

A satellite map of the Atlantic Ocean, showing the continents of North America, South America, Europe, and Africa. The ocean is a deep blue, and the landmasses are green and brown. The map is tilted slightly to the right.

Other information
for shareholders
and investors

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Other information for shareholders and investors

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Basic information

Corporate name:	Telefónica Czech Republic, a.s. (Telefónica CR, the Company)
Registered address:	Praha 4, Za Brumlovkou 266/2, postal code 140 22
Company identification number:	60193336
Taxpayer registration number:	CZ60193336
Date of incorporation:	16 December 1993
Legally existing from:	1 January 1994
Duration of the company:	the company was founded for an indefinite period of time
Legal form:	joint-stock company
Statute of law under which the issuer was incorporated:	provisions of Section 171(1) and Section 172 (2) and (3) of the Commercial Code
Commercial court:	Prague Municipal Court
Commercial court record number:	Section B, File 2322

Effective from 16 May 2011, the company name of Telefónica O2 Czech Republic, a.s., was changed to Telefónica Czech Republic, a.s.

Trading in Telefónica CR shares in 2011

	2011	2010
Number of shares (in millions)	322.1	322.1
Net profit/(loss) per share (in CZK) ¹	23.7	39.4
Highest share price (in CZK) ²	439.6	452.5
Lowest share price (in CZK) ²	372.0	369.0
Share price at the end of period (in CZK) ²	383.1	381.5
Market capitalization (in CZK billions) ²	123.4	122.9

¹ Unconsolidated net profit under IFRS

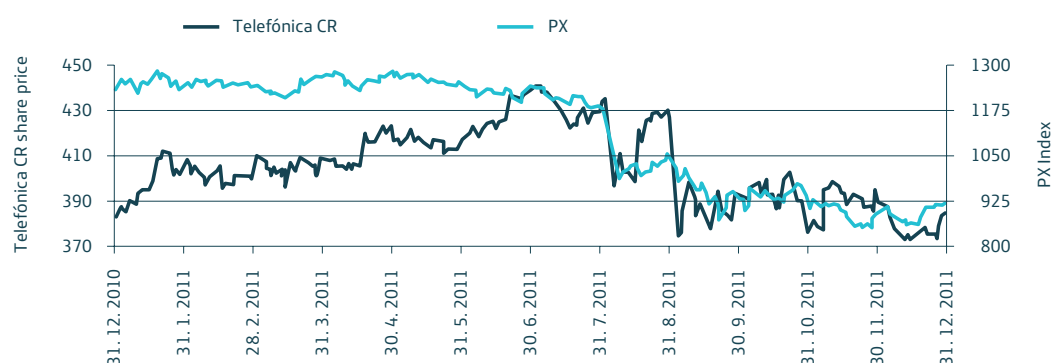
² Source: Prague Stock Exchange

In 2011, Telefónica CR once again ranked among the most important companies on the Czech capital markets according to market capitalization and trading volumes. The total volume of trades in company shares on the main stock market of the Prague Stock Exchange (PSE) in 2011 was CZK 34.0 billion, compared to CZK 43.0 billion in 2010. Trading in Telefónica CR Czech Republic shares, measured by the total volume of shares traded, made up 9.2% of all trades on the PSE stock market. Telefónica CR shares confirmed in 2011 the position of the fourth most traded issue on the PSE from 2010. The average daily volume of trades in company shares in 2011 was down to CZK 133.7 million, compared to CZK 166.7 million in 2010.

As at 30 December 2011 (the last trading day on the PSE in 2011), the market capitalization reached CZK 123.4 billion, which ranked Telefónica CR the fourth on the PSE equities market. The price of the Company's shares on the last trading day of 2011 reached CZK 383.1, up 0.42% on the year before, while the main PX index of the PSE closed on 911.1 points with a year-on-year decline of 25.61%. The share price of Telefónica CR reached its maximum of CZK 439.6 on 4 July 2011, and its minimum of CZK 372 on 13 and 15 December 2011. The average share price in 2011 was CZK 403.8, compared to CZK 416.2 in 2010.

The above-average dividend yield, aided by the high free cash flow generation and a low level of debt, makes Telefónica CR still a very highly regarded investment opportunity by investors.

