Half-Year Report 2019

O2 Czech Republic a.s.

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".

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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Financial and operating highlights

Financial and operating highlights

Financial data is based on the Interim Consolidated Financial Statements for the Six Months Ended 30 June 2019 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

	1H 2019[1]	1H 2018[2]
Financials (in CZKm)		
Revenues	18,989	18,599
EBITDA – Earnings before depreciation and amortization	6,055	5,378
Operating profit	3,479	3,581
Profit before taxes	3,312	3,501
Profit for the period	2,604	2,776
Total assets	45,983	36,130
Property, plant and equipment	6,132	6,130
Intangible assets	16,251	17,164
Total equity	11,457	15,225
Financial debts (long-term and short-term)	14,578	10,499
Capital expenditure (additions to fixed assets)	1,055	1,365
Operating indicators (at end of period)		
Fixed voice accesses (in thousand)	490	554
Fixed broadband internet (in thousand)[3]	708	708
Pay TV – O_2 TV (IPTV and OTT, in thousand)	381	287
Registered mobile customers in the Czech Republic (in thousand)[4]	5,597	5,431
Active customers in Slovakia (in thousand)[5]	2,081	1,975
Number of employees in Group	5,230	5,296
Ratios (at end of period)		
EBITDA margin (EBITDA/revenues, in%)[6]	31.9	28.9
Profit after taxes /Revenues (in%)	13.7	14.9
Capital expenditure/Revenues (in%)	5.6	7.3
ROA (Profit after taxes /Total assets, in%, annualised)	11.3	14.1
ROE (Profit after taxes /Equity, in%, annualised)	45.5	44.0
Gross gearing (Financial debts/Total equity, in%)[7]	127.2	92.7
Net debt / EBITDA (annualised)[8]	0.48	0.41
Profit[9] per share – consolidated (CZK)	8.6	9.2
– unconsolidated (CZK)	11.0	11.4
Macroeconomic indicators[10]		
CZK/EUR exchange rate – average	25.45	25.50
CZK/EUR exchange rate – at end of period	25.68	26.02

1 Financial indicators and ratios extracted from the Balance Sheet as of 30 June 2019 and from the Statement of Total Comprehensive Income for the Six Months Ended 30 June 2019, operating indicators as of 30 June 2019.
2 Financial indicators and ratios extracted from the Balance Sheet as of 30 June 2018 and from the Statement of Total Comprehensive Income for the Six Months Ended 30 June 2018, operating indicators as of 30 June 2018.
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 1H 2019: EBITDA incl. the effect of IFRS 16 application (29.9% without the effect of IFRS 16 application).
7 1H 2019: without lease obligations (effect of IFRS 16 application).
8 Net debt = financial obligations minus cash and cash equivalents; 1H 2019: financial obligations minus lease obligations, EBITDA including the effect of IFRS 16 application (0.51 excluding the effect of IFRS 16 application).
9 Profit attributable to shareholders/weighted number of ordinary shares outstanding.
10 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)
EBITDA	Earnings before tax, depreciation and amortization	Shows operating performance of the Company	see Interim Consolidated Statement of Comprehensive Income (EBITDA): 1H 2018: CZK 5,378m 1H 2019: CZK 6,055m [CZK 5 675m without the effect of IFRS 16 application (6,055 – 380)]
EBITDA margin	EBITDA/Revenues	Measures operating profitability of the Company	see Interim Consolidated Statement of Comprehensive Income (Revenues and EBITDA): 1H 2018: 5,378/18,599 = 28.9% 1H 2019: 6,055/18,989 = 31.9% [29.9% without the effect of IFRS 16 application (5,675/18,989)]
ROA	Profit for the period/ Total assets	Shows how effectively assets are used for profit generation	see Interim Consolidated Statement of Comprehensive Income (Profit after tax) and Consolidated Balance Sheet (Total assets): 1H 2018: 27,76*2/39,346 = 14.1% 1H 2019: 2,604*2/45,983 = 11.3%
ROE	Profit for the period/ Total equity	A ratio of the reported profit to the capital invested by the shareholders in the Company	see Interim Consolidated Statement of Comprehensive Income (Profit after tax) and Interim Consolidated Balance Sheet (Total equity): 1H 2018: 2,776*2/12,603 = 44.0% 1H 2019: 2,604*2/11,457 = 45.5%
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 2018: (11,662+28)/12,603 = 92.7% 1H 2019: (14,539+39)/11,457 = 127.2%
Net debt/ EBITDA	Financial liabilities less cash and cash equivalents / Profit before interest, taxes and depreciation (EBITDA)	Measures 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 2018: (11,662+28-7,322)/(5,378*2),=,0.41 1H 2019:,(14,539+39-8,813)/(6,055*2),= 0.48 [0.51 without the effect of IFRS 16 application (14,539+39-8,813)/((6,055,-380)*2)]

Measure	Definition	Purpose	Reconciliation to financial statements (in CZK million)
Capital expenditure/ Revenues	Capital expenditure (additions to fixed assets)/Revenues	Expresses the amount the Company invests in its future development	Additions to fixed assets are presented in Note 6 and 7 to the Interim Consolidated Financial Statements: 1H 2018: 1,365/18,599 = 7.3% 1H 2019: 1,055/18,989 = 5.6%
Free cash flows	Net cash flows from operating activities minus net cash flows from investing activities (since 2019, interest paid, including interest expense on lease obligations, is included in cash flows from financing activities, while by the end of 2018 they were included in net cash flows from operating activities; comparable data for the previous period have been adjusted)	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 2018: 3,514 – 1,378 = CZK 2,136m 1H 2019: 4,483 – 1,712 = CZK 2,771m

Board of Directors' report on the results of the Group in the first half of 2019

Board of Directors’ report on the results of the Group in the first half of 2019

In this chapter, the Board of Directors provides information on the Group’s business and financial results for the first half of 2019, including important factors affecting its business and results and comparing it with the corresponding period of the previous year.

