# Half-year Report 2018

This version of the Half-year Report is a translation from the original which was prepared in 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"

The O2 Czech Republic Group comprises the company O2 Czech Republic a.s., its 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

# Dear shareholders, let me briefly look back at our key strategic and commercial activities in the first half of the year 2018, and how they impacted on our operating and financial results.

Personally, I regard the first half of the year as a success for the Company, largely as a result of the the successful launch of new services in the second half of the previous year and in the first six months of the current year. For an overview of new products and services launched in 2018, please refer to the relevant sections of the Half-year Report.

*$O_2$ Spolu*, economy bundles of mobile services and $O_2$ TV digital television were the main drivers of the growth in the number of customers. With the bundles, all our customers – families, groups of friends and independent traders – enjoy a flexible package of mobile services, fixed internet access for the home and digital television. Each bundle comes with a SIM card with unlimited calls and SMS, and a data allowance of between 3 and 10 GB per SIM card. Customers with a higher data requirement can now opt for our recently introduced *$O_2$ Data* tariffs, with monthly data allowances of between 4 and 20 GB. These tariffs are designed not just for mobile internet surfing but also for tablets and notebooks. In addition, we increased the data allowance fivefold for [:kůl:] tariffs for students and young people, without any impact on the prices, and strengthened our competitiveness in this segment.

It is great to see that our customers have received *$O_2$ Spolu* and the other new products and services with such overwhelming positivity, which is manifested in the increased demand. The use of mobile data has been growing significantly, spurred by the continuing migration of customers to tariffs with higher data allowances and the thriving sales of LTE-enabled smartphones. The number of users of Internet na doma (Home Internet) over the mobile network has also been rising. In the first half of 2018, the data traffic in the mobile network grew 120% year on year. The sales of the $O_2$ Smart Box, a high-performance modem developed in-house, are also looking good. The modem not only offers a fast Internet HD connection and a quality home Wi-Fi service, but it also represents the easiest way of making any home smart and safe. We have, moreover, debuted a new *Internet ULTRA HD* fixed access tariff, with download speeds of up to 250 Mbps.

Our already extensive range of exclusive television content has received a significant boost with the acquisition of the broadcasting rights for the most attractive sports events: Fortuna liga, the highest Czech football league, Tisport extraliga, the foremost ice-hockey competition, and the UEFA Champions League. O2 customers can now watch all the matches of the most popular sports in the Czech Republic. Moreover, $O_2$ TV subscribers can enjoy a unique multidimensional television and choose from multiple matches, playback of up to 7 days, pause the broadcast or rewatch key moments. Alongside television via a set-top box, we also offer the option of streaming the full $O_2$ TV programming to a PC, smartphone or a tablet.

The growing popularity of our services has resulted in an 11% increase in the number of $O_2$ TV subscribers.

At the end of June 2018, we already recorded 287 thousand active set-top boxes. The number of mobile customers grew 2% on the year to almost five million.

In Slovakia, our continued investment effort in a proprietary mobile network, coupled with our product and service proposition, has also helped us increase the number of customers and improve the quality and revenue performance of our customer base. In addition to expanding the coverage of the 4G LTE network, which is already nearly at 94%, we have continued to develop the LTE TDD technology which runs on 3.5 GHz and 3.7 GHz frequencies and is used for the distribution of wireless internet and $O_2$ TV digital television. We have added a new tariff to the Home Internet service portfolio, which is also available to customers reached by the 4G LTE service. In order to increase our operating profitability in the future, we are further investing in expanding the coverage of our own 2G network.

As we are seeing in the Czech Republic, O2 Slovakia has also registered a growing demand for its LTE-enabled smartphones. With the increase in 4G LTE coverage, LTE penetration growth, and the increased customer appetite for higher data tariffs, the mobile data consumption substantially grew.

The aforementioned commercial successes have made a positive impression on our financial results. Despite continued pressure on revenues from our traditional services, the introduction of our new proposition caused the revenue for the first half of the year to grow 0.6% year on year to CZK 18.6 billion, with mobile data revenues and revenues from the sale of equipment and accessories featuring as the main growth drivers in both countries. Revenues from digital television and financial services also continued to grow. The increase has offset the negative impact of European roaming regulation and the declining revenues from traditional voice and data services. The year-on-year decrease in operating costs has been a result of the lower cost of sales of fixed services, as well as the positive impact of the new IFRS 15 on commercial costs. These factors more than compensated for the increase in the cost of sale of equipment, and the higher roaming and personnel costs. Our consolidated EBITDA increased 5.6% to CZK 5.4 billion, and net profit was up 5.5% to CZK 2.8 billion. We increased our investment 11% year on year, with the capital expenditure to revenues being 7.3%. In the Czech Republic, the bulk of investments were directed towards the transformation of information systems; while in Slovakia, in was particularly directed towards the further strengthening of our proprietary mobile network. Our net debt in relation to EBITDA remains relatively low reaching a multiple of 0.4 at the end of June.

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

# Financial and operating highlights

Financial data is based on the Interim Consolidated Financial Statements for the six months ended 30 June 2018 prepared in accordance with International Financial Reporting Standard IAS 34 as adopted by the European Commission.

| | 1H 2018 [1)] | 1H 2017 [2)] |
|---|---|---|
| **Financials (in CZKm)** | | |
| Revenues [3)] | 18,599 | 18,487 |
| EBITDA – Earnings before depreciation and amortization | 5,378 | 5,093 |
| Operating profit | 3,581 | 3,421 |
| Profit before taxes | 3,501 | 3,366 |
| Profit for the period | 2,776 | 2,632 |
| Total assets | 39,346 | 31,671 |
| Property, plant and equipment | 5,744 | 5,023 |
| Intangible assets | 16,576 | 16,044 |
| Total equity | 12,603 | 13,104 |
| Financial debts (long-term and short-term) | 11,690 | 10,477 |
| Capital expenditure (additions to fixed assets) | 1,365 | 1,232 |
| **Operating indicators (at end of period)** | | |
| Fixed voice lines (in thousands) | 554 | 654 |
| xDSL connections – retail (in thousands) | 708 | 752 |
| Pay TV – $O_2$ TV (IPTV and OTT, in thousands) [4)] | 287 | 259 |
| Mobile customers in the Czech Republic (in thousands) | 4,992 | 4,903 |
| – of this contract customers | 3,504 | 3,366 |
| prepaid customers | 1,488 | 1,537 |
| Mobile customers in Slovakia (in thousands) | 1,975 | 1,903 |
| Number of employees in the O2 Group | 5,296 | 4,969 |
| **Ratios** | | |
| EBITDA margin (EBITDA/Revenues, in %) | 28.9 | 27.5 |
| Profit after taxes /Revenues (in %) | 14.9 | 14.2 |
| Capital expenditure /Revenues (in %) | 7.3 | 6.7 |
| ROA (Profit after taxes /Total assets, in %, annualised) | 14.1 | 16.6 |
| ROE (Profit after taxes / Total equity, in %, annualised) | 44.0 | 40.2 |
| Gross gearing (Financial debts/Total equity, in %) | 92.7 | 80.0 |
| Net debt (Financial debt less Cash and cash equivalents) / EBITDA | 0.41 | 0.75 |
| Profit [5)] per share – consolidated | 9.2 | 8.6 |
| – unconsolidated | 11.4 | 10.6 |

1) Financial indicators and ratios extracted from the Balance Sheet as at 30 June 2018, financial indicators and ratios extracted from Statement of Total Comprehensive Income for the Six Months Ended 30 June 2018, operating indicators as at 30 June 2018

2) Financial indicators and ratios extracted from the Balance Sheet as at 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 at 30 June 2017

3) Excluding revenues from non-telecommunications services

4) Including MULTI services (second set-top box)

5) Profit attributable to shareholders/weighted number of ordinary shares outstanding

| | 1H 2018 | 1H 2017 |
|---|---|---|
| **Macroeconomic indicators [6]** | | |
| CZK/EUR exchange rate – average | 25.50 | 26.78 |
| CZK/EUR exchange rate – at end of period | 26.02 | 26.20 |

## Alternative performance measures

This Half-year Report lists some alternative performance measures which are not reported as standard in the Interim Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS). These measures represent supplementary information in respect of financial data, providing report users with additional information for their assessment of the financial position and performance of the O2 Group. In accordance with the ESMA Guidelines on Alternative Performance Measures, O2 CZ provides more detailed information on these alternative performance measures in this section, although some of it is reported directly in the financial statements or derived directly from financial statements.

| Measure | Definition | Purpose | Reconciliation to financial statements (in CZK million) |
|---|---|---|---|
| **EBITDA** | Earnings before tax, depreciation and amortization | Shows the operating performance of the Company | See the Interim Consolidated Statement of Total Comprehensive Income (EBITDA):<br>1H 2017: CZK 5,093m<br>1H 2018: CZK 5,378m |
| **EBITDA margin** | EBITDA/ Revenues | Measures the operating profitability of the Company | See the Interim Consolidated Statement of Total Comprehensive Income (Revenues and EBITDA):<br>1H 2017: 5,093/18,487 = 27.5 %<br>1H 2018: 5,378/18,599 = 28.9% |
| **ROA** | Profit for the period/Total assets | Shows how effectively assets are used for profit generation | See the Interim Consolidated Statement of Total Comprehensive Income (Profit for the period) and the Consolidated balance sheet (Total assets):<br>1H 2017: 2,632*2/31,671 = 16.6 %<br>1H 2018: 2,776*2/39,346 = 14.1% |
| **ROE** | Profit for the period/Total equity | A ratio of the reported profit to the capital invested by the shareholders in the Company | See the Interim Consolidated Statement of Total Comprehensive Income (Profit for the period) and the Consolidated Balance Sheet (Total equity):<br>1H 2017: 2,632*2/13,104 = 40.2 %<br>1H 2018: 2,776*2/12,603 = 44.0% |
| **Gross gearing** | Borrowings/Total equity | Shows the share of borrowings the Company uses for its operation compared to total equity | See the Interim Consolidated Balance Sheet (Total equity, Long/short-term financial debts):<br>1H 2017: (10,457+20)/13,104 = 80.0 %<br>1H 2018: (11,662+28)/12,603 = 92.7% |

6) Source: Czech National Bank web page (FX rates of other currencies)

| | | | |
|---|---|---|---|
| **Net debt/ EBITDA** | (Borrowings less Cash and cash equivalents)/ (EBITDA) | Expresses the Company's ability to pay its debts; roughly reflects the time the Company needs to repay all its debts from its standard operating cash flow | See the Interim Consolidated Statement of Total Comprehensive Income (EBITDA) and the Consolidated Balance Sheet (Cash and cash equivalents, Long/short-term financial debts):<br>1H 2017: (10,457+20-2,884)/(5,093*2) = 0.75<br>1H 2018: (11,662+28-7,322)/(5,378*2) = 0.41 |
| **Capital expen - ditures/ Revenues** | Capital expenditures (Fixed assets additions)/ Revenues | Expresses the amount the Company invests in its future development | see the Interim Consolidated Statement of Total Comprehensive Income (Revenues) and Note 3 "Segment information" of the Condensed Notes to the Interim Consolidated Financial Statements (Fixed assets additions):<br>1H 2017: 1,232/18,487 = 6.7 %<br>1H 2018: 1,365/18,599 = 7.3% |
| **Free cash flows** | Net free operating cash flow less net free investing cash flow | Measures the volume of cash and cash equivalents which the Company generates after it has paid for all items necessary to continue its operations | See the Interim Consolidated Cash Flow Statements (Net operating cash flow, Net investing cash flow):<br>1H 2017: 3,908 - 1,726 = CZK 2,182m<br>1H 2018: 3 406 - 1,378 = CZK 2,028m |

# Review of the business

# Factors influencing the business and results in the first half of 2018

## The Czech telecommunications market

In the field of fixed internet, UPC increased the speed of its home internet connection at the beginning of the year. At the beginning of February, T-Mobile also increased its fixed internet speed. The tariff portfolio has been expanded to include an XL tariff with a maximum speed of 250 Mbps. In April, T-Mobile added a Plug-in internet product to its existing portfolio; it is a connection without FUP which runs on LTE technology.

