

O2 Czech Republic a.s.



2021

Half-Year Report

O2

Note:

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

O2 Czech Republic Group (the "Group") consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries.

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

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01 > Financial and operating highlights

Financial data is based on the Interim Consolidated Financial Statements for the six months ended 30 June 2021 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

	1H 2021 ¹	1H 2020 ²
Financials (in CZKm)		
Revenues	20,087	19,326
EBITDA	6,825	6,325
Operating profit	3,954	3,671
Profit before taxes	3,779	3,389
Profit for the period	2,984	2,675
Total assets	42,181	40,401
Property, plant and equipment	5,836	6,176
Intangible assets	16,265	17,520
Total equity	10,453	13,786
Financial debts (long-term and short-term)	13,471	13,159
Capital expenditure (additions to fixed assets)	961	958
Operating indicators (at end of period)		
Fixed voice accesses (in thousand)	375	434
Fixed broadband internet (in thousand) ³	869	845
Pay TV – O ₂ TV (IPTV and OTT, in thousand)	572	476
Registered mobile customers in the Czech Republic (in thousand) ⁴	5,987	5,910
Active customers in Slovakia (in thousand) ⁵	2,236	2,157
Number of employees in Group	4,873	5,024
Ratios (at end of period)		
EBITDA margin (EBITDA/revenues, in %)	34.0	32.7
Profit after taxes /Revenues (in%)	14.9	13.8
Capital expenditure/Revenues (in%)	4.8	5.0
Gross gearing (Financial debts/Total equity, in%)	128.9	140.5
Net debt / EBITDA (annualised) ⁶	0.52	0.91
Profit ⁷ per share – consolidated (CZK)	9.9	8.9
– unconsolidated (CZK)	12.4	11.8
Macroeconomic indicators⁸		
CZK/EUR exchange rate – average	25.85	26.33
CZK/EUR exchange rate – at end of period	25.49	26.74

1 Financial indicators extracted from the Balance Sheet as of 30 June 2021 and from the Statement of Total Comprehensive Income for the six months ended 30 June 2021, operating indicators as of 30 June 2021.

2 Financial indicators extracted from the Balance Sheet as of 31 December 2020 and from the Statement of Total Comprehensive Income for the six months ended 30 June 2020, operating indicators as of 30 June 2020.

3 Fixed access (ADSL, VDSL, optical fibre) and wireless access (4G LTE, WTTx).

4 Customers who generated revenues in the past 13 months.

5 Customers who generated revenues in the past 3 months.

6 Net debt = financial obligations minus cash and cash equivalents.

7 Profit attributable to shareholders/weighted number of ordinary shares outstanding.

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

Alternative performance measures

In this Half-Year Report, some alternative performance measures which are not reported as standard in the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the

European Union are presented. The Company reports on alternative performance indicators, which are additional information to the financial statements and assist in the overall assessment of the economic situation and performance of the Group, in accordance with Guidelines for Alternative Performance Measures published by ESMA.

Measure	Definition	Purpose	Reconciliation to financial statements (in CZK million)
Adjusted EBITDA ("EBITDA")	Operating profit increased by depreciation and amortisation, amortization of right-of-use asset and costs to obtain contracts, and Impairment loss on non-current assets	Shows operating performance of the company	see Interim Consolidated Statement of Comprehensive Income (Operating profit, Depreciation and Amortisation, Impairment loss): 1H 2020: 3,671+1+292+2,361 = CZK 6,325m 1H 2021: 3,954+305+297+2,269 = CZK 6,825m
EBITDA margin	EBITDA/Revenues	Measures operating profitability of the company	see Interim Consolidated Statement of Comprehensive Income (Revenues and EBITDA): 1H 2020: 6,325/19,326 = 32.7% 1H 2021: 6,825/20,087 = 34.0%
Gross gearing	Borrowings/Total equity	Shows the share of borrowings the company uses for its operation to total equity	see Interim Consolidated Balance Sheet (Total equity. Long- and short-term financial obligations): 1H 2020: (14,834+51)/10,598 = 140.5% 1H 2021: (12,091+1,380)/10,453 = 128.9%
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 Interim Consolidated Statement of Comprehensive Income (EBITDA) and Interim Consolidated Balance Sheet (Cash and cash equivalents. Long- and short-term financial obligations): 1H 2020: (14,834+51-3,322)/(6,325*2) = 0.91 1H 2021: (12,091+1,380-6,441)/(6,825*2) = 0.51
Capital expenditures/ Revenues	Capital expenditures (Fixed assets additions)/Revenues	Expresses the amount the company invests in its future development	Additions to fixed assets are presented in Note 8 and 9 to the Interim Consolidated Financial Statements: 1H 2020: (498+460)/19,326 = 5.0% 1H 2021: (419+542)/20,087 = 4.8%
Free cash flows	Net free operating cash flow less net free investing cash flow (from 2019, interest paid, including interest expense on lease obligations, is included in cash flows from financing activities)	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 Interim Consolidated Cash Flow Statement (Net cash flows from operating activities. Net cash flows from investing activities): 1H 2020: 5,367-1,404 = CZK 3,963m 1H 2021: 4,286 -1,622 = CZK 2,664m

The Group does not use previously reported ROA (return on assets) and ROE (return on equity) ratios to measure its financial

performance. Therefore, it no longer reports these two alternative performance measures.

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02 > Board of Directors' report on the results of the Group for the first half of 2021

In this section, the Board of Directors presents information on the Group's business and financial results for the first half of 2021, including important factors affecting its business and results for the period, and a comparison with the corresponding period of the previous year.

Impact of the COVID-19 pandemic on the Group's operating, business and financial results

The state of emergency declared by the Government of the Czech Republic for the entire territory of the Czech Republic due to health concerns associated with the COVID-19 pandemic from 5 October 2020 was officially terminated on 11 April 2021. Even after the state of emergency ended, the Government and other public authorities adopted various crisis measures that affected the business environment and O2 CZ throughout the first half of 2021.

Already during 2020, following the outbreak of the COVID-19 pandemic, the Group companies adapted to this emergency situation. The Group partially compensated for the lower activity of customers in retail stores with flexible changes in the sales, customer service and customer care workflow; it is, however, difficult to fully replace personal contact. In the Group's financial results, the pandemic continued to manifest itself in the first half of 2021 also in lower roaming revenues, both inbound and outbound, due to the continued travel restrictions.

