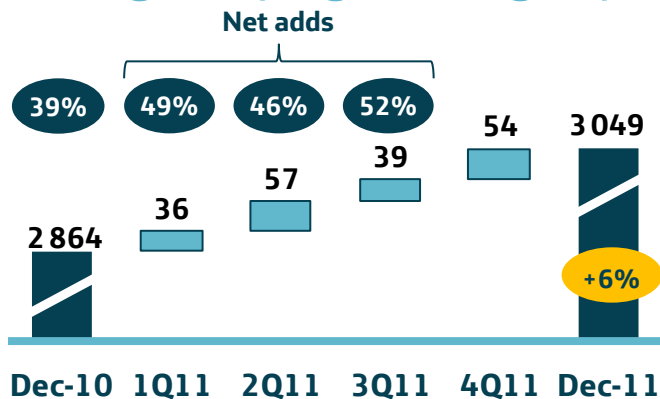
- Q4 ICT revenues: +18.9% y-o-y (+1.5% y-o-y in FY11), despite tighter public administration expenditures
- ICT contribution to fixed revenues at sizeable 10% in 2011 (+1.0 p.p. y-o-y)

¹⁾ retail & wholesale

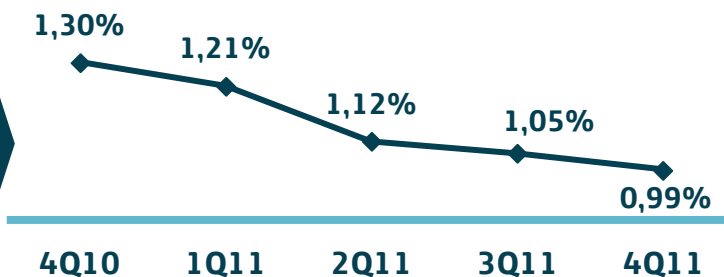
²⁾ 48% of total customer base

Strong contract commercial momentum maintained, still reducing churn, while successful marketing campaign driving improvement in prepaid

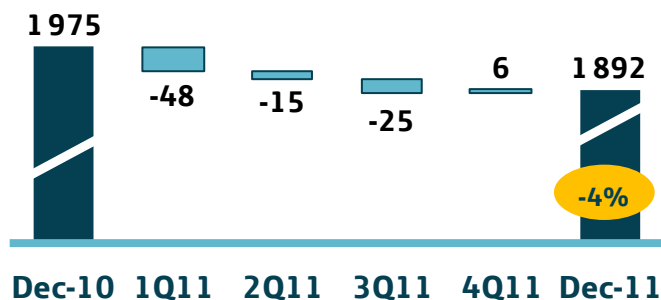
Contract mobile customers ('000)



Contract churn (monthly average)



Prepaid mobile customers ('000)



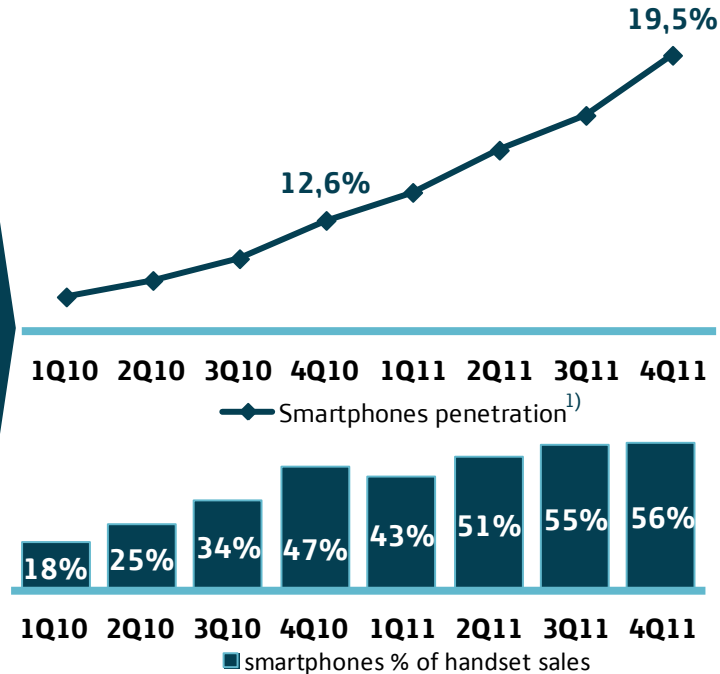
- **Total mobile base** reaching **4.9m** at the end of December 2011 (+2.1% y-o-y)
- **Strong contract commercial performance** maintained in Q4, driven by **solid trading momentum** (helped by Christmas proposition) and **best-in-class churn**
- **CVM²⁾ roll out** resulted in **flattening absolute contract spend revenues in business division and SMB** in last four consecutive quarters while **maintaining flat ARPU dynamics in residential.**

