Telefónica Czech Republic – January to December 2011 Financial Results

February 17, 2012

Telefónica Czech Republic, a.s. announces its audited financial results for January to December 2011. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of Telefónica Slovakia, Telefónica O2 Business Solutions and other smaller operating companies.

Operational Highlights

- **Solid commercial momentum** in focused areas maintained despite continuous intense competition:
  - **Strong contract mobile customers' growth maintained: +6.5% year-on-year**, with 54 thousand net additions in 4Q 2011, helped by continuous **mobile broadband customers growth** and **improved churn**.
  - **xDSL accesses grew by 8.1% year-on-year reaching 872 thousand** (66 thousand net additions in 2011), and VDSL helping to improve experience of existing base, manage fixed BB ARPU and enhance the churn.
  - **Decline in fixed accesses continued to decelerate: -5.2% year-on year**, with 87 thousand net losses in 2011 (-13.9% year-on-year).
- **Consolidated business revenues decline further slowed down to -4.0% year-on-year in 4Q 2011** (-5.7% year-on-year in 2011) on the back of **better mobile service revenues performance**, **healthy ICT revenues** and continued **growth of revenues in Slovakia**.
- **Guided OIBDA[1] decreased by 5.0%** year-on-year in 2011, **within the guidance range[2]**, while **guided OIBDA margin[3] improved 0.2 percentage points year-on-year reaching solid 43.6% in 2011** (+1.1 p.p. year-on-year to 45.4% in 4Q) on the back of **continuous OpEx efficiencies** and **positive and growing OIBDA in Slovakia**.
- **Telefónica Slovakia** maintained its **commercial momentum** seen already in the previous quarters reporting 32.2% year-on-year subscribers' growth (+85 thousand in 4Q) and further **improving its financial performance**.
- **CapEx reached CZK 5,621 million, in line with full year guidance[4].**

[1] OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010 and CZK 1,080 million in 2011) and impairment reversal in 3Q/FY 2010 (CZK 4,343 million) assuming constant FX rate of 2010.
[2] OIBDA decline of -1% to -5%. In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010). In addition, 2010 OIBDA base excludes reversal of the impairment loss of CZK 4,343 million. 2011 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2010
[3] Guided OIBDA over Business revenues
[4] CapEx around CZK 5.7 billion.

Telefónica Czech Republic, a.s. Za Brumlovkou 266/2 Praha 4 140 22 T +420 271 462 076 www.telefonica.cz investor.relations@o2.com

<u>2012 Investor Guidance:</u>

- **Business Revenues:** improving trends compared to 2011, **OIBDA margin[5]:** limited margin erosion year-on-year, **CapEx[6]:** up to CZK 6.2 billion.

<u>2011 shareholder remuneration proposal</u>

- Board of Directors approved a proposal to AGM of **CZK 40 cash per share**, composed of **CZK 27 ordinary dividend** and **CZK 13 share capital reduction.**
- In addition, Board of Directors approved a proposal to AGM for a **generic authorisation** of **a potential share buy-back up to 10% of shares**.

"I am pleased that in still challenging economic and competitive market conditions we have delivered full year guidance. This is a result of improving revenues trends in the second half of the year, both in fixed as well as mobile businesses. In addition, successful execution of our efficiency agenda and growing profitability in Slovakia helped us to improve the comparable OIBDA margin to very healthy 43.6%, among the best in class in CEE telco region. As a result of our continuous focus on commercial proposition of valuable services and products, which we targeted also in Christmas campaign, we maintained solid customers' growth in all key areas," says Jesús Pérez de Uriguen, the Chief Financial Officer and the First Vice-Chairman of the Board of Directors of Telefónica Czech Republic when commenting on the operator's financial results. *"Based on the thorough analysis of the current financial position and prospective business performance and in line with its intention not to hold the surplus cash, the Board of Directors will propose total shareholder remuneration of CZK 40 cash per share, composed of CZK 27 ordinary dividend and CZK 13 share capital reduction. At the same time this proposal implies very solid yield around 11%"*, he adds.

