Press release

Telefónica Czech Republic – January to December 2012 Financial Results

February 27, 2013

Telefónica Czech Republic, a.s. announces its audited financial results for January to December 2012. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of Telefónica Slovakia and other smaller operating companies.

Operational Highlights

- **Sound commercial momentum** in focused areas **sustained** in Q4 despite continued intense competition:
    - **Healthy total mobile customers' growth: +2.9% year-on-year to 5.1 million**, with significant 58.7 thousand net additions in Q4 2012 (best quarterly figure in 2012). Continued **strong contract trading** (51.4 thousand net adds in the quarter) and **low churn** remained the drivers of the growth. **Prepaid base reported positive growth** (+7.3 thousand in Q4 2012), driven by sustained gross adds.
    - **Smartphone penetration growing to 27%**, up 7.6 percentage points year-on-year.
    - **xDSL accesses grew by 5.0% year-on-year reaching 915 thousand**, with VDSL (already over 66% of total accessible base in residential segment) continues helping to manage fixed BB ARPU dilution and maintain churn.
    - **Decline in fixed accesses continued to stabilise: accesses down 5.2% year-on year**, with 18.7 thousand net losses in Q4 2012.
- **Consolidated business revenues** went **down by 3.5% year-on-year** reaching CZK 50,535 million in FY 2012, **in line with full year guidance**[1], while **Q4 performance** (-4.7% to CZK 12,783 million) was **impacted** by additional **MTR cuts**.
- **Guided OIBDA** (excluding brand fees and management fees) reached **CZK 5,450 million in Q4,** highest quarterly figure in the year (CZK 20,919 million in FY 2012), resulting in **healthy 42.6% margin**[2] **in Q4** (further improvement from 41.9% in Q3) and **41.4% in FY 2012**, **in line with full year guidance**[3]**,** on the back of **continuous efficiency agenda in CZ and growing OIBDA in SK**. Reported OIBDA reached CZK 5,091 million and CZK 19,781 million in Q4 and FY 2012.
- **Telefónica Slovakia** maintained its **strong commercial momentum** reporting 16.3% year-on-year subscribers' growth (+61.9 thousand in Q4, best quarterly growth in the year). At the same time, it further **improved its financial performance**.

[1] Improving trends compared to 2011 (2011 base: -5.7% year-on-year)
[2] OIBDA excluding brand fees & management fees (CZK 247 million and CZK 1,080 million in Q4/FY 2011, CZK 359 million and CZK 1,138 million in Q4/FY 2012) over Business revenues; 2012 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2011
[3] Limited margin erosion year-on-year (2011 base: 43.7%)

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- **2012 full year guidance delivered for all metrics[4].**

2013 Investor Guidance:

- **OIBDA margin[5]:** Limited margin erosion year-on-year (on the back of continuous efficiency agenda), **CapEx[6]:** less than CZK 6 bn. (with increasing proportion of investments into growth areas - mobile data, LTE and new technologies/businesses).

2012 shareholder remuneration proposal

- Board of Directors approved a proposal to AGM of distribute **total amount of CZK 9,663 million**[7]**,** representing **CZK 30 cash per share**, composed of **CZK 20 ordinary dividend** and **CZK 10 share premium reduction.**

Share buy-back realisation

- Board of Directors adopted a resolution to **commence additional tranche of the share buy-back program** up to **2%** of shares.

*"I am pleased that in the last quarter **we accelerated subscribers' growth in all key areas**, despite continuous competitive pressures. This strong performance reflects our successful commercial proposition. In mobile business, we **maintained low contract base churn**, while **prepaid base** continued to report **positive growth**. Adoption of our Smart tariffs, which include internet in handset service in every package, among the customers led to **steady growth of mobile non-SMS data revenues**, partially offsetting spend dilution. In fixed broadband, we **successfully continued penetrating our enhanced VDSL proposition**, confirming our leading market position. In **Slovakia**, we delivered again **strong subscribers' additions** and **improved financial performance thanks** to our **simple and transparent offer** focused on higher value customers. Our mobile **revenue performance** in this quarter was **diluted by additional MTR cuts**, while **fixed revenues** reported **further decline deceleration** on the back of higher ICT services contribution. **OIBDA margin improved further** reaching **42.6%** in the quarter, fuelled by permanent **focus on operational efficiencies** and growing profitability in Slovakia "*, says David Melcon, 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 covering current financial position and 2013 business prospect, the Board of Directors intends to propose **total shareholder remuneration for 2012** of **CZK 30 cash per share**, composed of CZK 20 ordinary dividend and CZK 10 share premium reduction. On top of that, the Board of Directors approved execution of **additional up to 2% tranche of the share buy-back program**. I believe this proposal represents an adequate return for our shareholders and offers above average yield in CEE telco region"*, he adds.

