Annual Report

2016

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

Note:
O2 Czech Republic a.s., further below also as "O2 CZ" or "Company".
O2 Slovakia, s.r.o., further below also as "O2 Slovakia".
O2 IT Services s.r.o. hereinafter "O2 IT Services" or "O2 ITS".

TABLE OF CONTENTS

Independent Auditor's Report to the Shareholders

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a
186 00 Praha 8
Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an unsigned English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of O2 Czech Republic a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of O2 Czech Republic a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note "General information" in the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue accuracy and completeness (MCZK 37,522)
See paragraph T of "Accounting policies", and Note 5.

Description of the key audit matter

The accuracy and completeness of revenues recognised poses a risk to the audit of the Company due to the dependence of the revenue recognition process on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). The complexity of those systems is caused, among other things, by a wide offer of products and services (e.g. mobile and fixed services, IPTV services, IT solutions, etc.), frequent price changes and the complexity of contractual terms and conditions for certain products (e.g. deliveries of comprehensive IT solutions).

Auditor's approach to the key audit matter

Our audit procedures include, in particular:

- tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists;
- tests of the Company's control environment, focusing on the Company's Revenue Assurance department's controls relating to the completeness of revenues recognised;
- tests of the transaction process for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms;
- tests of the Company's internal controls over the accuracy of invoicing and the accuracy and completeness of revenues recorded, including controls over handling customer claims;
- tests of internal controls over the recording of manual journal entries affecting revenues, including substantive tests of a selected sample of manual journal entries.

We also performed:

- substantive analytical procedures relating to recorded estimated revenue accruals;
- substantive analytical procedures relating to material revenue accounts, including analytical procedures involving a comparison of revenues recognised with other financial and non-financial information.

Valuation of intangible assets other than goodwill (MCZK 12,057)
See paragraph G of "Accounting policies", and Note 11.

Description of the key audit matter

The proper valuation of intangible assets under construction and in use is relevant to the audit of the Company, as the Company operates in the rapidly changing telecommunications industry and provides a wide range of products and services through a large number of IT systems. The Company plans to gradually replace some of the systems with new solutions.

This may result in:

- intangible assets under construction (in particular, new IT systems under development) not being completed and put in use in the future due to technical or economic reasons;
- the existing intangible assets (in particular, older IT systems) being no longer economically usable at present or in the foreseeable future, and a corresponding adjustment not being made to the amortization periods for such intangible assets.

Auditor's approach to the key audit matter

Our audit procedures include, in particular:

- tests of internal controls over assessing the valuation of intangible fixed assets under construction, including controls over annual impairment testing;
- substantive tests of a sample of intangible fixed assets under construction, focusing on fulfilment of criteria for capitalization, especially planned completion. Testing was supported by an inquiry of responsible project managers and an inspection of supporting documentation;
- inquiries of the board of directors with respect to the completeness of impairment recognised, supported by information obtained from other sources (e.g. minutes of the Company's board meetings). For assets identified by us as potentially impaired, we checked that any impairment of such assets had been appropriately accounted for;
- substantive tests of consistency between the amortization periods and economic lives for those IT systems that the Company plans to replace with a new solution.

Litigations, disputes and the regulatory environment (a provision of MCZK 117)
See paragraph S of "Accounting policies", and Notes 19 and 20.

Description of the key audit matter

The Company is facing a number of potential and existing lawsuits and regulatory disputes. Our audit focuses on this area in detail, as the appropriate determination of whether these lawsuits and disputes should be recognised as provisions or contingent liabilities requires considerable judgement on the part of the Company.

Auditor's approach to the key audit matter

Our audit procedures include, in particular:

- inquiries of the board of directors and the Director of the Corporate law and Litigation Division with respect to potential and existing legal and regulatory disputes, supported by information from other sources (an internal summary of litigations, minutes of the Company's board meetings) and by inquiries of the Company's external lawyers via confirmation letters;
- for all material disputes, a critical assessment of the reasonableness of estimates made by the Company regarding the probable impact, supported by examining related supporting documentation;
- a retrospective assessment of the accuracy of judgement made by the Company in previous accounting periods, aiming to test the degree of reliability of the Company's judgments;
- a verification of consistency between the information on provisions and contingent liabilities disclosed in Notes 19 and 20 and the information obtained during the audit, and a critical assessment of the accuracy and completeness of the disclosures.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the supervisory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of O2 Czech Republic a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2016, and the statement of total comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note "General information" to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue accuracy and completeness (MCZK 29,773)
See paragraph Q of "Accounting policies", and Note 5.

Description of the key audit matter

The accuracy and completeness of revenues recognised poses a risk to the audit of the Company due to the dependence of the revenue recognition process on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). The complexity of those systems is caused, among other things, by a wide offer of products and services (e.g. mobile and fixed services, IPTV services, IT solutions, etc.), frequent price changes and the complexity of contractual terms and conditions for certain products (e.g. deliveries of comprehensive IT solutions).

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Our audit procedures include, in particular:

- tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists;
- tests of the Company's control environment, focusing on the Company's Revenue Assurance department's controls relating to the completeness of revenues recognised;
- tests of the transaction process for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms;
- tests of the Company's internal controls over the accuracy of invoicing and the accuracy and completeness of revenues recorded, including controls over handling customer claims;
- tests of internal controls over the recording of manual journal entries affecting revenues, including substantive tests of a selected sample of manual journal entries.

We also performed:

- substantive analytical procedures relating to recorded estimated revenue accruals;
- substantive analytical procedures relating to material revenue accounts, including analytical procedures involving a comparison of revenues recognised with other financial and non-financial information.

Valuation of intangible assets other than goodwill (MCZK 10,035)
See paragraph D of "Accounting policies", and Note 11.

Description of the key audit matter

The proper valuation of intangible assets under construction and in use is relevant to the audit of the Company, as the Company operates in the rapidly changing telecommunications industry and provides a wide range of products and services through a large number of IT systems. The Company plans to gradually replace some of the systems with new solutions.

This may result in:

- intangible assets under construction (in particular, new IT systems under development) not being completed and put in use in the future due to technical or economic reasons;
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Auditor's approach to the key audit matter

Our audit procedures include, in particular:

- tests of internal controls over assessing the valuation of intangible fixed assets under construction, including controls over annual impairment testing;
- substantive tests of a sample of intangible fixed assets under construction, focusing on fulfilment of criteria for capitalization, especially planned completion. Testing was supported by an inquiry of responsible project managers and an inspection of supporting documentation;
- inquiries of the board of directors with respect to the completeness of impairment recognised, supported by information obtained from other sources (e.g. minutes of the Company's board meetings). For assets identified by us as potentially impaired, we checked that any impairment of such assets had been appropriately accounted for;
- substantive tests of consistency between the amortization periods and economic lives for those IT systems that the Company plans to replace with a new solution.

Litigations, disputes and the regulatory environment (a provision of MCZK 114)
See paragraph P of "Accounting policies", and Notes 19 and 20.

Description of the key audit matter

The Company is facing a number of potential and existing lawsuits and regulatory disputes. Our audit focuses on this area in detail, as the appropriate determination of whether these lawsuits and disputes should be recognised as provisions or contingent liabilities requires considerable judgement on the part of the Company.

Auditor's approach to the key audit matter

Our audit procedures include, in particular:

- inquiries of the board of directors and the Director of the Corporate law and Litigation Division with respect to potential and existing legal and regulatory disputes, supported by information from other sources (an internal summary of litigations, minutes of the Company's board meetings) and by inquiries of the Company's external lawyers via confirmation letters;
- for all material disputes, a critical assessment of the reasonableness of estimates made by the Company regarding the probable impact, supported by examining related supporting documentation;
- a retrospective assessment of the accuracy of judgement made by the Company in previous accounting periods, aiming to test the degree of reliability of the Company's judgments;
- a verification of consistency between the information on provisions and contingent liabilities disclosed in Notes 19 and 20 and the information obtained during the audit, and a critical assessment of the accuracy and completeness of the disclosures.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the supervisory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the

Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of O2 Czech Republic a.s. ("the Company") for the year ended 31 December 2016. The responsibility for the preparation and factual accuracy of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations of O2 Czech Republic a.s. for the year ended 31 December 2016 contains material factual misstatements.

Statutory Auditor Responsible for the Engagement

Petr Škoda is the statutory auditor responsible for the audit of the consolidated financial statements and financial statements of O2 Czech Republic a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
13 February 2017

Signed by

KPMG Česká republika Audit, s.r.o.
Registration number 71

Signed by

Petr Škoda
Partner
Registration number 1842

1

Foreword by the **Chairman** of the Board of Directors

Foreword by the **Chairman** of the Board of Director

To Our Shareholders,

Let me briefly review our commercial and operating results for the year 2016, which was our first full year of operation following the separation of the fixed and mobile infrastructure. With respect to our strategy to go beyond being only a telecommunications operator and become a leading provider of digital services, I am pleased to say we succeeded in achieving one of our main objectives: to accelerate the development and time to market for new products and services, and the process of innovation of our existing ones. The market response indicates that we are on the right path. In some areas, the loyalty of our customers has hit record high levels in the history.

In the area of fixed voice, we took a leap of courage: at the beginning of the year we unveiled a new tariff which offers unlimited calling from a fixed line to all networks in the Czech Republic. Over the course of the year, all our customers migrated to this tariff, and they now make 40% more calls. The digital television service, O_2 TV, which is one of our key growth areas, added a number of improvements from which our customers now benefit. Our expanded platform now makes it possible to enjoy the service anywhere in the country with our connectivity, with connectivity from any other provider, online and on up to four mobile devices at the same time. We acquired rights to more exclusive sports content, and we plan to continue adding more. We also have plans to make the service more attractive not only for our existing customers, but it will be also an impulse for prospective customers to subscribe. In August, we inaugurated our new television channel O_2 TV Fotbal, and at the beginning of 2017, the first television channel dedicated to tennis coverage – O_2 TV Tenis. Our own production company premiered OKTAGON, the first reality show from the world of martial arts. More than 250 thousand people receive O_2 TV via a set-top box; more than 360 thousand watch via a mobile application or online.

Mobile data is another growth area which was the focus of our attention in 2016. By the end of the year, we increased the coverage of our 4G LTE networks to 99% of the population; in Prague and in Brno we are increasing the capacity of our mobile data network by utilisation of all spectrum frequencies. We were the first to launch a 4.5G network in a realistic environment. In the spectrum auction, we acquired additional 1,800 MHz and 2,600 MHz spectrum block for our customers. In the area of mobile data, exclusive content is our priority. We were the only network operator to reach agreement with Spotify. All programming options and functionality of O_2 TV are available to our customers also on the small screen. In Slovakia we considerably sped up the rollout of our proprietary 4G LTE network which presently reaches already 70% of the Slovak population. We also invested in the construction of a state-of-the-art national optical backbone network. We already sell only LTE-enabled mobile phones. As a result, close to 60% of our customers in both countries already have a smartphone, with 30% enjoying the full spectrum of benefits of LTE.

At this time, when the trends in the telecommunications industry are undergoing a major shift and our financial results will, in the future years, negatively reflect the European Union's roaming regulation, we concentrated on the development and bringing to market various innovative services, to complement conventional telecommunications. Last year we came with a number of new products and services in market segments which are currently experiencing a boom, including insurance and electronic record of sales. In the first phase, which affects the hospitality industry, we became the market leader. In the Smart Cities segment, we were the first operator in the Czech Republic to launch a pilot in smart waste management. In Slovakia, we started offering a comprehensive portfolio of fixed and mobile access services and ICT solutions for business and the government through the subsidiary O2 Business Solutions.

With a view to significantly simplifying our processes, products and their communication within the Company and to the market, in 2016 we also forged ahead with the implementation of our comprehensive transformation programme Simple Online Company. As part of this programme we are implementing a streamlined operating model, which will allow us to swiftly respond to market demand, meet our customers' requirements and bring new products and services to the market in all distribution and service channels.

Changes in our organisation structure, which were introduced at the beginning of 2017, are another step leading to the achievement of our goal to simplify processes in the Company and make them more efficient. As part of these changes, two new divisions were created: Commercial Division, which manages the relationships with our residential and business customers, and Operations Division, which covers such functions as network operations and development, IT operations and development, customer technical support and strategic development such as security, Smart Cities, Internet of Things, cloud, etc. I am confident that these changes will help us respond to the market developments even faster and bring new products and services to our customers.

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

2 Financial and operating **highlights**

Financial and operating **highlights**

Financial data is based on audited consolidated financial statements prepared in accordance with International Financial Reporting Standards. All figures are in CZK million, unless otherwise stated.

	2016	2015
Financials		
Revenues[1]	37,522	37,385
EBITDA – Earnings before depreciation and amortization	10,451	10,142
Operating profit	6,857	6,595
Profit before taxes	6,744	6,438
Profit after taxes	5,259	5,077
Total assets	33,306	30,268
Property, plant and equipment	5,075	4,638
Total equity	17,505	18,344
Financial debts (long-term and short-term)	6,977	2,981
Capital expenditure (additions to fixed assets)	4,422	3,289
Operating indicators (at end of period)		
Fixed voice lines (in thousand)	699	840
xDSL connections – retail (in thousand)	765	795
Pay TV – O_2 TV (IPTV and OTT, in thousand)	221	202
Mobile customers in the Czech Republic (in thousand)	4,941	4,896
– of this contract customers	3,356	3,237
prepaid customers	1,585	1,659
Mobile customers in Slovakia (in thousand)	1,892	1,809
Number of employees in O2 Group (as at year-end)	4,882	3,908
Ratios		
EBITDA margin (EBITDA/Revenues, in %)	27.9	27.1
Profit after taxes /Revenues (in %)	14.0	13.6
Capital expenditure/Revenues (in %)[2]	11.7	8.8
ROA (Profit after taxes /Total assets, in %)	15.8	16.8
ROE (Profit after taxes /Equity, in %)	30.0	27.7
Gross gearing (Financial debts/Total equity, in %)	39.9	16.3
Net debt (Financial debt less Cash and cash equivalents)/EBITDA	0.27	0.10
Profit per share – consolidated	17.1	16.2
– unconsolidated	17.5	15.2
Macroeconomic indicators[3]		
CZK/EUR exchange rate – average	27.03	27.28
CZK/EUR exchange rate – at end of period	27.02	27.03

[1] Excluding revenues from non-telecommunications services
[2] 2015 including investments in 900 and 1,800 MHz spectrum licence renewal (CZK 432 mil), 2016: including investments in 1,800 and 2,600 MHz spectrum acquisition (CZK 1,472 mil.)
[3] Source: Czech National Bank

Calendar
of key events

3

Calendar of key events

JANUARY

The division Professional Services was spun off into the subsidiary O2 IT Services s.r.o.

The Company significantly streamlined its fixed telephony proposition and started offering unlimited calls to all fixed and mobile networks in the Czech Republic.

The Company started, through the brokerage Wood & Company Financial Services, a.s., to buy back its own shares.

O2 Business Services Slovakia entered the Slovak telecommunications marketplace with a portfolio of fixed and mobile telecommunications services and ICT solutions for corporates.

FEBRUARY

The Company expanded its O_2 TV distribution network. The new set-top box is now also available through electronics retailers and e-commerce channels.

The Company launched pilot testing of a hybrid modem. The new equipment combines fixed and mobile internet access technologies.

MARCH

The Company, in its capacity as sole member, approved a pay out a share of the profit of O2 Slovakia for the year 2015 in the amount of EUR 41.1 million (approximately CZK 1.1 billion).

The Company started operating 3CC technology in the area of Nové Butovice, Prague. 3CC supports the aggregation of three frequencies, which makes for higher theoretical mobile internet speed and higher network capacity.

APRIL

On 30 April, the Company came out with two new roaming tariffs – *Volání bez hranic* and *Svět Basic*.

The Company invested in a new media production van which is used not only for the live programming of the Company's own TV channel O_2 Sport, but also rented out to external partners from the Czech Republic and abroad.

The Company added a prepaid option, *NA!SÍTI* card, to its business proposition; in addition to low rates on calls and SMS to all networks, the card also comes with an economy data package.

O2 IT Services s.r.o. opened Security Expert Center (SEC), a new cybernetic security centre, in Prague.

The Company held its Ordinary General Meeting.

O2 Czech Republic and China Telecom (Europe) Limited signed a memorandum on cooperation.

MAY

The start-up accelerator BOLT forged a strategic partnership with two companies: Taxify taxi service and Dateio, a precision marketing consultancy.

Kateřina Pospíšilová was appointed director in charge of strategy, innovation, regulation and competition law.

JUNE

The Company partnered with Spotify, the world's number one music streaming service.

The Company launched Datomat – a place where customers can do various challenges to earn extra data on top of their tariff data allowance.

The spectrum auction for the 1,800 and 2,600 MHz frequencies ended. The Company secured four out of seven auctioned blocks for the total price of close to CZK 1.5 billion.

The Company introduced O_2 eKasa, a comprehensive solution for electronic record of sales. By the end of 2016, the Company sold the service to close to 10 thousand customers, which ranks it among the leaders in this segment of the Czech market.

Independent multinational certification agency TÜV NORD Czech, s.r.o. audited the Company's Integrated Management System (IMS) in its entirety, as a precondition for recertification. The Company retained all its certificates.

JULY

As the first in the Czech market, the Company started offering Smart Travel Insurance, a unique service which activates travel insurance automatically every time a mobile phone registers in a foreign network.

O2 Slovakia announced its plan to build a state-of-the-art optical backbone network thorough consolidation of optical networks acquired from several national providers.

AUGUST

The Company debuted a new prepaid service proposition *O_2 Předpladenka*.

Marek Růžička was appointed Director of Business Division.

The subsidiary O2 IT Services s.r.o. became the first in the Czech Republic to pilot a smart waste management project.

The lawsuit in which České Radiokomunikace claimed compensation in the amount of CZK 3.1 billion from the Company for damages and lost profit, has been dismissed with finality.

SEPTEMBER

The start-up accelerator BOLT acquired a stake in iCORD International, a Czech venture, as strategic investor.

OCTOBER

The Company increased the speed of fixed broadband internet. One quarter of Czech households can now have a 50 Mbps internet connection.

On 25 October, the Company became the first network operator to allow unused mobile data allowance to be carried over to the next month.

NOVEMBER

The Company started its Christmas campaign: customers received 30 GB of mobile data allowance, unlimited calls, faster internet and extra television channels.

In connection with anticipation of higher market liquidity after the rebalancing of the MSCI Czech Republic Index, the Company updated share buyback rules in the period from 15 November until 30 November. During this period, trading in higher volumes than the limit approved by the Board of Directors was permitted.

The Company' share of all voting rights exceeded the 1% mark as of 21 November 2016.

DECEMBER

The Company became the first in the market to start operating a 4.5G network in a realistic environment, with theoretical speeds of up to 1.2 Gbps.

At the end of 2016, the proprietary 4G LTE network already reached 99% of the Czech population and 70% of the Slovak population.

Board of Director's Review of **Business**

4

Board of Director's Review of **Business**

Factors influencing the business and results in 2016

REGULATION

In 2016, the Company continued to meet its obligations based on the relevant markets analysis and related decisions of the previous periods.

The Czech Telecommunications Office (CTO) published a relevant market analysis for market no. 1S – Access to a public telephone network at a fixed location, and a relevant market analysis for market no. 2S – Call origination in a public telephone network at a fixed location. Both analyses concluded that the markets had failed the so-called three-criteria test; as a result, they cannot be treated as relevant markets and remedies should not be imposed. Furthermore, the CTO published a relevant market analysis for market no. 2 – Wholesale call termination in mobile networks, and subsequently published a decision which appoints all network operators as business with a significant market power. In December 2016, the CTO set a new maximum whole sale price for call termination in the O2 network at CZK 0.248/minute exclusive of VAT, effective from the start of 2017 (previously CZK 0.270/minute exclusive of VAT).

Until 2022, roaming services and prices in the European Union are regulated by the European Parliament and Council (EU) Regulation No 531/2012. Until 30 April 2016, the European regulation applied regulated retail prices published on 1 July 2014. On 30 April 2016, a European Parliament and Council (EU) Regulation No 2015/2120 of 25 November 2015 came into effect, which regulates roaming and network neutrality, among other things, and which also amends the Regulation No 531/2012. In the second half of 2016, the regulatory framework was gradually updated with further details according to a pre-existing schedule.

The auction part of the tender for spectrum frequencies of 1,800 and 2,600 MHz was concluded on 14 June 2016. O2 CZ acquired three of the seven spectrum blocks which were auctioned: 2 x 10.8 MHz in the 1,800 MHz band, and 25 MHz in the 2,600 MHz. On 19 July 2016, the second stage of the spectrum auction was held, and the frequencies were split. Upon a call from the CTO, O2 CZ subsequently paid the full price for the right to use the spectrum frequencies, in the amount of CZK 1,472.05 m. After the payment, the CTO returned to the Company the bid bond of CZK 450 m, which was a condition for bidding in the tender and which had been paid by O2 CZ in March 2016. The decision of the CTO Chairman to allocate new radio spectrum became legally effective on 22 September 2016.

The CTO went through a new public consultation of the terms and conditions of the next tender for the spectrum frequencies of 3.7 GHz, which is planned to be called in the first half of 2017.

As a part of the obligation to provide universal service (imposed by CTO), the Company provided the following partial services in 2016: services of public telephone booths, access of disabled persons to a publicly available telephone service by means of specially equipped telecommunications end devices, and special price plans for disabled persons.

At the end of 2016, the CTO published a decision concerning the compensation of the net costs of the provision of the Universal Service by O2 CZ in 2015, in the total amount of CZK 123.5m.

THE CZECH TELECOMMUNICATIONS MARKET

In the area of traditional fixed and mobile telecommunications, none of the major operators has introduced any significant changes to their portfolio or pricing in 2016. For details and news related to products and services of O2 CZ, please refer to section Products and services of this Annual Report.

In the area of mobile access, all three mobile operators (O2 CZ, T-Mobile and Vodafone) maintained their focus on rolling out their 4G LTE service to a larger population in the Czech Republic. At the end of 2016, the LTE coverage of all three operators was available to approximately 99% of the population. There were also some minor changes to the mobile tariffs, which related to the data allowances. In the area of roaming, all three operators aligned their roaming proposition with the requirements of the European regulation.

The respective market shares of individual operators cannot be reliably established given the differences in the methodology of accounting for the number of mobile customers, where O2 CZ reports the number of active mobile customers while T-Mobile and Vodafone report the number of registered customers. As at 30 September

2016 (which is the last day when the published results of all three operators were known prior to the approval date of this Annual Report), O2 CZ recorded 4,921 thousand active mobile customers, while T-Mobile and Vodafone reported 6,002 thousand and 3,544 thousand registered customers, respectively.

After the legislation on electronic record of sales became effective on 1 December 2016, approximately 40 thousand entrepreneurs in the hotel and restaurant businesses became obliged to electronically record their sales. This duty will be gradually extended to all natural and legal persons running a business. All three operators brought out their proprietary solutions for the electronic record of sales. By the end of 2016, O2 CZ registered approximately 10 thousand customers, which represents about a quarter of this market.

In contrast to the neighbouring countries like Poland or Hungary, where the pay TV share in the total TV market is around 80%, in the Czech Republic more than 60% of homes still watch TV via free-to-air terrestrial broadcasting. In the Pay TV market, efforts to acquire of exclusive content, sports in particular, continued in 2016. O2 CZ contracted, in addition to football, exclusive rights also in other sports like tennis or ice hockey. In January, Netflix of the US entered the Czech pay TV market with a limited offer of film and television content in the Czech language. In April, T-Mobile entered the IPTV market; however it does not offer any exclusive content.

In the area of Internet of Things (IoT), in December O2 CZ tested its Narrow Band IoT (NB-IoT), technology, with a view of launching the first NB-IoT projects already in 2017. T-Mobile, in partnership with SimpleCell, covers 88% of the Czech Republic with its IoT data network Sigfox. Another competitor in the segment of IoT data transmission is LoRa, a network owned by České Radiokomunikace. At the end of 2016, LoRa had service in regional capitals, and the plan is to cover most of the Czech Republic's territory by the end of 2017.

O2 Czech Republic Group

OVERVIEW OF THE O2 GROUP AND THE MAIN CHANGES IN 2016

Basic information about the Company and the O2 Group

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

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

O2 Group comprises the parent company O2 CZ and its subsidiaries; for the full list, please refer to the Consolidated Financial Statements for the year ended 31 December 2016 (Note 25 of the Notes to the Consolidated Financial Statements), which forms an annex to this Annual Report. Effective from 1 April 2016, the Company started a concern under the name O2 Czech Republic, of which the Company is the dominant entity. For full information about the changes in 2016, please refer to section Corporate governance of this Annual Report.

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

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

In CZK million	Year ended 31 December	
	2016	2015
Czech Republic	31,085	31,062
Slovakia	6,787	6,683
Consolidation adjustments	(350)	(360)
Consolidated revenues total	**37,522**	**37,385**

In 2016, CETIN, in collaboration with O2 CZ, forged ahead with rolling out and increasing the capacity of its 4G LTE mobile network. At the end of 2016, the coverage of 4G LTE networks has gone up to 99% of the population. In Prague and in Brno, two cities with the highest volume of mobile data traffic, the Company started to increase the mobile network speed and capacity through aggregation of multiple spectrum frequencies and the deployment of 2CC (800 and 1,800 MHz) and 3CC (800 MHz, 1,800 MHz and 2,600 MHz) technology. At the end of 2016, 2CC was installed in 493 of the total 534 base stations. Prague is scheduled to be fully covered by the end of March, and Brno by the end of 2017. The rollout of the 3CC technology will concentrate on small locations with high traffic density; the final list of locations will be decided in 2017. In Prague, O2 CZ is planning to gradually densify, over the course of 2017 and 2018, the 4G LTE network by adding up to 250 towers. In other areas of the Czech Republic, where CETIN continues with the execution of the network sharing agreement with T-Mobile, including the consolidation of existing 2G and 3G networks, 4G LTE in 2016 was installed at approximately 1,500 towers, in order to increase the coverage and speed, as required by the terms and conditions of the licence. O2 CZ was the first operator to start operating, in a part of Prague, 4.5G technology in a real environment. 4.5G allows data transmission at the theoretical speed of up to 1.2 Gbps due to aggregation of multiple spectrum frequencies (LTE 800 FDD, LTE 1,800 FDD, LTE 2,600 FDD, LTE 2,600 TDD) with the help of 4x4 MiMo and 256QAM technologies. With these actions, the Company is gearing up for the arrival of 5G. The O2 CZ network is open also to virtual mobile operators. In terms of the size of their customer base, O2 Family, BLESKmobil, Tesco Mobile and MOBIL OD ČEZ were the leaders of the MVNO market.

Throughout the year 2016, the subsidiary Bolt Start Up Development and its BOLT start-up accelerator continued to pursue innovative investment opportunities. In line with its strategy, BOLT focuses on forging partnerships with start-ups with smart ideas and solutions, and with innovative technology projects. Investment from BOLT, not necessarily financial, lays the foundation for future growth of these start-ups. The main goal is to create synergies by fusing innovative ideas and technology on the one hand, and the leverage of the O2 CZ ecosystem – a sizeable customer base, extensive distribution network and big data – on the other.

The first such collaboration was with TapMedia, a start-up which designed and develops Tapito, a mobile application which lets users read a selection of the most popular articles from the Czech internet on the locked screen of a smartphone. At the end of the year, the application had several tens of thousands active users from the Czech Republic and Slovakia. Another investment was in Taxify OÜ, a start-up from Estonia which operates on the European taxi service market, including the Czech Republic. The partnership with BOLT gives Taxify the benefit of a synergetic relationship with O2 CZ, and especially access to big data. Dateio, in which BOLT invested in the first half of the year, is a precision marketing consultancy whose customers are clients of banks. Retailers benefit from the start-up's innovative analysis of the effectiveness of their marketing campaigns. After a successful pilot undertaken in collaboration with a Czech bank, Dateio signed up with several other major Czech and Slovak banks and with a number of prestigious retail brands. BOLT also became strategic investor in Icord International, a Czech start-up which is the technology leader in online communication. iCORD designs and develops a modular solution for online chat, videocalls, videoconferencing, callback, callshow, document sharing and cobrowsing. It counts as its clients a number of banks, insurance companies, education and human resources organisations in the Czech Republic but also in Germany, United States and China. At the end of the year, Misterine joined the stable of start-ups which BOLT is developing. Misterine designs high-tech solutions for modern applications, especially for virtual and augmented reality.

Total customers of the O2 Group:

In thousands	As at 31 December	
	2016	2015
Fixed voice lines	699	840
xDSL lines	769	795
ADSL	269	357
VDSL	500	438
O_2 TV (IPTV and OTT)	221	208
FIXED ACCESS SEGMENT – CZECH REPUBLIC	**1,689**	**1,843**
Contract customers	3,356	3,237
Prepaid customers	1,585	1,659
MOBILE SEGMENT – CZECH REPUBLIC	**4,941**	**4,896**
Contract customers	1,077	971
Prepaid customers	815	838
MOBILE SEGMENT - SLOVAKIA	**1,892**	**1,809**
CUSTOMERS OF THE GROUP TOTAL	**8,522**	**8,548**

O2 Group incurs internal costs associated with research and development activities pursuant to Section 2(1) of the Act No. 130/2002 Coll., on Support of Research and Development.

Transformation programme

As already stated in the 2015 Annual Report, the comprehensive transformation programme Simple Online Company started in 2015. The programme implementation continued in full force also during the course of 2016. The programme introduces significantly simplified processes, products and their communication – internally and externally, to the customers, online in all channels. This will help O2 CZ build a simple operating model that will help it flexibly respond to the changing needs of the market, meet the demand from customers fast and introduce new services and products across all distribution and service channels. At the end of April, a solution in the area of insourcing of logistic services for mobile devices and accessories went online; until then, this workflow had been outsourced by the Business Division to an external company. As a result, O2 CZ now handles the whole process – from ordering to delivery to the customer, and is thus able to guarantee a high standard of service. In the second half of 2016, the focus was on the completion of the design for the largest part of the transformation programme – new and more flexible systems for servicing all postpaid services in the product portfolio and all customer segments of O2 CZ: a single product catalogue, integrated order management and CRM system, integrated billing system, self-service system and a single service delivery system. The development and testing on approximately 30% of orders ran in parallel. The system design accentuated intuitive operation, to eliminate the need for training and manuals, and also fast and cheap product development in the future. Last but not least, the system was designed to run with low operating costs on the technical as well as on the commercial side of the business.

