

An aerial photograph of an airport, showing a large terminal building, multiple runways, taxiways, and surrounding green fields. The image is partially covered by a dark teal overlay in the top right corner.

## Corporate governance

04

The way of doing business  
is equally important for us  
as its results.

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# Corporate governance

04

## Corporate governance of the Telefónica Czech Republic Group

In terms of organisation, Telefónica CR is a part of Telefónica's European division (Telefónica Europe), which holds all companies that use the O2 commercial brand regardless of ownership relations. No significant changes occurred in the ownership structure of the Company; Telefónica S.A., holding a 69.41% stake, remains the majority shareholder.

Telefónica CR's ownership rights in its subsidiary companies are exercised by the Board of Directors. Personnel changes in the statutory and supervisory bodies of subsidiary companies and in companies in which Telefónica CR holds an ownership interest (in positions occupied by the Company's representatives) are approved by the Board of Directors of the Company and, in accordance with the Articles of Association, they are also subject to a prior approval by the Supervisory Board of the Company, whose decisions are made in consideration of the opinion given by the Nomination and Remuneration Committee.

## Subsidiaries, associates and other ownership interests (as at 31 January 2012)

The structure and number of companies in the Telefónica Czech Republic Group changed in 2011 from the situation described in the 2010 Annual Report and the 2011 Half-year Report. Below are the changes that occurred in the reported period:

- The subsidiary company Telefónica O2 Slovakia, s.r.o., changed its name in connection with the change of the name of the parent company, and with effect from 10 May 2011 became registered under the company name of Telefónica Slovakia, s.r.o.;
- In June 2011, the Board of Directors approved the plan to transform the subsidiary company Telefónica O2 Business Solutions, spol. s r.o., by demerger which resulted in a spin-off of some assets of the demerged company into a newly incorporated subsidiary Internethome, s.r.o.;
- The newly incorporated subsidiary company Internethome, s.r.o., was registered in the Commercial Register on 1 October 2011, with the registered business of provision of electronic communication services;
- On 16 December 2011, the Board of Directors decided to incorporate a new subsidiary company Informační linky, a.s., which was founded by way of a contribution of a part of the assets of the organisation unit Information and Assistance Services, which operates directory and assistance services on the numbers 1180, 1181 and 1188; the company was incorporated as of 1 January 2012 by registration in the Commercial Register by the Commercial Court.

Company name	Registered/share capital		Telefónica CR's share
Telefónica Slovakia, s.r.o.	EUR	240,000,000	100 %
Telefónica O2 Business Solutions, spol. s r.o.	CZK	10,000,000	100 %
CZECH TELECOM Austria GmbH	EUR	35,000	100 %
CZECH TELECOM Germany GmbH	EUR	25,000	100 %
První certifikační autorita, a.s.	CZK	20,000,000	23,25 %
AUGUSTUS, spol. s r.o. <sup>1</sup>	CZK	166,000	39,76 %
MOPET CZ a.s.	CZK	104,000,000	14 %
Internethome, s.r.o.	CZK	200,000	100 %
Informační linky, a.s.	CZK	150,000,000	100 %
Tesco Mobile Slovakia, s.r.o. <sup>2</sup>	EUR	5,000	50 %

<sup>1</sup> Telefónica CR does not control this company.

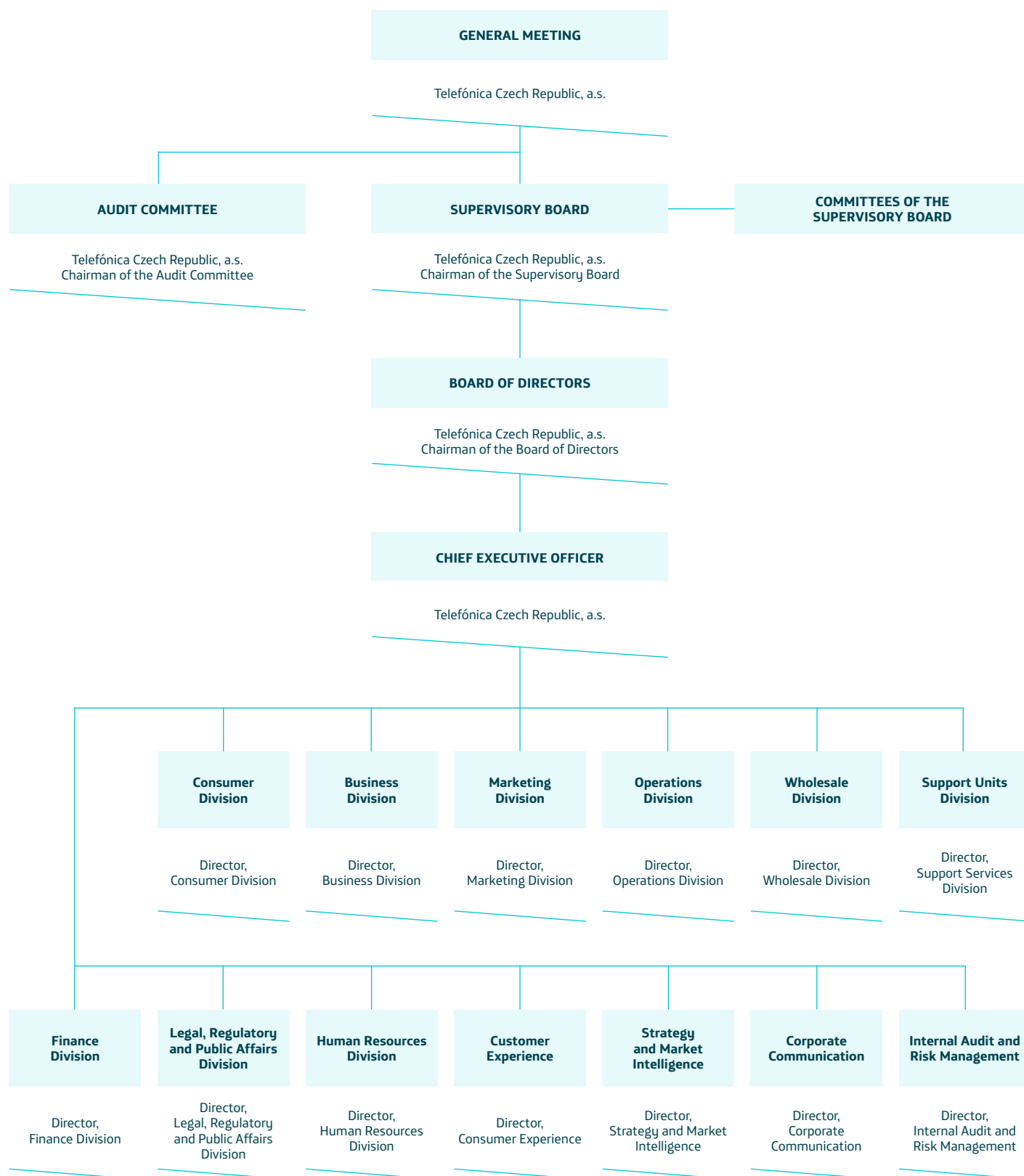
<sup>2</sup> Owned through the subsidiary Telefónica Slovakia, s.r.o.

## The organisation of Telefónica CR

No principal changes occurred in the organisation structure of the Company in 2011 from the situation described in the 2010 Annual Report and the 2011 Half-year Report.



## Executive macrostructure of Telefónica Czech Republic (as at 31 January 2012)



## Governing bodies (as at 31 January 2012)

### General Meeting

The General Meeting is the supreme governing body of the Company in matters related to its business, organisation and operations. The General Meeting is called by the Board of Directors at least once a year, to take place within six months from the last day of the accounting period. It is convened by way of a written invitation sent to all shareholders no later than 30 days prior to the date of the General Meeting. The General Meeting constitutes a quorum if shareholders holding shares or equivalent securities with the nominal value exceeding a half of the share capital of the Company are present. Voting is by ballot signed by the voter. The General Meeting decides by a simple majority of votes present; any changes to the Articles of Association are decided by a two-thirds majority of all votes present.

The General Meeting has the exclusive authority to:

- approve the Rules of Procedure of the General Meeting;
- decide on amendments to these Articles of Association, unless any change which occurred under any other legal circumstances is involved;
- decide on an increase of the share capital or on the authorisation of the Board of Directors pursuant to Art. 210 of the Commercial Code (i.e. on the authorisation of the Board of Directors to decide on an increase of the share capital) or on the option to offset monetary receivable due from the Company against receivable of payment of the subscription price of shares;
- decide on the reduction of the share capital;
- decide on issue of bonds, where the decision by the General Meeting is required by the Commercial Code;
- decide to wind up the Company with liquidation, appoint and dismiss the liquidator, including determination of the amount of his/her remuneration, approve proposed distribution of the liquidation balance;
- decide on transformation of the Company, unless the law stipulates that the Board of Directors is authorized to make such decision;
- decide on a change in class of shares and any change in the rights attached to individual classes of shares;
- decide on changes in type and form of shares;
- elect and dismiss the members of the Supervisory Board, except for the members of the Supervisory Board elected by employees pursuant to the provisions of Art. 200 of the Commercial Code;
- approve regular and extraordinary financial statements and consolidated financial statements and, in cases set forth by law, also interim financial statements, decide upon the distribution of profits or other own resources or cover of losses, determine the amount and payment date of royalties, and the amount and payment date of dividends, and approve rules for usage of undistributed profits;
- decide to increase the Reserve Fund;
- discuss a Board of Directors' annual report on the Company's business activity, and on the situation of the Company's assets as part of the annual report according to Act No. 563/1991 Coll. on Accounting as amended (hereinafter referred to as the „Act No. 563/1991 Coll.“);
- approve agreements set forth in Art. 67a of the Commercial Code;
- decide on the establishment and the use of other funds created from profits;
- decide on approval of the rules of remuneration to members of the Board of Directors, the Supervisory Board and the Audit Committee and stipulation of remuneration to members of the Board of Directors, the Supervisory Board and the Audit Committee and maturity thereof;

- decide on approval of control agreements, profit transfer agreements and silent partnership agreements and changes thereto, if the Company concludes such agreements;
- decide on approval of agreements on the performance of the office of members of the Supervisory Board and the rules for provision of non-claim perquisites to members of the Supervisory Board of the Company;
- decide on determination of an auditor to carry out mandatory audits or to audit other documents where the determination is required by law;
- elect and dismiss of the members of Audit Committee;
- decide on approval of agreements on the performance of the office of members of the Audit Committee and the rules for provision of non-claim perquisites to members of the Audit Committee; and
- decide on approval of financial assistance if such approval is required by law.