Overview of commercial and financial results, outlook for the second half of the year

As the largest internet provider in the Czech Republic, O2 CZ continued to respond to the growing demands of its customers and continued to speed up internet connections. Thanks to bonding, the construction of forward DSLAMs, the combination of fixed and mobile services and investments in fibre-optic lines, the Company has managed to double the speed available to more than one million homes. O2 CZ offered all new customers a discounted price for the first six months of Internet HD.

To help customers enjoy all the benefits fast internet and home Wi-Fi network to the fullest, the Company introduced a new super-powerful O₂ Smart Box. This device combines the functions of the most powerful modems, Wi-Fi router and smart home hub with a user interface in a mobile app of the same name. It offers the latest Wi-Fi 6 standard operating in the 2.4 and 5 GHz bands. This makes it one of the most advanced devices on the market. The new standard provides an increase in network capacity and a significant increase in speed up to 1 Gbps. With Wi-Fi 6, the O₂ Smart Box connects up to ten times more devices and makes end devices be more energy efficient. The new generation of wireless networks is already supported by a wide range of end devices including mobile phones.

With the further expansion of the broadband O₂ Internet HD service in the Czech Republic, the number of its users increased by 24,000 year on year. At the end of June 2021, a total of 869,000 customers were using O2 CZ's broadband internet. O₂ TV digital television continued to be the fastest growing service. The number of customers

of any of the tariff variants of this service (IPTV and OTT versions), which works on a fixed line from O2 CZ and on an internet connection from any provider, increased by 96 thousand year on year and reached a total of 572 thousand as at 30 June 2021. This number includes customers using the monthly *O₂ TV Sport Pack online* and *O₂ TV HBO* and *Sport Pack* bundles.

At the end of June 2021, the base of registered mobile contract services in the Czech Republic counted 3,343 thousand, the number of prepaid mobile SIM cards reached a total of 1,871 thousand, while the number of M2M SIM cards was 773 thousand.

In February, O2 Slovakia has changed the offer of popular O₂ Internet na doma and O₂ TV services. At the same time, it entered the convergent services market by introducing the O₂ Spolu (O₂ TV Together), a service which has been in the market proposition of O2 CZ in the Czech Republic for several years. This service allows customers with flat-rate mobile services to get internet connectivity at home at a discounted rate. The more flat-rate services customers combine in one billing profile, the higher the discount on the price of the O₂ Internet na doma (O₂ Home Internet) tariff.

The number of active SIM cards of O2 Slovakia increased to 2,236 thousand by the end of June 2021. The number of SIM cards for contract services was 1,068 thousand: 700 thousand SIM cards for prepaid services and 468 thousand for M2M services.

Both O2 CZ and O2 Slovakia continued to develop and modernise their mobile networks, in the Czech Republic through and in cooperation with their technology partner, CETIN, and in Slovakia independently. In the first half of 2021, they initiated the most extensive renewal of their radio access networks (RANs) to date. Ericsson has been

selected as the technology supplier in both countries.

Across the Czech Republic, the legacy 3G network was shut down in three phases during 2021. This allowed the vacated frequencies to be used more efficiently to continue the development of the 4G network and the rollout of 5G technology, bringing the fastest mobile network of today to customers in other locations. In the first half of the year, a pilot project to replace radio technology and upgrade the mobile network was successfully carried out in the first few locations in the Czech Republic. The technology upgrade is also linked to the gradual switching on of 5G transmitters. By the end of June, the fastest networks were available in almost sixty cities in the Czech Republic.

In Slovakia, the cooperation agreement with the supplier Ericsson included the construction of next-generation 5G mobile networks and RAN upgrades, which requires a major generational upgrade of the current 2G, 3G and 4G technologies. It will result in improved user experience when using mobile services, an improvement in the energy efficiency of installed network equipment and contribute to the efficient construction of a nationwide 5G network.

Consolidated financial results

This section presents and comments on the Group's consolidated financial results, which were taken from the Interim Consolidated Financial Statements for the six months ended 30 June 2021, prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Group's consolidated revenues reached CZK 20.1 billion in the first half of 2021, up 3.9% year on year. Revenues from mobile data services and digital TV continued to grow. Higher revenues in ICT also contributed to the growth, but generated significantly lower profitability compared to the traditional business. Slovakia also contributed positively to the year-on-year development of consolidated revenues, after a significant year-on-year drop in 2020.

Operating revenues in the Czech Republic reached CZK 16.4 billion, up 3.0% year on year. Operating revenues in the mobile sub-segment increased 1.9% year on year to CZK 10.1 billion as a 13.4% increase in data services revenues and a 4.4% increase in revenues from equipment sales more than offset the decline in other revenues. Revenues from voice, SMS and MMS were down 8.1%; financial services revenues were down 18.9%; and other mobile revenues declined 4.4%, mainly due to lower inbound roaming revenues. Operating revenues in the fixed sub-segment grew 4.9% year on year to CZK 6.2 billion in the first half of 2021. This increase has traditionally been mostly driven by higher revenues from O₂ TV. ICT revenues were 18.9% higher due to several projects, while revenues from equipment sales declined 5% year on year due to lower sales compared to 2020. Revenues in Slovakia increased 6.9% year on year to CZK 3.9 billion, with mobile data services and equipment sales being the main growth areas, similar to the Czech Republic.

Total consolidated costs increased 2.9% year on year to CZK 13.4 billion in the first half of the year. Direct cost of sales increased by 2.5% year on year, mainly due

to higher costs of fixed services and mobile device sales, corresponding with higher revenues. Personnel costs, as well as external service costs, remained more or less flat year on year. Other expenses increased by 74.9%. The main reason for this increase was the loss on the disposal of unneeded intangible assets at amortized cost of CZK 167 million. Impairment loss on financial assets decreased by 49.6% year on year to CZK 124 million, as in the previous year the expectation of deteriorating macroeconomic indicators and forecasts of future developments due to the restrictive measures related to the COVID-19 pandemic outbreak were reflected in the provision for receivables as at 30 June 2020 in accordance with the requirements of IFRS 9.

EBITDA reached CZK 6.8 billion in the first half of 2021, up 7.9% compared to the same period in 2020. In the Czech Republic, EBITDA increased by 6.8% to CZK 5.1 billion, while in Slovakia it increased by 11.3% to CZK 1.7 billion. Consolidated EBITDA margin thus reached 34.0% in the first half of the year (31.6% in the Czech Republic¹; 44.0% in Slovakia).

In the first half of the year consolidated operating profit and consolidated profit before tax increased by 7.7% and 11.5% year on year to CZK 4.0 billion and CZK 3.8 billion, respectively. Net financial expenses declined by 37.6%, mainly due to lower unrealised foreign exchange losses. Consolidated net profit totalled CZK 3.0 billion in the first half of the year, which is an increase of 11.5% year on year.