[5] OIBDA before brand fees & management fees; 2012 guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2011

[6] Excluding business acquisitions

Consolidated Financial Statements

Consolidated **business revenues** went down 5.7% year-on-year to CZK 52,388 million in 2011 (-4.0% year-on-year in 4Q to CZK 13,411 million). Financial performance of the Group in the last quarter of the year further improved compared to previous quarters helped by stabilisation of spend in mobile residential segment and solid ICT revenues performance. At the same time, revenues continued to be impacted by prevailing competitive pressure largely in corporate and SMB mobile segments and MTR cuts. Fixed business revenues in the Czech Republic declined by 6.9% year-on-year reaching CZK 22,606 million in 2011, while in 4Q the decline rate slowed down significantly posting a -4.4% year-on-year to CZK 5,770 million largely due to above mentioned growth in ICT revenues . Mobile revenues in the Czech Republic declined by 8.6% to CZK 26,126 million in 2011 with a lower decline in 4Q (-7.9% year-on-year reaching CZK 6,581 million). Excluding the impact of MTR cuts, the decline rate would be at -5.0% in 2011 and -4.2% in 4Q, due to already mentioned better spend in residential segment. On the other hand, revenues in Slovakia continued to post a solid growth and recorded a 40.9% year-on-year increase reaching EUR 157.4 million in 2011 (+34.7% year-on-year to EUR 44.2 million in 4Q 2011 alone).

In 4Q 2011, the Company has continued in its effort to deliver efficiencies in all areas of its operation to compensate for pressure in revenues. Despite higher commercial activities and sub-deliveries for ICT projects, total consolidated **operating costs** decreased by 4.1% year-on-year reaching CZK 31,533 million in 2011 (-4.3% excluding brand fees and management fees) and by 5.5% year-on-year in 4Q , also positively impacted by MTR cuts. It is worth to mention positive impact coming from 2010 and 2011 restructuring programs, which led to a 9.2% year-on-year reduction in personnel expenses in 2011. The total Group headcount reached 6,890 at the end of December 2011, down by 8.4% year-on-year and -4.1 % quarter-over-quarter. In 4Q 2011 alone, the headcount has been reduced by additional 297 employees, influenced by the outsourcing of IT support services to Telefónica Global Technology, which shall provide IT support for Telefónica's businesses in the Czech Republic, Slovakia and Germany .

Guided Operating income before depreciation and amortization (OIBDA)[7] decreased by 5.0% year-on-year, within the guidance range[8], reaching CZK 22,901 million in 2011, while in 4Q it declined only 1.7% year-on-year reaching CZK 6,086 million. At the same time relevant **OIBDA margin** improved by 0.2 p.p. year-on-year reaching solid 43.6% (45.4% in 4Q alone, +1.1 p.p. year-on-year), on the back of already mentioned focus on cost efficiency, improving profitability in Slovakia and helped by sale of some non-core assets. In terms of **reported OIBDA**, it reached CZK 21,791 million in 2011, -20.4% year-on-year, while in 4Q it went up 1.2% year-on-year to CZK 5,842 million. Year-on-year OIBDA comparison in 2011 has been significantly impacted by an impairment reversal (CZK 4,343 million) booked in 3Q 2010. Excluding this item, OIBDA would decline by 5.4% year-on-year in 2011.

[7] In terms of 2011 guidance calculation, OIBDA excludes brand fees and management fees (CZK 1,057 million in 2010 and CZK 1,080 million 9M 2011) and impairment reversal in 3Q/9M 2010 (CZK 4,343 million), assuming constant FX rates of 2010.