As part of the campaign to simplify the Company's functions and governance, a new, redesigned organisation structure became effective from 1 January 2017; the purpose of this change was to make the Company even better prepared for response to market developments and for bringing new products to the market. A new division, Commercial Division, was established, with the responsibility for integrated product development, single process management, integration of the distribution channels and for the relationships with all customers – consumers, businesses and corporates, with the exception of government clients. With respect to the specific legal and regulatory implications for customer service, as governed by the public procurement legislation, the government segment reports directly to the Chief Executive Officer. Units responsible for marketing and marketing and online communication are in the line of the Commercial Division. The main purpose of this change was to facilitate integrated and effective product development, communication and management, and to give the more value to customers. To this end, customer systems and processes had to undergo integration and simplification.

The second new division is the Operations Division, which includes network operations and development, information technology operation and development, customer technical support and strategic development (security, Smart Cities, Internet of Things, cloud, etc.). The new division was created in order to bring closer the areas of IT and networks, and to strengthen the relationship between IT and the development of smart products. Another reason for this step was the Company's plan to apply an end-to-end responsibility, starting from quotation, through supplier management, to service delivery and operation. The management believes that this will increase the flexibility and rate of adaptation of the Company to market developments, and shorten the service delivery process for the customer.

The organigram detailing the new organisation structure of the Company is shown in the section Corporate governance of this Annual Report.

Insourcing and recruitment

In order to increase the effectiveness of the Company's distribution channel, reduce employee turnover and its dependency on suppliers, O2 CZ decided to insource and recruit new employees in selected key areas, also as a response to the growing demand for some professions. Insourcing concerned mainly call centre and back office employees who had been retained by external agencies and now will be made core employees of the Company. The management expects that this will lead to lower staff turnover and, as a result, to lower recruitment and training costs. Sales production and customer experience will also improve. The Company's brand stores and franchises were also affected by the changes. At the end of the year, the Company had only its own brand stores. The main goal is to improve customer experience and the sales at individual stores, improve employee loyalty and reduce their turnover by 50%. At the IT centre in Pardubice, which O2 CZ opened in November 2015, IT specialists, developers and software specialists were taken on as permanent employees, in order to stabilize key development capacity in the Company and reduce its dependence on external suppliers. All these actions combined resulted in 1,003 new employees by the end of 2016, of whom 603 were in call centres, 350 in brand stores and 50 in the IT centre.

Total headcount of the O2 Group by region:

	As at 31 December	
	2016	**2015**
O2 Czech Republic	3,772	2,967
O2 Family	75	83
O2 TV	10	10
O2 IT Services	378	238
Employees in the Czech Republic	**4,235**	**3,298**
O2 Slovakia	614	572
O2 Business Services	33	38
Employees in Slovakia	**647**	**610**
O2 Group employees total	**4,882**	**3,908**

Trading in O2 CZ shares in 2016

	2016	**2015**
Shares issued (in million) [1]	308.2	310.2
Highest share price (in CZK) [2]	259.8	261.0
Lowest share price (in CZK) [2]	200.0	69.2
Share price at the end of the period (in CZK) [2]	259.8	251.0
Market capitalisation (in CZK billion) [2]	80.6	77.9

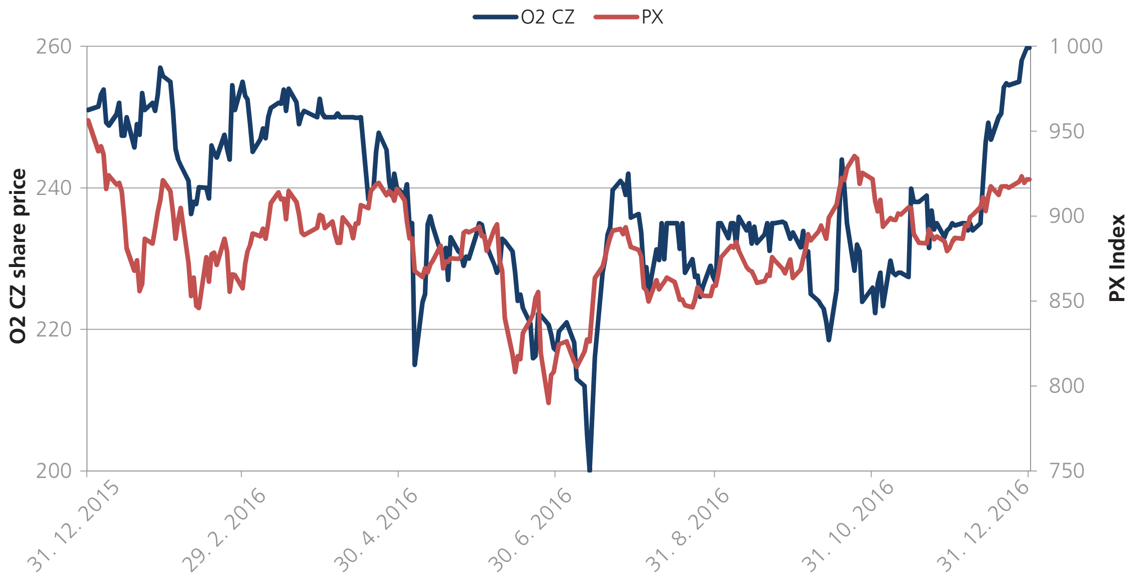
[1] Weighted average number of ordinary shares in circulation over the period
[2] Source: Prague Stock Exchange

In 2016, O2 CZ once again ranked among the most important companies on the Czech capital markets in terms of market capitalization and trading volumes. The total volume of trades in company shares on the Prague Stock Exchange (PSE) was CZK 8.4 bn, which represents 5% of the total trading volume and ranks the Company in the fifth place among the stock traded on the PSE. The average daily trading volume in 2016 reached CZK 33.1 m.

Market capitalisation as at 30 December 2016 (the last trading day on the PSE in 2016) was CZK 80.6 bn (compared with CZK 77.9 bn at the end of 2015), which ranks O2 CZ in the fourth place on the PSE stock market overall, and in the third place among companies whose shares are traded primarily on the PSE.

Between 2 January and 30 December 2016, the O2 CZ share price grew 3.5% to CZK 259.80, which was also the highest share price in the framework of the year. Over the same period, the PX Index (the main index of the PSE) fell 3.6% to 921.6 points. O2 CZ shares confirmed their defensive character aided with robust financials, strong cash flow generation and above-average dividend yield compared with other stock traded on the PSE and also compared with the median dividend yield in the telecommunications sector of Central and Eastern Europe. The fact that O2 CZ shares remained included in the MSCI Czech Republic Index also had a positive effect on the share price.

O2 CZ share performance against PX index



Dividend policy

In 2015, the Company published its new long-term dividend policy which presently still applies. In the next periods, the Board of Directors of O2 CZ intends to propose to the shareholders at the General Meeting to pay out as dividends 90–110% of the net unconsolidated profit. Also, in 2016 the Company announced that, on top of the payment of regular dividends (from the profit of the previous year and retained earnings of the past periods), the Board of Directors would propose to the shareholders to pay out a part of the share premium, in the amount of CZK 4 per share. It is not a one-off pay-out but a sustainable way of the gradual pay-out of the whole share premium.

Dividends

At the Ordinary General Meeting held on 19 April, the shareholders approved the payment of dividends for the year 2015 out of the profit posted in 2015 and a part of the retained earnings, in the total amount of CZK 4.96 bn, i.e. CZK 16 per share in the nominal value of CZK 10, and CZK 160 per share in the nominal value of CZK 100. The record day was 19 April 2016 and the shareholders set the disbursement day for 19 May 2016.

Acquisition of treasury shares by the Company

On 8 December 2015, the General Meeting of O2 CZ approved the proposal to grant the Company the right to buy its own treasury shares. Following the decision, on 23 December 2015 the Company's Board of Directors decided to pursue a programme of buying back its own shares on the regulated market (Share Buyback Programme) over the course of the next two years. The terms and conditions of the acquisition of treasury shares as approved by the General Meeting and the terms and conditions of the Share Buyback Programme as approved by the Board of Directors were published in the 2015 Annual Report.

In 2016, the Company retained the services of the securities brokerage firm WOOD & Company Financial Services, a.s. to implement the Share Buyback Programme. The acquisition of treasury shares on the regulated market organised by the Prague Stock Exchange commenced on 8 January 2016, subject to the terms and conditions as published following the approval of the Share Buyback Programme on 23 December 2015, which stipulates that the volume of shares acquired under the Share Buyback Programme in one day will not exceed 25% of the average daily volume of trades in the Company's shares on the regulated market in November 2015, i.e. 130,525 shares of the Company.

In anticipation of higher market liquidity following the announcement of the MSCI Czech Republic Index on 14 November 2016, the Board of Directors approved an amendment to the rules governing future acquisition of treasury shares, following the decision of the General Meeting of 8 December 2015. For the duration of higher market liquidity, i.e. between 15 November and 30 November 2016, trades were permitted on the regulated market than the volume restriction set for the ongoing programme of acquisition of treasury shares on the regulated market approved by the Board of Directors on 23 December 2015, while respecting the rules for the of investors' and the capital market's protection and professional care of the broker.

The Company may suspend or terminate the Share Buyback Programme before the expiration of the two-year period of the Share Buyback Programme. The Company will always publish any extraordinary circumstances, as well as any other ways of acquiring treasury shares outside the Share Buyback Programme.

By 31 December 2016, O2 CZ acquired a total of 4,852,535 treasury shares for a total of CZK 1,152 m, which represents a share of 1.56% in all voting rights of the Company. In keeping with the provisions of Section 309(1) of the Business Corporations Act, the Company does not exercise voting rights attached to treasury shares. No treasury shares were alienated or cancelled in 2016.

Details of patents or licenses, industrial, commercial or financial contracts which have a significant bearing on the business and on which the Company depends

The Company is not aware of any dependence of its business on the rights to use a patent or patents of specific persons. The use of technology is always subject to a contract relationship with the vendor who is liable for any violations of industrial or intellectual property rights. O2 CZ has licence agreements for the following software products: operating systems (Microsoft, Oracle, Hewlett-Packard and IBA). Companies in the O2 Group also use, in their business dealings in the Czech Republic and Slovakia, the trademark O_2 based on a licence agreement (from O2 Holdings Ltd.). O2 CZ has been allocated spectrum licence by the CTO, which represent the rights to operate UMTS, GSM, CDMA and LTE mobile networks. O2 Slovakia has been allocated mobile licences to operate GSM, UMTS and LTE mobile networks.

O2 CZ and O2 Slovakia maintain a diverse supplier portfolio. The main objective with respect to the contracted suppliers was to have competition on the supply side. All supply contracts are awarded by tender; from September 2015, all procurement is organised via the PROebiz electronic system. In June 2015, that is after the separation of the Company, CETIN became the principal supplier to the Company, with more than a 60% share of the total procurement volume in 2016. A full list of contracts which govern the relationships between the two companies after 1 June 2015 is given in the 2015 Annual Report (section Separation of the Company), and also in Note 4 to the Consolidated Financial Statements for the year ended 31 December 2016, which forms an annex to this Annual Report. Other major suppliers of network technology and IT were: O2 IT Services, NESS Czech, Nokia Solutions and Networks, Cleverlance Enterprise Solutions and Tech Data Distribution. The key suppliers of goods (mobile phones, modems, set-top boxes and accessories) were: Samsung Electronics Czech and Slovak, Apple Distribution International, SWS and Huawei Technologies (Czech). In the area of networks and IT, NESS Czech, ADASTRA, Nokia Solutions and Networks and Huawei Technologies featured as the main suppliers to O2 Slovakia; Apple Distribution International, IR Distribution and ADN were O2 Slovakia's main suppliers of goods.

A detailed report of the Company's financial obligations as at 31 December 2016, and information about financing contracts, can be found in Note 16 of the Consolidated Financial Statements for the year ended 31 December 2016, which form an annex to the Annual Report. As at 31 December 2016, the O2 Group had no overdue long-term financial obligations.

Rating information

As at 31 December 2016, the O2 Group did not have a corporate rating.

SLOVAKIA

As in the Czech Republic, also in Slovakia all four mobile operators in 2016 concentrated on rolling out their 4G LTE service to more population. At the end of the year, Slovak Telekom reported 86%, Orange 80% and 4ka 66% coverage. O2 Slovakia closed the year with 70% coverage.

In the area of roaming, all four operators marketed their services in line with the requirements of European Union's regulation. There were specific propositions going beyond the scope of regulation: 4ka did not apply a roaming charge to outgoing calls and SMS; Slovak Telekom offered calls and SMS in all four neighbouring countries without a roaming charge as part of the Happy price plan.

In May 2016, Orange completely revamped its postpaid service proposition, mainly voice and data and the highest tariffs. Slovak Telekom concentrated on improving its triple-play (mobile, home internet connectivity, TV) service proposition. Having arrived to the market in 2015 with its pay-as-you-go credit tariff, in autumn 2016 the youngest operator 4ka introduced bundles which combine voice and data services and are meant to be purchased to go with the main credit tariff.

As 4ka does not disclose the accurate size of its customer base, it is not possible to determine the market operators' respective market shares. 4ka reported 250 thousand SIM cards sold; Slovak Telekom and Orange 2,149 thousand and 2,888 thousand, respectively (as on 30 September 2016). As on the same date, O2 Slovakia recorded 1,865 thousand customers.

In the corporate and government segment, the main event of the year 2016 was the entry of O2 Business Services (O2 BS) to the market. Previously, only two operators shared the market potential of this segment between them. Prices were very high due to the lack of competition. After the entry of O2 BS, which started to actively pursue tenders and public contracts, the market prices dropped by tens of percent down to a realistic level.

O2 Slovakia

Continuing the trend of earlier years, O2 Slovakia saw growth in all financial and operating indictors in 2016. For detailed information, pleases visit section Overview of consolidated financial and operating results of this Annual Report.

As part of its long-term strategy, in 2016 O2 Slovakia forged ahead with the construction and building up the capacity of its proprietary network. Over the course of the year, the company brought 4G LTE service to more than 200 new locations. At the end of the year, the 4G LTE network reached 70% of the Slovak population. In 2017, the company plans to ramp it up to at least 80% coverage. At the same time as investing in 4G LTE, O2 Slovakia also continued to improve the quality of its proprietary 2G infrastructure, in order to increase customer experience, in particular in voice services. Network-related investments were made also in the fixed access segment; O2 Slovakia announced its plan to build a state-of-the-art optical backbone network in Slovakia. To this end, it acquired long-distance optical networks from several local internet access providers.

In the area of its product portfolio, in 2016 O2 Slovakia focused on gradually making its *O_2 Paušál* price plans more economical and on innovative solutions. In February, the company introduced the possibility to combine and transfer bonuses redeemable against device purchases which come with the popular *O_2 Paušál* price plans, and shortened the time of repayment for a mobile phone by up to six months with *O_2 Paušál*. In April, O2 Slovakia unveiled Datahit, an add-on service which lets customers carry over their unused data allowance and automatically top up the data allowance when it runs out. As part of its autumn offer, the company made its *O_2 Paušál* proposition even more attractive – with more generous data allowances and cheaper roaming. O2 Slovakia also launched its campaign Vykoupení ze závazku (Commitment Buy-out), as part of which it offers to pay the contractual penalty for breaking the commitment with the customer's existing provider, up to the amount of EUR 150. In November, the company expanded its offer of mobile devices – customers who are buying any device will now pay only EUR 2 for the device. After applying the bonus redeemable towards device purchase, which comes with the price plan, the remaining price is scheduled into 24 monthly instalments.

After securing a 3.5 GHz licence, in May O2 Slovakia started a commercial pilot of the wireless broadband LTE technology on this frequency in three municipalities in the west of Slovakia.

In 2016, Férová Nadace O2 (Fair O2 Foundation) started its activities, and in May it invited applications for its first round of grant funding which aims to help unemployed young people find jobs and young entrepreneurs increase their business' competitiveness. The foundation distributed EUR 100 thousand to 13 projects. Also in

2016, O2 Slovakia defended its position as the most popular mobile operator in Slovakia: readers of Texbox, an industry magazine, voted it Operator of the Year already for the seventh year running.

Starting in May 2016, O2 Slovakia commenced a commercial pilot of a national television service under the O_2 TV brand. At this stage, the service offers up to 25 channels. The company also unveiled its own home TV product with a set-top box; presently, in the pilot stage, the service is already operating in three municipalities in the west of Slovakia.

O2 Business Services

In the first half of 2016, O2 Business Services completed the project to build a Fixed Wireless Access (FWA) access network which uses the frequency spectrum of 3.7 GHz and covers all regional and district towns. The consolidation of the O2 BS and O2 Slovakia networks continued throughout the year. Both companies built joint POPs (points of presence), and the networks (backbone and backhaul) were gradually redesigned. O2 BS completed its new product proposition and started marketing and selling a range of services for corporate and government customers. The underlying technology for the delivery of basic telecommunications services (internet, MPLS and fixed voice) was launched, with the workflow and commercial proposition following suit. O2 BS also started, in collaboration with O2 CZ and on its platform, offering ITC services. O2 BS and O2 Slovakia also embarked on a project to upgrade their respective information systems to support the sale of mobile voice to corporations. In collaboration with O2 Slovakia, O2 BS designed its commercial proposition for mobile services, and started to actively market them as of the beginning of the second quarter. The project to develop and adapt the information systems to support the sale of mobile voice and data to corporate customers was successfully completed.

During the course of the second half of the year, O2 BS successfully passed audits to qualify for ISO 9000, 14000, 27000 and BS 10000. The company also passed security clearance to the level of “Confidential” which is valid until 2021. The security clearance allows the company to provide the full range of services also to government customers. In 2016, O2 BS started to offer its first data and voice services on a commercial basis. In the second half of the year, it added Carrier Ethernet, IP Transit, Barevné linky (toll-free/shared toll numbers 0800 and 0850), mobile VPN, SMS Gateway, teleconferencing and videoconferencing to the portfolio. A contract was signed with the Slovak Statistical Office to supply a comprehensive service, comprising of voice and data, to all country’s elections in the next four years. In the area of ICT services, O2 BS signed a contract with the borough of Bratislava-Staré Mesto, to cover the whole area of the capital’s city centre with Wi-Fi signal. In the corporate segment, the company won a voice and data contract with the leading supermarket chain, and added several large accounts to its portfolio: Prvá stavebná sporiteľňa, Komunálna banka or the electronics retail chain NAY Elektrodom. At the end of the year, O2 BS provided already 300 services to two hundred clients.

O2 IT SERVICES

In addition to running the IT operations for companies in the O2 Group, in 2016 O2 IT Services s.r.o (O2 ITS) also developed its third party business in the areas of IT and business consulting, system integration, application development and the development of the Managed Services, and IT operation and optimisation. In February 2016, O2 ITS acquired part of Corpus Solutions, a software development company, and significantly reinforced its position in the area of application and software development, and acquired new competencies.

In April 2016, O2 ITS inaugurated Security Expert Center, a cyber security centre in Prague. Throughout the year, the company also intensively pursued business in the Internet of Things segment and the related Smart City concept. In September 2016, O2 ITS – as the first in the Czech Republic – debuted a smart waste management solution: Smart City Odpady. The pilot project involved the municipality of Kolín and the waste collection company AVE. The solution is based on the monitoring the level of waste in collection receptacles and containers. The ongoing monitoring regime allows for the optimisation of waste collection plans, eliminate disorder near container stations and, thanks to information being online, communicate with the public regarding waste collection. In November 2016, the project won eGovernment THE BEST 2016 – Special Award in the category of municipal projects in the competition for the best e-government projects in the Czech Republic. O2 ITS continued to develop its other Smart City products, especially in the area of mobility (parking, monitoring) and the environment (measuring air quality inside buildings).

In 2016, O2 ITS developed a proprietary modular platform Cloud Service Broker which helps customers with the implementation of cloud solutions, and comes with a comprehensive range of services – from securing lower rates to the monitoring of client applications.

In 2016, O2 ITS continued with implementation of major projects for customers such as Cenia, the Czech Post, the Land Survey Office, Komerční banka, Lesy ČR, Ministry of Transport, Ministry of Finance, Ministry of Defense, Ministry for Regional Development, Ministry of Interior, Ministry of Agriculture, O2 CZ, the Criminal Registry, RWE – Innogy Business Services, Air Traffic Control, State Veterinary Administration, State Agriculture Intervention Fund or the Industrial Property Office. Major new contracts secured in the period included in particular VMware – a central framework contract for the government, the development of the emergency number (112) services for the period 2016–2020 for the Fire and Rescue Service, PRAIS project – operation of the eAGRI system for the Ministry of Agriculture, extension of the IS functionality for Financial Directorate or IS infrastructure operation for the State Agricultural Intervention Fund.

RISK MANAGEMENT

Risk management is one of the primary management tools for effective governance of the Company. Its purpose is to render support in accomplishing the Company's vision and strategy. The risk management model which is being applied fully conforms to the best international practice in the field of corporate governance and the COSO II framework. The risk management system continues to be developed as an indispensable instrument of internal control. Risks are identified based on a regular assessment of the relevant management levels and suggestions made by the Internal Audit Risk and Management unit and other units of the Company, and evaluated in terms of their potential financial impact and likelihood of materialisation. The governing bodies of the Company – the Board of Directors, Supervisory Board and the Audit Committee – are regularly briefed on the major risks to the Company and on the ways of their management.

In the course of its operations, the Company may be exposed to the following risks:

Commercial (market) risks

The general economic climate and the competitive situation in the market are a major influence over the Company's business. Any uncertainty regarding future economic prospects or further intensifying of competition in the electronic communications marketplace may dampen demand from customers. The Company operates in a regulated marketplace. Regulatory interventions on the European (European Commission) and the national (CTO) level may have a negative impact on the Company's business. The Company's business may be also negatively influenced by the ongoing progress of technology. New products and technologies may cause existing products and services to become obsolete; they may have also a negative bearing on the profitability of traditional voice and data services.

Financial and credit risks

The Company is exposed to various types of financial risk, in particular risks of the fluctuation of the exchange rates of currencies or interest rates. The Company is also faced with the risk of losses stemming from defaults on payment and delivery terms contracted with partners, e.g. receivables from customers or sales agents.

Operating risks

The Company is exposed to risks associated with a sudden disruption of service due to network failure, information system downtime or attacks compromising cyber security. Such service interruptions may negatively influence the Company' reputation, and consequently of customer satisfaction and revenues, and make the Company liable to bear extra maintenance costs or financial sanctions. The Company may be exposed to increased operating costs if major transformation projects, especially in the area of information technology, incur delays. The Company is also dependent on a small number of key suppliers of essential products, services and network technology. The Company is also implicated in several significant litigation cases and figures in several administrative proceedings with regulators; the outcome cannot be predicted. If the decision is negative to the Company, its costs may increase significantly, which would in turn have a negative effect on its bottom line.

The above risks are regularly monitored and managed by the executive management of the Company in a way that corresponds to the nature of the risk, with the view of limiting the potential impact on the Company's results.

Products and services

In 2016, the Company tracked the developments in the market and changes in the customers' demand and behaviour, and concentrated on offering new and on improving existing services, mainly fixed and mobile data and pay TV, as well as network security and data security products and services for business customers. As the trends in the telecommunications industry are now undergoing a shift, and the financial results of O2 CZ in the next few years will be under strain of the European Union's roaming regulation, the Company focused also on the development and marketing of other services than those of traditional telecommunications. In 2016, O2 CZ brought to market some new services and services in those segments which are on the rise, including the segment of insurance and the segment of electronic record of sales. These steps are in the line with the Company's strategy to offer more value to customers through products and services, and compensate for the negative impact of the fierce price competition, namely in the corporate and in the government segment.

CONSUMER SEGMENT

Throughout 2016, the Company concentrated mainly on increasing the speed and availability of its fixed and mobile internet access. Customers were offered a choice of new services. Towards the end of the year, as part of its Christmas campaign, the Company gave its customers the best of its Smart Network: extra 30 GB of data with selected tariffs, unlimited calls, the fastest internet connectivity and extra television channels.

Mobile segment

In connection with the roll-out of 4G LTE internet connectivity, the Company promoted mobile devices which support this technology. At the end of the year, one in three phones in the O2 network were 4G LTE-enabled. In October, the Company started offering, as the first network operator, the option carry any unused data allowance over to the next month. The new way of drawing on the data allowance lets customers enjoy the benefits of fast internet around the clock, without losing data they had paid for and did not have time to use up.

In connection with the new regulatory framework of the European Union, as of 30 April 2016, the Company offers two roaming tariffs – *Volání bez hranic* with competitively-priced travel insurance, and *Svět Basic* where calls, SMS and data in EU member states are charged at the rates equal to those in the Czech Republic, plus a surcharge per unit consumed.

In mobile data, the Company continues to concentrate on its proposition of exclusive content. In June it partnered with Spotify, the world's number one in music content streaming, and the service is now available also in the Czech language, as a result of the partnership with O2 CZ. Consumers who are contract customers have their pick of 30 million tracks, and they can listen to their favourite music without drawing from their data allowance. Customers received three months of Spotify Premium included with their tariff. During the first half of the year, the Company started offering Datomat – a place where customers are rewarded with extra data allowance for completing various challenges.

In summer, the Company became the first in the Czech market to start offering innovative travel insurance in the mobile. For more information, please visit section Payment and financial services of this Annual Report.

In the prepaid service segment, the Company introduced *O_2 Předpladenka*, a prepaid card where the customer pays only for those days they make an outgoing call, send an SMS or go online. Within the day they pay for, they get unlimited calls to all networks.

Fixed voice and internet

In the area of fixed voice, the year 2016 ushered a major change. Driven by the advanced rate of fixed-to-mobile substitution in the Czech Republic, which is among the highest in Europe, early in the year the Company brought to the market two new tariffs: *Volání ČR*, which comes with unlimited calls to all networks in the Czech Republic, and Volání ČR Plus, which also offers 1,000 free minutes of international calls. During the year, the Company gradually migrated the whole customer base of consumers and SME customers to these new tariffs. The new and significantly simplified fixed access proposition turned out to be very popular with customers, as attested by 40% more calls on average.

In 2016, the process of increasing xDSL speeds continued, assisted by the installation of remote DSLAMs by CETIN. In November, the Company debuted a new tariff, *O_2 Internet Premium*, which uses the VDSL technology and offers speeds of up to 80 Mbps for download and 8 Mbps for upload. The tariff *Internet Premium* was available to 11% of the customer base at the end of the year, and its availability will further increase in time. All existing customers of the tariff *O_2 Internet Aktiv* were upgraded from 40/4 Mbps to 50/5 Mbps, while the price remained the same.

O_2 TV

In 2016, the Company significantly expanded it's the distribution network for its television service O_2 TV. Since February, O_2 TV can be received not only via an internet connection from the Company and on up to four mobile devices, but the new set-top box with integrated Wi-Fi has made it possible to combine the service internet connectivity from any provider. Customers can sign up for O_2 TV also at electronics retailers and in selected e-shops. Customers who wanted to switch to O_2 TV from another provider, now can, since December, enjoy a full portfolio of tariffs: *O_2 TV Air M*, *O_2 TV Air L* and *O_2 TV Air XL*, as well as Kino ad-on bundle which offers the best film channels.

During the first half of the year, the Company innovated its unique time shift feature Zpětné shlédnutí, which extended the time for playback to 50 hours after the original airing. This feature is available on all platforms. During the course of 2016, the Company added new content to O_2 TV: DVTV, Playtvák or Investorský magazín. Since October, the O_2 Library now offers premium film content from the catalogue of 20th Century Fox film studios.

As for exclusive sports content, the Company continued to implement its long-term strategic goals and expanded its content proposition. In September, the channel O_2 Sport was rebranded O_2 TV Sport. The IPTV functionality allows the Company to collect precise data of the popularity of specific sports and programmes. The Company continued the development of three television channels dedicated to the most popular sports: football, ice hockey and tennis. O_2 TV Fotbal launched on 8 August; O_2 TV Tenis, which is one of only a few sports channels in Europe devoted to tennis, went on air at the beginning of 2017. Starting from 2017, the Company has broadcasting rights to all matches of the WTA Tennis Tour. It is the most extensive bundle of tennis programming that has ever aired in the Czech Republic. In October, the Company announced another major acquisition: broadcasting rights for the Basketball Champions League (FIBA). In 2016, the Company started producing its own content, and in October an innovative reality show from the world of MMA (mixed martial arts) produced by its in-house production company OKTAGON went on air.

After a successful partnership with Staropramen, which brought O_2 TV to selected restaurants as part of the project Sportovní kino (Sport cinema), in 2016 the Company joined forces with Plzeňský prazdroj, the number one brewery in the Czech market. The combined market share of restaurants where beers from these two breweries are on tap is close to 60%. From the end of the year, sports fans could watch matches in more than 1,100 restaurants, bars and pubs.

CORPORATIONS AND GOVERNMENT

In the government segment in particular, pressures on prices continued also in 2016. In many tenders, price was the only evaluation criterion. The supply usually did not include anything but the basic service and often did not set any requirements for the quality of the telecommunications services supplied.

As in other customer segments, when it comes to mobile services, the Company saw an increasing trend of usage of data services across the tariff portfolio also in the corporate and government segment.

With respect to the increasing incidence of IT threats to critical infrastructure and mobile attacks, security was the main topic. The Company focused on the development of especially network security products and services. Data protection was another security-related field in which O2 CZ data centres and cloud services were the key products. All delivered services have the option of monitoring through the Security Expert Center (SEC), where O2 CZ's cybernetic security activities are concentrated.

The Company also continued with its effort to streamline its product portfolio, accelerate the process for making quotations for customers and shorten the time needed to develop new services. The Company also started offering the option to carry over any unused data allowance to the next billing period; completed the internal development of a specialised platform for the management of mobile Machine-to-Machine connectivity; and launched a Managed WiFi service which has already been successfully implemented at several large customers. In December, the Company's portal O_2 Zóna, which automates the purchasing and management of cloud services, went online. The diversification in the area of data and internet services also continued. The Company built a connection with Interroute and Equinix; as a result, its peering capacity for video content distribution doubled.