## Audit Committee

The Audit Committee has five members and it is an autonomous body of the Company. Members of the Audit Committee are elected and recalled by the Company's General Meeting. They may be elected from the members of the Supervisory Board or from persons external to the Company. The Audit Committee members are elected for a period of five years and may be re-elected. The General Meeting may also elect up to 5 substitute members of the Audit Committee, designating the order of their succession. The Audit Committee meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. The Audit Committee has a quorum if a simple majority of its members is present at the meeting.

The Audit Committee has the particular authority to:

- monitor the process of compilation of the financial statements and the consolidated financial statements;
- evaluate the effectiveness of the Company's internal controls, internal audit and risk management system;
- monitor the process of the statutory audit of the financial statements and the consolidated financial statements;
- review the independence of the statutory auditor and the audit firm, and the provision of non-audit services to the Company by the audit firm;
- recommend an auditor;
- receive from and discuss with the auditor all and any information, declarations and communications as per the applicable laws.

## Supervisory Board

The Supervisory Board is a supervisory body of the Company. It has fifteen members. It supervises the discharge of the powers by the Board of Directors in managing the business of the Company. The Supervisory Board meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. Two thirds of the Supervisory Board members are elected and recalled by the General Meeting; one third of the Supervisory Board members are elected and recalled by employees of the Company. Members of the Supervisory Board are elected for tenure of five years. The Supervisory Board has a quorum if a simple majority of its members is present at the meeting.

The Supervisory Board has the particular authority to:

- review the regular, extraordinary and consolidated or, as the case may be, interim financial statements and proposals for distribution of profits or the other Company's resources or for coverage of losses, and to submit its standpoint to the General Meeting;
- elect and recall members of the Board of Directors;
- approve agreements on the performance of the office of members of the Board of Directors in compliance with the provisions of Art. 194 (1) of the Commercial Code;
- decide on approval of the rules for provision of non-claim perquisites to members of the Board of Directors of the Company in compliance with the provisions of Art. 194 (1) of the Commercial Code;
- convene the extraordinary General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting;
- submit to the General Meeting and to the Board of Directors its standpoints, recommendations, proposals and results of its inspection activities;
- review the exercise of the powers of the Board of Directors, based on the request of the shareholders who have shares which nominal value amounts to at least 3% of the registered capital, in respect of the matters determined in the application;
- based on the request of the shareholders who have shares which nominal value amounts to at least 3% of the registered capital, claim the right for compensation of damage incurred by the Company vis-à-vis a member of the Board of Directors;
- decide on issues concerning remuneration and other benefits for Board of Directors members insofar as stipulated by law, Articles of Association, individual agreements on the performance of the office of the Board of Directors members or rules approved by the General Meeting;
- decide on issues concerning remuneration and other benefits for Supervisory Board or Audit Committee members insofar as stipulated by law, Articles of Association, individual agreements on the performance of office or rules approved by the General Meeting;
- review Board of Directors report under Art. 66a (9) of the Commercial Code; to inform the General Meeting of the review of this report and to submit its standpoint to the General Meeting.

The Supervisory Board gives to the Board of Directors its prior consent in matters related to the issuing of shares or other debt instruments; intra-group cooperation agreements; investments in or disposal of ownership interests in other companies that involve more than one quarter of the equity capital; more than ten percent of the Company's employees; transformation of the Company; personnel changes in the bodies of subsidiary companies; conclusion of agreements on the transfer of assets; disposal of property exceeding one quarter of equity; and the appointment of the Company Secretary.

Under its powers, the Supervisory Board sets up committees as its advisory and initiative bodies. Committees of the Supervisory Board are an inherent part of corporate governance. The Supervisory Board always institutes a Nomination and Remuneration Committee.

Members of Supervisory Board committees are elected and recalled by the Supervisory Board. The tenure of a member of a Supervisory Board committee is 2.5 years. Committees established by the Supervisory Board can comprise only the members of the Supervisory Board.

## Board of Directors

The seven-member Board of Directors is a statutory body that manages the business of the Company and acts on its behalf. The Board of Directors decides on all corporate affairs which, by law or the

Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As a rule, the Board of Directors meets once every calendar month, but at least 12 times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is 5 years. The Board of Directors has a quorum if a simple majority of its members is present at the meeting.

The Board of Directors has the particular authority to:

- secure the business activities and ensure the operational management of the Company;
- approve the Rules of Procedure of the Board of Directors;
- execute the rights of employer;
- convene the General Meeting;
- ensure the preparation and submit to the General Meeting for discussion the matters coming under the authority of the General Meeting;
- implement the General Meeting resolutions in accordance with law and the Articles of Association;
- ensure due and proper keeping of accounts and Company documents, in line with legal regulations applicable;
- submit to the Supervisory Board for review the Company's regular, extraordinary or, as the case may be, interim financial statement, always in its consolidated as well as unconsolidated form, and the proposal for distribution of profit or the other Company's resources or for coverage of losses and the report by the Board of Directors pursuant to the provisions of Art. 66a (9) of the Commercial Code;
- decide on the conclusion of agreements establishing business companies and cooperatives, agreements establishing associations or interest groups, and on capital investment in business companies or cooperatives; on acquisition, cessation, and alienation of participations in other business companies or cooperatives, without limitation to having their registered office in the Czech Republic;
- use the undistributed profits in accordance with the principles set forth by the General Meeting;
- decide on use of the Funds of the Company in accordance with the principles set forth by the General Meeting;
- prepare the report of the Board of Directors on the business activity of the Company and on its property in accordance with the provisions of Art. 192 (2) of the Commercial Code, annual report according to the provisions of Art. 21 of the Act No. 563/1991 Coll., the provisions of Art. 118 of the Act No. 256/2004 Coll., including the report by the Board of Directors pursuant to the provisions of Art. 66a (9) of the Commercial Code, semi-annual report pursuant to the provisions of Art. 119 of the Act No. 256/2004 Coll., interim report or equivalent quarterly information in accordance with the provisions of Art. 119a of Act No. 256/2004 Coll. and a summary explanatory report pursuant to the provisions of Art. 118 (8) of Act No. 256/2004 Coll.;
- determine the course of business policy;
- stipulate principles for the collective agreement;
- decide on use of the Reserve Fund;
- grant and withdraw the power of proxy;
- organize, in compliance with the Commercial Code, election or dismissal of members of the Supervisory Board by the employees and to approve the election rules for such election or dismissal;
- stipulate the rules for the creation and use of the Social Fund on the basis of collective bargaining;
- enter into an agreement on mandatory audit or, if applicable, on other services to be rendered with the auditor;
- discuss the audit report with the auditor.



## Board of Directors (as at 31 January 2012)



Luis Antonio Malvido (\*1964)

### Chairman

Graduated in Industrial Engineering at the Instituto Tecnológico de Buenos Aires. Joined Telefónica in the late 1980s during the privatisation process as a member of a team for the valuation of the target company. Afterwards he worked in various positions in customer service, sales, business development and strategic planning in Telefónica. In June 1998 he was appointed Vice President and Chief Executive Director at Telefónica Móviles Argentina, Unifón, where he was responsible for the start-up of the company, its merger with another regional operator and for the establishment of a nation-wide mobile operator. From January 2005 he was President and Chief Executive Director of Telefónica Venezuela, Movistar and later he became a President of the Quality Committee in Latin America. From January 2008 he was Chief Executive Director at TeleSP, the Telefónica fixed subsidiary in Brazil. In February 2010 he was appointed Chief Executive Officer and Chairman of the Board of Directors of Telefónica Czech Republic.



Jesús Pérez de Uriguen (\*1970)

### 1st Vice-chairman

Graduated in Business Administration at University of Maryland at College Park in 1992, with specialisation in Finance and Accounting, where he got his degree of Bachelor of Science in Business and Management. In 1993, he earned his MBA degree at Instituto de Empresa in Madrid. Before joining Telefónica Czech Republic he worked in Bank of America, Arthur Andersen, Jazz Telecom, S.A., and Telefónica Móviles, S.A. At these companies he gained extensive experience in the telecommunications and finance area – he was responsible for planning, management control, etc. Lastly, he worked in the position of CFO in Telefónica Centroamérica for nearly four years. He was member of the Board of Directors of Telefónica Moviles in Panamá, El Salvador, Nicaragua and Guatemala. Now he holds the position of Director, Finance Division and 1st Vice-chairman of the Board of Directors in Telefónica Czech Republic.



Petr Slováček (\*1959)

### 2nd Vice-chairman

Graduated from the Technical University, Prague, with a degree in telecommunications from the Faculty of Electro-technical Engineering. Also holds a postgraduate Master of Business Telecommunications (MBT) degree from the Technical University of Delft in the Netherlands. After graduation he joined the Telecommunications Research Institute, Prague, he joined SPT TELECOM (the legal predecessor of Telefónica Czech Republic) in 1989, working in switching, technical development, network management projects and OSS. In 2005–2007 he was Statutory Representative of the subsidiary Telefónica O2 Business Solutions. In June 2008 he was re-elected 2nd Vice-chairman of the Board of Directors of Telefónica Czech Republic. He currently holds the position of Director, Operations Division.



## Martin Bek (\*1969)

### Member

Studied foreign trade at the University of Economics, Prague, and completed his studies at the European Business School, Paris, where he majored in Finance. He worked various French companies: ABC International, DRT International and later Guérard Viala Prague as senior consultant and tax advisor. From 1996, he worked at ČESKÝ TELECOM (the legal predecessor of Telefónica Czech Republic) as Director for Tax and Accounting, later as Executive Director for Planning and Controlling. In April 2004 he was appointed Statutory Representative of Eurotel Praha, spol. s r.o. (the legal predecessor of Telefónica Czech Republic) and since September 2004 he has been Eurotel's Chief Operating Officer. Now he holds the position Director, Division Support Services in Telefónica Czech Republic. He acts as Statutory Representative in Telefónica O2 Business Solutions, NOVELLO and is a member of the Board of Trustees of the O2 Foundation.



## Jakub Chytil (\*1961)

### Member

Graduated from the Faculty of Law, Charles University, Prague, where he got his JUDr. degree. In 1991–1995, he was a junior associate and, later on, an attorney specialising in commercial and civil law, working with international law firms. In 1995–2000, he was a Legal Counsel for the Czech and Slovak Republic at Philip Morris ČR and Kraft Foods. In 2000–2003, he was the Senior Counsel of Philip Morris International, Lausanne, Switzerland, where he was responsible for the legal affairs of Philip Morris International's subsidiaries in various countries. Since his arrival to ČESKÝ TELECOM (the legal predecessor of Telefónica Czech Republic) in December 2003 he has been in the position of Director, Legal Affairs, and from 2010 he is Director, Legal and Regulatory and Public Affairs. From May 2006 he has been the Company Secretary and he is also a member of the Board of Trustees of the O2 Foundation..