- **Successful marketing proposition** (best prices for minimum monthly top-up) driving **improvement in prepaid performance in Q4**
 - **Accelerated gross adds** (+17.1% y-o-y in Dec)
 - **Improving churn** (3% in Q4, -0.5 p.p. y-o-y)
 - **Highest prepaid CSI on the market in Q4**

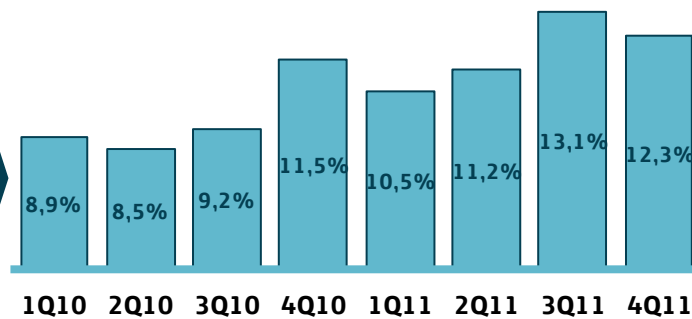


Our investment into commercial activities led to the accelerated growth of smartphone sales and penetration to foster data monetization

Smartphone sales & penetration



Commercial costs²⁾ as % of mobile revenues



Smartphone focused marketing campaign

helped to **accelerate sales** (62% of total handset sales in Dec-11) and **penetration ...**



... supported by continuing 3G network coverage expansion

(73% at Dec-11) and **focus on capacity & quality enhancement**

37% of smartphones users subscribed for data package at Dec-11

(+10 p.p. compared to Jan-11)

Data revenues represented 27% of mobile service revenues (MSR) in 2011

(+2 p.p. y-o-y), with increasing contribution of mobile internet³⁾: 32% of data revenues in 2011(+3 p.p. y-o-y)

Non-SMS data ARPU excl. roaming: +2.4% y-o-y in 2011

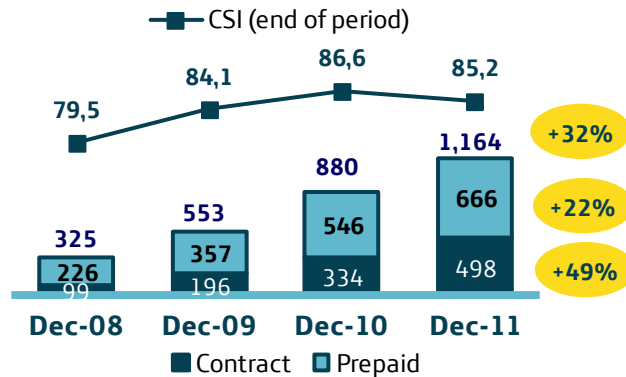
¹⁾ Smartphones as % of total handsets base in TCZ

²⁾ Cost of goods sold & Commissions

³⁾ Big screens, small screens, Time/Usage based, Push Email

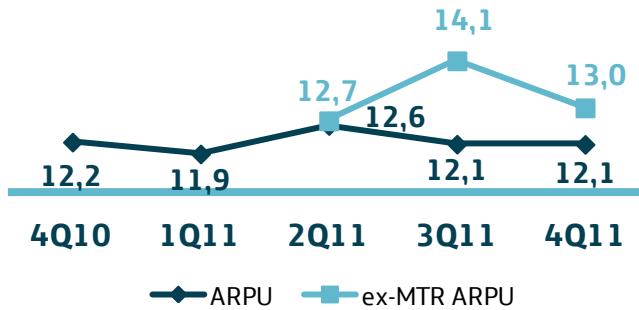
Slovakia - strong customers' growth and value focused proposition driving improvement in financial performance

Mobile customers ('000)



- **Strong customers' growth leveraging on simple & value customer proposition** (+85k in 4Q driven by contract)
- **Further mix improvement** (42.8% of base on contract, +4.8 p.p. y-o-y)
- **Contract monthly churn further improved** (0.98% in 4Q and FY 2011, -0.3 p.p. y-o-y)