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

Depreciation and amortization charges went down by 1.7% year-on-year in 2011 (-9.1% in 4Q), as the impact of the impairment reversal booked in 3Q 2010 (higher gross value of fixed assets) continuously diminishes. In respect of reported consolidated **net income**, it amounted to CZK 2,868 million and CZK 8,684 million in 4Q and 2011, up by 49.9% year-on-year in 4Q and down by 29.3% year-on-year in 2011. 4Q as well as 2011 net income has been positively impacted by deferred tax income booked in Slovakia (CZK 709 million). Excluding this item, net income would post a 12.9% year-on-year growth in 4Q and a 35.1% year-on-year decline in 2011. In addition, year-on-year net income performance has been significantly impacted by already mentioned impairment reversal booked in 3Q 2010. Thus, on fully comparable basis (excluding the impact of impairment reversal on OIBDA, D&A and income tax in both 2010 and 2011 and deferred tax income in Slovakia booked in 4Q 2011), net income would grow by 11.4% year-on-year in 4Q, while declining 5.7% in 2011, largely due to decline in OIBDA, not fully compensated by lower depreciation and amortization, financial expenses and income tax expense.

Consolidated **CapEx** (excluding business acquisitions) reached CZK 5,621 million in 2011, down by 0.7% year-on-year, in line with Company's full year guidance (CapEx around CZK 5.7 billion). The Company continued to direct investments into the capacity expansion and quality improvement of 3G network. In addition, CapEx was spent on further expansion of 3G network coverage, including coverage of currently unserved areas on the basis of network sharing contract with T-Mobile. At the end of December 2011, the Company covered already 1,699 towns and cities in the Czech Republic with its 3G network, representing around 73% population coverage. Additionally, the Company focused its investments into the upgrade of its fixed broadband with VDSL technology aiming at strengthening its position on highly competitive fixed broadband market in the Czech Republic and improving customer experience. Also, the relevant part of CapEx was spent to improve Company's systems (CRM) to further enhance customer relationship, simplify and streamline processes and consequently increase the operating efficiency. In Slovakia, CapEx was largely spent on additional network investment related to the launch and expansion of 3G network.

Group free cash flows decreased by 8.6% year-on-year reaching CZK 15,017 million in 2011 (and only by 0.9% year-on-year to CZK 4,774 million in 4Q), as a combination of **5.6% decline in cash from operating activities**, broadly **in line with OIBDA decline**, and an 3.8% increase in cash used in investing activities driven by higher CapEx related cash payments partially offset by higher proceeds on disposal of non-core assets.

The consolidated **financial debt** amounted to CZK 3,061 million at 31 December 2011, broadly in line with the end of 2010. At the same time, **cash and cash equivalents** reached CZK 6,955 million, up from CZK 4,798 million at the end of 2010.

CZ Mobile Business Overview[9]

Similarly to 3Q, dynamics of the mobile business continued to improve also in 4Q 2011 compared to previous quarters on the back of improvement in residential spend, while tough competition in SMB and corporate segments continued to dilute financial performance. In addition, MTR cuts

[9] Figures are shown net of inter-segment charges between fixed and mobile businesses

(-34.9% year-on-year[10]) impacted mobile revenues in 4Q and FY 2011. In the commercial area, the Company maintained solid subscribers' growth in contract segment supported by customers' demand for mobile broadband proposition and improving churn, despite intense competitive pressure. Moreover, prepaid base recorded a positive performance in 4Q supported by successful Christmas campaign. In the mobile internet area, the Company recorded positive results of its marketing campaign focused on promotion of smartphone sales, which resulted into accelerated uptake in smartphone penetration reaching close to 20% at the end of 2011.

Total **mobile customer base** reached 4,942 thousand at the end of December 2011, a 2.1% year-on-year increase. In FY 2011, the Company recorded 103.1 thousand net additions in its mobile customer base, compared to just 5.0 thousand in 2010 (excluding the disconnection of inactive contract customers in 2Q 2010). In 4Q alone, net additions reached 59.5 thousand largely due to continuous strong contract base growth and positive growth in prepaid base. The number of **contract customers** went up 6.5% year-on-year reaching 3,049 thousand at the end of 2011 with 185.7 thousand net additions in the year (+15.9% year-on-year, excluding the disconnection of 111 thousand inactive contract customers in 2Q 2010), while in 4Q the net additions improved by 19.7% year-on-year reaching 53.9 thousand. This performance continued to be supported by customers migrating from the prepaid to the contract segment, positive contribution of mobile broadband customers' growth, increasing smartphone penetration and lower churn. At the end of December 2011, contract customers accounted already for 61.7% of the base (+2.5 percentage points year-on-year), the highest figure ever. The number of **prepaid customers** reached 1,892 thousand at the end of 2011, down by 4.2% year-on-year, with 82.6 thousand net losses in FY 2011, compared to 155.2 thousand in 2010. Moreover, in 4Q, their number increased by 5.5 thousand, the first positive quarterly performance since 3Q 2009, driven by already mentioned successful Christmas campaign and lower churn.

