

Corporate
Governance

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In the first half of 2012, the Board of Directors met ten times, the Supervisory Board and the Audit Committee held three and two meetings, respectively.

The Regular General Meeting of Telefónica CR was held on 19 April 2012. The supreme governing body of the Company approved:

- The annual financial statements and the consolidated financial statements of the Company prepared under International Financial Reporting Standards (IFRS) for the year 2011. Both sets of financial statements were recommended by the Board of Directors to the General Meeting for approval and they had been verified by the auditors Ernst & Young who gave an unqualified opinion.
- The distribution of profit and the payment of dividend. The proposal was based in a prudent analysis of the Company's results in the previous period, the current situation of the balance sheet and with regard to the Company's future outlook made by the Board of Directors, including its investment plans and cash flow projections.
- The payment of dividends from the 2011 profit, in the total amount of CZK 7,633,074,030.17, and from a part of the retained earnings, which represents CZK 1,063,353,269.83, with the total sum approved for the payment of dividends being CZK 8,696,427,300, i.e. CZK 27 per share before tax.
- A reduction of the share capital through the reduction by CZK 13 of the nominal value of each share with the previous nominal value of CZK 100. The total amount corresponding to the reduction of the share capital, which is CZK 4,187,168,700 will be paid out to all shareholders. Together with the dividends, the pay-out to shareholders will be CZK 40 in cash per each share with the previous nominal value of CZK 100.
- An amendment to the Company's Articles of Association. Some of the changes were motivated by the amendments to the Commercial Code. Other changes relate to the adjusted scope of the Board of Directors' authority in that the Board of Directors no longer needs to seek a prior approval of the Supervisory Board with (i) acquisition of the Company's own shares, (ii) entering into an agreement to transfer business assets, or any part of them, or to lease the business assets, (iii) election, nomination or recall of members of statutory and supervisory bodies in subsidiary companies or other companies in which the Company holds an ownership interest. The number of members of the Supervisory Board also changed from the present fifteen to twelve. Last but not least, the rules governing the process of decision making by the Board of Directors, Supervisory Board and the Audit Committee were simplified.

- The share buy-back programme for the Company's own shares, allowing to buy back shares up to 10% from the total of 322,089,890 ordinary shares with a nominal value of CZK 100 before tax, i.e. not more than 32,208,989 ordinary shares. The Company can buy back shares over a period of 5 years.
- Contribution of a part of business assets into the subsidiary Internethome, s.r.o.; the business assets comprise a unit of Telefónica CR, which provides WiFi internet access. Internethome, s.r.o., is a provider of home internet access and was incorporated in 2011 with this business mission.
- The General Meeting confirmed by election members of the Supervisory Board and the Audit Committee in their positions (for full details please see below).

Personnel changes in the governing bodies of the Company as at 31 January 2012 are described in the 2011 Annual Report (section Corporate Governance). In the period from February until June 2012, the following changes occurred in the personnel composition of the governing bodies:

Supervisory Board

At its meeting of 19 April 2012, the General Meeting confirmed by election the membership of the following co-opted members: José María Álvarez-Pallete López, Enrique Medina Malo and Patricia Cobian Gonzalez. The General Meeting elected Javier Santiso Guimaras a new member of the Supervisory Board. The résumé of the new member is available at the Company's website in section About/Corporate Governance. With effect from 27 July 2012, the General Meeting elected the member Maria Pilar López Álvarez for another tenure. The General Meeting also approved agreements for the performance of office for the newly elected members of the Supervisory Board. Petr Gazda, member of the Supervisory Board elected by employees, resigned from his membership with effect from 19 April 2012.

Audit Committee

At its meeting of 19 April 2012, the General Meeting confirmed Vladimír Dlouhý as member of the Audit Committee. Javier Santiso Guimaras was elected substitute member of the Audit Committee.

Board of Directors

At its meeting of 17 February 2012, the Supervisory Board discussed a resignation from membership in the Board of Directors, which was tendered by John Gerald McGuigan. Ramiro Lafarga Brollo, who is also the Statutory Executive and Chief Executive Officer of the subsidiary Telefónica Slovakia, s.r.o., was nominated in his stead on the same day.

The executive organisation structure of Telefónica CR changed in the first half of 2012 from the situation published in the 2011 Annual Report in the respect that the scope of the division Strategy and Business Development, which is helmed by Felix Geyr, was expanded to include the division Wholesale (from 1 February 2012) and the division Customer Experience (from 1 June 2012), both previously in the direct reporting line of the Chief Executive Officer.