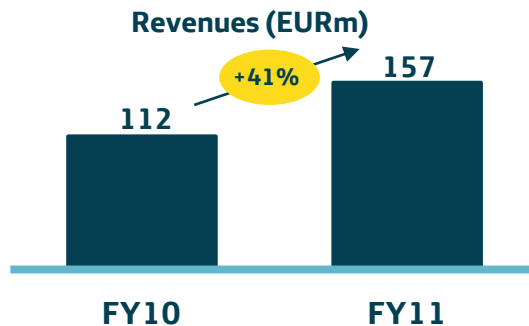
Focusing on value (ARPU in EUR/month)



- **Underlying ARPU (ex-MTR) improved +6.7% y-o-y in 4Q** on the back of **better customer mix** and **new propositions** (SMB and 3G)



Strong financials



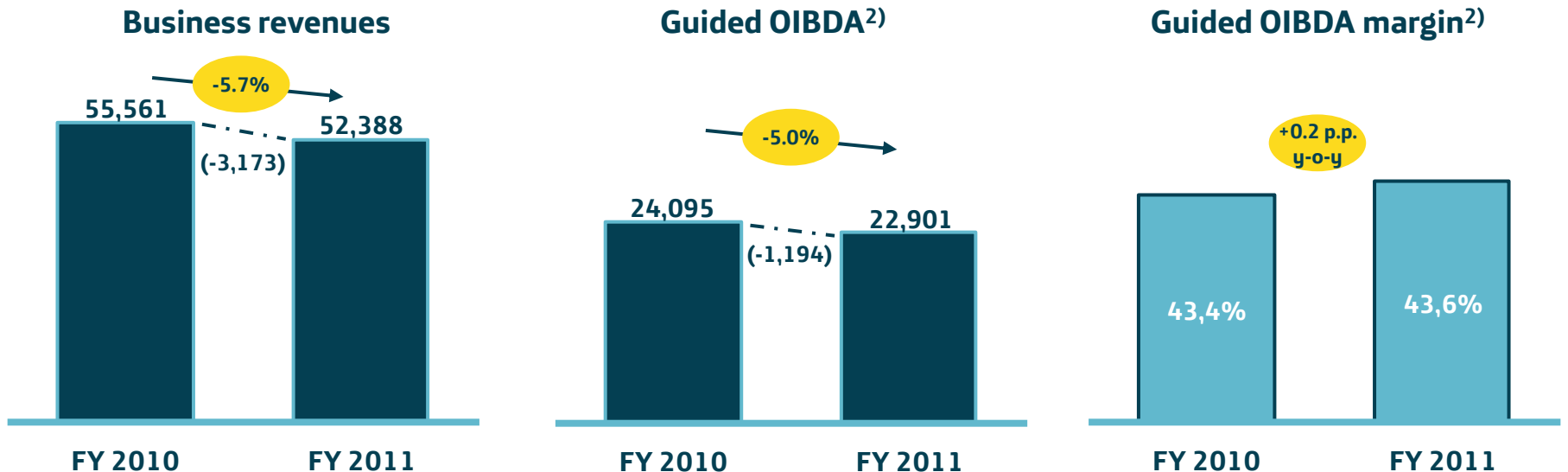
- **Q4 revenues at EUR 44.2m, +34.7% y-o-y** (+43.6% y-o-y ex-MTR impact)
- **2011 OIBDA: 5.4 times of 2010**
- **Slovakia's improving financials** (7% of Group revenues) **positively contributing the Group's profitability**

02

January – December 2011 Financial Performance

Key Highlights of Group Financial Performance

CZK millions	Jan – Dec 2011	Change FY11/FY10	Comparable change FY11/FY10 ¹⁾
Business revenues	52,388	(5.7%)	
CZ Fixed	22,606	(6.9%)	
CZ Mobile	26,126	(8.6%)	
OIBDA before brand fees and management fees	22,871	(19.6%)	(5.0%)
OIBDA margin before brand fees and management fees	43.7%	(7.5 p.p.)	0.3 p.p.
OIBDA	21,791	(20.4%)	(5.4%)
OIBDA margin	41.6%	(7.7 p.p.)	0.2 p.p.
Net Income	8,684	(29.3%)	2.1%