The blended monthly average **churn rate** reached 1.78% in 4Q 2011 posting a 0.5 percentage point year-on-year decrease. This is a result of continuous improvement in contract churn which reached historically the lowest figure of 0.99% in 4Q, posting a 0.3 percentage points year-on-year decrease. Also prepaid churn improved posting 3.04% in 4Q, down by 0.6 percentage point year-on-year on the back of increased focus on higher quality customers' acquisition and success of the customer loyalty scheme activities awarding them for regular top-ups.

In terms of usage, total **mobile traffic**[11] carried by the customers in the Czech Republic reached 8,956 million minutes in 2011, up by 1.9% year-on-year, while in 4Q the growth reached +3.5%, supported by Christmas contract proposition offering double minutes within tariffs.

In 2011, mobile **blended ARPU**[12] reached CZK 423.7, down by 9.6% year-on-year (-10.1% year-on-year to CZK 418.2 in 4Q alone), continued to be impacted by MTR cuts and competition. Excluding the impact of MTR cuts, total ARPU in 4Q 2011 would have declined by 6.2% year-on-year (-6.7% year-on-year in 3Q). Voice ARPU dilution driven by persisting competition is the key driver for the majority of the decline. **Contract ARPU** reached CZK 577.9 and CZK 563.8 in FY and

[10] From CZK 1.66 to CZK 1.37 in January 2011 and to CZK 1.08 in July 2011
[11] Inbound and outbound, including roaming abroad, excluding inbound roaming
[12] Including inter segment revenues

4Q 2011, down by 12.4% year-on-year in both periods (-8.8% year-on-year in 4Q 2011 excluding the MTR cuts impact, better than -10.8% in 3Q). **Prepaid ARPU** decreased by 9.6% year-on-year in 2011 reaching CZK 186.2, while in 4Q, it reached CZK 184.7. **Data ARPU** declined by 2.4% and 3.3% year-on-year in FY and 4Q 2011reaching CZK 117.2 and CZK 119.1. Similarly to previous quarters in 2011, decrease in data roaming prices and continuous SMS/MMS bundling were the key drivers behind data ARPU dilution. Nevertheless, excluding these two items (SMS/MMS and roaming), data ARPU would improve 2.4% year-on-year in 2011 with mobile internet customer base uptake remaining the key driver for that improvement.

Total **mobile business revenues** in the Czech Republic declined by 8.6% year-on-year to CZK 26,126 million in 2011 with a lower decline in 4Q (-7.9% year-on-year to CZK 6,581 million), while mobile service revenues went down by 9.7% year-on-year in 2011 and 8.4% year-on-year in 4Q, the lowest decline rate in the year. Already mentioned competitive pressures leading to lower spend in SMB and corporate segments, MTR cuts, and lower data roaming prices were the key drivers for the decline. Excluding the mobile termination rate cuts impact, mobile service revenues would decline by 5.9% year-on-year in 2011 and 4.5% in 4Q, compared to -5.8% in 3Q and -7.7% in 2Q. Despite fierce competitive pressures, continuous growth in contract customer base and better spend in residential segment helped the revenues from monthly fees to report a slight year-on-year growth in 4Q 2011 (+0.4%), compared to flat and a -2.9% year-on-year growth recorded in 3Q and 2Q. Despite a 1.9% year-on-year growth in mobile outbound voice traffic, traffic revenues decreased by 16.3% year-on-year to CZK 6,982 million in 2011 (-15.8% year-on-year in 4Q), due to higher number of traffic bundling and competitive pressure on per minute charge. Interconnection revenues went down by 30.2% year-on-year to CZK 2,534 million in 2011, largely impacted by MTR cuts and lower incoming traffic. Other revenues (including SMS & MMS, data and other business revues) reported improving trend in 4Q compared to the previous quarters with more SMS/MMS bundling having pressure on them, while revenues from mobile internet remain the key growth driver. Overall, these revenues posted a flat year-on-year performance in 4Q, while in 2011 they declined by 1.9% year-on-year reaching CZK 7,251 million. However, excluding SMS, MMS and data roaming, data revenues would report a 3.8% year-on-year growth in 2011, confirming positive impact of the growth in mobile broadband revenues contribution.