## John Gerald McGuigan (\*1960)

### Member

Before joining O2, John was the Chief Executive and executive board member of NHS24, a telephone triage service for Scotland and held this position for 2 years. He joined Telefónica O2 UK in 2007 and was General Manager for the consumer segment in three sites: Glasgow, Preston Brook and Bury. From 2009 to 2011 he was Chief Executive Officer of Telefónica Slovakia. In November 2011 he moved to Telefónica Germany as Managing Director for Sales and Customer Service. From 2010 he is a statutory representative of Tesco Mobile Slovakia.



## František Schneider (\*1967)

### Member

He graduated in Artificial Intelligence at the University of West Bohemia, Pilsen, and went on to start his professional career in Vikomt CZ. From 1997 he worked in Dell Computer, where started as Director for Sales to Small and Medium Enterprises, Czech and Slovak markets. In 2001 he became Business Development Manager for Eastern Europe, Middle East and Africa, where he managed development projects aimed at effective capture of the corporate market. This job took him also to Israel, Turkey, Saudi Arabia, United Arab Emirates and Russia. In 2003 he went to Greece to manage the start-up of a new branch for which he also designed a medium-term business development plan. From May 2004 he was managing director for the Czech and Slovak markets and Statutory Representative of Dell Computer. He joined Telefónica Czech Republic in April 2008 as Executive Director, Corporate Sales, and presently holds the position of Director, Business Division. In 2007–2011 he was a member of the board of trustees of the endowment fund Srdce na dlani.

Overview of membership in the Board of Directors of Telefónica CR as at 31 January 2012

Name	Position	Member since
Luis Antonio Malvido	Chairman of the Board of Directors	1 February 2010
Jesús Pérez de Uriguen	1st Vice-chairman of the Board of Directors	1 May 2008
Petr Slováček	2nd Vice-chairman of the Board of Directors	14 June 2008
Martin Bek	Member of the Board of Directors	27 April 2006 re-elected by the Supervisory Board on 18 February 2011 (with effect from 28 April 2011)
John Gerald McGuigan	Member of the Board of Directors	27 October 2009
Jakub Chytil	Member of the Board of Directors	26 April 2006 re-elected by the Supervisory Board on 18 February 2011 (with effect from 28 April 2011)
František Schneider	Member of the Board of Directors	4 November 2010

## Executive management (as at 15 March 2011)

Listed below are the executive managers of the Company:

Luis Antonio Malvido (\*1964)

Chief Executive Officer

(résumé in section Board of Directors)

Jesús Pérez de Uriguen (\*1970)

Director, Finance Division

(résumé in section Board of Directors)

Petr Slováček (\*1959)

Director, Operations Division

(résumé in section Board of Directors)

Martin Bek (\*1969)

Director, Support Units

(résumé in section Board of Directors)

Jakub Chytil (\*1961)

Director, Legal, Regulatory and Public Affairs,

Company Secretary

(résumé in section Board of Directors)

František Schneider (\*1967)

Director, Business Division

(résumé in section Board of Directors)



### Jiří Dvorjančanský (\*1969) Director, Marketing Division

Jiří Dvorjančanský graduated from the Czech Technical University in Prague and also holds a D.E.A. degree from National Polytechnique Institut in Grenoble, France. He subsequently earned his MBA in the executive MBA programme at Thunderbird School of Global Management in Prague. He joined Telefónica Czech Republic from Deutsche Telekom Group where he worked for 11 years in various executive positions in the field of sales and marketing. He was also Executive Director, Marketing Division at T-Mobile Czech Republic; he was later promoted to the same top executive position in T-Mobile Germany. His international experience also includes membership in the Supervisory Board of T-Mobile UK and a standing membership in the International Marketing Board of T-Mobile Group. Jiří Dvorjančanský joined Deutsche Telekom from the position of Sales Director at COTY.



### Dana Dvořáková (\*1965) Director, Corporate Communication

Graduate from the University of Economics, Prague; completed her postgraduate education in Corporate Communication at the Erasmus University, Rotterdam and earned her MBA from the University of Pittsburgh in the United States. She started her professional career as a journalist writing about the economy for Hospodářské noviny and MF Dnes, later she managed public relations and marketing in large corporations (Český Telecom, Všeobecná úvěrová banka, ČSA and Unipetrol). In 2009 she was recognised as PR Manager of the Year by the Association of Czech PR Agencies. In May 2011 Dana Dvořáková was appointed Director, Corporate Communication in Telefónica Czech Republic. She is responsible for corporate communication, CSR and the O2 Foundation.



### Ctirad Lolek (\*1973) Director, Human Resources

Ctirad Lolek is a graduate of the Palacký University in Olomouc where he studied sociology and andragogy with a specialisation in HR management. After graduation he worked in several positions in human resources for multinational companies such as Kapa Karton Morava and EPCOS. In 2001 he was appointed HR director for The Timken Company, where he oversaw the start-up of a new plant in the Czech Republic; later he managed HR activities in Central and Eastern Europe. In 2008 he joined ArcelorMittal Ostrava as HR Director – he was responsible for HR strategy and management, served on the Board of Directors and, after two and half years started as HR Director of the Luxembourg-based division ArcelorMittal Long Carbon Europe. He joined Telefónica Czech Republic in 2011 as Director, Human Resources Division. In this position he is responsible for the management of human resources in the Czech Republic and in Slovakia. He is a member of the board of the health insurance fund Metal-Alliance.





## Luis Aldo Martin (\*1962) Director, Consumer Division

Luis Aldo Martin graduated in Construction Engineering from Universidad Católica Argentina in 1987. Later he continued with his postgraduate studies at Universidad de Ciencias Empresariales y Sociales which he completed in 1997 with a Masters degree in Marketing and Strategic Management. Before joining Telefónica, he worked for 12 years for ESSO S.A. Petrolera Argentina. In this multinational oil and gas company he progressed through various positions and areas, including retail, project management, sales coordinator supervisor, retail director, retail business development director, etc. Later he worked for two years in Tambos San Isidro Labrador S.A., which produced ice cream and operated zoological gardens, where he, as retail project director, succeeded in expanding substantially the retail network, improving the quality of products and enhancing customer experience. He also successfully managed a project of development of the Temaiken zoo. Luis Aldo Martin joined Telefónica in 2000 in the department of channel partners in Telefónica Móviles Argentina S.A. and its Movistar brand. In this position he built and managed a network of 1,400 points of sale across Argentina. In 2006–2008 he worked as Operations Director for Norte region in Argentina. Before coming to the Czech Republic he managed sales and distribution, including direct and partner channels in the region and the country. In the last five years he was not a member of any other governing, executive or supervisory bodies outsider Telefónica Czech Republic.

## Report by the Supervisory Board of Telefónica Czech Republic



In keeping with the Company's Articles of Association, the Supervisory Board of Telefónica Czech Republic in 2011 supervised the discharge of the Board of Directors' powers and the running of the Company's business. Supervisory Board members have the power to inspect all documents and records concerning the Company's activities; check whether the accounting records are kept to reflect the reality; determine whether the business of Telefónica Czech Republic is done in compliance with the law, Articles of Association and instructions of the General Meeting.

The Supervisory Board continuously monitored the activities of Telefónica Czech Republic and key decisions made by the Board of Directors and the management. Further, the Supervisory Board addressed the suggestions raised by its committees and its members individually. Board of Directors and the management provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the legislation and the Articles of Association. The Supervisory Board worked in close contact with the Audit Committee of Telefónica Czech Republic regarding all principal matters falling to the authority of both the governing bodies.

At the meeting held on 17 February 2012, the Supervisory Board reviewed the audited annual financial statements for the year 2011 (unconsolidated and consolidated) prepared in accordance with the International Financial Reporting Standards. The Supervisory Board also reviewed the Board of Director's proposal for the distribution of profit for the year 2011 and of the retained earnings of the Company, and, as the case may be, any disposable funds of the Company, and the determination of royalties for the year 2011. In both instances, the Supervisory Board issued a recommendation to the General Meeting of the Company to approve the proposals.

In Prague, 17 February 2012

A handwritten signature in blue ink, consisting of a stylized, cursive script that appears to read 'José María Álvarez-Pallete López'.

José María Álvarez-Pallete López  
Chairman of the Supervisory Board

## Supervisory Board (as at 31 January 2012)



### José María Álvarez-Pallete López (\*1963) Chairman

Mr. Álvarez-Pallete has a degree in Economics from the Complutense University of Madrid. He also studied Economics at the Free University of Brussels, in Belgium, holds an international Management Programme from IPADE and an Advance Research Degree from the Complutense University of Madrid. In February 1999 he joined the Telefónica Group as a General Manager of Finance for Telefónica Internacional, S.A. In September of the same year it was given the post of General Manager of Corporate Finance in Telefónica, S.A. In July 2002 he was appointed Chairman and CEO of Telefónica Internacional, S.A. In July 2006, Managing Director of Telefónica Latin America and Chairman, and in March 2009, CEO of Telefónica Latin America. From 5 September 2011 he serves as Chairman and CEO of Telefónica Europe and Member of the Board of Telefónica, S.A., position that holds from July 2006. He is also one of Members of the Telefónica Executive Committee. He began his professional career with Auditors Arthur Young in 1987, before joining Benito & Monjardín / Kidder, Peabody & Co. in 1988. After this, in 1995, he joined the Company of Cementos Portland (Cemex) as head of the Investor Relations and Studies Department. In 1996, he was promoted to Financial Manager for Spain and in 1998, to General Manager for Administration and Finance responsible for the Cemex Group's interests in Indonesia and member of the Board of Cemex Asia, Ltd. In 2001, he won the CFO Europe Best Practice Award in the category of Mergers and Acquisitions 2000 by the CFO Europe Magazine (The Economist Group). He is also Honorary Member of Carlos III Foundation Latin-American Forum since April 2003 and in July 2007, he won the 'Forum de Alta Dirección' Golden Master. The 4th of October 2011, he was awarded as the Best Business Leader 2011 by El Economista.



### María Eva Castillo Sanz (\*1962) 1st Vice-chairman

Eva Castillo led the Global Wealth Management business of Bank of America Merrill Lynch in Europe, Middle East and Africa (EMEA) from 2006 to 2009, having held a number of other senior positions in Merrill Lynch from 1997, including head of Global Markets and Investment Banking in Iberia and President of Merrill Lynch Spain and, before that, as Chief Operating Officer for Merrill Lynch EMEA Equity Markets. Previously she had worked for the International Equities division of Goldman Sachs in London between 1992 and 1997. Her career in the financial services industry began at the Spanish broker Beta Capital in Madrid, where she worked from 1988 until 1992. She has been a non-executive director of Telefónica, S.A., since the beginning of 2008 and She serves as non-executive director of Old Mutual plc since February 2011. She has a Bachelor of Arts in Business and Law from the Universidad Pontificia de Comillas – ICADE E3 in Madrid.