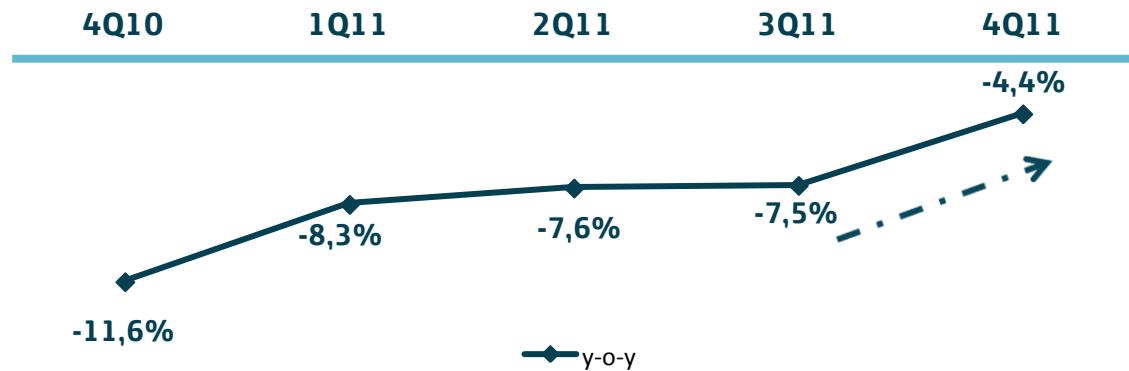
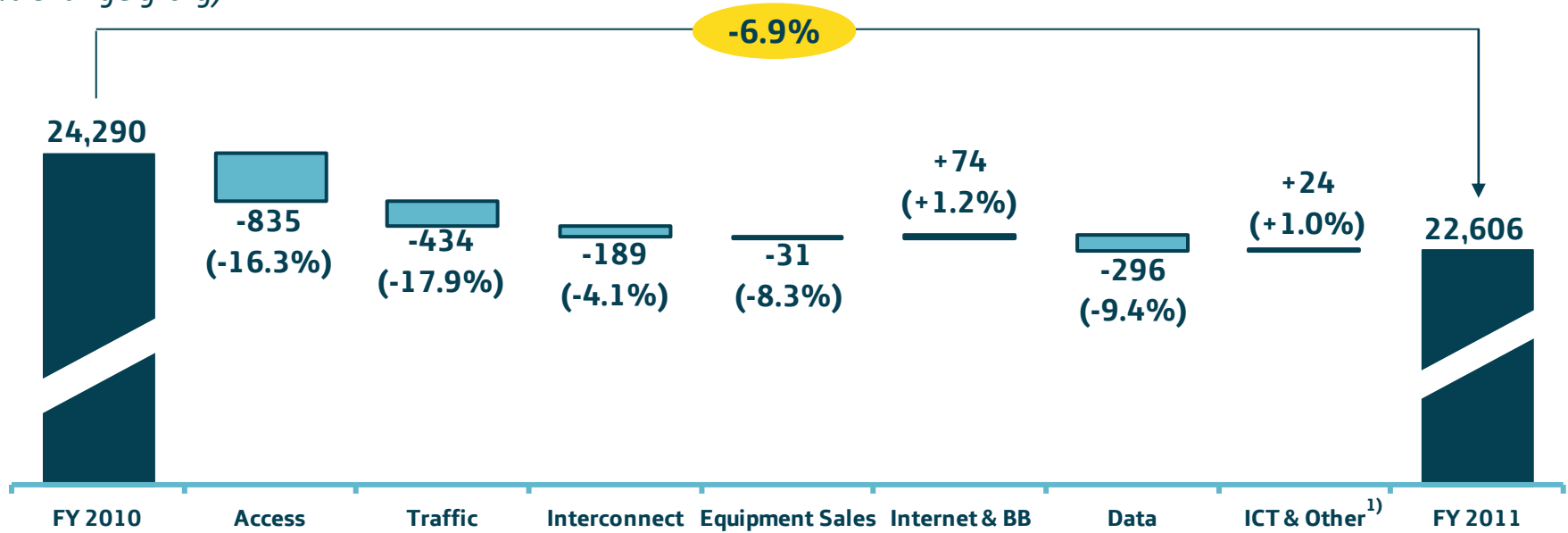


¹⁾ Excluding the impact of impairment reversal on OIBDA, D&A and income tax

²⁾ OIBDA before brand fees & management fees (2010: CZK 1,057m, 2011: CZK 1,080m), excluding impairment reversal in 2010 (CZK 4,343m); guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2010