CZ Fixed Business Overview[13]

In 4Q 2011, the fixed business continued to report solid commercial performance in broadband customer base and fixed accesses seen already in previous quarters, while revenues shown the best year-on-year quarterly performance in 2011 helped by strong performance of ICT revenues. Continuous migration of the existing ADSL customers to VDSL proposition launched in 2Q kept helping the Company to better manage fixed broadband ARPU and enhance churn, which is relevant in a highly competitive and slowing fixed broadband market environment.

The total number of **fixed accesses** declined by 5.2% year-on-year reaching 1,582 thousand at the end of 2011, while net losses reached 87.3 thousand in 2011, well below 101.4 thousand in 2010 (-13.9% year-on-year). This is largely a result of lower traditional telephony lines' losses (-22.4% year-on-year) and continuous solid growth of naked accesses (+45% year-on-year).

[13] Figures are shown net of inter-segment charges between fixed and mobile businesses

The number of **xDSL accesses** reached 872 thousand at the end of December 2011, up 8.1% year-on-year. In 2011, their number increased by 65.6 thousand. In respect of VDSL, already 103.2 thousand customers subscribed for the new service since May till the end of 2011, which represents 12% of total xDSL base and some ¼ of total addressable existing base. The total number of **O_2 TV customers** reached 136 thousand at the end of 2011, +5.0% year-on-year, with 5.0 thousand net additions in 4Q resulting from successful Christmas bundling proposition with broadband Internet .

Voice traffic generated in the fixed network went down by 13.4% in 2011 to 1,507 million minutes, still impacted by fixed telephony lines losses and fixed to mobile substitution effect.

In 2011, total **fixed business revenues** went down by 6.9% year-on-year reaching CZK 22,606 million. However, in 4Q alone, the decline rate significantly decelerated to 4.4% year-on-year (compared to -7.5% year-on-year in 3Q and -7.6% year-on-year in 2Q) due to strong ICT revenues performance. Revenues from traditional accesses fell by 16.3% year-on-year in 2011 (-15.6% year-on-year in 4Q) reaching CZK 4,298 million due to continuous fixed telephony lines losses, while revenues from traditional voice revenues went down by 8.8% year-on-year to CZK 6,755 million in 2011. Internet & broadband revenues increased in total by 1.2% year-on-year in 2011 (+1.4% year-on-year in 4Q) reaching CZK 6,049 million in 2011, positively impacted by xDSL customer growth and migration of current higher value customers to VDSL. IT services and business solutions revenues increased by 1.5% year-on-year reaching CZK 2,177 million in 2011, while in 4Q, they reached CZK 738 million posting an 18.9% year-on-year growth supported by realisation of several ICT projects.