¹ Operating profitability in the Czech Republic is lower than in Slovakia due to the inclusion of the cost of access to CETIN's fixed and mobile telecommunications networks in the cost of sales of services.

CONSOLIDATED BALANCE SHEET

The net book value of property, plant and equipment amounted to CZK 5.8 billion as at 30 June 2021 compared to CZK 6.2 billion as at 31 December 2020. The most significant part of the property, plant and equipment net book value was telecommunications technology and equipment, which includes mainly exchange and transmission technology for telecommunications networks. The net book value of intangible assets decreased by 7.2% from the end of 2020 to the end of June 2021 to CZK 16.3 billion.

Total consolidated borrowings (current and non-current)² amounted to CZK 13.5 billion as at 30 June 2021, compared to CZK 13.2 billion as at 31 December 2020. Cash and cash equivalents amounted to CZK 6.4 billion as at the end of June 2021, compared to CZK 3.9 billion as at 31 December 2020. The increase was mainly due to the accumulation of cash for the payment of the 2020 dividend and part of the share premium, which started on 21 July 2021, i.e. after the end of the first half of the year. The net debt to EBITDA ratio³ was 0.51 as at the end of June 2021.

CONSOLIDATED CAPITAL EXPENDITURE

Total consolidated capital expenditure (additions to assets) reached CZK 961 million in the first half of 2021, which was flat year on year; the share of consolidated capital expenditure to consolidated revenues was 4.8%. All investments in the first half of the year were made in the Czech Republic and Slovakia and were financed from own resources and loans.

Investments in Slovakia decreased by 11.9% year on year CZK 366 million and their share

to revenues decreased by 2 percentage points to 9.5%. Investments continued to be mainly directed towards increasing the capacity and quality of networks and accounted for approximately 50% of all investments in Slovakia in the first half of 2021.

In the Czech Republic, capital expenditure in the first half of the year reached a total of CZK 595 million, up 9.6% year on year, and accounted for 3.7% of revenues. The main areas of investment were investments in upgrading information systems and investments related to the development and offering of new services.

CONSOLIDATED CASH FLOW STATEMENT

Consolidated free cash flows⁴ were CZK 2.7 billion in the first half of 2021, compared to CZK 4 billion in the first half of 2020. This decrease is mainly due to the year-on-year deterioration in the change in working capital. In the first half of 2020, the change in working capital was positively affected by the securitisation of O2 Slovakia's receivables. Another negative effect of the decline in the amount of free cash flow was a 16.1% increase in cash flows for the acquisition of fixed assets. This was due to the payment of an additional part of the acquisition price of the 700 MHz, 900 MHz and 1,800 MHz frequency spectrum in Slovakia.

OUTLOOK FOR THE SECOND HALF OF 2021

The Board of Directors of the Company aims to build on the business strategy and activities of previous years and the first half of 2021. Accordingly, the Group companies will in the second half of the year continue to offer and promote their existing services and products and develop new, innovative and in many ways unique services and products.

² Excluding lease liabilities.

³ Financial debt (excluding lease liabilities) minus cash / EBITDA (excluding the effect of IFRS 16) for the last 12 months.

⁴ Free cash flows = net cash flows from operating activities plus net cash flows from investing activities; from 2019, interest paid (including interest expense on lease liabilities) is included in cash flows from financing activities.

The Company's management remains cautious about the further development of the COVID-19 pandemic and monitors the situation regularly. However, it is not in a position to predict the duration of the pandemic and all of its potential implications for the Group's financial performance. Furthermore, it is unable to predict the consequences of any future actions and measures taken by the Czech and Slovak governments or at the European Union level that could have an impact on macroeconomic developments in both countries.

The Board of Directors sees the main uncertainties in the area of roaming and the ability of customers to meet their obligations. Also, sales of terminal equipment, which have made a significant contribution to the increase in profitability in recent years, may be negatively affected by their deteriorating availability. Finally, the sustainability of costs and margins in an inflationary environment is a risk.

Developments in the market and in the area of regulation

There were no significant changes in the Czech or Slovak telecommunications market in the first half of the year, and no new services were launched. Regulation remains an area with a significant impact on the Group's business.

At the beginning of the first half of 2021, based on the results of the auction phase of the tender, the Czech Telecommunications Office (CTO) issued an allocation to O2 CZ for the use of radio frequencies for the provision of electronic communications networks in the 700 MHz and 3,400 to 3,600 MHz frequency spectrum.

Ordinary General Meeting

In view of the continuing restrictions and the still uncertain outlook for the epidemiological situation, the Board of Directors of the Company has, after careful consideration, concluded that it will invoke the procedure under the Pandemic Act⁵, which, inter alia, by its Section 19, allows corporate bodies to make decisions per rollam even in situations where such a method of decision-making is not permitted by the Articles of Association of the Company.

General Meeting per rollam 28 May 2021 to 14 June 2021

On 14 May 2021, the Company's Board of Directors published a notice of a per rollam General Meeting with voting dates from 28 May 2021 to 14 June 2021. The notice included the agenda, details of the reason for and the form of the per rollam procedure, all dates associated with the decision, information on the identification of shareholders and their representation, details of the voting process and procedure, information on the number of shares and voting rights, information on shareholder documents, information on shareholder rights and the draft resolutions that will subsequently be put to shareholders for voting.

On 28 May 2021, the per roll call vote was initiated by publishing the draft resolutions, ballot papers and voting rules in the Commercial Bulletin as well as on the Company's website.

On 14 June 2021, the voting was closed and on 16 June 2021, the Company's Board of Directors stated that the General Meeting decided on the proposals outside the meeting (per rollam) and adopted all proposed resolutions by the required majority of

⁵ Act No. 191/2020 Coll., on Certain Measures to Reduce the Impact of the Coronavirus SARS CoV-2 Epidemic on Participants of Court Proceedings, Injured Persons, Crime Victims and Legal Persons and on Amendment of the Insolvency Act and the Civil Procedure Code.

votes. On the same day, the results of the resolutions of the General Meeting were published on the Company's website and on 18 June 2021 they were published in the Commercial Bulletin.