CZ Fixed Business Revenues – sources of variation

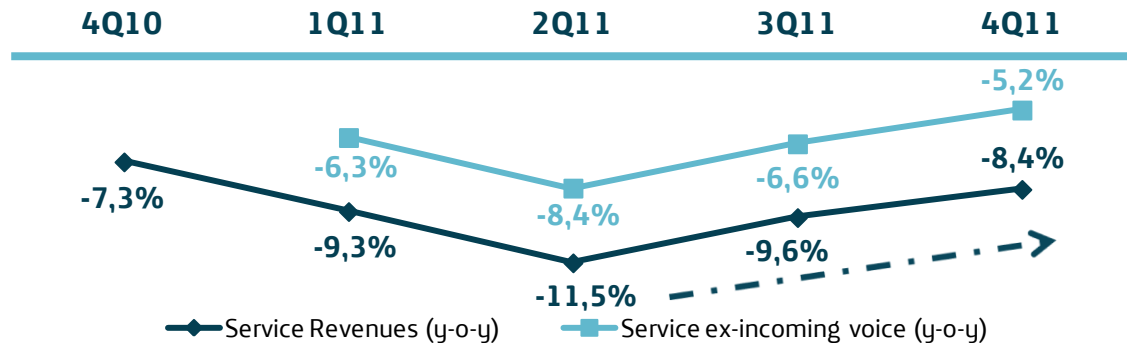
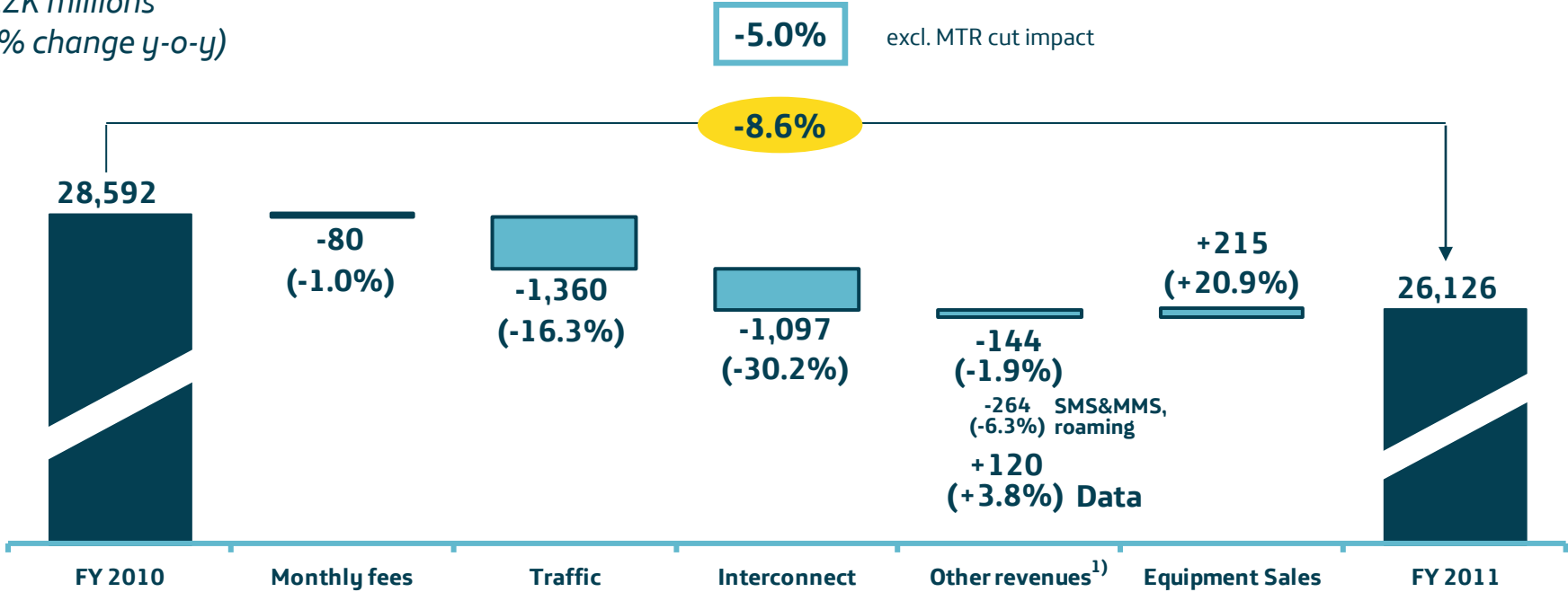
CZK millions
(% change y-o-y)