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

In the first half of the year, Group companies in the Czech Republic and Slovakia debuted a number of new and improved products.

As a result of the significant increase in the availability of fast O_2 Internet HD in the Czech Republic, the number of users of this service increased 20 thousand year on year. At the end of June, a total of 822 thousand customers used broadband internet from O2 CZ. A new version of the service which uses wireless technology has helped extend the availability of fast internet connectivity. O2 CZ started to offer a new generation of wireless internet using the 3.7 GHz spectrum to customers outside the range of fast physical network connections. Households are connected to the internet at speeds of up to 250/25 Mbps, which until now were only available via cable.

Unique film and sports content on O_2 TV continues to contribute to the growth of the customer base. For the first time in history, viewers could watch all FORTUNA:LIGA, UEFA Champions League and Ice-hockey Extraliga matches only on O_2 TV. As at 30 June 2019, the number of customers of all the variants of service (IPTV and OTT version), which runs on both O2 fixed line and internet connections from any provider, reached 381 thousand, including households using the MULTI watch add-on service that lets people watch O_2 TV on multiple TVs at the same time. During the first half of the year, the number of O_2 TV customers increased 43 thousand. In the first half of the year, almost 530 thousand viewers on average, including O_2 TV Sport Pack customers, regularly tuned in on O_2 TV on multiple devices or online. At the end of June, O2 CZ registered more than 900 thousand active accesses.

In February, O2 CZ started offering new *FREE* tariffs. All customers who take up the offer of a two-year discount get a double volume of data for the same price. The new range of *FREE* tariffs is designed for new and existing customers who can upgrade to them from existing tariffs. The commercial success of *O_2 Spolu* bundles and the continuing popularity of the *O_2 FREE* and *O2 Data* tariff plans, the total number of registered mobile customers in the Czech Republic reached a total of 5,597 thousand at the end of June. The customer base of mobile contract services was 3,199 thousand. The number of pre-paid mobile customers reached 1,970 thousand, while the number of customers of M2M services was 429 thousand. Already 74% of the phones in the O2 network are smart devices, with 62% of all mobile phones supporting 4G LTE technology. The higher data allowances that come with the *O_2 FREE* tariffs, along with the market demand for *O_2 Data* tariffs with monthly data allowances ranging from 4 to 20 GB, and an increase in the number of customers with 4G LTE-enabled smartphones, contributed to a year-on-year increase of mobile data consumption by 31%.

In preparation for the arrival of fifth generation networks, in March O2 CZ was the first in the Czech Republic to cover the entire city of Kolín with what the fastest internet service is presently. The technology enables data transfer with theoretical speeds up to one gigabit per second, which is ten times faster than a conventional 4G LTE network. These speeds can be achieved by joining multiple spectrum frequencies in combination with 4x4 MIMO and 256QAM technologies. At the end of June, the Company demoed a live 5G network operating in a real environment. In addition to high data speeds, such network has also a very short response time. O2 CZ is testing the 5G network in Kolín together with Česká telekomunikační infrastruktura as a partner and Ericsson equipment.

The operator launched the technology at a leased test spectrum frequency of 3.5 GHz. Experience from the real-world operation will help to select suppliers and develop a broad coverage of fifth generation networks after the necessary spectrum frequencies are allocated by auction.

The number of O2 Slovakia customers increased by 5.4% year on year to 2,081 thousand. The share of mobile contract customers in the total base reached 63.9%, up 3 percentage points at the end of the first half of 2019. The customer base of smartphone users continues to grow, as does the share of customers with LTE phones in the total base. At the end of June, the 4G LTE network was available to 96.8% of the Slovak population.

As part of its strategy to become a comprehensive provider, O2 Slovakia launched the new O_2 eKasa product, after launching the home internet product Internet na doma and wireless-access O_2 TV. O_2 eKasa is a comprehensive fiscalization solution and, in addition to a cash register, POS terminal and printer tested by O2 CZ on the Czech market, O2 Slovakia also provides an automatic connection to the data network. Similarly to O2 CZ in 2018, O2 Slovakia completed the upgrade of its IT systems in the first half of the year, which preceded the launch of a new Customer Relationship Management (CRM) system that accelerated customer service at stores. The company also completed its transition to a new innovative assisted self-service system.

Consolidated financial results

This section presents and comments on the consolidated financial results of the Group, which have been taken from the Interim Consolidated Financial Statements for the six months ended 30 June 2019 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

Consolidated statement of comprehensive income

Consolidated revenues of Group reached a total of CZK 19 billion in the first half of the year, up 2.1% year on year. Revenues from mobile data services and digital TV continued to grow. Revenues from financial services also continued to grow. With its solid performance, Slovakia also contributed positively to consolidated revenues.

Operating revenues in the Czech Republic reached CZK 15.5 billion, up 1.8% year on year. Mobile revenues increased 1.9% year on year to CZK 10.2 billion, with a 9.3% increase in data revenues and a 21% increase in financial services revenues, which were more than enough to offset a 2% dip in voice, SMS and MMS revenues and a 6.4% decline in the revenues from the sale of equipment and accessories. Operating revenues in the fixed line segment grew 1.7% year on year to CZK 5.2 billion in the first half of the year. Traditionally, O_2 TV revenues were the biggest contributor to the overall increase. Revenues in Slovakia grew 4.4% year on year to CZK 3.8 billion.