In line with market developments, operators extended their offer of service bundles which combine fixed and mobile services. T-Mobile introduced a new Magenta 1 service that combines several services. Small and medium businesses and independent traders were the focus for T-Mobile's Extra pro podnikatele (Extra for Business) bundle, which lets them combine both mobile and fixed services. In February, Vodafone raised data allowances for both Red+ and Business Red+ tariffs for new and existing customers. New Red Home and Red+ Home customers can combine their mobile and fixed service with Vodafone Pass.

At the end of January, T-Mobile again launched satellite TV broadcasting, which uses the solution of its sister company Slovak Telekom. Satellite TV thus complements T-Mobile's IPTV proposition.

## Regulation

### Legislation

On 1 February 2018, a provision of the Electronic Communications Act came into effect, which stipulates that the service provider is required to allow the customer to terminate the contract and switch to another service provider more expediently.

On 13 June 2018, the Government of the Czech Republic approved an amendment to Government Order No. 154/2005 Coll., Which would reduce the fees for the use of radio frequencies in the 1 GHz to 2.2 GHz bands by 30% with effect from 1 September 2018.

### International roaming regulation

In the European Union, roaming services and prices are regulated until 2022 by Regulation (EU) No 531/2012 of the European Parliament and of the Council. In line with the Regulation and the related Implementing Regulations, on 1 January 2018, the provision of roaming services at the wholesale level has been adapted. At the retail level, O2 CZ continues to adapt its services prices to bring them in line with the Regulation.

### Frequency spectrum management

On 1 June 2018, the Czech Telecommunication Office (CTO) published draft basic principles of a tender for the granting of rights to use radio frequencies in the 700 MHz band, which contains the proposed conditions for the future selection of radio frequencies in the 700 MHz spectrum within the scope of 2 x 30 MHz; the tender procedure is expected to commence in the second half of 2019.

In June 2018, the Company requested a change in the 2,100 MHz band to allow technology neutral usage of the allocated frequencies. At present, O2 CZ's allocation allows the radio frequency spectrum in question to be used exclusively for the UMTS (3G) service.

### Universal Service

In June 2018, the CTO based on the tender, mandated the Company to provide a partial universal public telephone service for the disabled persons using special telecommunication equipment in the years 2018 - 2021. In the first half of 2018, O2 CZ continued providing the following partial services: services of public telephone booths and special price plans for disabled persons.

# Products and services

## Consumer segment

### Mobile

In addition to continually improving quality and increasing mobile network capacity, the Company focused primarily on adjusting the tariff offer during the first half of the year.

The Company offers *$O_2$ Spolu* bundles in one package, which combine up to four SIM cards with unlimited calling and SMS, mobile data (from 3 to 10 GB to a SIM card), $O_2$ TV digital television or Internet HD to families, friends, and small businesses. It also introduced a new *$O_2$ Data* tariff family with a monthly data allowance of 4 to 20 GB for mobile phones, tablets and laptops. Customers can choose between a higher monthly data allowance or a one-off bonus to buy a new mobile, tablet, or laptop from the Company's new product listings. The Company also debuted its improved *$O_2$ kůl* tariffs for people under 26; the same price, these now come with a data allowance which is five times higher than before. With the new *$O_2$ Data* tariffs, along with *$O_2$ Spolu* bundles the continued consumer uptake of tariffs with more generous data allowances and the growing number of home mobile internet users, O2 CZ's mobile data consumption grew almost 120% year on year.

The Company continued to market exclusively LTE-enabled smartphones, and in the first six months of the year, it offered a number of great deals on such devices. Almost two-thirds of O2 phones fall into the category of smart devices, and 51% support 4G LTE technology. Of those who own an LTE smartphone, 91% have also replaced their SIM card with a new one that supports this technology.

The Company brought the prepaid card under the name of GO back to the market. Customers can choose from two options – *GO zdarma* with a monthly top-up of CZK 300 offers unlimited calls to the O2 network and to fixed line numbers, and 50 MB of data per month. The *GO neomezeně* for CZK 20 per day comes with unlimited calls to all networks and online access for news and chat.

The Company also unveiled its new roaming proposition. In more than 80 countries outside of the EU, customers can now surf online for the price of CZK 4 per 1 MB. With the significantly expanded *Top svět* roaming bundle, data is 98% less expensive than before. The Company has also recently introduced Smart Data Protection, a service prevents devices from connecting to paid internet outside the bundle and helps users keep their roaming costs under control.

### Fixed

Internet na doma, the Company's home internet service which is now available to 99% of households, runs primarily over the Company's xDSL network. Household which do not have a sufficient xDSL connectivity can get online via the wireless 4G LTE. The Company introduced a new fixed tariff, *Internet ULTRA HD*, which offers a download speed of 250 Mbps and upload speed of 25 Mbps.

The Company also continued to focus on marketing its internally developed $O_2$ Smart Box, a unique combination of a high-performance DSL modem, top-quality Wi-Fi router and a Smart Home control centre. Through their $O_2$ Smart Box, customers can subscribe to various services and get other technology to automate their home or office; window and door sensors introduced earlier have been complemented with a smart lock or a flood detector. From May, new and existing $O_2$ Smart Box owners can enjoy a free Smart Wi-Fi functionality which scans the surroundings to detect the best and most stable Wi-Fi channel, giving the user the best quality Wi-Fi experience in the home and its immediate area.

### $O_2$ TV

In the first half of the year, the Company made several announcements related to the acquisition of exclusive television rights for the most popular sports broadcasts. The prestigious UEFA Champions League will run exclusively from 2018 until 2021. From the 2018/2019 season until 2023, $O_2$ TV subscribers can enjoy all matches of Tipsport extraliga the foremost ice-hockey competition, exclusively, including the play-off and the finals. Thanks to a new contract, $O_2$ TV will, for the first time in history, show all matches of the 1st Czech football league (Fortuna liga) in the next four years on an exclusive basis. The Company also holds the exclusive television rights to Euroliga, a basketball competition.

The Company also pursued the development of its own television content, e.g. OKTAGON, which maps the local and global martial arts scene and is produced internally, and continued its long-running series, or TIKI TAKA, a unique format of a sports entertainment talk show, which is dedicated to the latest from the Czech football pitches.

Thousands of viewers took advantage of the 24-hour access to $O_2$ TV Sport programming, including the most attractive sports broadcasts. Exclusive sports content is increasingly popular even among people who do not have $O_2$ TV.

The programming of $O_2$ TV expanded to include additional channels during the first half of the year, e.g. Televize Seznam including Stream.cz archive, or the TV channel Epic Drama. Since March, TV channels Nick Junior and Cartoon Network have been available on $O_2$ TV in the Czech language, as well as in the original English version. In April, $O_2$ TV introduced a new channel listing, which is easier to navigate and lists channels in the order of quality. The $O_2$ TV M bundle has been expanded to include Eurosport, Sport 1 and Spektrum in HD quality.

In June, the Company launched a new $O_2$TV mobile app in an attractive new design and programming overview. the app menu has been visually matched with the Moje menu Interface, and users can browse programmes, films and TV shows by genre. Searching is easy, and anything can be played back within a period of 7 days and recorded programmes are kept for 30 days.

## Corporations and government

The company responded to the constantly increasing demand for data storage from businesses and opened another data centre in Stodůlky, Prague. Business customers benefit from industry-leading technical facilities and security built according to international Tier III specifications.

The new Data Protection Regulation (GDPR) entered into force in May. Consequently, during the first half of the year, the Company focused on offering products and services to help customers comply with the new rules. One of the newly developed applications O2 GDPR Sonar can search for and analyze personal and sensitive data in online content, computer drives, shared data warehouses, company databases and email servers, or locally stored mail files. At the same time it manages and records consents with personal data processing, including checking their validity.

In the field of data and internet services, the Company has expanded a range of tariffs running on VDSL and Fiber technology, and added a 250/25 Mbps option. In the area of business connectivity, the Company offers a symmetrical connection of up to 10 Gbps and a wide range of additional and mobile services, such as LTE connectivity. The company further invested in improvements to its national internet connectivity through alliances with the best global market players. In May, the Company introduced a new voice proposition for corporate and government customers with unified fixed and mobile call rates. The Company also continued to work with major developer companies to build retail centres, business centres and industrial zones, where it provides mobile service and a stable fixed connectivity.

In June, the Company, in partnership with a pan-European project dealing with autonomous transport and vehicle communication, hosted an industry conference called C-Roads – The Future of Automotive Transport.

# O2 Czech Republic Group

## Overview of the O2 Group and the main changes in the first half of 2018

### Basic information about the Company

| | |
|---|---|
| Corporate name: | O2 Czech Republic a.s. |
| Registered seat: | Prague 4-Michle, Za Brumlovkou 266/2, postal code 140 22 |
| Corporate ID: | 60193336 |
| VAT No: | CZ60193336 |
| LEI (Legal Entity Identifier) | 31570041CDH3MRKW7534 |
| 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 |

### Basic information about the O2 Group

O2 Group comprises the parent company O2 Czech Republic a.s. and its subsidiaries; for the full list, please refer to the Interim Consolidated Financial Statements (Note 16), which forms an annex to this Half-year Report. An overview of related party transactions (IAS 24) is given in the Interim Consolidated Financial Statements (Note 16), which forms an annex to this Half-year Report.

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

| | **For the first half of the year ending 30 June** (in CZKm) | |
|---|---|---|
| | **2018** | **2017** |
| Czech Republic | 15,191 | 15,228 |
| Slovakia | 3,597 | 3,466 |
| Consolidation adjustments | -189 | - 207 |
| **Consolidated revenues total[1)]** | **18,599** | **18,487** |

1) Excluding other revenues from non-telecommunications services

Total customers of the O2 Group:

| | as at 30 June (in thousands) | |
|---|---|---|
| | **2018** | **2017** |
| Fixed voice lines | 554 | 654 |
| xDSL lines | 708 | 752 |
| $O_2$ TV (pay TV)[1)] | 287 | 259 |
| **FIXED SEGMENT – CZECH REPUBLIC** | **1,549** | **1,665** |
| Contract customers | 3,504 | 3,366 |
| Prepaid customers | 1,488 | 1,537 |
| **MOBILE SEGMENT – CZECH REPUBLIC** | **4,992** | **4,903** |
| Contract customers | 1,205 | 1,108 |
| Prepaid customers | 770 | 795 |
| **MOBILE SEGMENT – SLOVAKIA** | **1,975** | **1,903** |
| | | |
| **CUSTOMERS OF THE O2 GROUP TOTAL** | **8,516** | **8,471** |

1) IPTV and OTT

Total headcount of the O2 Group shown per region:

| | as at 30 June | |
|---|---|---|
| | **2018** | **2017** |
| O2 Czech Republic | 4,279 | 4,022 |
| O2 Family | 82 | 75 |
| O2 TV | 13 | 13 |
| O2 IT Services | 161 | 163 |
| Other companies [1)] | 51 | 36 |
| **Employees in the Czech Republic** | **4,586** | **4,309** |
| O2 Slovakia | 673 | 626 |
| O2 Business Services | 37 | 34 |
| Employees in Slovakia | 710 | 660 |
| **O2 Group headcount total** | **5,296** | **4,969** |

1) eKasa, O2 Financial Services, Bolt Start Up Development , INTENS Corporation, mluvii.com, Misterine, Tapito a Smart home security

## Transformation programme

In the first half of 2018, the transformation programme Simple Online Company progressed into the final stage, which included complete functional, data migration, performance and security testing. At the same time, several test rounds of shutdowns of the old and the bringing online of the new systems were performed. The new intuitive systems will significantly expedite customer service in all distribution and service channels. The new systems will also be much cheaper to run and develop going forward.