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

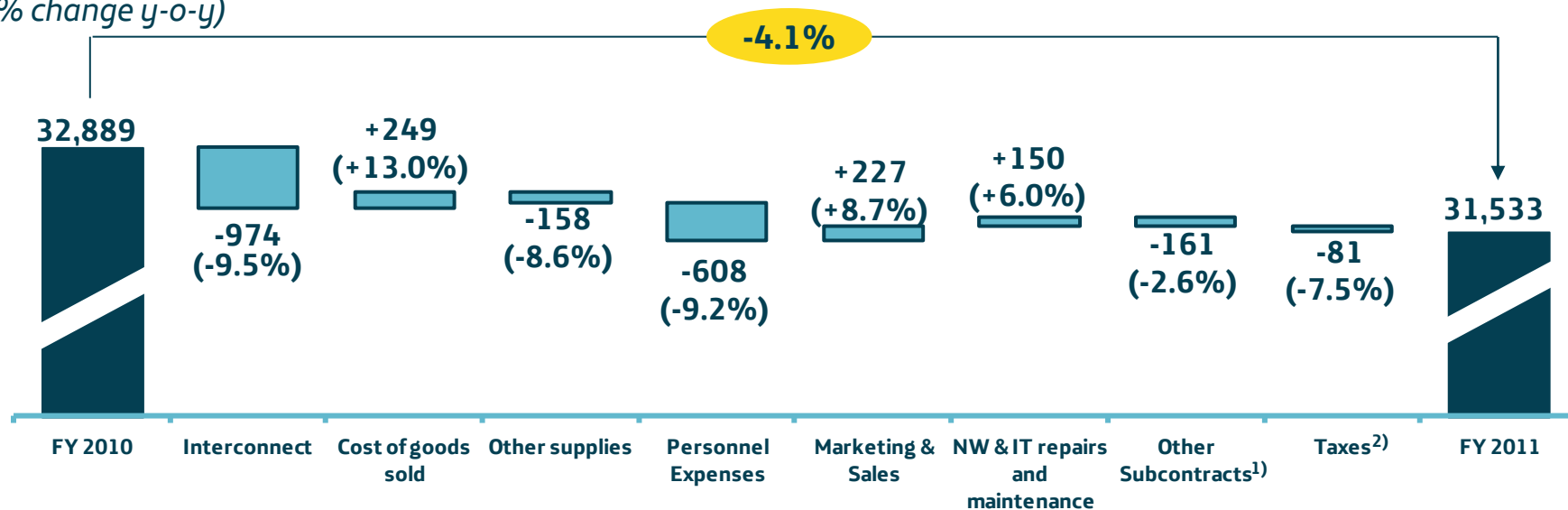
CZK millions
(% change y-o-y)



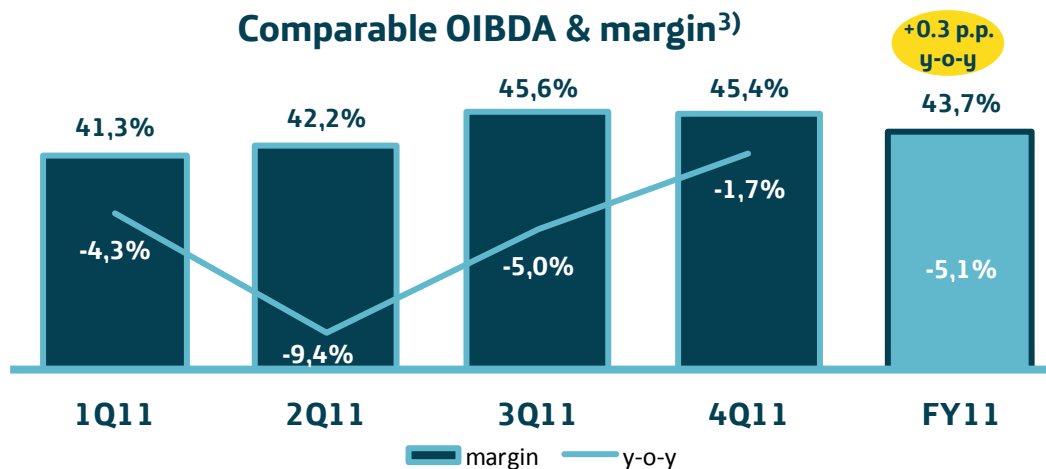
¹⁾ Other – incl. VAS, Internet & Data and Other revenues
Figures do not include inter-segment charges between fixed and mobile businesses