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[4] Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year), OIBDA margin: limited margin erosion year-on-year (2011 base: 43.7%), CapEx: up to CZK 6.2 billion (excluding business acquisitions)
[5] OIBDA before brand fees & management fees (2012 base: 41.4%); 2013 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2012
[6] Excluding business acquisitions and excluding investments for spectrum license
[7] Total amount could be lower depending on future number of own shares held by the Company. The Company will not be entitled to distribute the shareholder remuneration to the acquired shares.

Consolidated Financial Statements

In FY 2012, consolidated **business revenues** went down by 3.5% year-on-year to CZK 50,535 million, compared to a 5.7% year-on-year decline reported in 2011. This is in line with the Group's full year guidance[8]. In Q4 2012 the decline rate was at -4.7% reporting total business revenues of CZK 12,783 million in the quarter, largely due to year-on-year lower mobile revenues impacted by additional MTR cut[9]. Excluding the MTR cut impact the consolidated business revenues would decline 2.7% year-on-year in Q4, lower decline compared to Q3 (-3.4%), largely due to better year-on-year performance in fixed business.

Fixed business revenues in the Czech Republic declined by 5.4% year-on-year reaching CZK 21,391 million in FY 2012, while in Q4 they amounted to CZK 5,565 million resulting in continuous decelerating decline rate (-3.6% year-on-year in Q4 vs. -5.3% year-on-year in Q3 and -6.5% year-on-year in Q2) due to higher ICT contribution and better interconnection revenues performance.

Mobile revenues in the Czech Republic reported a 6.1% year-on-year decline to CZK 24,532 million in FY 2012, while in Q4 they went down by 8.8% year-on-year reaching CZK 6,001 million, largely on the back of already mentioned MTR cuts. Excluding the MTR cut impact, mobile business revenues would go down by 4.7% year-on-year in Q4, showing improvement from Q3 (-5.9% year-on-year). The Company maintained solid growth in mobile non-SMS data revenues (+13.4% year-on-year in Q4, excluding CDMA).

At the same time, revenues in Slovakia continued to post positive financial performance and recorded a 22.1% year-on-year increase reaching EUR 192.2 million in FY 2012 with a 14.8% year-on-year improvement to EUR 50.7 million in Q4 (+31.7% and +26.7% year-on-year in FY and Q4 2012, excluding MTR impact).

In Q4 2012, the Company has continued in its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. Total consolidated **operating costs** went down by 0.8% year-on-year to CZK 7,864 million in Q4 (-2.2% excluding brand and management fees), while in FY 2012 they reached CZK 31,554 million, flat year-on-year, despite customer base growth and expansion of business activities. Personnel expenses (excluding restructuring costs) declined by 7.2% year-on-year in FY 2012, while in Q4 they went down by 6.5% year-on-year. In FY 2012, the total Group headcount has been optimised by 615 employees, representing 8.9% year-on-year reduction. As a result, the Group's headcount reached 6,275 at the end of December 2012.

Guided Operating income before depreciation and amortization (OIBDA)[10] reached CZK 5,450 million in Q4 2012, the highest figure in 2012 (CZK 5,049 million in Q1, CZK 5,146 million in Q2 and CZK 5,275 million in Q3), while in FY 2012, it amounted to CZK 20,919 million. This

[8] Business Revenues: improving trends compared to 2011 (2011 base: -5.7% year-on-year)

[9] From CZK 1.08 per minute to CZK 0.55 per minute (-49.1%) as of 15th September 2012

[10] In terms of the 2012 guidance calculation, OIBDA excludes brand fees and management fees (CZK 247 million and CZK 1,080 million in Q4/FY 2011, CZK 359 million and CZK 1,138 million in Q4/FY 2012), 2012 guidance excludes changes in consolidation, includes potential capital gains from sales of non-core asset, assuming constant FX rates of 2011.

represents a 10.5% year-on-year decline in Q4, compared to -11.5% year-on-year in Q3, while in FY 2012 the decline rate was at -8.5%. At the same time **guided OIBDA margin**[11] reached 42.6% in Q4, up from 41.9% in Q3 and 40.5% in Q2 and Q1, while in FY 2012, it was at 41.4%. This represents a 2.3 percentage points year-on-year decline in FY 2012 (-2.8 percentage points year-on-year in Q4), in line with the Company's guidance provided at the beginning of the year[12]. **Reported OIBDA** reached CZK 5,091 million in Q4 and CZK 19,781 million in FY 2012.