Total consolidated expenses declined 2.1% year on year to CZK 13.1 billion in the first half of the year. This decline was also due to the application of the new accounting standard IFRS 16 - Leasing. Where the Group is a lessee, operating leases were previously recognized as an operating expense (as part of EBITDA). Newly, the Group recognizes depreciation of right-of-use assets and interest cost on the lease liability. For the first half of 2019, the impact of the adoption of IFRS 16 on EBITDA was CZK 380 million. Without the application, the total consolidated expenses would increase slightly by 0.8% year on year. In the Czech Republic, expenses were down 1.6% year on year, while in Slovakia they were down 1.8%. Costs of sales declined 0.7% year on year. Personnel costs increased 3% year on year in the first half of the year, however, the growth slowed in the second quarter as a result of the lower headcount, particularly in call centres. This is the first tangible result of the transformation of IT systems, the main goal of which was to create a unified interface that simplifies customer service across all sales and service channels, while enabling customers to make greater use of the intuitive My O2 self-service online application. Cost of external services went down 17.3%, mainly as a result of the IFRS 16 application. Without it, they would have increased slightly by 1.2%.

Earnings before interest, taxes and depreciation (EBITDA) reached CZK 6.1 billion in the first half of the year, up 12.6% compared with the same period in 2018. Without the impact of the new IFRS 16, it would have increased 5.5% to CZK 5.7 billion. In the Czech Republic, EBITDA grew 11.7% to CZK 4.6 billion (+ 5.1% excluding IFRS 16), while in Slovakia it increased 17.2% to CZK 1.5 billion (+ 8.5% excluding impact of IFRS 16). As a result, the consolidated EBITDA margin reached 31.9% in the first half of the year. EBITDA margin in the Czech Republic and in Slovakia reached 29.8% and 39.1%, respectively.

Consolidated operating income and income before tax were down 2.8% year on year and 5.4% year on year to CZK 3.5 billion and CZK 3.3 billion, respectively, in the first half of the year. This was mainly due to a 23.3% increase in depreciation and amortisation after extensive investments in the acquisition of exclusive broadcasting rights for sports events, continued roll-out of own mobile network in Slovakia and the transformation of information systems in 2018. Consolidated income after tax reached a total of CZK 2.6 billion, which represents a year-on-year decrease of 6.2%. Without the effect of the application of the new IFRS 16 (minus CZK 19 million), it would have decreased 5.5%.

Consolidated balance sheet

The net book value of property, plant and equipment amounted to CZK 6.1 billion as at 30 June 2019, the same as at 31 December 2018. Telecommunication technology and equipment, including, in particular, exchanges and telecommunication network transmission technology, represented the most significant part of the net book value of property, plant and equipment. The net book value of intangible assets decreased 5.3% to CZK 16.3 billion as at 30 June 2019.

Total consolidated financial debt (short-term and long-term)[1] reached CZK 14.6 billion as at 30 June 2019, compared with CZK 10.5 billion as at 31 December 2018. The increase of CZK 4.1 billion is related to the subscription of new financing in the form of Schuldschein debt instruments in the total value of EUR 160 million. For more information on financial liabilities, see Note 11 of the Condensed notes to the Interim Consolidated Financial Statements for the six months ended 30 June 2019. Cash and cash equivalents amounted to CZK 8.8 billion at the end of June compared with CZK 2.5 billion as at 31 December 2018. The reason was the accumulation of cash to pay dividends for the year 2018 and distribute a part of the share premium in the total amount of CZK 6.3 billion. The payment commenced on 4 July 2019. The net debt to EBITDA[2] ratio was 0.5 as at the end of June 2019.

Consolidated capital expenditure

Total consolidated capital expenditure (additions to fixed assets) represented CZK 1,055 million in the first half of 2019, down 22.7% year on year; the share of consolidated capital expenditure to consolidated revenues was 5.6%.

All investments in the first half of the year were made in the Czech Republic and in Slovakia and have been financed from own resources and from loans.

Investment in Slovakia grew 10.2% year on year to CZK 474 million and its share to revenues increased 0.7 percentage point to 12.6%. Capital expenditure was mainly directed at increasing the coverage of the proprietary 2G network in order to reduce dependence on national roaming. This network was available at the end of June 2019 to more than 99.5% of the Slovak population. O2 Slovakia also continued to expand its 4G LTE and wireless WTTx network coverage and increase the capacity of the backbone and transmission network to meet the growing market demand for mobile data.

In the Czech Republic, capital expenditure in the first half of the year reached the amount of CZK 581 million, which represents a year-on-year drop of 37.9%, and its share to revenues was only 3.8%. The main areas of investment were investments in information systems upgrade and investments in networks related to the development of new services. Investments were also made to change the concept and design of brand stores.

1 Excluding leasing payments.
2 Financial debt (without lease liabilities) minus cash/operating profit EBITDA (without the effect of IFRS 16 application) for the past 12 months.

Consolidated cash flow statement

Consolidated free cash flows[3] reached CZK 2.8 billion in the first half of the year, up 29.7% year on year. This was mainly due to a 27.6% higher net cash flow from operating activities as a result of a positive change in the working capital and the effect of the new IFRS 16 application, which more than compensated for the 24.2% increase in net cash flow from investing activities due to higher cash flows for the acquisition of fixed assets in connection with a higher volume of capital expenditure in 2018. In accordance with the new IFRS 16, lease payments are included in net cash flows from financing activities, while up until 2018 they were included in net cash flows from operating activities. Without the effect of the IFRS 16 application, free cash flows would have increased 12% year on year.

