# HALF-YEAR REPORT 2017

This version of the Half-Year Report is a translation from the original which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the Half-Year Report takes precedence over this translation.

***Note:***

O2 Czech Republic a.s. hereinafter "O2 CZ" or the "Company".
O2 Slovakia, s.r.o. hereinafter "O2 Slovakia".
O2 IT Services s.r.o. hereinafter "O2 IT Services".

The O2 Czech Republic Group comprises the company O2 Czech Republic a.s., its subsidiary companies involved in the concern, other subsidiary companies and companies in which O2 Czech Republic a.s. has an ownership interest, and is hereinafter referred to as the "O2 Group".

Financial data and information listed in this Half-year Report has not been audited.

# Content

Foreword by the Chairman of the Board of Directors 5

1 | Calendar of key events 8

2 | Financial and operating highlights 10

3 | Review of the business 12

4 | Developments in corporate governance of the O2 Group 28

5 | Financial part 31

6 | Declaration of persons responsible for the Half-year Report 57

# Foreword by the Chairman of the Board of Directors

# Foreword by the Chairman of the Board of Directors

## Dear shareholders,
## Let me briefly look back at our key strategic and commercial activities in the first half of the year 2017, and how they impacted on our operating and financial results.

Also in the past six months, we brought several innovations to the market, and I am glad to see that our customers receive them with interest. Households which are not within the reach of sufficiently fast xDSL internet can now enjoy our new wireless 4G LTE service. The combination of the two technologies gives us a 99% coverage of all addresses in the Czech Republic. During the first half of the year we expanded the distribution of our sports television content through a new channel, $O_2$ TV Free, which can be received for free via terrestrial broadcasting. Sports fans can also watch exclusive sports coverage in a HbbTV application for a charge-by-day fee. At the beginning of the year we launched a new sports channel, $O_2$ TV Tenis, which offers exclusive coverage of all WTA matches and 14 tournaments of the men's ATP circuit. Its focus on matches of Czech tennis players has propelled it to the top league among sports channels distributed by $O_2$ TV which have the best viewer rating.

As part of our strategy, which focuses on service bundles catering to smaller customer segments, in May 2017 we became the only operator in the marketplace to start offering *$O_2$ Spolu*, a unique tariff that lets families, groups of friends and small businesses in the basic package flexibly communicate with its combination of three SIM cards with unlimited calls, SMS, mobile data and digital television bundled together. We responded to a growing demand from customers and, from the middle of June, we started offering higher mobile data allowances for individuals as well as part of the *$O_2$ Spolu* tariffs. In Slovakia, we introduced a range of innovative high-capacity data tariffs under the brand *$O_2$ Data*. The new tariffs aim at customers who have a higher data and lower SMS and voice need, and they come with a higher data allowance included in the price of the tariff, while calls and SMS are charged at actual usage. In addition to that, we rolled out wireless internet connectivity for homes and businesses in more than 230 towns and villages in all parts of Slovakia. The service runs on the LTE TDD technology and uses the frequency spectrum of 3.5GHz and 3.7GHz which we won in tenders in 2015 and 2016.

In the Czech Republic, we won one 40MHz block of the 3.7GHz spectrum in the spectrum auction. As a result, we have the most spectrum, among all the operators, available for further deployment of wireless broadband internet and the 5G technology. Another strategically noteworthy event is the extension of our licence to use the $O_2$ brand in both countries by three years beyond the current period, i.e. now until 27 January 2022. We will also remain a member of the Telefónica Group's partnership programme until the same date.

As concerns our capital expenditure, in the Czech Republic we continued to invest in projects related to the transformation of our IT systems, and in our mobile core network. In Slovakia, we kept our investment focus on improvement of the quality, availability and capacity of the 2G network, in order to reduce our dependence on the national roaming and improve our future profitability. We also forged ahead with the roll-out of our 4G LTE network in Slovakia, to accommodate the growing market demand for mobile data.

As regards our financial performance, the consolidate revenues were up by more than 1% to CZK 18.5bn year on year. The trend owes mainly to the higher revenues from $O_2$ TV, a double-digit growth in mobile data and a stronger revenue stream from our Slovak operation. That said, financial services – insurance and transactions related to the electronic record of sales – were our fastest-growing business area, with revenues reaching nearly CZK 80m, which attests to the success of our proposition. EBITDA went slightly up to CZK 5.1bn, and the EBITDA margin for the first half of 2017 was 27.5%. The positive trend has been brought about by the insourcing and recruitment of approximately 1,000 staff in various areas in 2016. As a result, the general decline in the commissions, external call centre and IT costs more than compensated for the higher personnel costs. Our net profit was up 3.2% to CZK 2.6bn. Our net debt to EBITDA remains at a relatively low coefficient level of 0.72. Out of the total credit capacity of CZK 16.2bn, we had drawn CZK 10.5bn as at the end of June.

In the second half of the year, our revenues in both markets will be affected by the new European roaming regulation. The first data which already came in shows that, as per our expectation, after the lowering of the roaming rates, customers call more, send more SMS and use more data in the European Union. However, we are presently not in the position to quantify the effect. Capital expenditure in the second half of the year will accelerate compared with the first half, as we are intensifying the construction of our proprietary mobile network in Slovakia and we will be rolling out our 4G LTE network in new areas. In the Czech Republic, the second half of the year will see the culmination of investments related to the IT transformation project; investments will also the 3.7GHz spectrum cost which we won at auction in June.

In addition to the capital expenditure as above, the free cash flows in the second half of the year will be affected by a pre-payment of approximately CZK 900m for the renewal of the licence to use the $O_2$ trademark and the partnership with Telefónica.

**Tomáš Budník**
Chief Executive Officer
and Chairman of the Board of Directors,
O2 Czech Republic a.s.

# Calendar of key events

# 1. Calendar of key events

## January

As part of the process of streamlining of the Company's management and governance, the organisation structure was significantly redesigned, effective from 1 January 2017, in order to better respond to market developments and facilitate the time-to-market for new products. Two new divisions, Commercial Division and Operations Division, were established.

The start-up accelerator BOLT, owned by O2 CZ, acquired a 100% stake in INTENS Corporation, a service provider in the field of transport telematics, and became a strategic investor in CROSS NETWORK INTELLIGENCE, which develops network infrastructure solutions.

The Company started an LTE (VoLTE) voice service.

## February

With the help of xDSL and wireless 4G LTE, the Company increased the availability of Internet na doma, its home internet service, to 99% of homes in the Czech Republic.

The Company published a revised LTE wholesale offer for virtual operators within the required deadline.

## March

The Company, as the sole shareholder of O2 Slovakia, approved the distribution of a part of the profit of the company for the year 2016, in the amount of EUR 40.7m (approximately CZK 1.1bn) to O2 CZ.

The Company started operating $O_2$ TV Free, a new television channel broadcast over the terrestrial multiplex 4. The channel is part free and part paid television, in the form of a Hybrid Broadcast Broadband (HbbTV).
The start-up accelerator BOLT partnered up with IP Fabric, an IP network mapping and analysis service.

## April

The Company successfully finalized the subscription phase of its new financing (Schuldschein) up to the limit of CZK 3.5bn.
Virtual operators BLESKmobil, OpenCall, Moraviatel and Vinatel operating in the O2 CZ network started offering 4G LTE mobile internet access to their customers.

The Company exceeded the threshold of 200 thousand insurance contracts signed.

## May

The Company started offering a range of new tariffs under the brand *$O_2$ Spolu*, which let customers combine different services and enjoy significant savings as a result.

The Ordinary General Meeting of the Company was held, which approved the regular (unconsolidated) financial statements and the consolidated financial statements of the Company for the year 2016 prepared under the International Financial Reporting Standards (IFRS). The supreme governing body of the Company approved the payment of dividends for the year 2016, in the amount of CZK 17 before tax per share, and the distribution of a part of the share premium, in the amount of CZK 4 before tax per share.

## June

The Company unveiled innovations in the range of its *FREE* individual tariffs and the *$O_2$ Spolu* group tariffs. Customers can now enjoy unlimited calls, SMS and renewable data allowances at the same rates also in the member states of the European Union.
The Company introduced $O_2$ Smart Box, the first device it developed completely in-house, from the first draft to the final product. The product combines a modem with the best performance specs in the market, a Wi-Fi router and a Smart Home connection device.

# Financial and operating highlights

# 2. Financial and operating highlights

**Financial data is based on the abbreviated interim unaudited consolidated financial statements prepared in accordance with the International Financial Reporting Standard IAS 34.**

| | 1H 2017 [1)] | 1H 2016 [2)] |
|---|---|---|
| **Financials (in CZKm)** | | |
| Revenues [3)] | 18,487 | 18,223 |
| EBITDA – Earnings before depreciation and amortization | 5,093 | 5,053 |
| Operating profit | 3,421 | 3,280 |
| Profit before taxes | 3,366 | 3,235 |
| Profit after taxes | 2,632 | 2,552 |
| Total assets | 31,671 | 33,306 |
| Property, plant and equipment | 5,023 | 5,075 |
| Intangible assets | 16,044 | 16,515 |
| Total equity | 13,104 | 17,505 |
| Financial debt (long-term and short-term) | 10,477 | 6,977 |
| Capital expenditure (additions to fixed assets) | 1,232 | 1,129 |
| **Operating indicators (at end of period)** | | |
| Fixed voice lines (in thousand) | 654 | 760 |
| xDSL connections – retail (in thousand) | 752 | 782 |
| Pay TV – $O_2$ TV (IPTV and OTT, in thousand) | 225 | 217 |
| Mobile customers in the Czech Republic (in thousand) | 4,903 | 4,898 |
| – of this contract customers | 3,366 | 3,298 |
| prepaid customers | 1,537 | 1,600 |
| Mobile customers in Slovakia (in thousand) | 1,903 | 1,838 |
| Number of employees in O2 Group | 4,969 | 4,567 |
| **Ratios** | | |
| EBITDA margin (EBITDA/Revenues, in %) | 27.5 | 27.7 |
| Profit after taxes /Revenues (in %) | 14.2 | 14.0 |
| Capital expenditure/Revenues (in %) | 6.7 | 6.2 |
| ROA (Profit after taxes /Total assets, annualized, in %) | 16.9 | 15.8 |
| ROE (Profit after taxes /Equity, annualized, in %) | 40.8 | 30.0 |
| Gross gearing (Financial debts/Total equity, in %) | 80.0 | 39.9 |
| Net debt (Financial debt less Cash and cash equivalents)/EBITDA (annualized) | 0.72 | 0.27 |
| Profit per share – consolidated | 8.6 | 8.3 |
| – unconsolidated | 10.6 | 10.2 |
| **Macroeconomic indicators [4)]** | | |
| CZK/EUR exchange rate – average | 26.78 | 27.04 |
| CZK/EUR exchange rate – at end of period | 26.20 | 27.13 |

1) Financial indicators and ratios extracted from the Balance Sheet as of 30 June 2017, financial indicators and ratios extracted from Statement of total comprehensive income for the six months ended 30 June 2017, operating indicators as of 30 June 2017
2) Financial indicators and ratios extracted from the Balance Sheet as of 31 December 2016, financial indicators and ratios extracted from Statement of total comprehensive income for the six months ended 30 June 2016, operating indicators as of 30 June 2016
3) Excluding revenues from non-telecommunications services
4) Source: Czech National Bank

# Review of the business

# 3. Review of the business

## Factors influencing the business and results in the first half of 2017

### The Czech telecommunications market

As in 2016, the Czech telecommunications market in the first six months of 2017 saw a surge in innovation, especially in mobile data and distribution of television content.