Trading in Telefónica CR shares against the PX index in 2011



Dividends

At the Ordinary General Meeting of 3 April 2009 in Prague, the shareholders approved a dividend payment from a part of the 2008 net profit and a part of the retained earnings from previous years in the total amount of CZK 16.104 billion, i.e. CZK 50 per share of nominal value of CZK 100 and CZK 500 per share of nominal value of CZK 1,000, before tax. The record day for the payment of dividends was 9 September 2009 and the disbursement date 7 October 2009.

At the Ordinary General Meeting of 7 May 2010 in Prague, the shareholders approved a dividend payment from a part of the 2009 net profit and a part of the retained earnings from previous years in the total amount of CZK 12.884 billion, i.e. CZK 40 per share of nominal value of CZK 100 and CZK 400 per share of nominal value of CZK 1,000, before tax. The record day for the payment of dividends was 8 September 2010 and the disbursement date 6 October 2010.

At the Ordinary General Meeting of 28 April 2011 in Prague, the shareholders approved a dividend payment from a part of the 2010 net profit and a part of the retained earnings from previous years in the total amount of CZK 12.884 billion, i.e. CZK 40 per share of nominal value of CZK 100 and CZK 400 per share of nominal value of CZK 1,000, before tax. The record day for the payment of dividends was 7 September 2011 and the disbursement date 6 October 2011.

Dividend policy

The Company does not have an official long-term dividend policy at present. The Company has indicated several times that it did not intend to retain surplus cash and distribute it to shareholders. In the following periods, the Board of Directors will make annual proposals for the payment of dividend, based on a diligent analysis of the current and future performance of the Company, including the projected future cash flows and investments, business development costs and acquisition costs. This approach is in line with the investment strategy of directing investment into pro-growth areas, such as improvements to the fixed and mobile broadband service, mobile services, ICT solutions for business and the government, and the development of the mobile operation in Slovakia. Other investment plans include the modernisation and upgrade of IT systems with the view to simplify processes and make them more efficient, with the ultimate goal of greater operating efficiency.

To provide for the eventuality that the dividend capacity (limited by the amount of retained earnings from previous years and the profit of the current year) in the future is lower than the balance of cash surpluses, in 2011 the Company analysed other options for the distribution of other disposable funds. These options included:

- a) Payment of a share premium;
- b) Reducing the share capital through the nominal value of shares;
- c) Acquisition of own shares.

Details of patents or licenses, industrial, commercial or financial contracts which have a significant bearing on the business:

1) Patents and licences

Telefónica CR has licence agreements for the following software products: application middleware (BEA), database environment (Oracle), operating systems (Hewlett-Packard, SUN and Microsoft), workstation software (Microsoft), CRM (Oracle), customer care and billing software with detailed billing functionality (Amdocs and LHS) and enterprise resource planning software ERP (SAP).

2) Industrial and commercial contracts

Telefónica CR maintained a diverse portfolio of technology suppliers in 2011. The main objective of the Company with respect to the contracted suppliers was to have competition on the supply side. All principal technology supply contracts are awarded by tender.

In 2011, the main suppliers of technology and related services to the Company were IBM Česká republika, Alcatel-Lucent Czech, AutoCont CZ, Vegacom, Siemens, Accenture Central Europe B.V., Indra, DNS, NextiraOne Czech, Amdocs Development Limited, LHS, Hewlett-Packard and Huawei Technologies Co.

3) *Financing agreements*

Financial obligations as at 31 December 2011 divided into short-term and long-term (in CZK million):

Short-term (maturing within a year)	3,061
Long-term	0
Total	3,061

Loans, bonds issued and other financial obligations:

	Currency	Balance in currency as at 31 December 2011	Balance in CZK thousands as at 31 December 2011	Redemption
Private Placement – debt instrument	EUR	115,040,673	2,968,049	2012
Other financial obligations			93,165	

EUR/CZK exchange used in the table for conversion purposes (as at 31 December 2011) is CZK 25.800/EUR.

The above loan and the other financial obligations were repaid in accordance with the relevant loan agreements or the Terms and Conditions of Issue. As at 31 December 2011, Telefónica CR had no overdue loan obligations.

Bonds issued by Telefónica CR

Bond programme	
Maximum volume of unredeemed bonds:	CZK 20,000,000,000
Programme duration:	2002–2012
Maturity of issues in the programme:	maximum of 15 years.

As at 31 December 2011, no bond issue was made under the bond programme.