Outlook for the second half of 2019

The aim of the Board of Directors of the Company is to build on the commercial strategy and activities of the first half of 2019, which are described in this Half-Year Report. Accordingly, in the second half of 2019, the Group companies will continue to offer and promote their existing and develop new, innovative and in many ways unique services and products.

Market and regulation developments

Following from the previous developments in the Czech telecommunications market, operators introduced changes and improvements to their bundles that combine fixed and mobile services.

On 15 May 2019 the provisions of Regulation (EU) No 2018/1971 of the European Parliament and of the Council setting maximum retail prices for consumers for international calls and SMS in the amount of CZK 5.89 per one minute of call and CZK 1.86 per SMS, respectively, entered into force.

On 26 June 2019, the Czech Telecommunication Office published a proposal of the terms of a tender (auction) for radio frequencies in the 700 MHz and 3.5 GHz spectrum. The proposal was put for public consultation for 30 days. After the comments will have been addressed, the document will be discussed with the Office for the Protection of Competition and the European Commission. The tender procedure is expected to take course in the second half of the year.

Legislative changes in Slovakia which introduced a new obligation of entrepreneurs to maintain an online connection to the tax authorities created a space for new players to enter the segment of electronic fiscalization systems. This opportunity has been taken up by the three largest telecommunications operators which started offering their respective fiscalization solutions; in the case of O2 Slovakia it was a packaged product including hardware equipment. Following in the footsteps of O2 Slovakia, which has been offering internet access for households via the 4G network since the beginning of 2018, operators Orange and Telekom also added this option to their portfolio. They also continued to develop their convergent propositions.

As part of the finalisation of the acquisition of part of Liberty Global in some European countries by Vodafone Group, with effect from 1 August 2019, UPC Czech Republic was acquired by Vodafone Czech Republic.

Other information

The Company's Annual General Meeting was held on 4 June 2019. The General Meeting approved the standalone and consolidated financial statements for the year 2018 prepared in accordance with International Financial Reporting Standards. The auditor, KPMG Czech Republic, gave both sets financial statements an unqualified opinion. Furthermore, the General Meeting approved the distribution of the Company's unconsolidated profit for 2018 so that the amount of CZK 5,274 million is payable as dividends (CZK 17 before tax for each

3 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, while up to the end of 2018 it was included in net cash flows from operating activities; comparative figures for previous periods have been adjusted.

share in the nominal value of CZK 10 and CZK 170 before tax for each share in the nominal value of CZK 100), and CZK 84 million will be transferred to retained earnings. In addition to the dividend payment, the General Meeting approved the distribution of a part up to CZK 1,241 million of the share premium, which will be paid to shareholders (CZK 4 before tax for each share in the nominal value of CZK 10 and CZK 40 before tax for each share in the nominal value of CZK 100). The General Meeting appointed KPMG Czech Republic Audit, s.r.o. to carry out the statutory audit for the year 2019 and elected Radek Neužil as member of the Audit Committee and Ondřej Chaloupecký as the first-in-line substitute member of the Audit Committee.

A list of related party transactions that occurred in the six months ended 30 June 2019, as well as any changes in related party transactions that were disclosed in the previous annual report of the Group, are presented in Note 14 of the Condensed Notes to the Interim Consolidated Financial Statements for the Six Months Ended 30 June 2019.

Interim consolidated financial statements for the six months ended 30 June 2019

O2 Czech Republic a.s.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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.

As at 30 June 2019, 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 PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

Main events in the first half of the year 2019

New Schuldschein financing

On 18 April 2019, the Group successfully completed a placement of four tranches of promissory loan notes (Schuldschein), in total amount of CZK 4,106 million (EUR 160 million) with maturity of 5 and 7 years.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2019

In CZK million	Notes	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Revenues	2, 3	18,989	18,599
Other income from non-telecommunication services		84	49
Capitalisation of fixed assets		169	171
Expenses		(13,063)	(13,339)
Net impairment losses on financial assets		(124)	(102)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2	**6,055**	**5,378**
Depreciation and amortisation		(2,299)	(1,575)
Amortisation of cost to obtain contracts		(266)	(214)
Impairment loss		(11)	(8)
Operating profit	2	**3,479**	**3,581**
Finance income		33	33
Finance costs		(200)	(116)
Share of profit/(loss) of investments accounted for using the equity method		-	3
Profit before tax	2	**3,312**	**3,501**
Corporate income tax	4	(708)	(725)
Profit for the period		**2,604**	**2,776**
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		(18)	6
Translation differences		(39)	61
Other comprehensive income, net of tax		**(57)**	**67**
Total comprehensive income, net of tax		**2,547**	**2,843**
Profit attributable to:			
Equity holders of the Company		2,604	2,778
Non-controlling interests		-	(2)
Total comprehensive income attributable to:			
Equity holders of the Company		2,547	2,845
Non-controlling interests		-	(2)
Earnings per share for continuing operations (CZK) - basic*	5	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 2019