Slovakia

In 4Q 2011, Telefónica Slovakia reported a strong set of commercial and financial results, which led to further strengthening of its position on Slovak mobile market. At the same time its performance supported positively the Group's financial performance in 4Q and FY 2011. In 4Q, the total **number of customers** increased by 85.1 thousand, the highest quarterly growth in 2011, driven by sound contract base uptake. Consequently total subscriber base reached 1,164 thousand at the end of December 2011, posting a 32.2% year-on-year growth. The number of **contract customers** grew by 48.9% year-on-year reaching 498 thousand at the end of 2011, which translates into 53.2 thousand net additions in the quarter, while the number of **prepaid customers** increased by 22.0% year-on-year ending up at 666 thousand. Thus, the customer mix in Slovakia further improved and contract customers represented already significant 42.8% of total customer base, up 4.8 percentage point year-on-year. In terms of financial performance, **total revenues** of Telefónica Slovakia in local currency increased by 40.9% year-on-year reaching EUR 157.4 million in 2011 (+34.7% year-on-year in the quarter to EUR 44.2 million, up from EUR 40.1 million in 3Q), fuelled by the strong base growth and improving customer mix. Thus revenues in Slovakia represented already 7% of total Group revenues in 2011, compared to 4.8% in 2010. Excluding the impact of MTR cuts (-28.3% to EUR cents 5.51 effective from 1st June 2011), the revenues year-on-year growth rates would reach 49.4% in FY 2011 and 43.6% in 4Q. In 4Q 2011, OIBDA for Telefónica Slovakia further grew compared to previous quarters, thus helping to support the Group's profitability. In 4Q 2011, **contract ARPU** reached EUR 16.9, slightly diluted by MTR cuts and lower roaming prices, while **prepaid ARPU** improved to reach EUR 8.6.

Outlook for 2012

In 2012, the Company will continue focusing on further improvement of the customer satisfaction via proposition of the new valuable services and products which will meet their needs. Additional investments into the process optimisation will improve further the customer relationship area leading to the reduction of customers' complaints and consequent improvement in their experience. In line with its strategy to strengthen market leadership, the Company will focus on execution of the customer value management in all segments. The Company believes that these activities will help it to better manage ARPU and churn, thus mitigating pressures in highly competitive market environment.

Additionally, the Company will continue in enhancing its fixed broadband proposition through additional expansion of VDSL network coverage and in upgrading of the speeds for current accessible base. In addition, it will pursue with gradual FTTx deployment to strengthen its market share. In mobile broadband, it aims at further expansion of its 3G network coverage, while enhancing capacity and quality of the network including backhaul to exploit the opportunity of smartphone and data uptake. Moreover, it will closely monitor and analyse conditions of the upcoming tender for the new frequencies, where it will make a bid for the LTE license in order to deploy 4G network, which will allow it to keep its competitiveness on the mobile broadband market. In ICT area, it will target to offer standard portfolio of services and solutions to mitigate dependence on one-off projects, which should help generating sustainable revenues.

Telefónica Slovakia will continue in its value and simplicity based commercial proposition targeting higher value customers to maintain solid subscribers' growth, while keeping focus on further improvement of its financial performance through lean operation approach.

The Company expects that fixed and mobile broadband revenues together with growing revenues in Slovakia will be the key drivers for improving top line performance in 2012 compared to 2011. At the same time, additional expected MTR cuts and ARPU pressure coming from still intense competition will continue hitting mobile revenues in 2012. The Company will maintain its effort to focus on OpEx efficiencies largely in operational areas (creation of leaner and more efficient organisational structure and processes, consolidation and optimization in call centres) aiming to maintain best-in-class profitability. It will continue to direct its investments primarily into the upgrade of its fixed mobile broadband network and improvement of the mobile broadband capabilities to deliver future growth.

Based on that, the Company provides following guidance for 2012:

	2011 base	2012 guidance
Business revenues	-5.7% year-on-year	improving trends vs. 2011
OIBDA margin[14]	43.7%	limited margin erosion y-o-y
CapEx[15]	CZK 5.6 billion	up to CZK 6.2 billion (flexibility to manage CapEx/Revenue evolution)

2011 shareholder remuneration proposal

On its meeting held on 17th February 2012, the Board of Directors approved a proposal to the Annual General Meeting for a total shareholder remuneration of CZK 12,884 million, which equals to CZK 40 cash per share. This amount is composed of CZK 27 ordinary dividend and CZK 13 share capital reduction (reduction of nominal share value from current CZK 100 to nominal share value of CZK 87). The dividend payment is suggested to distributing the full amount of net profit for 2011 and part of the retained profits from previous years. The proposed relevant dividend record date is 12th September 2012, dividend payment date is proposed on 10th October 2012. In addition, Board of Directors approved a proposal to AGM for a general authorisation of a potential realisation of share buy-back program up to 10% of total number of ordinary shares. On the same day, the shareholder remuneration proposal has been reviewed by the Supervisory Board and will be submitted to the Annual General Meeting that will be held on 19th April 2012.