## Shareholder structure

O2 CZ shareholder structure as at 30 June 2018:

| | Shareholder | Percentage of share capital held | Percentage of voting rights held |
|---|---|---|---|
| 1 | PPF Telco B.V. | 65.79 % | 67.69 % |
| 2 | PPF A3 B.V. | 10.27 % | 10.57 % |
| 3 | ANTHIAROSE LIMITED | 5.00 % [1)] | 5.14 % |
| PPF Group total | | 81.06 % | 83.40 % |
| 4 | O2 Czech Republic a.s. (own shares) | 2.80 % | 0.00 % |
| 5 | Investment funds and individual owners | 16.14 % | 16.60 % |

1) rounded

On 22 March 2018, Petr Kellner announced that, on 20 March 2018, a for-consideration transfer of 15,510,380 shares of ISIN CZ0009093209 representing a direct 4.99% share in the voting rights of the Company was effected from PPF Telco B.V. to ANTHIAROSE LIMITED.

## Share capital and shares

During the first half of 2018, there was no change in the share capital. The share capital of O2 CZ as at 30 June 2018 in the amount of CZK 3,102,200,670 was fully paid up and was made up of the following shares:

A. Type: ordinary
Kind: registered
Form: booked
Total volume of issue: 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
Total volume of issue: 1
Nominal value: CZK100
Total volume of issue CZK100
ISIN CZ0008467115

## Share capital

The structure of unconsolidated equity of O2 CZ as at 30 June 2018 was as follows:

| | (in CZKm) |
|---|---:|
| Share capital | 3,102 |
| Issue premium | 9,470 |
| Own shares | - 2,204 |
| Funds | 35 |
| Retained earnings | 4,877 |
| **Total** | **15,280** |

## Trading in O2 CZ shares in the first half of 2018

| | **Half-year ending on 30 June** | |
|---|---:|---:|
| | **2018** | **2017** |
| Shares issued (in million) 1) | 301.5 | 304.5 |
| Highest share price (in CZK) 2) | 294.0 | 296.9 |
| Lowest share price (in CZK) 2) | 252.5 | 255.5 |
| Share price at the end of the period (in CZK) 2) | 255.5 | 271.3 |
| Market capitalisation (in CZK billion) 2) | 79.3 | 84.2 |

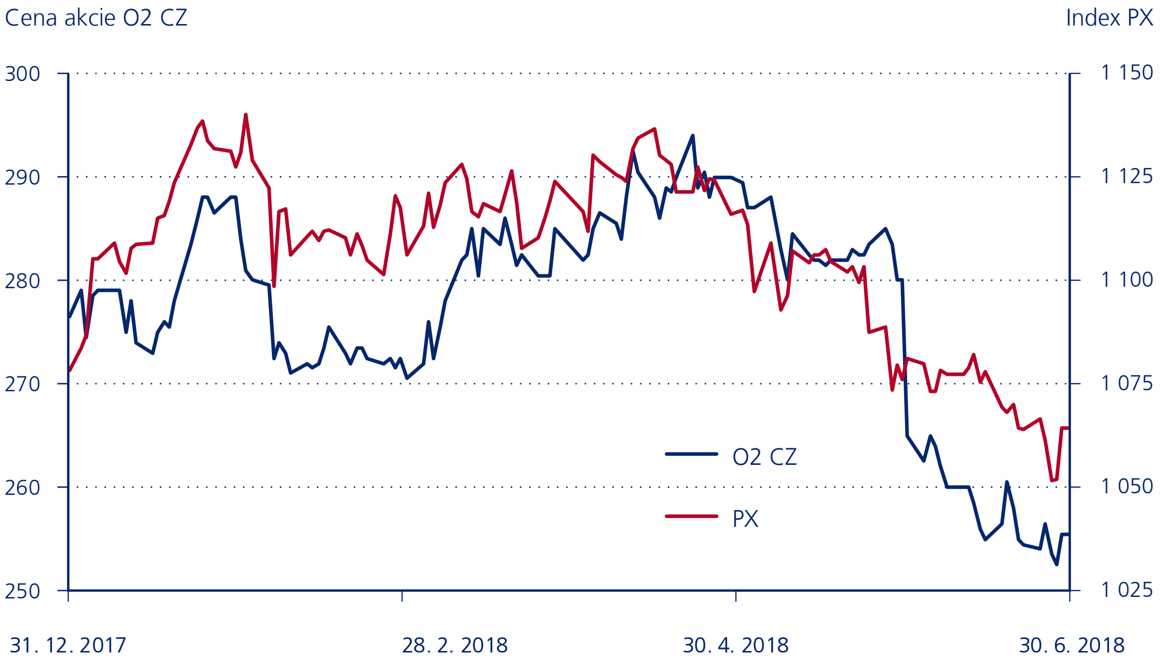
1) Weighted average number of ordinary shares in circulation over the period

2) Source: Prague Stock Exchange

Between the beginning of the year and 29 June 2018 (the last trading day on the Prague Stock Exchange), the O2 CZ share price dropped 7.6% to CZK 255.50, while the PX Index, the main index of the Prague Stock Exchange (PSE), went down 1.3% and closed the period at 1,064.20 points. The main reason for the drop in the share price was the fact that, as of 1 June 2018, the Company shares traded without the right to dividend for 2017 and the amount related to the distribution (reduction) of a part of the share premium equivalent to CZK 21 per share. As at 29 June 2018, the market capitalization of the Company reached CZK 79.3bn (CZK 84.2bn as at 30 June 2017).

The total volume of trading in O2 CZ shares on the PSE stock market reached 2.8bn in the first half of the year, compared with CZK 6.4bn in the first half of 2017, which ranked the Company's shares in the top five most traded share issues, and represented 3.8% of the total trading volume. The average volume of O2 CZ shares traded in the first half of the year was CZK 22.6m.

## O2 CZ share performance against PX index




### General Meeting

The Company's Ordinary General Meeting was held on 4 June 2018. An overview of the conclusions can be found in section Developments in the corporate governance of the O2 Group in this Half-year Report.

### Dividend policy

In the first half of the year, there were no changes to the long-term dividend policy. 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. Also, in 2016 the Board of Directors announced that, 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 would propose to the shareholders to pay out a sustainable income related to the gradual distribution of the whole share premium.

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

At the Ordinary General Meeting of 4 June 2018, the shareholders passed a resolution to pay dividends from the profit of 2017, 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). Above the scope of the dividends, the General Meeting also voted 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 4 June 2018 were eligible to receive this distribution. The distribution, which is being arranged through Česká spořitelna, commenced on 4 July 2018.

As the business assets of O2 CZ as at 4 June 2018 included the Company's own shares (8,695,327 shares), the Company's right to a proportion of the profit attached to these shares expired on the due date. The unpaid profit attributable to these shares has been transferred to the account of retained earnings from the previous period. Similarly, the Company 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 for the year 2017 and the distribution of the part of the share premium payable amounted to CZK 6.332bn (dividends for the year 2017: CZK 5.126bn, share premium share: CZK 1,206bn). More information about the method of payment and taxation of the dividends 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 treasury shares by the Company

On 8 December 2015, the General Meeting of O2 CZ approved the proposal to grant the Company the right to buy treasury shares under the following conditions:

a) the maximum number of shares that the Company may acquire: 31,022,005 book-entered ordinary shares of the Company, the nominal value of each share being 10 CZK on the date of adoption of this resolution;
b) the period for which the Company may acquire shares: 5 years from the date of adoption of this resolution;
c) the lowest price at which the Company may acquire individual shares: CZK 10;
d) the highest price for which the Company may acquire individual shares: CZK 297;
e) the highest aggregate price of all shares that the Company may acquire under this resolution: CZK 8bn.

On 13 December 2017, the Board of Directors decided - on the basis of a resolution of the General Meeting - to implement a new share buyback program on a regulated market, with the following terms and conditions:

a) the objective of the new programme is to optimize the Company's capital structure;
b) the maximum purchase price of shares acquired under the new programme must not exceed the lower of the following: the maximum purchase price established in accordance with Article 3 (2) of Commission Delegated Regulation (EU) No 2016/1052 and the maximum buying price for which the Company may acquire the individual shares according to the decision of the General Meeting (CZK 297);
c) the minimum buying price of the shares acquired under the new programme does not exceed the lowest buying price for which the Company may acquire the individual shares as approved by the General Meeting (CZK 10);
d) the volume of Shares purchased under the Scheme in one day does not exceed the average daily volume of the Company's shares traded on a regulated market in November 2017, i.e. in the month preceding the publication of the Terms of the Programme;
e) under the new programme, the Company will cumulatively for the previous programme [1] and the new programme acquire no more than the number of shares corresponding to 4% of the total number of ordinary shares of the Company;
f) the duration of the new programme is no more than 2 years, or until the volume of the shares referred to in point (e) is reached.

The Company may suspend or terminate the new Programme before the expiry of the two-year period for which it is intended. The Company will always disclose information about any exceptional circumstances, as well as any other ways of acquiring its own shares outside of the new Programme.

Also in 2018, the Company retained the services of a brokerage firm WOOD & Company Financial Services, a.s. for the new programme.

During the first half of 2018, the Company did not acquire any of its own shares; nor did it dispose of

1) Programme approved by the Board of Directors on 23 December 2015

or cancel any of its own shares. In accordance with Section 309 (1) of the Business Corporations Act, the Company does not exercise voting rights attached to its own shares.

As at 1 January and 30 June 2018, O2 CZ held a total of 8,695,327 treasury shares with a nominal value of CZK 10 each (total nominal value of CZK 86,953,270), which represented 2.8% of the subscribed capital and 2.8% on all voting rights in the Company. The aggregate acquisition price of these shares was CZK 2,204m.

### Rating information

As at 30 June 2018, the O2 Group did not have a corporate rating.

### Potential implications of the United Kingdom leaving the European Union (Brexit)

O2 CZ does not expect that the United Kingdom leaving the European Union will substantially influence the business or the financial results of the Company.

### Institutional investors and investors may contact:

Investor Relations
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, web: http://www.o2.cz/spolecnost/vztahy-s-investory/

## Slovakia

In Slovakia, the O2 Group confirmed the continuing trend in financial and operating indicators in the first half of 2018. Detailed information is provided in the O2 Czech Republic Group's Comments on Financial and Operating Results subsequently presented in this section of the Half-year Report.