Group OPEX – sources of variation

CZK millions
(% change y-o-y)



Comparable OIBDA & margin³⁾



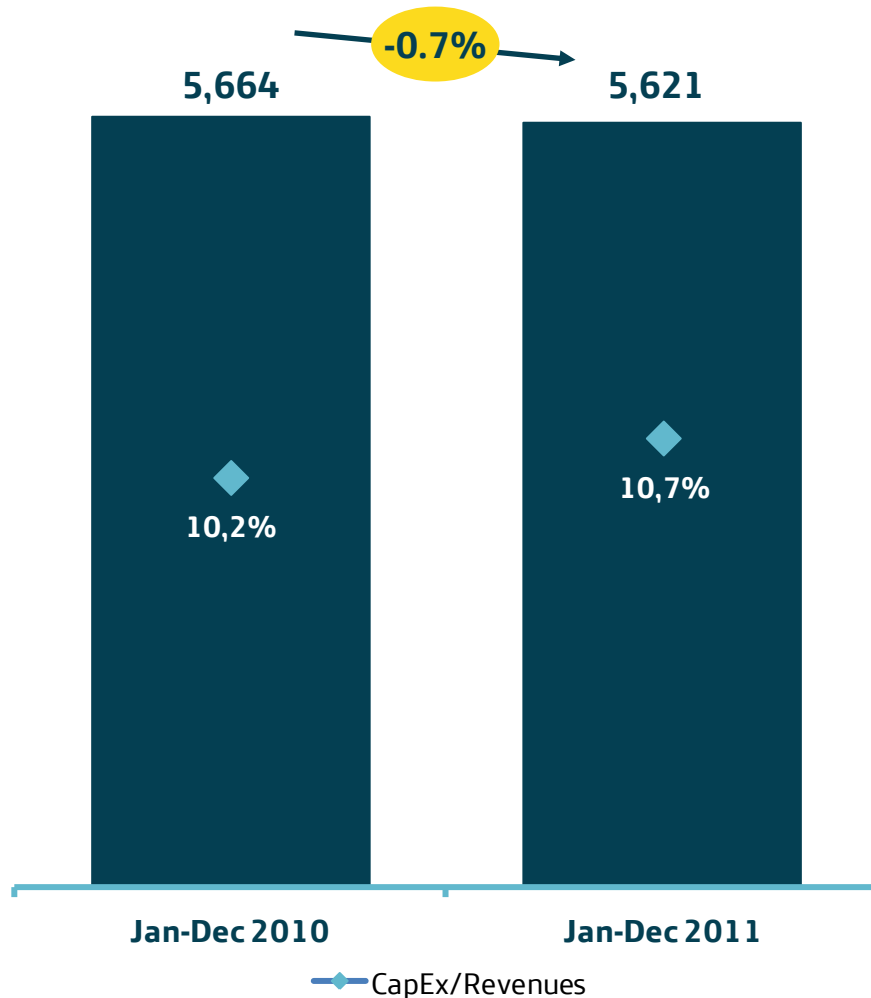
¹⁾ Other Subcontracts – incl. Rentals, Buildings, Vehicles, Consumables, Consultancy and Brand & management fees

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

³⁾ OIBDA before brand fees and management fees, excl. impairment reversal in 2010

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 (73% at Dec-11)
- VDSL network deployment (available for 48% of households)
- 3G deployment in SK (reaching close to 35% population coverage at the end of Dec-11)
- IT/Systems investments to improve processes and customer satisfaction