Depreciation and amortization charges went down by 1.8% year-on-year in FY 2012 (flat year-on-year in Q4). Consolidated **net income** amounted to CZK 6,785 million and CZK 1,766 million in FY and Q4 2012, down by 21.9% year-on-year in FY 2012. The year-on-year net profit performance in FY 2012 has been impacted by a deferred tax income (CZK 709 million) booked in Slovakia in Q4 last year. Excluding this item, net income would post a 14.9% year-on-year decline in FY 2012. This has been driven largely by the decline in OIBDA.

Consolidated **CapEx** (excluding business acquisitions) reached CZK 6,243 million in FY 2012, up by 11.1% year-on-year (+17.9% to CZK 2,278 million in Q4). The Company continued to direct investments into further capacity expansion and improvement of the quality of its mobile broadband network, in line with growing demand for mobile data services. In addition, CapEx was spent on further expansion of 3G network coverage. At the end of December 2012, the Company's **3G** network covered close to 80% of the population. Additionally, the Company focused its investments into the capacity enhancement in its fixed broadband networks. In Slovakia, CapEx in 2012 was largely spent on 3G network expansion and investments into systems improvement. At the end of December 2012, Telefónica Slovakia covered already 53% of the population with its 3G technology.

Cash from operating activities declined by 16.1% year-on-year in FY 2012 (but only -6.2% in Q4), due to a decrease in OIBDA and better performance in working capital cash movements in H2 compared to H1 (cash from operations declined only -2.0% year-on-year in Q4 compared to -9.7% year-on-year decrease in Q3 and double digit dilution in H1) . Cash used in investing activities increased by 9.1%. This is a result of lower proceeds on disposal of fixed assets (proceeds on disposal of 80% of shares of subsidiary Informační linky, a.s. in Q1 2012 worth CZK 220 million did not fully offset proceeds on disposal of obsolete assets booked in H2 2011), and a modest decrease in payments for CapEx. Thus, group **free cash flows** decreased by 25.3% year-on-year reaching CZK 11,220 million in FY 2012, with a visible improvement in Q4 (-11.6% year-on-year). In addition, cash used in investing activities in Q3 showed an impact of the obligatory temporary warranty (CZK 250 million) paid by the Company in connection with its participation in Spectrum Auction, which commenced in 2012 and has not finished yet.

The consolidated **financial debt** (long-term short-term) amounted to CZK 3,031 million at 31 December 2012, broadly in line with the end of 2011. At the same time, **cash and cash equivalents** reached CZK 3,044 million.

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[11] OIBDA excluding brand fees & management fees over Business revenues
[12] Limited margin erosion year-on-year (2011 base: 43.7%)

CZ Mobile Business Overview[13]

In Q4 2012, the mobile business continued to report solid commercial momentum in all areas. The Company accelerated subscribers' growth in the contract segment on the back of low churn and sustained positive performance in prepaid area, which has been reported already in Q3. In the mobile internet area, the Company continued in its support of smartphone sales via best price guarantee proposition for bestselling smartphones and in marketing of its Smart tariffs, bundling mobile voice, internet in handset and unlimited on-net SMS. As a result, smartphone sales represented close to 72% of total handset sales in Q4 2012 (75% in December) and smartphone penetration[14] grew further reaching 27% at the end of December 2012, up by 7.6 percentage points year-on-year (+2.4 percentage points quarter-on-quarter).