An overview of the key innovations introduced by O2 CZ is given in section Products and services.

Vodafone came out with a new family tariff which gives the customer 4 SIM cards with 42GB of shared data. In May, the *RED* tariffs made place for a new range *Red Naplno*, which came with a data allowance of 5GB–20GB, depending on the product. Customers could get 2GB extra with the Můj Vodafone application.

T-Mobile completely overhauled its consumer portfolio. The new tariff range is called *Mobil*, with product variants *S*, *M*, *L*, *XL* and *XXL* depending on the data allowance. A year after launching an IPTV via set-top box service or as part of mobile applications, in February T-Mobile started offering an online version of its IPTV product.

In the area of Internet of Things (IoT), in May Vodafone introduced eDohled, a service which was primarily intended for the monitoring of consignments but also fleet cars. In June, T-Mobile went live with a new IoT-focused website TEO. The website is primarily aimed at businesses which are looking to digitalize their operations. At the beginning of June, T-Mobile introduced its innovated version of T-Mobile Chytré auto (Smart Car).

### Regulation

#### Legislation

***Relevant markets analysis and product regulation***

O2 CZ continued to meet its obligations based on the relevant markets analysis and related decisions of the previous periods. On 16 December 2016, a decision of the Czech Telecommunications Office (CTO) became legally conclusive, reducing the new wholesale price limit for voice termination in the O2 CZ network at CZK 0.248/min. exclusive of VAT, to apply to contracts effective from 1 March 2017 (originally CZK 0.270/min. exclusive of VAT).

***International roaming regulation***

Roaming services and prices in the European Union are, until 2022, subject to regulation based on Regulation of the European Parliament and the Council (EU) no. 531/2012. The provision of retail and wholesale roaming services has seen some changes as of 15 June 2017, to align with amendments to the Regulation and its implementing regulations.

***Frequency spectrum management***

In March 2017, a tender for the spectrum of 3,700MHz was opened, and five abstract blocks of 40MHz each were put up for sale, with the call price of CZK 145m (CZK 29m per block) for the lot. The auction part was concluded on 11 July 2017. O2 CZ acquired one 40MHz block for CZK 203m. The other blocks were auctioned off to Nordic Telecom 5G a.s., which acquired two blocks for the total of CZK 406m; PODA a.s. and Vodafone Czech Republic a.s. got one block each for CZK 203m.

The Company expects that the second stage of the auction, which will divide up the spectrum and when the price for the rights to use the radio frequencies will be paid and the frequencies assigned, will take place in the third quarter of 2017.

#### *Universal Service*

In April 2017, the CTO called a tender for the provision of a Partial Universal Service of public payphones in the period 2018–2020, in which O2 CZ competed. In June, the CTO promulgated a decision to mandate O2 CZ to provide the Partial Universal Service of special price plans for persons with disability for the period of the next three years.

## Products and services

### Consumer segment

In the first half of the year, the Company launched a number of new products and services. In February, it was Internet AIR Fix for home internet access with wireless connectivity; as a result, the Company can now deliver internet service to 99% addresses in the Czech Republic. As part of its strategy, O2 CZ became the first in the Czech market to start offering a bundled product for families, groups and small businesses, which combines up to four SIM cards, unlimited calls, mobile data and digital television in a new tariff called *$O_2$ Spolu*.

The Company also introduced $O_2$ Smart Box, the first device it developed completely in-house, from the first draft to the final product. The product combines a modem with the best performance specs in the market, a Wi-Fi router and a Smart Home connection device, and everything can be managed through a dedicated mobile application.

#### Mobile access

In the first half of 2017, the Company forged ahead with its effort to improve the quality and increase the speed of its 4G LTE mobile network. In the Czech Republic, a number of new transceivers were built, the network capacity increased and the service started using more capacity layers simultaneously. Early in the year, the Company went live with VoLTE – calls over the LTE network. The key advantages of VoLTE include a very short connection time and HD audio quality of the call with ambient noise suppression.

In addition to the continuous improvement of its mobile network, during the first half of the year the Company also focused on making changes to its tariff proposition. The developments in the mobile broadband network and tariffs with boosted data allowances contributed to a more than 80% of data traffic year on year.

In May, the Company brought out a new range of tariffs: *$O_2$ Spolu*. The new tariffs let customers combine services and enjoy significant savings. For the price of CZK 1,900, the basic version comes with three SIM cards, unlimited calls and SMS, and a mobile data allowance of 3GB for each member of the group, plus $O_2$ TV M on the home television set and up to four mobile devices. A fourth discount-rate tariff or a higher-end $O_2$ TV programming bundle can be added for more benefits. Customers who have a higher monthly data need can get a 6GB monthly data allowance for an extra CZK 100 or 10GB for an extra CZK 300 per one SIM card, or tailor their data allowance to their need if they require more. In the middle of June, O2 CZ also expanded its individual consumer tariffs. A new tariff, *FREE 6GB*, has been added specifically for customers who need a higher data allowance. For an extra CZK 100 per month, it comes with 4.5GB data more than the existing *FREE CZ*. Customers with an even higher appetite for data can subscribe, from the middle of June, to *FREE 20GB* with a 20GB data allowance and 600 minutes of international calls for CZK 1,699.

From the middle of June, all customers subscribing to the roaming tariff *Svět Basic* have been using the service in the European Union member states charged at the call and SMS rates which apply in the Czech Republic. Furthermore, the same mobile data rates as at home now apply also abroad.

The Company also focused on its portfolio of handsets, of which all are now 4G LTE capable, and in the first six months of the year it came out with a number of promotions, including a discount on a new device if against a an old one brought in for a trade-in.

## Fixed access

During the first half of the year, the Company increased the availability of its home internet product, Internet na doma, which runs primarily on the xDSL technology; xDSL is presently within the reach of 84% of all Czech residential addresses. Faster internet speeds, which are the result of the installation of new remote DSLAMs, are now enjoyed by more than 70% of homes which use broadband VDSL internet. Residential addresses, which are not within the reach of sufficiently fast xDSL network, can now, from February, benefit from a wireless 4G LTE internet connectivity. This access technology takes the form of the Internet Optimal tariff and offers a download speed of up to 20Mbps, and Internet na doma is now available to 99% of Czech households.

In June, the Company introduced $O_2$ Smart Box, a unique combination of a high-performance DSL modem which uses the VDSL3 technology capable of a download speed up to 250Mbps, top-quality Wi-Fi router to reach all corners of a home or office, and a Smart Home control centre. With their $O_2$ Smart Box, customers can subscribe to various services and get other technology to automate their home or office. $O_2$ Smart Box is controlled via a simple mobile application.

### *$O_2$ TV*

In March, the Company started the distribution of a new television channel, $O_2$ TV Free. The new channel can be received as terrestrial broadcasting over multiplex 4. $O_2$ TV Free offers highlights of the $O_2$ TV Sport programming, and lets viewers use the most popular $O_2$ TV functionality, such as playback, pause the picture or HD quality. The channel is also available in the form of a HbbTV application.

Thousands of viewers like the 24hr limited $O_2$ TV Sport: for CZK 69, they get access to the most popular sports programming. During the first half of the year, the Company sold approximately thirty thousand of one-day $O_2$ TV Sport Na den subscriptions. Exclusive sports content is also very much in demand with viewers who do not have an $O_2$ TV subscription.

In April, the Company unveiled another innovation – the first video streaming app for Xbox in the Czech market. Customers with an Xbox or Xbox One S at home do not need to get a set-top box to watch $O_2$ TV; the gaming console and the $O_2$TV application are sufficient.

The Company kept its focus on offering exclusive sports content. In January, a new television channel, $O_2$ TV Tenis, went online. The channel offers the broadest coverage of the sport of tennis in the Czech television market. In 2017, fans can look forward to a record 3,800 hours of live tennis coverage.

The Company also invested in the production of its own television content. One new addition is OKTAGON which reports on the developments on the local and international martial arts scene. TIKI-TAKA, a unique format of sports entertainment talk show, is dedicated to the latest from the Czech football fields.

During the first half of the year, the $O_2$ TV proposition was expended with the addition of new HD channels, bringing the total number of HD channels offered by the digital television service to 47. In March, the Company introduced 13 new channels to its $O_2$ TV Svět programme pack; they are intended for Czech people who want to improve their foreign language skills, as well as for foreigners who live in the Czech Republic.

## Corporations and government

In the first half of the year, the Company continued to develop its Elastic Business Solutions concept which it introduced last year. Security is the leitmotif for the year 2017. The Company aspires to engage in a dialogue on the subject of security with its corporate and government customers. In April, the Company hosted Cyber Security Prague 2017, an international conference on the subject of cyber security. The world-known hacker Kevin Mitnick, who presently works as IT security consultant, was the keynote speaker, alongside many others.

In the area of mobile services, the Company concentrated on its streamlined Vario tariff proposition and individual offers. Almost two thirds of corporate customers already use small-screen internet, and their average data usage has been growing significantly. The majority of customers use mobile 4G LTE internet because they already have a handset that supports this technology and a corresponding SIM card. From the middle of June, corporate customers can use mobile services in the European Union at the same terms as in their home country.

In the fixed access area, the Company continued to market its range of tariffs with unlimited calls to all fixed and mobile networks in the Czech Republic. Customers who often call other countries were offered a tariff with cut-rate international calls. The Company is also bolstering its VoIP tariff proposition. A fixed line is often the only solution that meets the strict corporate standards for quality and security.

As concerns data and internet access, throughout the first half of the year the Company worked on broadening its pool of infrastructure and national internet connectivity suppliers by forming direct partnerships. In international connectivity, the Company partners only with best-in-class European and global players, to assure the best available quality of connection.

The Company is one of the leading providers of cloud solutions in the Czech Republic, and the market leader in the segment of cloud services. In the first half of the year, the Company expanded its O2 Managed WiFi portfolio by adding new technologies; at the same time O2 CZ provides also marketing support to its clients via a dedicated portal for managing the communication with their end customers.

In the first half of the year, the Company also acquired some activities of its subsidiary O2 IT Services, with their associated products, which the Company made a part of its standard product portfolio. The products include mainly Smart City solutions, including waste management or city parking systems, among other things. The Company also adopted O2 Security Expert Center, which is gaining relevance as various cybernetic attacks and threats intensify, and also with the imminent coming into effect of the GDPR (General Data Protection Regulation) of the European Union in May next year.