Decisions of the General Meeting adopted per rollam

The General Meeting decided outside the meeting per rollam as follows:

- Approved the Company's ordinary and consolidated financial statements for 2020 prepared in accordance with International Financial Reporting Standards. The auditor KPMG Česká republika Audit, s.r.o. issued an unqualified opinion on both financial statements.
- Approved the distribution of the Company's unconsolidated profit for 2020 in the amount of CZK 5,790 million: CZK 5,115 million is to be paid out in dividends (CZK 17 and CZK 170 per each share with a nominal value of CZK 10 and CZK 100, respectively), CZK 667 million is to be transferred to the account of retained earnings and CZK 8 million is to be contributed to the social fund.
- Approved the distribution of a part of the share premium of CZK 1,203 million, which will be paid to shareholders (CZK 4 and CZK 40 per each share with a nominal value of CZK 10 and CZK 100, respectively).
- Appointed KPMG Česká republika Audit, s.r.o. to perform the statutory audit for the accounting period 2021.
- Approved the report on the remuneration of the members of the Company's Board of Directors and Supervisory Board, thereby fulfilling the obligation newly imposed on issuers of securities by the Act on Capital Market Undertakings⁶.
- Approved partial amendments to the Articles of Association with effect from 1 July 2021, which concerned the

possibility of per rollam decision-making by the General Meeting in specified cases and in response to a change in part of the stock exchange rules concerning the determination of the record date for eligibility for dividends.

Changes in the shareholder structure of the Company

Mr. Petr Kellner, who was the majority shareholder and controlling person of the Company, passed away in March 2021. Mrs. Renáta Kellnerová was appointed administrator of the entire estate left by the testator Mr. Petr Kellner for the duration of the succession proceedings, who has the right to exercise the so-called simple administration of the estate. Renáta Kellnerová is entitled to exercise voting rights over shares in PPF Group N.V. and PPF Holdings B.V. and is thus the controlling person of the Company.

On 23 June 2021, PPF Telco B.V. („PPF Telco“), a member of the PPF Group, announced its intention to acquire additional shares issued by O2 CZ, over and above its existing 67.83% interest in the share capital and voting rights of the Company. As at 23 June 2021, PPF Telco and persons acting in concert with it from the PPF Group held a total of 83.58% of the Company's share capital and voting rights. PPF Telco and the persons acting in concert with it from the PPF Group have announced that they intend to acquire more than 90% of the share capital and voting rights in the Company in order to exercise their right to request that the Company's General Meeting resolve, in accordance with section 375 et seq. of Act No. 90/2012 Coll., On business corporations (the Business Corporations Act), to approve a squeeze-out of other shareholders of the Company to PPF Telco or another persons from the PPF Group.

⁶ Section 121o et seq. of Act No. 256/2004 Sb., On capital market undertakings.

On 24 June 2021, PPF Telco announced that it had acquired additional shares issued by O2 CZ at a price of CZK 264 per share. The acquisition of additional shares in the Company was carried out using the reverse accelerated bookbuilding method. Following the settlement of the transaction, PPF Telco and the persons acting in concert with it from the PPF Group owned (based on information from the records maintained by

the Central Securities Depository in Prague) a total of 90.36% of the Company's share capital and voting rights as at 30 June 2021. As part of the regulatory disclosure of voting interests dated 7 July 2021, PPF Telco and persons acting in concert with it from the PPF Group announced that its interest in the share capital and voting rights of the Company reached 90.47% as at 1 July 2021.

The following table illustrates the changes in the shareholding structure described above:

Entity	Share in the share capital and voting rights		
	As at 31 December 2020	As at 30 June 2021	As at 1 July 2021
PPF Telco B.V.	67.83%	79.31%	90.41%
PPF A3 B.V.	10.59%	10.59%	0.00%
PPF CYPRUS MANAGEMENT LIMITED	5.16%	0.46%	0.06%
PPF Group total	83.58%	90.36%	90.47%
Investment funds and individual shareholders	16.42%	9.64%	9.53%

In connection with the intention to compulsorily transfer all shares of the Company's other shareholders to PPF Telco or another person from the PPF Group, PPF Telco, pursuant to Section 375 of Act No. 90/2012 Coll., On business corporations (the Business Corporations Act), on 7 July 2021 requested the Company's Board of Directors to assist in determining the appropriate compensation amount for the Company's shares, in particular to provide relevant financial data.

Other information

All contracts to which the Company and/or any member of the Group is a party have been entered into in the ordinary course of

business. None of these transactions fulfils the characteristics of so-called significant transactions within the meaning of Section 121s⁷ et seq. of Act No. 256/2004 Coll., On capital market undertakings.

A summary of the significant related party transactions that occurred in the half-year ended 30 June 2021, as well as changes in these transactions that were disclosed in the Group's previous Annual Report, is presented in note 14 of the condensed notes to the Interim Consolidated Financial Statements for the half-year ended 30 June 2021.

⁷ A significant transaction entered into by an issuer is a contract or agreement that results in (a) the disposal or acquisition of assets by the issuer in excess of 10% of the assets as shown in the financial statements for the financial year immediately preceding the financial year in which the transaction is entered into, or (b) the increase in the issuer's debt only by debt or contingent debt in excess of 10% of the assets as shown in the financial statements for the financial year immediately preceding the financial year in which the transaction is entered into. Transactions with the same related party entered into during the same financial year are aggregated for the purposes of the preceding sentence.

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O2 Czech Republic a.s.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

**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.

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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.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2021

In CZK million	Notes	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Revenues	3, 4	20,087	19,326
Other income from non-telecommunication services		94	96
Capitalisation of fixed assets		178	181
Expenses		(13,409)	(13,032)
Impairment loss on financial assets		(125)	(246)
Depreciation and amortisation and amortisation of right-of-use asset		(2,269)	(2,361)
Amortisation of cost to obtain contracts		(297)	(292)
Impairment loss on non-current assets	8	(305)	(1)
Operating profit	3	3,954	3,671
Finance income		15	22
Finance costs		(192)	(306)
Share of profit/(loss) of investments accounted for using the equity method		2	2
Profit before tax	3	3,779	3,389
Corporate income tax	5	(795)	(714)
Profit for the period		2,984	2,675
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		97	(91)
Translation differences		(96)	156
Other comprehensive income, net of tax		1	65
Total comprehensive income, net of tax		2,985	2,740
Profit attributable to:			
Equity holders of the Company		2,997	2,683
Non-controlling interests		(13)	(8)
Total comprehensive income attributable to:			
Equity holders of the Company		2,998	2,748
Non-controlling interests		(13)	(8)
Earnings per share for continuing operations (CZK) - basic*	6	10	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 2021