## Lubomír Vinduška (\*1956)

### 2nd Vice-chairman

Graduated in radio communications from the Secondary School of Electrical Engineering. In 1974–1979 he worked as a TV repairman and later as an electrical technician at Okresní kovopodnik Praha-východ (Prague-East Regional Metal Works), then at TESLA Strašnice and Czechoslovak Radio. He has been with Telefónica Czech Republic and its legal predecessors since 1979. He worked as an energy operations foreman, head of energy operations and head of territorial transport and mechanisation, Prague. At present he holds the position of Transport and Mechanisation Specialist. He is Deputy Chairman for Telecommunications of the Post, Telecommunications and Newspaper Services Employees Trade Union, Deputy Chairman of the Trade Union Steering Committee at Telefónica Czech Republic and Chairman of the Prague Trade Union Steering Committee. In 2005 and 2009 he completed courses in International Financial Reporting Standards and financial relations within a group of companies. In the last five years he was not a member of any other governing, executive or supervisory bodies outside Telefónica Czech Republic.



## Antonio Botas Bañuelos (\*1963)

### Member

Antonio Botas earned his Bachelor degree at Universidad Complutense in law and a Masters degree in Economics and Business Administration (MBA) at IESE in Barcelona. He has twenty years of experience in management, operative and strategic marketing and co-ordination of large multinational teams, and he has worked in international markets, namely those in the Americas and Europe. He worked as Marketing Manager in Royal Insurance, which he joined after leaving Johnson & Johnson. He joined the Telefónica Group in 1995 and he worked for Telefónica Publicidad e Informacion, Doubleclick Iberoamérica, Terra and Terra Lycos in positions ranging from Chief Sales and Marketing Officer to Executive Vice President for New Business. From 2005 until August 2007 he worked as Chief Transformation and Convergence Officer in Telefónica Czech Republic. From September 2007 he serves as Managing Director Product Development & Brand Management at Telefónica Germany GmbH & Co. OHG. He has been a member of the Supervisory Board of Telefónica Czech Republic since April 2008. From 2010 he has served as Director of International Coordination Global Marketing in Telefónica, S.A.



## Patricia Cobian Gonzalez (\*1975)

### Member

Patricia Cobian is Business Development Director for Telefónica Europe, in charge of strategic initiatives, new business opportunities and the coordination with Telefónica Digital and Telefónica Global Resources. Prior to that she was Business Manager for Telefónica Europe's Chairman and CEO. She joined the Telefónica Group in 2006 as Vice President for Strategy and Development for O2 Group. Prior to joining the Telefónica Group, Patricia spent seven years with McKinsey & Company, where she was a member of the Telecommunications and Corporate Finance practices in the Madrid, New York and London offices. She started her career at Hewlett-Packard in the Financial Services Division. Patricia holds a MSc. in Industrial Engineering from Universidad Pontificia Comillas – ICAI, Madrid.



## Vladimír Dlouhý (\*1953)

### Member

Graduated from the University of Economics in Prague; in 1977–1978 he also studied at the Catholic University in Leuven, Belgium. In 1980–1982 he got his postgraduate degree in Probability and Mathematical Statistics from the Charles University in Prague, where he worked as research assistant at the Department of Econometrics after he completed his undergraduate studies at the University of Economics. In 1984 he was one of the founding members of the Forecasting Institute of the Czechoslovak Academy of Sciences, where he worked first as a researcher and finally as deputy director. In 1989–1992 he was Minister for Economy of the Czech and Slovak Federal Republic; from 1992 until June 1997 he was Minister of Industry and Trade of the Czech Republic. He was a member, and later deputy chairman of the Civic Democratic Alliance and member of the Czech parliament. From 1997 until the present he works as an international consultant for the investment bank Goldman Sachs; in 1998–2010 he consulted for ABB. He presently serves also as Chairman at Chayton Capital (London), Meridiam Infrastructure (Paris) and holds membership in the board of directors at KSK Power Ventur in Hyderabad (India). In 2000 he started teaching at the Faculty of Social Sciences, Charles University in Prague, and in 2004–2010 he taught at the University of Economics in Prague, also serves as a member of the scientific council of the Faculty of the National Economy. He is also a member of the supervisory Board at the Illinois Institute of Technology in Chicago, deputy chairman of the Trilateral European Group and a member of the European group of advisors to the International Monetary Fund. He authored many research and popular papers and he speaks English, Spanish, Russian, German and French.



## Tomáš Fírbach (\*1976)

### Member

Graduated in Management and Economics in Transportation from the Czech Technical University, Faculty of Transportation. After his graduation in 1999 he worked in JSJ as information systems manager. In 2001 he joined Eurotel Praha (the legal predecessor of Telefónica Czech Republic) as network planning specialist. In 2004–2005 we worked in ČD Telekomunikace (presently ČD Telematika, a.s.) as business consultant. He has been with Telefónica Czech Republic since 2005, presently in the position of Senior Key Account Manager. In the last five years he was not a member of any other governing, executive or supervisory bodies outsider Telefónica Czech Republic.





## Petr Gazda (\*1965)

### Member

Graduated in Economics and Management from the Business College Ostrava. He has been with Telefónica Czech Republic (and its legal predecessors) since 1991; he presently works as Network Operations Director. Previously: 1991–2006 Eurotel Praha; 1988–1991 ČESKÝ TELECOM; 1986–1988 AŽD Praha, specialist; 1983–1984 AŽD Praha, electrical engineer. In the last five years he was not a member of any other governing, executive or supervisory bodies outside Telefónica Czech Republic.



## Pavel Herštlík (\*1951)

### Member

Graduated in communication technology from the Secondary Technology School of Electrotechnical Engineering. In 1972, he started working as a telephone test centre technician in Ředitelství telekomunikací Praha (Telecommunications Headquarters, Prague). For the next 20 years (1975–1995), he worked in the field of work procedure planning, evaluation and work efficiency measurement. From 1995 to 2005, he was Head of Information Management and went on to become Head of the Management, Organisation and Administration Department. At present, he is Senior Specialist in the area of management and administration of management documents. In 2005 and 2009 he completed courses in international accounting standards and intra-holding relationships. In 2007 he was certified under the National Certification Programme for Corporate Ethics and Culture. He is Chairman of the Trade Union Steering Committee of Telefónica Czech Republic. In the last five years he was not a member of any other governing, executive or supervisory bodies outside Telefónica Czech Republic.



## Maria Pilar López Álvarez (\*1970)

### Member

A graduate of Business Studies, she joined Telefónica after working for several years at JP Morgan in London and New York where she worked her way up to Vice President. She joined the Telefónica Group 1999 in Telefónica de España's Strategic Planning Department. In May 2000 she was appointed Director of Management Control at Telefónica, S.A. Two years later she joined Telefónica Móviles S.A. to head up its Management Control function. In October 2006 she was promoted to Director of Strategy and Business Development at Telefónica de España. On 1 March 2007 she was appointed Chief Financial Officer of Telefónica Europe plc (now Telefónica Europe plc). She serves on the board of Telefónica Europe.



## Enrique Medina Malo (\*1972)

### Member

Holds a law degree from Carlos III University of Madrid and was admitted to the Spanish Government Legal Services in 1997. From 2002 to 2004 he was appointed General Director for Legislation of the Ministry of Science & Technology. He has been Chief Legal Officer of the Spanish Broadcasting Corporation. Until 2006, he served as State Lawyer for the Public Administration, Ministry of Science and Technology, Ministry of Industry and Energy and the High Court of Cataluña. He joined Telefónica on 2006, as Public Law Manager and afterwards Telecommunications and Information Society Legal Affairs Manager being the responsible of regulation and competition legal issues. On 2008 he was appointed Chief Legal Officer of Telefónica, S.A., reporting to the Group's General Counsel. From September 2011 until the present he has held the position of General Counsel of Telefónica Europe. He serves on the board of Telefónica Europe.



## Dušan Stareček (\*1956)

### Member

Qualified in Electronic and Electrical Technology at the Technical and Engineering Secondary School in Rožnov p. Radhoštěm. In 1975, he started work as a technician at Long-distance Cables Administration, Prague (the legal predecessor of ČESKÝ TELECOM). In 1992, he was promoted to the position of Head of External Maintenance in the Transmission Technology Unit (the legal predecessor of Telefónica Czech Republic). At present, he works as Specialist for Operation and Maintenance of Digital Telecommunications Technology in Ostrava. He is Chairman of KOV MORAVA and member of EWC (European Works Council) at Telefónica Europe plc. He serves as Vice-chairman of the Ethics and Corporate Social Responsibility Committee of Telefónica Czech Republic. In the last five years he was not a member of any other governing, executive or supervisory bodies outside Telefónica Czech Republic.



## Ángel Vilá Boix (\*1964)

### Member

He is General Manager for Finance and Corporate Development and member of the Executive Committee at Telefónica, S.A. Mr Vilá joined Telefónica in 1997 as Group Controller, moving on to become CFO of Telefónica Internacional, where he led the Telebras privatisation team. In 2000, he was appointed Group Head of Corporate Development. In this position, he executed landmark corporate acquisitions such as O2 plc and Brasilcel/Vivo and took part in the initial investment of Telefónica in China Netcom. Other significant transactions would include Telco SpA and Český Telecom, as well as the disposals of Airwave and TPI. From 2010, Mr. Vilá also oversaw the Affiliates group, comprising Atento, T- Gestiona and Telefónica Contenidos. Prior to joining Telefónica, he held positions at Citigroup, McKinsey&Co, Ferrovial and Planeta. Ángel Vilá is member of the Board of Directors of Telco SpA (Italy), Telefónica Digital, Telefónica Contenidos, Telefónica Czech Republic and Digital Plus. He previously served on the Boards of BBVA, Endemol, Atento, CTC Chile and Terra Lycos, and the Advisory panel of Macquarie MEIF funds. Mr. Vilá graduated in Industrial Engineering from Universitat Politècnica de Catalunya and holds a MBA from Columbia University (New York).

## Overview of membership in the Supervisory Board of Telefónica CR as at 31 January 2012

Name	Position	Member since
José María Álvarez-Pallete Lopez	Chairman of the Supervisory Board	8 November 2011
María Eva Castillo Sanz	1st Vice-chairman of the Supervisory Board	7 May 2010
Lubomír Vinduška	2nd Vice-chairman of the Supervisory Board	29 June 2008
Antonio Botas Bañuelos	Member of the Supervisory Board	21 April 2008
Patricia Cobian Gonzalez	Member of the Supervisory Board	8 November 2011
Vladimír Dlouhý	Member of the Supervisory Board	Co-opted on 18 February 2011 Elected by the General Meeting on 28 April 2011
Tomáš Fírbach	Member of the Supervisory Board	29 June 2008
Petr Gazda	Member of the Supervisory Board	29 June 2008
Pavel Herštlík	Member of the Supervisory Board	29 June 2008
Maria Pilar López Álvarez	Member of the Supervisory Board	26 July 2007
Enrique Medina Malo	Member of the Supervisory Board	8 November 2011
Dušan Stareček	Member of the Supervisory Board	29 June 2008
Ángel Vilá Boix	Member of the Supervisory Board	23 June 2005 Re-elected by the General Meeting on 7 May 2010 (with effect from 24 June 2010)

All changes in the personnel composition in the Supervisory Board in 2011 were described in the 2010 Annual Report and in the 2011 Half-year Report.