# O2 Czech Republic Group

## Overview of the O2 Group and the main changes in the first half of 2017

### Basic information about the Company and the O2 Group

| | |
|---|---|
| Corporate name: | O2 Czech Republic a.s. |
| Registered seat: | Prague 4-Michle, Za Brumlovkou 266/2, postal code 140 22 |
| Corporate ID: | 60193336 |
| Tax ID: | CZ60193336 |
| Date of incorporation: | 16 December 1993 |
| Legally existing from: | 1 January 1994 |
| Legal form: | joint-stock Company |
| Commercial court: | Prague Municipal Court |
| Commercial court record number: | Section B, File 2322 |

O2 Czech Republic is the largest integrated provider of telecommunications services in the Czech Republic. At present, its mobile and fixed access services have close to seven million customers, which ranks the Company as one of the leaders in fully converged services in Europe. O2 CZ offers an end-to-end range of voice and data services in the Czech Republic, paying special attention to making the most of the market potential, especially in the ICT segment. Due to the fact that the Company has an access to data centres, totalling 7,300 square metres in floor area, it is one of the leaders in hosting and cloud services, as well as in managed services. O2 CZ is the only provider in the Czech Republic and Central Europe to have TIER III certification for its data centres. The popularity of $O_2$ TV has also propelled the Company to the position of leader in the IPTV segment in the Czech Republic.

O2 Group comprises the parent company O2 CZ and its subsidiaries; for the full list, please refer to the Interim Consolidated Financial Statements for the half-year ended 30 June 2017 (Note 13 of the Abbreviated Notes to the Interim Consolidated Financial Statements), which forms an annex to this Half-year Report. For full information about the changes in the first half of 2017, please refer to section Developments in corporate governance of this Half-year Report.

In Slovakia, O2 Group has been marketing mobile services to consumers and SME customers via its subsidiary company O2 Slovakia since 2007. The subsidiary is the fastest-growing mobile operator, and, at the end of June 2017, it ranked third among mobile providers. At the beginning of 2016, it started offering a comprehensive portfolio of fixed and mobile telecommunications services and ICT solutions for business through the subsidiary O2 Business Services.

Regional breakdown of consolidated revenues (excluding revenues from non-telecommunications services):

| In CZKm | For the first half of the year ending 30 June | |
|---|---|---|
| | 2017 | 2016 |
| Czech Republic | 15,228 | 15,209 |
| Slovakia | 3,466 | 3,208 |
| Consolidation adjustments | - 207 | - 194 |
| **Consolidated revenues total** [1)] | **18,487** | **18,223** |

1) Excluding other revenues from non-telecommunications services

Total customers of the O2 Group:

| v tisících | As at 30 June | |
|---|---|---|
| | 2017 | 2016 |
| Fixed voice lines | 654 | 760 |
| xDSL lines | 752 | 782 |
| – ADSL | 231 | 314 |
| – VDSL | 521 | 468 |
| $O_2$ TV (pay TV) [1)] | 225 | 217 |
| **FIXED SEGMENT – CZECH REPUBLIC** | **1,631** | **1,760** |
| | | |
| Contract customers | 3,366 | 3,298 |
| Prepaid customers | 1,537 | 1,600 |
| **MOBILE SEGMENT – CZECH REPUBLIC** | **4,903** | **4,898** |
| | | |
| Contract customers | 1,108 | 1,021 |
| Prepaid customers | 795 | 817 |
| **MOBILE SEGMENT - SLOVAKIA** | **1,903** | **1,838** |
| | | |
| **CUSTOMERS OF THE O2 GROUP TOTAL** | **8,437** | **8,496** |

1) IPTV and OTT

## Transformation programme

In the first half of 2017, O2 CZ continued the implementation of its comprehensive transformation programme Simple Online Company. The design of the remaining functionalities was completed, in particular of high-complexity solutions for the corporate segment. At the same time, a plan of the data migration, which will ensure data consistency between old and new systems, was also completed. At the end of June, the first comprehensive testing of data migration in the consumer segment was carried out. At the end of the first half of 2017, 80% of the total deliverables were in the testing phase. The Company expects that the migration of the corporate segment data will be completed in the second half of the year, making way for the start of testing of the solution as a whole. At the same time, user training will be designed and all the actions which are required before the old systems are switched off and new systems going live will be tested.

Total headcount of the O2 Group in shown per region:

| | As at 30 June | |
|---|---|---|
| | **2017** | **2016** |
| O2 Czech Republic | 4,022 | 3,473 |
| O2 Family | 75 | 74 |
| O2 TV | 13 | 10 |
| O2 IT Services | 163 | 362 |
| eKasa | 6 | 0 |
| INTENS CORPORATION | 16 | 0 |
| mluvii.com (former iCORD International) | 11 | 0 |
| Misterine | 2 | 0 |
| O2 Financial Services | 1 | 0 |
| **Employees in the Czech Republic** | **4,309** | **3,919** |
| O2 Slovakia | 626 | 613 |
| O2 Business Services | 34 | 35 |
| **Employees in Slovakia** | **660** | **648** |
| **Employees of the O2 Group total** | **4,969** | **4,567** |

## Shareholder structure

O2 CZ shareholder structure as at 30 June 2017:

| | Name | Address | Percentage of share capital held | Percentage of voting rights held |
|---|---|---|---|---|
| 1 | PPF Telco B.V. | Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands | 70.79% | 72.38% |
| 2 | PPF A3 B.V. | Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands | 10.27% | 10.50% |
| PPF Group total | | | 81.06% | 82.88% |
| 3 | O2 Czech Republic a.s. (own shares) | Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic | 2.20% | 0.00% |
| 4 | Investment funds and individual owners | – | 16.74% | 17.12% |

## Share capital and shares

In the first half of 2017, no changes occurred in the share capital. The share capital of O2 CZ, which as at 30 June 2017 was CZK 3,102,200,670, has been fully paid up and was formed of the following shares:

| | | |
|---|---|---|
| A. | Type: | ordinary |
| | Kind: | registered |
| | Form: | booked |
| | Number of shares issued: | 310,220,057 |
| | Nominal value: | CZK 10 |
| | Total volume of issue: | CZK 3,102,200,570 |
| | ISIN: | CZ0009093209 |

| | | |
|---|---|---|
| B. | Type | ordinary |
| | Kind: | registered |
| | Form: | booked |
| | Number of shares issued: | 1 |
| | Nominal value: | CZK 100 |
| | Total volume of issue: | CZK 100 |
| | ISIN | CZ0008467115 |

## Equity

The structure of unconsolidated equity of O2 CZ as at 30 June 2017 was as follows:

| | (in CZKm) |
|---|---|
| Share capital | 3,102 |
| Issue premium | 10,676 |
| Own shares | - 1,692 |
| Funds | 9 |
| Retained earnings | 3,841 |
| **Total** | **15,935** |

## Trading in O2 CZ shares in the first half of 2017

| | **Half-year ending on 30 June** | |
|---|---|---|
| | **2017** | **2016** |
| Shares issued (in million) 1) | 304.5 | 309.2 |
| Highest share price (in CZK) 2) | 296.9 | 257.0 |
| Lowest share price (in CZK) 2) | 255.5 | 215.0 |
| Share price at the end of the period (in CZK) 2) | 271.3 | 217.0 |
| Market capitalisation (in CZKbn) 2) | 84.2 | 67.3 |

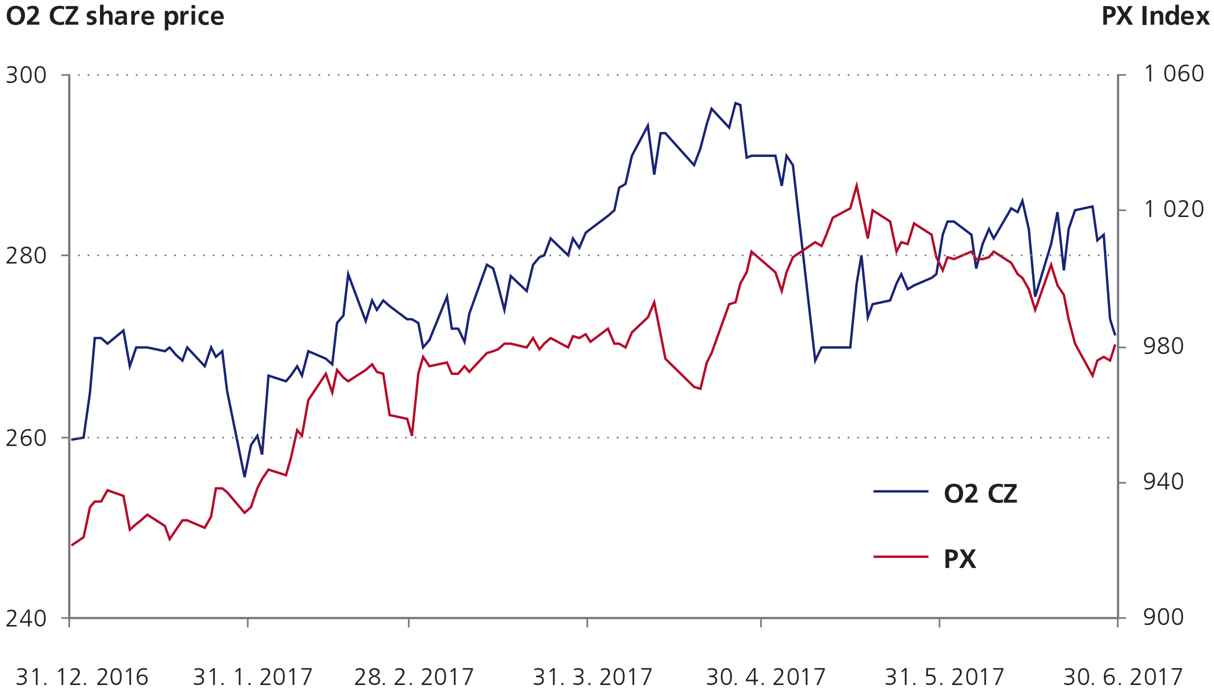
1) Weighted average number of ordinary shares in circulation over the period

2) Source: Prague Stock Exchange

Between the beginning of the year and 30 June 2017, the O2 CZ share price grew 4.4% to CZK 271.30, while the PX Index, the main index of the Prague Stock Exchange (PSE), went up 6.4% and closed the period at 980.41 points. As at 30 June 2017, the market capitalization of O2 CZ was CZK 84.2bn (CZK 67.3bn as at 30 June 2016), which is 7.5% of the total market capitalization of the PSE equity market at the end of the first half of 2017. This ranked the Company in the fourth place among companies traded on the PSE stock market.

The total volume of trading in O2 CZ shares on the PSE stock market reached 6.4bn in the first half of 2017, compared with CZK 3.5bn in the first half of 2016, which ranked the Company's shares in the top five most traded share issues, and represented 8.5% of the total trading volume. The average volume of shares traded in the first half of 2017 was CZK 51.1m.

### O2 CZ share performance against PX index




## General Meeting

The Company's Ordinary General Meeting was held on 10 May 2017. An overview of the adopted resolutions can be found in section Developments in the corporate governance of the O2 Group in this Half-year Report.