The main areas of innovation in the Slovak telecommunication market in the first half of 2018 were analogous to the trends in the Czech Republic: mobile data and convergent bundles combining fixed and mobile services.

At the beginning of February, the mobile services provider 4ka, opened the Orange 3G network, which reaches 95% of the population, to its customers on the basis of national roaming. 4ka replaced its price plans with new data-centric *Sloboda* (Freedom) tariffs. Slovak Telekom came out with a new plan: its new *Áno* (Yes) tariffs, through Magenta1 tariffs, combine mobile and fixed services. Likewise Orange continued to roll out is convergent proposition in the form of its triple-play bundle Love, and announced its plan to gear up for a launch of its own satellite television and Orange Sport TV channel.

### O2 Slovakia

During the first half of the year, O2 Slovakia increased the availability of its own 4G LTE network, which at the end of June covered nearly 94% of the population.

With the expansion of the 4G LTE network, O2 Slovakia added a new *Biely $O_2$ Internet na doma* (White) tariff to its tariff family *Internet na doma* (Home Internet), which is available to customers within the reach of the 4G network. As with other home internet tariffs, it offers unlimited data usage and download speed up to 15 Mbps.

During May and June all O2 Slovakia customers could test the availability, speed and reliability of the new 4G network with a free bonus of 5 GB of data. New customers had the bonus activated automatically with their SIM card.

Under the name *$O_2$ Svetový roaming* (Global Roaming), O2 Slovakia unveiled a better voice and data service in 28 countries outside the European Union. Customers now pay EUR 0.5 per minute for both outgoing and incoming calls, and they can use up to 50 MB of data for EUR 5.

### O2 Business Services

In the first half of 2018, O2 Business Services managed to increase the number of mobile and fixed access customers. The health fund Všeobecná zdravotní pojišťovna became its most important new acquisition among public sector customers. In the corporate segment, it was the publishing houses Mafra Slovakia and Petit Press. Other new customers to whom O2 Business Services offers its comprehensive telecommunication services include EOS KSI Slovakia or the Slovak Chamber of Commerce and Industry.

## Overview of consolidated financial and operating results of the O2 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 2018. The results have been taken from the Interim Consolidated Financial Statements for the half-year ended 30 June 2018 prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Commission.

### Consolidated financial results

Total consolidated operating revenues of the O2 Group amounted to CZK 18,599m in the first half of 2018, up 0.6% year on year. Market demand for new service bundles and tariffs continued to drive revenues from mobile data services and digital television. Sales of equipment and accessories and financial services also continued to grow. Consolidated revenues were positively affected by strong performance in Slovakia, where, as in the Czech Republic, mobile data and equipment sales were the main growth drivers. The increase in the aforementioned revenue streams have offset the negative impact of the European roaming regulation and the decreasing revenue from traditional voice and data services.

Operating revenues in the Czech Republic reached CZK 15,191m, which represents a year-on-year decline of 0.2%. Operating revenue from the mobile segment recorded a year-on-year increase of 1.7% to CZK 10,044m, while lower revenue from voice and SMS services was more than offset by an almost 12% increase in data revenue, a nearly 30% revenue growth from equipment sales and a 49% growth of financial services revenue. Operating revenues in the fixed segment declined 3.8% to CZK 5,146m in the first half of 2018, although a 12.1% year-on-year increase in revenue from O2 TV partially compensated for lower revenue from traditional voice services (due to fixed-to-mobile substitution) and the continued loss of revenue from data and internet services. Revenues in Slovakia grew 3.8% year on year to CZK 3,597m.

Total consolidated costs declined 1.5% in the first half of 2018 to CZK 13,339m, compounded by a 1.6% and 0.9% year-on-year drop in the Czech Republic and Slovakia, respectively. The cost of sales went down 0.6% year on year, as lower fixed costs and the positive impact of the new IFRS 15 on commissions more than offset the increase in the cost of selling equipment related to the higher revenue. The cost of sales in the area of mobile services was also negatively impacted by the higher roaming costs that the Company has to pay to foreign wholesale partners for roaming visitors. Personnel costs grew 2.3% year on year driven by the higher number of customer service staff. In contrast, the cost of external services and other costs decreased 10.2%, mainly due to savings in rental costs and lower costs of external call centres.

Consolidated earnings before interest, tax and depreciation of EBITDA increased 5.6% to CZK 5,378m; in the Czech Republic, it grew 3.2% year on year to CZK 4,124m, while in Slovakia, EBITDA increased 14.3% to CZK 1,252m. The consolidated EBITDA margin in the first half of 2018 reached 28.9%, up 1.4 percentage points year on year, while the EBITDA margin in the Czech Republic increased 0.8 percentage point to 27.1%, and in Slovakia by as much as 3.2% to 34.8%.

Consolidated net profit increased 5.4% year on year to CZK 2,776m.

Consolidated capital expenditure (capex, acquisitions of fixed assets) amounted to CZK 1,365m, which represents a year-on-year increase of 10.8%. The consolidated capex to consolidated revenue was 7.3% compared to 6.7% in the same period of 2017. This increase was mainly due to a 20.5% capex growth in Slovakia to CZK 430m, with its ratio to revenue up 1.7 percentage points to 12.0%. Investments were mainly aimed at improving the quality and increasing the coverage of the, 2G network, to reduce the dependency on national roaming, and this is already paying off in terms of improved operating profitability. O2 Slovakia has also continued to expand and build up the capacity of its backbone and transmission network capacity to meet the growing market demand for mobile data. In the Czech Republic, capital expenditure in the first half of 2018 grew 6.8% to CZK 935m year on year, with its ratio to revenue up 0.4 percentage points to 6.2%. The main area of investment in the Czech Republic, which contributed the most to the year-on-year upturn, was the transformation of the Company's information systems. Additional investments were directed to an overhaul and redesign of the brand store network.

Consolidated free cash flow[2)] reached CZK 2,028m, which is a year-on-year decline of 7.1%, mainly due to the financing of the profitable hire-purchase of mobile devices in Slovakia, which has led to an increase in long-term receivables.

Consolidated financial debt[3)] totaled CZK 11,690m as at 30 June 2018, compared with CZK 10,486m at the end of 2017. During the first half of 2018, O2 CZ drew a CZK 1.2 billion revolving loan (out of a total loan facility of CZK 5 billion) to finance investments and working capital in Slovakia. Cash and cash equivalents amounted to CZK 7,322m at the end of June 2018 against CZK 4,088m as at 31 December 2017. The reason for the high cash balance was the accumulation of cash for the payment of the dividend for 2017, and the amounts related to the distribution of part of the share premium (a total of CZK 6,332m before tax), which commenced on 4 July 2018. The ratio of net debt[4)] to EBITDA at the end of June remained low and reached a multiple of 0.4.

## Overview of the mobile segment in the Czech Republic

The total number of mobile customers reached 4,992 thousand as of 30 June, up 1.8% year on year. The number of contract customers reached 3,504 thousand, and by the end of June 2018, contract accounted for 70.2% of the total customer base, which is a year-on-year increase of 1.5 percentage points. The number of prepaid customers was 1,488 thousand.

The blended monthly churn declined slightly to 1.6%, with the contract churn falling 0.2 percentage point year on year to 0.8%.

Over the period, the total mobile average revenue per customer (ARPU)[5)] went down 2.3% to CZK 293 year on year, mainly as a result of lower roaming revenue, market pressure which resulted in lower voice and SMS prices, as well as the impact of the new IFRS 15 standard which negatively affected the reported service revenue.

## Overview of the fixed segment in the Czech Republic

The number of $O_2$ TV customers (IPTV and OTT), which is distributed over a fixed connection from O2 and on an Internet connection from any provider, reached a total of 250 thousand on 30 June 2018.

2) Net operating cash flow plus net cash flow from investing activities

3) Long- and short-term

4) Financial debt minus cash/operating profit EBITDA for the last 12 months

5) Revenues from mobile services excluding incoming roaming revenue divided by the average number of customers in the period

The MULTI add-on service, which allows households to watch $O_2$ TV on multiple television sets simultaneously, is still very popular with customers.

At the end of June 2018, MULTI was used by more than 37 thousand households, and O2 CZ already registers 287 thousand active set-top boxes.

The number of customers using xDSL fixed internet reached 708 thousand at the end of June 2018. As a result of the Company's continued push for further acceleration of internet speed through the roll-out of DSLAMs, almost 80% of customers now enjoy the benefits of VDSL broadband internet.

The total number of fixed accesses reached 554 thousand at the end of June.

## Results in Slovakia

As a result of its continued effort to invest in its own mobile network as well as its attractive range of services and products, the O2 Group in Slovakia showed a healthy growth in its customer base, increased the average spend and posted a significant improvement in its financial performance during the first half of the year. It, therefore, continues to make a positive contribution to the financial bottom line of the entire O2 Group, with 19% of consolidated revenue and 23% of EBITDA consolidated in the first half of 2018.

At the end of June, the total number of mobile customers in Slovakia reached 1,975 thousand, which represents a year-on-year increase of 3.8%. O2 Slovakia continues to strengthen its position on the Slovak mobile market.

O2 Slovakia continues to register a stronger demand for its portfolio of smartphones. As a result, the number of smartphone users in the total customer base grew to over 64% as of 20 June 2018. With the 4G LTE service being more widely available and the growth of LTE penetration, combined with a stronger market demand for tariffs with more generous data allowances, the number of mobile internet customers rallied.

As a result of the improved customer base structure and higher market demand for data usage, the average monthly revenue per customer (ARPU) increased 3.7% year on year to EUR 9.8, or CZK 249, in the first half of 2018.

## Outlook for the second half of 2018

In the second half of 2018, the O2 Group will continue to offer and promote its services and products and develop new ones. In the Czech Republic, its activities will be mainly directed towards acquiring new customers for the economy *$O_2$ Spolu* bundles which promise a further growth of mobile contract and $O_2$ TV customers. The market demand for new mobile data tariffs with more generous data allowances is expected to remain strong. In Slovakia, the O2 Group will follow its strategy to migrate customers from prepaid mobile services to contract and market higher data usage tariffs.

Consolidated capital expenditure will increase in the second half of the year. Investments in the Czech Republic will, in particular, be directed to the already announced acquisition of exclusive sports television rights and the transformation of the Company's information systems. In Slovakia, O2 Slovakia will continue to invest in further strengthening its own mobile network. For this reason, the ratio of consolidated capital expenditure, to consolidated revenue could, on an annual basis, exceed the level of 10% in 2018.

# Developments in corporate governance of the O2 Group

The main changes in the Company's corporate governance in the first half of 2018 primarily related to personnel changes, the details of which can be found below, and also to changes in the organizational structure which were implemented at the beginning of 2018. Namely, as of 1 February 2018, the Operations Division has been renamed the Technology Division, and a new unit, Wholesale Services, was created in the direct line of the Chief Executive Officer. All these changes are described in the 2017 Annual Report, including a diagram illustrating the basic organisation structure (there have been no significant changes since 1 February 2018).

## O2 CZ General Meeting – 4 June 2018

> Approved the regular financial statements and consolidated financial statements of the Company for the year 2017 prepared under the 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 for the year 2017 in the amount of CZK 5,273,741,139 and the share premium up to CZK 1,240,880,268. A dividend of CZK 17 and CZK 170 before tax is attributable to each share in the nominal value of CZK 10 and CZK 100, respectively. To each share in the nominal value of CZK 10 and CZK 100, the amount of CZK 4 and CZK 40, respectively, were attributable as the distributed part of the share premium. The record day for the disbursement was 4 June 2018, and the disbursement commenced on 4 July 2018.