In CZK million	Notes	30 June 2019	31 December 2018
ASSETS			
Property, plant and equipment	6	6,132	6,130
Intangible assets	7	16,251	17,164
Right-of-use assets	1	4,167	-
Costs to obtain contracts		709	678
Investments in equity accounted investees	15	16	16
Contract assets		120	134
Other assets		868	900
Deferred tax assets		143	168
Non-current assets		28,406	25,190
Inventories	9	978	906
Receivables		7,282	7,067
Current tax receivable		116	81
Contract assets		372	411
Cash and cash equivalents	8	8,813	2,475
Asset held-for-sale		16	-
Current assets		17,577	10,940
Total assets		45,983	36,130
EQUITY AND LIABILITIES			
Ordinary shares		3,102	3,102
Treasury shares		(2,204)	(2,204)
Share premium	5	8,264	9,470
Retained earnings, funds and reserves	5	2,278	4,857
Equity attributable to owners of the company		11,440	15,225
Non-controlling interests		17	-
Total equity		11,457	15,225
Borrowings	11	14,539	10,461
Lease liabilities	1	3,515	-
Deferred tax liability		492	484
Provisions for liabilities and charges		65	66
Contract liabilities		62	81
Other liabilities		661	991
Non-current liabilities		19,334	12,083
Borrowings	11	39	38
Lease liabilities	1	714	-
Trade and other payables	10	13,707	7,975
Income tax liability		90	116
Provisions for liabilities and charges		78	83
Contract liabilities		564	610
Current liabilities		15,192	8,822
Total liabilities		34,526	20,905
Total equity and liabilities		45,983	36,130

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

		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 2019		**3,102**	**9,470**	**(2,204)**	**17**	**278**	**(2)**	**35**	**4,529**	**15,225**	**-**	**15,225**
Other comprehensive income		-	-	-	(39)	-	-	(18)	-	(57)	-	(57)
Profit for the period		-	-	-	-	-	-	-	2,604	2,604	-	2,604
Total comprehensive income		**-**	**-**	**-**	**(39)**	**-**	**-**	**(18)**	**2,604**	**2,547**	**-**	**2,547**
Distribution declared in 2019	5	-	(1,206)	-	-	-	-	-	(5,274)	(6,480)	-	(6,480)
Distribution on treasury shares	5	-	-	-	-	-	-	-	148	148	-	1148
Acquisition of subsidiary with non-controlling interest	15	-	-	-	-	-	-	-	-	-	17	17
As at 30 June 2019		**3,102**	**8,264**	**(2,204)**	**(22)**	**278**	**(2)**	**17**	**2,007**	**11,440**	**17**	**11,457**

		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)		-	-	-	-	-	-	-	(9)	(9)	-	(9)
Adjustment on initial application of IFRS 15 (net of tax)		-	-	-	-	-	-	-	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		-	(1,206)	-	-	-	-	-	(5,274)	(6,480)	-	(6,480)
Distribution on treasury shares		-	-	-	-	-	-	-	148	148	-	148
As at 30 June 2018		**3,102**	**9,470**	**(2,204)**	**59**	**278**	**3**	**27**	**1,870**	**12,605**	**(2)**	**12,603**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 In CZK million	Notes	For the six months ended 30 June 2019	Adjusted* for the six months ended 30 June 2018
Profit before tax		3,312	3,501
Non-cash adjustments for:			
Share of profit (-)/loss (+) from equity accounted investments		-	(3)
Dividend income		(7)	(5)
Depreciation and amortisation		2,299	1,575
Amortisation of costs to obtain contracts		266	214
Impairment loss		11	8
Profit (-)/loss (+) on sale of tangible and intangible fixed assets	15	(38)	-
Profit (-)/loss (+) from lease modifications		(2)	-
Net interest costs		160	73
Foreign exchange losses (+)/gains (-) (net)		(2)	(10)
Fair value changes		-	12
Change in provisions and allowances		128	108
Operating cash flows before working capital changes		6,127	5,473
Working capital adjustments:			
Increase (-)/decrease (+) in trade and other receivables		(356)	(622)
Increase (-)/decrease (+) in inventories		(56)	(17)
Increase (-) of cost to obtain contract		(299)	(257)
Increase (-)/decrease (+) in contract assets		53	(81)
Increase (+)/decrease (-) in contract liabilities		(65)	7
Increase (+)/decrease (-) in trade and other payables		(197)	(294)
Cash flows from operating activities		5,207	4,209
Interest received		17	6
Income tax paid		(741)	(701)
Net cash flows from operating activities		4,483	3,514
Cash flows from investing activities			
Purchase of property, plant and equipment		(982)	(610)
Purchase of intangible assets		(778)	(784)
Proceeds from sales of fixed assets		1	11
Proceeds from sales of subsidiaries	15	40	-
Dividends received		7	5
Net cash used in investing activities		(1,712)	(1,378)
Cash flows from financing activities			
Proceeds from borrowings	11	4,106	1,200
Interest paid*		(191)	(108)
Repayment of lease liabilities	1	(314)	-
Net cash used in financing activities		3,601	1,092
Net increase/(decrease) in cash and cash equivalents		6,372	3,228
Cash and cash equivalents at beginning of the period	8	2,475	4,088
Effect of foreign exchange rate movements on cash and cash equivalents		(34)	6
Cash and cash equivalents at the end of the period	8	8,813	7,322

*The Group has changed the presentation of interest paid. It was previously presented in cash flows from operating activities. Currently interest paid, which is directly related mainly to the financing of the Group, is presented in cash flows from financing activities. Information for the comparable period were adjusted.

ACCOUNTING POLICIES

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 2018.

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 2018 except for the changes related to the initial application of the new standard IFRS 16 - Leases (see Note 1) adopted by the Group on 1 January 2019.