In the area of marketing communication, the Company continued to promote its Elastic Business Solutions (EBS) concept, which culminated with the international conference Elasticom 2016.

PAYMENT AND FINANCIAL SERVICES

With payment services from O2 CZ, customers can remit sums of money and pay for third party goods and services using their mobile phone or fixed line.

Customers have a choice of several methods of payment – SMS, premium lines, confirming a payment online or in an application. In 2016, more than 250 thousand customers on average used at least one such method of payment a month. Premium SMS is the most popular way of paying for third party transactions; customers use it mainly to pay for public transport fare, parking or voting in television shows. The option to pay online via the O2 payment gateway, or directly in a third party application, is also gaining traction. A typical example is payment in the Google Play application store, where already more than 130 thousand customers have used the option to pay via O2.

In line with the strategy to develop other services, which fall outside the scope of telecommunications, O2 CZ continued the development of insurance products which are proving very successful. After the Company started selling insurance cover for mobile phones and tablets in October 2015, and in Slovakia from April 2016, in June 2016 the Company introduced "smart travel insurance" in a mobile phone. It is an innovative and – in the context of the European market – unique product. Like roaming, insurance is activated automatically, as soon as the device registers in a foreign network. The travel insurance applies in all countries of the world where the Company has a roaming partner, and covers against common risks associated with travelling. During summer holidays, new and existing customers who are subscribed to the roaming tariff *Volání bez hranic* could use service as part of their tariff. As of 31 December 2016, the more than 145 thousand customers of the Company in both markets used an insurance product from its portfolio.

Overview of consolidated financial and operating results

In this section we present and comment on the consolidated financial results of the O2 Group for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS).

CONSOLIDATED FINANCIAL RESULTS

Revenue, costs and EBITDA

The total consolidated revenue of the O2 Group reached CZK 37.5 bn in 2016, up 0.4% on 2015. Also in the second year after the separation, the O2 Group maintained stable revenue performance. The higher average spend per mobile customer driven by higher data revenue, higher revenue from z O_2 TV, lower rate of decline of fixed voice revenue and higher revenue in Slovakia were all factors which contributed to the overall result, and fully compensate for the lower mobile voice and fixed data revenue due to the pressure on the prices in the corporate segment, and the lower roaming revenue due to the European Union's regulation. Other non-telecommunications revenue, including own work capitalized, reached CZK 520 m in 2016.

Also in 2016, the O2 Group forged ahead with its transformation programme, with a view to simplify its management and operations, and to make them more effective. Despite the investments in connection with the entry to the segment of corporations and government in Slovakia, the total consolidated operating costs went down 0.2% to CZK 27.6 bn in 2016. Earnings before depreciation and amortisation (EBITDA) reached CZK 10.5 bn in 2016, up 3% on 2015; the 5% increase in the Czech Republic to CZK 8,247 m more than compensated for the 3.5% EBITDA shortfall in Slovakia, down to CZK 2,204 m. The consolidated EBITDA margin went up 0.7 percentage points year on year to 27.9% in 2016.

Operating income, income before tax and net income

The consolidated operating income and income before tax in 2016 went up 4.0% and 4.8% to CZK 6.9 bn and CZK 6.7 bn, respectively. The consolidated net income from continued operations reached CZK 5.3 bn in 2016, which is up 3.6% year on year. In connection with the ongoing transformation of its systems and IT operations, the O2 Group designated some of its systems as redundant, and in 2016 booked a one-off impairment charge of CZK 150 m in the Czech Republic and in Slovakia. The total depreciation and amortisation went down 2.2% year on year to CZK 3.4 bn.

Property, plant and equipment; intangible assets

The net book value of property, plant and equipment as at 31 December 2016 stood at CZK 5.1 bn, slightly up on the end of 2015 with CZK 4.6 bn. A major part of the net book value of property, plant and equipment as at 31 December 2016 was communication technology and related equipment (CZK 3.1 bn), which includes mainly exchanges and transmission technology.

The net book value of intangible assets as at 31 December 2016 stood at CZK 16.5 bn, compared with CZK 16.1 bn the year before. A large part of the year-on-year increase in the net book value of intangible assets is attributed to licences, mainly due to the acquisition of spectrum licences for 1,800 MHz and 2,600 MHz in the Czech Republic, made by the O2 Group in 2016 for CZK 1.5 bn. Software, in connection with the ongoing IT transformation in the Czech Republic and Slovakia, was another insignificant factor in the year-on-year increase.

Cash and debt

The consolidated financial debts (short- and long-term) as at 31 December 2016 were CZK 7.0 bn. During the course of 2015, O2 CZ signed agreements with a consortium of banks, for a loan of up to CZK 12 bn for 5 years; a term loan of CZK 7 bn and a revolving loan for up to CZK 5 bn. The loans were used to refinance an earlier loan of CZK 7 bn, and for general corporate purposes. The volume of cash and cash equivalents reached CZK 4.1 bn as at 31 December 2016. The net debt[1] to EBITDA ratio was 0.27 as at 31 December 2016.

Capital expenditure

The total consolidated capital expenditure (additions to fixed assets) reached CZK 4.4 bn in 2016, up 33.9% year on year. This amount includes the investment of CZK 1.5 bn in the 1,800 MHz and 2,600 MHz spectrum acquisition in the Czech Republic, which the Company won at auction in 2016. On the other hand, in 2015 capital expenditure included also the price for the 900 MHz and 1,800 MHz spectrum licence renewal of CZK 432 m. Excluding the spectrum investments in both years, the total capital expenditure went up 2.7% year on year to CZK 2.9 bn, and the capital expenditure to revenue ratio reached 7.8%. Capital expenditure went mainly into areas connected with the IT transformation project (upgrade, consolidation and implementation of IT and systems) driven by the goal to streamline processes and simplify systems. The O2 Group also continued investing in sports television content. In Slovakia, it invested in improvements of the quality and availability of the 2G network, in order to reduce its dependence on national roaming, in its 4G network service, in the roll-out of its national optical backbone network and in an upgrade of its billing and CRM systems.

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

Capital expenditure breakdown of the O2 Group in the last two accounting period (in CZK million):

	2016	2015
O2 Czech Republic - of which licences	3,128 1,472	2,714 432
O2 Slovakia	1,115	530
Other subsidiary companies and consolidated adjustments	179	47
Total	**4,422**	**3,291**

Cash flow

Net cash flow from operations reached CZK 9.2 bn in 2016, while net cash flow used as investments was CZK 4.5 bn. The consolidated free cash flow[2] reached CZK 4.7 bn in 2016, compared with CZK 6.3 bn in 2015. The higher acquisition cost of non-current assets in connection with higher investment activity was the main reason behind the year-on-year cashflow drop.

Overview of consolidated revenue

The market remained fiercely competitive and, in May, it was hit by the effect of the new roaming regulation. The O2 Group still succeeded to grow its consolidated revenue by 0.4% year on year to CZK 37.5 bn. The revenue in the Czech Republic reached CZK 31.1 bn, which is up 0.1% year on year. The fixed access revenue dipped slightly by 0.9% to CZK 11.6 bn, while continuous O_2 TV revenue growth, the higher ICT revenue and the significant slowdown of the negative trend in voice access revenue almost compensated for the shortfall in data revenue. The mobile segment revenue were slightly up by 0.7% to CZK 19.5 bn. The drop in the voice access and SMS revenue due to roaming regulation and the competitive pressure in the segment of corporations and the government has been more than compensated by the higher mobile revenue and revenue from equipment sales. In Slovakia, the total revenue reached CZK 6,787 m, up 1.6% year on year.

[1] Financial debt less cash
[2] Net cashflow from operations less net cashflow from investment less distribution of cash to CETIN (only 2015)

Voice access revenue reached CZK 16.1 bn in 2016, down 4.6% on 2015, mainly due to the lower fixed segment revenue; as a result of the migration of customers to a new tariff with unlimited fixed calls to all domestic networks and abroad, the negative revenue trend slowed down considerably in contrast to the situation of 2015. The revenue were also lower as a result of the lower effective mobile prices due to the higher number of customers using unlimited voice tariffs, and as a result of the intense competition. In addition to that, the revenue also reflected the lower roaming revenue as a result of the European Union's new regulation.

The total mobile customer base in the Czech Republic was 4,941 thousand as at 31 December 2016, up 0.9% year on year. The contract customer base went up 3.7% to 3,356 thousand, which is up 119 thousand over the year. As of the same date, the prepaid customer base was 1,585 thousand, while the churn rate slowed down in 2016. The share of contract customers in the total customer base was 67.9% at the end of 2016, up 1.8 percentage points year on year.

The total average churn rate was down 0.3 percentage points in the Czech Republic to 1.6%. The monthly average contract churn rate was only 0.7%, which is down 0.3 percentage points year on year, while in the prepaid segment, it was 3.3%, which is down 0.2 percentage points year on year.

The total monthly average revenue per mobile user (ARPU)[3] was CZK 289 in the Czech Republic in 2016, up 0.6% year on year; the negative impact of the competition on the voice and SMS pricing in the corporate segment and the effect of the new roaming regulation from May 2016 have been more than compensated by the improved quality of the customer base and the higher mobile spend. The contract ARPU went down 0.9% year on year to CZK 372. Prepaid customers spent on average CZK 119, which is 0.2% less per month year on year, while in the fourth quarter alone, the prepaid ARPU was down 0.8% to CZK 120.

The total number of fixed voice lines went down 16.8% year on year to 699 thousand at the end of 2016. However, during the fourth quarter, the negative trend slowed down further, and the migration to the new unlimited tariff increased the average revenue per line in the consumer segment by close to 30% year on year.

At the end of 2016, the total mobile customer base in Slovakia was 1,892 thousand, up 4.6% year on year. During the course of 2016, the customer base increased by 84 thousand driven exclusively by the higher number of contract customers. The contract customer base went up 10.9% (106 thousand) year on year to 1,077, while the prepaid customer base stood at 815 thousand. The quality of the customer mix continues to improve, and the share of contract customers in the total customer base was already 56.9% at the end of the year (up 3.2 percentage points year on year).

The total revenue from data in 2016 went up 5.2% to CZK 11.0 bn year on year, mainly due to the higher mobile data revenue in the Czech Republic and Slovakia as a result of the growth in the mobile data user base and mobile data traffic. The number of small-screen internet customers in the Czech Republic went up 15% year on year in 2016 to 1,778 thousand, and in Slovakia up 9% to 866 thousand. The demand for mobile internet strengthened, mainly as a result of customers migrating to tariffs with more generous data allowances and the fact that it became easier to top-up the allowance after it had been used up. In addition to the wider 4G LTE network coverage, the positive trend has been helped also by the sales support of smartphones, with an emphasis on LTE-enabled devices. The smartphones penetration continued to grow; at the end of 2016 it reached 56.3% in the Czech Republic (up 7.8 percentage points year on year). LTE-enabled mobile phones accounted already for 32.2% of all handsets in the O2 CZ network at the end of 2016 (up 13.7 percentage points year on year). In Slovakia, the smartphone penetration was 56.0% at the end of 2016, up 6.5 percentage points. The share of customers with LTE handsets reached 33%. The revenue from fixed internet access dipped slightly as a result of the lower number of xDSL lines. The revenue from the O_2 TV, on the other hand, were up more than 50% due to the higher number of customers and higher average revenue per user caused by the migration of customers to new tariffs.

At the end of 2016, the number of xDSL customers reached 769 thousand. The share of subscribers of the fast VDSL service increased to 65%, with 500 thousand customers already using the service (up 14.1% year on year).

The O_2 TV (IPTV and OTT version) customer base reached 221 thousand at the end of 2016, up 6.1% year on year. The add-on service MULTI, which lets members of a households watch O_2 TV on multiple televisions sets simultaneously. The service was subscribed by 34 thousand households. The growing demand for digital television is motivated by the functionality it offers (playback, recording, et.), as well as by the widening choice of exclusive content broadcast over the proprietary television channels with MultiDimension.

[3] Revenue from outgoing services (voice, SMS, MMS, internet and data) + termination revenue + M2M revenue divided by the average number of users

The option to watch O_2 TV online, on mobile devices or in restaurants in the Staropramen and Pilsner Urquell chain were also popular with customers. The number of regular O_2 TV viewers who watch in a mobile application or online continued to grow; in December 2016, already more than 360 thousand people had used the alternative platforms.

The revenue from ICT services increased 3.3% in 2016 to CZK 2.0 bn. The O2 Group continued its successful proposition of standard ICT services (Managed Services, cloud solutions, network security, virtual desktop) to corporate customers and dedicated projects to the government. Revenue from other telecommunications services went up 3.8% year on year to CZK 8.4 bn.

Overview of consolidated operating expenditure

The consolidated operating expenditure of the O2 Group went down 0.2% in 2016 to CZK 27.6 bn. Further streamlining of the operating and commercial model contributed to this result, and more than compensated for the higher operating costs in Slovakia. Supplies remained flat year on year, at CZK 19.4 bn, of which the cost of services sales was up 1.3% year on year, while the lower commissions paid due to the conversion of franchise stores to brand stores offset the higher cost of sales of goods.

Personnel costs, including restructuring, reached CZK 4.0 bn in 2016, up 8.0% on 2015, mainly as a result of the employee insourcing. The total headcount of the O2 Group as at 31 December 2016 was 4,882.

In 2016, the cost of external services reached CZK 3.6 bn, down 12.4% year on year. Lower cost of network and IT maintenance and repair, as well as lower third-party cost of call centre services due to insourcing, were contributing factors.

Outlook for 2017

In 2017, the O2 Group will maintain its focus on improving its proposition of traditional products and services, in order to preserve the exceptional loyalty of its customers, meet their ever-increasing expectations and stimulate interest in more services. The O2 CZ Board of Directors is confident that the revenue from O_2 TV, mobile and fixed data, internet and ICT will continue to be the key contributors to the bottom line. At the time of a major shift in the trends within the telecommunications industry, and as the O2 Group expects its results to be adversely affected by the European roaming regulation in the next few years, and in line with its strategy to focus, following the infrastructure spin off, on the development and marketing of other than the traditional telecommunications services, the O2 Group is planning to venture out into new areas that are presently enjoying a growth spurt. The O2 Group will pursue the development of insurance products and plans to reinforce its positon in the market of solutions for the electronic record of sales. The O2 CZ Board of Directors believes that these new activities will help at least partially offset the loss of roaming revenue.

As part of its transformation, the O2 Group will, also in 2017, continue with its investments in IT, billing and CRM systems. The investments will produce a simpler and faster order management and service delivery process, reduce the incidence of claims, negative and repeated calls in call centres and improve the customer experience and satisfaction. In the corporate segment, the Group's goal continues to be to protect its market share through offering more services and to turn around the negative trend in average spend. O2 CZ will also continue to develop and market its ICT and digital services (cloud services, security, M2M).

The O2 CZ Board of Directors expects that CETIN will in 2017 continue to invest in bringing the VDSL technology to more locations and boosting the capacity of remote DSLAMs, vectoring and bonding, which will reinforce the O2 Group's position in the broadband internet market. The O2 CZ Board of Directors is confident that O_2 TV will successfully engage new customers with its exclusive content proposition, which will lead to the O2 Group further improving its positon in the pay TV market.

O2 Slovakia will maintain its focus on offering transparent and fair services, targeting higher value-added customers. The company's aim is to mitigate the impact of the growing competition on its commercial and financial results. As for its investments, O2 Slovakia will concentrate mainly on improving the coverage of its proprietary 4G LTE network to at least 80% of the population. At the same time, it will continue to roll out its 2G network in order to further reduce the operating costs associated with national roaming. O2 Slovakia will work together with O2 Business Services on a joint proposition of services to corporate and government customers.

Corporate Social Responsibility (CSR)

5

Corporate Social **Responsibility** (CSR)

O2 CZ is actively involved in environmental and social issues, ethical business and treatment of customers, caring for employees and the workplace. The Company's responsibility and philanthropy activities derive from its sphere of business. It uses technology to improve the quality of life of various, particularly disenfranchised groups of population. The Company is also actively involved with issues of cyber and network security. With this focus, O2 CZ responds to the problems the society faces today, and helps find solutions to them.

In 2016, the Company's CSR campaign – the educational internal programme Experts as Trainers – has earned it a 'Gold Certificate' for Workplace of the Future. In the category CSR Project, the Company received a 'Silver Certificate' for the O2 Foundation's programme SmartUp which helps young people turn their ideas into reality.

Business Principles of O2 Czech Republic Group

O2 Group Business Principles are a fundamental document in which the Company publicly declares its policies and the principles by which the Company its employees are bound. The Principles declare the approach of the Company and its employees to all aspects of corporate social responsibility, including environmental, social and employee matters, respect for human rights, fighting corruption and bribery. A firm denouncement of corruption in any shape or form, respect for the rule of law and the protection of information and privacy are among the Company's key ethical principles.

Employees continue to receive training by means of an electronic course, and they are familiarized with these principles upon initial entry training at the start of their employment relationship. As one of the fundamental policy documents of the Company, the Group Business Principles are integrated into the Work Regulation and the Company obliges its employees to respect them.

Market conduct and caring for the consumer

Products and services for people with specific needs

As in the previous years, also in 2016, the Company focused on helping and supporting people with specific needs. More than 36 thousand customers took advantage of the services and special rates in 2016. Customers could claim a discount on mobile services or fixed line and internet tariffs. The Company also offers terminal equipment suitable for people with motoric, sight or hearing disability or people with restricted movement.

Donor SMS (DMS)

Also in 2016, the Company took part in a joint project of the Donors Forum, an organisation which promotes philanthropy in the Czech Republic, and the Association of Mobile Network Operators, which offers simple, fast and transparent donations via the so-called DMS sent to a specific non-profit project. The whole amount raised via DMS goes towards the non-profit cause. Mobile operators provide their services free of charge.

Safe internet

In 2016, the Company became general partner of the project E-Bezpečí of the Centre for Prevention of Unsafe Virtual Communication, Faculty of Pedagogy, Palacký University in Olomouc. The goal of the project is to improve the general primary prevention of unsafe online behaviour, especially of children, but also to raise awareness of parents and teachers.

Better school

To help young people through mobile technology, in 2016 the Company joined forces with Lepší místo (Better Place), an organisation which implements the project Lepší škola (Better School) at elementary schools. The project aims to teach children sensitivity to their surroundings, and encourage them to take part in improving it – including through mobile technology, as in this particular project.

Caring for employees and the workplace

In 2016, a large part of the employee agenda focused on the insourcing project – for more information see section Business overview by the Board of Directors – Overview of the O2 Group and the main changes in 2016 of this Annual Report.

A new collective bargaining agreement was signed in 2016, for the years 2017 and 2018. The new collective bargaining guarantees a level of welfare and care for employees, which goes above the legal requirement of the Labour Code.

In the area of benefits, the Company allows its employees 18 thousand points to be spent through the benefit portal on various financial services, Company's own products, education, culture, sports, etc. Employees with disability get an extra 10 thousand points a year to spend on recuperative holidays or to compensate for the extra cost of healthcare. The Company also provides employees with training, telecommunications services also for family members at special, a contribution towards a mobile phone and other benefits.

In cooperation with health funds, the Company also cares for the health of its employees. It offers standard healthcare packages and also, for example, vaccination against flu. The Company also organises Health Days with health, lifestyle and nutrition advice and consultations, and also supports team meetings and corporate events.

The Company promotes good work/life balance. To this end, in 2016 it allowed its employees take more unpaid leave for extra-occupational activities through the new benefit Volný den (Day Off). In line with its continued support to flexible working, the Company joined the celebrations of Work from Anywhere! day, and continues to promote home office and part-time work. Related to that, the Company has a special programme for mothers on maternity leave, which financially motivates them to return to work sooner.

In 2016, O2 CZ introduced incentive programmes for employees assigned to the key transformation project Simple Online Company. A new bonus system, to be launched in 2017, was designed and approved. The new system gives more responsibility and flexibility in awarding bonuses to line managers, and it is configured to deliberately reward the highest-performing employees of the Company.

As in previous years, the labour market recovery continued also in 2016. O2 CZ responded with an increased focus on HR marketing; among other things, it launched a new recruitment website chcidoo2.cz. Internal transfers, which fill more than one third of vacant positions, continued to be the Company's priority. O2 CZ also focused on building up its teams through recruiting new talent, and continued its collaboration with students and universities.

The Internship and the Graduate Programmes are also among the Company's long term activities. The Internship Programme welcomed 45 university students in their last year of school. O2 CZ relaunched an innovated Graduate Programme with 8 university graduates. Compared to 2015, recruitment went up 30%, also due to the insourcing project, among other reasons.

In the area of education, in 2016 the Company decided to refocus its strategy and pay more attention to each person's accountability for their individual development. The communication was based on three pillars:

- Individualisation – the Company promotes such forms of education which are tailor-made to individuals and specific teams. Some programmes require partial financial participation of employees.
- Digitalisation – in its educational activities, the Company seeks to employ modern technology and online tools to make the process more effective, improve its quality and to adapt it to new trends.
- Inspiration – the Company encourages sharing between employees and businesses, helps organise discussions with inspirational people, and has mentoring and other personal development programmes.

Identification of key talent among specialists and managers remains a priority. As parts of its talent programme, throughout the whole year the Company worked with selected employees – providing them with opportunities to grow, network and for their deeper involvement in the Company's affairs. The Company also continued with its earlier initiative Champions, which organised regular management and talent meetings to share inspiration and discuss issues related to corporate priorities and strategy.

Leadership, and its development, continues to be one of the Company's priorities; in 2016, O2 CZ continued also with its comprehensive development programme Leader, which in 2016 trained more than 300 managers in leadership skills.

The internal training team is systematically helping recently recruited employees with their adaptation to the various distribution channels. In all divisions, adaptation programmes continued to incur modifications, in order to maximise their performance and quality. Employee adaptation has been made partly online due to the introduction of new elements which further simplify the adaptation process.

New developments in 2016, which have led to an improvement in the corporate culture and the way the Company treats its employees, include the institution of internal ombudsman, inauguration of the O2 Hub co-working centre at the Company headquarters.

Caring for the environment

Environmental policy and certification

The Company has implemented and certified an environmental management system according to the international standard ISO 14001, and recently it re-certified for ISO 50001 in energy management. The certificates seek to ensure environmental sustainability through reducing energy consumption and cost.

Reducing environmental footprint

The long-term commitment of the Company is to preserve natural resources, optimise its energy consumption, reduce the energy requirement of its networks and mitigates the negative impacts of our activities on air quality. The proportion of home office increased in the Company, which generates a positive effect on the transportation of employees and on energy consumption. The downsizing of the Company's vehicle fleet, on the one hand, and the acquisition a higher number of 'greener' models, on the other, which has reduced the fleet's overall environmental footprint, as well as regular change of air-conditioning refrigerant, are some of the ways we strive to protect the air quality and our Earth's ozone layer.

Activities of the Company in the area of sustainability and employee participation

In 2016, the Company took part in the outreach campaign Responsible Company by EKO-KOM, a.s., which aims to raise employee awareness, improve the conditions for waste classification in companies, and to raise awareness in the area of waste disposal.

As in previous years, also in 2016 O2 retail stores accepted old mobile phones for safe disposal. For each mobile device turned in for disposal, the Company donated CZK 25 to the O2 Foundation's Safety Line project. In 2016, CZK 52,205 in total was raised through this initiative.

Caring for the communities

SmartUp

Throughout 2016, the O2 Foundation continued with its central grant programme SmartUp, which helps young people make their innovative ideas a reality. In 2016, SmartUp registered 292 grant applications, of which 126 have been awarded grant funding. In addition to a grant and training, successful applicants were also mentored by O2 employees who stood at hand to assist with project implementation. The special programme SmartUp Ambassador, which further develops and supports people who have benefited from earlier projects of the O2 Foundation, also continued in 2016.

Telephone line for people with hearing or sight impairment

The Company continued to improve its service for people with hearing or sight impairment, which helps people with these disabilities to communicate with the outside world through modern technology. The service (O2 Linka pro neslyšící a nevidomé) is 24/7 and free of charge; the only requirement is a fast registration. In 2016, operators handled 65,789 calls from customers with a seeing or hearing disability. The telephone line also offers a selection of assistance services for people who are blind or partially sighted.

Safety Line

The Company's long-term partnership with the Safety Line continued also in 2016. Safety Line is a service for children and young adults faced with a life crisis. The Company's financial support to the Safety Line in 2016 has made it possible to embark on a long-term project of the Safety Line call centre upgrade. In 2016, the Company donated CZK 2 million to the Safety Line.

Senior Assistance Line

The O2 Foundation continued its partnership with the Senior Assistance Line operated by Elpida. Senior citizens and their carers can call a counsellor and share their problems and joys, ask for medical, legal, psychological advice or information about social services and the welfare system. The funding from the O2 Foundation manages to keep the service free of charge.

Employee volunteer programmes

As in previous years, also in 2016 the Company encouraged charitable giving among its employees. More than five hundred employees engaged in some form of community work in 2016. In 2016, employees raised – through internal fundraisers and charity markets – more than one million Czech crowns. O2 CZ continued to support charity team building events, where managers and their teams work in selected non-profit activities. Employees also acted as mentors and project evaluators in the SmartUp programme. Overall, employees of the Company spent more than 2,800 hours of their time in volunteer activities.

Also in 2016, employees gave blood at their workplace as part of the Give Blood with O2 initiative. Over the course of four days, 109 employees (some repeatedly) donated 94 litres of blood. The O2 Foundation continued its programme Help Your Community. Employees could enter the non-profit organisation where they actively volunteer, or in whose project for which the organisation is seeking funding they want to get involved. 21 applicants were selected and received a proportion of the overall fund endowed with almost one million Czech crowns.

Corporate governance

6

Corporate **governance**

O2 Czech Republic a.s. and its subsidiary companies / O2 Czech Republic concern / ownership interests in other companies

O2 CZ is a parent company of several commercial companies (directly or indirectly). As of 1 April 2016, O2 CZ and most its subsidiaries form a concern pursuant to Section 79 et seq. of the Business Corporations Act (an overview of concern members is given in the table below). Within the concern, the Company is the dominant entity. Single management is the main reason behind forming the concern, so that concern interests can be advocated over the long term as part of a single concern policy. The Company manages the concern by way of coordination of the concern's businesses and through concern policies. O2 CZ also has ownership interests in other companies.

SUBSIDIARY COMPANIES (as of 7 February 2017)

Commercial name	Area of business	Corporate number	Share capital	O2 CZ share in equity	Concern member
O2 Slovakia, s.r.o.	Mobile telephony, internet and data transmission services; independent financial agent within the limits of the licence issued by the Slovak National Bank	35848863	EUR 103,203,437	100.00%	YES
Internethome, s.r.o.	Provision of WiFi internet access	24161357	CZK 67,765,000	100.00%	YES
O2 Family, s.r.o.	Mobile telephony, internet and data transmission services; provider or agent of consumer loans	24215554	CZK 200,000	100.00%	YES
O2 TV s.r.o.	Broadcaster of O_2 Sport television channel	03998380	CZK 1,000,000	100.00%	YES
O2 IT Services s.r.o.	Information technology services	02819678	CZK 200,000,000	100.00%	YES Since 22 December 2015
Bolt Start Up Development a.s.	Start-up fund	04071336	CZK 2,000,000	100.00%	YES
O2 Business Services, a.s. *	Mobile telephony, internet and data transmission services	50087487	EUR 25,000	100.00%	YES
eKasa s.r.o.	Provision of a solution in the area of electronic record of sales	05089131	CZK 100,000	100.00%	YES
O2 Financial Services s.r.o.	Agent in the area of financial services	05423716	CZK 200,000	100.00%	YES

iCORD International s.r.o.**	Online communication platform	27405354	CZK 200,000	90.00%	NO
Misterine s.r.o.**	Virtual and augmented reality	05249899	CZK 100,000	80.00%	NO
INTENS Corporation s.r.o.**	Services in the area of transport telematics	28435575	CZK 210,000	100.00%	NO

* Owned through subsidiary O2 Slovakia, s.r.o.
** Owned through subsidiary Bolt Start Up Development a.s.

OWNERSHIP INTERESTS IN OTHER COMPANIES (as of 7 February 2017)

Commercial name	Area of business	Corporate number	Share capital	O2 CZ share in equity	Concern member
První certifikační autorita, a.s.	Certification services	26439395	CZK 20,000,000	23.25%	NO
Tesco Mobile ČR s.r.o.	Mobile virtual operator for prepaid services	29147506	CZK 200,000	50.00%	NO
Tesco Mobile Slovakia, s.r.o.*	Mobile virtual operator for prepaid services	36863521	EUR 5,000	50.00%	NO
TapMedia s.r.o. **	Mobile application development	03853365	CZK 1,000	34.00%	NO
Dateio s.r.o.**	Precision-marketing online platform development	02216973	CZK 201,000	21,40%	NO
AUGUSTUS spol. s r.o.***	Auction sales and consultancy	49356160	CZK 166,000	39.76%	NO

* Owned through subsidiary O2 Slovakia, s.r.o.
** Owned through subsidiary Bolt Start Up Development a.s.
*** The execution of owner's rights is limited due to ongoing insolvency proceedings.

CHANGES IN SUBSIDIARY COMPANIES AND OWNERSHIP INTERESTS:

O2 Slovakia, s.r.o.

On 24 February 2016, the sole member decided to expand the scope of business by adding agency in consumer finance and loans and market research and polling, and on 23 March 2016 the sole member decided to expand the scope of business by adding retransmission, within the limits set by the Broadcasting and Retransmission Council. Changes relating to the division O2 Business Services Slovakia and later to the subsidiary O2 Business Services are stated in the 2016 Half-year Report. For a review of the activities and results of O2 Slovakia, s.r.o., please refer to section O2 Czech Republic Group.

Internethome, s.r.o.

As part of the reorganisation of commercial and marketing activities in the area of optical technology monitoring, on 16 March 2016, the statutory executives decided to wind down the commercial business of the company. As part of the winding-down project, the part of the business which provides public telecommunications services over optical network technology has been sold to the Company with effect from 1 June 2016.