> Confirmed the audit firm KPMG Česká republika Audit, s.r.o., as the statutory auditor for the year 2018.

> Approved amendments to the Articles of Association – with effect from 4 June 2018, the articles governing the Audit Committee in the Articles of Association were amended to ensure compliance with the current provisions of the Act on Auditors. In addition the powers of the Supervisory Board stipulates in the Articles of Association were amended. There were several other smaller changes and terminological improvements to the text of the Articles of Association. Amendments that come into effect as of 1 October 2018 concern the election and recall of a Supervisory Board member on behalf of the employees of the Company, and certain issues related thereto.

> Approved changes to the Rules of Remuneration of Supervisory Board Members, as well as new Rules for Awarding Additional Benefits to Members of the Supervisory Board and the Audit Committee.

> Elected Kateřina Pospíšilová as a full member of the Supervisory Board; she was co-opted into the Supervisory Board on 28 February 2018.

> Elected Michal Krejčík as a member of the Audit Committee and Ondřej Chaloupecký as the first substitute member of the Audit Committee.

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

## Board of Directors of O2 CZ

As of 31 December 2017, Tomáš Budník resigned as chairman and member of the Board of Directors. Jindřich Fremuth was elected to the Board of Directors and appointed Chief Executive Officer of the Company with effect from 1 January 2018. Since 10 January 2018, he has also held the position of Chairman of the Board of Directors.

On 15 March 2018 Jiří Hrabovský resigned from the Board of Directors, and with effect from 16 March

2018, Václav Zakouřil was elected as a new member.

The Board of Directors held 12 meetings in the first half of the year.

## Supervisory Board of O2 CZ

On 31 December 2017, Martin Štefunko resigned from his position as Chairman and member of the Supervisory Board. The Supervisory Board co-opted Kateřina Pospíšilová, with effect from 28 February 2018, to fill the vacant position, pending the decision of the next General Meeting. The General Meeting subsequently confirmed Kateřina Pospíšilová as member of the Supervisory Board effective from 4 June 2018.

The Supervisory Board held four meetings in the first half of the year.

## Audit Committee of O2 CZ

With effect from 27 January 2018, Martin Štefunko resigned from his position as Chairman and member of the Audit Committee. Effective from 4 June 2018, Michal Krejčík was elected as a new member by the General Meeting. Effective from 20 June 2018, the Audit Committee elected Radek Neužil as its Chairman and Michal Brandejs as its Vice-Chairman.

The Audit Committee held two meetings in the first half of the year.

## Executive management of O2 CZ

The executive management is made up of directors of divisions within the first executive line of the Company's organizational structure. As a result of the previously described personnel changes in the Board of Directors, in the position of the Chief Executive Officer, and in the organisation of the Company, changes also occurred in the executive management. These changes were also described in the 2017 Annual Report. As at 1 February 2018, the executive management were Jindřich Fremuth (Chief Executive Officer), Tomáš Kouřil (Chief Financial Officer), Václav Zakouřil (Director, Legal and Regulatory Affairs Division), Ctirad Lolek (Director of the Human Resources Division), Richard Siebenstich (Chief Commercial Officer), Jan Hruška (Chief Technology Officer) and Kateřina Pospíšilová (Director, Strategy, Innovation and Regulation).

# Financial part

**O2 Czech Republic a.s.**

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

## PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARD IAS 34 INTERIM FINANCIAL REPORTING AS ADOPTED BY THE EUROPEAN UNION

**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

## 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 provider in the Czech market providing fully convergent services.

The Company has the 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 2018, the majority share (81.06 %) of the Company´s voting rights was held indirectly by Mr. Petr Kellner through companies PPF Telco B.V., PPF A3 B.V. and Anthiarose Limited - companies from the PPF group, which is controlled by Mr. Petr Kellner.

### Main events in the first half of the year 2018

### Purchase of UEFA Champions League rights

In January 2018, the Group obtained exclusive rights to broadcast the UEFA Champions league for the 2018/2019, 2019/2020 and 2020/2021 seasons. These exclusive rights to broadcast the complete UEFA Champions League apply to the Czech and Slovak market.

### Purchase of Czech First Football League rights

In June, the Group acquired the rights to broadcast the Czech Republic´s top football league. The new agreement is valid for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 seasons.

## INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| In CZK million | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| Revenues | 2, 4 | 18,599 | 18,487 |
| Other income from non-telecommunication services | | 49 | 52 |
| Capitalisation of fixed assets | | 171 | 182 |
| Expenses | | (13,339) | (13,545) |
| Net impairment losses on financial assets | 1 | (102) | (83) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | 3 | **5,378** | **5,093** |
| Depreciation and amortisation | | (1,575) | (1,672) |
| Amortisation of cost to obtain contracts | 2, 3 | (214) | - |
| Impairment loss | | (8) | - |
| **Operating profit** | 3 | **3,581** | **3,421** |
| Finance income | | 33 | 18 |
| Finance costs | | (116) | (70) |
| Share of profit/(loss) of investments accounted for using the equity method | | 3 | (3) |
| **Profit before tax** | 3 | **3,501** | **3,366** |
| Corporate income tax | 3, 5 | (725) | (734) |
| **Profit for the period** | | **2,776** | **2,632** |
| **Other comprehensive income** | | | |
| **Items that may subsequently be reclassified to profit or loss** | | | |
| Changes in fair value of financial instruments hedging cash flows, net of tax | | 6 | - |
| Translation differences | | 61 | (103) |
| **Other comprehensive income, net of tax** | | **67** | **(103)** |
| **Total comprehensive income, net of tax** | | **2,843** | **2,529** |
| Profit attributable to: | | | |
| Equity holders of the Company | | 2,778 | 2,633 |
| Non-controlling interests | | (2) | (1) |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 2,845 | 2,530 |
| Non-controlling interests | | (2) | (1) |
| Earnings per share for continuing operations (CZK) - basic* | 6 | 9 | 9 |

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

## INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| In CZK million | Notes | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 7 | 5,744 | 5,636 |
| Intangible assets | 8 | 16,576 | 16,815 |
| Costs to obtain contracts | 2 | 582 | - |
| Investments in equity accounted investees | 15 | 22 | 18 |
| Contract assets | 2 | 148 | - |
| Other assets | | 705 | 726 |
| Deferred tax assets | | 180 | 216 |
| **Non-current assets** | | **23,957** | **23,411** |
| Inventories | 10 | 838 | 824 |
| Receivables | | 6,818 | 6,519 |
| Current tax receivable | | 24 | - |
| Contract assets | 2 | 387 | - |
| Cash and cash equivalents | 9 | 7,322 | 4,088 |
| **Current assets** | | **15,389** | **11,431** |
| **Total assets** | | **39,346** | **34,842** |
| **EQUITY AND LIABILITIES** | | | |
| Ordinary shares | | 3,102 | 3,102 |
| Treasury shares | | (2,204) | (2,204) |
| Share premium | 6 | 9,470 | 10,676 |
| Retained earnings, funds and reserves | 6 | 2,237 | 3,901 |
| **Equity attributable to owners of the Company** | | **12,605** | **15,475** |
| Non-controlling interests | | (2) | - |
| **Total equity** | | **12,603** | **15,475** |
| Borrowings | 11 | 11,662 | 10,448 |
| Deferred tax liability | | 441 | 270 |
| Provisions for liabilities and charges | | 53 | 53 |
| Other liabilities | | 182 | 116 |
| **Non-current liabilities** | | **12,338** | **10,887** |
| Borrowings | 11 | 28 | 38 |
| Trade and other payables | | 14,161 | 8,209 |
| Income tax liability | | 128 | 139 |
| Contract liabilities | 2 | 9 | - |
| Provisions for liabilities and charges | | 79 | 94 |
| **Current liabilities** | | **14,405** | **8,480** |
| **Total liabilities** | | **26,743** | **19,367** |
| **Total equity and liabilities** | | **39,346** | **34,842** |

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | | Equity attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **In CZK million** | **Notes** | **Share capital** | **Share premium** | **Treasury shares** | **Currency translation reserve** | **Funds** | **Available for sale financial assets** | **Cash flow hedging** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **As at 1 January 2018** | | **3,102** | **10,676** | **(2,204)** | **(2)** | **278** | **3** | **21** | **3,601** | **15,475** | **-** | **15,475** |
| Adjustment on initial application of IFRS 9 (net of tax) | 1 | - | - | - | - | - | - | - | (9) | (9) | - | (9) |
| Adjustment on initial application of IFRS 15 (net of tax) | 2 | - | - | - | - | - | - | - | 626 | 626 | - | 626 |
| **Adjusted balance as at 1 January 2018** | | **3,102** | **10,676** | **(2,204)** | **(2)** | **278** | **3** | **21** | **4,218** | **16,092** | **-** | **16,092** |
| Other comprehensive income | | - | - | - | 61 | - | - | 6 | - | 67 | - | 67 |
| Profit for the period | | - | - | - | - | - | - | - | 2,778 | 2,778 | (2) | 2,776 |
| **Total comprehensive income** | | **-** | **-** | **-** | **61** | **-** | **-** | **6** | **2,778** | **2,845** | **(2)** | **2,843** |
| Distribution declared in 2018 | 6 | - | (1,241) | - | - | - | - | - | (5,274) | (6,515) | - | (6,515) |
| Distribution on treasury shares | 6 | - | 35 | - | - | - | - | - | 148 | 183 | - | 183 |
| **As at 30 June 2018** | | **3,102** | **9,470** | **(2,204)** | **59** | **278** | **3** | **27** | **1,870** | **12,605** | **(2)** | **12,603** |

| In CZK million | Note | Equity attributable to owners of the Company<br>Share capital | Share premium | Treasury shares | Currency translation reserve | Funds | Retained Earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **As 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 for the period | | - | - | - | - | - | 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 | 6 | - | (1,241) | - | - | - | (5,274) | (6,515) | - | (6,515) |
| Distribution on treasury shares | 6 | - | 23 | - | - | - | 98 | 121 | - | 121 |
| **As at 30 June 2017** | | **3,102** | **10,676** | **(1,692)** | **95** | **278** | **641** | **13,100** | **4** | **13,104** |