Group Balance Sheet & Cash Flow Statement

<i>CZK millions</i>	31 Dec 2010	31 Dec 2011	<i>Change Dec11/Dec10</i>
Non-current assets	78,285	73,100	(6.6%)
Current assets	14,495	15,881	+9.6%
- of which Cash & cash. Equiv.	4,798	6,955	+45.0%
Total assets	92,792	88,982	(4.1%)
Equity	73,176	69,097	(5.6%)
Non-current liabilities	6,896	3,870	(43.9%)
- Long-term financial debt	2,883	-	n.m.
Current liabilities	12,720	16,015	+25.9%
- Short-term financial debt	141	3,061	n.m.
	Jan – Dec 2010	Jan – Dec 2011	<i>Change FY11/FY10</i>
Cash flow from operations	24,147	22,566	(6.5%)
Dividends received	3	5	+33.3%
Net interest and other financial expenses paid	(218)	(101)	(53.7%)
Payment for income tax	(2,193)	(1,938)	(11.6%)
Net cash from operating activities	21,739	20,532	(5.6%)
Proceeds on disposals of PPE and intangibles	224	601	n.m.
Payments on investments in PPE and intangibles	(5,539)	(6,116)	+10.4%
Net cash used in investing activities	(5,315)	(5,515)	+3.8%
Free cash flow	16,424	15,017	(8.6%)

03

2012 Outlook & Investor Guidance

2012 Outlook

- In **fixed BB**, to continue in **FTTx coverage expansion** including **FTTH rollout in greenfields** to **strengthening market position**
- In **mobile BB**, to further **expand 3G coverage** and **enhance network capabilities** (including backhaul) & **bid for LTE license** to **deploy 4G network**
- To execute **Customer Value management** in all segments to **mitigate churn & ARPU pressures**
- To **exploit opportunities** in standard **ICT services** to **generate sustainable revenues &** focus on **development of new revenue streams** (media, financial services)
- In **Slovakia**, to stay focused on **acquisition of higher value customers**, while **improving financials via lean operation**
- To **keep focusing on operational transformation**

2012 Investor Guidance

	2011 base	2012 Guidance
Business Revenues	-5.7% y-o-y	improving trend vs. 2011
OIBDA margin ¹⁾	43.7%	limited margin erosion y-o-y
CapEx ²⁾	CZK 5.6 bn.	up to CZK 6.2 bn. (flexibility to manage CapEx/Revenue evolution)

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 2011

²⁾ excluding business acquisitions

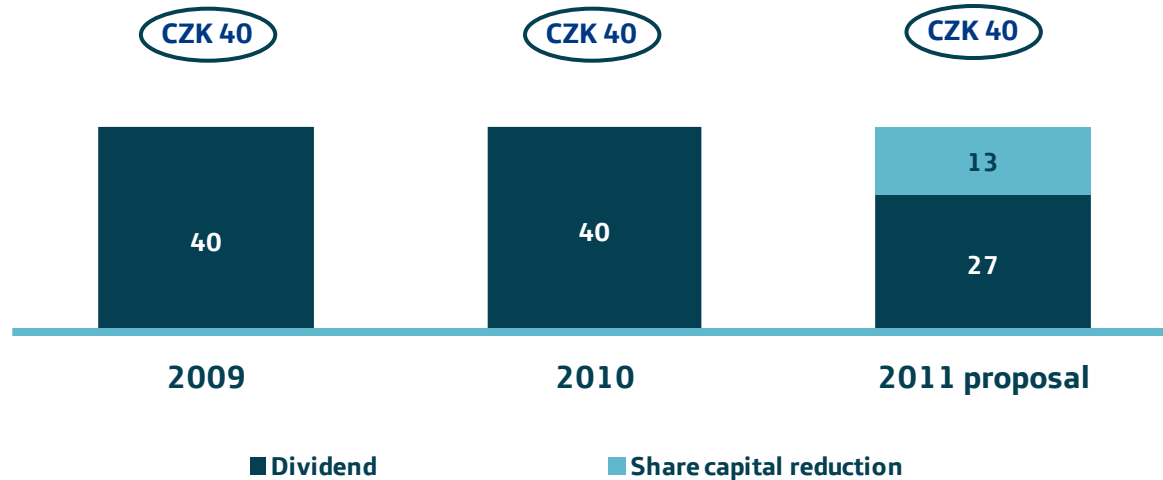
04

2011 Shareholder Remuneration Proposal

Shareholder Remuneration Proposal

Shareholder Remuneration History

(CZK per share, declared for the year)



2011 proposal to AGM

- Specific payment of CZK 12,884m, equal to CZK 40 cash per share, composed of:
 - CZK 27 ordinary dividend
 - CZK 13 share capital reduction (from current CZK 100)
- Implies ~ 11% yield
- Generic authorisation for potential share buy-back up to 10% of shares