O2 IT Services s.r.o.

On 13 January 2016, the sole member increased the number of statutory executives to three, and, as of the same date, Jan Bechyně was elected statutory executive. The changes of 1 January 2016, which relate to the spin-off of the division Professional Services from O2 CZ are described in detail in the 2015 Annual Report.

Bolt Start Up Development a.s.

On 24. February 2016, the sole shareholder elected Jakub Minařík as member of the board fo directors. On 19 July 2016, the number of members of the board of directors was increased to four, and Jan Kysela was elected as the new member of the board of directors. Bolt Start Up Development acquired a part of the business establishment (Esperia) from Epico International s.r.o. The company also acquired an ownership interest in Dateio s.r.o., Taxify OÜ (Estonia), iCORD International s.r.o., Misterine s.r.o. and at the beginning of 2017, in INTENS Corporation s.r.o.

eKasa s.r.o.

The company was founded on 17 May 2016 with the aim to provide a solution for the electronic record of sales. On 29 June 2016, the sole member decided to increase the number of statutory executives to two, and elected Luboš Lukasík and Jan Kysela as statutory executives.

O2 Financial Services s.r.o.

The company was founded on 26 September 2016 with the aim to act as an agent in insurance and consumer finance. The sole member elected Marek Novotný, Jiří Straka and Jan Kysela as statutory executives.

Tesco Mobile ČR s.r.o.

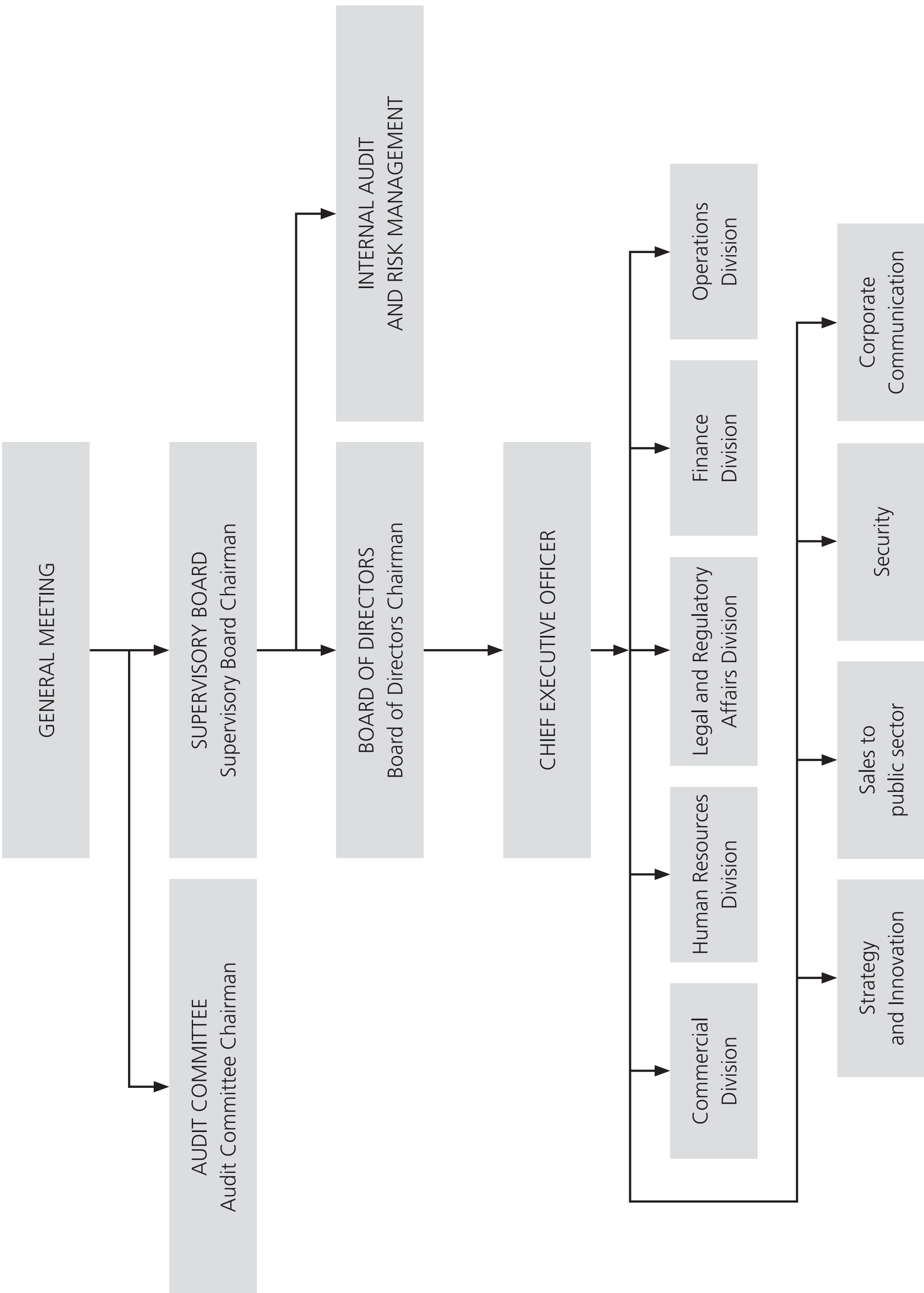
On 27 June 2016, the general meeting passed the following decisions: recalled Martin Dlouhý from the position of statutory executive; elected Oldřich Novák as statutory executive; approved amendments to the articles of incorporation, specifically in those parts relating to statutory executives, making decisions in commercial matters and to acting and signing on behalf of the company.

Organisation structure of O2 Czech Republic a.s.

The first executive line of the Company’s organisation structure is divided into divisions and specialist units. In late 2016 and early 2017, the Company made the following significant changes to its organisation structure:

- As of 31 December 2016, the following divisions were dissolved – IT, Network Services, Business Division and Consumer Division.
- As of 1 January 2017, two new divisions – Commercial Division and Operations Division were created in the stead of the abolished divisions.
- As of 1 January 2017, the unit Government was transferred into the direct reporting line of the Chief Executive Officer.
- As of 1 January 2017, a new unit, Corporate Communication, was established in the direct reporting line of the Chief Executive Officer.

Basic organisation chart O2 Czech Republic a.s.:



Governing bodies of the Company and executive management

GENERAL MEETING

The General Meeting is the supreme governing body of the Company in matters related to its business, organisation and operations. The General Meeting is convoked by the Board of Directors at least once a year, to take place within six months from the last day of the accounting period. It is convened by way of a written invitation sent to all shareholders no later than 30 days prior to the date of the General Meeting. The General Meeting constitutes a quorum if shareholders holding shares or equivalent securities with the nominal value exceeding a half of the share capital of the Company are present. Voting is by ballot signed by the voter. Voting may also take place per rollam. The General Meeting passes resolutions by a simple majority of votes present, unless the law or the Company's Articles of Association require otherwise.

The General Meeting has the exclusive authority to:

- approve the Rules of Procedure of the General Meeting,
- decide on amendments to the Articles of Association;
- decide on an increase of the share capital or on the authorisation of the Board of Directors pursuant to Art. 511 et seq. of the Business Corporations Act (i.e. on the authorisation of the Board of Directors to decide on an increase of the share capital) or on the option to offset a pecuniary receivable due from the Company against receivable of payment of the subscription price of shares;
- decide on the reduction of the share capital; decide on the issue of bonds where a decision of a general meeting is required by the Business Corporations Act; decide to wind up the Company with liquidation, and on the appointment and recall of the liquidator and approve the proposal for the distribution of the liquidation balance; decide on the transformation of the Company unless the law does not clearly imply that such a decision falls to the authority of the board of directors; decide to change the class of shares and the rights attached to specific classes of shares; decide to transform shares as securities to booked shares, or to transform booked shares to securities, or decide on the change of the form of the shares;
- elect and recall members of the Supervisory Board;
- approve regular and extraordinary financial statements and consolidated financial statements and, in cases set forth by law, also interim financial statements; decide upon the distribution of profits or other own resources or cover of losses;
- discuss a Board of Directors' annual report on the Company's business, and on the situation of the Company's assets as part of the Annual Report according to the Act No. 563/1991 Coll. on Accounting, as amended (Accounting Act);
- approve contracts for transfer or pledging or mortgaging of a business establishment or any such part thereof that would result in a material change in the structure of the establishment or a material change in the subject of the business or operations of the Company;
- decide on approval of executive service agreements for members of the Supervisory Board and members of the Audit Committee and the rules for provision of perquisites to members of the Supervisory Board of the Company and the Audit Committee, to which there is no entitlement arising from the law, executive service agreement as approved by the General Meeting, or from an internal regulation approved by the General Meeting;
- decide on approval of silent partnership, any changes thereto or termination thereof, if the Company concludes such agreements;
- decide on determination of an auditor to carry out mandatory audits or to audit other documents where the determination is required by law;
- elect and dismiss of the members and substitute members of Audit Committee;
- decision to approve financial assistance, if such approval is required by the law;

- decide on instructions for members of the Board of Directors, or any other body of the Company, in accordance with the law and these Articles of Association.

The General Meeting held on 19 April 2016

- Approved the financial statements and consolidated financial statements of the Company for the year 2015 under International Financial Reporting Standards. The auditor KPMG Česká republika Audit, s.r.o. gave both sets of statements an unqualified opinion.

- Approved the distribution of unconsolidated profit of the Company for the year 2015 and a part of the retained earnings from previous years, in the total amount of CZK 4,964 m, as dividends, i.e. CZK 16 before tax per share of nominal value CZK 10, and CZK 160 before tax per share of nominal value of CZK 100. The record day for the payment of dividends was 19 April 2016, and the dividend was payable on 28 May 2016.

- Designated the audit firm KPMG Česká republika Audit, s.r.o. its statutory auditor for the year 2016.

- Approved an amendment to the Articles of Association, for the Company's business to include "provider or agent of in the area of consumer finance", and added "insurance agency" to the scope of business of the Company.

A full overview of the resolutions of General Meetings can be found on the Company's website (https://www.o2.cz/spolecnost/en/general-meetings/).

BOARD OF DIRECTORS

The Board of Directors is a statutory body that manages the business of the Company and acts on its behalf. The Board of Directors decides on all corporate affairs which, by law or the Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As a rule, the Board of Directors meets once every calendar month, but at least 12 times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is five years. The Board of Directors has a quorum if a simple majority of its members is present at the meeting. The number of members of the Board of Directors is three.

The Board of Director has the particular authority to:

- operate the business and ensure the operational management of the Company; approve the Rules of Procedure of the Board of Directors; execute the rights of employer through its authorised member; convene the General Meeting; prepare and submit to the General Meeting for discussion the matters coming under the authority of the General Meeting; implement the General Meeting resolutions in accordance with law and these Articles of Association; ensure due and proper keeping of accounts and Company documents, in line with applicable legal regulations;

- submit to the Supervisory Board for review the Company's regular, extraordinary or, as the case may be, interim financial statement, always in its consolidated as well as unconsolidated form, and the proposal for distribution of profit or the other Company's resources or for coverage of losses and the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act;

- use retained earnings in line with the decision of the General Meeting; decide in accordance with the law on the use of the Funds of the Company;

- prepare the Board of Directors' report on the business of the Company and on its property in accordance with the provisions of Art. 436(2) of the Business Corporations Act, the Annual Report according to the provisions of Art. 21 of the Act on Accounting, the provisions of Art. 118 of the Capital Markets Undertakings Act, including the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act, Half-year Report pursuant to the provisions of Art. 119 of the Capital Markets Undertakings Act, interim report or equivalent quarterly information in accordance with the provisions of Art. 119a of the Capital Market Undertakings Act and a summary explanatory report pursuant to the provisions of Art. 118(8) of the Capital Markets Undertakings Act;

- set the Company's business policy; stipulate principles for the collective agreement; decide on the use of the Reserve Fund; grant and withdraw proxy; stipulate the rules for the creation and use of the Social Fund on the basis of collective bargaining;

- enter into an agreement on mandatory audit or, if applicable, on other services to be rendered with the auditor; discuss the audit report with the auditor.

The Board of Directors of the Company had 30 meetings in 2016.

Members of the Board of Directors

Tomáš Budník (*1969)
Chairman of the Board of Directors as of 7 January 2015
Member of the Board of Directors as of 23 June 2014

Graduated the mechanical engineering faculty of VŠB Technical University of Ostrava in Ostrava. He has worked in telecommunications for over 20 years – he has worked in the companies INEC, Český Telecom and GTS, where he worked in various managerial positions in sales, marketing, customer care and regulation. In his latest role in GTS, he was responsible for planning, construction, development and operation of a telecommunications network and provision of customer services. Then as General Director, he took part in restructuring MobilKom, which operated the network U:fon. In 2011, he came to the PPF Group, where he first held the position of IT director in Eldorado, and in 2013 he led a project of the fourth mobile operator. As of June 2014, he is a member of the Board of Directors and he is a member of the Supervisory Board of O2 Slovakia, s.r.o. From July 2014 he has been Chief Executive Officer of O2 Czech Republic a.s. As of June 2015 he is a member of the Supervisory Board of Bolt Start Up Development a.s. He is a member of governing bodies in other companies[1] and in the past five years he was also a member of governing bodies in other corporations.[2]

Tomáš Kouřil (*1974)
Vice-chairman of the Board of Directors as of 7 January 2015
Member of the Board of Directors as of 1 January 2015

He has held various executive positions in the Company since 2003. In 2006, he was responsible for the launch of the mobile operator O2 in Slovakia. Afterwards he took over responsibility for corporate finance, and from 2009 he served as director for commercial finance. Tomáš Kouřil presently serves as Chief Financial Officer and Vice-chairman of the Board of Directors of O2 Czech Republic a.s. Before joining the Company, he worked for the professional services consultancy Deloitte. Tomáš Kouřil is also the Chairman of the Supervisory Board of První certifikační autorita, a.s., member of the Supervisory Board of Bolt Start Up Development a.s., statutory executive of Tesco Mobile ČR s.r.o. and a member of the executive board of the CFO Club. He has also been a member of governing bodies in other corporations over the last five years.[3]

Jiří Hrabovský (*1977)
Member of the Board of Directors as of 1 June 2015

From July 2014, he was Director of the Legal and Regulatory Affairs. Previously he worked as legal consultant and manager in the corporate sector; he also spent a number of years in legal services and cooperated with a number of ICT companies in the Czech and Slovak market. In the past, he has also been a member of the CNB and CTO advisory committees. He has also been a member of governing bodies in other corporations over the last five years.[4]

SUPERVISORY BOARD

The Supervisory Board is a supervisory body of the Company and it supervises the discharge of the powers by the Board of Directors in managing the business of the Company. The Supervisory Board meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. Supervisory Board members are elected and recalled by the General Meeting of the Company. Members of the Supervisory Board are elected for tenure of five years. The Supervisory Board has a quorum if a simple majority of its members is present at the meeting. The Supervisory Board has three members.

[1] Nadace O2, MAJER LABORATORY, s.r.o.
[2] New Revolution a.s., Ecoclimate energo, s.r.o., Com-Pakt Energy, a.s., Revolution Mobile a.s., ULTRANET s.r.o., Tesco Mobile ČR s.r.o.
[3] Internethome, s.r.o.
[4] Generali Real Estate Fund CEE a.s.

The Supervisory Board has the particular authority to:

- review the regular, extraordinary and consolidated or, as the case may be, interim financial statements and proposals for distribution of profits or the other Company's resources or for coverage of losses, and to submit its standpoint to the General Meeting;

- elect and recall members of the Board of Directors; approve executive service agreements for members of the Board of Directors in compliance with the provisions of Art. 438(2) of the Business Corporations Act; decide on approval of remuneration to members of the Board of Directors according to the provisions of Art. 61(1) of the Business Corporations Act;

- convene a General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting; submit to the General Meeting and to the Board of Directors its standpoints, recommendations, proposals and results of its supervision;

- review the exercise of the powers of the Board of Directors, based on the request of the shareholders who have shares which nominal value amounts to at least 1% of the share capital, in respect of the matters determined in the application, and review the relevant shareholders of the outcome of the review in accordance with the law;

- on request from shareholders who hold shares in the aggregate nominal value of at least 1% of the share capital, the Supervisory Board may exercise a claim for compensation of damages suffered by the Company by the doing of a member of the Board of Directors or the Supervisory Board, or enforce compliance with any duty arising to them from the damage settlement agreement pursuant to Section 53(3) of the Business Corporations Act, or the payment in full of the share premium from a shareholder who is in delay with payment;

- discuss and give the Board of Directors consent with legal acts or other acts stated in Article 14(4) or (5); the Supervisory Board may give its consent also generally for a certain group of cases; be regularly informed by the Board of Directors mainly on matters listed in Article 14(6) or (7);

- decide on issues concerning benefits for the Supervisory Board members or the members of the Audit Committee insofar as it is in accordance with law,

- review Board of Directors report under Art. 82 of the Business Corporations Act; to inform the General Meeting of the review of this report and to submit its standpoint to the General Meeting,

- prohibit the Board of Directors from taking certain actions.

The Supervisory Board grants its approval to the Board of Directors regarding the following matters: issue of debt securities; issue of global deposit vouchers for shares in the Company; submittal of a request for acceptance of debt securities or global deposit vouchers for trading on the European regulated market or for their withdrawal; assumption or acquisition or disposal of equity investments or other disposal of equity investments if their value is at least CZK 100 m; investment or other expenditures exceeding CZK 500 m; termination of employment relationships of over 10% of Company employees; transformation of the Company; disposal of the Company's assets whose value exceeds CZK 100 m; proposal or amendment of the annual financial and business plan; execution, amendment or termination of an agreement to give or receive funding in excess of CZK 100 m; securing Company obligations exceeding CZK 100 m; payment of any Company's own resources; creation and use of Company funds.

The Supervisory Board of the Company had four meetings in 2016.

Members of the Supervisory Board

Martin Štefunko (*1977)
Member and Chairman of the Supervisory Board as of 29 January 2014

He earned a Ph.D. in economic theory and the history of economic thinking from the University of Economics in Bratislava, where he also earned a Master's Degree in finance, banking and investment. He took up further studies in Austria at Johannes Kepler University (banking and finance) and in the Mises Institute of Auburn University in the USA (economic theory). As of 2001, Martin Štefunko worked in Penta Investments, and starting in 2004 in the function of director of investments, he was responsible for managing investment projects. At this post, he managed an entire series of important acquisitions and business projects for the Penta Group in the area of retail, healthcare, power generation and machine-building. In 2009–2015 he was a member of top management in the PPF Group. He was a member of the Board of Directors of PPF a.s., the main consulting company of the PPF Group, and chairman of the Supervisory Board of PPF Bank. Since February 2014 he has been member and Chairman of the Supervisory Board of O2 Slovakia, s.r.o. As of December 2015, he is a member of the Supervisory Board of O2 Business Services, a.s. From 2016, he has been chairman of the board of directors od Poisson Investments a.s. and member of the supervisory board of PI 1 a.s. He has also been a member of governing bodies in other corporations over the last five years.[5]

Ctirad Lolek (*1973)
Vice-chairman of the Supervisory Board as of 3 June 2015
Member of the Supervisory Board as of 1 June 2015

Graduated from the Palacký University in Olomouc, where he studied sociology and adult education with a specialisation in HR management. After graduation, he worked in several positions in human resources for multinational companies such as Kappa Karton Morava and EPCOS. In 2001 he was appointed HR director for The Timken Company, where he oversaw the start-up of a new plant in the Czech Republic; later he managed HR activities in Central and Eastern Europe. In 2008 he joined ArcelorMittal Ostrava as HR Director – he was responsible for HR strategy and management, served on the Board of Directors and, after two and half years started as HR Director of the Luxembourg-based division ArcelorMittal Long Carbon Europe, which had operations in 12 countries of Europe. He joined O2 CZ in 2011 as Director, Human Resources Division. Ctirad Lolek has extensive experience in HR management; he is an expert in personnel management, especially in HR strategy planning, including performance and talent management, leadership development, employee relations and internal communication. He is presently a member of governing bodies of other companies[6] and he has also been a member of governing bodies in other corporations over the last five years.[7]

Ladislav Bartoníček (*1964)
člen dozorčí rady od 19. října 2016

A graduate of the Czech Technical University in Prague, Faculty of Electrical Engineering. He joined PPF investiční společnost a.s. in 1991 as Executive Director and was awarded an MBA by the Rochester Institute of Technology, New York, in 1993. From 1996 until September 2006 he served as Chief Executive Officer of the insurance company Česká pojišťovna a.s. In 2007 he was appointed the CEO and a member of the Board of Directors of Generali PPF Holding N.V. (GPH), one of the largest insurance groups in Central and Eastern Europe which was established as a joint venture of PPF Group and Assicurazioni Generali. He held his CEO position at GPH till March 2013. On 1 March 2014, he was appointed CEO of SOTIO a.s., PPF Group' biotechnology business. Since 2007 Ladislav Bartoníček has been a shareholder of PPF Group. In the last five years he was also member of statutory bodies in other corporations.[8]

Changes in the composition of the Supervisory Board

- Effective from 18 October 2016, Aleš Minx resigned from his membership in the Supervisory Board.
- Effective from 19 October 2016, the Supervisory Board co-opted Ladislav Bartoníček as a substitute member, pending the date of the next General Meeting.

AUDIT COMMITTEE

The Audit Committee is an autonomous body of the Company. Members of the Audit Committee are elected and recalled by the Company's General Meeting. They may be elected from the members of the Supervisory Board or from persons external to the Company. The Audit Committee members are elected for a period of five years. The General Meeting may also elect up to three substitute members of the Audit Committee, designating the order of their succession. The Audit Committee meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. The Audit Committee has a quorum if a simple majority of its members is present at the meeting. The Audit Committee has three members.

[5] EP Energy, a.s., Energetický a průmyslový holding, a.s., REAL AB a.s., PPF Group N.V.
[6] Nadace O2
[7] ArcelorMittal Tubular Products Karviná a.s., TAMEH Czech s.r.o.
[8] Accord Research, s.r.o., B.I.G., a.s., B.I.G.Public Relations, a.s., B.I.G. Prague s.r.o., Nadační fond pro podporu vzdělávání v pojišťovnictví, GOPAS, a.s., O2 Czech Republic a.s.

The Audit Committee has the particular authority to:

- monitor the process of compilation of the financial statements and the consolidated financial statements;
- evaluate the effectiveness of the Company’s internal controls, internal audit and risk management system;
- monitor the process of the statutory audit of the financial statements and the consolidated financial statements;
- review the independence of the statutory auditor and the audit firm, and the provision of non-audit services to the Company by the audit firm;
- recommend an auditor;
- receive from and discuss with the auditor all and any information, declarations and communications as per the applicable laws.

The Audit Committee had four meetings in 2016.

Members of the Audit Committee

Martin Štefunko (*1977)
Chairman of the Audit Committee as of 24 March 2014
member of the Audit Committee as of 12 March 2014
(résumé can be found in section Supervisory Board)

Radek Neužil (*1970)
Vice-chairman of Audit Committee since 24 March 2014
member of Audit Committee since 12 March 2014

He earned the title LL.M. at the Faculty of Law of Masaryk University in Brno and the title of Ing. (MSc) at the Faculty of Mechanical Engineering, Economics and Management of Mechanical Engineering at the Brno Technical University. He is an expert in the area of freelance employment regulation. Since 1993, he has acted as Secretary of the Chamber of Tax Advisors of the Czech Republic, which et alias he represents in Confédération Fiscale Européenne (CFE). From 2009 until May 2015, he was a member of the presidium of the Council for Public Audit Oversight and Chairman of the Audit Cooperation and Coordination Committee, which he represents in the advisory body of the European Commission – European Group of Auditors’ Oversight Bodies. Since November 2015, he has been member of the Disciplinary Committee of the same body; in April he was elected chairman. He is also member of the Audit Cooperation and Coordination Commission. From 2010 until 2015 he was member of the Ministry of Finance Steering Section for Accounting and Statutory Audit. In 2011–2013 he was a member of the Commission of the Ministry of Finance for Policy Planning and Development of Accounting and Audit, Section for Audit and Tax Consultancy. From 2011, he has been member of the Executive Board of the Charles University, and from 2015 he is member of the Academic Council of Akademie Sting. In 2013, he became a member of the Audit Committee in ČEZ a.s. He is presently a member of governing bodies of other companies[9] and he has also been a member of governing bodies in other corporations over the last five years.[10]

Michal Brandejs (*1967)
member of the Audit Committee as of 8 December 2015

Michal Brandejs is a graduate of the University of Economics in Prague, the studies of Automated management information systems. He was statutory auditor of the Chamber of Auditors of the Czech Republic and a Certified internal auditor. In 1991–2013 he worked in the audit department of Deloitte and in 2001–2013 as partner. He had managed a number of audits and due diligence projects both in the Czech Republic and the Central and Eastern European region. Since 2014 he was a Vice-chairman of the Supervisory Committee of the Chamber of Auditors of the Czech Republic. Since 2016, he has been officer of the controlling department of the Public Audit Oversight Board. Since 2016, he is member of the Audit Committee of OTE, a.s. He has also been a member of governing bodies in other corporations over the last five years.[11]

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[9] DATEV, družstvo, PASKI CLUB, v.o.s.
[10] Daňová akademie s.r.o., Eláán, Paski club
[11] Deloitte Audit s.r.o.

EXECUTIVE MANAGEMENT

The executive management of the Company comprises directors of divisions in the first executive level of the Company's organisation structure. Personnel composition of the Company's executive management as of 31 December 2016:

Tomáš Budník (*1969)
Chief Executive Officer
(résumé can be found in section Board of Directors)

Tomáš Kouřil (*1974)
Chief Financial Officer
(résumé can be found in section Board of Directors)

Jiří Hrabovský (*1977)
Director, Legal and Regulatory Affairs
(résumé can be found in section Board of Directors)

Ctirad Lolek (*1973)
Director, Human Resources and Services to Employees Division
(résumé can be found in section Supervisory Board)

Jindřich Fremuth (*1975)
Director, Consumer Division (as of 1 January 2017, the Chief Commercial Officer)

Appointed Director, Consumer Division in March 2013. He joined O2 CZ in 2009 as Director, Online Channels, where he was responsible for the planning and execution of the Company's online strategy, management of online tools and application development. In 2011 he took over the responsibility for the consumer distribution channel strategy, which plays a major role in the development of customer care. Before joining O2 CZ, he worked for 10 years in various marketing and sales positions. As consultant at McKinsey&Company, he specialised in telecommunications and technology projects, and worked for leading corporations in Europe and in the Middle East in particular. Previously he was Managing Director Euro RSCG 4D (Havas Group) whose business is digital marketing, direct marketing and sales support. Jindřich Fremuth graduated from the University of Economics in Prague. As of April 2015, he is the statutory executive of O2 TV s.r.o.

Michal Dvořák (*1971)
Director, IT & Operations Division

Michal Dvořák has worked in IT since 1994; he started his career in graphic and GIS systems. Later he worked as integrator in VAE. He has worked in the telecommunications industry since 1998, when he worked for INEC. As part of the first acquisition of GTS Czech along with Datel, he started working in the area of consolidation. In GTS, he was in charge of the IT part of consolidation with companies Aliatel, KPN Qwest, Contactel, Nextra and Telenor. He left GTS in 2009 from the position of IS Development Director CE. Over the next two years he held the position of CIO in Mobilkom and then CTO. Between 2012 and 2014, he worked as IT Director in W.A.G. payment solutions. He has served as CIO in O2 CZ since October 2014. He is responsible for complex development and administration of IT including the network part which delivers services to end customers. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Václav Hanousek (*1962)
Director, Service Unit Division

He joined SPT TELECOM (legal predecessor O2 CZ) in 1981, where he worked until 1995 as a technician. He started working in 1995 as a project manager, and in 1998 he became director of the programme office OSS. He served as Technology Operation Director in 2000, and in 2003, he held the position of transformation specialist, whereas transformation culminated in the company's sale to the Spanish company Telefonica. As Operations Director since 2005, he was responsible for supervising operation of technology, the access network and construction, and in 2006, he was involved in the project to merge the fixed and mobile networks. In later years, he was responsible for the project for outsourcing construction and operation of the fixed and mobile network, and for building oversight of the German fixed network in the Czech Republic and oversight of the mobile network in Germany. In 2013, he became Director of the Service Management unit, and has been Director of the Service Unit Division since 2014. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Marek Růžička (*1975)
Director, Business Division (as of 1 January 2017, the Chief Operations Officer)

He has been Director of the Business Division since September 2016. He joined O2 CZ in 2010 as Commercial Director in charge of strategic accounts; he was responsible for the formulation of the commercial and product strategy for selected O2 CZ accounts. Gradually he took on the responsibility for the whole Top Corporate segment, and later for the Business Division. Prior to his arrival to O2 CZ, he worked for seven years in strategic and IT consulting at Accenture, where he gained extensive experience in the implementation of critical IT systems for leading telco operators in Central and Eastern Europe. Later he worked for five years at Hewlett-Packard as manager in HP Consulting and division director Software & Solutions. He spent a short time at České Radiokomunikace as Chief Commercial Officer (CCO). Marek Růžička graduated from the Faculty of Business Administration at the University of Economics in Prague. In 2004 he earned his Ph.D. in Business Economics and Management. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Kateřina Pospíšilová (*1982)
Director, Strategy, Innovation and Regulation

Kateřina Pospíšilová has been Director, Strategy, Innovation and Regulation since April 2016. She joined the Company in 2012 as a competition lawyer. In 2013 and 2014 she was involved in the negotiation and drafting of network sharing agreements in the Czech Republic. In 2015, she worked on the project to de-merge the Company and took part in the drafting of the contract documentation. From July 2015, she led the team Regulation and Competition Law. In 2009–2012, she worked as a lawyer at the Office for the Protection of Economic Competition. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Changes in the executive management

As of 1 September 2016, Martin Růžička was put in charge of the Business Division, following the departure of Vít Šubert. In connection with the changes in the organisation structure, namely the establishment of two new divisions – Commercial Division and Operations Division. Václav Hanousek and Michal Dvořák left their executive management positions. The number of members of the Company's executive management decreased to eight as of 1 January 2017. As of the same date, Václav Zakouřil was appointed Director, Legal and Regulatory Affairs. As of 1 January 2017, the following persons make up the executive management of the Company: Tomáš Budník, Tomáš Kouřil, Ctirad Lolek, Jindřich Fremuth, Marek Růžička, Václav Zakouřil and Kateřina Pospíšilová.