Attachment:

The consolidated balance sheet and income statement of Telefónica Czech Republic prepared in accordance with International Financial Reporting Standards (all figures in CZK million).

Contacts

Investor Relations
Telefónica Czech Republic, a.s.
investor.relations@o2.com
t +420 271 462 076

[14] OIBDA before brand fees & management fees; 2012 guidance excludes changes in consolidation, includes potential capital gains from non core asset sales, assuming constant FX rates of 2011

[15] excluding business acquisitions

About Telefónica Czech Republic

Telefónica Czech Republic is a major integrated operator in the Czech Republic. It is now operating almost seven million lines, both fixed and mobile, making it one of the world's leading providers of fully converged services. The organization offers the most comprehensive portfolio of voice and data services in this country. It is paying special attention to the exploitation of the growth potential, particularly in the data and Internet sector. Telefónica Czech Republic operates the largest fixed and mobile network including a 3rd generation network, CDMA (for data), and UMTS, enabling voice, data and video transmission. Telefónica Czech Republic is also a notable provider of ICT services.

About Telefónica

Telefónica is one of the world's largest telecommunications operators by market capitalisation. Its activities are centred mainly on the fixed and mobile telephony businesses, while its broadband business is the key growth driver underpinning both. It operates in 25 countries and has a global customer base of close to 300 million. Telefónica's growth strategy is focused on the markets in which it has a strong foothold: Spain, Europe and Latin America. Telefónica is a 100% private sector company with its shares listed in Madrid and other stock exchanges and more than 1.5 million individual shareholders.

INCOME STATEMENT	Jan – Dec 2011	Jan –Dec 2010
Business revenues	52,388	55,561
Other recurring revenues	83	94
Revenues	**52,471**	**55,655**
Internal expenses capitalized in fixed assets	671	637
Operating expenses	(31,533)	(32,889)
Other operating income/(expenses)	(143)	(440)
Gain on sale of fixed assets	346	92
Impairment reversal/(loss)	(21)	4,325
OIBDA	**21,791**	**27,380**
Depreciation and amortization	(11,651)	(11,856)
Operating Income	**10,140**	**15,524**
Net financial income (expense)	(131)	(206)
Income before tax	**10,008**	**15,318**
Income tax	(1,324)	(3,038)
Net Income	**8,684**	**12,280**

BALANCE SHEET	31.12.2011	31.12.2010
Non-current assets	**73,100**	**78,285**
- Intangible assets	7,205	7,989
- Goodwill	13,453	13,448
- Property, plant and equipment and investment property	51,525	56,651
- Long-term financial assets and other non-current assets	171	192
- Deferred tax assets	746	5
Current assets	**15,881**	**14,495**
- Inventories	488	606
- Trade and other receivables	8,166	8,626
- Current tax receivable	165	453
- Short-term financial investments	106	12
- Cash and cash equivalents	6,956	4,798
Non-current assets classified as held for sale	**1**	**12**
Total assets	**88,982**	**92,792**
Equity	**69,097**	**73,176**
Non-current Liabilities	**3,870**	**6,896**
- Long-term financial debt	-	2,883
- Deferred tax liabilities	3,737	3,936
- Long/Term Provisions	26	52
- Other long/term liabilities	107	25
Current Liabilities	**16,015**	**12,720**
- Short-term financial debt	3,061	141
- Trade and Other payables	10,495	9,978
- Current income tax payable	-	-
- Short-term provisions and other liabilities	2,459	2,601
Liabilities assoc. with non-current assets classified as held for sale	**-**	**-**
Total Equity and Liabilities	**88,982**	**92,792**