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

| For the six months ended 30 June 2018<br>**In CZK million** | **Notes** | **For the six months ended 30 June 2018** | **For the six months ended 30 June 2017** |
|---|---|---|---|
| **Profit before tax** | | **3,501** | **3,366** |
| Non-cash adjustments for: | | | |
| Share of profit (-)/loss (+) from equity accounted investments | | (3) | 3 |
| Dividend income | | (5) | (5) |
| Depreciation | | 543 | 511 |
| Amortisation | | 1,032 | 1,161 |
| Amortisation of costs to obtain contracts | | 214 | - |
| Impairment loss | | 8 | - |
| Profit (-)/loss (+) on sale of tangible and intangible fixed assets | | - | (1) |
| Net interest costs | | 73 | 47 |
| Foreign exchange losses (+)/gains (-) (net) | | (10) | (12) |
| Fair value changes | | 12 | 6 |
| Change in provisions and allowances | | 108 | 143 |
| **Operating cash flow before working capital changes** | | **5,473** | **5,219** |
| **Working capital adjustments:** | | | |
| Increase (-)/decrease (+) in trade and other receivables | | (622) | (131) |
| Increase (-)/decrease (+) in inventories | | (17) | (171) |
| Increase (+)/decrease (-) in financial liabilities at fair value with impact on profit and loss | | - | 1 |
| Increase (-) of cost to obtain contract | | (257) | - |
| Increase (-)/decrease (+) in contract assets | | (81) | - |
| Increase (+)/decrease (-) in contract liabilities | | 7 | - |
| Increase (+)/decrease (-) in trade and other payables | | (294) | (356) |
| **Cash flows from operating activities** | | **4,209** | **4,562** |
| Interest paid | | (108) | (52) |
| Interest received | | 6 | 1 |
| Income tax paid | | (701) | (603) |
| **Net cash flow from operating activities** | | **3,406** | **3,908** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (610) | (728) |
| Purchase of intangible assets | | (784) | (912) |
| Proceeds from sales of fixed assets | | 11 | 13 |
| Cash purchase of subsidiaries | | - | (47) |
| Cash purchase of other investments | | - | (20) |
| Dividends received | | 5 | 5 |
| Payment of security deposit to Czech Telecommunication Office | | - | (29) |
| Loans provided | | - | (8) |
| **Net cash used in investing activities** | | **(1,378)** | **(1,726)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 11 | 1,200 | 5,511 |
| Repayments of borrowings | 11 | - | (2,000) |
| Acquisition of treasury shares | | - | (540) |
| Dividends and other distributions paid | 6 | - | (6,394) |
| **Net cash used in financing activities** | | **1,200** | **(3,423)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,228** | **(1,241)** |
| Cash and cash equivalents at beginning of the period | 9 | 4,088 | 4,137 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | 6 | (12) |
| **Cash and cash equivalents at the end of the period** | **9** | **7,322** | **2,884** |

## ACCOUNTING POLICIES

# INDEX

PAGE

## A Basis of preparation

The interim consolidated financial statements were prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

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 2017.

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 2017. Except for the changes related to the initial application of the new standards, IFRS 9 - Financial Instruments (see Note 1) and IFRS 15 - Revenue from Contracts with Customers (see Note 2), adopted by the Group on 1 January 2018.

As at the same date, the Group first applied other new and revised standards. However, the adoption of these standards did not have a significant impact on these interim consolidated financial statements.

## C Expected impact of new standard IFRS 16 – Leases

The new standard IFRS 16 – Leases is effective for annual periods beginning on or after 1 January 2019 and replaces all existing IFRS lease requirements for both lessees and lessors.

In accordance with this standard, the lessees will be required to recognise most leases on their balance sheets while lessor accounting is substantially unchanged. This model applies to leases, except for short-term leases and leases where the underlying asset has a low value.

Management plans to elect a modified retrospective method with a cumulative impact on equity at the date of transition to the new standard, meaning that the Group will apply the new rules only to contracts that are not terminated as at 1 January 2019 and are not expected to end by 31 December 2019. The cumulative effect on the date of transition to the new standard will be recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019 and comparable data for the previous period will not be adjusted.

The management expects a significant increase of assets and liabilities as a result of the recognition of most leases on the balance sheet and a classification impact on the statement of profit or loss.

As at the date of preparation of this interim consolidated financial statement, the implementation of IFRS 16 is in an advanced phase of the analysis of individual contracts and the implementation of IT solutions. It is not possible to reliably estimate the quantitative effects of the new standard before completion of the entire analysis.

## D Seasonal nature of operations

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

## CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# INDEX

PAGE

## 1 IFRS 9 – Financial Instruments

As of 1 January 2018, IFRS 9 - Financial Instruments replaced the previous IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes requirements for (a) classification and measurement of financial assets and liabilities, (b) methodology for impairment of financial assets and (c) general hedge accounting.

The Group has made use of an exemption stated in the transitional provisions for initial application of IFRS 9 not to restate comparative information for prior periods. The difference between the previous carrying amount and the carrying amount at the beginning of the period, which is the date of the initial application, was recognised in the opening balance of retained earnings.

The following table shows the impact of the initial application of IFRS 9 on equity as at 1 January 2018.

| **In CZK million** | **Note** | **Imapact of application of IFRS 9** |
|---|---|---|
| Retained earnings: | | |
| Recognition of impairment losses in accordance with IFRS 9 | B | (11) |
| Deferred tax | | 2 |
| **Impact as at 1 January 2018** | | **(9)** |

New significant accounting policies and the way they impact and differ from previous ones are described below.

### *A) Classification and measurement of financial assets and liablities*

The adoption of IFRS 9 has not had a significant effect on classification and measurement of financial liabilities and the Group's related accounting policies. The impact on classification and measurement of financial assets and on the Group's related accounting policies is set out below.

The number of financial asset categories has been reduced compared to IAS 39 and all financial assets are classified in accordance with IFRS 9 as financial instruments subsequently measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Existing financial assets under IAS 39, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets were cancelled.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset within the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading and would have been otherwise measured at fair value through profit and loss, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset to fair value through the profit or loss category if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Except for a trade receivable without a significant financing component, a financial asset is initially measured at fair value plus (for an item not at FVTPL category) transaction costs that are directly attributable to its acquisition.

Subsequent measurement of individual categories of financial assets relevant to the Group is as follows.

<u>Financial assets measured at fair value though profit and loss</u>
These assets are subsequently measured at fair value and are included in current or non-current assets based on the period when they are settled. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost
These financial assets are subsequently measured at amortised cost using the effective interest method and are included in current and non-current assets based on the period when they are settled. The amortised cost is reduced by impairment losses (see Note 1B). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Equity investments at fair value through other comprehensive income
These financial assets are subsequently measured at fair value and are included in non-current assets. Dividends are recognised as income in profit or loss, other gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

The following table summarises a change in the financial asset categories for all the Group´s financial assets as at 1 January 2018.

| **In CZK million** | **Initial category under IAS 39** | **New category under IFRS 9** | **Initial carrying amount under IAS 39** | **New carrying amount under IFRS 9** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 4,088 | 4,088 |
| Financial derivatives – interest (hedge accounting) | Fair value - hedge accounting | Fair value - hedge accounting | 26 | 26 |
| Loans provided* | Loans and receivables | FVTPL | 13 | 13 |
| Equity instruments | Available for sale financial assets | FVOCI | 24 | 24 |
| Trade and other receivables (excl. prepaid expenses and indirect taxes) | Loans and receivables | Amortised cost | 6,861 | 6,855 |
| **Total** | | | **11,012** | **11,006** |

* The loan provided includes an embedded derivative in the form of an option to convert the debt into equity. In accordance with IFRS 9, the hybrid contract has been assessed for classification and measurement as a whole.

### *B) Impairment of financial assets*

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model is applied to financial assets measured at amortised cost, contract assets and investments in debt instruments measured at fair value through other comprehensive income (not relevant for the Group). Under IFRS 9, credit losses are recognised earlier than under IAS 39.

In accordance with IFRS 9, entities calculate the loss allowance for financial assets as equal to the 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

The Group decided to calculate loss allowances for receivables and contract assets at the amount of expected credit losses over the life of the financial asset. For cash and cash equivalents and loans provided, the Group calculates loss allowances equal to the 12-month expected credit losses unless there has been a significant increase in the credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the default risk of a financial instrument at the balance sheet date with the risk at the date of initial recognition and considers reasonable and supportable information that is relevant and available without undue cost or effort and that indicates a significant increase in the credit risk. The assessment is mainly based on the Group's historical experience, available information and market analyses, including actual macroeconomic indicators and future forecasts. Regardless of these analyses, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days overdue. And in the case of cash and cash equivalents, it includes the situation where Moody's external credit rating falls from the investment grade (AAA-BAA3 rating) to the speculative (non-investment) grade (BA1-B3 rating). A financial asset is considered to be in default when it is more than 90 days overdue. And in the case of cash and cash equivalents it includes the situation, where according to Moody's, the external credit rating of the counterparty decreses to risk grade (Caa-C rating) or below.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Impairment losses on financial assets, including contract assets, are newly recognised in the income statement within a separate line Impairment losses on financial assets. Therefore, the Group reclassified the impairment loss of CZK 83 million recognised in accordance with IAS 39 from the line Expenses to the line Impairment losses on financial assets in the income statement for the comparative period, i.e. the six months ended 30 June 2017.

The following table shows the impact of the new impairment model under IFRS 9 on the amount of allowances as at 1 January 2018.

| In CZK million | |
|---|---|
| **Loss allowance under IAS 39 as at 31 December 2017** | **2,378** |
| Additional loss allowance recognised as at 1 January 2018 related to: | |
| Trade and other receivables | 6 |
| Contract assets | 5 |
| **Loss allowance under IFRS 9 as at 1 January 2018** | **2,389** |

### *C) Hedge accounting*

IFRS 9 sets new hedge accounting requirements. Hedging relations must be consistent with the objectives and strategy of the Group's risk management. At the same time, when assessing the effectiveness of hedging, greater emphasis is placed on qualitative assessment and expectations relating to the effectiveness of hedging and therefore is only focused on the future.

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations.

## 2 IFRS 15 – Revenues from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group decided to adopt IFRS 15 using the modified cumulative retrospective transition method, which means that the Group only applied the new guidance to contracts that were not completed as at 1 January 2018. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. Comparative prior year periods were not adjusted.

The Group enters into contracts with a large number of customers with similar contractual terms. The Group applies a portfolio approach to contracts that can be grouped to portfolios with terms similar to other telecommunication peers, as it reasonably expects that the effect of applying a portfolio approach does not differ materially from considering each contract separately. Principally, the Group adopts the portfolio approach to the majority of contracts with customers. However, contracts with customers from the corporate segment with unique terms that do not fit into any portfolio are assessed and accounted for individually.

The following table shows the impact of the initial application of IFRS 15 on equity as of 1 January 2018:

| **In CZK million** | **Note** | **Impact of adopting IFRS 15** |
|---|---|---|
| Retained earnings: | | |
| Capitalisation of costs to obtain contracts | B | 539 |
| Bundles of telecommunication service and equipment | A | 236 |
| Deferred tax | | (149) |
| **Impact as at 1 June 2018** | | **626** |

The following tables illustrate the impact of adopting IFRS 15 on the consolidated balance sheet as at 30 June 2018 and on the consolidated income statement for the six months ended 30 June 2018.