Rules for the remuneration of persons with executive powers

Remuneration of members of the Board of Directors

Remuneration is governed by rights and obligations negotiated in individual executive service agreements and in the rules for the remuneration and provision of other benefits to members of the Board of Directors. The Supervisory Board approves the remuneration rules, which promulgate the granting and some terms and conditions of remuneration and other benefits.

Members of the Board of Directors are entitled to the following remuneration:

a) compensatory remuneration equalling the amount of obligatory payments (e.g. taxes, health insurance premium, etc.), which the member of the Board of Directors is obliged to pay or bear because the Company pays the insurance premium covering his liability for damage caused by breach of an obligation while serving as member of the Board of Directors; the amount of the compensatory remuneration is derived from the amount of the insurance premium falling to the given member of the Board of Directors, whereas the total insurance premium amount must be set based on procedures that are usual in the insurance business;

b) special remuneration whose amount is negotiated in the executive service agreement between the member of the Board of Directors and the Company, and which the Supervisory Board approves; the amount of the special remuneration is individual, and takes into account the responsibility of the member of the Board of Directors to manage the relevant division or other unit, or responsibility for a certain area of activity of the Company;

c) stabilisation remuneration whose amount and conditions for eligibility are negotiated in a separate agreement pursuant to Section 61(1) of the business Corporations Act and to Article 1.3 of the rules for remuneration of members of the Board of Directors; the agreement is subject to approval by the Supervisory Board, and the amount of the remuneration depends on the Company's performance.

Further benefits are also provided to members of the Board of Directors of the Company for fulfilling obligations arising from their serving as Board members. This concerns voice and data services as well as communication and computer technology (such benefits are not provided solely by request of the member) and liability insurance covering damage caused by breach of obligation when serving as member of the Board of Directors.

Remuneration of members of the Supervisory Board

Remuneration and provision of further benefits to members of the Supervisory Board are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its provision. Members of the Supervisory Board are entitled to remuneration on the condition that they make a claim for it.

Members of the Supervisory Board are entitled to monthly remuneration for serving in the Supervisory Board, which consists of:

a) amount covering mandatory payments (e.g. taxes, health insurance premiums, etc.) which a member of the Supervisory Board is liable to pay due to the fact that they are covered by a liability insurance for any damage arising from the serving as a member of the Supervisory Board, and mandatory payments arising from the provision of the amount as per this sentence; this amount is derived from the amount of the insurance premium falling to the given member of the Supervisory Board, whereas the total insurance premium amount must be set based on procedures that are usual in the insurance business;

b) an amount attributable to the individual categories of members of the Supervisory Board per month: (i) member: CZK 40,000; (ii) Vice-chairman: amount ad (i) increased by CZK 20,000; Chairman: amount ad (ii) increased by CZK 20,000.

In 2016, members of the Supervisory Board submitted claims for remuneration in the minimum amount of CZK 6,000 per month.

Members of the Supervisory Board of the Company are also provided with further benefits: voice and data services, computer technology and health care. Members of the Supervisory Board did not submit any claims for any of the above items in 2016. Furthermore, the Company provides liability insurance to members of the Supervisory Board covering damage caused by breach of an obligation while serving as member of the Supervisory Board.

Remuneration of members of the executive management

Members of executive management are entitled to remuneration comprised of a basic wage, a performance-related bonus and a fixed stabilisation remuneration. The performance-related bonus is paid in relation to fulfilment of specific annual targets. The performance-related bonus may, in aggregate for the calendar year, reach 50% of the total annual income if the targets are achieved to a standard level. The targets represent the key performance indicators of both financial and non-financial nature. A part of the overall assessment is assessment performed by the Chief Executive Officer. The fixed stabilisation remuneration, whose amount and eligibility conditions are negotiated in a separate agreement, depends on the Company's operating performance.

Remuneration of members of the Audit Committee

Remuneration and provision of further benefits to members of the Audit Committee are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its award. Members of the Audit Committee are entitled to remuneration on the condition that they make a claim for it. In 2016, members of the Audit Committee received pecuniary and in-kind income from the Company in the amount of CZK 630,967. Audit Committee members did not receive any pecuniary or in-kind incomes from entities controlled by O2 CZ in 2016. In 2016, all Audit Committee members had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires.

The full versions of the rules for remuneration and additional benefits to the members of the governing bodies of the Company are published on the Company's website and in internal regulations of the Company.

Other information related to persons with executive powers

Overview of pecuniary and in-kind incomes of persons with executive powers

Information about pecuniary and in-kind incomes received in the accounting period by persons with executive powers from O2 CZ:

(in CZK)	Pecuniary and non-pecuniary income	Of which royalties
Board of Directors	38,193,378	0
Supervisory Board	548,726	0
Executive management[1, 2]	51,967,338	0

[1] Income of persons who are at the same time members of the Board of Directors is accounted for in the Board of Directors total category

[2] This amount includes also expenditure associated with the implementation of the changes in the Company's executive management

In 2016, members of the Supervisory Board received no pecuniary or in-kind income from entities controlled by O2 CZ.

Information on the ownership of Company shares by persons with executive powers

Information on the number of shares issued by O2 CZ and held by persons with executive powers:

	Number of shares
Board of Directors	253
Supervisory Board	100,000
Audit Committee[1]	0
Executive management[2]	351

[1] Shares owned by members of the Audit Committee who are at the same time members of the Supervisory Board are accounted for under Supervisory Board

[2] Shares owned by members of executive management who are at the same time members of the Board of Directors are accounted for under Board of Directors

Conflict of interest of persons with executive powers

No conflict of interest was found in relation to persons with executive powers. In addition, no member has been, in the last five years, lawfully sentenced for fraud, nor been – as a statutory or supervisory body – a party to insolvency proceedings, nor been subject to receivership or liquidation, nor charged or sanctioned by statutory or regulatory bodies.

Information on executive service agreements concluded with members of the Board of Directors and the Supervisory Board

Members of the Board of Directors had an executive service agreement concluded with the Company, in which they commit to a noncompetition covenant for the duration of their service. The Supervisory Board approves executive service agreements concluded with members of the Board of Directors. In 2016, members of the Supervisory Board had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires. Members of the Supervisory Board accept in the executive service agreement the commitment to a non-competition covenant after termination of their function independently or in the benefit of another person within the territory of the Czech Republic in the area of telecommunications (not even e.g. the area of thereto related advisory or consultancy service), unless it concerned working within the concern. The commitment to a non-competition covenant is accepted for a period of six months from the date of termination of service in the statutory body. The Company is obliged to provide to the member of the Supervisory Board in question, for committing to the non-competition covenant, compensation as consideration amounting to six times the average flat remuneration. The General Meeting approves executive service agreements concluded with members of the Supervisory Board.

Information on corporate governance codes of the Company

The Company steadily complies with all the main criteria and observing the principles and recommendations of the Czech Code of Good Corporate Governance based on OECD Principles, which was published in 2004 (the Code). This Code is available at the website of the Ministry of Finance of the Czech Republic (www.mfcr.cz). An exception to this rule are the principles of Good Corporate Governance that are not in direct control of the Company's governing bodies and are dependent on the decisions of its owners. The Board of Directors regularly oversees the good practice of corporate governance in subsidiaries controlled by O2 CZ.

Information on internal control principles and procedures

O2 CZ has a system of internal controls through policy documents which are approved by the Company's Board of Directors. Internal Audit, functionally accountable to the Audit Committee, represents an important instrument of Corporate Governance. It provides the Company's governing and executive bodies with independent and professional assessment of the Company's internal control system and the situation and trends in the given area compared to current best practice.

In 2016, Internal Audit and Risk Management carried out 27 audits and controls as per the annual plan of Internal Audit or as mandated by the governing bodies and the Chief Executive Officer of the Company. In addition to performing audits and controls in the Company, the Internal Audit unit also acts as internal auditor of the subsidiaries in the group O2 Slovakia, O2 IT Services and O2 Family. Audit findings are used by the management to formulate actions to redress the issues identified. Internal Audit monitors the implementation of such corrective actions and reports to the Company's governing bodies and executive management four times per year. The activities of Internal Audit and its main processes are laid down in the Internal Audit Charter of O2 CZ, which also stipulates the principle of independence of the Internal Audit function and the principle of objectiveness of internal auditors. The work of Internal Audit is monitored on a regular basis by the Audit Committee which discusses audit reports and other audit-related reporting presented by Internal Audit. The Director of Internal Audit & Risk Management has full access to the Audit Committee. He/she is present for the discussion of audit reports and other outputs of Internal Audit & Risk Management at meetings of the governing bodies of the Company. Internal Audit and Risk Management is directly subordinated to the Supervisory Board.

Accounting policies in O2 CZ and subsidiaries are regularly updated through new releases of internal rules and regulations. Complex transactions with high financial materiality are described in detail in guidance documents produced by the unit of Accounting Methodology, which are subsequently approved by the management of the Finance Division. The consolidation rules and other general guidelines for the preparation of the consolidated financial statements of the O2 Group are set forth in the Consolidation Manual. The approval of accounting documents for purchases and supplies is done electronically in the approval workflow of the Company's SAP system. The scope of the signing authority of specific approvers, as well as the scope of powers and authority of the governing bodies, organisation units and personnel of the Company are set forth in the Rules of Organisation and the Signing Rules of the Company. Documents exempt from electronic approval are periodically checked.

The "four-eyes" principle and strict separation of the process of listing business partners and managing their data from the process of payments and settlement of booked payables are reflected in the Company's accounting policies. At the same time, the list of persons with the authority to create, edit and approve accounting documents in SAP is limited and subject to regular review. Specific accounting documents can always be traced to specific users who created or cancelled them. The Finance Division monitors that accounts and financial statements are correct on an ongoing basis. Selected areas of accounting and the compliance of internal processes with the currently applicable legislation are subject to internal audit. If issues are identified, remedies are proposed immediately and implemented as soon as practicable. The effectiveness of the Company's internal control system, the process of preparation of the stand-alone and consolidated financial statements, as well as the process of external audit of the financial statements, is verified by the Audit Committee which, as one of the Company's bodies, performs these activities without prejudice to the accountability of members of the Board of Directors and the Supervisory Board.

The unit Revenue Assurance (RA) has been established in the Finance Division; its mission is to identify, through independent controls, loss of revenues from loss of data in billing for services to customers. It is a so-called end-to-end process, where individual activities and controls cover the whole process – from billing and CDR generation to invoicing.

Information required by the Capital Markets Undertakings Act

Information relating to matters according to Section 118(5) of the Act No. 256/2004 Coll., the Capital Market Undertakings Act (CMUA:

a) Information about the issuer's equity capital structure, including shares not admitted for trading on the regulated market in a European Union Member State, including any potential qualification of different types of shares or similar securities representing a share in the issuer, and the share in the share capital of each type of share or similar security representing a share in the issuer

The equity structure of standalone O2 CZ as of 31 December 2016 was as follows:

	(in CZK million)
Share capital	3,102
Share premium	11,894
Treasury shares	-1,152
Funds from profit	8
Retained earnings	5,808
Total	**19,660**

The share capital of O2 CZ as of 31 December 2016 in the amount of CZK 3,102,200,670 was fully paid and was formed by the following shares:

A.	Type:	ordinary
	Kind:	registered
	Form:	booked
	Total volume of issue:	310,220,057
	Nominal value:	CZK 10
	Total volume of issue	CZK 3,102,200,570
	ISIN:	CZ0009093209
B.	Type	ordinary
	Kind:	registered
	Form:	booked
	Total volume of issue:	1
	Nominal value:	CZK100
	Total volume of issue	CZK 100
	ISIN	CZ0008467115

Each CZK 10 of the nominal value of shares represents one vote; the total number of votes attached to the Company's shares is 310,220,067. The Company's share capital has not changed in the course of 2016.

The rights and obligations related to the registered share which represents a share in O2 CZ are set out in Article 5 of the Articles of Association of the Company:

1. The rights and obligations of the shareholders are determined by legislation and the Articles of Association. A shareholder of the Company may be a domestic or foreign legal entity or a natural person.

2. A shareholder is entitled under the law to attend the General Meeting, to vote at it, can request attendance and attend it, or receive at it, or prior to it and during fulfilment of legally determined conditions after it, explanation of matters concerning the Company or its controlled persons, if such explanation is necessary for judging matters included in the General Meeting or to exercise his shareholder rights to it, and to make proposals and counterproposals. Providing explanation to the shareholder is governed mainly by the provisions

of Section 357 et seq of the Business Corporations Act. Implementing proposals and counterproposals is governed mainly by the provisions of Section 361 et seq of the Business Corporations Act.

3. A shareholder is entitled to a share in the profit of the Company (dividend), which the General Meeting approved according to the financial result for division amongst shareholders; this does not affect the possibility for other persons listed in Article 35(2) to obtain a share of the profit. The shareholder's share in the profit is determined by the proportion of the nominal value of his shares to the nominal value of shares of all shareholders.

4. Throughout the duration of the Company's existence or in case of its winding down, the shareholder is not entitled to request the return of the subject of his deposit.

5. Upon liquidation of the Company, the shareholder is entitled to share in the liquidation balance. This share is determined and his payment is governed mainly by the provisions of Section 549 to 551 of the Business Corporations Act.

6. The shareholder is obliged to uphold legal regulations, mainly to act honourably, to abide by the internal rules of the Company, including these Articles of Association, and to exercise his rights in relation to the Company responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the Company or the other shareholders who or which could and should be known to the shareholder.

7. The Company is obliged to act towards all shareholders honourably and justly, to treat all shareholders equally under the same conditions and to enable all shareholders equal exercise of their own rights. The Company is obliged to act towards all shareholders responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the shareholders, who or which could and should be known to the Company.

Registered shares at a nominal value of CZK 10 were admitted for trading on the following markets:

Market	Note
Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	Prime market
RM-SYSTÉM, česká burza cenných papírů a.s.	

A full wording of the Terms and Conditions of the Share Issue – the document which is the source of this summary – is available at the registered address of the Company.

The registered share in the nominal value of CZK 100 was not listed for trading on any regulated market in Europe.

b) Information about transferability of securities

Only the statutory requirements need to be met for a transfer of shares. The Company's Articles of Association impose no further restrictions on the transferability of the shares and there are no other restrictions for reasons that would be on the part of the Company.

c) Information about significant direct and indirect shares in the voting rights of the issuer

Key shareholders of O2 CZ as of 31 December 2016:

	Name	Address	% of share capital/voting rights
1	PPF Telco B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	50.00%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10.27%

3	PPF Arena 1 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	23.79%
PPF Group total			84.06%
4	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic	1.56%
5	Investment funds and individual shareholders	–	14.38%

As of 31 December 2016, the share of the PPF Group in the voting rights in O2 CZ, pursuant to the provisions of Section 122 of the Capital Markets Undertaking Act, 84.06%.

On 27 January 2016, PPF Telco B.V. notified O2 CZ that the demerger of PPF Arena 2 B.V. had come into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. became extinct, and two successor companies were founded; all O2 CZ shares originally owned by PPF Arena 2 B.V. have been transferred to the ownership of one of them, PPF Telco B.V. following the demerger of PPF Arena 2 B.V.

On 14 February 2016, Petr Kellner released a statement that 73,802,432 shares (ISIN CZ0009093209) and one share (ISIN CZ0008467115), which represent a direct 23.79% stake in the voting rights in O2 CZ, had been transferred from PPF Telco B.V. to PPF Arena 1B as of 7 December 2016. On 11 January 2017, Petr Kellner released a statement that 73,802,432 shares (ISIN CZ0009093209) and one share (ISIN CZ0008467115), which represent a direct 23.79% stake in the voting rights in O2 CZ, had been transferred from PPF Arena 1 B.V. to PPF Telco B.V. as of 10 January 2017. On 7 February 2017, PPF Telco B.V., a member of PPF Group, released a statement that it had sold 9.3 million shares in O2 CZ, representing 3.0% of the share capital of the Company.

Key shareholders of O2 CZ as of 9 February 2017:

	Name	Address	% of share capital
1	PPF Telco B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	70.79%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10.27%
PPF Group total			81.06%
3	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic	1.56%
4	Investment funds and individual shareholders	–	17.38%

d) Information about the holding of shares with special rights, including the description of these right

The Company has not issued any securities with special rights, only ordinary shares as per point (a) above.

e) Information about restrictions of voting rights

Voting rights are attached to all shares issued by the Company and may be restricted or excluded only in instances set out in the law. The Company is not aware of any such statutory restriction or exclusion of voting rights. The Company's Articles of Association do not stipulate any restriction of voting rights; there are no other restrictions for reasons that would be on the part of the Company.

f) Information about agreements between shareholders or owners of securities representing a share in the Company, which could restrict the transferability of shares or similar securities representing a share in the issuer, or of voting rights, if such information is known to the issuer

The Company has no knowledge of any agreements between shareholders which could restrict the transferability of shares or voting rights.

g) Information about special rules for the election and recall of the statutory body, amendment to the articles of association or similar document of the issuer

Members of the Board of Directors are elected and recalled by the Supervisory Board of the Company. The eligibility conditions for election to the Board of Directors are laid down in the law; the Articles of Association do not contain any restriction beyond the statutory scope; there are no other restrictions for reasons that would be on the part of the Company.

h) Information about special powers of members of the statutory body or Supervisory Board under the law governing legal relations of business companies and cooperatives

Members of the Board of Directors hold no special powers; some acts by the Board of Directors require, as per Article 14(4) of the Company's Articles of Association, a previous consent by the Supervisory Board (for details see section Supervisory Board).

i) Information about important contracts, which the issuer is a party to and which will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid, and about the effects thereof, with the exception such contracts whose disclosure would bear a serious harm for the issuer, which, however, does not reduce other duties of disclosure of such information under this law or under other laws

The Company has not entered into any contracts that will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid.

j) Information about contracts between the issuer and the members of the statutory body or employees, by which the issuer is bound in the event of the termination of their executive service or employment in connection with a take-over bid

No contracts were concluded between the Company and the members of its Board of Directors or its employees, by which the Company would be bound in the event of the termination of their executive service or employment in connection with a take-over bid.

k) Information about any programmes based on which the employees and members of the statutory body of the Company can acquire shares, share options or other rights at preferential terms, and about how the rights associated with these securities are exercised

No programmes exist for members of the Board of Directors or employees of the Company based on which they could acquire shares, share options or other rights of the Company at preferential terms.

l) Information about payments remitted to the state for mining licences, provided the core business of the issuer is in the mining sector

The Company has no business in the mining sector.

Financial part

7

Chief Financial Officer's **comments** on the consolidated financial results for the year ended 31 December 2016

Dear Shareholders,

Let me follow up on the foreword by Tomáš Budník, and briefly comment on the impact of our commercial and operating activities on the financial results, which you can find on the following pages in the consolidated financial statements for the year ended 31 December 2016.

The total consolidated revenues reached CZK 37.5 billion in 2016, up 0.4% year on year. This demonstrates that, in the second year after the separation of the company and the spin-off of the infrastructure into CETIN, our revenues are stable – a situation to which the main contributing factor are the growing mobile data revenue in both countries. In addition, the rate of decline of fixed revenue in the Czech Republic slowed down considerably, as a result of more than 50% growth in O2 TV and the continued revenue growth of ICT. Following the migration of all customers to the new unlimited fixed voice tariff, we succeeded in nearly halting the trend of falling fixed voice revenues which had been continuing for more than fifteen years. The positive effect of this turnaround fully compensates for the lower revenues from mobile voice and fixed data services in the corporate and government segment which are the result of sustained competitive pressure, and the lower roaming revenues due to the new EU regulation.

As stated by Tomáš Budník, in 2016 we maintained a strong focus on the development of non-telecommunications services and solutions, and on bringing them to the market, which I believe will help us in the next few years partly offset the negative impact of the European roaming regulation. After handset and tablet insurance, we started offering an innovative travel insurance product. At the end of the year, we had more than 145 thousand active insurance contracts, and we are in the process of developing other insurance products for our customers. Almost 10 thousand customers subscribed to our innovative and comprehensive solution for the electronic records of sales by the end of the year, which propelled us to the position of a major player in the Czech market.

Continuing the implementation of our simple operating model was one of our main strategic objectives also in 2016. The positive effect of our transformation activities could be seen already in 2016 as the total consolidated operating expenses went down 0.2% to CZK 27.6 billion. Most of the savings were delivered in the area of external services, mainly network and IT maintenance.

Our operating profit EBITDA grew3% to CZK 10.5 billion in 2016. The EBITDA margin increased 0.7 percentage points to 27.9%. The consolidated net profit for 2016 reached CZK 5.3 billion, which represents a 3.6% year-on-year growth.

The total capital expenditure amounted CZK to 4.4 billion, which includes also investments in the recently acquired spectrum licenses (CZK 1.5 billion), while in 2015 we invested CZK 432 million in the renewal of our GSM license. Excluding these items, the capital expenditure was up 2.7%, and the CAPEX to revenue ratio was 7.8%. In addition to the spectrum licenses, our investments went mainly into the acquisition of more sports content and the transformation of IT systems. In Slovakia, we invested heavily in building up our 4G LTE network coverage and capacity, in the roll-out of a national fibre backbone network and billing and CRM systems upgrade.

Free cash flow remained high also in 2016. Excluding the impact of frequency licenses acquisition price (CZK 1.5 bil.), we generated a free cash flow of CZK 6.2 billion. In 2015, we signed a contract with a consortium of banks for a credit of up to CZK 12 billion. At the end of 2016, our financial liabilities stood at CZK 7 billion, while the volume of cash and cash equivalents amounted to CZK 4.1 billion. Our debt level still only around 0.3 times net debt to EBITDA, which is significantly below the level reported by companies in the telecommunications industry.

Tomáš Kouřil

Chief Financial Officer and Vice-Chairman of the Board of Directors, O2 Czech Republic a.s.

Consolidated financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Content | Pages

Translation note

This version of the 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 consolidated financial statements takes precedence over this translation.

GENERAL INFORMATION

O2 Czech Republic a.s. Group (“Group”) consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries. The Company is the largest integrated telecommunications provider in the Czech market providing fully converged 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.

The majority share (84.36%) of the Company´s voting rights was indirectly hold indirectly through companies PPF Telco B.V., PPF Arena 1 B.V. and PPF A3 B.V. being part of the PPF group, controlled by Mr. Petr Kellner as at 31 December 2016.

The number of employees employed by the Group amounted in average to 4,870 in 2016 (2015: 3,856). Increase is linked to current insourcing process that targets mainly employees in call centres and back office.

The Company’s shares are traded on the Prague Stock Exchange.

These consolidated financial statements were approved for an issue/issuing by the Company’s Board of Directors on 13 February 2017.

Share buyback

In accordance with the decision of General Meeting from 8 December 2015 concerning acquisition of treasury shares (up to 10% for 5 following years), the Company implemented the share buyback programme in 2016. As at/of 31 December 2016 the Company held 4,852,535 treasury shares with the total purchase price of CZK 1,152 million.

O2 Czech Republic concern

With effect from 1 April 2016 the Company established in accordance with the Art. 79 Sec. 3 of the Business Corporations Act the O2 Czech Republic concern, in which the Company is a controlling enterprise.

Auction of frequencies 1 800 and 2 600 MHz

The Company has bought at auction four strategically important blocks of radio frequencies in the 1 800 and 2 600 MHz bands in June 2016. The Company has reached the most favourable conditions for future development of mobile internet 4G LTE to its current capacities. In addition the Company wants to utilize acquired blocks for the preparation of next generation network 5G and for the strengthening of capacity. Overall financial volume from closed auction has reached the amount of almost CZK 1,500 million.

Startup accelerator

In 2016 the startup accelerator Bolt, subsidiary Bolt Start Up Development a.s., continued in its activities, focusing on promotion of unique technology projects.

In addition a share has been acquired in an Estonian company Taxify OÜ providing taxi services across European market including Czech Republic. Further investments were acquired in Czech companies Dateio, s.r.o. operating in targeted marketing, iCORD International s.r.o. developing online communication platforms and lastly Misterine s.r.o. dealing with augmented and virtual reality. From 1 August 2016 Bolt is operating e-shop Esperia focusing mainly on selling mobile accessories.

Restructuring

During the year 2016, the Group continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2016

In CZK million	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenues	5	37,522	37,385
Other income from non-telecommunication services	3	208	177
Activation of fixed assets	3	312	217
Expenses	5	(27,591)	(27,637)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**10,451**	**10,142**
Depreciation and amortisation	10, 11	(3,442)	(3,520)
Impairment loss	10, 11	(152)	(27)
Operating profit		6,857	6,595
Finance income	6	19	8
Finance costs	6	(109)	(175)
Share of profit/(loss) of investments accounted for using the equity method	25	(23)	10
Profit before tax		**6,744**	**6,438**
Corporate income tax	7	(1,485)	(1,361)
Profit from continuing operations		**5,259**	**5,077**
Profit after tax from discontinued operations	4	-	1,722
Profit for the period		**5,259**	**6,799**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		-	(98)
Other comprehensive income, net of tax		-	(98)
Total comprehensive income, net of tax		**5,259**	**6,701**

Profit for the period attributable to:			
Equity holders of the Company	8	5,259	5,077
Equity holders of CETIN	4	-	1,772
Non-controlling interest			
Total comprehensive income attributable to:			
Equity holders of the Company		5,259	4,979
Equity holders of CETIN		-	1,772
Non-controlling interest		-	
Earnings per share (CZK) from continuing operations – basic**	8	17	16

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

In CZK million	Notes	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment	10	5,075	4,638
Intangible assets	11	16,515	16,147
Investments in equity accounted investees	25	42	42
Other non-current assets	13	189	270
Deferred tax asset	18	250	323
Non-current assets		**22,071**	**21,420**
Inventories	12	624	722
Receivables	13	6,434	6,156
Income tax receivable	7	40	-
Cash and cash equivalents	14	4,137	1,970
Current assets		**11,235**	**8,848**
Total assets		**33,306**	**30,268**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	3,102
Treasury shares	23	(1,152)	-
Share premium	23	11,894	11,894
Retained earnings, funds and reserves		3,660	3,348
Equity attributable to owners of the parent		**17,504**	**18,344**
Non-controlling interest		1	-
Total equity		**17,505**	**18,344**
Long-term financial debts	16	6,976	2,970
Deferred tax liability	18	170	60
Non-current provisions for liabilities and charges	19	57	22
Non-current other liabilities	15	179	94
Non-current liabilities		**7,382**	**3,146**
Short-term financial debts	16	1	11
Trade and other payables	15	8,254	8,391
Income tax liability	7	8	245
Provisions for liabilities and charges	19	156	131
Current liabilities		**8,419**	**8,778**
Total liabilities		**15,801**	**11,924**
Total equity and liabilities		**33,306**	**30,268**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Equity attributable to owners of the parent								
In CZK million	**Notes**	**Share capital**	**Share premium**	**Treasury shares**	**Currency translation reserve**	**Funds**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2016		**3,102**	**11,894**	**-**	**198**	**191**	**2,959**	**18,344**	**-**	**18,344**
Profit for the period		-	-	-	-	-	5,259	5,259	-	5,259
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**5,259**	**5,259**	**-**	**5,259**
Capital contribution and other reclassifications		-	-	-	-	59	(59)	-	-	-
Distribution declared in 2016	9	-	-	-	-	-	(4,964)	(4,964)	-	(4,964)
Dividends on treasury shares	23	-	-	-	-	-	18	18	-	18
Acquisition of treasury shares	23	-	-	(1,152)	-	-	-	(1,152)	-	(1,152)
Acquisition and capital contribution to subsidiary with non-controlling interests	25	-	-	-	-	-	(1)	(1)	1	-
At 31 December 2016		**3,102**	**11,894**	**(1,152)**	**198**	**250**	**3,212**	**17,504**	**1**	**17,505**

In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Retained earnings	Total	Non-controlling interests	Total equity
		Equity attributable to owners of the parent								
At 1 January 2015		**27,461**	**19,349**	**(1,596)**	**296**	**6,587**	**2,056**	**54,153**	**-**	**54,153**
Other comprehensive income		-	-	-	(98)	-	-	(98)	-	(98)
Profit for the year		-	-	-	-	-	5,077	5,077	-	5,077
Net profit attributable to shareholders of CETIN (from Discontinued Operations)		-	-	-	-	-	1,722	1,722	-	1,722
Total comprehensive income		**-**	**-**	**-**	**(98)**	**-**	**6,799**	**6,701**	**-**	**6,701**
Capital contribution and other reclassifications		-	-	-	-	46	(46)	-	-	-
Distribution declared in 2015	9	-	-	-	-	-	(4,103)	(4,103)	-	(4,103)
Dividends on treasury shares	23	-	-	-	-	-	71	71	-	71
Cancellation of treasury shares	23	(472)	(1,124)	(1,596)	-	-	-	-	-	-
Acquisition of O2 IT Services s.r.o.		-	-	-	-	-	(79)	(79)	-	(79)
Other movements		-	-	-	-	-	(17)	(17)	-	(17)
Distribution of profit and other distribution to CETIN shareholders relating to spin off project		(23,887)	(6,331)	-	-	(6,442)	(1,722)	(38,382)	-	(38,382)
At 31 December 2015		**3,102**	**11,894**	**-**	**198**	**191**	**2,959**	**18,344**	**-**	**18,344**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax from continuing operations		6,744	6,438
Profit before tax from discontinued operations	4	-	2,176
Profit before tax		**6,744**	**8,614**
Non-cash adjustments for:			
Share of (profit)/loss of investments accounted for using the equity method		23	(10)
Dividend income		(4)	(4)
Depreciation	10	1,042	2,015
Amortisation	11	2,400	2,550
Impairment loss		152	27
(Profit)/loss on sale of tangible and intangible fixed assets		(1)	(10)
Net interest cost		61	86
Foreign exchange losses/(gains) (net)		2	39
Fair value changes		2	1
Change in provisions and allowances		89	142
Other non-cash operations		57	68
Operating cash flow before working capital changes		**10,567**	**13,518**
Working capital adjustments:			
Increase/(decrease) in trade and other receivables		(245)	(402)
Decrease/(increase) in inventories		88	(342)
Increase/(decrease) of financial liabilities at fair value through profit or loss		(3)	
Increase/(decrease) in trade and other payables		418	546
Cash flows from operating activities		**10,825**	**13,320**
Interest paid		(68)	(124)
Interest received		14	4
Income tax paid		(1,579)	(1,557)
Net cash flow from operating activities		**9,192**	**11,643**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,510)	(1,701)
Purchase of intangible assets		(3,387)	(1,285)
Proceeds from sales of fixed assets		16	146
Cash purchase of equity accounted investments		(40)	(5)
Cash purchase of subsidiary		(2)	(65)
Cash purchases of other investments		(21)	-
Dividends received		11	4
Movement of restricted cash		432	(432)
Net cash used in investing activities		**(4,501)**	**(3,338)**
Cash flows from financing activities			
Proceeds from borrowings		5,000	3,000
Repayment of borrowings		(1,000)	(7, 000)
Dividends paid		(4,946)	(4,033)
Acquisition of treasury shares		(1,152)	-
Distribution of CETIN’s cash	4	-	(1,970)
Net cash used in financing activities		**(2,098)**	**(10,003)**

Net increase/(decrease) in cash and cash equivalents		**(2,593)**	**(1,698)**
Cash and cash equivalents at beginning of year	14	1,538	3,256
Effect of foreign exchange rate movements on cash and cash equivalents		6	(20)
Cash and cash equivalents at the year end	14	4,137	1,538

ACCOUNTING POLICIES

Content Page

A Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

Effective from 1 January 2005, a change in the Czech Act on Accounting No. 563/1991 Coll. requires the Group to prepare its consolidated financial statements in accordance with IFRS adopted by the EU (Regulation (EC) No 1606/2002). At the balance sheet date, there are no differences in the IFRS policies applied by the Group, and IFRS adopted by the EU.