In the second half of 2011 and in the period starting 1 January and ending 31 January 2012, the following changes occurred in the personnel composition of the Supervisory Board:

Alfonso Alonso Durán	resigned from membership and chairmanship in the Supervisory Board with effect from 8 November 2011
Eduardo Andres Julio Zaplana Hernández-Soro	resigned from membership in the Supervisory Board with effect from 8 November 2011
Anselmo Enriquez Linares	resigned from membership in the Supervisory Board with effect from 8 November 2011
Guillermo José Fernández Vidal	resigned from membership in the Supervisory Board with effect from 8 November 2011
Luis Lada Díaz	resigned from membership in the Supervisory Board with effect from 8 November 2011
José María Álvarez-Pallete Lopez	co-opted in the Supervisory Board and elected Chairman on 8 November 2011 pending confirmation at the next General Meeting
Patricia Cobian Gonzalez	co-opted in the Supervisory Board on 8 November 2011 pending confirmation at the next General Meeting
Enrique Medina Malo	co-opted in the Supervisory Board on 8 November 2011 pending confirmation at the next General Meeting

## Audit Committee (as at 31 January 2012)

María Eva Castillo Sanz (\*1962)

Chairman

(résumé in section Supervisory Board)

Maria Pilar López Álvarez (\*1970)

Vice-chairman

(résumé in section Supervisory Board)

Vladimír Dlouhý (\*1953)

Member

(résumé in section Supervisory Board)

Pavel Herštík (\*1951)

Member

(résumé in section Supervisory Board)

Jaime Smith Bastera (\*1965)

Member

Graduated in Economics and Business Administration (BA, Universidad Comercial Deusto, Spain) and holds an MA in Finance and Investments (Exeter University, UK). Before joining Telefónica, he worked in the financial sector for a Spanish brokerage firm, and for Banesto (BSCH Group) as Director for Global Equities in its fund management division. He joined the Telefónica Group in 1999 as Director for Financial Planning at Telefónica Internacional, and was promoted to Chief Financial Officer in December of the same year. In October 2000, he was appointed Controller of the Telefónica Group. From December 2002 he held the position of Chief Financial Officer of Telefónica de España. In June 2005 he was made Chief Executive Office and Chairman of the Board of Directors of ČESKÝ TELECOM (now Telefónica Czech Republic). In June 2007 he was promoted to Chief Executive Officer of Telefónica O2 Germany GmbH. Since June 2009 he was made Director of Subsidiaries and Industrial Alliances of Telefónica, S.A. From October 2010 he is Director of Telefónica Mobile Operations in Mexico, Central America and Venezuela. From 2006 to 2009 he was also a member of the Board of Directors of Telefónica Europe plc. In 2006–2009 he served as Chairman of the Supervisory Board of Telefónica Czech Republic.



## Overview of membership in the Audit Committee of Telefónica CR as at 31 January 2012

Name	Position	Member since
María Eva Castillo Sanz	Chairman of the Audit Committee	7 May 2010
Maria Pilar López Álvarez	Vice-chairman of the Audit Committee	3 April 2009
Vladimír Dlouhý	Member of the Audit Committee	8 November 2011 (elected substitute member on 28 April 2011)
Pavel Herštík	Member of the Audit Committee	3 April 2009
Jaime Smith Bastera	Member of the Audit Committee	3 April 2009

All changes in the personnel composition in the Audit Committee in 2011 were described in the 2010 Annual Report and in the 2011 Half-year Report.

In the second half of 2011 and in the period starting 1 January and ending 31 January 2012, the following changes occurred in the personnel composition of the Audit Committee:

Alfonso Alonso Durán	resigned from membership in the Audit Committee and from his vice-chairmanship of the Audit Committee with effect from 8 November 2011
Vladimír Dlouhý	became member of the Audit Committee by succession from his substitute membership



## Rules for the remuneration of persons with executive powers in the issuer

The group of persons with executive powers in Telefónica CR includes the following executives: members of the Board of Directors, the Chief Executive Officer and those members of the executive management of the Company (sub-section Executive management) who are not members of the Board of Directors (persons who make decisions in the issuer, which can affect the future development and the corporate strategy of the issuer, and who have access to insider information).

The remuneration of members of the Board of Directors and the Supervisory Board (including the members of Supervisory Board committees), as well as the granting of other benefits to members of the Supervisory Board, is governed by the rules for the remuneration and awarding of non-claim benefits which are approved by the Company's General Meeting. The approval of the rules for awarding non-claim benefits to members of the Board of Directors is, as per the Company's Articles of Association (Article 20(3d)), in the competence of the Company's Supervisory Board. The adequacy of the system of remuneration (and other benefits) and any modifications thereto are reviewed and proposed by the Nomination and Remuneration Committee of the Supervisory Board (see sub-section Committees established by the Governing Bodies of the Company below).

The rules of remuneration provide specific amounts of remuneration for individual categories of members of the Board of Directors and of the Supervisory Board (including the Supervisory Board committees), i.e. the remuneration which a regular member, vice-chairman and chairman of the body are entitled to, as well as other conditions for the granting of the remuneration. Each member of the Board of Directors/Supervisory Board is entitled to the whole amount of remuneration on the condition that he/she makes a claim for it; if the member of the Board of Directors/Supervisory Board does not make a claim for the whole amount of remuneration, he/she will be remunerated only in the extent in which a claim was made.

In 2011, no changes occurred in the principles for remuneration of members of the Company's governing bodies as they were described in the 2010 Annual Report.

Basic information about the rules for the remuneration, including a list of non-claim benefits, for members of the Board of Directors and the Supervisory Board and of the members of the Supervisory Board committees is given below. The full text of the new Rules for the Remuneration of Members of the Governing Bodies of Telefónica CR is published in the Czech and English languages on the Company's website ([www.telefonica.cz](http://www.telefonica.cz)).

## The Board of Directors and Chief Executive Officer

### a) Remuneration

The rules for the remuneration of members of the Company's Board of Directors, whose key principles are outlined above, stipulate a two-component flat monthly remuneration, which comprises the following:

- an amount covering mandatory payments (e.g. taxes, health insurance contributions, etc.) which a member of the Board of Directors is liable to pay due to the fact that they are covered by a liability insurance for any damage arising from the performance of a member of the Board of Directors, and mandatory payments arising from the provision of the amount as per this sentence. The amount depends on the amount of insurance premium attributable to the member of the Board of Directors; the overall amount is calculated using methods common in the business of insurance;
- an amount attributable to the individual categories of members of the Board of Directors for the number of meetings attended: (i) member of the Board of Directors: CZK 25,000; (ii) Vice-chair of the Board of Directors: the amount as in (i) plus CZK 10,000; Chair of the Board of Directors: the amount as in (ii) plus CZK 10,000. In 2011, the members of the Board of Directors did not claim their remuneration for meetings.

The Chief Executive Officer is also entitled by virtue of his/her function to additional remuneration which comprises the following components:

- basic gross salary;
- performance-related bonus;
- compensation of the balance between the health insurance benefits and 100% of the average daily wage.

The performance-related bonus is granted to the Chief Executive Officer conditional on delivering on the targets set for the CEO for the calendar year in question. These targets are directly correlated to the annual budget and business plan approved by the Board of Directors. The targets represent the key performance indicators of both financial and non-financial nature (e.g. delivering the projected operating profit, achieving the revenue targets, attaining a higher level of customer satisfaction). The performance against these targets is evaluated by the Board of Directors and discussed by the Nomination and Remuneration Committee of the Supervisory Board; the audited financial results and, in the case of customer experience, independent (external) surveys form the basis for consideration. The performance-related bonus may, in aggregate for the calendar year, reach 80% of the total annual income if the targets are achieved to a standard level. Other non-pecuniary benefits are connected with the relocation of the executive from his/her home country to the Czech Republic (accommodation in Prague, flights for visiting the family, contributions towards school fees at the international school in Prague, international health insurance). In the event of temporary work incapacity, the Company will compensate to the Chief Executive Officer, for each day of the work capacity, the balance between the health insurance benefits and the 100% of the average daily salary.

The remuneration due to persons who are members of the Board of Directors by virtue of performing an executive (management) function in Telefónica CR comprises two components: a gross basic salary and a performance-related bonus awarded in relation to delivery on specific annual targets. The methods of target setting, performance evaluation and control are governed by the same rules

and procedures as in the case of the Chief Executive Officer. The performance-related bonus may, in aggregate for the calendar year, reach 50% or 40% of the total annual income if the targets are achieved to a standard level. The overall performance of the persons in their management positions is assessed by the Chief Executive Officer.

#### **b) Compensation for the commitment to a non-competition covenant**

A member of the Board of Directors may, in their agreement for discharge of the office of a member, commit to the so-called non-competition covenant, i.e. a pledge not to do business, after the termination of the office, either individually or for the benefit of another person, in the field of telecommunications in the Czech Republic (nor in the field of advisory or consulting services related to the same), unless such business is done in another member of the Group. The agreement for discharge of the office of a member (including the non-competition covenant) must be approved by the Supervisory Board of the Company.

The compensation for the commitment to the non-competition covenant is based on the following principles:

- the non-competition covenant is accepted for a period of six months as of the termination of office;
- the Company is obliged to provide to the member of the Board of Directors in question, for committing to the non-competition covenant, compensation amounting to six times the average flat remuneration as laid down in the Rules for the Remuneration of Members of the Board of Directors, in an amount attributable to one member of the Board of Directors, in the month preceding the month in which the member of the Board of Directors terminated their position in the Board of Directors; the fact that any member of the Board of Directors has or has not made a claim to their remuneration is not considered in the calculation of the average flat remuneration.

Upon terminating his/her employment, the Chief Executive Officer is bound by the non-competition covenant covering the whole Telefónica Group.

#### **c) In-kind benefits**

##### *Damage liability insurance*

The Company, as the policy holder, contracted an insurance policy covering against damage caused in relation to the performance of designated functions; the insured persons (i.e. persons whose functions are covered by the policy) may include members of the Board of Directors. The total insurance premium paid by the Company is evenly divided amongst the insured persons and the amount calculated per insured person constitutes their income.

