

Principles of remuneration of persons with executive powers in the issuer

The group of persons with executive powers in Telefónica O2 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 Supervisory Board committees), as well as the granting of other benefits to members of the Supervisory Board (and the Supervisory Board committees), are governed by the rules for the remuneration and provision of non-claim perquisites which are approved by the Company's General Meeting. The approval of the rules for provision of non-claim perquisites 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. remuneration which a regular member, vice-chair and chair of the body are entitled to, as well as other conditions for its granting. Each member of the Board of Directors/Supervisory Board is entitled for the 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.

With respect to the situation described in the 2008 Annual Report, the only changes made to the remuneration principles for members of the Company's governing bodies were those required by or as a result of the institution of the Audit Committee as a new independent body of the Company. In the case rules for remuneration of the Supervisory Board member, the change is only technical; the dissolution of the Audit and Control Committee required that the relevant provisions concerning the remuneration for working in the committee be deleted. The other rules remained unaffected. The Ordinary General Meeting of the Company in 2009 also decided to update the Rules for Provision of Non-claim Perquisites to Supervisory Board Members. The rules dated back to 2003, and the amendment concerned the consolidation of items dealing with communication and IT equipment into one, while the financial limit for this benefit was simultaneously reduced by a significant margin; another change concerned the deletion of the item Capital Life Insurance.

Basic information about the rules for the remuneration, including a list of provided non-claim perquisites, 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 O2 is published in the Czech and English languages on the Company's website.

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, 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 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) increased by CZK 10,000; Chair of the Board of Directors: the amount as in (ii) increased by CZK 10,000.

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; 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 O2 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 40% or 50%, respectively, 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 telecommunications industry), 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.

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.

Capital life insurance

No capital life 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 management position, 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 he/she is 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 Chair of the Supervisory Board: the amount as in (i) increased by CZK 10,000; Chair of the Supervisory Board: the amount as in (ii) increased by CZK 10,000.

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-chair of the committee: the amount as in (i) increased by CZK 12,000; (iii) chair of the committee: the amount as in (ii) increased by 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 telecommunications industry), 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.

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

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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.

Capital life insurance – this discretionary benefit was deleted by decision of the General Meeting of 3 April 2009 from the Rules for the Provision of Non-Claim Perquisites to Supervisory Board Members as part of the amendment to this policy. For the part of the year 2009 before the date of the General Meeting, no endowment insurance was contracted for the benefit of Supervisory Board members.

Car

The Supervisory Board Chair and Vice Chair are, according the Rules approved by the General Meeting, entitled to a higher middle class car 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 2009);
- healthcare.

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 O2 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 discretionary benefits to members of the relevant governing body.