In CZK million	Notes	30 June 2021	31 December 2020
ASSETS			
Property, plant and equipment	7	5,836	6,176
Intangible assets	8	16,265	17,520
Right-of-use assets		3,295	3,368
Costs to obtain contracts		902	851
Investments in equity accounted investees	15	15	13
Contract assets		62	74
Other assets		1,355	1,220
Deferred tax assets		43	64
Non-current assets		27,773	29,286
Inventories	10	919	921
Receivables		6,856	5,988
Current tax receivable		13	41
Contract assets		179	243
Cash and cash equivalents	9	6,441	3,922
Current assets		14,408	11,115
Total assets		42,181	40,401
EQUITY AND LIABILITIES			
Ordinary shares		3,009	3,009
Share premium	6	3,603	4,806
Retained earnings, funds and reserves	6	3,854	5,971
Equity attributable to owners of the Company		10,466	13,786
Non-controlling interests		(13)	-
Total equity		10,453	13,786
Borrowings	11	12,091	13,084
Lease liabilities		2,758	2,885
Other liabilities		886	1,159
Contract liabilities		49	67
Provisions for liabilities and charges		83	82
Deferred tax liability		282	373
Non-current liabilities		16,149	17,650
Borrowings	11	1,380	75
Lease liabilities		724	659
Trade and other payables		12,618	7,037
Contract liabilities		516	564
Provisions for liabilities and charges		159	183
Income tax liability		182	447
Current liabilities		15,579	8,965
Total liabilities		31,728	26,615
Total equity and liabilities		42,181	40,401

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

Equity attributable to owners of the Company												
In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Revaluation reserve	Cash flow hedging	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2021		3,009	4,806	-	46	278	-	21	5,626	13,786	-	13,786
Other comprehensive income		-	-	-	(96)	-	-	97	-	1	-	1
Profit for the period		-	-	-	-	-	-	-	2,997	2,997	(13)	2,984
Total comprehensive income		-	-	-	(96)	-	-	97	2,997	2,998	(13)	2,985
Dividends and other distributions	6	-	(1,203)	-	-	-	-	-	(5,115)	(6,318)	-	(6,318)
As at 30 June 2021		3,009	3,603	-	(50)	278	-	118	3,508	10,466	(13)	10,453

Equity attributable to owners of the Company												
In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Revaluation reserve	Cash flow hedging	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2020		3,102	8,264	(2,348)	(35)	278	(2)	22	4,882	14,163	14	14,177
Other comprehensive income		-	-	-	156	-	-	(91)	-	65	-	65
Profit for the period		-	-	-	-	-	-	-	2,683	2,683	(8)	2,675
Total comprehensive income		-	-	-	156	-	-	(91)	2,683	2,748	(8)	2,740
Dividends and other distributions	6	-	(1,204)	-	-	-	-	-	(5,115)	(6,319)	-	(6,319)
As at 30 June 2020		3,102	7,060	(2,348)	121	278	(2)	69	2,450	10,592	6	10,598

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

In CZK million	Notes	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Profit before tax		3,779	3,389
Non-cash adjustments for:			
Depreciation and amortisation and amortisation of right-of-use asset		2,269	2,361
Amortisation of costs to obtain contracts		297	292
Impairment loss		305	1
Net interest costs		145	179
Unrealised foreign exchange losses/(gains) (net)		6	10
Change in provisions and allowances and (profit)/loss on sale and write-off of receivables		124	238
Other adjustments		125	(37)
Working capital adjustments:			
(Increase)/decrease in receivables and other assets		(1,012)	147
(Increase)/decrease in inventories		(13)	(25)
Increase/(decrease) of financial assets and liabilities at fair value through profit or loss		(31)	-
(Increase) of cost to obtain contract		(355)	(303)
(Increase)/decrease in contract assets		76	36
Increase/(decrease) in contract liabilities		(66)	22
Increase/(decrease) in trade and other payables		(237)	(494)
Cash flows from operating activities		5,412	5,816
Interest received		3	13
Income tax paid		(1,129)	(462)
Net cash flows from operating activities		4,286	5,367
Cash flows from investing activities			
Purchase of property, plant and equipment		(643)	(697)
Purchase of intangible assets		(994)	(730)
Proceeds from sales of property, plant and equipment and intangible assets		6	1
Proceeds from sales of assets held-for-sale		-	8
Dividends received		9	9
Repayment of loans		-	5
Net cash used in investing activities		(1,622)	(1,404)
Cash flows from financing activities			
Proceeds from borrowings	11	500	-
Payment of lease liabilities		(380)	(343)
Interest paid		(170)	(231)
Dividends paid		-	(6,192)
Net cash used in financing activities		(50)	(6,766)
Net increase/(decrease) in cash and cash equivalents		2,614	(2,803)
Cash and cash equivalents at beginning of the period	9	3,922	5,989
Effect of foreign exchange rate movements on cash and cash equivalents		(95)	136
Cash and cash equivalents at the end of the period	9	6,441	3,322

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

1.1 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 2020.

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

1.2 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 financial statements for the year ended 31 December 2020.

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.

1.3 Seasonal nature of operations

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

2 COVID-19 pandemic

During 2020 a new type of coronavirus that causes an illness – referred to as COVID-19 – spread throughout the world, causing the governments of the Czech Republic and Slovak Republic to adopt a number of restrictive measures which continued during the reporting period.

The Group, as a provider of critical infrastructure, provided its services continuously throughout the period of ongoing restrictions and there have been no changes in circumstances following the preparation of the consolidated financial statements for the year ended 31 December 2020. The Group considers its current financial resources to be sufficient to ensure the unrestricted continuance of its operations.

3 Segment information

The Group recognises reportable segments that are defined in geographical terms. For the Czech Republic segment the Group further discloses allocation of gross margin to product sub-segments.

- The Czech Republic segment:
 - Mobile product sub-segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o. and insurance services provided by O2 Financial Services s.r.o.
 - Fixed product sub-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.
- Slovak Republic segment – mobile telecommunication and data services provided by O2 Slovakia, s.r.o and O2 Business Services, a. s.

Gross margin consists of revenues from contracts with customers (see Note 4) and cost of sales that includes cost of interconnection, transit, sub-deliveries, content cost, telecom services, commissions and cost of sold inventories.

The operating results of all the segments 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.

Inter-segment pricing rates in 2021 and 2020 were determined on the same basis as rates applicable for other mobile operators.