##### *Endowment insurance*

No endowment insurance has been contracted for members of the Board of Directors in relation to their duties as members.

##### *Car*

Members of the Board of Directors are not provided with cars for private use in connection with their duties as members. The Chief Executive Officer is provided with a car both for work and private use. Other executive members of the Company's Board of Directors are, by virtue of their executive, entitled to the same benefit.

## The Supervisory Board

### a) Remuneration

The rules for the remuneration of members of the Company's Supervisory Board, whose key principles are outlined above, implement a two-component monthly flat remuneration, which comprises the following:

- an amount covering mandatory payments (e.g. taxes, health insurance contributions, etc.) which the member of the Supervisory Board is liable to pay due to the fact that they are covered by a liability insurance for any damage arising from the performance of a member of the Supervisory Board, and mandatory payments arising from the provision of the amount as per this sentence. This amount depends on the amount of insurance premium attributable to the member of the Supervisory Board; the overall amount is calculated using methods common in the business of insurance;
- an amount attributable to the individual categories of Supervisory Board members for the number of meetings attended: (i) member of the Supervisory Board: CZK 40,000; (ii) Vice-chairman of the Supervisory Board: the amount as in (i) plus CZK 20,000; Chairman of the Supervisory Board: the amount as in (ii) plus CZK 20,000.

If a member of the Supervisory Board is at the same time member of any of the committees established by the Supervisory Board, they are entitled to remuneration for working in the committee, which is construed as a bonus per meeting of the committee, as follows: (i) member of the committee: CZK 10,000; (ii) vice-chairman of the committee: the amount as in (i) plus CZK 12,000; (iii) chairman of the committee: the amount as in (ii) plus CZK 15,000.

### b) Compensation for the commitment to a non-competition covenant

A member of the Supervisory Board may, in their agreement for discharge of the office of a member, commit to the so-called non-competition covenant, i.e. a pledge not to do business, after the termination of the office, either individually or for the benefit of another person, in the field of telecommunications in the Czech Republic (nor in the field of advisory or consulting services related to the same), unless such business is done in another member of the Group. The agreement for discharge of the office of a member (including the non-competition covenant) must be approved by the General Meeting.

The compensation for the commitment to the non-competition covenant is based on the following principles:

- the non-competition covenant is accepted for a period of six months as of the termination of office;
- the Company is obliged to provide to the member of the Supervisory Board in question, for committing to the non-competition covenant, compensation amounting to six times the average flat remuneration as laid down in the Rules for the Remuneration of Members of the Supervisory Board, in an amount attributable to one member of the Supervisory Board, in the month preceding the month in which the member of the Supervisory Board terminated their position in the Supervisory Board; the fact that any member of the Supervisory Board has or has not made a claim to their remuneration is not considered in the calculation of the average flat remuneration.

### c) In-kind benefits

#### *Damage liability insurance*

The Company, as the policy holder, contracted an insurance policy covering against damage caused in relation to the performance of designated functions; the insured persons (i.e. persons whose functions are covered by the policy) may include members of the Supervisory Board. The total insurance premium paid by the Company is evenly divided amongst the insured persons and the amount calculated per insured person constitutes their income.

*Endowment insurance – this discretionary benefit was deleted by decision of the General Meeting of 3 April 2009 from the Rules for the Awarding of Discretionary Benefits to Supervisory Board Members as part of the amendment to this policy.*

#### *Car*

The Supervisory Board Chairman and Vice-chairman are, according the Rules approved by the General Meeting, entitled to a car (class D or E) for work and private use. This benefit has not been claimed since mid-2005.

## Other benefits

The company also granted the following benefits to members of the Board of Directors (including the Chief Executive Officer) and to members of the Supervisory Board:

- voice and data services and products of the Company for business and private use (excluding doing business in one's own name);
- communication and IT equipment (mobile telephone, desktop PC or notebook, PDA, including accessories) for business and private use (excluding doing business in one's own name);
- VISA payment card (in the case of the Supervisory Board, only the Chairman and Vice-chairmen were eligible; the benefit has not been claimed in 2011);
- medical care.

The above benefits were granted to persons in the position of member of the Board of Directors by virtue of having an executive (management) position in the Telefónica Czech Republic Group, for the compliance with the duties arising from their functions. In the case of Supervisory Board members, awarding of in-kind benefits is governed by the rules for the award of non-claim benefits to members of the relevant governing body.



## Other information relating to persons with executive powers

**Information about pecuniary and in-kind income received in the accounting period by persons with executive powers (with the exception of persons who make decisions in the issuer, which can affect the future development and the corporate strategy of the issuer, and who have access to insider information) from Telefónica CR and entities controlled by it**

(in CZK)	Pecuniary income	Of which royalties	In-kind income
Board of Directors – total	69,103,743	0	28,812,631
— of which by virtue of membership in the issuer's Board of Directors	462,000	0	1,431,409
Supervisory Board – total	11,315,385	0	3,381,186
— of which by virtue in the issuer's Supervisory Board	5,596,204	0	3,006,521

The information about pecuniary and in-kind incomes of the Board of Directors collectively includes also incomes from the subsidiary Telefónica Slovakia, s.r.o. In 2011, members of the Supervisory Board received no pecuniary or in-kind income from entities controlled by Telefónica.

(in CZK)	Pecuniary income	Of which royalties	In-kind income
Executive management <sup>1</sup>	19,448,581	0	5,002,694

<sup>1</sup> The category Executive Management of the Company includes income of persons listed in the sub-section Executive Management; the income of these persons who are at the same time members of the Board of Directors is shown in the table above, line Board of Directors – total.

**Information on the number of shares issued by Telefónica CR and held by statutory bodies or their members, persons with executive powers, including persons related to these persons, information on option and similar agreements, information on individual transactions concluded by the said persons in the accounting period**

	Number of shares
Board of Directors	0
Supervisory Board	100
Audit Committee <sup>1</sup>	0
Other persons with executive powers – Executive management <sup>2</sup>	0

<sup>1</sup> Shares held by members of the Audit Committee who are also members of the Supervisory Board, are accounted for in the Supervisory Board total category.

<sup>2</sup> The Executive management category includes the shares held by executives in the positions that members of the Executive Management of Telefónica CR (see sub-section Executive management). The shares held by those members of the Board of Directors who, at the same time, qualify as Executive Management are accounted for in the Board of Directors total category.

No conflict of interest was found in relation to members of the Board of Directors, Supervisory Board and executive management; no member has been, in the last five years, lawfully sentenced for fraud, nor been – as a statutory or supervisory body – a party to insolvency proceedings, nor been subject to receivership or liquidation, nor charged or sanctioned by statutory or regulatory bodies.

### **Information on work contracts and similar contracts concluded between members of the Board of Directors, the Supervisory Board and the Audit Committee with the issuer**

In 2011, all members of the Board of Directors and of the Supervisory Board, with the exception of the substitute member of the Supervisory Board (José María Álvarez-Pallete Lopez, Patricia Cobian Gonzalez and Enrique Medina Malo) who were co-opted by the Supervisory Board on 8 November 2011, were bound by a valid agreement for discharge of the office of a member, which stipulates the eligibility for compensation for members who had committed to the non-competition covenant after the termination of their office.

## Telefónica CR's Declaration of Compliance with the Code of Good Corporate Governance based on OECD Principles (2004)

Telefónica CR made a commitment to the principles of Good Corporate Governance already in its 2001 Annual Report; it has been making regular statements in its annual reports, concerning the progress of implementation of the principles of Good Corporate Governance in its practices. The Company has been meeting all the main criteria and observing the principles and recommendations of the Czech Code of Good Corporate Governance based on OECD Principles, which was published in 2004 (the Code). The Code is available at the website of the Ministry of Finance of the Czech Republic ([www.mfcr.cz](http://www.mfcr.cz)). An exception to this rule are the principles of Good Corporate Governance that are not in direct control of the Company's governing bodies and are dependent on the decisions of its owners (in particular the criterion concerning the number of independent members of the Supervisory Board). The Board of Directors regularly oversees the good practice of Corporate Governance in subsidiaries controlled by Telefónica CR.

## Organisation of Corporate Governance

The Corporate Governance model of Telefónica CR has not incurred any changes in 2011 compared to the previous year. The model, as per the Articles of Association, is based on interaction between the executive Board of Directors, made up exclusively of executive managers of the Telefónica CR Group, and the Supervisory Board. The Supervisory Board has powers to control key decision-making processes (using the mechanism of 'prior standpoints' of the Supervisory Board to selected issues), and monitor other important aspects of the Company's operation. The powers of the Supervisory Board and their discharge make a full and active use of advisory and initiative roles of the Supervisory Board's committees. The controlling, supervisory and review function in the model of Corporate Governance in Telefónica CR has been strengthened by the independent position of the Audit Committee. An integral part of the model is the combination of the Chief Executive Officer's function with the function of Chairman of the Board of Directors, which the Company finds efficient and acceptable given the strong role of the Audit Committee, Supervisory Board and the active involvement of its committees. Members of the Board of Directors are individually bound by the agreement for discharge of the office of a member and additionally they have work contracts for the work they have been hired to do, which is different from serving on the governing body.

An Ordinary **General Meeting** of the Company was held on 28 April 2011. The agenda of the Company's supreme governing body comprised standard items relating to the operations of the joint-stock company, and a proposal for the amendment to the Company's Articles of Association in order to accommodate recent changes in the legislation. A detailed overview of the conclusions of the Ordinary General Meeting is available on the Company's website ([www.telefonica.cz](http://www.telefonica.cz)), and was also published in the 2011 Half-year Report. Information about the dividends, the record and disbursement dates for the dividend payment is given in section 'Other information for Shareholders and Investors' further in this Annual Report.

**The Board of Directors** held twenty three meetings in 2011, thus complying with the duty to hold a minimum of twelve meetings each year.

**The Supervisory Board** held four meetings in 2011, which was in accordance with the Company's Articles of Association that command a minimum of four meetings during the course of a calendar year.

**The Audit Committee (AC)** of the Company held four meetings in 2011, which was in accordance with the Company's Articles of Association for a minimum number of meetings during the course of a calendar year. The practice to call AC meetings on the same date as the regular meetings of the Supervisory Board has proven convenient as it lays foundations for the development of a close information exchange between these two bodies, especially in those areas in which their authority overlaps. The system allows the members of the Supervisory Board to use outcomes and conclusions from the AC meetings as a resource for the discussion of matters on the agenda of the Supervisory Board.