The total **mobile customer base** reached 5,083 thousand at the end of December 2012, a 2.9% year-on-year increase. This performance has been driven by sustained **contract customers** growth, whose number went up by 4.7% year-on-year reaching 3,192 thousand at year end, with 51.4 thousand net additions during the quarter, the highest figure in 2012. This growth continued to be supported by customers migrating from the prepaid to the contract segment, strong customers' increase in Corporate and SMB segments, increasing smartphone penetration and a sustained low churn. At the end of December 2012, contract customers accounted for 62.8% of the base, up 1.1 percentage point year-on-year. The number of **prepaid customers** reached 1,891 thousand at the end of December 2012, basically flat year-on-year, with additional positive net additions of 7.3 thousand in Q4, largely due to higher gross additions and lower number of migrations to contract services as a result of successful propositions and activities focused on improvement of customers' care leading to higher satisfaction.

The blended monthly average **churn rate** reached 1.85% in Q4 2012. This is largely a result of continuous low contract churn, which reached 1.0% in Q4 2012, a sustained level through 2012. In FY 2012, the total churn rate reached 1.77%, 0.1 percentage point down year-on-year.

In terms of usage, total **mobile traffic**[15] carried by customers in the Czech Republic reached 9,592 million minutes in FY 2012, up by 7.1% year-on-year, while in Q4 the year-on-year growth accelerated to 8.2%, supported by successful propositions for both contract and prepaid customers.

In FY 2012, mobile **blended ARPU**[16] was CZK 388.5, down by 8.3% year-on-year, while in Q4 it went down 12.2% year-on-year, reaching CZK 367.3. Dilution of ARPU in Q4 has been impacted largely by MTR cuts and lower spend patterns. Excluding the impact of MTR cuts, total ARPU would have declined by 6.0% and 8.0% year-on-year in the year and Q4 respectively. Continuous voice ARPU dilution driven by persisting competitive pressures and lower spend evolution were the key drivers for the majority of the decline. **Contract ARPU** reached CZK 517.7 in FY 2012, down by 10.4% year-on-year and CZK 486.7 in Q4, down

[13] Figures are shown net of inter-segment charges between fixed and mobile businesses.
[14] Smartphones as % of total handsets base
[15] Inbound and outbound, including roaming abroad, excluding inbound roaming
[16] Including inter segment revenues

13.7% year-on-year (-8.3% year-on-year and -9.7% year-on-year in FY and Q4 2012 excluding the impact from MTR cuts). **Prepaid ARPU** decreased by 6.6% year-on-year in FY and by 9.8% year-on-year in Q4 2012 reaching CZK 173.9 and CZK 166.6 respectively. **Data ARPU** declined by 4.8% year-on-year reaching CZK 111.6 in FY 2012 (-7.2% year-on-year to CZK 110.6 in Q4) largely due to mobile internet and SMS/MMS bundling in monthly fees. However pure data ARPU[17] (excluding CDMA) continued to maintain a solid growth reporting a 10.1% year-on-year improvement in Q4.

Total **mobile business revenues** in the Czech Republic declined by 6.1% year-on-year to CZK 24,532 million in FY 2012, with an 8.8% dilution to CZK 6,001 million in Q4. At the same time, mobile service revenues went down by 5.9% and 9.1% year-on-year in FY and Q4 2012 respectively. Already mentioned competitive pressures leading to lower spend together with additional MTR cuts continued to be the key drivers for the decline. Excluding the impact of mobile termination rate cuts, mobile service revenues would decline by 4.8% year-on-year in Q4 2012. Despite continued growth in the contract customer base, revenues from monthly fees decreased slightly by 0.5%, reaching CZK 8,070 million in FY 2012, largely due to competitive pressures. Traffic revenues decreased by 10.7% year-on-year in FY 2012 to CZK 6,233 million, while in Q4 the year-on-year decline decelerated to -9.8%, broadly in line with the performance in Q3. Interconnection revenues went down by 18.1% year-on-year in FY 2012 (-34.2% year-on-year in Q4), largely impacted by additional MTR cuts not fully compensated by higher incoming traffic. Other revenues (including SMS & MMS, data and other business revenues) reached in total CZK 7,035 million and CZK 1,751 million in FY and Q4 2012, representing 3.0% and 7.5% year-on-year decrease with more SMS/MMS bundling putting pressure on them. At the same time, revenues from mobile internet remained the key growth driver of non-SMS data revenues in Q4 (+4.6% year-on-year in Q4, +13.4% excluding CDMA).