## Impact on the balance sheet as at 30 June 2018

| **In CZK million** | **Note** | **Amounts recognised under IFRS 15** | **Adjustment** | **Amounts without adoption of IFRS 15** |
|---|---|---|---|---|
| **Assets** | | | | |
| Costs to obtain contracts | B | 582 | (582) | - |
| Contract assets | A | 148 | (148) | - |
| Other assets | | 705 | 60 | 765 |
| Deferred tax assets | | 180 | 10 | 190 |
| **Non-current assets** | | **23,957** | **(660)** | **23,297** |
| Receivables | A | 6,818 | 272 | 7,090 |
| Contract assets | A | 387 | (387) | - |
| **Current assets** | | **15,389** | **(115)** | **15,274** |
| **Total assets** | | **39,346** | **(775)** | **38,571** |
| **Equity** | | | | |
| Retained earnings | | 2,237 | (673) | 1,564 |
| **Total equity** | | **12,603** | **(673)** | **11,930** |
| **Liabilities** | | | | |
| Deferred tax liability | | 441 | (127) | 314 |
| **Non-current liabilities** | | **12,338** | **(127)** | **12,211** |
| Trade and other payables | A | 14,161 | 34 | 14,195 |
| Contract liabilities | A | 9 | (9) | - |
| **Current liabilities** | | **14,405** | **25** | **14,430** |
| **Total equity and liabilities** | | **39,346** | **(775)** | **38,571** |

### Impact on the consolidated statement of total comprehensive income for the six months ended 30 June 2018

| In CZK million | Note | Amounts recognised under IFRS 15 | Adjustment | Amounts without adoption of IFRS 15 |
|---|---|---|---|---|
| Revenue | A | 18,599 | (17) | 18,582 |
| Expenses | B | (13,339) | (256) | (13,595) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **5,378** | **(273)** | **5,105** |
| Depreciation of costs to obtain contracts | B | (214) | 214 | - |
| **Operating profit** | | **3,581** | **(59)** | **3,522** |
| **Profit before tax** | | **3,501** | **(59)** | **3,442** |
| Corporate income tax | | (725) | 12 | 713 |
| **Profit for the period** | | **2,776** | **(47)** | **2,729** |

New significant accounting policies and the way they impact and differ from previous ones are described below.

### *A) Bundles of telecommunication service and equipment*

The core principle of IFRS 15 is a requirement for the Group to recognise revenues at the time the promised goods or services are transferred to customers in amounts that reflect consideration to which the Group expects to be entitled in exchange for the goods or services supplied. The Standard also provides guidance for reporting transactions that were not previously addressed comprehensively (for example customer's material rights, principal versus agent considerations, etc.), and newly specifies the requirements for recognising multiple-element arrangements in detail.

Under the previous accounting and reporting framework, the Group's accounting treatment of several bundles of telecommunication services and equipment for the residential segment was in accordance with the contingent revenue cap, which was required to be applied for such legal contracts and which represented the reallocation of contract revenue depending on the supplies. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to a re-allocation of revenue from contracts with customers under IFRS 15 increased. The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with residential customers that have not been completed at that date is an increase of CZK 84 million.

Other types of contracts that are newly subject to adjustments under IFRS 15 are contracts with corporate customers where the supply of telecommunication services is complemented by the sale of telecommunication equipment on preferential terms.

The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed at that date is an increase of CZK 95 million. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the utilisation of the preferential terms for the purchase of telecommunication equipment during the whole duration of the contract.

Promises to transfer distinct goods or services are defined as performance obligations in the standard. The Group provides telecommunication services which are offered on a stand-alone basis and represent a separate performance obligation. Most of the goods and services which are sold in bundles represent a separate performance obligation as long as a customer can also benefit from them on a stand-alone basis.

In accordance with the requirements of the new standard, the transaction price is allocated to separate performance obligations on the basis of the relative stand-alone selling prices of the products or services provided. The stand-alone selling price is the price at which the Group sells a promised good or service to its customers in a separate transaction. In the majority of cases, the Group considers its list prices for goods and services to be the stand-alone selling prices.

The Group recognises revenue when the goods or services are transferred to the customer and the customer obtains control of the goods or service. The Group first assesses whether the performance obligation is satisfied over time or at a certain point in time. Most services are provided over time as customers benefit from these services as the services are rendered.

Within the business models used by the Group, the funding element is not material.

### *B) Commissions: incremental cost to obtain contracts*

Capitalised incremental costs to obtain contracts mainly represent external and internal sales commissions which are directly attributable to the acquisition of the contract with customers and are incremental. These expenditures are recognised in the balance sheet within the line Cost to obtain contracts and are linearly amortised. The amortisation of those costs is presented within the line Amortisation of costs to obtain contracst in the income statement, the amortisation period is determined with respect to the estimated average contract duration period for business customers and the estimated average customer life-time period for residential customers (within the interval from 18 to 48 months).

Under the previous policies, all commissions paid to agents for activation, marketing and other activities were included in the cost of sales for the period and recognised in profit or loss within the line Expenses.

## 3 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 the 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 segments and to assess their 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 2018 and 2017 were determined on the same basis as rates used for other mobile operators.

| For the six months ended 30 June 2018 | Czech Republic | | Slovak Republic | Elimination CR vs SR | Group |
|---|---|---|---|---|---|
| **In CZK million** | | | | | |
| | **Fix** | **Mobile** | | | |
| Revenues | 5,146 | 10,045 | | | |
| Cost of Sales (CoS) | (3,298) | (4,728) | | | |
| Gross margin | 1,848 | 5,317 | | | |
| Other income from non-telecommunication services | 46 | | | | |
| Activation of fixed assets | 133 | | | | |
| Other costs excluding CoS | (3,221) | | | | |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 4,123 | | | | |
| Revenues | 15,191 | | 3,597 | (189) | 18,599 |
| Other income from non-telecommunication services | 46 | | 4 | (1) | 49 |
| Activation of fixed assets | 133 | | 34 | 4 | 171 |
| Total consolidated costs | (11,247) | | (2,382) | 188 | (13,441) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **4,123** | | **1,253** | **2** | **5,378** |
| Depreciation and amortisation | (1,238) | | (337) | - | (1,575) |
| Amortisation of costs to obtain contracts | (166) | | (48) | - | (214) |
| Impairment loss | (8) | | - | - | (8) |
| **Operating profit** | **2,711** | | **868** | **2** | **3,581** |
| Interest expense | (80) | | (9) | 9 | (80) |
| Interest income | 16 | | - | (9) | 7 |
| Other financial income/(expense) | (9) | | (1) | - | (10) |
| **Net financial loss** | **(73)** | | **(10)** | **-** | **(83)** |
| Share of profit/(loss) of investments accounted for using the equity method | 3 | | - | - | 3 |
| **Profit before tax** | **2,641** | | **858** | **2** | **3,501** |
| Corporate income tax | (497) | | (228) | - | (725) |
| **Profit for the period** | **2,144** | | **630** | **2** | **2,776** |
| Assets (excl. goodwill) | 35,418 | | 7,672 | (8,217) | 34,873 |
| Goodwill | 4,473 | | - | - | 4,473 |
| **Total Assets** | **39,891** | | **7,672** | **(8,217)** | **39,346** |
| Trade and other payables | (12,268) | | (2,032) | 139 | (14,161) |
| Other liabilities | (12,430) | | (2,118) | 1,966 | (12,582) |
| **Total liabilities** | **(24,698)** | | **(4,150)** | **2,105** | **(26,743)** |
| **Fixed asset additions** | **935** | | **430** | **-** | **1,365** |

| 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 amortisation (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 costs | | (11,425) | | (2,405) | 202 | (13,628) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **3,998** | | **1,095** | **-** | **5,093** |
| Depreciation and amortisation | | (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 asset additions*** | | **875** | | **357** | **-** | **1,232** |

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

## 4 Revenues

In the following table, revenues from contracts with customers are disaggregated into primary geographic segments, operating segments and products provided. The table also includes totals which enable the reconciliation of revenues to those disclosed within segment analysis under IFRS 8 (see Note 3).

| **For the six months ended 30 June 2018**<br>**In CZK million** | **Czech Republic** | **Slovak Republic** | **Intragroup elimination** | **Total in Group** |
|---|---|---|---|---|
| Mobile originated: | | | | |
| - Voice services and SMS & MMS | 4,239 | 1,503 | - | 5,742 |
| - Internet and data | 2,948 | 718 | - | 3,666 |
| Mobile terminated | 1,138 | 441 | - | 1,579 |
| Revenues from sale of equipment | 932 | 669 | (36) | 1,565 |
| Other mobile revenues | 788 | 203 | (142) | 849 |
| **Total mobile revenues** | **10,045** | **3,534** | **(178)** | **13,401** |
| | | | | |
| Voice sevices | 1,092 | 35 | - | 1,127 |
| Data sevices | 482 | 16 | - | 498 |
| Internet and television | 2,462 | 8 | (2) | 2,468 |
| ICT | 769 | 3 | (8) | 764 |
| Revenues from sale of equipment | 165 | - | (1) | 164 |
| Other fixed revenues | 176 | 1 | - | 177 |
| **Total fixed revenues** | **5,146** | **63** | **(11)** | **5,198** |
| | | | | |
| **Total revenues** | **15,191** | **3,597** | **(189)** | **18,599** |

In accordance with the accounting policy (see Note 2), the comparative information in the following table was not adjusted by the initial application of IFRS.

**For the six months ended 30 June 2017**

| In CZK million | Czech Republic | Slovak Republic | Intragroup elimination | Total in Group |
|---|---|---|---|---|
| Mobile originated: | | | | |
| - Voice services and SMS & MMS | 4,705 | 1,514 | - | 6,219 |
| - Internet and data | 2,659 | 717 | - | 3,376 |
| Mobile terminated | 1,110 | 444 | - | 1,554 |
| Revenues from sale of equipment | 698 | 556 | (27) | 1,227 |
| Other mobile revenues | 706 | 194 | (169) | 731 |
| **Total mobile revenues** | **9,878** | **3,425** | **(196)** | **13,107** |
| | | | | |
| Voice sevices | 1,273 | 25 | - | 1,298 |
| Data sevices | 497 | 8 | - | 505 |
| Internet and television | 2,526 | 6 | - | 2,532 |
| ICT | 776 | 1 | (11) | 766 |
| Revenues from sale of equipment | 90 | - | - | 90 |
| Other fixed revenues | 188 | 1 | - | 189 |
| **Total fixed revenues** | **5,350** | **41** | **(11)** | **5,380** |
| | | | | |
| **Total revenues** | **15,228** | **3,466** | **(207)** | **18,487** |

## 5 Income tax

| In CZK million | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Total income tax expense consists of: | | |
| Current income tax charge | 664 | 685 |
| Deferred income tax charge | 61 | 49 |
| Income tax | 725 | 734 |

Deferred income taxes are calculated using the prevailing tax rates, 19% in the Czech Republic (2017: 19%) and 21% in Slovakia (2017: 21%).

## 6 Dividends, other distribution and earnings per share

| In CZK million | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Dividends declared (including withholding tax) | 5,274 | 5,274 |
| Other distributions | 1,241 | 1,241 |
| Total distributions declared | 6,515 | 6,515 |

Dividends include a withholding tax on dividends paid by the Company to its shareholders. No interim dividend was paid in respect of 2018 and 2017. The approval of the 2017 profit and its distribution was agreed at the Annual General Meeting on 4 June 2018 (for profit of the year 2016: 10 May 2017). 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 2017 profit were payable on 4 July 2018 (from 2016 profit: CZK 17, respectively CZK 170). Dividends on treasury shares in the amount of CZK 148 million (2017: CZK 98 million) remained in the retained earnings.

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 the total amount of CZK 1,241 million (2017: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for share with a nominal value of CZK 100, CZK 40 before tax was 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 the amount of CZK 35 million (2017: CZK 23 million) remained in the share premium.

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 2018** | **For the six months ended 30 June 2017** |
|---|---|---|
| Weighted number of ordinary shares outstanding (thousands) | 301,525 | 304,552 |
| Net profit attributable to shareholders (in CZK million) | 2,778 | 2,633 |
| Basic earnings per share (CZK) | 9 | 9 |

## 7 Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired assets at a cost of CZK 570 million (for the period of six months ended 30 June 2017: CZK 528 million). Assets with a net book value of CZK 3 million were disposed of by the Group during the six months ended 30 June 2018 (for the period of six months ended 30 June 2017: CZK 1 million).