Investments

Main investments made by Telefónica CR in the last two accounting periods (in CZK millions):

	2011	2010
Network & Operations	2,779	3,011
Business Solutions	567	569
IT & Products	922	931
Property & Security	163	169
Brand stores	29	19
Subsidiary companies and other investments ¹	706	658
Projects of the Telefónica Group	0	0
Investments related to Telefónica Slovakia made in the Czech Republic	63	49
Telefónica Slovakia	393	254
Total (excluding acquisition in the WiFi segment)	5,621	5,660
WiFi acquisitions	235	3
Total	5,856	5,663

¹ Including additional internal work – capitalized

All principal investments were in the Czech Republic and in Slovakia and were financed from the Company's own resources and on credit.

In 2011, Telefónica CR continued to implement an investment policy, which clearly favours the development and support of customer-oriented technologies with a growth potential for the future, and investments leading to a greater operating efficiency. As in the previous years, Telefónica CR invested in projects aimed at internal integration of mobile and fixed line services, and in the modernisation of its technology infrastructure.

The structure of investment expenditure reflected the existing customer demands for new trends in telecommunications services with a high standard and quality of execution, and the efforts to complete the integration processes for the delivery of convergent services, aimed at the strengthening of our market position of the converged operator.

The mobile segment was dominated mainly by investments in the implementation of the Company's Mobile Broadband strategy (3G technology). The 3G covered approximately 73% of the population at the end of 2011. The market boom of the so-called 'smart' phones and devices, and the related surge in the use of data services, required that the Company invests significantly in the capacity of its networks, in particular the 3G network. In the area of fixed networks, investments were directed mainly to improvements in the transmission speed in connection with the successful launch of the VDSL technology in May 2011; and also in the quality of xDSL, IPTV, Voice over IP and value-added services.

As far as business solutions are concerned, the volume of investment followed the projects executed for customers; data connectivity and ICT projects continued to dominate this segment. The flagship solutions for business and the government in 2011 included the ongoing implementation of the data box information system for the public sector and the construction of an optical data network in the Pilsen and Karlovy Vary regions.

Investments in information systems, where the pursuit of enhanced customer experience and the foundations for new products and services (e.g. investments in the CRM systems and the new online portal through which customers can keep track of all their services and which allows for more targeted and effective marketing of new offers) were the common denominator, tallied with the strategy of convergent process integration. Customer experience improved also with the implementation of a project to reduce the number of complaints and claims from customers.

In Slovakia, the construction of a proprietary network continued, and investments went also into quality improvements of the existing CRM system, e-applications and project propositions for the business segment. Investments in the GSM network followed the requirements and conditions of the licence and system development. By the end of the year, Telefónica Slovakia had 975 2G BTS in operation, of which were commissioned in 2011, and the 2G network reached 95.2% of the population with signal at the end of 2011. Furthermore, by the end of the year, Telefónica Slovakia had 428 3G BTS in operation and its 3G network covered 31% of the population.

Key investments in the future

In the period 2012–2013, the key focus of investments in the Czech Republic will lay in the fixed and mobile broadband area, which is seen as a vehicle for future improvements, greater efficiency and broader uptake of telecommunications and data services. The Company will also invest in technology innovations in the area of ICT and innovative solutions in the area of marketing new services to customers. At the same time, it will continue to invest in improving the operating efficiency and in the modernisation of the existing technology infrastructure. In the future period, the Company will monitor and analyse the licensing conditions for the new generation (LTE) networks. In the area of fixed-line data services, the Company plans to focus on developing xDSL access and on highly-targeted investments in broadband over optical fibre.

The Slovak operation will continue to pursue a standard investment policy in the telecommunications sector, with an emphasis on efficiency improvements in the area of implementation of progressive technologies and customer policies, in order to deliver on the overall strategy and grow the share of the Slovak telecommunications market.

Fees paid to auditors in the accounting period

The cost of external audit activities performed by Ernst & Young for Telefónica CR in 2011:

Type of service	Fee in CZK thousands
Audit	26,533
Other audit-related consultancy	0
Other services	0
Total	26,533

Financial calendar

Date of release of the running financial results

For the first quarter of 2012	10 May 2012 ¹
For the first half of 2012	25 July 2012 ¹
For three quarters of 2012	6 November 2012 ¹
For the year 2012	28 February 2013 at the latest

¹ tentative date

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