For the six months ended 30 June 2021	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million	Mobile	Fix			
Revenues	10,124	6,249			
Cost of sales (CoS)	(4,512)	(3,803)			
Gross margin	5,612	2,446			
Revenues	16,373		3,867	(153)	20,087
Other income from non-telecommunication services	97		15	(18)	94
Capitalisation of fixed assets	128		45	5	178
Total consolidated costs	(11,449)		(2,226)	141	(13,534)
Depreciation and amortisation and amortization of right-of-use asset	(1,723)		(571)	25	(2,269)
Amortisation of costs to obtain contracts	(203)		(94)	-	(297)
Impairment loss on non-current assets	(305)		-	-	(305)
Operating profit	2,918		1,036	-	3,954
Interest expense	(133)		(46)	30	(149)
Interest income	34		-	(30)	4
Other financial income/(expense)	1,391		(35)	(1,388)	(32)
Net financial loss	1,292		(81)	(1,388)	(177)
Share of profit/(loss) of investments accounted for using the equity method	2		-	-	2
Profit before tax	4,212		955	(1,388)	3,779
Corporate income tax	(575)		(220)	-	(795)
Profit for the period	3,637		735	(1,388)	2,984
Total assets	41,566		10,399	(9,784)	42,181
Total liabilities	(28,525)		(6,874)	(3,671)	(31,728)

For the six months ended 30 June 2020	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million	Mobile	Fix			
Revenues	9,933	5,958			
Cost of sales (CoS)	(4,469)	(3,734)			
Gross margin	5,464	2,224			
Revenues	15,891		3,617	(182)	19,326
Other income from non-telecommunication services	91		5	-	96
Capitalisation of fixed assets	136		41	4	181
Total consolidated costs	(11,299)		(2,135)	156	(13,278)
Depreciation and amortisation and amortization of right-of-use asset	(1,868)		(518)	25	(2,361)
Amortisation of costs to obtain contracts	(206)		(86)	-	(292)
Impairment loss on non-current assets	(1)		-	-	(1)
Operating profit	2,744		924	3	3,671
Interest expense	(175)		(52)	35	(192)
Interest income	48		-	(35)	13
Other financial income/(expense)	1,288		(39)	(1,354)	(105)
Net financial loss	1,161		(91)	(1,354)	(284)
Share of profit/(loss) of investments accounted for using the equity method	2		-	-	2
Profit before tax	3,907		833	(1,351)	3,389
Corporate income tax	(510)		(204)	-	(714)
Profit for the period	3,397		629	(1,351)	2,675
Total assets	37,730		11,570	(10,868)	38,432
Total liabilities	(24,546)		(8,043)	4,755	(27,834)

4 Revenues

In the following table, revenues from contracts with customers are disaggregated into primary geographic segments, operating sub-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 2021

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	3,303	1,347	-	4,650
- Internet and data	4,210	1,070	-	5,280
Mobile termination	1,103	417	-	1,520
Revenues from sale of equipment	803	568	(5)	1,366
Financial services	110	18	(4)	124
Other mobile revenues	595	232	(126)	701
Total mobile revenues	10,124	3,652	(135)	13,641
Voice services	796	9	-	805
Data services	468	32	(3)	497
Internet and television	3,203	89	(7)	3,285
ICT	1,186	10	(8)	1,188
Revenues from sale of equipment	455	74	-	529
Other fixed revenues	141	1	-	142
Total fixed revenues	6,249	215	(18)	6,446
Total revenues	16,373	3,867	(153)	20,087

For the six months ended 30 June 2020

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	3,592	1,404	-	4,996
- Internet and data	3,712	934	-	4,646
Mobile termination	1,101	418	-	1,519
Revenues from sale of equipment	769	475	(6)	1,238
Financial services	136	23	(6)	153
Other mobile revenues	623	204	(151)	676
Total mobile revenues	9,933	3,458	(163)	13,228
Voice services	859	11	-	870
Data services	476	33	(3)	506
Internet and television	3,005	53	(4)	3,054
ICT	997	12	(8)	1,001
Revenues from sale of equipment	479	48	(4)	523
Other fixed revenues	142	2	-	144
Total fixed revenues	5,958	159	(19)	6,098
Total revenues	15,891	3,617	(182)	19,326

5 Income tax

In CZK million	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Total income tax expense consists of:		
Current income tax charge	888	750
Deferred income tax charge	(93)	(36)
Income tax	795	714

Deferred income taxes are calculated using the prevailing tax rates, 19% in the Czech Republic (2020: 19%) and 21% in Slovakia (2020: 21%).

6 Dividends, other distribution and earnings per share

In CZK million	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Dividends declared	5,115	5,274
Other distributions	1,203	1,241
Total distributions declared	6,318	6,515

Dividends and other distributions include a withholding tax on dividends paid by the Company to its shareholders. No interim dividend has been paid in 2021. The approval of the 2020 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting which took place per rollam (that is by letter) from 28 May to 14 June 2021. 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 2020 profit were payable on 21 July 2021.

In 2020 an advance for dividends in the amount of 100% of the proposed dividends was declared, i.e. 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. The advance for dividends was payable on 6 May 2020. The approval of the 2019 profit and the confirmation of the amount of the final dividend for the purposes of settlement with the paid advances was agreed at the Annual General Meeting which took place per rollam (that is by letter) from 11 May to 17 June 2020. On 19 June 2020, pursuant to the decision of the Annual General Meeting, dividends 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 2020 profit were offset against the advance for dividends by deducting the advance per share (CZK 17 or CZK 170) from the dividends per share (CZK 17 or CZK 170). The result of the settlement was a zero balance and, in addition to the advance, CZK 0 per share was paid out. Dividends to treasury shares in the amount of CZK 159 million remained in the retained earnings.

The Annual General Meeting of the Company also approved distribution of part of the share premium among the shareholders, in the total amount of CZK 1,203 million (2020: 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 part of the share premium was payable on 21 July 2021. The Company does not have the right to receive the amount related to the payment of the share premium for the treasury shares. In 2020, this part of the share premium in the amount of CZK 37 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 2021	For the six months ended 30 June 2020
Weighted number of ordinary shares outstanding (thousands)	300,882	301,409
Net profit attributable to shareholders (in CZK million)	2,997	2,683
Basic earnings per share (CZK)	10	9

7 Property, plant and equipment

During the six months ended 30 June 2021, the Group acquired assets at a cost of CZK 419 million (for the period of six months ended 30 June 2020: CZK 498 million). Assets with a net book value of CZK 22 million were disposed of by the Group during the six months ended 30 June 2021 (for the period of six months ended 30 June 2020: CZK 1 million).

8 Intangible assets

During the six months ended 30 June 2021, the Group acquired intangible assets at a cost of CZK 542 million (for the period of six months ended 30 June 2020: CZK 460 million). Assets with a net book value of CZK 167 million were disposed of by the Group during the six months ended 30 June 2021 (for the period of six months ended 30 June 2020: CZK 5 million).