## 8 Intangible assets

During the six months ended 30 June 2018, the Group acquired intangible assets at a cost of CZK 795 million (for the period of six months ended 30 June 2017: CZK 704 million). Assets with a net book value of CZK 2 million were disposed of by the Group during the six months ended 30 June 2018 (for the period of six months ended 30 June 2017: CZK 11 million).

## 9 Cash and cash equivalents

| In CZK million | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Cash in current bank accounts and other cash equivalents | 923 | 1,804 |
| Cash in current bank accounts and other cash equivalents with related parties (Note 14) | 6,399 | 2,284 |
| Total cash and cash equivalents | 7,322 | 4,088 |

The committed undrawn facilities available to the Group amounted to CZK 4,439 million as at 30 June 2018 (as at 31 December 2017: CZK 5,638 million).

## 10 Inventories

As at 30 June 2018, the inventories are stated net of an allowance of CZK 104 million (as at 31 December 2017: CZK 96 million), reducing the value of the inventories to their net realisable value.

## 11 Financial liabilities

On 16 December 2015, the Company entered into a long-term facility agreement with maturity in 5 years and a credit limit of CZK 12 billion. The interest rate is based on 1M PRIBOR increased by 0.60% margin.

In line with the facility agreement, the Company drew down an amount of CZK 1.2 billion on 30 May 2018.

As at 30 June 2018, the Company used a total of CZK 8.2 billion (as at 31 December 2017: CZK 7 billion) of the available credit from the long-term facility agreement.

On 4 April 2017, the Company successfully completed the subscription of six tranches of the new financing facility (Schuldschein), in total an 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 |

## 12 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Significant developments which occurred throughout the first half of the year 2018 are described below.

### I. VOLNÝ, a.s. – legal action on CZK 4 billion

The Municipal court in Prague fully dismissed the legal action of Volný, after hearing from an independent expert which the court appointed. The court concluded that the Company did not breach competition law rules and therefore could not have been liable for any damages. The decision was delivered in June 2018. The plaintiff has filed an appeal against this decision.

### II. Legal actions on the invalidity of item No. 7 of the General Meeting held on 28 April 2015 (approval of the spin off)

The actions in both proceedings were withdrawn in May and both proceedings were terminated. The disputes were successfully closed.

### III. BELL TRADE s.r.o. – legal action on CZK 5.2 billion

In the first half of 2018, decisions in favor of the Company in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the previous decision of the Municipal Court in Prague against PET PACK and BELL TRADE, which determined that no receivables or contracts ever existed. In relation to the company RVI, the High Court changed the previous decision also in favor of the Company.

In May 2018, the resolution of the Regional Court in Bratislava also confirmed the decision of the District Court in Malacky. The court confirmed that the Company should not be the defendant in the proceedings which were been still to be held between BELL TRADE and PET PACK and from which the Company had already been exempted by the Constitutional Court of the Slovak Republic.

**IV. Other**

No developments occurred in other significant legal disputes disclosed in the Group's consolidated financial statements as at 31 December 2017 that are part of the Annual Report.

The Company does not consider it advisable to disclose any other information regarding the said litigation, as it could endanger the strategy of the Company in these cases. The Company is convinced that all the Group´s litigation risks are appropriately reflected in the financial statements.

## 13 Commitments

Capital expenditure contracted but not yet included in the consolidated financial statements as at 30 June 2018 amounted to CZK 471 million (as at 31 December 2017: CZK 465 million). The majority of contracted amounts relate to the telecommunications network and IT technologies. These commitments do not include contracted expenditures for the acquisition of exclusive football and hockey broadcasting rights, the amount of which is considered as confidential by the Company and its disclosure could harm the Group.

## 14 Related party transactions

The companies PPF Telco B.V., PPF A3 B.V. and Anthiarose Limited, through which Mr. Petr Kellner controls the Group, are part of PPF Group.

The PPF Group invests in a variety of industries, ranging from banking and financial services, to telecommunications, real estate and 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 receivables 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 asset balances are tested for impairment as at the balance sheet date. As at 30 June 2018 and as at 31 December 2017, no specific allowance or write-off was incurred.

The following transactions were carried out with related parties:

**I. Parent company:**

The dividend and other distributions declared during the six months period ended 30 June 2018 to the shareholders from the PPF Group amounted to CZK 5,281 million (for the period of six months ended 30 June 2017: CZK 5,281 million). As at 30 June 2018, the Group recognised liability to pay dividends and other distributions in total amount of CZK 5,281 million (as at 31 December the liability from distribution to the parent company was duly paid).

**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 the purchase of fixed line and mobile telecommunications services and other services. These services are provided on the basis of the wholesale agreements concluded and represent an important item of interconnection costs for the Group.

Amongst the most important new relationships are the following wholesale agreements:

**a) mobile network services agreement**
The subject of the agreement is the provision of mobile network services offering coverage by CDMA, 2G, 3G and LTE within the Czech Republic. The agreement also contains arrangements about the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Group is obliged to use the services for a period of seven years; two years before this term expires, negotiations on prices for the next period will begin. The total cost during the six months period ended 30 June 2018 was approximately CZK 2.2 billion (for the six months ended 30 June 2017: CZK 2.2 billion).

**b) agreement on access to the public fixed communications network (so-called MMO)**
The subject of the MMO agreement is 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 has been concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to take up at least 640,000 xDSL lines for a period of seven years after signing the agreement (which represents only part of the total payment). The total cost for the six months ended 30 June 2018 was approximately CZK 1,913 million (for the six months ended 30 June 2017: CZK 2,029 million).

**c) agreement on access to end points (so-called RADO)**
CETIN enables the Group access to end points, which include the 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 the sections provided based on transfer speed. The total cost for the six months ended 30 June 2018 was approximately CZK 436 million (for the six months ended 30 June 2017: CZK 445 million).

## 15 Subsidiaries, associates and joint ventures

The Group held interests in the following entities as at 30 June 2018 and 31 December 2017:

| Subsidiaries | | Group's interest as at 30 June 2018 | 30 June 2017 | Country of incorporation | Activity | Method of consolidation |
|---|---|---|---|---|---|---|
| 1. | O2 Slovakia, s.r.o. | 100 % | 100 % | Slovak Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 2. | 4Local, s.r.o. | 100 % | 100 % | Czech Republic | Provision of WiFi internet access | Consolidated (full consolidation) |
| 3. | O2 Family, s.r.o. | 100 % | 100 % | Czech Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 4. | O2 TV s.r.o. | 100 % | 100 % | Czech Republic | Digital television | Consolidated (full consolidation) |
| 5. | O2 IT Services s.r.o. | 100 % | 100 % | Czech Republic | Information technology services | Consolidated (full consolidation) |
| 6. | Bolt Start Up Development a.s. | 100 % | 100 % | Czech Republic | Start-up fund | Consolidated (full consolidation) |
| 7. | O2 Business Services, a.s. | 100 % | 100 % | Slovak Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 8. | eKasa s.r.o. | 100 % | 100 % | Czech Republic | Electronic sales reporting ("EET") solution provider | Consolidated (full consolidation) |

| | | | | | | |
|---|---|---|---|---|---|---|
| 9. | O2 Financial Services s.r.o. | 100 % | 100 % | Czech Republic | Financial Services intermediary | Consolidated (full consolidation) |
| 10. | mluvii.com s.r.o. | 90 % | 90 % | Czech Republic | On-line communication platform | Consolidated (full consolidation) |
| 11. | Misterine s.r.o. | 80 % | 80 % | Czech Republic | Virtual and augmented reality | Consolidated (full consolidation) |
| 12. | Smart home security s.r.o. | 100 % | 100 % | Czech Republic | Provider of home security equipment and services | Consolidated (full consolidation) |
| 13. | INTENS Corporation s.r.o. | 100 % | 100 % | Czech Republic | Provider of transport telematics services | Consolidated (full consolidation) |
| 14. | Tapito s.r.o. (former TapMedia s.r.o.) | 100 % | 100 % | Czech Republic | Mobile applications development | Consolidated (full consolidation) |
| **Associates** | | | | | | |
| 15. | První certifikační autorita, a.s. | 23 % | 23 % | Czech Republic | Certification services | Not consolidated (immaterial) |
| 16. | AUGUSTUS, spol. s.r.o. | 40 % | 40 % | Czech Republic | Auction sales and advisory services | Not consolidated (in bankruptcy) |
| 17. | Dateio s.r.o. | 21 % | 21 % | Czech Republic | Direct marketing platform development | Consolidated (equity method) |
| **Joint ventures** | | | | | | |
| 18. | Tesco Mobile ČR s.r.o. | 50 % | 50 % | Czech Republic | Mobile virtual network operator for prepaid services | Consolidated (equity method) |
| 19. | Tesco Mobile Slovakia, s.r.o. | 50 % | 50 % | Slovak Republic | Mobile virtual network operator for prepaid services | Not consolidated (immaterial) |

## 16 Financial instruments measured at fair value

The Group has the following financial instruments measured at fair value:

| In CZK million | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Financial assets** | | |
| Financial derivatives - interest (hedge accounting) | 33 | 26 |
| Loans provided (Note 1) | 14 | - |
| Equity instruments | 24 | 24 |
| **Total financial assets measured at fair value** | **71** | **50** |
| | | |
| **Financial liabilities** | | |
| Financial derivatives – foreign currency (trading) | 13 | 1 |
| **Total financial liabilities measured at fair value** | **13** | **1** |

As at 30 June 2018 and as at 31 December 2017, the Group held equity securities and loans provided classified as Level 3 fair value in the fair value hierarchy and financial derivatives classified as Level 2.

The Group calculates the fair value of the derivative financial instruments on the basis of discounted cash flow models (using market rates).

The loan provided includes an embedded derivative in the form of an option to convert the debt into equity. In accordance with IFRS 9, the hybrid contract has been assessed for measurement as a whole. The fair value was determined by the income approach using the discounted cash flow method, taking into account the intrinsic value of the conversion option. Cash flows were discounted at the discount rate reflecting their risk. The intrinsic value of the conversion option was determined with respect to the Company's estimated value and the probability of option activation.

The fair value of equity securities was determined by the income approach using the discounted cash flow method. Cash flows were discounted at the discount rate reflecting their risk.

During the reporting period ending 30 June 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3.

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of their fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rates. An exception are the two tranches of Schuldschein financing with fixed interest rates (Note 11) with a total carrying amount of CZK 2,761 million as at 30 June 2018 (as at 31 December 2017: CZK 2,750 million) and a fair value of CZK 2,572 million at the same date (as at 31 December 2017: CZK 2,626 million).

The fair value was calculated on the basis of contractual cash flows discounted using a current yield rate. It is classified as Level 3 fair value in the fair value hierarchy due to the inclusion of unobservable inputs, which cannot be directly derived from data obtained in active markets, such as its own credit risk.

## 17 Post balance sheet events

### Other

No events occurred subsequent to the balance sheet date which could have a material impact on the condensed consolidated financial statements for the six months ended 30 June 2018.

22 August 2018

**Jindřích Fremuth**
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

Jindřich Fremuth, 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.

**Jindřich Fremuth**
Chairman of the Board of Directors

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

**O2 Czech Republic a.s.**

Za Brumlovkou 266/2, 140 22 Praha 4
t.: 800 02 02 02

**www.o2.cz**