## Dividend policy

In 2015, the Company published its new long-term dividend policy, which presently still applies. In the next periods, the Board of Directors of O2 CZ intends to propose to the shareholders at the General Meeting to pay out as dividends 90–110% of the net unconsolidated profit. In addition to the payment of regular dividends (from the profit of the previous year and retained earnings of the past periods), the Board of Directors intends to make proposals to the shareholders to distribute a part of the share premium.

## Dividends and the distribution of a part of the share premium

At the General Meeting of 10 May 2017, the shareholders passed a decision to pay dividends from the profit of 2016, in the total amount of CZK 5.274bn, i.e. CZK 17 before tax, per share in the nominal value of CZK 10 (and, respectively, CZK 170 per share in the nominal value of CZK 100). In addition to the dividends, the General Meeting also passed a resolution to distribute a part of the share premium of the Company up to CZK 1.241bn, effectively reducing the share premium. The amount of CZK 4 before tax would be paid per each share in the nominal value of CZK 10 (and, respectively, CZK 40 per share in the nominal value of CZK 100). Registered shareholders as of 10 May 2017 were eligible to collect. The distribution, which is being arranged through Česká spořitelna, commenced on 9 June 2017.

As the of O2 CZ as at 10 May included the Company's own shares (5,762,175 shares), the Company's entitlement to profit share from this type of shares expired on the due date. The unpaid profit attributable to these shares has been transferred to the account of retained earnings from previous period. The Company at the same time did not have any right to the amount of the distributed share premium; the relevant amount (the proportionate amount of the limit of the distributed share premium) remained on the share premium account. The total amount (before tax) of the dividends paid for 2016 and the distributed part of the share premium was CZK 6.394bn.

More information about the method of payment and taxation of the dividends for the year 2016 and the distribution of a part of the share premium can be found on the Company's website (https://www.o2.cz/spolecnost/en/dividends/ and https://www.o2.cz/spolecnost/en/shares/312988-snizeni_emisniho_azia_spolecnosti.html), respectively.

### Acquisition of own shares by the Company

In the course of the first half of the year, O2 CZ acquired 1,957,667 treasury shares (0.631% share of the total voting rights in the Company), for a total sum of CZK 539.6m, which translates into the average acquisition price of CZK 275.63 per share. As at 30 June 2017, the assets of O2 CZ included 6,810,202 treasury shares in total, which represents a 2.195% share of the total voting rights in the Company. The total sum paid for the shares reached CZK 1,691.5m, and the average acquisition price was CZK 248.38 per share. Pursuant to Section 309(1) of the Business Corporations Act, the Company does not exercise the voting rights attributed to own shares. No treasury shares were alienated or cancelled in the first half of 2017.

### Institutional investors and shareholders please contact:

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O2 Czech Republic a.s.
Za Brumlovkou 266/2, 140 22 Praha 4-Michle
Tel.: +420 271 462 076, +420 271 462 169
E-mail: investor_relations@o2.cz, http://www.o2.cz/spolecnost/en/investor-relations/

## Slovakia

In the first half of 2017 in Slovakia, the O2 Group confirmed the growing trend of its financial and operating performance indicators. Detailed information can be found in sub-section Comments on the financial and operating results of the O2 Czech Republic Group in this section of the Half-year Report.

### O2 Slovakia

Similarly to O2 CZ in the Czech Republic, O2 Slovakia's key innovations included new mobile tariffs with a higher data allowance. In addition to that, the company also started offering wireless internet (WTTx) and the digital $O_2$ TV television over the LTE TDD technology.

As part of the celebrations of its tenth anniversary of presence in the Slovak telecommunications market, O2 Slovakia debuted a range of *$O_2$ Data*, innovative high-capacity data tariffs designed mainly with the customer who has high data and lower SMS and voice requirement in mind. The tariffs offer a significantly higher data allowance (4–16GB per SIM card, depending on the product option) already included in the tariff price, while the price of calls and SMS is billed at actual usage. The data tariffs also came with a bonus redeemable against purchase of a new terminal device. If the customer opts not to buy a new device, the bonus converts into a bundle of extra data, sized in proportion to the tariff in question.

In the beginning of April, O2 Slovakia started offering wireless internet access to consumers and businesses in 230 towns and villages in all

79 Slovak districts. The carrying technology is LTE TDD operating at 3.5GHz and 3.7GHz, which the company acquired in a tender in 2015 and 2016.

In June, O2 Slovakia launched its commercial $O_2$ TV digital television. Customers can choose from three $O_2$ TV tariffs. Mobile $O_2$ TV remained in the portfolio. The commercial launch gives the customer a choice of as many as 72 television channels.

After nine years, O2 Slovakia started offering a new prepaid card branded as *$O_2$ Volnost* from the middle of June. The prepaid card came out as a limited edition and will be available until the end of 2017. For ten cents, customers who have *$O_2$ Volnost* can call any networks for ten cents a call. SMS costs five cents and the card also offers 1GB of data for five euros.

In March, O2 Slovakia started operating a system of authentic electronic biometric signing of contracts delivered to the customer's home in collaboration with Slovak Parcel Service/InTime. The technology was supplied by the successful start-up Axepto which had already in the past been O2 Slovakia's partner.

Also in 2017, O2 Slovakia confirmed its ongoing leadership position in customer experience with its eighth consecutive victory in an independent survey by TECHBOX; the readers voted O2 Slovakia the Operator of the Year.

### O2 Business Services

O2 Business Services saw another increase in the number of its customers who use any service from its product portfolio.

Among commercial accounts, Skytoll, the national toll system operator, was one of the key acquisition. O2 Business Services provides Skytoll with server housing services and a metropolitan data line. Another new key account is BRVZ which uses the pan-Slovakian MPLS data network. In the government segment, O2 Business Services acquired, among others, the National Council of the Slovak Republic for its Business Internet service, Office of the Deputy Prime Minister for Investments and Informatisation and the Slovak Rail Company, both using the mobile service of O2 Slovakia.

## Commented financial and operating results of O2 Czech Republic Group

In this section, we present and comment in detail on the unaudited consolidated financial results of O2 Czech Republic a.s. for the first half of 2017 prepared in accordance with International Financial Reporting Standards (IFRS).

### Change in the reporting and accounting of financial services

Since June 2017, there has been a change in the reporting and accounting of financial services. Until May 2017, hardware and travel insurance revenues within the mobile segment (mobile terminated) had been reported by the net method (i.e. revenues less costs of service). Since June 2017, these revenues are reported using the gross method (as a new separate category "financial services") and the relevant costs of service are recognized under mobile costs of service. The change in the reporting methodology also applies to revenues from the electronic record of sales (fiscalization). Until May 2017, revenues from fiscalization services and from the sale of related hardware had been reported in the fixed segment (ICT: fiscalization services, hardware revenues: fiscalization hardware sales). Since June 2017, these revenues have been reported under the mobile segment (financial services: fiscalization services, hardware revenues: fiscalization hardware sales). Additionally, in June 2017, a retrospective adjustment (restatement) on the financial services account has been made for January to May 2017. The 2016 figures have not been restated due to immateriality.

This change was reflected in fixed and mobile segment results, but had no impact on earnings before depreciation, amortization (EBITDA).

## Consolidated financial results

Consolidated revenues reached CZK 18,487m, up 1.4% year on year in the first half 2017, with the growing mobile data and hardware revenues in the Czech Republic as well as in Slovakia and higher $O_2$ TV revenues as the key growth drivers. The revenue increase more than compensated for the lower mobile voice and fixed data revenues and lower roaming revenues due to EU regulation.

Revenues in the Czech Republic reached CZK 15,135m, marking a 0.2% year-on-year growth. Fixed operating revenues declined 5.3% year on year, reaching CZK 5,350m in the first half, as an 11.4% growth in $O_2$ TV revenues failed to fully compensate for the lower fixed voice revenues and the decline in data revenues. Mobile operating revenues were CZK 9,878m in the first half, up 3.5% year on year growth, as lower voice and messaging revenues were more than compensated by a 16.1% growth in data revenues and a 12.8% increase in hardware & accessories revenues. Revenues in Slovakia [1)] reached CZK 3,466m the first half 2017, up 8.0% year on year.

Total consolidated costs in the first half of the year went up 1.2% year on year to CZK 13,628m. While in the Czech Republic they were flat year on year, Slovakia reported an 11.3% growth. The year-on-year comparison has been positively impacted by the insourcing of call centre staff and the boosting of the direct customer care capacity with core employees at new brand stores in 2016. As a result, the costs of commissions were lower by 20.0%; costs of external call centres and IT costs were down 71.2% and 6.9%, respectively. At the same time, the higher headcount led to an 8.9% growth in personnel costs. Costs of sales grew slightly 0.5% year on year in the first half 2017, as the abovementioned savings in commissions outperformed the higher hardware & accessories costs, in line with the growing revenues.

Earnings before interest, depreciation and amortization (EBITDA) increased 0.8% year on year to CZK 5,093m. In the Czech Republic, EBITDA reached CZK 3,998m, up 0.1%, while Slovakia reported a 3.5% growth to CZK 1,095m. The consolidated EBITDA margin was 27.5%.

Consolidated net income in the first half 2017increased 3.2% year on year to CZK 2,632m.

Consolidated additions to fixed assets (capital expenditures, CapEx) reached CZK 1,232m in the first half 2017, up 9.2% year on year, and its share of revenues was 6.7%. A 42.2% CapEx growth in Slovakia to CZK 357m drove the higher group CapEx, while in the Czech Republic CapEx went down slightly by 0.3% to CZK 875m. The main areas where investments were directed were IT transformation and investments in the mobile core network. In Slovakia, the O2 Group invested mainly in the expansion, quality improvement and the capacity of its 2G network in order to reduce the dependency on national roaming and, consequently, to improve our future profitability. In addition, O2 Slovakia continued investing in the 4G LTE network, to increase its coverage, in order to satisfy the growing market demand for mobile data. In the first half of the year, the network and its technology reached 330 new locations across Slovakia, and is on track to meet its year-end target of at least 80% coverage. As at the end of June 2017, broadband wireless LTE internet operating on the 3.5GHz frequency (LTE TDD), which is used mainly for digital $O_2$ TV television and Home Internet services, was available in small towns and villages.

Consolidated free cash flow [2)] in the first half 2017 reached CZK 2,182m, up 7.6% year on year, largely due to a 14.8% decline in net cash used in investing activities.

Consolidated financial debt [3)] at the end June 2017 was CZK 10,477m. During the second quarter, O2 CZ has successfully underwritten new funding (Schuldschein) in the total amount of CZK 3.5bn (CZK 3bn and EUR 20m), with 5- and 7-year maturity; the funding has been used for general corporate purposes. At the same time, cash and cash equivalents reached CZK 2,884m, as in June

1) O2 Slovakia and O2 Business Services

2) Net cash flow from operating activities plus Net cash used in investing activities

3) Long- and short-term

2017 the Company paid out dividends for the year 2016 and distributed a part of the share premium, in the total amount of CZK 6,394m before tax. As a result, the net debt [4] to EBITDA reached 0.72.