CZ Fixed Business Overview[18]

In Q4 2012, the Company successfully continued addressing the demand for fixed broadband services via its VDSL proposition, which led to improved commercial performance of the broadband customer base and lower fixed access losses compared to Q3. At the same time, revenues showed improved year-on-year dynamics compared to first nine months helped by higher ICT revenue contribution. Continuous migration of existing ADSL customers to the VDSL service helped the Company to decelerate fixed broadband ARPU dilution and sustain low churn, which is relevant achievement in a highly competitive and slowing fixed broadband market environment.

The total number of **fixed accesses** declined by 5.2% year-on-year reaching 1,500 thousand at the end of December 2012, with 18.7 thousand net losses during Q4. This represents a 6.4% reduction compared to the same period in 2011 and is largely a result of solid 20.4% year-on-year growth of naked accesses, continuous growth of Voice-over-IP lines and stabilising fixed voice lines disconnections.

[17] Big screens, small screens, M2M, time/usage based, push email
[18] Figures are shown net of inter-segment charges between fixed and mobile businesses

The number of **xDSL accesses** reached 915.1 thousand at the end of December 2012, up by 5.0% year-on-year. In respect of VDSL, 260.2 thousand customers have already subscribed for the upgraded service, which represents 32% of the total xDSL residential base and 66% of the total addressable existing base (~ 50% of households). In Q4 2012, the number of VDSL customers grew by 21.9 thousand. The total number of **O_2 TV customers** reached 141.4 thousand at the end of Q4 2012, +4.3% year-on-year, a relevant achievement in stagnant Pay TV market in the Czech Republic.

Voice traffic generated in the fixed network went down by 12.7% year-on-year in FY 2012 to 1,315 million minutes, still impacted by fixed telephony line losses and the fixed to mobile substitution effect. However, the decline rate decelerated to -10.2% year-on-year in Q4.

In FY 2012, total **fixed business revenues** went down by 5.4% year-on-year reaching CZK 21,391 million, while the decline rate slowed down to -3.6% year-on-year in Q4 to CZK 5,565 million on the back of higher ICT revenues contribution and better interconnection revenues performance. Revenues from traditional accesses fell by 15.6% year-on-year reaching CZK 3,625 million in FY 2012 due to continuing fixed telephony line losses, while revenues from traditional voice revenues went down by 5.1% year-on-year to CZK 6,411 million, largely due to lower revenues from communication traffic (in line with lower voice traffic), while in Q4 they posted flat year-on-year performance helped by higher interconnection revenues. Internet & broadband revenues were broadly flat year-on-year reaching CZK 6,029 million in FY 2012, as a result of xDSL customer growth, migration of higher value customers to VDSL and competitive ARPU pressures. IT services and business solutions revenues went up by 5.2% year-on-year reaching CZK 2,290 million in FY 2012, with a 5.9% year-on-year growth rate in Q4. The Company successfully continued with penetration of standard and recurring ICT services for business customers (Managed Services/Cloud/Security/Virtual Desktop) to mitigate dependence on one-off projects, which helps it to sustain revenues growth despite lower spending in the public sector.

Slovakia

Telefónica Slovakia delivered another strong set of commercial and financial results in Q4, which resulted in the further strengthening of its position in the Slovak mobile market. At the same time, its results continue to increase their contribution to the Group's financial performance. At the end of December 2012, the total **number of customers** reached 1,354 thousand, posting 16.3% year-on-year growth. In Q4 2012, their number increased by 61.9 thousand, the highest net additions in 2012. This performance has been driven largely by strong performance in the contract base supported by the successful promotion of the O_2 Paušál tariff targeting higher value customers. The number of **contract customers** grew by 32.4% year-on-year reaching 659 thousand at the end of December 2012 (+47.9 thousand in Q4), while the number of **prepaid customers** increased by 4.3% year-on-year ending up at 695 thousand. Consequently, the customer mix in Slovakia further improved and contract customers represented already 48.7% of the total customer base at the end of 2012, up by 5.9 percentage points year-on-year.