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 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

1 IFRS 16 – Leases

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

IFRS 16 introduced a single, on-balance sheet accounting model for leasees. The lessee accounts for the right-of-use assets representing its rights to use the underlying asset and for lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies – i.e. the lessor continues to classify leases either as financial or as operating.

A) Definition of leasing

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 – Determining Whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied the practical expedient available and did not re-classify contracts as lease or containing a lease as at the date of the first application. This means that the Group applied IFRS 16 to all contracts that were concluded before 1 January 2019 and were identified as leases in accordance with IAS 17 and IFRIC 4.

At the inception or on reassessment of a contract that contains a lease component and one or more additional lease or non-lease components, the Groups allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. However, for leases of cars in which the Group is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B) Leases where the Group is the lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership.

In line with IFRS 16, the Group re-classifies its recognition of assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of these related costs has changed from operating costs to depreciation of right-of-use assets and interest cost on the lease liability.

The Group elected to apply the practical expedient not to recognise a right-of-use asset and a lease liability for contracts where the lease term is less than 12 months and for leases of low-value underlying assets. These contracts are accounted for by the Group as before.

I) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated on a straight-line method over the shortest of the lease term or the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or the rate used to determine these payments, a change in the estimate of the amount expected to be payable under a residual value guarantee, or in the event of a change in the lease term for reasons that the Group re-evaluates whether it is sufficiently certain to exercise the option to extend, or that it does not exercise the option to terminate the lease.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options or contracts with indefinite period. The assessment of whether the Group is reasonably certain to exercise such options and assessing how long the Group will use the underlying assets under contracts of indefinite period impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use asset recognised.

C) Leases where the Group is the lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, where the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

There was no significant impact for the Group as a lessor resulting from the adoption of IFRS 16.

D) Adoption and impact of the standard on financial statements

The Group decided to adopt IFRS 16 using a modified retrospective method. Comparable data for the previous period were not adjusted.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at the day of initial application. The right-of-use assets were at the date of initial application measured at amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to these leases, recognised in the balance sheet immediately before the the date of initial application.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. The Group applied the exemption not to recognise the right-of-use assets and liabilities for leases with a lease end less than 12 months from the date of the initial application and excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact of transition on 1 January 2019 is summarised below.

In CZK million	1 January 2019
Right-of-use assets	4,338
Lease liabilities	4,368
Trade and other payables – Non-current	(25)
Trade and other payables – Current	(5)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The applied weighted-average rate was 2.22%.

The following table shows the reconciliation of Lease liability at 1 January 2019 and future minimum lease payments at 31 December 2018.

In CZK million	
Future minimum operating lease payments at 31 December 2018	3,360
Lease payments above the minimum operating lease payments resulting from extension option and contracts with indefinite period	1,661
Recognition exemption for leases of low-value assets and leases with less than 12 months of lease term at transition	(114)
Lease incentives receivable	(55)
Gross lease liability at 31 December 2018	**4,852**
Discounting	(484)
Lease liabilities recognised at 1 January 2019	**4,368**

During the six months ended 30 June 2019, the Group recognised depreciation charge in the amount of CZK 357 million and interest costs in the amount of CZK 46 million from these leases.

2 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 2019 and 2018 were determined on the same basis as rates used for other mobile operators.

For the six months ended 30 June 2019	Czech Republic			Slovak Republic	Elimination CR vs SR	Group
	Fix	Mobile	Total			
In CZK million						
Revenues	5,235	10,236				
Cost of sales (CoS)	(3,251)	(4,742)				
Gross margin	1,984	5,494				
Other income from non-telecommunication services			79			
Capitalisation of fixed assets			125			
Other costs excluding CoS			(3,077)			
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			4,605			
Revenues			15,471	3,756	(238)	18,989
Other income from non-telecommunication services			79	12	(7)	84
Capitalisation of fixed assets			125	40	4	169
Total consolidated costs			(11,070)	(2,340)	223	(13,187)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			**4,605**	**1,468**	**(18)**	**6,055**
Depreciation and amortisation			(1,890)	(429)	20	(2,299)
Amortisation of costs to obtain contracts			(197)	(69)	-	(266)
Impairment loss			(4)	(7)	-	(11)
Operating profit			**2,514**	**963**	**2**	**3,479**
Interest expense			(166)	(35)	23	(178)
Interest income			41	-	(23)	18
Other financial income/(expense)			1,364	(4)	(1,367)	(7)
Net financial loss			**1,239**	**(39)**	**(1,367)**	**(167)**
Share of profit/(loss) of investments accounted for using the equity method			-	-	-	-
Profit before tax			**3,753**	**924**	**(1,365)**	**3,312**
Corporate income tax			(473)	(235)	-	(708)
Profit for the period			**3,280**	**689**	**(1,365)**	**2,604**
Total assets			45,487	9,873	(9,377)	45,983
Total liabilities			(31,329)	(6,463)	3,266	(34,526)

For the six months ended 30 June 2018	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
	Fix	Mobile			
In CZK million					
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				
Capitalisation 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
Capitalisation 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**
Total assets	39,891		7,672	(8,217)	39,346
Total liabilities	(24,698)		(4,150)	2,105	(26,743)

3 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 2).