## Overview of the mobile business in the Czech Republic

In the first half 2017, the demand for mobile data continued to grow, largely driven by the upsell activities and the related subscription of tariffs with higher data allowances, coupled with the introduction of a simple method of data allowance renewal after the original allowance is consumed. In the middle of June, the Company improved the attractiveness of its mobile tariff proposition by increasing the data allowances for its individual tariffs and the *$O_2$ Spolu* bundles. In addition to the 99% 4G LTE network coverage, the growth has been also supported by the company's ongoing focus on LTE smartphone sales. As a result, data revenues [5] went up 16.1% year on year. Smartphone penetration [6] continued to grow, reaching 59.4% at the end June 2017, up 7.6 percentage points year on year. LTE smartphones accounted already for 38.5% of all handsets in O2 network (up 13.6 percentage points year on year).

The total mobile customer base reached 4,903ths at the end of June 2017, up 0.1% year on year. The number of contract customers increased 2.1% year on year to the total of 3,366ths. The number of prepaid customers reached 1,537ths. The share of contract customers in the total mobile customer base reached 68.7%, up 1.3 percentage points year on year.

The blended monthly average churn rate in the first half 2017 was 1.7%. Contract churn was only 1.0%, while the monthly average churn rate in the prepaid segment was 3.3%.

Total mobile average per customer (ARPU [7]) was CZK 290 in the first half 2017, up 1.5% year on year, as voice and SMS market pricing pressures and the negative effect of the new roaming regulation were successfully compensated by the improving quality of the customer base and the higher data spend. Contract ARPU improved 0.7% year on year to CZK 372, while prepaid ARPU was down 3.3% year on year to CZK 113.

Total mobile operating revenues in the Czech Republic were CZK 9,878m in the first half 2017, which is a 3.4% year-on-year growth. Mobile service revenues were up 2.8%, fuelled by a 16.1% growth in data revenues, which more than compensated for the lower voice and messaging revenues. Revenues from financial services (hardware and travel insurance and fiscalization) reached CZK 76m in the first half 2017. Hardware & accessories sales revenues improved by 12.8% year on year.

## Overview of the fixed access business in the Czech Republic

The number of $O_2$ TV service customers provided on O2 CZ fixed line (IPTV) as well as on internet connection from any provider (OTT) reached 225ths as at 30 June 2017, up 3.5% year on year. MULTI, an add-on service that lets customers watch television on multiple television sets simultaneously, became very popular. Over 34ths customers already subscribed to this service, so O2 CZ can report over 260ths active set-top boxes.

The number of xDSL accesses reached 754ths at the end of June 2017. As a result of the continued effort to install new remote DSLAMs, almost 70% of households (521ths, up 11.3% year on year) already have their internet running on the high speed VDSL technology.

4) Gross debt less cash
5) Excluding SMS and MMS
6) Smartphones as % of total handsets base

7) Outgoing revenues (voice, SMS & MMS, data) + termination revenues + M2M revenues over average number of customers

The total number of fixed voice lines went down 14.0% year on year to 654ths at the end of June 2017, as a result of the continuing fixed to mobile voice substitution.

Total fixed operating revenues reached CZK 5,350m in the first half 2017, down 5.3% year on year, while over the second quarter they dropped 8.1% to CZK 2,594m. An 11.4% growth in $O_2$ TV revenues did not fully compensate for the lower voice revenues and the ongoing decline in data revenues.

## Slovakia

In the first half of 2017, the O2 Slovakia group [8] reported a growth in the number of its customers and its financial performance, which positively contributed to the group's financial results, with 19% share of the consolidated revenues and 22% of EBITDA. In addition to consumer and SME mobile services, O2 Slovakia started offering wireless home internet and digital $O_2$ TV television using LTE TDD technology operating on the 3.5GHz and 3.7GHz frequency. The group also provides services to corporate and public sector customers through its subsidiary O2 Business Services.

The total number of mobile customers reached 1,903ths at the end of June 2017, showing a 3.5% year-on-year growth. The growth was driven solely by contract additions. Their number grew by 8.5% year on year and reached 1,108ths at the end of June, while the number of prepaid customers closed the half-year at 795ths. The customer mix quality steadily improved and the share of contract customers in total base in Slovakia reached 58.2%, up 2.7 percentage points year on year.

O2 Slovakia continued to register a stronger demand for its retail smartphone portfolio. This is reflected in the growing smartphone penetration, which reached 58.7% as at 30 June 2017, up 5.7 percentage points year on year. The LTE handset penetration was at 40%. These developments have led to a 14% growth in the number of small-screen internet customers, to 897ths and a 37% year-on-year improvement in mobile internet revenues.

Total operating revenues in Slovakia increased 8.0% year on year and closed the first half-year of 2017 at CZK 3,466m Roaming [9] excluded, the revenue growth expressed in euro would be 10%. The trend has been driven by the increase in the number of customers, improved customer mix, sales of new mobile handsets helped by a new pay-by-instalment model which boosted revenues from hardware sales, higher data revenues. EBITDA in Slovakia was 3.5% higher year on year at CZK 1,095m in the first half 2017, resulting in a 32.6% EBITDA margin. With O2 Business Services discounted, EBITDA in euros would improve by 2.3% and EBITDA margin would reach 33.8%.

Total mobile ARPU in Slovakia in the first half reached CZK 252 (EUR 9.4), while contract ARPU was CZK 339 (EUR 12.7), and prepaid ARPU reached CZK 148 (EUR 5.5).

## Outlook for the second half of 2017

In the second half of 2017, in line with its strategy focused on offering bundles tailor-made to fit the needs of smaller customer segments, the O2 Group will continue to develop new tariffs which will offer flexible bundling of mobile and fixed services. The first one, *$O_2$ Spolu*, has already become very popular among customers in just a few weeks since the launch. In the segment of home internet in the Czech Republic, the Group will continue offering its customers the Home Internet service along with announced investments by CETIN in the quality improvement and speed upgrade of the fixed xDSL broadband network. In areas with lower network quality, it will offer a wireless solution based on LTE technology, which already covers 99% of the population. O2 Slovakia will continue to roll out its wireless network which uses the LTE TDD technology, to provide internet connectivity to homes and corporate customers and $O_2$ TV digital television in Slovakia. In addition, it will support the

8) Including O2 Business Services, a. s. (100% subsidiary O2 Slovakia)

9) Abroad as well as incoming

instalment handset sales in Slovakia with further investments in the working capital.

The Board of Directors expects that the new European roaming regulation will have a negative impact on the revenues in both countries. It is presently unable to quantify the exact impact. Additionally, the Board of Directors also expects that, compared with the first half, consolidated capital expenditure will be higher in the second half of the year. Alongside the above-mentioned investments in the LTE TDD wireless network, O2 Slovakia will intensify its investment effort in the expansion of its own network in Slovakia, in order to reduce its dependency on national roaming, and consequently improve future profitability.

In addition, it will forge ahead with the roll-out of its 4G network to meet the growing market demand for mobile data. In the Czech Republic, investments related to IT transformation will peak in the second half of the year. Capital expenditure will also include the newly acquired 3,700MHz spectrum which O2 CZ won at a recent auction.

In addition to the above investments, O2 Group's free cash flow generation in the second half will be impacted by a prepayment of approximately CZK 900m which must be paid by the end of 2017 in connection with the extension of the right to use the $O_2$ brand until 27 January 2022 and the extension of the partnership agreement with Telefónica until the same date.

# Developments in corporate governance of the O2 Group

# 4. Developments in corporate governance of the O2 Group

Changes in the corporate governance of the Company in the first half of 2017 were related namely to the changes in the organisation structure from the end of 2016 and the beginning of 2017, which were described in the 2016 Annual Report, and the subsequent alignment of roles within the O2 Czech Republic concern.

The role of O2 IT Services s.r.o. within the O2 Czech Republic concern has changed with a view to streamline the organisation and increase the efficiency of this company, including the IT and ICT solutions it provides. Two parts of the enterprise of O2 IT Services s.r.o. – the Application Support Division and the Standard Business Solutions Division – have been transferred to O2 CZ as of 1 May 2017.

Following the phase-out of the commercial activities of the subsidiary EIH-LK, s.r.o. (formerly Internethome, s.r.o.), on 28 March 2017 O2 CZ decided, as the sole member, to dissolve the company with liquidation as of 1 April 2017. The subsidiary Bolt Start Up Development a.s., which operates the BOLT start-up accelerator, continued to acquire technology companies, and in January it took over 100% of INTENS Corporation s.r.o., and minority interests in CROSS NETWORK INTELLIGENCE s.r.o. and IP FABRIC, INC.

### General Meeting of O2 CZ – 10 May 2017

> Approved the regular financial statements and consolidated financial statements of the Company for the year 2016 prepared in accordance with International Financial Reporting Standards. The statutory auditor KPMG Česká republika Audit, s.r.o., gave an unqualified opinion on both sets of financial statements.

> Approved the distribution of unconsolidated profit from 2016 in the amount of CZK 5,393,886,560.62, and a part of the Company's share premium up to the limit of CZK 1,240,880,268.00, as dividends. A dividend of CZK 17 and CZK 170 before tax was paid against each share in the nominal value of CZK 10 and CZK 100, respectively, and CZK 4 before tax (CZK 40, respectively) as the distributed part of the share premium. The record day for the disbursement of both amounts was 10 May 2017, and the disbursement commenced on 9 June 2017.

> Elected Ladislav Bartoníček as member of the Supervisory Board; since 19 October 2016 he had been a Supervisory Board member appointed (co-opted) by the Supervisory Board.

> Confirmed the audit firm KPMG Česká republika Audit, s.r.o. as the statutory auditor for the year 2017.

An overview of the conclusions of the General Meeting can be found on the Company's website (http://www.o2.cz/spolecnost/en/general-meetings).

### Board of Directors of O2 CZ

In the first half of the year, the Board of Directors held 11 meetings, and no changes in the personnel composition of the Board of Directors occurred in that period.

## Supervisory Board of O2 CZ

In the first half of the year, the Supervisory Board held two meetings, and no changes in the personnel composition of the Supervisory Board occurred in that period.

## Audit Committee of O2 CZ

In the first half of the year, the Audit Committee held two meetings, and no changes in the personnel composition of the Audit Committee occurred in that period.

## Executive management of O2 CZ

No changes occurred in the executive management in the first half of 2017.

# Financial part

1 2 3 4 5 6

# 5. Financial part

**O2 Czech Republic a.s.**

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

## PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARD IAS 34 INTERIM FINANCIAL REPORTING

**Translation note**

This version of the interim consolidated financial statements is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the interim consolidated financial statements takes precedence over this translation.

# INDEX

PAGE


GENERAL INFORMATION 33

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME 35

INTERIM CONSOLIDATED BALANCE SHEET 36

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 37

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS 39

ACCOUNTING POLICIES 40

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS 43

## GENERAL INFORMATION

O2 Czech Republic Group (the "Group") consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries. The Group is a leading integrated telecommunication operator on the Czech market providing fully convergent services.

The Company has a form of a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Za Brumlovkou 266/2, Prague 4, 140 22, Czech Republic.