In terms of financial performance, the **total revenues** of Telefónica Slovakia in local currency increased by 22.1% year-on-year reaching EUR 192.2 million in FY 2012 (+14.8% year-on-year in Q4). Excluding the impact of MTR cuts, the growth rates would be 31.7% and 26.7% in FY and Q4 2012 respectively, fuelled by customer growth, improving customer mix and the company's focus on acquiring higher value customers. Thus revenues in Slovakia represented nearly 10% of total Group revenues in FY 2012. At the same time, OIBDA of Telefónica Slovakia went up by 58.3% year-on-year to EUR 56.8 million in FY 2012, resulting in 29.5% OIBDA margin, while in Q4, OIBDA increased by 44.0% to EUR 17.2 million, which represents 33.9% OIBDA margin. Thus Telefónica Slovakia positively supported the Group's profitability. In Q4 2012, **contract ARPU** reached EUR 15.5, while **prepaid ARPU** was at EUR 8.2.

Outlook for 2013

In 2013, the Company will closely monitor customers' needs in a challenging macro environment which can impact their consumption patterns. In addition, the outcome of the currently running spectrum auction may result into significant changes in mobile market dynamics. Nevertheless, the Company is confident that it will be able to maintain the market leading position in core business areas through continuous focus on its strengths. These include largely the best value and unique fixed and mobile broadband based products and services including bundled proposition, ICT and digital services with a pro-growth opportunity.

The Company will keep focusing on further improvement of the customer relationship area via additional investments into the optimisation and improvement of its systems and processes. These initiatives shall lead to lower number of customers' complaints, negative and repeated calls, consequently improving their experience and satisfaction, which belongs to the top company's priorities also in 2013. In line with its strategy to protect its customer base and to mitigate the negative impact of highly competitive market environment on customers' spend, the Company will focus on active execution of the customer value management. In corporate segment, it will aim at increasing the number of exclusive customers to maintain its strong position in this area, also supported by development and promotion of ICT & Digital services (cloud, security, M2M). The Company believes, this strategy will help it to mitigate dependence on one-off projects, secure sustainable revenues and grow profitable business.

Additionally, the Company will continue enhancing its fixed broadband proposition with additional expansion of the upgraded VDSL network coverage through selective FTTN investment, to strengthen its market position. In mobile broadband, it aims at further enhancement of its 3G network capacity and quality including backhaul to exploit the opportunity of smartphone and data uptake. Moreover, the Company is ready to commence 4G network deployment, which will allow it to keep its competitiveness on the mobile broadband market. The 4G network deployment scope and speed will depend on the outcome of currently running spectrum auction.

Telefónica Slovakia will continue in its fair and transparent commercial proposition targeting higher value customer segments. This shall result into solid subscribers' growth helping it to increase the market share. At the same time, Telefónica Slovakia will stay focused on further improvement of its financial performance through lean operation, to compensate increased competitive pressures.

The Company expects that mobile non-SMS data revenues, ICT & digital revenues and revenues in Slovakia will stay the key top line growth drivers in 2013. At the same time, mobile revenues will be hit by additional MTR cuts. In this operational environment, the Company will maintain its effort on further OpEx efficiencies in all areas of its operation via realisation of the transformation program to protect its solid profitability. The efficiency agenda in 2013 will include further headcount optimization by means of building leaner and more efficient organisational structure with increasing span of control. In addition the Company will continue in consolidation and optimization of its call centres, reduction and simplification of its product portfolio aiming at lowering the number of processes. Additional costs savings shall be realised via focus on on-line activities, largely in sales and customer related areas. The Company is confident that the above mentioned measures will help it to maintain best-in-class profitability despite pressures on the revenues performance.

In respect of CapEx, it will continue to direct its investments primarily into the upgrade and expansion of its fixed and mobile broadband networks and capabilities' improvement of the mobile broadband networks, including new generation 4G network's deployment, to sustain competitiveness and deliver future growth.

Based on that, the Company provides following guidance for 2013:

	2012 base	2013 guidance
OIBDA margin[19]	41.4%	Limited margin erosion y-o-y on the back of continuous efficiency agenda
CapEx[20]	CZK 6.2 billion	Less than CZK 6 billion increasing proportion of investments into growth areas (mobile data, LTE and new technologies/ businesses)

<u>2012 shareholder remuneration proposal</u>

On its meeting held on 26th February 2013, the Board of Directors approved a proposal to the Annual General Meeting for distribution of the total shareholder remuneration of CZK 30 cash per share, which equals to the total amount of CZK 9,663 million; this total amount for the distribution could be lower depending on future number of own shares held by the Company. The Company will not be entitled to distribute the shareholder remuneration to the acquired shares. The amount per share is composed of CZK 20 ordinary dividend and CZK 10 of share premium reduction. The dividend payment is suggested to distribute the net profit for 2012 and part of the retained earnings from previous years. The proposed relevant dividend record date and the date for determination of shareholders entitled for distribution of relevant share premium reduction is 14th October 2013. The payment date for both amounts is proposed on 11th November 2013. The 2012 shareholder remuneration proposal has been reviewed by the