The rules for the remuneration of AC members, as well as the rules governing the granting of non-claim benefits to members of governing bodies, which were approved by the Ordinary General Meeting of the Company held in 2009, remained unchanged in 2011. In 2011, AC members collected pecuniary income of CZK 3,938,497 and in-kind income equivalent to CZK 909,936 from the Company, of which CZK 92,000 was the pecuniary income and no in-kind income for their membership in the AC. The committee members did not receive any pecuniary or in-kind income from entities controlled by Telefónica CR in 2011. In 2011, all AC members were bound to the Company by an agreement for the discharge of office of a member, which contained a non-competition covenant which applies also for the period after the office is terminated.

As part of performing **internal controls in the area of financial reporting**, the Company has implemented the key requirements of the Sarbanes-Oxley Act (SOX), which it is bound to respect – principally as a result of the fact that the shares of the parent Telefónica, S.A. are listed on the US capital markets. Twice a year the Company performs an evaluation of its internal controls in the area of financial reporting in the scope of the regulatory framework introduced by SOX Section 404, including an evaluation of the controlling mechanism in the area of the Company's information systems that could have a potential impact on the bottom line of the Company. The audits verify the standard of the description, configuration and form of walkthrough tests and compliance tests of transactions, as well as the effectiveness of controlling mechanisms in the area of financial reporting. The audit results are consulted with the external auditor of the Company.

The audits performed in 2011 concluded that the internal controls, as applied, were of a standard which meets the SOX requirements. The quarterly declaration of the management (Chief Executive Officer and Director, Finance Division) attesting to the veracity of the information contained in the financial statements, implementation and application of effective internal controls, and other matters required by SOX Section 302 (including the information about any changes in the Company's

accounting policy, one-off/extraordinary or material items having an impact on the Company's results for the quarter, and the overview of material reserves created by the Company in order to cover for its contingent risks and liabilities – e.g. from litigation) form an integral part of the SOX compliance procedures in the general area of Corporate Governance. The above documents are presented internally to the Board of Directors and to the Audit Committee for review and discussion.

In 2011, **the internal audit and risk management function** in the Company continued to be developed; the organisation of these functions (which are consolidated into one organisation unit), the line management of the Chief Executive Officer and the functional subordination of Internal Audit (in accordance with the International Standards for the Professional Practice of Internal Auditing) to the Audit Committee and the Board of Directors remained as before.

**Internal Audit** represents an important instrument of Corporate Governance and it provides the Company's governing and executive bodies with independent and professional assessment of the Company's internal control system and the situation and trends in the given area compared to current best practice, the rules and regulations in force, and work orders and instructions issued. In 2011, Internal Audit and Risk Management carried out 49 audits and controls (including the regular audit of internal controls required by SOX 404) as per the annual plan of Internal Audit or as mandated by the governing bodies and the Chief Executive Officer. In addition to performing audits and controls in Telefónica CR, the Internal Audit unit also acts as internal auditor of Telefónica Slovakia and other subsidiary companies in the Telefónica Czech Republic Group. The audit conclusions were used by the management to formulate actions to redress the issues identified. Internal Audit monitors the implementation of such actions and reports to the governing bodies and the executive management. The activities of Internal Audit and its main processes are laid down in the Internal Audit Charter of Telefónica Czech Republic, which also stipulates the principle of independence of the Internal Audit function and the principle of objectiveness of internal auditors. The work of Internal Audit is monitored on a regular basis by the Audit Committee which discusses audit reports and other reporting presented by Internal Audit. The Internal Audit Charter stipulates the Audit Committee's participation in the preparation and approval of the annual plan of internal audits; the Audit Committee also approves the annual budget of Internal Audit and its annual performance evaluation. The Director of Internal Audit & Risk Management has full access to the Audit Committee and is present for the discussion of audit reports and other outputs of Internal Audit & Risk Management at meetings of the governing bodies of the Company.

Since the year 2007, the Internal Audit and Risk Management unit of Telefónica Czech Republic, is certified in quality by the Institute of Internal Auditors (IIA). This certification assesses Internal Audit activity's conformity to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).

In 2011, the Company continued in the development of its **risk management** function and in its harmonisation with the methodology and practice within the global Telefónica Group, which creates more space for the sharing of experience and knowledge in the area of mitigation of specific risks with the parent company and other members of the Group. The risk management system covers all areas of operations of Telefónica CR, including its subsidiary Telefónica Slovakia, and provides for the identification, assessment and mitigation of risks, which it continues to monitor throughout. The Board of Directors and the Supervisory Board receive regular monthly and quarterly reports, respectively, containing information about key risks and their development over time. The Audit Committee is concerned with the risk management primarily from the point of assessing its effectiveness and adequacy (whether the key risks of the Company are adequately identified and

managed); to this end, the committee receives regular reports from the Risk Management Unit of Telefónica Czech Republic Group, and information about the methods used, the processes of risk management, etc. Members of the bodies have an equal and full access to risk management reports and the risk register of Telefónica CR and the subsidiary Telefónica Slovakia. More information about risk management is given in sub-section Risk management of the Annual Report.

An electronic platform, the so-called CG Portal, is operated in Telefónica Czech Republic Group. It supports the exercise of powers of all governing bodies and provides for efficient administration of Corporate Governance in Telefónica Czech Republic. The portal is available on the Company's intranet and also remotely to users with the access privileges. This tool performs several functions; the key ones include the function for convening meetings (including the distribution of resource documents), dissemination of the latest information and regular reporting to members of governing bodies and committees between meetings. Last but not least, the CG Portal serves as a digital archive for all documents in the area of corporate governance. The portal is bi-lingual (in Czech and English); accordingly, the majority of corporate governance documents is systematically made in both languages. The instrument confers equal access to archived and current documents and information to all members (executive and non-executive) of the relevant governing bodies, irrespective of any local or time limitations. This includes, in addition to the minutes of meetings, also internal audit reports and risk reports, information about the Telefónica Czech Republic Group and its subsidiaries, etc. The portal is currently used also as a platform for supporting and administrating other activities in the general sphere of corporate governance. It is mainly the agenda of the Business Principles (including the operation of a confidential whistle-blowing channel for reporting of suspected ethical malpractices). The results achieved in this area in 2011 are recapitulated in sub-section Business principles.

For the sake of expedient and effective acquaintance with the Company, new members of the Board of Directors, Audit Committee, the Supervisory Board and its committees have, already upon assuming their function, a special set of comprehensive and structured Corporate Governance information and documents available to them, as well as having access to all other current and archived documents which they may require for the due discharge of their function. The information is disseminated via the CG Portal.

Telefónica CR has a position of Company Secretary is at the executive level in the new Corporate Governance Model of Telefónica CR formally combined with that of General Counsel (Director, Legal, Regulatory and Public Affairs).

## Shareholder relations

A strict compliance with all the statutory rights of shareholders, commitment to the principle of equal treatment of all shareholders of a similar standing, while respecting the specific statutory rights of minority shareholders belong among the key guiding principles of Corporate Governance of Telefónica CR. The majority shareholder of Telefónica CR, which is Telefónica, S.A. (see sub-section Company policy towards stakeholders), exercises its rights in Telefónica CR through its voting rights at the Company's General Meetings.

The Company is scrupulous about the timely and full information to all shareholders about the developments in the Company, its financial results and business plans. The Company uses its website as the main platform for communication ([www.telefonica.cz](http://www.telefonica.cz), section About). The Company publishes regular press releases with the quarterly financial results and announces all significant events and developments.



When organising General Meetings, the Company proceeds in a way that guarantees the compliance with all the statutory conditions and with the Articles of Association, whilst observing to the maximum extent possible the requirements of the Code which concern the rights of shareholders and their fair treatment. The Company publishes the date of the General Meeting sufficiently in advance on its website; the date, time and location of the General Meeting are chosen on the merit of ready access and availability. The Rules of Procedure of the General Meeting are approved at each meeting of the governing body. The text of the Rules of Procedure has not changed in several years; during this time, the shareholders have not made any motions to amend the Rules of Procedure. The Rules of Procedure allow shareholders to participate effectively in decision-making on fundamental changes in the Company and to ask questions and seek information on matters included on the agenda of the General Meeting. The Rules of Procedure of the General Meeting contains the following substantial provisions:

- Shareholders can exercise their rights at the General Meeting either in person or by proxy; they can vote on the proposed items on the agenda, receive, in accordance with the Commercial Code, explanations in matters relating to the Company, or any undertakings controlled by it, as the case may be, provided the explanation is necessary for understanding the matter addressed by the General Meeting, and they also have the right in accordance with the Commercial Code to raise proposals and counterproposals. Shareholders may lodge a protest against a decision of the General Meeting and demand that it be recorded in the Minutes of the General Meeting.
- As a rule, any requests for explanation, proposals, counterproposals and protests must be made by shareholders in writing, and filed with the information desk. Upon making the motion it must be specified whether it is a request for explanation, proposal, counterproposal or a protest. Any requests for explanation, proposals, counterproposals and protests submitted in writing must be legibly undersigned by the shareholder in question or their proxy.
- In keeping with the Commercial Code and the Company's Articles of Association, the Board of Directors is obliged to provide an explanation upon request, in matters concerning the agenda of the General Meeting.
- At the General Meeting, a proposal by convener of the General Meeting is subjected to a vote first; if it is not passed, other proposals and counterproposals relating to the point in question are voted on, in the order in which they were submitted. As soon as a motion is passed, other counterproposals are not subjected to a vote. The Chairman of the General Meeting is obliged to ensure that, prior to voting at the General Meeting, the shareholders are informed of all proposals and counterproposals made by shareholders in relation to the item of the agenda of the General Meeting which is put to a vote.

Also in 2011, all the necessary documents were available in print form, in two languages (Czech and English). All the documents for the General Meeting and other relevant documents (e.g. the Articles of Association) were available to the shareholders also at the information desk which the Company operates for its shareholders at every General Meeting. Each point on the agenda was voted on separately, after the discussion on that point had been concluded. In addition to members of the Board of Directors and of the Supervisory Board (its committees), the representatives of the Statutory Auditor were also available to take questions from shareholders throughout the General Meeting. A public notary was present for the whole duration of the General Meeting.

All motions (questions, requests for explanation, counterproposals and proposals) made by shareholders during the Ordinary General Meeting of 28 April 2011 were adequately addressed by the members of the Board of Directors and subsequently they were, together with the answers, recorded in the Minutes of the General Meeting.

## Transparency and open information policy

Telefónica CR scrupulously and diligently complies with all national and community laws and the principles of the Code. In line with its mandatory duties and voluntary commitments, Telefónica CR continually and pro-actively provides shareholders and investors with all vital information on its business, financial standing, ownership structure and governance issues. Furthermore, the Company is very scrupulous in seeing that all price-sensitive information and facts are disclosed in a full and timely manner. The Company strives to provide the shareholders and investors with everything they may need for making qualified decisions regarding the ownership of the Company stock, and in voting at General Meetings. To this end, the Company uses various information channels and instruments, namely of electronic and online nature, via its website, and via the websites [www.akcie.cz](http://www.akcie.cz) and [www.londonstockexchange.com](http://www.londonstockexchange.com). The website of Telefónica CR (particularly the section About) provides investors and shareholders with all corporate documents and various information about the Company in the Czech and English languages. The Company regards the electronic platform for disseminating information as key, especially since many of its shareholders are foreign legal and natural persons; the website facilitates access to information about the Company, especially for the international institutional investors and for small shareholders. This in turn improves their opportunities for their active, effective and valid participation in the decisions relating to the matters of the Company.