As at 30 June 2017, the majority share (81.06 %) of the voting rights of the Company was held indirectly by Mr Petr Kellner through companies PPF Telco B.V. and PPF A3 B.V. from the PPF group, which Mr Kellner controls.

These interim consolidated financial statements are not audited.

### Main events in the first half of 2017

**Share buyback**

In accordance with the decision of General Meeting from 8 December 2015 concerning acquisition of treasury shares (up to 10 % for 5 following years), the Company continued in the share buyback programme. As at 30 June 2017 the Company held 6,810,202 treasury shares with the total purchase price of CZK 1,692 million.

**Underwriting of new Schuldschein loan**

On 4 April 2017, the Company successfully completed new financing (Schuldschein) in total amount of CZK 3.5 billion (CZK 3.0 billion and EUR 20 million). The Company benefited from favourable market conditions and will use the funding with maturity of 5 to 7 years for general corporate purposes. Société Générale and UniCredit Bank acted as arrangers underwriting the funding.

**Startup accelerator Bolt**

During the six months ended 30 June 2017 the startup accelerator Bolt, subsidiary Bolt Start Up Development a.s., continued in its activities, focusing on promotion of unique technology projects.

In January 2017, Bolt acquired 100% share in the Czech company INTENS Corporation s.r.o., which provides services in the field of transport telematics. The company offers not only analyses and system designs of IT solutions in transport, but also activities related to their practical implementation in software development.

In addition, a minority share was acquired by Bolt in the Czech company CROSS NETWORK INTELLIGENCE s.r.o., offering a modern solution for documenting and managing telecommunication and utility networks, and in the American company IP FABRIC, INC, offering platform for comprehensive global IP network management.

Furthermore, Bolt started to cooperate and has provided finance for future development of the Slovak company Pygmalios s.r.o., offering a detailed analysis of the movement and consumer behaviour of retail customers.

## INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2017

| **In CZK million** | **Notes** | **For the six months ended 30 June 2017** | **For the six months ended 30 June 2016** |
|---|---|---|---|
| Revenues | 1 | 18,487 | 18,223 |
| Other income from non-telecommunication services | | 52 | 146 |
| Activation of fixed assets | | 182 | 149 |
| Expenses | | (13,628) | (13,465) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | **1** | **5,093** | **5,053** |
| Depreciation and amortisation | | (1,672) | (1,657) |
| Impairment loss | | - | (116) |
| **Operating profit** | **1** | **3,421** | **3,280** |
| Finance income | | 18 | 18 |
| Finance costs | | (70) | (58) |
| Share of profit/(loss) of investments accounted for using the equity method | | (3) | (5) |
| **Profit before tax** | **1** | **3,366** | **3,235** |
| Corporate income tax | 1, 2 | (734) | (683) |
| **Profit for the period** | | **2,632** | **2,552** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Translation differences | | (103) | 14 |
| **Other comprehensive income, net of tax** | | **(103)** | **14** |
| **Total comprehensive income, net of tax** | | **2,529** | **2,566** |
| Profit attributable to: | | | |
| Equity holders of the Company | | 2,633 | 2,552 |
| Non-controlling interests | | (1) | - |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 2,530 | 2,566 |
| Non-controlling interests | | (1) | - |
| Earnings per share for continuing operations (CZK) - basic* | 3 | 9 | 8 |

* There is no dilution of earnings as no convertible instruments have been issued by the Company.

## INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2017

| In CZK million | Notes | 30 June 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | | 5,023 | 5,075 |
| Intangible assets | | 16,044 | 16,515 |
| Investments in equity accounted investees | 13 | 27 | 42 |
| Other non-current assets | | 400 | 189 |
| Deferred tax asset | | 232 | 250 |
| **Non-current assets** | | **21,726** | **22,071** |
| Inventories | | 778 | 624 |
| Receivables | | 6,282 | 6,434 |
| Current tax receivable | | 1 | 40 |
| Cash and cash equivalents | 6 | 2,884 | 4,137 |
| **Current assets** | | **9,945** | **11,235** |
| **Total assets** | | **31,671** | **33,306** |
| **EQUITY AND LIABILITIES** | | | |
| Ordinary shares | | 3,102 | 3,102 |
| Treasury shares | | (1,692) | (1,152) |
| Share premium | 3 | 10,676 | 11,894 |
| Retained earnings, funds and reserves | | 1,014 | 3,660 |
| **Equity attributable to owners of the parent** | | **13,100** | **17,504** |
| Non-controlling interests | | 4 | 1 |
| **Total equity** | | **13,104** | **17,505** |
| Long-term borrowings | 8 | 10,457 | 6,976 |
| Deferred tax liability | | 216 | 170 |
| Non-current provisions for liabilities and charges | | 45 | 57 |
| Non-current other liabilities | | 83 | 179 |
| **Non-current liabilities** | | **10,801** | **7,382** |
| Short-term borrowings | | 20 | 1 |
| Trade and other payables | | 7,500 | 8,254 |
| Income tax liability | | 51 | 8 |
| Provisions for liabilities and charges | | 195 | 156 |
| **Current liabilities** | | **7,766** | **8,419** |
| **Total liabilities** | | **18,567** | **15,801** |
| **Total equity and liabilities** | | **31,671** | **33,306** |

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

| | | Equity attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| In CZK million | Note | Share capital | Share premium | Treasury shares | Currency translation reserve | Funds | Retained Earnings | Total | Non-controlling interests | Total equity |
| **At 1 January 2017** | | **3,102** | **11,894** | **(1,152)** | **198** | **250** | **3,212** | **17,504** | **1** | **17,505** |
| Other comprehensive income | | - | - | - | (103) | - | - | (103) | - | (103) |
| Profit fot the period | 1 | - | - | - | - | - | 2,633 | 2,633 | (1) | 2,632 |
| **Total comprehensive income** | | **-** | **-** | **-** | **(103)** | **-** | **2,633** | **2,530** | **(1)** | **2,529** |
| Capital contribution and other reclassifications | | - | - | - | - | 28 | (28) | - | - | - |
| Acquisition of treasury shares | | - | - | (540) | - | - | - | (540) | - | (540) |
| Acquisition of subsidiaries | | - | - | - | - | - | - | - | 4 | 4 |
| Distribution declared in 2017 | 3 | - | (1,241) | - | - | - | (5,274) | (6,515) | - | (6,515) |
| Distribution on treasury shares | 3 | - | 23 | - | - | - | 98 | 121 | - | 121 |
| **At 30 June 2017** | | **3,102** | **10,676** | **(1,692)** | **95** | **278** | **641** | **13,100** | **4** | **13,104** |

| In CZK million | Note | Equity attributable to owners of the parent Share capital | Share premium | Treasury shares | Currency translation reserve | Funds | Retained Earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2016** | | **3,102** | **11,894** | **-** | **198** | **191** | **2,959** | **18,344** | **-** | **18,344** |
| Other comprehensive income | | - | - | - | 14 | - | - | 14 | - | 14 |
| Profit fot the period | 1 | - | - | - | - | - | 2,552 | 2,552 | - | 2,552 |
| **Total comprehensive income** | | **-** | **-** | **-** | **14** | **-** | **2,552** | **2,566** | **-** | **2,566** |
| Capital contribution and other reclassifications | | - | - | - | - | 59 | (59) | - | - | - |
| Acquisition of treasury shares | | - | - | (527) | - | - | - | (527) | - | (527) |
| Distribution declared in 2016 | 3 | - | - | - | - | - | (4,964) | (4,964) | - | (4,964) |
| Dividend on treasury shares | 3 | - | - | - | - | - | 18 | 18 | - | 18 |
| **At 30 June 2016** | | **3,102** | **11,894** | **(527)** | **212** | **250** | **506** | **15,437** | **-** | **15,437** |

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

| For the six months ended 30 June 2017<br>**In CZK million** | **Notes** | **For the six months ended 30 June 2017** | **For the six months ended 30 June 2016** |
|---|---|---|---|
| **Profit before tax** | | **3,366** | **3,235** |
| Non-cash adjustments for: | | | |
| Share of profit (-)/loss (+) from equity accounted investments | | 3 | 5 |
| Dividend income | | (5) | (4) |
| Depreciation | | 511 | 488 |
| Amortisation | | 1,161 | 1,169 |
| Impairment loss | | - | 116 |
| Profit (-)/loss (+) on sale of tangible and intangible fixed assets | | (1) | 5 |
| Net interest income | | 47 | 23 |
| Foreign exchange losses (+)/gains (-) (net) | | (12) | 5 |
| Fair value changes | | 6 | 3 |
| Change in provisions and allowances | | 143 | 79 |
| **Operating cash flow before working capital changes** | | **5,219** | **5,124** |
| **Working capital adjustments:** | | | |
| Increase (-)/decrease (+) in trade and other receivables | | (131) | 92 |
| Increase (-)/decrease (+) in inventories | | (171) | 169 |
| Increasse (+)/decrease (-) in financial liabilities at fair value with impact on profit and loss | | 1 | - |
| Increase (+)/decrease (-) in trade and other payables | | (356) | (430) |
| **Cash flows from operating activities** | | **4,562** | **4,955** |
| Interest paid | | (52) | (32) |
| Interest received | | 1 | - |
| Income tax paid | | (603) | (870) |
| **Net cash flow from operating activities** | | **3,908** | **4,053** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (728) | (635) |
| Purchase of intangible assets | | (912) | (1,357) |
| Proceeds from sales of fixed assets | | 13 | 6 |
| Cash purchase of subsidiaries | | (47) | - |
| Cash purchase of equity accounted investments | | - | (10) |
| Cash purchase of other investments | | (20) | (16) |
| Dividends received | | 5 | 4 |
| Payment of security deposit to Czech Telecommunication Office | | (29) | (450) |
| Provided loans | | (8) | - |
| Release of restricted cash | | - | 432 |
| **Net cash used in investing activities** | | **(1,726)** | **(2,026)** |
| **Cash flows from financing activities** | | | |
| Proceeds of borrowings | 8 | 5,511 | 5,000 |
| Repayments of borrowings | 8 | (2,000) | - |
| Acquisition of treasury shares | | (540) | (527) |
| Dividends and other distributions paid | 3 | (6,394) | (4,946) |
| **Net cash used in financing activities** | | **(3,423)** | **(473)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,241)** | **1,554** |
| Cash and cash equivalents at beginning of the period | 6 | 4,137 | 1,538 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | (12) | 3 |
| **Cash and cash equivalents at the end of the period** | **6** | **2,884** | **3,095** |

# ACCOUNTING POLICIES

## INDEX


| | PAGE |
|---|---|
| A \| BASIS OF PREPARATION | 41 |
| B \| SIGNIFICANT ACCOUNTING POLICIES | 41 |
| C \| CHANGES IN ACCOUNTING POLICY | 41 |
| D \| EXPECTED IMPACT OF NEW STANDARD IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS | 41 |
| E \| SEASONALITY OF OPERATIONS | 42 |

## A Basis of preparation

The interim consolidated financial statements were prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016.

The amounts shown in these consolidated financial statements are presented in millions of Czech crowns ("CZK"), if not stated otherwise.