In December 2020, the Group extended the O2 brand license beyond the previously agreed 27 January 2022 to 31 December 2036.

Due to changing circumstances and amendments in expected prospective use of the O2 brand licence the Group performed an impairment test and recognised a loss of CZK 298 million within Impairment of non-current assets for the six months ended 30 June 2021.

The Group determined the recoverable amount as value in use. Future expected cash flows were modelled based on currently expected prospective use discounted to present value using interest rate of 1.5 percent. The interest rate does not include any risk premium as the uncertainty has already been reflected in individual scenarios of future cash flows.

9 Cash and cash equivalents

In CZK million	30 June 2021	31 December 2020
Cash in current bank accounts and other cash equivalents	2,218	2,150
Cash in current bank accounts and other cash equivalents with related parties	4,223	1,772
Total cash and cash equivalents	6,441	3,922

The committed undrawn facilities available to the Group amounted to CZK 4,188 million as at 30 June 2021 (as at 31 December 2020: CZK 4,189 million).

10 Inventories

As at 30 June 2021, the inventories have been reduced by CZK 156 million (as at 31 December 2020: CZK 153 million) as a result of the write-down to net realisable value.

11 Financial liabilities

On 20 May 2020, the Group entered into a loan agreement with a new credit limit of CZK 9,240 million and with a maturity of 5 years. The interest rate of the loan is based on the reference rate PRIBOR increased by a 0.60% margin with an embedded zero-floor clause. It stipulates that the reference interest rate cannot be lower than zero. As at 30 June 2021, the Group had used a total of CZK 5,390 million (as at 31 December 2020: CZK 5,390 million) of the available credit from the long-term facility agreement.

On 22 January 2021 the Group also drew an additional short-term facility of CZK 500 million which is due on 20 August 2021. The interest rate of the facility is based on the reference rate PRIBOR increased by a 0.75% margin.

On 18 April 2019, the Group completed a placement of four tranches of promissory loan notes (Schuldschein), in total amount of CZK 4,078 million (EUR 160 million) with maturity of 5 to 7 years. The interest rates and maturities of each tranche are as follows:

Tranche	Currency	Amount in currency unit	Interest rate	Maturity day
Schuldschein - EUR 5Y float	EUR	94,000,000	6M EURIBOR + 1.20%	17 April 2024
Schuldschein - EUR 7Y float	EUR	26,000,000	6M EURIBOR + 1.40%	17 April 2026
Schuldschein - EUR 5Y fix	EUR	30,000,000	1.203%	17 April 2024
Schuldschein - EUR 7Y fix	EUR	10,000,000	1.595%	17 April 2026

On 4 April 2017, the Group completed a placement of six tranches of promissory loan notes (Schuldschein), in total amount of CZK 3,480 million (CZK 2,970 million and EUR 20 million) with maturity of 5 to 7 years. 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

No Group's assets serve as a collateral in connection with the drawing down of current loans.

The Group continues to hedge part of the cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. The Group's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept. The hedge was assessed as effective as at 30 June 2021 and 31 December 2020.

12 Contingencies and litigations

The Group is involved in a number of legal disputes arising from ordinary course of business. Significant developments which occurred throughout the first half of the year 2021 are described below.

I. Office for Protection of Economic Competition (“ÚOHS”) – proceeding concerning fine of CZK 49.5 million

This proceeding was originally initiated in 2003 against Eurotel. The Company was therefore not a party to the proceeding. The subject was the conclusion of an interconnection contract with Vodafone (then Český Mobil), in which the parties had agreed to connect their networks directly. Originally, the Office imposed a fine of CZK 22 million on Eurotel, but Eurotel filed an administrative action. After several proceedings with judicial reviews in various administrative courts, the courts eventually overturned the decision. In the meantime, however, Eurotel ceased to exist, without the possibility of transferring the liability for administrative delicts.

However, in the second half of 2016, the ÚOHS omitted this fact and issued a “specification of the subject of the administrative proceeding”, in which the Company (despite the fact that it had not concluded the interconnection contract) was accused of the action. The ÚOHS issued a decision imposing a fine of CZK 49.5 million to the Company in December 2016. The Company filed an appeal. Based on this appeal, the decision was cancelled in January 2019 and the case returned to the first instance for further proceedings.

In March 2021, with reference to current case law, the ÚOHS issued a resolution on the termination of these proceedings, stating that the “specification of the subject of administrative proceedings” from 2016 could not remedy the shortcomings in the notice of initiation of proceedings.

II. VOLNÝ, a.s. – dispute concerning CZK 4 billion

The Company initiated execution against VOLNÝ, a.s. (“VOLNÝ”). In May, the Supreme Court issued an order suspending the enforceability of rulings on costs. However, the court has not yet decided on the matter of extraordinary appeal filed by VOLNÝ.

III. TELECONSULT INTERNATIONAL – dispute concerning CZK 55 million

In March 2021, the High Court issued a verdict, confirming its previous verdict after repeating key evidence. The action against the Company was therefore again completely dismissed in its entirety. However, in May 2021, the plaintiff again filed (for the third time) an appeal to the Supreme Court.

IV. Other

The possible impact of other minor disputes is also reflected in the consolidated financial statements of the Group. However, the risks associated with these disputes are not significant. The Group successfully concluded several other legal disputes where the amount disputed reached over CZK 5 million.

The Group considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Group in these cases. The Group is convinced that all litigation risk has been appropriately reflected in the consolidated interim financial statements.

13 Commitments

Capital expenditure contracted but not yet included in the consolidated financial statements as at 30 June 2021 amounted to CZK 1 044 million (as at 31 December 2020: CZK 183 million). The majority of contracted amounts relates to the construction of telecommunications networks and upgrades and development of internal IT systems and television rights. The capital expenditures will be financed by both internal and external sources.

14 Related party transactions

As at 31 December 2020, the majority share (83.58 %) of the Company's share capital was held indirectly by Mr. Petr Kellner through companies PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group. In March 2021, Mr Petr Kellner died. During the ongoing inheritance proceedings, Mrs. Renáta Kellnerová was appointed as an administrator of the inheritance of the late Mr Kellner authorised to manage all the assets belonging to the inheritance in ordinary course of business.

On 24 June 2021 the PPF group announced that its subsidiary PPF Telco B.V. and other persons from the PPF group acting in agreement acquired 19 353 910 shares in O2 Czech Republic and thereby increased their joint stake to 90.01%. PPF group is preparing to initiate the withdrawal of these securities from trading on the Prague Stock Exchange. As at 30 June 2021 the share of the Company's share capital held by PPF group was 90.36%.