The consolidated financial statements were prepared under the historical cost convention except for non-current assets held for sale, financial derivatives and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS required the Group to use certain critical accounting estimates. It also required estimates be used in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Use of estimates, assumptions and judgements.

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

The Group is integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Group reports its operating segments according to these two main areas of services, i.e. fixed and mobile segment. The Group also has a single geographic segment, which forms its subsidiaries O2 Slovakia, s.r.o. and O2 Business Services, a.s. For further detail refer to Note 3.

Adoption of new or revised IFRS standards and interpretations (includes standards and interpretations applicable for the Group)

For financial statements for the year ended 31 December 2016 the Group takes into account annual revisions 2012 to 2014, the purpose of which is to eliminate inconsistency and specify some formulations.

Annual revision 2012 to 2014 contains amendments of following standards:

IFRS 5 Non-current assets held for sale and discontinued operation
IFRS 7 Financial Instruments: disclosure
IFRS 19 Employee benefits
IAS 34 Interim financial reporting

New IFRS not yet effective as at 31 December 2016 (includes standards applicable for the Group)

At the date of preparation of the consolidated financial statements, the following IFRS had been published, but their application was not mandatory. The Group intends to adopt those standards when they become effective.

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IAS 7	Statement of cash flow	1 January 2017
IAS 12	Income tax	1 January 2017
IAS 40	Transfers of investment property	1 January 2018
IFRS 2	Share-based payment	1 January 2018
IFRS 4	Insurance contracts: deferred application of IFRS 9	1 January 2021
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial instruments - classification and measurement	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Group is currently assessing the impact of the application of these standards and amendments. Based on the analyses made to date, the Group estimates that adoption of the standards and amendments will not have a significant impact on the consolidated financial statements in the initial period of application, with the exceptions of IFRS 9, IFRS 15 and IIFRS 16.

IFRS 15 - Revenue from Contracts with Customers

The application of the new standard is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The core principle of the standard is for the Group to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Group expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for instance customers' material rights, principal versus agent considerations, etc.) and new guidance for multiple-element arrangements.

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

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

In accordance with the requirments of the new standard the transaction price will be allocated to separate performance obligations within a contract based on relative stand-alone selling prices of the goods or services promised in accordance with the requirements of the new standard.

The Group will recognise revenue when a good or service is transferred to the customer and the customer obtains control of that good or service. The Group will first assess whether the performance obligation is satisfied over time or at a point in time. Most services are provided over time because customers benefit from those services as the services are rendered.

Management plans to elect the modified cumulative retrospective transition approach, which means that the Group will use the new guidance only to contracts that are not completed at the adoption date of 1 January 2018. The cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018. Disclosures will cover required information regarding contracts with customers, significant estimates and judgments, contract acquisition costs and the relevant exemptions used under the standard. Comparative prior year periods will not be adjusted.

Expected impact on the consolidated financial statements

The adoption of the new standard will result in significant changes in the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of capitalisation of costs of obtaining a contract with a customer. Management has already reviewed the Group's current offering in all business areas and identified expected adjustments (impact study).

The timing of revenue recognition and the classification of the Group's revenues as either service or equipment revenue will be affected due to the allocation of consideration in multiple element arrangements. Considering the current business models, the impact of applying the new standard would result in allocating more revenues upfront from sales of equipment. Service revenue is expected to decrease. There is also expected classification impact between particular service lines.

As a result of the front-loading revenue and capitalisation of costs to obtain contracts, management expects that net assets of the Group will increase due to implementation of IFRS 15.

Capitalised contract acquisition costs will be amortised over the average contract duration. The amortisation of those costs will be presented on line Depreciation and amortisation in the income statement. Therefore EBITDA will increase and Depreciation and amortisation will increase by the same amount.

Within the business models used by the Group, the financing element is not expected to be material for the Group’s portfolio of offerings. Therefore neither operating profit nor finance costs are expected to be affected significantly.

The Group’s operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial time. Management has launched an IFRS 15 implementation project. As at the date of preparation of the financial statements, the project is in the mature stage of design and implementation of IT systems solution. Before finalisation of the full IT solution it is not possible to make reasonable quantitative estimates of the effects of the new standard.

IFRS 9 – Financial instruments

The new standard IFRS 9 was amended in 2014 comprising requirements for (a) classification and measurement of financial assets and liabilities, (b) impairment model methodology and (c) hedge accounting. The IFRS 9 will replace the current IAS 39 Financial Instruments – Recognition and Measurement, effective from 1 January 2018.

With respect to classification and measurement, the number of categories for classification of financial assets was reduced compared to IAS 39 and all financial assets will be according to IFRS 9 subsequently measured at amortised cost or at fair value.

The impairment model in accordance with the IFRS 9 is based on expected credit losses that replaces the IAS 39 incurred loss model. Entities are generally required to recognize either 12-months or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition (simplified approach). The Group intends to apply the simplified approach for recognition of expected credit losses from trade receivables, lease receivables and contract assets under IFRS 15. The adoption of the new standard will have impact mostly on measurement of the Group´s financial assets.

IFRS 16 – Leasing

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both leasees and lessors. In accordance with the new standard the lessees will be required to recognize most leases on their balance sheets while lessor accounting is substantially unchanged.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard has not yet been endorsed by EU.

The Group is currently assessing concrete impacts of the new standard, however the Group expects significant increase of assets and liabilities as a result of the recognition of most leases on the balance sheet and classification impact on the statement of profit or loss. The Group plans to adopt the new standard on the required effective date.

B Subsidiaries

Subsidiaries, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when the Group ceases to have control.

A business combination is accounted for using the acquisition method. The consideration transferred for the acquisition of the business combination is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed when incurred. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired (“negative goodwill”), then the Group first reassesses the identification and measurement of the acquiree’s identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized in profit or loss on the date, when the Group obtained the control. For detail refer to Accounting policies (see Note H Intangible assets and also Note 11).

Intercompany transactions and balances among the Group companies are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies for subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group and another companies within the Group.

C Transactions under common control

Asset and liabilities acquired are recognized in the financial statements of the Group at original carrying value. The difference between acquisition price and carrying value of the acquired company under common control is recorded directly in the equity.

D Investment in joint ventures and associates

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

In relation to its interest in a joint arrangement, the Group recognises joint ventures that are accounted for using the equity method.

An associated undertaking is an enterprise where the Group has significant influence, which is the power to participate in the financial and operating policy decisions, but not exercise control.

Associates are accounted for using the equity method. Equity accounted investments are at least annually as at the balance sheet date tested for impairment. Impairment loss is recognized in profit or loss as part of the Share of profit/(loss) of investments accounted for using the equity method.

E Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of O2 Slovakia, s.r.o. and O2 Business Services, a.s. is the euro. The functional currency of the Company and other companies within the Group is Czech crown (CZK). The consolidated financial statements are presented in Czech crowns (CZK), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. Such balances of monetary items are translated at period-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

Profit or loss of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

F Property, plant and equipment

All property, plant and equipment are initially recorded at cost and, except for freehold land, are subsequently carried at its cost less any accumulated depreciation and accumulated impairment losses. Freehold land is subsequently stated at cost less any accumulated impairment charges.

Property, plant and equipment acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated depreciation and accumulated impairment charges.

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises every expenditure up to the customers' premises, including the cost of contractors, materials and direct labour costs incurred during the course of construction. The costs also include the estimated costs of dismantling and removing the asset and restoring the site.

Subsequent costs are recognised as property, plant and equipment only if it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Repairs and maintenance costs are expensed as incurred.

Items of property, plant and equipment that are retired are not intended for sale and are not expected to create any future economic benefits or are otherwise disposed of, are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income, i.e. net gain or loss is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Items of property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method. Depreciation ceases at the earlier of the date the asset is either de-recognised or at the date the asset is classified as held for sale.

Depreciation does not cease, when the asset becomes temporarily idle or retired from active use, unless the asset is fully depreciated.

Estimated useful lives adopted in the consolidated financial statements are as follows:

	Years
Freehold buildings	up to 56
Cable and other related plant	10 to 41
Communication technology and related equipment	up to 26
Other fixed assets	up to 26

Freehold land is not depreciated as it is deemed to have an indefinite life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note J Impairment of assets).

G Intangible assets

Intangible assets of the Group include computer software, purchased goodwill, licences, valuable rights and customer bases. Computer software mainly represents the external acquisition costs of the Group's information systems that are intended for use within the Group. Generally, costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and that have a probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their estimated useful lives, generally from one to five years. Valuable rights are amortised according to period for which the Group is allowed to utilize the rights, usually for the period from 1 to 5 years.

Intangible assets of the Group acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated amortisation and accumulated impairment charges and are amortised on a straight-line basis over their estimated useful lives. Customer bases are amortised over a period of the remaining average terms of the binding contracts or period over which production units are generally obtained from the asset by an entity.

Acquired licences are recorded at cost and amortised on a straight-line basis over the remaining life of the licence (i.e. over 15 to 20 years), from the start of commercial service, which best reflects the pattern by which the economic benefits of the intangible assets will be utilised by the Group.

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (see Note 11).

Goodwill, arising from the purchase of subsidiaries and interests in associates and joint ventures, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill is not amortised but is tested for impairment at least annually or anytime there are indications of a decrease in its value.

The Group reviews at least at the balance sheet date the useful lives of intangible assets that are not amortised to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

On the balance sheet date, carrying amounts, residual values, determinability of useful lives of assets and the useful lives of assets themselves are reviewed, revised and if necessary prospectively amended and accounted for as a change in an accounting estimate.

Intangible assets that are no longer in use and no future economic benefits are expected or that are disposed of for any other reason are de-recognised from the balance sheet together with the corresponding accumulated amortisation (for amortised assets only). All gains or losses arising in this respect are recognised in net operating income, i.e. net gain or loss is determined as the difference between net disposal proceeds, if any, and the carrying amount of the asset.

Intangible assets, with the exception of assets with an indefinite useful life, are amortised using the straight-line method from the time they are available for use. Amortisation ceases at the earlier of the date the asset is de-recognised, the date the asset is classified as having the indefinite useful life or the date the asset is classified as held for sale.

H Discontinued operations

On 28 April 2015, the General Meeting approved the separation of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). In accordance with national legislation, the Company was split into two separate accounting units with effective date 1 January 2015. In line with the International Financial Reporting Standards, the date when the control over the spun off part ceased was 1 June 2015. Under IFRS 5, financial indicators relating to company CETIN for the period from January to May 2015, or as of 31 May 2015 respectively, are classified in the consolidated financial statements for the year ended 31 December 2015 as *Discontinued operations*.

I Non-current assets classified as held for sale

The Group classifies separately in the balance sheet an asset (or disposal group) held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), its sale is highly probable and sale is expected within one year.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell and is accounted for as an impairment loss with impact on profit or loss of the relevant period.

From the moment the asset is classified as held for sale and eventually revalued, it ceases to be depreciated/amortised and is reviewed only from impairment point of view.

Any gain from any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that has been recognized, is determined and is accounted for in profit or loss.

J Impairment of assets

Property, plant and equipment and other assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least on an annual basis for goodwill and for intangibles with an indefinite useful life and for intangibles not yet in use. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

Impairment losses are recognised in expenses when incurred. A previously recognised impairment loss is reversed (except for the Goodwill impairment loss) only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss in the period in which the reversal occurs.

The Group makes an assessment at least at each balance sheet date whether there is any indication that an impairment loss may no longer exist, may have decreased or may have increased. If any such indication exists, the Group estimates a recoverable amount of the assets and compares to the carrying value (net of the impairment allowance). In assessing whether there is any indication that the impairment loss recognised in the past may no longer exist, the Group considers both external and internal sources of information (asset's market value, changes expected in the market, including technological, economic or legal changes, market interest rates, significant changes with effect on the Group in the extent to which, or manner in which, the assets are used or are expected to be used, evidence available from internal reporting indicating economic performance of assets etc.). Where an estimate of recoverable amount is calculated, there is a number of management assumptions used.

K Investments and other financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2016 and 2015, the Group did not hold any financial assets in this category.

Investments with a fixed maturity that management intent to and has ability to hold to maturity are classified as held-to-maturity and are disclosed as current or non-current assets, depending on the period in which the settlement will take place.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using an effective interest rate method and are disclosed as current or non-current assets, depending on the period in which the settlement will take place.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis, as required under IAS 39.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. The cost of purchase includes all transaction costs. Financial assets at fair value through profit or loss and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. On the contrary, unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in other comprehensive income in the period in which they arise, except for impairment losses, until the financial asset is de-recognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each balance sheet date whether financial assets or groups of financial assets are impaired.

Assets carried at amortized costs

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss and only to the extent that the carrying amount of the financial asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or sold.

De-recognition of financial assets

A financial asset is de-recognised when:

a) the rights to receive cash flow from the asset have expired,

b) the Group retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

a) the Group has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

L Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfilment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the assets.

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment that is required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest. The corresponding lease obligations, net of finance charges, are included in other long-term payables (depending on maturity).

The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. If there is a reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

M Inventories

Inventory is stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using weighted average cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

N Trade receivables

Trade receivables are carried at original invoice amount less allowance for impairment of these receivables. Such allowance for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the initial market rate of interest for similar borrowers. Cash flows relating to short-term receivables are usually not discounted. The amount of the allowance is recognized in profit or loss.

O Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (adjusted for negative deposits). Bank overdrafts are shown within borrowings in current liabilities section of the balance sheet.

P Financial debt

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs on debts used to finance the acquisition and construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Q Current and deferred income taxes

Income tax expense represents both current and deferred taxation, where appropriate.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws, used to compute the amount are those that are enacted or substantively enacted by the balance sheet date in the relevant country.

Income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss.

Deferred income tax is calculated using the liability method applied to all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates and laws expected to apply when the asset is realised or the liability is settled are used to determine the deferred income tax.

The principal temporary differences arise from differences in the tax and accounting values of tangible and intangible fixed assets, impairment of receivables and allowance for obsolete and slow moving inventories, non tax deductible allowances and provisions, unused tax credits and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group accounts for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill.

Deferred income tax assets and tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The same applies for offsetting of current tax assets and liabilities.

R Employee benefits

(1) Pension insurance and supplementary pension insurance

The Group remits contributions to the state pension insurance scheme at the statutory rates applicable during the period which are based on gross salaries. The contributions to the state budget for the funding of the state pension insurance correspond to the defined contribution plans. The Group has no further payment obligations once the contributions have been paid.
The contribution expense is charged to profit or loss in the same period as the related salary expense. The Group also makes contributions to defined supplementary pension insurance schemes operated by external pension funds. These contributions are charged to profit or loss in the period to which the contributions relate. The Group has no further payment obligations once the contributions have been paid.

(2) Redundancy and severance payments

Employees whose employment was terminated before term citing statutory reasons are entitled for redundancy and severance payment. The Group recognises provision for redundancy and severance payments when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without the possibility of opt-out. Severance payments falling due more than 12 months after the balance sheet date are discounted to present value. The Group presently has no redundancy and severance obligations falling due more than 12 months after the balance sheet date.

(3) Bonus plans

The Group recognises employee bonuses related to the given accounting period in accordance with the expectations of achievement of the targets of the Group, which take into consideration key performance indicators such as turnover or free cash flow after adjustments. The Group recognises a provision where the Group is contractually obliged to grant bonuses or where there is a past practice that has created constructive obligation.

S Provisions

Provisions are recognised when the Group has either a present legal or constructive obligation resulting from past events, and it is probable that an outflow of resources will be required to settle the obligation assuming that a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

T Revenue and expenses

Revenue, shown net of Value Added Tax and any discounts, and after eliminating sales within the Group, comprises goods sold and services provided. Revenues are measured at their fair value of the consideration received or receivable. The amount of revenue is recognised if it can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. If necessary, revenue is split into separately identifiable components. Commission payments to dealers for activations, various marketing promotions and other activities are included in the costs of sales for the period.

Revenue and expenses are recognized on an accrual basis; i.e. when the flow of goods or services takes place, regardless of when the payment or collection is being made.

Voice, data and internet
Revenues from voice, data and internet services entail tariff fee plus a variable rate. Both wireline and wireless traffic is recognized as revenue as service is provided.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services or upon expiration of the card and related prepaid credit.

Equipment sales and sale of other goods
Revenue from the sale of telephone equipment and other goods is recognised at the time of sale i.e. when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are thus recognized when the product or service is delivered to the distributor or to the end customer. Losses arising from the sale of handsets due to discount are recognised at the date of sale.

Information and communication technology and construction contracts
Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the provided service.

Revenue from fixed price construction contracts (long-term contracts) is recognised using the percentage of completion method, measured by reference to the percentage of actual cost incurred to date to estimated total costs of the contract. A loss expected from the construction contract is recognised as an expense immediately, when it is probable that total contract costs will exceed total contract revenue.

Roaming revenues
The mobile segment derives roaming revenue as a result of airtime and other services used by the mobile segment's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled net on a regular basis. Revenue is recognised when services are provided.

Interconnection revenues
Interconnection revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but terminate in or transit the Group's network. These revenues are recognised in profit or loss at the time when the call is received in the Group's network. The Group pays a proportion of the call revenue it collects from its customers to the other domestic and foreign operators' for the calls and other traffic originating in the Group's network, which use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled net on a regular basis.

Gross and net revenue recognition
In assessing whether revenue should be recognised gross, i.e. with separate disclosure of costs to arrive at gross profit, or on a net basis, the Group considers whether a transaction is considered to meet conditions of an agency arrangement. In such cases, the revenue is recognised only at the amount of the commission received/realised. The Group may enter agency relationship when providing premium SMS, audiotex or other services.

Dividend income
Dividend income is recognized when the right to receive payment is established.

Interest income
Income is recognised as interest accrues (using the effective interest method).

U Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

V Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, receivables and other financial assets, trade and other payables, borrowings and derivatives. Detailed figures are described in Note 17.

W Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

X Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either:

a) hedge of the fair value of a recognised asset or liability (fair value hedge), or
b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualified as fair value hedges and that are highly effective are recorded in profit or loss, along with changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualified as cash flow hedges and that are highly effective are recognised in other comprehensive income. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in other comprehensive income are transferred to profit or loss and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects profit or loss.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, either do not qualify for hedge accounting under the specific rules in IAS 39 or the Group has elected not to apply the specific IAS 39 hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in profit or loss when the committed or forecasted transaction ultimately is recognised in profit or loss. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions.

The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Y Change in accounting policy

No significant changes in accounting policies were applied in 2016 and 2015.

Z Treasury shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of changes in equity as a reduction in equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received from sale of treasury shares is presented in the financial statements as an addition to equity.

AA Operating profit

Operating profit is defined as profit before financial results and taxes and represents profit from the business operations. Financial results consist of interest income, interest expense, other financial expense (which includes primarily bank charges), fair value losses and gains on financial instruments and foreign exchange gains and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Content Page

1 Financial risk management

The Group is exposed to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates, debt taken on to finance its business and net investment in foreign operations as a result of ordinary business. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses either derivative financial instruments (such as forward and swap contracts) or non-derivative instruments (such as cash instruments) to hedge certain exposures.

The Group does not conduct any speculative trading activities.

Risk management is carried out by the treasury department under approved policies. The Board of Directors provides written principles for overall risk management. In line with these principles, policies exist for specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the euro and partially to US dollar:

a) balance sheet items (such as debt, receivables, payables) denominated in foreign currency,
b) probable forecasted transactions or firm commitments (such as purchases or sales) denominated in foreign currency, and
c) net investment in the Slovak subsidiary (functional currency differs from CZK).

The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

The Group primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR, USD or XDR. Only plain-vanilla instruments are currently used for hedging this kind of exposure.

The following nominal value of foreign exchange contracts was used by the Group to manage the currency risk:

In CZK million	**Notional principal amount**		**Fair value**	
	2016	**2015**	**2016**	**2015**
Foreign exchange contracts	-	399	-	(1)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates.

In CZK million	**Effect on profit before tax**	
	2016	**2015**
FX risk		
Value at Risk*	(29)	(47)
Stress testing*	(56)	(169)

* The Value at Risk (VaR) Model enables the Group estimate the probability of maximum possible loss to the portfolio value in the given time frame which will not be exceeded given the defined reliability level. For conducting a VaR calculation, the Group uses the risk variance and covariance method using the normal distribution (e.g. parametric method). The time frame used is one month with a 95% reliability rate. Considering the importance of net open positions resulting from financial assets and financial liabilities of the Group in individual foreign currencies, the Group models VaR from a position of translation and transaction in EUR and USD.

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 6% in an unfavourable direction.

The following table illustrates the summary quantitative data detailing the Group´s exposure to currency risk. Within other are included mainly Special Drawing Rights (XDR), which are used in certain transactions within the international roaming.

	31 December 2016			
In CZK million	**CZK**	**EUR**	**USD**	**Other**
Financial assets				
Cash and cash equivalents	3,177	756	204	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,808	1,928	6	328
Total financial assets	6,985	2,684	210	328
Financial liabilities				
Financial debts	6,977	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	3,155	3,339	156	98
Total financial liabilities	10,132	3,339	156	98

	31 December 2015			
In CZK million	**CZK**	**EUR**	**USD**	**Other**
Financial assets				
Cash and cash equivalents	1,128	825	17	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,869	1,689	33	73
Total financial assets	4,997	2,514	50	73
Financial liabilities				
Financial debts	2,980	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,190	2,375	186	96
Derivative financial instruments	-	-	1	-
Total financial liabilities	7,170	2,375	187	96

(ii) Interest rate risk

The Group is exposed to interest rate risk arising from floating interest rate bearing cash investments (Note 14) and debt instruments (Note 16).

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The cash assets and short term debt are currently maintained on floating rates while long term debt instruments could be maintained on both floating and fixed rates. The Group may sometimes use interest rate swaps and forward rate agreements to manage a mix of fixed and variable interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates.

In CZK million	**Effect on profit before tax**	
	31 December 2016	**31 December 2015**
IR risk		
Stress testing*	(29)	(3)

* IR risk used stress scenario represents immediate one-off change of interest rates along the whole yield curve by 1 percentage point in an unfavourable direction. The calculation of unfavourable impact on Group within a 12 month time frame (due to an increase of interest cost or decrease of interest income) is made on a semi-annually basis.

(b) Liquidity risk

The Group's essential objective of liquidity risk management is having access to the cash resources sufficient to meet all its cash payment obligations as they fall due, allowing some flexibility. The cash resources consist of generated cash position (maintained in quickly liquid instruments), and committed credit facilities arranged with banks.

The Group is particularly focused on the liquidity profile within the time horizon of the next 12 months considering projected cash flow from operations and maturity structure of both debt obligations and financial investments. The balance between the funding continuity and flexibility is managed through maintaining the option to use bank overdrafts or bilateral credit lines.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2016 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	20	59	7,441	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,549	1,031	166	2
Financial guarantees	17	375	113	-
Total	5,586	1,465	7,720	2

At 31 December 2015 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	12	36	3,192	-
Other intragroup borrowings	-	10	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,863	924	45	15
Derivative financial instruments	1	-	-	-
Financial guarantees	261	138	117	-
Total	6,137	1,108	3,354	15

(c) Credit risk

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic and the Slovak Republic. Although the Group does not currently foresee a dramatically higher credit risk associated with these receivables, the repayment is significantly impacted by the financial stability of a particular national economy.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting non-significant Group's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 13. There is no significant concentration of credit risk within the Group.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, available for sale investments and certain derivative instruments, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit Risk is managed by the Credit Management Unit and is based on three main activities:

a) monitoring of accounts receivables: regular monitoring of payment moral of existing customers and monitoring and analyzing of the receivable aging structure (internal and external indicators of any potential bad debts). Those activities are processed in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.
b) prevention: scoring of new customers – checking procedures (integrated Black List, Solus Debtor Register, other external information databases), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc).
c) collection process: Credit Management cooperates with Customer Care on the setting up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

See Note 17 for quantitative disclosures on credit risk.

(d) Fair value estimation

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

As at 31 December 2016 the Group held only available-for-sale financial assets classified as Level 3 financial instruments measured at fair value. As at 31 December 2015 the Group held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2016 and 31 December 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair values of the derivative financial instruments reflect estimates based on calculations performed using the Group's own discounted cash flow models (using market rates).

Carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its 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 rate.

2 Use of estimates, assumptions and judgements

The preparation of financial statements in conformity with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the reporting period.

Estimates and judgments are continually evaluated being based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Given the fact that these assumptions and estimates represent certain degree of uncertainty the actual results and recognised assets and liabilities could differ from those estimates.

The estimates and assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next years are discussed below:

(1) Income taxes and deferred taxes

The Group creates a liability for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 7 and Note 18).

(2) Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict. Further details are described in Note F Property, plant and equipment and Note G Intangible assets.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in profit or loss. The decision to recognize an impairment loss involves estimates of amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

The Group evaluates the performance of its cash-generating units regularly to identify potential impairments. Determining the recoverable amount of the cash-generating units also entails the use of assumptions and estimates and requires a significant element of judgment.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount where an impairment loss recognised in prior periods shall be subject to the reversal (See Note 11).

In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (See Note 11). However, goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation to which the goodwill relates.

(3) Provisions, and contingent liabilities

As set out in Note 20 the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (See Note 19). Contingent liabilities are not recognised, because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

Trade receivables are carried at original amount less bad debt allowance. The bad debt provision is estimated according to historical experience and individual assessment. Details regarding the determination of receivables impairment are stated in Note N Trade receivables.

3 Segment information

Segments recognised by the Group are as follows:

- Czech Republic:
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company and other subsidiaries in the Group excluding O2 Family, s.r.o.
  - mobile segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o.
- Discontinued operations – separately reported segment relating to CETIN (spun off entity), which provides wholesale services using its own fixed and mobile infrastructure and wholesale services provided by CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH (as stated in point H of the part Accounting policies this segment is only relevant for comparable period)
- Slovak Republic - mobile telecommunication and data services provided by O2 Slovakia, s.r.o

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

Inter-segment pricing rates in 2016 and 2015 were determined on the same basis as rates applicable for other mobile operators.