The policy of transparency dictates that the Company makes sufficient disclosure about the remuneration of members of the Board of Directors and the Supervisory Board of the Company (and of the Supervisory Board committees). This matter is addressed in detail in sub-section Rules for the remuneration of persons with executive powers in the issuer, which describes and explains the principles of the system for the remuneration of members of the Board of Directors, the Supervisory Board and other persons, and iterates other emoluments provided by the Company to these persons (a similar information concerning the members of the Audit Committee is disclosed in sub-section Organisation of Corporate Governance). The subsequent section (Other information relating to persons with executive powers) gives an account of benefits claimed in the past period (the information concerning the members of the Audit Committee is disclosed in sub-section Organisation of Corporate Governance). The Company's website contains the current and previous versions of documents in this area (Rules for the Remuneration of Members of the Board of Directors, Rules for the Remuneration of Members of the Supervisory Board, Rules for the Granting of Discretionary Benefits to Members of the Supervisory Board, Rules for the Granting of Discretionary Benefits to Members of the Audit Committee).

In keeping with its Business Principles, Telefónica CR practices zero tolerance of conflicts of interest. The procedures for the consideration and decisions in the governing bodies are aligned in a way that prevents members of the governing bodies from voting on matters which could compromise their impartiality (affiliated transactions). Potential conflicts of interests stemming from membership in the governing bodies of other companies, involvement in commercial transactions and other defined situations are subject to a regular review by the Ethics and Corporate Social Responsibility Committee (see sub-section Committees established by the Governing Bodies of the Company below).

The Company is scrupulous about the prevention of insider trading for unlawful personal enrichment in trading in the Company's shares; in this respect, it is compliant with the applicable community and Czech laws, as well as with the rules adopted by the UK market regulator (Financial Services Authority). The Company has adopted a strict internal policy, which sets the limits for the disposal

of shares issued by the Company or by undertakings that it controls. Telefónica CR keeps a regularly updated list of persons (members of governing bodies, employees, external persons) who would qualify as insiders in possession of such information.

## Committees established by the Governing Bodies of the Company

The Supervisory Board committees have been an integral part of the Company's system of Corporate Governance since 1996 and continue to play a major role in discharging the powers of the Supervisory Board. In the definition of the remit and role of the committees, the Company observes the Code and the Commission Recommendation 2005/162/EC on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, which was amended by Recommendation 2009/38/EC from April 2009. Basic information about the committees established by the Supervisory Board is given in sub-section Governing bodies.

The Nomination and Remuneration Committee (NRC) has five members and makes recommendations in respect of particularly all matters relating to personnel changes in the Board of Directors, Audit Committee, Supervisory Board and the Supervisory Board committees. The committee also gives a standpoint on any nomination proposals for vacancies in the governing bodies of members of the Telefónica Czech Republic Group. The NRC's remit extends to reviewing the remuneration and other benefits granted to members of the Board of Directors, Supervisory Board and the Audit Committee. The committee continually monitors and assesses the performance of members of the Board of Directors, Audit Committee, Supervisory Board and its committees; in this respect, the NRC also assesses the need for and promotes further education of members of the governing bodies, in particular in professional disciplines and languages. The committee held two meetings in 2011.

The Ethics and Corporate Social Responsibility Committee (ECSRC) is a voluntary committee of the Supervisory Board with six members, whilst observing the rule that a half of the ECSRC's members are always Supervisory Board members elected by the employees, and the other half Supervisory Board members elected by the General Meeting. Every year, the committee addresses the issue of a potential conflict of interest; members of the Board of Directors, Audit Committee, Supervisory Board, executive management and members of the governing bodies in subsidiary companies are examined in this respect. The ECSRC regularly monitors compliance with the Company's Business Principles, and the functioning of the confidential whistle-blowing channel, and it is regularly informed about the activities undertaken as part of the Compliance Programme for the prevention of unethical conduct. Another primary area of interest for the ECSRC is the promotion of Corporate Social Responsibility. The committee held two meetings in 2011.

## Company policy towards stakeholders

Telefónica CR values Corporate Social Responsibility (CSR) as an integral part of its operations and business. Given the scope and volume of the Company's CSR initiatives, the Annual Report now contains a separate section (Corporate social responsibility) dedicated to Corporate Social Responsibility.

## Information relating to matters according to Section 118(5) of the Act No. 256/2004 Coll., the Capital Market Undertakings Act (CMUA), and information which is a part of a summary report compiled according to the requirement of Section 118(8) of the CMUA

### The figures and information relating to matters under Sections 118(5a)–118(5l) of the Act No. 256/2004 Coll., the Capital Market Undertakings Act (CMUA):

- a) Information about the issuer's equity capital structure, including shares not admitted for trading on the regulated market in a European Union Member State, including any potential qualification of different types of shares or similar securities representing a share in the issuer, and the share in the share capital of each type of share or similar security representing a share in the issuer

The equity structure of Telefónica CR as at 31 December 2011 was as follows:

	(in CZK millions)
Share capital	32,209
Share premium	24,374
Fund for share-related payments	53
Funds	6,450
Retained earnings	9,306
<b>Total</b>	<b>72,392</b>

The Company's share capital as at 31 December 2011 was CZK 32,208,990,000 and was fully paid up. The share capital is made up of the following shares:

- |                        |                    |
|------------------------|--------------------|
| A. Type:               | ordinary           |
| Form:                  | registered         |
| Kind:                  | booked             |
| Number of shares:      | 322,089,890 shares |
| Nominal value:         | CZK 100            |
| Total volume of issue: | CZK 32,208,989,000 |
| ISIN:                  | CZ0009093209       |
| B. Type:               | ordinary           |
| Form:                  | registered         |
| Kind:                  | booked             |
| Number of shares:      | 1 share            |
| Nominal value:         | CZK 1,000          |
| Total volume of issue: | CZK 1,000          |
| ISIN                   | CZ0008467115       |

The rights and obligations related to the registered share which represents a share in Telefónica CR are set out in Article 5 of the Articles of Association of the Company.

The registered shares in the nominal value of CZK 100 were listed for trading on the following markets:

Market	Note
Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	On the main market
RM-SYSTÉM, česká burza cenných papírů, a.s.	–
London Stock Exchange	In the form of Global Depository Receipts (GDR). The depository for the GDR is The Bank of New York Mellon, ADR Division, 101 Barclay Street, West New York, NY 10286, USA; the custodian is Komerční banka, a.s., Na Příkopě 33, čp. 906, 114 07 Prague 1.

A full wording of the Terms and Conditions of the Share Issue – the document which is the source of this summary – is available at the registered address of the security issuer.

The registered share in the nominal value of CZK 1,000 was not listed for trading on any regulated market in a European Union Member State.

b) Information about transferability of securities

Only the statutory requirements need to be met for a transfer of shares and Global Depository Receipts. The Company's Articles of Association impose no further restrictions on the transferability of the shares and there are no other restrictions for reasons that would be on the part of the Company.

c) Information about significant direct and indirect shares in the voting rights of the issuer

Key shareholders of Telefónica CR as at 31 December 2011:

	Shareholder	Address	% of share capital
1	Telefónica, S.A.	Gran Vía 28, 28013 Madrid, Kingdom of Spain	69.41%
2	Investment funds and individual shareholders	–	30.59%

As at 31 December 2011, the share of Telefónica, S.A., in the voting rights of Telefónica Czech Republic, a.s., according to the provision of Section 122 of the Capital Market Undertakings Act was 69.41%.

d) Information about the holding of shares with special rights, including the description of these rights

The Company has not issued any securities with special rights, only ordinary shares as per point (a) above.



## e) Information about restrictions of voting rights

Voting rights are attached to all shares issued by the Company and may be restricted or excluded only in instances set out in the law. The Company is not aware of any such statutory restriction or exclusion of voting rights. The Company's Articles of Association do not stipulate any restriction of voting rights; there are no other restrictions for reasons that would be on the part of the Company.

## f) Information about agreements between shareholders or owners of securities representing a share in the issuer, which could restrict the transferability of shares or similar securities representing a share in the issuer, or of voting rights, if such information is known to the issuer

The Company has no knowledge of any agreements between shareholders which could restrict the transferability of shares or voting rights.

## g) Information about special rules for the election and recall of the statutory body, amendment to the articles of association or similar document of the issuer

Members of the Board of Directors are elected and recalled by the Supervisory Board of the Company. The eligibility conditions for election to the Board of Directors are laid down in the law; the Articles of Association do not contain any restriction beyond the statutory scope; there are no other restrictions for reasons that would be on the part of the Company.

Two thirds of members of the Supervisory Board are elected and recalled by the General Meeting of the Company; one third is elected and recalled by the Company's employees. The eligibility conditions for election to the Supervisory Board are laid down in the law; the Articles of Association contain only a single condition beyond the statutory scope – that the Chief Executive Officer may not be elected as member of the Supervisory Board. There are no other restrictions for reasons that would be on the part of the Company.

## h) Information about special powers of members of the statutory body, in particular about their authorisation as per Sections 161a and 210 of the Commercial Code

Members of the Board of Directors hold no special powers; some acts by the Board of Directors require, as per Article 14(4) of the Company's Articles of Association, a previous consent by the Supervisory Board.

## i) Information about important contracts, which the issuer is a party to and which will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid, and about the effects thereof, with the exception such contracts whose disclosure would bear a serious harm for the issuer, which, however, does not reduce other duties of disclosure of such information under this law or under other laws

The Company has not entered into any contracts that will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid.

## j) Information about contracts between the issuer and the members of the statutory body or employees, by which the issuer is bound in the event of the termination of their office or employment in connection with a take-over bid

No contracts were concluded between the Company and the members of its Board of Directors or its employees, by which the Company would be bound in the event of the termination of their office or employment in connection with a take-over bid.

- k) Information about any programmes based on which the employees and members of the statutory body of the company can acquire shares, share options or other rights at preferential terms, and about how the rights associated with these securities are exercised

No programmes exist for members of the Board of Directors or employees of the Company based on which they could acquire shares, share options or other rights of the Company at preferential terms.

- l) Information about payments remitted to the state for mining licences, provided the core business of the issuer is in the mining sector

With regard to the fact that the Company has no business in the mining sector, this declaration is not applicable.