## B Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 December 2016.

## C Changes in accounting policy

In the period ended 30 June 2017, new and revised standards effective for the accounting period beginning from 1 January 2017 were applied. However, the adoption of these standards had no impact on these interim consolidated financial statements.

## D Expected impact of new standard IFRS 15 – Revenue from Contracts with Customers

The application of the new standard IFRS 15 – Revenue from contracts with customers is required for annual period beginning on 1 January 2018.

The Group will elect the modified cumulative retrospective transition approach, which means that the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018. Comparative prior year periods will not be adjusted. The Group will use the new guidance only to contracts that are not completed at the date of 1 January 2018.

The Group will apply a portfolio approach to contracts that can be grouped to portfolios with similar terms as other telecommunication peers, as it reasonably expects that the effect of applying a portfolio approach will not differ materially from considering each contract separately. Contracts with unique terms that do not fit into any portfolio will be assessed for accounting treatment individually.

As at the date of preparation of these interim consolidated financial statements, the project of implementation IFRS 15 is in the mature stage of implementation of IT systems solution – the pilot phase of the project is scheduled for the second half of 2017. Before finalisation of the full IT solution it is not possible to make reasonable quantitative estimates of the effects of the new standard.

## E Seasonality of operations

There is no significant seasonal nature either in fixed line segment or mobile telecommunication segment. Telecommunication business of the Group is not regarded as seasonal.

## CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# INDEX

PAGE


1 | SEGMENT INFORMATION 44

2 | INCOME TAX 47

3 | DIVIDENDS, OTHER DISTRIBUTION AND EARNINGS PER SHARE 47

4 | PROPERTY, PLANT AND EQUIPMENT 48

5 | INTANGIBLE ASSETS 48

6 | CASH AND CASH EQUIVALENTS 48

7 | INVENTORIES 49

8 | BORROWINGS 49

9 | RESTRUCTURING COSTS 49

10 | CONTINGENCIES AND LITIGATIONS 50

11 | COMMITMENTS 50

12 | RELATED PARTY TRANSACTIONS 51

13 | SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES 53

14 | POST BALANCE SHEET EVENTS 54

## 1 Segment information

Segments recognised by the Group are as follows:

- Czech Republic:
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company and other subsidiaries in the Group excluding O2 Family, s.r.o.
  - mobile segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o.
- Slovak Republic - telecommunication and data services provided by O2 Slovakia, s.r.o and O2 Business Services, a.s.

The operating results of all segments to the level of gross margin are regularly controlled and
reviewed by the chief operating decision maker who holds the power to make decisions about
resource allocation to the segment and to assess its performance. Operating results below the
level of gross margin and allocation of resources are controlled and reviewed by the Company's management at the entire segment level.

Inter-segment pricing rates in 2017 and 2016 were determined on the same basis as rates used for other mobile operators.

| For the six months ended 30 June 2017 | Czech Republic | | | Slovak Republic | Elimination CR vs SR | Group |
|---|---|---|---|---|---|---|
| **In CZK million** | | | | | | |
| | **Fix** | **Mobile** | | | | |
| Revenues | 5,350 | 9,878 | | | | |
| Cost of Sales (CoS) | (3,354) | (4,693) | | | | |
| Gross margin | 1,996 | 5,185 | | | | |
| Other income from non-telecommunication services | | | 51 | | | |
| Activation of fixed assets | | | 144 | | | |
| Other costs excluding (CoS) | | | (3,378) | | | |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | | | 3,998 | | | |
| Revenues | | | 15,228 | 3,466 | (207) | 18,487 |
| Other income from non-telecommunication services | | | 51 | 1 | - | 52 |
| Activation of fixed assets | | | 144 | 33 | 5 | 182 |
| Total consolidated income | | | 15,423 | 3,500 | (202) | 18,721 |
| Total consolidated costs | | | (11,425) | (2,405) | 202 | (13,628) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | | | **3,998** | **1,095** | **-** | **5,093** |
| Depreciation and amortization | | | (1,338) | (334) | - | (1,672) |
| Impairment loss | | | - | - | - | - |
| **Operating profit** | | | **2,660** | **761** | **-** | **3,421** |
| Interest expense | | | (48) | (3) | 3 | (48) |
| Interest income | | | 3 | - | (3) | - |
| Other financial income/(expense) | | | (7) | 3 | - | (4) |
| **Net financial loss** | | | **(52)** | **-** | **-** | **(52)** |
| Share of profit/(loss) of investments accounted for using the equity method | | | (3) | - | - | (3) |
| **Profit before tax** | | | **2,605** | **761** | **-** | **3,366** |
| Corporate income tax | | | (526) | (208) | - | (734) |
| **Profit for the period** | | | **2,079** | **553** | **-** | **2,632** |
| Assets (excl. goodwill) | | | 28,229 | 6,140 | (7,175) | 27,194 |
| Goodwill | | | 4,477 | - | - | 4,477 |
| **Total Assets** | | | **32,706** | **6,140** | **(7,175)** | **31,671** |
| Trade and other payables | | | (5,938) | (1,965) | 403 | (7,500) |
| Other liabilities | | | (10,982) | (741) | 656 | (11,067) |
| **Total liabilities** | | | **(16,920)** | **(2,706)** | **1,059** | **(18,567)** |
| **Fixed assets additions*** | | | **875** | **357** | **-** | **1,232** |

*Fixed assets additions are excluding tangible and intangible fixed assets (including goodwill) identified during business combinations.

| For the six months ended 30 June 2016 | Czech Republic | | | Slovak Republic | Elimination CR vs SR | Group |
|---|---|---|---|---|---|---|
| **In CZK million** | | | | | | |
| | **Fix** | | **Mobile** | | | |
| Revenues | 5,652 | | 9,557 | | | |
| Cost of Sales (CoS) | (3,531) | | (4,602) | | | |
| Gross margin | 2,121 | | 4,955 | | | |
| Other income from non-telecommunication services | | 143 | | | | |
| Activation of fixed assets | | 121 | | | | |
| Other costs excluding (CoS) | | (3,344) | | | | |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | | 3,995 | | | | |
| Revenues | | 15,209 | | 3,208 | (194) | 18,223 |
| Other income from non-telecommunication services | | 143 | | 3 | - | 146 |
| Activation of fixed assets | | 121 | | 24 | 4 | 149 |
| Total consolidated income | | 15,473 | | 3,235 | (190) | 18,518 |
| Total consolidated costs | | (11,478) | | (2,177) | 190 | (13,465) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | | **3,995** | | **1,058** | **-** | **5,053** |
| Depreciation and amortization | | (1,318) | | (339) | - | (1,657) |
| Impairment loss | | (116) | | - | - | (116) |
| **Operating profit** | | **2,561** | | **719** | **-** | **3,280** |
| Interest expense | | (36) | | **-** | **-** | (36) |
| Interest income | | 13 | | **-** | **-** | 13 |
| Other financial income/(expense) | | (14) | | (3) | - | (17) |
| **Net financial loss** | | **(37)** | | **(3)** | **-** | **(40)** |
| Results attributed to joint venture | | (5) | | - | - | (5) |
| **Profit before tax** | | **2,519** | | **716** | **-** | **3,235** |
| Corporate income tax | | (488) | | (195) | - | (683) |
| **Profit for the period** | | **2,031** | | **521** | **-** | **2,552** |
| Assets (excl. goodwill) | | 27,672 | | 5,246 | (6,409) | 26,509 |
| Goodwill | | 4,456 | | - | - | 4,456 |
| **Total Assets** | | **32,128** | | **5,246** | **(6,409)** | **30,965** |
| Trade and other payables | | (5,703) | | (1,636) | 279 | (7,060) |
| Other liabilities | | (8,447) | | (36) | 15 | (8,468) |
| **Total liabilities** | | **(14,150)** | | **(1,672)** | **294** | **(15,528)** |
| **Fixed assets additions*** | | **892** | | **247** | **(10)** | **1,129** |

*Fixed assets additions are excluding tangible and intangible fixed assets (including goodwill) identified during business combinations.

## 2 Income tax

| In CZK million | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 |
|---|---|---|
| Total income tax expense consists of: | | |
| Current income tax charge | 685 | 634 |
| Deferred income tax charge (+)/credit (-) | 49 | 49 |
| Income tax | 734 | 683 |

Deferred income taxes are calculated using currently enacted tax rates, 19% in the Czech Republic (2016: 19%) and 21% in Slovakia (2016: 22%).

## 3 Dividends, other distribution and earnings per share

| In CZK million | For the six months ended 30 June 2017 | For the six months ended 30 June 2016 |
|---|---|---|
| Dividends declared (including withholding tax) | 5,274 | 4,964 |
| Other distribution | 1,241 | - |
| Total declared distribution | 6,515 | 4,964 |

Dividends include a withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2017 and 2016. The approval of the 2016 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 10 May 2017 (2015: 19 April 2016). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 from the 2016 profit were payable on 9 June 2017 (from 2015 profit: CZK 16, respectively CZK 160). Dividends on treasury shares in amount of CZK 98 million (2016: CZK 18 million) remained in the retained earnings account.

In addition to the payment of dividends, the Annual General Meeting of the Company approved distribution of part of the share premium among the shareholders, in total amount of CZK 1,241 million. For each share with a nominal value of CZK 10, the amount of CZK 4 before tax is allocated (for share with a nominal value of CZK 100, CZK 40 before tax is allocated). The Company does not have the right to receive the amount related to the payment of the share premium for the treasury shares. This part of the share premium in amount of CZK 23 million remained in the share premium account.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

| | **For the six months ended 30 June 2017** | **For the six months ended 30 June 2016** |
|---|---|---|
| Weighted number of ordinary shares outstanding (thousands) | 304,552 | 309,189 |
| Net profit attributable to shareholders (in CZK million) | 2,633 | 2,552 |
| Basic earnings per share (CZK) | 9 | 8 |

## 4 Property, plant and equipment

During the six months ended 30 June 2017, the Group acquired assets at a cost of CZK 528 million (for the period of six months ended 30 June 2016: CZK 433 million). Assets with a net book value of CZK 1 million were disposed of by the Group during the six months ended 30 June 2017 (for the period of six months ended 30 June 2016: CZK 85 million).

## 5 Intangible assets

During the six months ended 30 June 2017, the Group acquired intangible assets at a cost of CZK 704 million (for the period of six months ended 30 June 2016: CZK 696 million). Assets with a net book value of CZK 11 million were disposed of by the Group during the six months ended 30 June 2017 (for the period of six months ended 30 June 2016: CZK 29 million).

## 6 Cash and cash equivalents

| **In CZK million** | **30 June 2017** | **31 December 2016** |
|---|---|---|
| Cash at current bank accounts and other cash equivalents | 1,714 | 2,098 |
| Cash at current bank accounts and other cash equivalents with related parties (Note 12) | 1,170 | 2,039 |
| Total cash and cash equivalents | 2,884 | 4,137 |

The committed undrawn facilities available to the Group amounted to CZK 5,660 million as at 30 June 2017 (as at 31 December 2016: CZK 5,662 million).