Year ended 31 December 2016	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million					
	Fix	**Mobil**			
Revenues	11,566	19,519			
Cost of Sales (CoS)	(7,296)	(9,312)			
Gross margin	4,270	10,207			
Other income from non-telecommunication services	202				
Activation of fixed assets	255				
Other costs excluding CoS	(6,687)				
Earnings before interest, taxes, depreciation and amortization (EBITDA)	8,247				
Revenue	31,085		6,787	(350)	37,522
Other income from non-telecommunication services	202		6	-	208
Activation of fixed assets	255		49	8	312
Total consolidated income	31,542		6,842	(342)	38,042
Total consolidated cost	(23,295)		(4,638)	342	(27,591)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**8,247**		**2,204**	**-**	**10,451**
Depreciation and amortization	(2,700)		(742)	-	(3,442)
Impairment loss	(124)		(28)	-	(152)
Operating profit	**5,423**		**1,434**	**-**	**6,857**
Interest expense	(75)		(1)	1	(75)
Interest income	15		-	(1)	14
Other financial income/(expense)	(23)		(6)	-	(29)
Net financial loss	(83)		(7)	-	(90)
Share of profit/(loss) of investments accounted for using the equity method	(23)		-	-	(23)
Profit before tax	5,317		1,427	-	(6,744)
Corporate income tax	(1,102)		(383)	-	(1,485)
Profit for the period	**4,215**		**1,044**	**-**	**5,259**
Assets (excl. Goodwill)	29,006		6,442	(6,600)	28,848
Goodwill	4,458		-	-	4,458
Total Assets	**33,464**		**6,442**	**(6,600)**	**33,306**
Trade and other payables	(6,419)		(2,316)	481	(8,254)
Other liabilities	(7,507)		(43)	3	(7,547)
Total liabilities	**(13,926)**		**(2,359)**	**484**	**(15,801)**
Fixed assets additions	**3,307**		**1,115**		**4,422**

Year ended 31 December 2015 In CZK million	Czech Republic			Slovak Republic	Elimination CR vs SR	Discontinued Operations	Elimination Continuing vs Discontinued operations *	Group
	Fix	Mobile						
Revenues	11,670	19,392						
Cost of Sales (CoS)	(7,264)	(9,475)						
Gross margin	4,406	9,917						
Other income from non-telecommunication services			175					
Activation of fixed assets			186					
Other costs excluding CoS			(6,827)					
Earnings before interest, taxes, depreciation and amortization (EBITDA)			7,857					
Revenues			31,062	6,683	(360)	7,960	(4,558)	40,787
Other income from non-telecommunication services			175	2	-	182	-	359
Activation of fixed assets			186	25	6	11	-	228
Total consolidated income			31,423	6,710	(354)	8,153	(4,558)	41,374
Total consolidated costs			(23,566)	(4,425)	354	(4,930)	4,558	(28,009)
Earnings before interest, taxes, depreciation and amortization (EBITDA)			**7,857**	**2,285**	**-**	**3,223**	**-**	**13,365**
Depreciation and amortization			(2,815)	(705)	-	(1,045)	-	(4,565)
Impairment loss			(27)	-	-	-	-	(27)
Operating profit			**5,015**	**1,580**	**-**	**2,178**	**-**	**8,773**
Interest expense			(90)	-	-	-	-	(90)
Interest income			4	-	-	-	-	4
Other financial income/(expense)			(72)	(9)	-	(2)	-	(83)
Net financial loss			(158)	(9)	-	(2)	-	(169)
Results attributed to joint venture			10	-	-	-	-	10
Profit before tax			4,867	1,571	-	2,176	-	8,614
Corporate income tax			(972)	(389)	-	(454)	-	(1 815)
Profit for the period			**3,895**	**1,182**	**-**	**1,722**	**-**	**6,799**
Assets (excl. Goodwill)			26,633	6,298	(7,106)	-	-	25,825
Goodwill			4,443	-	-	-	-	4,443
Total Assets			**31,076**	**6,298**	**(7,106)**	**-**	**-**	**30,268**
Trade and other payables			(6,814)	(1,944)	367	-	-	(8,391)
Other liabilities			(3,954)	(202)	623	-	-	(3,533)
Total liabilities			**(10,768)**	**(2,146)**	**990**	**-**	**-**	**(11,924)**
Fixed assets additions			**2,759**	**530**	**-**	**807**	**-**	**4,096**

* Column *Elimination Continuing vs Discontinued operations* represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to May 2015 (further comments also in Note 4)

As at 31 December 2016, the net book value of non-current assets deployed in the Slovak Republic amounted to CZK 4,222 million (2015: CZK 4,152 million).

4 Discontinued operation (for comparative information only)

On 13 March 2015, the Board of Directors of the Company approved a separation project of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). On 28 April 2015, the General Meeting approved the separation of the Company. The decisive date of the separation is 1 January 2015, in accordance with the national legislation. From the perspective of the International Financial Reporting Standards the date when the Company cease the control over the spun off part CETIN is 1 June 2015.

The legal effect of the separation and formation of CETIN took place on the date when it was recorded in the Commercial Register, which happened on 1 June 2015. As a result of the separation a part of assets and liabilities in the amount of CZK 36,660 million has been transferred to CETIN, in particular fixed public communications network, physical infrastructure of public mobile communications network, data centres, all relevant evidence and relevant contracts, rights and obligations necessary for the future independent operations of the new company. In total 1,174 employees assigned to the Infrastructure and Wholesale division were also transferred to CETIN.

At the time of the separation an equal share exchange ratio was determined. One share in CETIN was assigned to all equity holders of the Company for each share of the Company that they held on the date of registration of the spin off in the Commercial Register.

Accounting items relating to the spun off company were identified based on the relation to the Infrastructure and Wholesale division in the way it was defined in the separation project, and mainly represent property and equipment and relating assets and liabilities of the Infrastructure and Wholesale division.

In relation to the spin off, new business relations were established as of 1 January 2015 with the company CETIN by a virtue of the purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Company.

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

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Group is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

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

The subject of RAO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment). Total cost for 2016 was approximately CZK 4,126 mil.

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

CETIN enables the Group access to end points, which include provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for 2016 was approximately CZK 951 mil.

PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

In CZK million	**For the five months ended 31 May 2015**
Revenues	8,153
Expenses	(4,930)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**3,223**
Depreciation and amortisation	(1,045)
Impairment loss	-
Operating profit	2,178
Financial result	(2)
Profit before tax	2,176
Corporate income tax	(454)
Profit after tax from discontinued operations	**1,722**
Earnings per share for discontinued operations (CZK) – basic	6

Effect of disposal on the financial position	**31 May 2015**
Property, plant and equipment and intangible assets	31,962
Goodwill	9,005
Inventories	20
Trade and other receivables	1,702
Other financial receivables	65
Cash and cash equivalents	1,970
Total assets	**44,724**
Shareholders equity*	38,277
Trade and other payables	4,157
Deferred tax liability	2,290
Total equity and liabilities	**44,724**

Cash flows from Discontinued operations	**For the five months ended 31 May 2015**
Net cash flows from operating activities	2,705
Net cash flows from investing activities	(790)
Net increase/(decrease) for cash and cash equivalents for the period	**1,915**

* Shareholders equity as at 31 May 2015 includes, inter alia, the consolidated profit for the period of January to May 2015 of the Group CETIN amounting to CZK 1,722 million, an item arising from consolidation of subsidiaries in an amount of CZK 5 million and corrections of booking of the demerger accounted in accordance with accounting principles against the equity amounting to CZK 120 million.

5 Revenue and costs

Revenues **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Revenues from voice services	16,096	16,881
Revenues from data services	10,971	10,427
Revenues from ICT Services	2,006	1,942
Other telecommunication revenues	8,449	8,135
Total	37,522	37,385

Revenues from related parties are disclosed in Note 24.

Expenses In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Supplies	(19,430)	(19,420)
Staff costs	(3,987)	(3,692)
External services	(3,630)	(4,143)
Provisions for bad debts and inventories	(56)	(40)
Other expenses	(488)	(342)
Total expenses	(27,591)	(27,637)

Supplies include mainly these types of costs: interconnection and roaming expenses, cost of goods sold, subdeliveries, commissions and other cost of sales.

The Group does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Group during 2016 and 2015. As a result of the restructuring process the Group incurred restructuring costs of CZK 55 million during the year ended 31 December 2016 (2015: CZK 124 million).

Restructuring costs are included in staff costs.

Total fee for the services provided by KPMG Česká republika Audit, s.r.o. and its related parties was in 2016 and 2015 as follows:

In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
KPMG Česká republika Audit, s.r.o.		
Statutory audit	8	8
Other assurance services	-	3
KPMG Slovensko spol. s r.o.		
Statutory audit	1	1
Other companies from KPMG network		
Other services (KPMG Česká Republika, s.r.o.)	2	3
Total	11	15

Purchases from related parties are disclosed in Note 24.

6 Finance income and costs

In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income	14	4
Other finance income	5	4
Total finance income	19	8

Finance costs		
Interest expenses	(75)	(90)
Foreign exchange loss (net)	(2)	(39)
Other finance costs	(30)	(45)
Loss on fair value adjustments of financial instruments (net)	(2)	(1)
Total finance costs	(109)	(175)

The Group recognises foreign exchange gains and losses on net basis. The same applies for fair value adjustments of derivatives.

7 Income tax

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Total income tax expense is made up of:		
Current income tax charge	1,301	1,322
Deferred income tax (credit)/charge (Note 18)	184	39
Income tax	1,485	1,361

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the Group as follows:

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Profit before tax	6,744	6,438
Income tax charge calculated at the weighted average statutory rate (Note 18)	1,332	1,270
Tax effects of:		
- not taxable income	(18)	(6)
- expenses not deductible for tax purposes	84	67
Impact on deferred tax asset of O2 Slovakia, s.r.o. from change of statutory tax rate	10	-
Special tax for regulated business for O2 Slovakia, s.r.o.	44	36
Tax related to prior periods	33	(6)
Income tax	1,485	1,361
Effective tax rate	22%	21%

As at 31 December 2016 the total amount of provisions for current income taxes is CZK 1,223 million (2015: CZK 1,285 million), advances paid for income taxes is CZK 1,255 million (2015: CZK 1,040 million), the net deferred tax asset is CZK 80 million (2015: CZK 263 million).

8 Earnings per share

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 share transactions during the year (see Note 23).

Continuing operations

	31 December 2016	31 December 2015
Weighted number of ordinary shares outstanding (thousands)	308,205	310,220
Net profit attributable to shareholders (in CZK million)	5,259	5,077
Basic earnings per share (CZK)	17	16

Discontinued operations

	31 December 2015
Weighted number of ordinary shares outstanding (thousands)	310,220
Net profit attributable to shareholders (in CZK million)	1,722
Basic earnings per share (CZK)	6

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

9 Dividends and other distribution

In CZK million	31 December 2016	31 December 2015
Dividends declared (including withholding tax)	4,964	4,103
Total declared distribution	4,964	4,103

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2016 and 2015. Approval of the 2016 profit and the decision regarding the amount of any dividend payment for the 2016 financial year will take place at the Annual General Meeting.

The approval of the 2015 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 19 April 2016 (2014: 28 April 2015). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 16 per share from the 2015 profit were payable on 19 May 2016 (from the 2014 profit: CZK 13).

Distribution per share for the years ended 31 December was as follows:

In CZK	For the year ended 31 December 2015	For the year ended 31 December 2014
Dividend per share (nominal value of CZK 10)	16	13
Total distribution per share	16	13

10 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2016					
Opening net book amount	1,070	53	2,887	628	4,638
Additions	75	232	1,014	180	1,501
Disposals	(1)	-	(27)	-	(28)
Reclassifications and currency differences	(7)	7	(107)	118	11
Depreciation charge	(116)	(2)	(678)	(246)	(1,042)
Impairment charge	-	-	(5)	-	(5)
Closing net book amount	1,021	290	3,084	680	5,075
At 31 December 2016					
Cost	2,175	305	12,316	4,595	19,391
Accumulated depreciation and impairment allowance	(1,154)	(15)	(9,232)	(3,915)	(14,316)
Net book amount	1,021	290	3,084	680	5,075
At 31 December 2015					
Opening net book amount	9,372	17,147	8,797	884	36,200
Transferred to CETIN at 1 January 2015	(8,211)	(17,079)	(6,021)	(332)	(31,643)
Additions	50	20	930	292	1,292
Disposals	(19)	(1)	(111)	(12)	(143)
Reclassifications and currency differences	(44)	(32)	40	3	(33)
Depreciation charge	(76)	(2)	(734)	(207)	(1,019)
Impairment charge	(2)	-	(14)	-	(16)
Closing net book amount	1,070	53	2,887	628	4,638
At 31 December 2015					
Cost	2,145	60	13,622	5,227	21,054
Accumulated depreciation and impairment allowance	(1,075)	(7)	(10,735)	(4,599)	(16,416)
Net book amount	1,070	53	2,887	628	4,638

The net book amount of Property, plant and equipment as at 31 December 2016 includes CZK 1,274 million of construction in progress (2015: CZK 816 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

Additions to property, plant and equipment relates mainly to construction of telecommunication network in Slovakia.

No property, plant and equipment were pledged as at 31 December 2016 and 31 December 2015.

No borrowing costs were capitalized during the years 2016 and 2015.

The Group did not recognise any assets held for sale as at 31 December 2016 and 31 December 2015.

In 2016, the Group achieved a total gain from the sale of the fixed assets amounting to CZK 5 million (2015: CZK 15 million) and total losses of CZK 7 million (2015: CZK 12 million).

Property, plant and equipment in amount of CZK 31,643 million as at 1 January 2015 were transferred to spun off part CETIN on 31 May 2015. See Note 4 for further details.

11 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2016						
Opening net book amount	4,443	5,624	3,027	2,713	340	16,147
Additions	15	1,488	1,377	-	41	2,921
Disposals	-	-	-	-	(1)	(1)
Reclassifications and currency differences	-	53	(36)	-	(22)	(5)
Amortisation charge	-	(600)	(837)	(880)	(83)	(2,400)
Impairment charge	-	-	(133)	-	(14)	(147)
Closing net book amount	4,458	6,565	3,398	1,833	261	16,515
At 31 December 2016						
Cost	4,458	10,094	24,107	3,729	577	42,965
Accumulated amortisation and impairment allowance	-	(3,529)	(20,709)	(1,896)	(316)	(26,450)
Net book amount	4,458	6,565	3,398	1,833	261	16,515
At 31 December 2015						
Opening net book amount	13,448	5,891	2,972	3,596	369	26,276
Transferred to CETIN at 1 January 2015	(9,005)	(14)	(577)	-	-	(9,596)
Additions	-	432	1,565	-	-	1,997
Reclassifications and currency differences	-	(7)	(48)	(12)	49	(18)
Amortisation charge	-	(678)	(874)	(871)	(78)	(2,501)
Impairment charge	-	-	(11)	-	-	(11)
Closing net book amount	4,443	5,624	3,027	2,713	340	16,147
At 31 December 2015						
Cost	4,443	10,269	23,493	3,729	590	42,524
Accumulated amortisation and impairment allowance	-	(4,645)	(20,466)	(1,016)	(250)	(26,377)
Net book amount	4,443	5,624	3,027	2,713	340	16,147

The net book amount of intangible assets as at 31 December 2016 includes CZK 1,154 million of construction in progress (2015: CZK 1,775 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Additions to intangible assets in the Software category relate mainly to ongoing complex transformation of IT systems of the Company.

In 2016 the Group recognized impairment loss of CZK 147 million (2015: CZK 11 million). Impairment loss mostly represents value of intangible assets, which were made redundant due to ongoing IT system transformation.

Intangible assets in amount of CZK 9,596 million as at 1 January 2015 were transferred to spun-off part CETIN on 31 May 2015. See Note 4 for further details.

Goodwill

Goodwill of CZK 4,315 million as at 31 December 2016 and 2015 resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill initially recognized at CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million, and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

Due to a revision of IFRS 3, IAS 36 and IAS 38 the Group ceased amortisation of the previously recognized goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 was eliminated with a corresponding decrease in the cost of goodwill (CZK 767 million). From the year ending 31 December 2005 onwards, goodwill is classified as an asset with an indefinite useful life, which has been tested annually for the impairment, as well as when there are indications of impairment.

Part of the goodwill in the amount of CZK 9,005 million attributable to the spun off part of the business was in accordance with IAS 36 transferred in 2015 to CETIN. See Note 4 for further details.

As at 31 December 2016 and 31 December 2015 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project of the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company from 2012.

As at 31 December 2016 Goodwill contained CZK 13 million related to acquisition of part of the company Corpus Solutions a.s., that was acquired by subsidiary O2 IT Services s.r.o.

The Group performed impairment tests, which did not result in any impairment losses of goodwill, in 2016 and 2015. The impairment test involves a determination of the recoverable amount for the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Group internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 4 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the four-year period are extrapolated using appropriate growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan and growth rates, include the trend of the gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

Any significant future changes in the market and competitive environments could have an adverse effect on the value of the cash-generating unit.

The calculation of value in use for the cash-generating unit is the most sensitive to the following key assumptions:

Estimated growth rate – the forecast of the market and regulatory environment, where the Group conducts its principal business, is the basis for determination of the value assigned to the estimated growth rate. The Group uses growth rate between -1% and 0% (2015: -1% and 0%).

Discount rate – discount rates reflect the management's estimate of the risk specific to the cash generating unit. Weighted average cost of capital (WACC) forms the basis for the determination of the pre-tax discount rate. This rate is calculated using the capital asset pricing model (CAPM), the Group also uses relevant data taken from independent financial analysts as a benchmark.

The Group has no other intangible asset with indefinite useful life except for goodwill.

Intangible assets in progres are tested annually for impairment losses. The reviw performed as at 31 December 2016 and 2015 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks which are technologically neutral. Group uses following standards for operating cellular networks in the Czech Republic and Slovakia: GSM (Global System for Mobile Communication, the second generation technology), UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Details of individual licences are described in Note 22.

Carrying value of licences:

In CZK million	31 December 2016	31 December 2015
GSM licence	391	461
CDMA licence	5	10
UMTS licence	1,270	1,520
LTE licence	3,844	2,558
GSM and UMTS licence – the Slovak Republic	75	83
LTE licence – the Slovak Republic	971	982
MFCN licence – the Slovak Republic	9	10
Total	6,565	5,624

No borrowing costs were capitalized during the years 2016 and 2015.

Valuable rights

The Group decided in 2014 on exercising the option under the license agreement, based on which the Group is using the O2 brand until 31 January 2019 in the Czech Republic and Slovakia. By exercising the option, the Group purchased O2 brand recognized within intangible assets as at 31 December 2016 in net book amount CZK 1,833 million (2015: CZK 2,713 million).

12 Inventories

In CZK million	31 December 2016	31 December 2015
Telecommunication material	12	94
Goods	612	628
Total	624	722

The inventories stated above are net of an allowance of CZK 81 million (2015: CZK 95 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 3,251 million (2015: CZK 3,336 million).

In 2016 and 2015, the Group had no inventories pledged as a security for liabilities.

13 Receivables and other non – current assets

In CZK million	31 December 2016	31 December 2015
Trade receivables from third parties (net)	5,683	5,143
Trade receivables from related parties	152	365
Prepayments	479	541
Other debtors (net)	101	89
Indirect taxes	19	18
Total receivables	6,434	6,156

Trade receivables and other debtors are stated net of bad debt provision of CZK 2,631 million (2015: CZK 3,098 million).

Receivables from related parties are disclosed in Note 24.

			Not impaired but overdue			
Trade receivables In CZK million	**Carrying amount**	**Neither Impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2016	5,969	5,018	282	211	21	1
At 31 December 2015	5,574	5,122	361	28	18	2

Bad debt provisions In CZK million	
At 1 January 2015	3,736
Additions	1,710
Transferred to CETIN (Note 4)	(20)
Write-off of receivables	(738)
Retirements/amount paid	(1,590)
At 31 December 2015	3,098
Additions	984
Write-off of receivables	(599)
Retirements/amount paid	(852)
At 31 December 2016	2,631

The Group's historical experience regarding the collection of accounts receivable is consistent with the recorded allowances. Because of these factors, the management believes that no additional credit risk beyond the amounts provided for is inherent in the Group's trade receivables.

In CZK million	**31 December 2016**	**31 December 2015**
Trade and other receivables – non-current	134	66
Prepayments	47	204
Available-for-sale equity investments	8	-
Total other non-current assets	189	207

Trade and other non-current receivables contained restricted cash of CZK 30 million (2015: CZK 29 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

Available-for-sale equity investments as at 31 December 2016 represent share in Taxify OÜ, that has been acquired through subsidiary Bolt Start Up Development a.s.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreement include particularly roaming and interconnection services. Financial instruments are as follows:

In CZK million	**31 December 2016**	**31 December 2015**
Gross amounts of trade receivables from third parties	1,313	1,204
Amounts that are set off	(294)	(361)
Net amounts of trade receivables from third parties	1,019	843

14 Cash and cash equivalents

In CZK million	**31 December 2016**	**31 December 2015**	**Interest rate**
Cash at current bank accounts and other cash equivalents	2,098	1,185	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	2,039	785	Floating
Total cash and cash equivalents	4,137	1,970	
- of which restricted cash	-	(432)	
Cash and cash equivalents included in cash flow statement	4,137	1,538	

Cash deposited on an escrow account held on behalf of the Company (restricted cash) as at 31 December 2015 was released to Czech Telecommunication Office (CTO) on 1 February 2016 in accordance with the concluded agreement.

As at 31 December 2016 and 2015, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2016, cash and cash equivalents of the Group amounted to CZK 4,137 million (2015: CZK 1,970 million) of which CZK 4,137 million (2015: CZK 1,538 million) were due within 1 month and CZK 0 million (2015: CZK 432 million) were due for more than 1 month.

The committed and undrawn facilities available to the Group amounted to CZK 5,662 million as at 31 December 2016 (2015: CZK 9,662 million).

As at 31 December 2016 and 2015 no cash and cash equivalents were pledged.

15 Trade and other payables

In CZK million	31 December 2016	31 December 2015
Trade payables	6,492	6,686
Tax and social security liability	697	586
Other deferred revenue	94	72
Prepaid cards	443	495
Employee wages and benefits	440	451
Other payables	88	101
Total current trade and other payables	8,254	8,391
Trade payables	113	39
Other payables	55	21
Other long-term deferred revenue	11	34
Other non-current liabilities	179	94

Payables to related parties are disclosed in Note 24.

As at 31 December 2016 and 2015, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreement include particularly roaming and interconnection services. Financial instruments are as follows:

In CZK million	31 December 2016	31 December 2015
Gross amounts of trade payables	1,975	1,563
Amounts that are set off	(294)	(361)
Net amounts of trade payables	1,681	1,202

16 Financial debts

In CZK million	31 December 2016	31 December 2015
Debt in local currency	6,976	2,970
Accrued interest	1	-
Financial derivative instruments	-	1
Other financial debt	-	10
Total financial debt	6,977	2,981
Repayable:		
Within one year	1	11
Between one and five years	6,976	2,970
Total financial debt	6,977	2,981

On 16 December 2015 the Company entered into term facility agreement up to CZK 12 billion with maturity of 5 years. This loan was provided by Komerční banka, a.s. (acting as an agent), Česká spořitelna, a.s., Československá obchodní banka, a.s., Raiffeisenbank a.s., UniCredit Bank Czech Republic and Slovakia, a.s., Citibank Europe plc. and Tatra banka, a.s.

In accordance with the concluded term facility agreement the Company drawdown on 20 January 2016 a long-term loan facility in amount of CZK 4 billion and subsequently on 18 April 2016 facility in amount of CZK 1 billion that was repaid on 27 December 2016. As at 31 December 2016 the Company utilized in total CZK 7 billion from the long-term facility agreement (2015: CZK 3 billion).

The interest rate is 1M PRIBOR plus a margin amounting 0,60%. The Company uses the loan to refinance former debt and for general corporate purposes.

Loans are not secured over any assets of the Group.

17 Financial instruments

Financial instruments by category

The following table shows the carrying amounts of classes of financial assets and liabilities split to respective financial instruments categories.

At 31 December 2016

In CZK million	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	6,070	-	6,070
Available-for-sale equity investments	-	8	8
Cash and cash equivalents	4,137	-	4,137
Total	10,207	8	10,215

	Other financial liabilities at amortised cost	**Available-for-sale financial liabilities**	**Total**
Financial liabilities			
Financial debts	6,977	-	6,977
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	6,748	-	6,748
Total	13,725	-	13,725

At 31 December 2015

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,663	-	5,663
Cash and cash equivalents	1,970	-	1,970
Total	7,633	-	7,633

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	2,980	-	2,980
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liabilities)	6,847	-	6,847
Derivative financial instruments	-	1	1
Total	9,827	1	9,828

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to internal information about counterparty default rates profile.

In CZK million	31 December 2016	31 December 2015
Trade receivables		
Group 1	3,134	2,663
Group 2	1,179	1,982
Group 3	705	477
Total unimpaired trade receivables	5,018	5,122
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody´s):		
A1	547	124
A2	1,300	474
Baa1	199	571
Baa2	26	-
	2,072	1,169
Counterparties without external credit rating:		
Intragroup – PPF group	2,039	785
	2,039	785
Cash in hand and other cash equivalents	26	16
Total cash and cash equivalents	4,137	1,970

Group 1 – end customers monitored in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.

Group 2 – Dealers and other business partners

Group 3 – Roaming partners

18 Deferred income taxes

Short-term and long-term deferred tax was calculated for the year 2016 at statutory rate 19% for the Czech Republic (2015: 19%) and 21% for the Slovak Republic (2015: 22%).

In CZK million	2016	2015
At 1 January	263	(1,838)
Charged /(credited) to Profit or loss from continuing operations (Note 7)	(184)	(39)
Charged /(credited) to Profit or loss from discontinued operations	-	(143)
Transferred to CETIN (Note 4)	-	2,290
Foreign exchange translation reserve	1	(7)
At 31 December	80	263

As at 31 December 2016 a deferred tax asset in O2 Slovakia, s.r.o. amounting to CZK 201 million (2015: CZK 302 million) was recorded resulting mainly from the difference between the accounting net book value and the tax net book value of fixed assets.

As at 31 December 2016 O2 Business Services, a.s. reported tax loss carry-forward in total amount of CZK 82 million (2015: CZK 0 million). Deferred tax asset was not recognized in respect of tax loss carry-forward amounting to CZK 41 million as management of the company is not certain that the realisation of the related tax benefit through future taxable profits in following four years is probable.

The following amounts, determined after offsetting, are shown in the consolidated balance sheet:

In CZK million	**31 December 2016**	**31 December 2015**
Deferred tax assets	515	631
Deferred tax liabilities	(435)	(368)
Total	80	263

The deferred tax asset includes CZK 301 million (2015: CZK 331 million) recoverable in less than twelve months and CZK 214 million (2015: CZK 300 million) recoverable after more than twelve months. The deferred tax liability includes CZK 179 million (2015: CZK 130 million) to be settled in less than twelve months and CZK 256 million (2015: CZK 238 million) to be settled in more than twelve months.

The net deferred tax is determined by these components:

In CZK million	**Consolidated balance sheet**		**Consolidated profit or loss**	
	2016	**2015**	**2016**	**2015**
Temporary differences relating to:				
Tax losses	26	-	26	-
Property, plant and equipment and intangible assets	(236)	(70)	(166)	2,034
Trade receivables, inventories and other differences	290	333	(43)	67
Deferred tax liability transferred to CETIN (Note 4)	-	-	-	(2,290)
Foreign currency differences	-	-	(1)	7
Total	80	263	(184)	(182)
- from continuing operations			(184)	(39)
- from discontinued operations			-	(143)

19 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
At 1 January 2015	**267**	**50**	**76**	**393**
Additions during the year	-	20	105	125
Utilised during the year	-	(11)	(40)	(51)
Transferred to CETIN (Note 4)	(267)	-	(47)	(314)
At 31 December 2015	**-**	**59**	**94**	**153**
Additions during the year	42	83	21	146
Utilised during the year	-	(25)	(61)	(86)
At 31 December 2016	**42**	**117**	**54**	**213**
Short-term provisions 2016	1	101	54	156
Long-term provisions 2016	41	16	-	57
	42	**117**	**54**	**213**
Short-term provisions 2015	-	37	94	131
Long-term provisions 2015	-	22	-	22
	-	**59**	**94**	**153**

The Group has recognized the provision for estimated costs of dismantling, removing assets and restoring sites in 2016 amounting to CZK 42 million. The reason for recognition of a provision was a substantial increase in the estimate of the present value of future costs of dismantling, removing assets and restoring sites in connection with the network construction in Slovakia. Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future dismantling and removing of assets.

Other provisions for which the expected timing of payments is not certain are expected to be utilised within the next twelve months from the balance sheet date. Other provisions consist mainly of provision for restructuring costs.

A provision for regulatory and court decisions is made for legal proceedings involving the Group (see Note 20).

20 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2016 some major proceeding were successfully closed and in some other cases at least success in the first instance has been reached. This confirmed successful trend in proceeding where the Company is involved. In the same time, other proceedings have been initiated or reopened. Majority of the cases lasts for more than 5 years without any decision in merit, respectively in proceedings with the Office for Protection of Economic Competition could be seen repeating cancelations and further attempts to impose unlawful fines.

Major legal disputes and other proceedings relating to the Company are described below.

I. ÚOHS (Office for Protection of Economic Competition)

i. Administrative proceeding on alleged abuse of dominant position on fix broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting so called “preliminary investigation” since November 2008 to determine whether the Company had abused its dominant position in the broadband market. The Company cooperated with the Office while repeatedly stating and proving that it had not held a dominant position in the market and, as such, no abuse could have been committed. Although the extent of information and documents required by the Office during more than a two-year long investigation grew immensely, the Company was never allowed to inspect the file to check its content and control how the information was interpreted by the Office. In the light of the above, the Company requested for court protection by legal action filed to the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from the continuation of the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation has to be stopped immediately. This verdict was later confirmed by Supreme Administrative Court in September 2011. The Office reacted by opening official administrative proceeding on dominant position on fix broadband market by ADSL technology in March 2011. The Company filed its statement proving that the Office incorrectly defines relevant market on which Company would allegedly hold dominant position and moreover even abuse it. Company’s statement about strong competition between technological platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly confirmed by the Czech Telecommunication Office and European Commission. The Company also provided the Office with numerous documents proving that all steps of the Company were correct. More records are continuously filed into the file. The Company cannot estimate when the proceeding will be closed due to extreme length and volume of information. The Office hasn´t issued any decision not even during 2016 despite the fact the Company provides the Office with all necessary facts and information. By the end of 2016 the Company filed an extensive statement where nontransparent approach of the Office was refused and Company asked for oral hearing where we could defend our position and also we could ask for explanation about the proceedings and methods used by the Office so far. Neither in the case of financial statements for previous years nor in the case of this financial statements it was not possible to make a reliable estimate, whether would this administrative proceeding have any financial impact, eventually in which amount neither when this proceeding will be terminated.

ii. Proceeding for CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over the penalty of CZK 81.7 million imposed in December 2003 on the Company in the proceeding on the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office for returning the penalty including interest. Although the principal was returned by the Office, before it was decided on the interest charge, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. After all in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty and returned the case back to the Office where the Office should in compliance with law justify the penalty in relation to the judged period. Despite the objections of the Company regarding insufficient background, the Office issued a new decision imposing to the Company a fine CZK 91.9 million. The Company perceives such decision as an impermissible reprisal from the Office and filed a legal action including the proposal for suspension of the payment of the penalty during the court proceedings. The Regional court in Brno decided on suspension of the payment in February 2013 but by its decision from 23 October 2014 surprisingly dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But the Supreme Administrative Court by its decision from 15 April 2015 returned the case back to the Regional court in Brno, which, bound by the legal opinion, cancelled the Office´s decision on 11 September 2015. The Office returned the paid penalty back to the Company, but filled cassation complaint again.

The Supreme Administrative Court subsequently refused the cassation complaint filed by the Office and finally confirmed that the Company shouldn´t pay the penalty back again and the Office hasn´t any possibility to impose it. The Company was successful in claiming the interests in the amount of CZK 12.8 million. The proceedings is terminated and will not be further reported.

iii. Proceeding for CZK 49.5 million

This procedure was originally initiated in 2003 against Eurotel. The Company was therefore not involved in the administrative proceedings. The subject was the conclusion of an interconnection contract with Vodafone Czech Republic a.s. (former Czech Mobil), in which the parties have agreed that their network will connect directly.