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 2021 and as at 31 December 2020, no specific allowance or write-off was incurred.

The following significant transactions were carried out with related parties:

I. Parent company:

The dividend and other distributions declared during the six months period ended 30 June 2021 to the shareholders from the PPF Group amounted to CZK 5,281 million (for the period of six months ended 30 June 2020: CZK 5,281 million). The liability from dividends and other distributions to shareholders from PPF Group as at 30 June 2021 is included in current liabilities, the short-term liability from dividends declared during the six-month period ended 30 June 2020 had been fully paid as at 31 December 2020.

II. CETIN a.s.:

After the spin-off of the Company in 2015, new business relations were established with the company CETIN a.s. 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, that is until 31 May 2022. The total cost during the six months period ended 30 June 2021 was CZK 2,364 million (for the six months ended 30 June 2020: CZK 2,336 million).

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, that is until 31 May 2022 (which represents only part of the total payment). The total cost for the six months ended 30 June 2021 was CZK 1,710 million (for the six months ended 30 June 2020: CZK 1,744 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 2021 was CZK 388 million (for the six months ended 30 June 2020: CZK 406 million).

15 Subsidiaries, associates and joint ventures

The Group held interests in the following entities as at 30 June 2021 and 31 December 2020:

Subsidiaries	Group's interest as at		Country of incorporation	Activity	Method of consolidation
	30 June 2021	31 December 2020			
1. O2 Slovakia, s.r.o.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)

2.	O2 Family, s.r.o.	100 %	100 %	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
3.	O2 TV s.r.o.	100 %	100 %	Czech Republic	Digital television	Consolidated (full consolidation)
4.	O2 IT Services s.r.o.	100 %	100 %	Czech Republic	Information technology services	Consolidated (full consolidation)
5.	Bolt Start Up Development a.s.	100 %	100 %	Czech Republic	Start-up fund	Consolidated (full consolidation)
6.	O2 Business Services, a.s.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
7.	Asake HW s.r.o. in liquidation (previously eKasa s.r.o.)	100 %	100 %	Czech Republic	Electronic sales reporting ("EET") solution provider	Consolidated (full consolidation)
8.	O2 Financial Services s.r.o.	100 %	100 %	Czech Republic	Financial Services intermediary	Consolidated (full consolidation)
9.	mluvii.com s.r.o.	100 %	100 %	Czech Republic	On-line communication platform	Consolidated (full consolidation)
10.	Smart home security s.r.o.	100 %	100 %	Czech Republic	Provider of home security equipment and services	Consolidated (full consolidation)
11.	INTENS Corporation s.r.o.	100 %	100 %	Czech Republic	Provider of transport telematics services	Consolidated (full consolidation)
12.	Emeldi Technologies, s.r.o.	51 %	51 %	Czech Republic	Software development and sales	Consolidated (full consolidation)
Associates						
13.	První certifikační autorita, a.s.	23 %	23 %	Czech Republic	Certification services	Not consolidated (immaterial)

Joint ventures

14.	Tesco Mobile ČR s.r.o.	50 %	50 %	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
15.	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 2021	31 December 2020
Financial assets		
Financial derivatives - interest (hedge accounting)	157	57
Financial derivatives - foreign currency (trading)	20	11
Receivables from installment sale measured at fair value	969	-
Financial instruments at fair value through other comprehensive income	41	41
Total financial assets measured at fair value	1,187	109
Financial liabilities		
Financial derivatives – foreign currency (trading)	-	9
Financial derivatives - interest (hedge accounting)	11	30
Total financial liabilities measured at fair value	11	39

As at 30 June 2021 and as at 31 December 2020, the Group held receivables from installment sale measured at fair value, 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).

Financial instruments at fair value through other comprehensive income represent equity securities. Their fair value was determined by the income approach using the discounted cash flow method. Cash flows were discounted at the discount rate reflecting their risk.

In 2020 the subsidiary O2 Slovakia s.r.o. entered into a securitisation arrangement with issue and sale of certificates, for which the portfolio of receivables from the installment sale of mobile devices serves as the underlying asset. Through the certificates, the Group transfers all the benefits and risks arising from the transferred receivables to the certificate holder (“economic transfer of receivables without recourse”). Two transfers have been made in 2020 and O2 Slovakia s.r.o. expects the arrangement to continue in the future. This arrangement has triggered a change in business model for managing the financial assets of these receivables from instalment sale before they are transferred. Receivables expected to be transferred under the securitization arrangement no longer fulfill

conditions for recognition at amortised cost as defined by IFRS 9 and have been reclassified to be measured at fair value through profit and loss (FVTPL). Total of CZK 607 million of the receivables has been transferred out of amortised cost and has been recognized as measured at FVTPL resulting in loss of CZK 8 million recognized in Finance cost. Reclassification was made on 1 January 2021, which is the first day of the next reporting period after the change of business model. Prior period has not been restated.

The following table shows reconciliation from the opening balances to the closing balances of the receivables from installment sale of the subsidiary O2 Slovakia s.r.o. measured at fair value.

In CZK million	
Balance as at 31 December 2020	-
Transfer in Level 3 (see above)	607
Loss on revaluation	(8)
Balance as at 1 January 2021	599
Increase in receivables from instalment sale	591
Repayment of instalment sale receivables	(175)
Sale of receivables under securitisation agreement	-
Gain / loss included in finance cost (unrealised)	(46)
Balance as at 30 June 2021	969

The fair value of receivables from instalment sale was determined as the present value of future cash flows discounted at the interest rate derived from the last tranches of transfers of receivables adjusted by the current economic outlook. Some of the inputs used are not directly or indirectly observable from market data, thus this is a Level 3 fair value.

During the reporting period ending 30 June 2021 and 31 December 2020, there were no other transfers between categories, no transfers between Level 1 and Level 2 fair value measurements and no other 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 tranches of Schuldschein financing with fixed interest rates (Note 11) with a total carrying amount of CZK 3,769 million as at 30 June 2021 (as at 31 December 2020: CZK 3,843 million) and a fair value of CZK 3,729 million at the same date (as at 31 December 2020: CZK 3,849 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

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 2021.

16 August 2021

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

04



04 > Declaration of persons responsible for the Half-year Report

Jindřich Fremuth, Chairman of the Board of Directors of O2 Czech Republic a.s.

and

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.

13 August 2021

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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



O2 Czech Republic a.s.

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