[19] OIBDA before brand fees & management fees; 2013 guidance excludes changes in consolidation, includes potential capital gains from non-core asset sales, assuming constant FX rates of 2012

[20] Excluding business acquisitions and excluding investments for spectrum license

Supervisory Board on the same day and will be submitted to the Annual General Meeting that will be held on 22nd April 2013.

Realisation of Share Buyback Program

The Annual General Meeting of the Company held on 19th April 2012 approved the share buyback program, based on which the Company is allowed to purchase its own ordinary shares to the extent that it does not exceed 32,208,989 shares, i.e. will not exceed 10% of total number of company ordinary shares. The period during which the Company is authorized to acquire its shares shall be 5 years from the date of the General Meeting. Based on the above-mentioned General Meeting resolution, the Board of Directors adopted, on 26th February 2013, a resolution to continue with own ordinary shares acquisition (share buyback) program in the extent of up to 6,441,798 of the ordinary shares, i.e. up to 2 % of the total ordinary shares issued by the Company. The Board of Directors also approved the intention to submit to the General Meeting of the Company a proposal to cancel the acquired shares, together with a proposal to reduce the registered capital by the amount of the nominal value of the acquired shares. The Company will notify of the exact share buy-back program commencement date in the scope of the above resolution by the Board of Directors prior to the commencement.

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).

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About Telefónica Czech Republic

Telefónica Czech Republic is a major integrated operator in the Czech Republic. It is now operating almost eight 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 largest telecommunications companies in the world in terms of market capitalisation and number of customers. From this outstanding position in the industry, and with its mobile, fixed and broadband businesses as the key drivers of its growth, Telefonica has focused its strategy on becoming a leading company in the digital world. The company has a significant presence in 25 countries and a customer base that amounts more than 300 million accesses around the world. Telefonica has a strong presence in Spain, Europe and Latin America, where the company focuses an important part of its growth strategy. Telefonica is a 100% listed company, with more than 1.5 million direct shareholders.

INCOME STATEMENT	Jan – Dec 2012	Jan – Dec 2011
Business revenues	50,534	52,388
Other recurring revenues	112	83
Revenues	**50,646**	**52,471**
Internal expenses capitalized in fixed assets	629	671
Operating expenses	(31,566)	(31,534)
Other operating income/(expenses)	(185)	(143)
Gain on sale of fixed assets	285	346
Impairment reversal/(loss)	(28)	(21)
OIBDA	**19,781**	**21,790**
Depreciation and amortization	(11,437)	(11,651)
Operating Income	**8,344**	**10,139**
Net financial income (expense)	(188)	(131)
Income before tax	**8,156**	**10,008**
Income tax	(1,380)	(1,324)
Net Income	**6,776**	**8,684**

BALANCE SHEET	31.12.2012	31.12.2011
Non-current assets	**67,835**	**73,100**
- Intangible assets	6,833	7,205
- Goodwill	13,497	13,453
- Property, plant and equipment and investment property	46,691	51,525
- Long-term financial assets and other non-current assets	141	171
- Deferred tax assets	673	746
Current assets	**11,364**	**15,881**
- Inventories	487	488
- Trade and other receivables	7,730	8,166
- Current tax receivable	101	165
- Short-term financial investments	2	106
- Cash and cash equivalents	3,044	6,956
Non-current assets classified as held for sale	**-**	**1**
Total assets	**79,199**	**88,982**
Equity	**60,574**	**69,097**
Non-current Liabilities	**6,322**	**3,870**
- Long-term financial debt	3,000	-
- Deferred tax liabilities	3,206	3,737
- Long/Term Provisions	29	26
- Other long/term liabilities	87	107
Current Liabilities	**12,303**	**16,015**
- Short-term financial debt	31	3,061
- Trade and Other payables	9,982	10,495
- Current income tax payable	5	5
- Short-term provisions and other liabilities	2,285	2,454
Liabilities assoc. with non-current assets classified as held for sale	**-**	**-**
Total Equity and Liabilities	**79,199**	**88,982**