For the six months ended 30 June 2019

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	4,154	1,409	-	5,563
- Internet and data	3,222	889	-	4,111
Mobile termination	1,113	464	-	1,577
Revenues from sale of equipment	872	701	(74)	1,499
Other mobile revenues	875	223	(152)	946
Total mobile revenues	**10,236**	**3,686**	**(226)**	**13,696**
Voice sevices	954	26	-	980
Data sevices	477	24	(2)	499
Internet and television	2,580	12	(3)	2,589
ICT	853	5	(6)	852
Revenues from sale of equipment	206	2	(1)	207
Other fixed revenues	165	1	-	166
Total fixed revenues	**5,235**	**70**	**(12)**	**5,293**
Total revenues	**15,471**	**3,756**	**(238)**	**18,989**

For the six months ended 30 June 2018

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	4,239	1,503	-	5,742
- Internet and data	2,948	718	-	3,666
Mobile termination	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**

4 Income tax

In CZK million	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Total income tax expense consists of:		
Current income tax charge	697	664
Deferred income tax charge	11	61
Income tax	**708**	**725**

Deferred income taxes are calculated using the prevailing tax rates, 19% in the Czech Republic (2018: 19%) and 21% in Slovakia (2018 : 21%).

5 Dividends, other distribution and earnings per share

In CZK million	For the six months ended 30 June 2019	For the six months ended 30 June 2018
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 2019 and 2018. The approval of the 2018 profit and its distribution was agreed at the Annual General Meeting on 4 June 2019 (for profit of the year 2017: 4 June 2018). 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 2018 profit were payable on 4 July 2019 (from 2017 profit: CZK 17, respectively CZK 170). Dividends on treasury shares in the amount of CZK 148 million (2018: CZK 148 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 (2018: 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 (2018: CZK 35 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 2019	For the six months ended 30 June 2018
Weighted number of ordinary shares outstanding (thousands)	301,525	301,525
Net profit attributable to shareholders (in CZK million)	2,604	2,778
Basic earnings per share (CZK)	9	9

6 Property, plant and equipment

During the six months ended 30 June 2019, the Group acquired assets at a cost of CZK 652 million (for the period of six months ended 30 June 2018: CZK 570 million). Assets with a net book value of CZK 3 million were disposed of by the Group during the six months ended 30 June 2019 (for the period of six months ended 30 June 2018: CZK 3 million).

7 Intangible assets

During the six months ended 30 June 2019, the Group acquired intangible assets at a cost of CZK 403 million (for the period of six months ended 30 June 2018: CZK 795 million). Assets with a net book value of CZK 11 million were disposed of by the Group during the six months ended 30 June 2019 (for the period of six months ended 30 June 2018: CZK 2 million).

8 Cash and cash equivalents

In CZK million	30 June 2019	31 December 2018
Cash in current bank accounts and other cash equivalents	7,899	2,104
Cash in current bank accounts and other cash equivalents with related parties (Note 14)	914	371
Total cash and cash equivalents	**8,813**	**2,475**

The committed undrawn facilities available to the Group amounted to CZK 5,638 million as at 30 June 2019 (as at 31 December 2018: CZK 5,638 million).

9 Inventories

As at 30 June 2019, the inventories are stated net of an allowance of CZK 68 million (as at 31 December 2018: CZK 86 million), reducing the value of the inventories to their net realisable value.

10 Trade and other payables

The balance of trade and other payables increased compared to 31 December 2018 mostly due to the unpaid dividends and other distributions in the amount of CZK 6,332 million (Note 5).

11 Financial liabilities

On 18 April 2019, the Group successfully completed a placement of four tranches of promissory loan notes (Schuldschein), in total amount of CZK 4,106 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 3,511 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

On 16 December 2015, the Group entered into a long-term facility agreement with maturity in 5 years and a credit limit of CZK 12 000 million. The interest rate is based on 1M PRIBOR increased by 0.60% margin. During the six months ended 30 June 2019, there was no repayment or drawdown in connection with the facility agreement. As at 30 June 2019, the Company used a total of CZK 7,000 million (as at 31 December 2018: CZK 7,000 million) of the available credit from the long-term facility agreement.

None of the Group's assets serve as a collateral in connection with the existing borrowings.

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 2019 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, a.s. after hearing of an independent expert which the court appointed. The court concluded that the Company did not breach competition law rules and therefore could not even cause any damage. This is confirmed by later decision of the Antimonopoly Office from 23 January 2019 issued in the independent administrative proceedings. The court decision was delivered in June 2018. The plaintiff filed an appeal against this decision and also applied for the exemption from the court fee. Nonetheless, both the Municipal and High Court in Prague granted only 50% court fee exemption to the plaintiff. The High Court in Prague hasn't decided on the appeal yet.

II. TELECONSULT-INTERNATIONAL, spol. s.r.o. – dispute on CZK 55 million

In its decision from 29 March 2017, the High Court in Prague confirmed the dismissal of the legal action against the Company and moreover changed also the original verdict regarding the amount of CZK 1.7 million. Ultimately, the Company was completely successful in this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court.

The plaintiff also sought the suspension of the legal force and enforceability, but the Supreme court dismissed the application. On the extraordinary appeal no decision has been issued yet.

III. Vodafone Czech Republic a.s. – dispute on CZK 385 million

The Municipal court in Prague dismissed the application of Vodafone which sought access to all the Company's documents and information which could support the claim. The court stated that Vodafone hasn't even fulfilled the elementary procedural conditions yet, namely the legal action does not contain arguments which would at least indicate that there is any damage caused to Vodafone by the Company. This statement is also supported by the decision of the Antimonopoly Office from 23 January 2019 issued in the independent administrative proceedings. Vodafone filed an appeal against the dismissal and the Company filed its statement.

IV. Other

No developments occurred in other significant legal disputes disclosed in the Group's consolidated financial statements as at 31 December 2018 that are part of the Annual Report. The Company is involved in other legal disputes where the amount disputed reaches over CZK 5 milion. The aggregate value of all these pending disputes totals to CZK 67 million. Risk associated with individual disputes are not significant.