The situation of the subsidiary and affiliated companies changed in the first half of 2012 from the situation published in the Telefónica CR's 2011 Annual Report in the following respects; the changes affected subsidiaries Telefónica O2 Business Solutions, spol. s r.o., Informační linky, a.s. and Internethome, s.r.o.

Telefónica O2 Business Solutions, spol. s r.o.

In February 2012, the Board of Directors of Telefónica CR approved a plan to merge through consolidation the subsidiary Telefónica O2 Business Solutions, spol. s r.o. Telefónica Czech Republic, a.s. In April 2012, a notarial record was made of the project of a national merger through consolidation, which was presented by the Board of Directors of Telefónica CR and the statutory executives of Telefónica O2 Business Solutions, spol. s r.o. On 1 July 2012, the merger was recorded in the Commercial Register, which effectively meant that Telefónica O2 Business Solutions, spol. s r.o., ceased to exist and all its assets, including rights and obligations arising from labour law relationships, were transferred to Telefónica Czech Republic, a.s.

Informační linky, a.s.

In February 2012, Telefónica CR entered into an agreement to sell 80% of shares of Informační linky, a.s. This was a follow up step to the incorporation of Informační linky, a.s., as of 1 January 2012 by spinning of a part of business assets – the unit Information and Assistance Services which operated the directory and assistance services at numbers 1180, 1181 and 1188.

Internethome, s.r.o.

In May 2012, the Board of Directors of Telefónica CR passed the decision to increase the registered capital of Internethome, s.r.o. from the present CZK 200,000 to CZK 67,765,000. The registered capital will be increased through an in-kind contribution of a part of the business assets from Telefónica CR. The transfer of the business assets to Internethome, s.r.o., will be effected based on an agreement on the transfer of a part of business assets, which was approved for conclusion by the General Meeting of 19 April 2012.

Personnel composition of the Supervisory Board of Telefónica CR (as at 30 June 2012)

Name	Function
José María Álvarez-Pallete López	Chairman of the Supervisory Board
María Eva Castillo Sanz	1 st Vice-chairwoman of the Supervisory Board
Lubomír Vinduška	2 nd Vice-chairman of the Supervisory Board
Patricia Cobian Gonzalez	Member of the Supervisory Board
Vladimír Dlouhý	Member of the Supervisory Board
Tomáš Fírbach	Member of the Supervisory Board
Pavel Herščík	Member of the Supervisory Board
María Pilar López Álvarez	Member of the Supervisory Board
Enrique Medina Malo	Member of the Supervisory Board
Javier Santiso Guimaras	Member of the Supervisory Board
Dušan Stareček	Member of the Supervisory Board
Ángel Vilá Boix	Member of the Supervisory Board

Personnel composition of the Audit Committee of Telefónica CR (as at 30 June 2012)

Name	Function
María Eva Castillo Sanz	Chairman of the Audit Committee
Maria Pilar López Álvarez	Vice-chairwoman of the Audit Committee
Vladimír Dlouhý	Member of the Audit Committee
Pavel Heršтик	Member of the Audit Committee
Jaime Smith Basterra	Member of the Audit Committee
Javier Santiso Guimarães	Substitute Member of the Audit Committee

Personnel composition of the Board of Directors of Telefónica CR (as at 30 June 2012)

Name	Function
Luis Antonio Malvido	Chairman of the Board of Directors
Jesús Pérez de Uríguen	1 st Vice-chairman of the Board of Directors
Petr Slováček	2 nd Vice-chairman of the Board of Directors
Martin Bek	Member of the Board of Directors
Jakub Chytil	Member of the Board of Directors
Ramiro Lafarga Brollo	Member of the Board of Directors
František Schneider	Member of the Board of Directors

Executive management of Telefónica CR (as at 30 June 2012)

Name	Function
Luis Antonio Malvido	Chief Executive Officer
Martin Bek	Director, Support Units Division
Jiří Dvorjančanský	Director, Marketing Division
Dana Dvořáková	Director, Corporate Communication
Felix Geyr	Director, Strategy and Business Development Division
Jakub Chytil	Director, Legal, Regulatory and Public Affairs Division
Ctirad Lolek	Director, Human Resources Division
Martin Luis Aldo	Director, Consumer Division
Jesús Pérez de Uríguen	Director, Finance Division
František Schneider	Director, Business Division
Petr Slováček	Director, Operations Division

All principal information and documents relating to the corporate governance of Telefónica CR are available at the Company's website (www.telefonica.cz).