As at 30 June 2017 and 31 December 2016 no cash and cash equivalents were pledged.

## 7 Inventories

As at 30 June 2017, the inventories are stated net of an allowance of CZK 75 million (as at 31 December 2016: CZK 81 million), reducing the value of the inventories to their net realisable value.

## 8 Borrowings

On 16 December 2015, the Company entered into a long-term facility agreement with maturity in 5 years and credit limit of CZK 12 billion. The interest rate is based on 1M PRIBOR increased by 0.60% margin. The debt is not secured by any assets owned by the Group.

In line with the facility agreement, the Company made following drawings in the six months ended 30 June 2017: (i) amount of CZK 1 billion drawn on 24 January 2017 and (ii) amount of CZK 1 billion drawn on 31 March 2017. These facilities were repaid on 24 April 2017 and 28 April 2017.

As at 30 June 2017, the Company used total of CZK 7 billion of the available credit from the long-term facility agreement.

On 4 April 2017, the Company successfully completed new financing (Schuldschein) in total amount of CZK 3.5 billion (CZK 3.0 billion and EUR 20 million) with maturity of 5 to 7 years. Société Générale and UniCredit Bank acted as arrangers underwriting the funding.

The interest rates and maturities of each tranche are as follows:

| Tranche | Currency | Amount in currency unit | Interest rate | Maturity day |
|---|---|---|---|---|
| Schuldschein - CZK 5Y float | CZK | 90,000,000 | 3M PRIBOR + 0.75% | 5 April 2022 |
| Schuldschein - CZK 7Y float | CZK | 130,000,000 | 3M PRIBOR + 1.05% | 5 April 2024 |
| Schuldschein - EUR 5Y float | EUR | 11,000,000 | 6M EURIBOR + 1.30% | 5 April 2022 |
| Schuldschein - EUR 7Y float | EUR | 9,000,000 | 6M EURIBOR + 1.50% | 5 April 2024 |
| Schuldschein - CZK 5Y fix | CZK | 470,000,000 | 1.316% | 5 April 2022 |
| Schuldschein - CZK 7Y fix | CZK | 2,280,000,00 | 1.734% | 5 April 2024 |

## 9 Restructuring costs

During the six months period ended 30 June 2017, the Group recognised restructuring costs of CZK 17 million (for the period of six months ended 30 June 2016: CZK 49 million).

## 10 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Developments which occurred throughout the first half of the year 2017 are described below.

### I. TELECONSULT-INTERNATIONAL, spol. s r.o. – dispute on CZK 54.4 million

The High court in Prague changed the previous decision of the Municipal court in Prague on the ground of the Company's appeal. Thus, the legal action against the Company was fully dismissed. The written decision was delivered on 11 July 2017 and the proceeding is closed.

### II. BELL TRADE s.r.o. – dispute on CZK 5.2 billion

The Company filed the legal action to the Municipal court in Prague as a reaction to the repeated attempts organized by the connected companies BELL TRADE and PET-PACK SK s.r.o. The Company claims that no contracts have ever been concluded and that the Company has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed the Company's arguments and upheld the legal action on the hearing on 26 June 2017.

### III. Other

No development occurred in other significant legal disputes disclosed in the Group's consolidated financial statements as at 31 December 2016 that are part of the Annual report.

The Group is also involved in other less significant legal disputes. The aggregate value of these disputes, in which the claim is higher than CZK 5 million and which have not been closed during the six months ended 30 June 2017, exceeds CZK 75 million. Possible impact of these disputes is reflected in the consolidated financial statements, however, risks associated with the individual disputes are not significant.

The Company considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Company in these cases.

The Company is convinced that all litigation risk of the Group has been appropriately reflected in the financial statements.

## 11 Commitments

Capital expenditure contracted but not yet included in the consolidated financial statements as at 30 June 2017 amounted to CZK 584 million (as at 31 December 2016:

CZK 293 million). The majority of contracted amounts relate to the telecommunications network and service contracts.

## 12 Related party transactions

Companies PPF Telco B.V. and PPF A3 B.V., through which Mr. Petr Kellner controls the Company, are part of PPF Group.

The PPF Group invests in a variety of industries, from banking and financial services, through telecommunications, real estate to biotechnology. The PPF Group operates in Europe, Russia, Asia and the USA.

The Group provides services to all related parties on common commercial terms and at market prices. Outstanding balances of assets and liabilities are unsecured, interest free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial assets balances are tested for impairment at the balance sheet date. As at 30 June 2017 and as at 31 December 2016 no allowance or write-off was incurred.

No loans were provided by the Group to related parties.

The following transactions were carried out with related parties:

### I. Parent company:

The dividend and other distributions paid during the six months period ended 30 June 2017 to the shareholders from PPF Group amounted to CZK 5,281 million (for the period of six months ended 30 June 2016: CZK 4,172 million). The liability from distribution to the parent company was duly paid as at 30 June 2017 and 31 December 2016.

### II. Česká telekomunikační infrastruktura a.s. (CETIN):

After the spin off of the Company in 2015, new business relations were established with the company CETIN through a purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Group.

Amongst the most important newly arising relationships are the following wholesale agreements:

**a) mobile network services agreement**
The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the

network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Group is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

**b) agreement on the access to the public fixed communications network (so-called MMO)**

The subject of MMO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment). Total cost for the six months ended 30 June 2017 was approximately CZK 2,029 million (for the six months ended 30 June 2016: CZK 2,090 million).

**c) agreement on the access to end points (so-called RADO) and others.**

CETIN enables the Group access to end points, which include provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for the six months ended 30 June 2017 was approximately CZK 445 million (for the six months ended 30 June 2016: CZK 470 million).

## 13 Subsidiaries, associates and joint ventures

### As at 30 June 2017

| | Subsidiaries | Group's interest | Country of incorporation | Activity | Method of consolidation |
|---|---|---|---|---|---|
| 1. | O2 Slovakia, s.r.o. | 100 % | Slovakia | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 2. | EIH - LK s.r.o. (before Internethome, s.r.o.) | 100 % | Czech Republic | Provision of WiFi internet access | Consolidated (full consolidation) |
| 3. | O2 Family, s.r.o. | 100 % | Czech Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 4. | O2 TV s.r.o. | 100 % | Czech Republic | Digital television | Consolidated (full consolidation) |
| 5. | O2 IT Services s.r.o. | 100 % | Czech Republic | Information technology services | Consolidated (full consolidation) |
| 6. | Bolt Start Up Development a.s. | 100 % | Czech Republic | Startup fund | Consolidated (full consolidation) |
| 7. | O2 Business Services, a.s. | 100 % | Slovakia | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 8. | eKasa s.r.o. | 100 % | Czech Republic | Provider of solution for electronic records of sales | Consolidated (full consolidation) |
| 9. | O2 Financial Services s.r.o. | 100 % | Czech Republic | Provider of financial services | Consolidated (full consolidation) |
| 10. | iCORD International s.r.o. | 90 % | Czech Republic | On-line communication platform | Consolidated (full consolidation) |
| 11. | Misterine s.r.o. | 80 % | Czech Republic | Virtual and extended reality | Not consolidated (not material) |
| 12. | TapMedia s.r.o. | 51 % | Czech Republic | Mobile applications development | Consolidated (full consolidation) |
| 13. | INTENS Corporation s.r.o. | 100 % | Czech Republic | Provider of transport telematics services | Consolidated (full consolidation) |
| | **Associates** | | | | |
| 14. | První certifikační autorita, a.s. | 23 % | Czech Republic | Certification services | Not consolidated (not material) |
| 15. | AUGUSTUS, spol. s r.o. | 40 % | Czech Republic | Auction sales and advisory services | Not consolidated (in bankruptcy) |
| 16. | Dateio s.r.o. | 21 % | Czech Republic | Development of targeted marketing platform | Consolidated (Equity method) |

**Joint ventures**

| | | | | | |
|---|---|---|---|---|---|
| 17. | Tesco Mobile ČR s.r.o. | 50 % | Czech Republic | Mobile virtual network operator for prepaid services | Consolidated (Equity method) |
| 18. | Tesco Mobile Slovakia, s.r.o. | 50 % | Slovakia | Mobile virtual network operator for prepaid services | Not consolidated (not material) |

On 28 February 2017, the Group increased its share through the subsidiary Bolt Start Up Development a.s. in the company TapMedia s.r.o., in which it newly gained control. Goodwill of CZK 13 million was identified in the acquisition, which corresponds to the difference between the fair value of the net assets acquired and the sum of the total purchase price and the non-controlling interest valued by the relative share on the net identifiable assets of the acquiree.

On 1 January 2017, the Group gained control, through the subsidiary Bolt Start Up Development a.s., in the company INTENS Corporation s.r.o., in which it acquired 100% share. Goodwill of CZK 6 million was identified in the acquisition, which corresponds to the difference between the fair value of the net assets acquired and the total consideration.

## 14 Post balance sheet events

### O2 brand license extension till January 2022

The Company extended the O2 brand license period for an already agreed fee by another three years on top of current period ending on 27 January 2019, i.e. newly till 27 January 2022. Moreover, it extended the Partnership agreement with Telefónica till the same date. Furthermore, the Company will be entitled to extend the O2 brand license by another five years, i.e. until 27 January 2027, while the total price for the O2 brand will be reduced. The condition for O2 brand license and Partnership agreement extension is a prepayment of about CZK 900 million, to be made by the year end of 2017.

### Auction of spectrum in 3,700 MHz band

At an auction in July 2017, the Company bought a strategically important block of spectrum of 40 MHz in the 3,700 MHz band for a total price of CZK 203 million.

### Renewal of the existing allocation of 450 MHz radio frequency

Based on the publication of the final wording of the existing 450 MHz radio frequency allocation renewal review (for a 15 years period from the expiry of the existing allocation, i.e. until 7 February 2033) and the expert opinion result, the Company received a call from the Czech Telecommunication Office to submit an application for allocation of these radio frequencies on 8 August 2017. The Company filed the application on 9 August 2017, and also paid CZK 210 million for being granted the rights to use the spectrum.

These events have no impact on the consolidated financial statements for the six months ended 30 June 2017.

### Other

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the condensed consolidated financial statements for the six months ended 30 June 2017.

23 August 2017

**Tomáš Budník**
Chief Executive Officer
Chairman of the Board of Directors

**Tomáš Kouřil**
Chief Financial Officer
Vice-chairman of the Board of Directors

# Declaration of persons responsible for the Half-year Report

# 6. Declaration of persons responsible for the Half-Year Report

Tomáš Budník, Chairman of the Board of Directors of O2 Czech Republic a.s.

a

Tomáš Kouřil, Vice-chairman of the Board of Directors of O2 Czech Republic a.s.

hereby declare that, to their best knowledge, the consolidated Half-Year Report gives a true and faithful reflection of the financial situation, business and the results of the Company and its consolidated whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

**Tomáš Budník**
Chairman of the Board of Directors

**Tomáš Kouřil**
Vice-chairman of the Board of Directors

In Prague on 23 August 2017

**O2 Czech Republic a.s.**
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