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

13 Commitments

Capital expenditure contracted but not yet included in the consolidated financial statements as at 30 June 2019 amounted to CZK 549 million (as at 31 December 2018: CZK 503 million). The majority of contracted amounts relate to the telecommunications network.

14 Related party transactions

The companies PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd., through which Mr. Petr Kellner controls the Group, are part of the 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 2019 and as at 31 December 2018, 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 2019 to the shareholders from the PPF Group amounted to CZK 5,281 million (for the period of six months ended 30 June 2018: CZK 5,281 million). As at 30 June 2019, the Group recognised liability to pay dividends and other distributions in total amount of CZK 5,281 million (as at 31 December 2018 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, that is until 31 May 2022; 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 2019 was approximately CZK 2,335 million (for the six months ended 30 June 2018: CZK 2,279 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 2019 was approximately CZK 1,827 million (for the six months ended 30 June 2018: CZK 1,913 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 2019 was approximately CZK 410 million (for the six months ended 30 June 2018: CZK 436 million).

15 Subsidiaries, associates and joint ventures

The Group held interests in the following entities as at 30 June 2019 and 31 December 2018:

Subsidiaries		Group's interest as at 30 June 2019	30 December 2018	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	Mobile telephony, internet and data transmission services	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.	100 %	100 %	Czech Republic	On-line communication platform	Consolidated (full consolidation)
11.	Smart home security s.r.o.	100 %	100 %	Czech Republic	Provider of home security equipment and services	Consolidated (full consolidation)
12.	INTENS Corporation s.r.o.	100 %	100 %	Czech Republic	Provider of transport telematics services	Consolidated (full consolidation)
13.	Tapito s.r.o.	0 %	100 %	Czech Republic	Mobile applications development	Consolidated (full consolidation)
14.	Emeldi Technologies, s.r.o.	51%	0%	Czech Republic	Software development and sales	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)

Sale of subsidiary

On 7 May 2019, the Group sold an 100% stake in Tapito s.r.o. through the subsidiary Bolt Start Up Development a.s.

Acquisition of subsidiary

On 25 June 2019, the Company acquired 51% stake in Emeldi Technologies, s.r.o. and obtained control over the company. The non-controlling interest was valued at the proportionate share of the acquiree's identifiable net assets.

16 Financial instruments measured at fair value

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

In CZK million	30 June 2019	31 December 2018
Financial assets		
Financial derivatives - interest (hedge accounting)	34	43
Financial instruments at fair value through profit or loss	14	14
Financial instruments at fair value through other comprehensive income	2	2
Total financial assets measured at fair value	**50**	**59**
Financial liabilities		
Financial derivatives – interest (hedge accounting)	12	-
Total financial liabilities measured at fair value	**12**	**-**

As at 30 June 2019 and as at 31 December 2018, 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).

Financial instruments at fair value through profit or loss represent the loan provided, which 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.

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.

During the reporting period ending 30 June 2019 and 31 December 2018, 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 four tranches of Schuldschein financing with fixed interest rates (Note 11) with a total carrying amount of CZK 3,768 million as at 30 June 2019 (as at 31 December 2018: CZK 2,784 million) and a fair value of CZK 3,671 million at the same date (as at 31 December 2018: CZK 2,628 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

New Premier Sport TV channel

In July, the Company acquired the rights to broadcast the Premier Sport channel. In addition to the English Premier League, the new TV station will bring also two other British Islands leagues – English Championship, i.e. the second highest English league and the Scottish Premiership.

Skilled O2 TV Sport commentators will participate in the production of the new football channel, by accompanying selected live broadcasts with their voice. The Premier Sport TV licence is owned by DIGI Slovakia. The channel will be available to customers of O2 Czech Republic, T-Mobile and DIGI TV in the Czech Republic, and to customers of Slovak Telekom, DIGI SLOVAKIA and Orange Slovensko in Slovakia.

This fact has no impact on the interim consolidated financial statements for the six months ended 30 June 2019.

Extension of broadcasting rights to the WTA tennis tour

In August, the Group prolonged television rights for the full WTA tennis tour for another three seasons. Until 2022, O2 TV Tennis, the only tennis channel in the Czech Republic, will continue to bring the maximum number of live events from all WTA tournaments, including the prestigious Shenzhen Champions Tournament.

This fact has no impact on the interim consolidated financial statements for the six months ended on 30 June 2019.

European Commission Proceedings on suspected violation of European competition law

In October 2016, the European Commission initiated proceedings in relation to suspected violation of the Article 101 of the Treaty on the Functioning of the European Union (actions incompatible with the internal market) concerning compatibility of the network sharing agreements concluded between O2 (currently Česká telekomunikační infrastruktura a.s.) and T-Mobile Czech Republic a.s. in 2013 and 2014 with the European competition law.

On 7 August 2019, European Commission sent to the companies involved a so-called “statement of objections”, in which the Commission expressed its preliminary and provisional conclusion that the sharing agreements restrict competition and therefore infringe the European competition rules. Nevertheless, the statement of objections is merely a procedural step in the ongoing investigation, which in no way predetermines the final decision on the matter.

Nevertheless, O2 is convinced that its conduct has been in accordance with applicable legal and regulatory rules and is prepared to dispel the preliminary concerns of the European Commission. This fact therefore has no impact on the interim consolidated financial statements for the six months ended on 30 June 2019.

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 2019.

28 August 2019

Jindřich 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

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.

28 August 2019

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

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