Office in the proceedings considered such agreement as the cartel agreement, but without specifying who and how both companies should exclude from what market by such agreement. Each operator is logically the only entity which can offer the service of termination of calls in his own network. Thus, the competition on such market cannot exist. Regulation of Czech Telecommunucation Office and other European regulators as well is based on this basic principle. Logically, also in this context no other subject can offer a better price for termination than the network operator himself – because additional fee for transit is added while the termination fee remains the same.

Originally, Office imposed to Eurotel a fine in the amount of CZK 22 million, but Eurotel brought an administrative action. After a number of court levels in administrative judicial branch the courts finally abolished the decision. In the meantime, however, Eurotel ceased to exist, without possibility of the transfer of liability for administrative delicts.

However, in the second half of 2016, however, the Office of this fact suddenly completely passed and issued a "clarification of the subject of administrative proceedings" where the Company (which, however, did not conclude the interconnection contract), and in December 2016 issued the decision imposing fine of CZK 49.5 million. The company filed the appeal.

II. Disputes with AUGUSTUS spol. s r.o. company

The Company reached obvious turnaround in disputes with AUGUSTUS spol. s r.o. (“AUGUSTUS”) company in favor of the Company. The Company now concentrates on reclaiming unjust enrichment from the AUGUSTUS. Originally AUGUSTUS had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK 183 million with interests. AUGUSTUS claimed that the Company had illegally terminated the contract for the issue and distribution of phone cards signed for an open period of time. Based on the decision of the High Court in Prague, in August 2006, the Company paid a sum of CZK 83 million plus relevant interest (total of CZK 139 million). Later on, there could be seen a positive turn in the proceeding in favour of the Company when the Supreme Court based on the Company’s appeal cancelled the previous verdicts in June 2009 and the Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed this dismissal in August 2011. In reaction to this, the Company filed a lawsuit against AUGUSTUS to return the amount of CZK 139 million. The Municipal Court in Prague granted the claim in September 2011. AUGUSTUS filed an appeal but wasn´t successful. Meanwhile it turned out that at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company is taking all legal steps to secure the property. High court in Prague confirmed the bankruptcy of AUGUSTUS in May 2013. The Company is the major creditor with the highest filed and confirmed claim.

The Municipal court in Prague issued the decision on partial distribution of the assets of AUGUSTUS on 13 October 2015, which was confirmed by the High court in Prague. Partial payment of CZK 32 million was distributed to the Company. According to available information from the administrator this amount shall be practically final.

Therefore the Company filed a legal action against the state for the recovery of damage to compensate the rest. But this dispute is the proceedings where the Company is the plaintiff and it does not represent any possible risk for the Company. The Company is still active in all steps to fully recover the damage.

Meanwhile during 2016 the Constitutional court rejected the constitutional complaint of AUGUSTUS, which was the last attempt to reverse the final verdict in the dispute lasting since 1996, where the Company was ultimately successful.

Regarding to major contingencies of the Company are the disputes completed and will not be further reported.

III. CNS a.s. – dispute on CZK 19.8 milion

In 2009, the employees of CNS a.s. ("CNS"), dealing with the development and updates of IT applications and the employees of the Company and Telefónica O2 Business Solutions, spol. s r.o. were having negotiations over the potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project was never materialised. CNS filed in August 2010 a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million for not signing any contract. The Company regards this claim as fabricated and the amount evidently exaggerated which can be demonstrated by the fact that in accordance with the annual profit and loss statement 2009, CNS generated a yearly profit of less than CZK 5.5 million. Municipal court in Prague fully dismissed the legal action in December 2012. CNS filed an appeal but only in extent of CZK 19.8 million. High court in Prague later confirmed that there wasn´t any contract concluded between CNS and the Company and therefore there is no claim of CNS from the contractual relationship. High court only ordered to Municipal court in Prague to decide on possible claims of CNS arising from the precontractual liability, however the court file does not contain any evidence regarding such claims. Just before the last oral hearing CNS announced to the court in October 2014 that they allegedly transfer all their "claims" to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement.

The Company had filed complaints, which were successful and the court did not allow entry of this speculative subject to the proceedings. This decision was later confirmed even by the Supreme court, which agreed with the argument that this represent only attempt of CNS to avoid payment of the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – dispute on CZK 4 billion

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The court has already started the proceedings in the matter and further oral hearings took place during the year 2013, including the hearings of witnesses and experts. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court.

Next hearing took place on 30 March 2016, where the court considered again the option of the revision expert nomination, who would review the opinion filed by VOLNÝ and by the Company as well. VOLNÝ proposed the expert which eventually turned out to be biased, because of the merit, thus the Company filed the protest. Subsequently the court appointed other expert and defined the set of questions. The outcome of expert's review is not known yet.

V. ČESKÉ RADIOKOMUNIKACE – dispute on CZK 3.1 billion

The legal action for CZK 3.1 billion filed by company ČESKÉ RADIOKOMUNIKACE a.s. ("ČRa") was delivered to the Company in October 2012. The plaintiff states that the Company allegedly caused the damage by abusing of dominant position on "xDSL market", which supposedly impact ČRa´s ability to reach "equitable position on retail xDSL market". The claimed sum is calculated as a difference between hypothetical price of the part of the business and the real price for which the part of the business was actually sold to T-Mobile Czech Republic, a.s. back in 2009. The Company considers the legal action as purely artificial claim and this was also communicated to the court in the statement. On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. ČRa filed an extraordinary appeal but it was declined by the Supreme court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, where all evidence on paper was proceeded.

The decision which fully dismissed the legal action against the Company was issued on the oral hearing held on 22 April 2016. The main reason was that the plaintiff did not provide the court with relevant facts and evidence. The legal action was based on arguments that by alleged margin squeeze in relation to services based on xDSL technology, which should cause the damage to Ceske Radiokomunikace. But none of this was proved, not even the damage nor any illegal action of the Company was confirmed. The decision is final, the proceedings is closed and will not be further reported.

VI. TELECONSULT INTERNATIONAL - dispute on CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. The court issued the decision on the hearing held on 14 January 2016, where the vast majority of the claim was dismissed and the Company shall receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was granted only by the amount CZK 1.7 million, which represents the difference between the volume of the minutes measured by both parties in May 1998. The Company filed the appeal against this part of the decision. The High court in Prague ordered the oral hearing on 22 February 2017.

VII. Vodafone Czech Republic a.s. – dispute on CZK 384.7 million

The legal action of Vodafone Czech Republic a.s. claiming CZK 384,690,000 was delivered to the Company on 2 April 2015. The legal action is grounded on alleged breach of the rules of the competition related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after only two page notice claiming this amount was delivered to the Company. According to the Company the whole claim is purely artificial case, which sole purpose was to damage the Company by the medialization. Vodafone Czech Republic a.s. claims that hasn´t reached 200 000 customers of xDSL internet services and therefore has lost the profit. The Company provided the court with its statement pointing out of the groundless of the claim. The oral hearing hasn´t took place yet.

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

The Company registers two legal actions of shareholders, who claim the declaration of invalidity of the resolution of the general meeting held on 28 April 2015 to the item No. 7 (Discussion over and approval of the spin off the part of the Company with the creation of new company). These legal actions were filed by Ing. Tomáš Hájek and Pinara - Ponava, s.r.o. company. The Company considers these actions as groundless and filed to the court its statement pointing out relevant facts. The oral hearing hasn´t been ordered yet.

IX. The criminal proceeding lead according to the Act No. 418/2011 Coll.

The criminal proceedings has been initiated by the Police of the Czech Republic on 31 August 2015 with the Company as the corporation. The Company was accused of committing crimes which were allegedly committed between 2010 and 2013, in connection with the public tender for metropolitan network and digitization of documents for self-government in city of Přerov. The Company filed the complaint to the Supreme Public Prosecutor´s Office on 7 September 2015. The Supreme Public Prosecutor´s Office cancelled this decision on initiation of criminal proceedings against the Company 11 March 2016 and case was fully returned to the Police in order to deal with the case again. The Supreme Public Prosecutor´s Office pointed out that the initial decision did not proved but no even described, by which particular action could the Company commit alleged crimes.

Police hasn´t issued any further decision and the Company filed the proposal to the Police to adjourn the case against the Company with definitive effect.

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

Although the Constitutional Court of the Slovak Republic already once decided that the jurisdiction of Slovak courts is not given in the matter and proceedings was terminated, the Company discovered yet another attempt to start another lawsuit against the Company with different reasoning.

On 14 March 2016 the proposal of BELL TRADE company was delivered to the County court in Malacky, where BELL TRADE proposed the re-entry of the Company as the defendant into the procedure, which has been led solely between Slovak subjects - BELL TRADE and PET PACK SK s.r.o. on CZK 31 million, after Constitution court´s decision.

BELL TRADE, whose current sole statutory representative, shareholder and also the legal representative is attorney JUDr. Milan Fulec, try to base this new claim and new attempt to establish the jurisdiction of the County court in Malacky on the letter from 8 June 2015, in which he stated that "withdraws from all agreements concluded between the RVI, a.s. and O2" and reserves the right to claim recovery of damages caused by such withdrawal. New claim raised against the Company represents the amount CZK 5.2 billion with interest from 14 March 2016.

The entire claim is again completely artificial. No contracts were ever signed and the company never receive any delivery for which shall anybody claim such payments. BELL TRADE never claimed that it became a contractual party of contracts (which were never concluded). So far BELL TRADE always acted only as a "creditor", thus the holder of (supposedly existing and payable) claims against the Company. Moreover BELL TRADE always claimed that contracts were allegedly concluded for 10 years period and would have therefore come to an end on 31 December 2013 at latest. But current claim of BELL TRADE is based on withdrawal which was sent year and a half after this date. By this, any damage could not ever occur to BELL TRADE. Such alleged damage could hardly be connected to contractual relations between PET-PACK SK s.r.o. and BELL TRADE and to Slovak courts in any way.

By decision from 16 May 2016 the County court in Malacky rejected the proposal of BELL TRADE to re-entry of the Company as the defendant. BELL TRADE filed the appeal to the Regional court in Bratislava. The decision hasn´t been issued yet.

The Group is involved in other legal disputes where the amount disputed reaches over CZK 5 million. The aggregate value of all these pending disputes totals to nearly CZK 40 million. Possible impact of these disputes is reflected in the financial statements, however, risks associated with individual disputes are not significant.

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 of the Group has been appropriately reflected in the financial statements.

21 Commitments

The aggregate future minimum lease payments (the Group as a lessee) and future incomes (the Group as a lessor) originating from non-cancellable operating leases are as following:

In CZK million	31 December 2016 Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	685	1,753	334
Operating leases - lessor	3	1	-

The aggregate future minimum lease payments arising from agreements with the company CETIN:

In CZK million	31 December 2016 Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	215	694	56

In CZK million	31 December 2015 Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	660	1,628	486
Operating leases - lessor	11	4	-

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2016 were CZK 722 million (2015: CZK 854 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2016 amounted to CZK 293 million (2015: CZK 455 million). The majority of contracted amounts relates to the telecommunication networks and service contracts.

22 Service concession arrangements

The Company performs communication activities as defined in the Act on Electronic Communications based on a notification and a certificate from the Czech Telecommunications Office no. 516 as amended by later changes nos. 516/1, 516/2, 516/3, 516/4, 516/5,516/6, 516/7 a 516/8.

The communication activities include (within the territory of the Czech Republic):

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone service,
d) other voice services - service is defined as of public access,
e) leased lines - service is defined as of public access,
f) radio and TV signal broadcasting - service is defined as of public access,
g) data transmission - service is defined as of public access,
h) internet access services - service is defined as of public access,
i) other voice services - service is not defined as of public access,

j) leased lines - service is not defined as of public access,
k) radio and TV signal broadcasting - service is not defined as of public access,
l) data transmission - service is not defined as of public access,
m) internet access services - service is not defined as of public access.

The Company provides mobile services of electronic communications in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 22 October 2024, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignments from the CTO valid until 30 June 2029, in the 2100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

The radio frequency licence can be extended by another licence period based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, the current regulatory and business environment in the Czech Republic, the prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Provision of electronic communications services in the Slovak Republic

O2 Slovakia, s.r.o. provides services of electronic communications by the means of a public mobile electronic communications network in the 900, 1,800 and 2,100 MHz frequency bands under GSM, LTE and UMTS standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 7 September 2026,in the 800 and 1,800 MHz frequency bands under GSM and LTE standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 31 December 2028 (for 800 MHz frequency band) and until 7 September 2026 (for 1,800 MHz frequency band) as well as provides services of electronic communications by the means of MFCN (Mobile Fixed Communications Networks) in the 3500 MHz and 3700 MHz frequency bands on the basis of individual authorizations from the Regulation Office of the Slovak Republic and valid until 31 December 2024 and 31 August 2025.

Imposition of obligations related to the provision of the Universal Service

During 2016, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services,
b) access for persons with disability to the public telephone service, which must be equal to access enjoyed by other end users; such special access takes namely the form of specially adapted telecommunication equipment,

c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disability.

Universal Service is reimbursed by the CTO that receives funds from the state budget, which are remitted without delay to the Company's account.

23 Share capital and reserves

	31 December 2016	31 December 2015
Nominal value per ordinary registered share (CZK)	10	10
Number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (CZK)	100	100
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	3,102

On 28 April 2015, the General Meeting approved as part of the separation project of the Company (Note 4) decrease of nominal value of ordinary registered shares and cancellation of the treasury shares. No distribution was paid out to shareholders of the Company as a result of the decision.

CZK 23,887 million related to decrease of nominal value of ordinary shares (excluding treasury shares) was transferred to other capital funds. Remaining decrease of share capital in amount of CZK 472 million relates to nominal value of cancelled treasury shares with the carrying amount of CZK 1,596 million. Difference between nominal value and carrying value of cancelled treasury shares in amount of CZK 1,124 million was settled against share premium.

The legal effect of the decrease of nominal value of registered ordinary shares and the cancellation of treasury shares took place on the date when it was recorded in the Commercial Register, which was on 1 June 2015.

Shareholdings in the Company were as follows:

	31 December 2016	31 December 2015
PPF Telco B.V.	50.00 %	-
PPF Arena 1 B.V.	23.79 %	-
PPF Arena 2 B.V.	-	73.79 %
PPF A3 B.V.	10.27 %	10.27 %
O2 Czech Republic a.s. (treasury shares)	1.56 %	-
Other shareholders	14.38 %	15.94 %

The demerger of parent company PPF Arena 2 B.V. came into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. ceased to exist a new successor companies PPF Telco B.V. and PPF Infrastructure B.V. emerged. All shares of the Company were transferred to PPF Telco B.V. PPF Group owns 100% of PPF Telco B.V.

On 7 December 2016 there were transfer of Company's share representing direct 23.79% share on voting rights from PPF Telco B.V. to PPF Arena 1 B.V.

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing its capital are:
a) to safeguard the Company's ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

In the following periods, the Board of Directors will continue to make in-depth analysis and assessment of the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation, and will optimize the capital structure to serve the purpose of achieving these plans.

There are no other specific objectives.

Standalone equity structure as at 31 December 2016 and 2015:

In CZK million	**31 December 2016**	**31 December 2015**
Share capital	3,102	3,102
Treasury shares	(1,152)	-
Share premium	11,894	11,894
Funds and reserves	8	8
Retained earnings from previous years	414	657
Net income for current year	5,394	4,711
Total	**19,660**	**20,372**

The General Meeting approved on 8 December 2015 the ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

As at 31 December 2016 the Company held 4,852,535 treasury shares with the total purchase price of CZK 1,152 million.

Unpaid dividends related to treasury shares in the amount of CZK 18 million (2015: CZK 71 million) were transferred to retained earnings.

24 Related party transactions

Companies PPF Arena 2 B.V., PPF Telco B.V., PPF Arena 1 B.V. and PPF A3 B.V., through which Mr. Petr Kellner controlled the Company in 2016, are part of PPF Group.

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail and biotechnology. PPF's reach spans from Europe to Russia, across Asia and the USA.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are unsecured, interest-free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial assets balances are tested for the impairment at the balance sheet date, and neither allowance nor write-off were incurred.

The following transactions were carried out with related parties:

I. Parent company:

The total amount of dividend paid in 2016 to shareholders from the PPF Group was CZK 4,172 million (2015: CZK 3,417 million). Payables from the dividend to shareholders from the PPF Group was as of 31 December 2016 and 31 December 2015 respectively, fully settled.

II. Other related parties – PPF Group:

Balance sheet **In CZK million**	**31 December 2016**	**31 December 2015**
a) Receivables	152	316
b) Payables	1,024	1,107
c) Financial derivative instruments	-	(1)
d) Cash equivalents (Note 14)	2,039	785

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
a) Sales of services and goods	405	308
b) Purchases of services and goods	10,668	6,619
c) Management fees	-	35
d) Interest income	-	4
e) Gain/Loss on fair value adjustments of financial instruments (net)	(2)	(1)
f) Other financial expenses	1	-

Capital expenditures in 2016 were realized only with CETIN. The Company sold assets in the amount of CZK 7 million to CETIN (2015: CZK 112 million) and bought assets in the amount of CZK 0 million from CETIN (2015: CZK 95 million).

The Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF Group on 29 May 2015. All transactions between the Group and O2 IT Services s.r.o. in period between January and May 2015 are reported in transactions with related parties above within comparative period.

For the period January – May 2015, the separated part of CETIN (more information in Note 4) was under control of the Company. Sales and purchase with the related parties shown in comparative period above therefore include only transactions for the period of June - December 2015. All significant contracts concluded with CETIN are described in Note 4.

III. Associates and joint ventures

Balance sheet **In CZK million**	**31 December 2016**	**31 December 2015**
a) Receivables	52	49
b) Payables	78	86

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
a) Sales of services and goods	160	153
b) Dividend income	11	4
c) Purchases of services and goods	195	67

IV. Remuneration and loans to members of the Board of Directors and Supervisory Board and executive management

Members of the Board of Directors, the Supervisory Board and executive management of the Company were provided with benefits from the Group as follows:

In CZK million	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Board of Directors	38	30
Supervisory Board	1	1
Executive management	52	35
Total	91	66

No loans were provided to members of the Board of Directors and Supervisory Board and executive management in 2016 and 2015.

25 Associates and joint ventures

Investments in equity accounted investees can be analysed as follows:

In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Associates	32	24
Joint ventures	10	18
Investments in total	42	42

In below table are the summarised financial information for joint venture Tesco Mobile ČR s.r.o. which is accounted for in the consolidated financial statements of the Group using the equity method and which is for the Group material. The information below reflects the amounts presented in the financial statements of the joint venture prepared in accordance with IFRS adjusted for any differences in accounting policies and reported accounting period.

Financial results of the company Tesco Mobile ČR s.r.o. (unaudited*)

In CZK million	For the period 01-12/2016	For the period 01-12/2015
Revenue	268	242
Profit/(loss) before tax	(3)	7
Profit/(loss) after tax	(2)	6

In CZK million	31 December 2016	31 December 2015
Current assets	110	127
Non-current assets	5	1
Current liabilities	98	98
Non-current liabilities	-	-
Equity	17	30

* Fiscal year of Tesco Mobile ČR s.r.o. is from March to February

Reconciliation of the summarised financial information presented to the carrying amount of its interest in joint venture is as follows:

In CZK million	2016	2015
Net assets as at 1 January	30	14
Share of the Group on net assets as at 1 January	18	8
Share of the Group on profit/(loss) after tax	(1)	10
Dividend income	(7)	-
Total investment in joint venture	10	18

The Group has also interests in several respectively insignificant associates that are accounted for in the consolidated financial statements of the Group using the equity method.

In CZK million	2016	2015
Investments in associates as at 31 december	32	24
Share of the Group on:		
- profit/(loss) after tax	(2)	-
- impairment of equity accounted investments	(20)	-

The Group held interests in following entities as at 31 December 2016 and 2015 respectively:

As at 31 December 2016

	Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	O2 Slovakia, s.r.o.	100 %	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
2.	Internethome, s.r.o.	100 %	272	Czech Republic	Provision of WiFi internet access	Consolidated (full consolidation)
3.	O2 Family, s.r.o.	100 %	200	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
4.	O2 TV s.r.o.	100 %	1	Czech Republic	Digital television	Consolidated (full consolidation)
5.	O2 IT Services s.r.o.	100 %	242	Czech Republic	Information technology services	Consolidated (full consolidation)
6.	Bolt Start Up Development a.s..	100 %	102	Czech Republic	Startup fund	Consolidated (full consolidation)
7.	O2 Business Services, a.s.	100%	82	Slovak Republik	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
8.	eKasa s.r.o.	100 %	10	Czech Republic	Electronic sales reporting ("EET") solution provider	Consolidated (full consolidation)
9.	O2 Financial Services s.r.o.	100 %	-	Czech Republic	Financial Services intermediary	Not consolidated (immaterial)
10.	iCORD International s.r.o.	90 %	8	Czech Republic	On-line communication platform	Consolidated (full consolidation)
11.	Misterine s.r.o.	80 %	-	Czech Republic	Virtual and augmented reality	Not consolidated (immaterial)

Associates						
12.	První certifikační autorita, a.s.	23 %	9	Czech Republic	Certification services	Not consolidated (immaterial)
13.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40 %	-	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
14.	TapMedia s.r.o.	34 %	15	Czech Republic	Mobile applications development	Consolidated (equity method)
15.	Dateio s.r.o.	21 %	30	Czech Republic	Direct marketing platform development	Consolidated (equity method)
Joint ventures						
16.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
17.	Tesco Mobile Slovakia s.r.o.	50%	-	Slovak Republic	Mobile virtual network operator for prepaid services	Not consolidated (immaterial)

On 8 December 2015, the Company's General Meeting has approved a non-monetary contribution of Professional Services Division into O2 IT Services s.r.o. As at 1 January 2016, the effective date of the non-monetary contribution, the carrying value of Professional Services Division was of CZK 153 million including cash in amount of CZK 30 million. This transaction has no impact on consolidated financial statements of the Group.

In 2016 the Company incorporated new subsidiary eKasa s.r.o. (with share capital of CZK 100,000) providing solutions for Electronic sales reporting ("EET") and subsidiary O2 Financial Services s.r.o. (with share capital of CZK 200,000) which was not active in 2016 and as insignificant was not consolidated as at 31 December 2016.

The Group has acquired 90% share on the equity of iCORD Internation s.r.o. through the subsidiary Bolt Startu Up Development a.s. on 1 September 2016. A goodwill in the amount of CZK 1 million was recognized as the result of the acquisition, which equals to the difference between (i) the fair value of net assets acquired and (ii) the sum of total acquisition price and non-controlling interest, valued by the relative share on the net identifiable assets of the acquired company. The company Bolt Start Up Development a.s. has subsequently granted to the company iCORD International s.r.o. voluntary monetary contribution to equity in the amount of CZK 6 million, of which CZK 1 million (equalling to 10% of granted contribution) was allocated to non-controlling interest.

As at 14 September 2016 the Group obtained through a subsidiary Bolt Start Up Development a.s. control over the company Misterine, s.r.o. (with share capital of CZK 100,000), in which Bolt acquired 80% share. Company was not active in 2016 and as insignificant was not consolidated as at 31 December 2016.

On 7 March 2016 the Company provided a voluntary monetary contribution to equity of subsidiary Internethome, s.r.o. in the amount of CZK 200 million.

On 13 July 2016 the Company provided a voluntary monetary contribution to equity of subsidiary Bolt Start Up Development a.s. in the amount of CZK 50 million.

Company O2 Business Services, a.s., a 100% subsidiary of O2 Slovakia, s.r.o., took over in 2016 all business activities of the branch O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s. that was subsequently on 25 July 2016 closed down.

As at 31 December 2015

Subsidiaries		**Group's interest**	**Cost of investment in CZK million**	**Country of incorporation**	**Activity**	**Method of consolidation**
1.	O2 Slovakia, s.r.o.	100 %	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
2.	Internethome, s.r.o.	100 %	72	Czech Republic	Provision of WiFi internet access	Consolidated (full consolidation)
3.	O2 Family, s.r.o. (former Bonerix s.r.o.)	100 %	200	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
4.	O2 TV s.r.o.	100 %	1	Czech Republic	Digital television	Consolidated (full consolidation)
5.	O2 IT Services s.r.o.	100 %	90	Czech Republic	Information technology services	Consolidated (full consolidation)
6.	Bolt Start Up Development a.s.	100 %	52	Czech Republic	Startup fund	Consolidated (full consolidation)
7.	O2 Business Services, a.s.	100 %	82	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
Associates						
8.	První certifikační autorita, a.s.	23 %	9	Czech Republic	Certification services	Not consolidated (immaterial)
9.	AUGUSTUS, spol. s r.o. (in bancrupcy)	40 %	-	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
10.	TapMedia s.r.o.	20 %	15	Czech Republic	Mobile applications development	Not consolidated (immaterial)

Joint ventures

11.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
12.	Tesco Mobile Slovakia s.r.o.	50%	-	Slovak Republic	Mobile virtual network operator for prepaid services	Not consolidated (immaterial)

26 Post balance sheet events

Company's share transfers

On 10 January 2017 there was a transfer of Company's share representing direct 23.79% share on voting rights from PPF Arena 1 B.V. to PPF Telco B.V.

On 7 February 2017, PPF Telco B.V., a member of PPF Group, released a statement that it had sold 9.3 million shares in the Company, representing 3.0% of the share capital.

Drawdown of long-term loan facility

The Company drawdown on 24 January 2017 a long-term loan facility in the amount of CZK 1 billion in accordance with the concluded term facility agreement (Note 16). By the date of approval and issue of the financial statements for the year ended 31 December 2016 the Company have utilized in total CZK 8 billion from the long-term facility agreement.

These events have no impact on the financial statements for the year ended 31 December 2016.

Other

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2016.

13 February 2017

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

Financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Content Pages

Translation note

This version of the 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 financial statements takes precedence over this translation.

GENERAL INFORMATION

O2 Czech Republic a.s., (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.

The majority share (84.36%) of the Company´s voting rights was indirectly hold indirectly through companies PPF Telco B.V., PPF Arena 1 B.V. and PPF A3 B.V. being part of the PPF group, controlled by Mr. Petr Kellner as at 31 December 2016.

The Company is the largest integrated telecommunications provider in the Czech market providing fully converged services.

The number of employees employed by the Company amounted in average to 3,772 in 2016 (2015: 3,005). Increase is linked to current insourcing process that targets mainly employees in call centres and back office.

The Company's shares are traded on the Prague Stock Exchange.

The financial statements were approved for issue by the Company's Board of Directors on 13 February 2017.

Share buyback

In accordance with the decision of General Meeting from 8 December 2015 concerning acquisition of treasury shares (up to 10% for 5 following years), the Company implemented the share buyback programme in 2016. As at 31 December 2016 the Company held 4,852,535 treasury shares with the total purchase price of CZK 1,152 million.

O2 Czech Republic concern

With effect from 1 April 2016 the Company established in accordance with the Art. 79 Sec. 3 of the Business Corporations Act the O2 Czech Republic concern, in which the Company is a controlling enterprise.

Auction of frequencies 1 800 and 2 600 MHz

The Company has bought at auction four strategically important blocks of radio frequencies in the 1 800 and 2 600 MHz bands in June 2016. The Company has reached the most favourable conditions for future development of mobile internet 4G LTE to its current capacities. In addition the Company wants to utilize acquired blocks for the preparation of next generation network 5G and for the strengthening of capacity. Overall financial volume from closed auction has reached the amount of almost CZK 1,500 million.

Startup accelerator

In 2016 the startup accelerator Bolt, subsidiary Bolt Start Up Development a.s., continued in its activities, focusing on promotion of unique technology projects.

In addition a share has been acquired in an Estonian company Taxify OÜ providing taxi services across European market including Czech Republic. Further investments were acquired in Czech companies Dateio, s.r.o. operating in targeted marketing, iCORD International s.r.o. developing online communication platforms and lastly Misterine s.r.o. dealing with augmented and virtual reality. From 1 August 2016 Bolt is operating e-shop Esperia focusing mainly on selling mobile accessories.

Restructuring

During the year 2016, the Company continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2016	Notes	Year ended 31 December 2016	Year ended 31 December 2015
In CZK million			
Revenues	5	29,773	30,683
Other income from non-telecommunication services	3	317	259
Activation of fixed assets	3	216	169
Expenses	5	(22,242)	(23,385)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**8,064**	**7,726**
Depreciation and amortisation	10, 11	(2,519)	(2,695)
Impairment loss	10, 11	(138)	(27)
Operating profit		5,407	5,004
Finance income	6	1,202	880
Finance costs	6	(124)	(218)
Profit before tax		6,485	5,666
Corporate income tax	7	(1,091)	(955)
Profit for the period from continuing operations		**5,394**	**4,711**
Profit after tax from discontinued operations	4	-	1,733
Profit for the period		**5,394**	**6,444**
Total comprehensive income, net of tax		**5,394**	**6,444**
Profit for the period attributable to:			
Equity holders of the Company	8	5,394	4,711
Equity holders of CETIN		0	1,733
Total comprehensive income attributable to:			
Equity holders of the Company		5,394	4,711
Equity holders of CETIN		0	1,733
Earnings per share (CZK) from continuing operations – basic*	8	18	15

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

BALANCE SHEET

As at 31 December 2016

In CZK million	Notes	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment	10	2,380	2,622
Intangible assets	11	14,478	13,974
Investment in subsidiaries and equity accounted investees	25	6,706	6,474
Other non-current assets	13	140	262
Non-current assets		**23,704**	**23,332**
Inventories	12	514	598
Receivables	13	5,678	5,580
Income tax receivable	7	2	-
Cash and cash equivalents	14	3,356	1,728
Current assets		**9,550**	**7,906**
Total assets		**33,254**	**31,238**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	3,102
Treasury shares	23	(1,152)	-
Share premium	23	11,894	11,894
Retained earnings, funds and reserves		5,816	5,376
Total equity		**19,660**	**20,372**
Long-term financial debts	16	6,976	2,970
Deferred tax liability	18	168	60
Non-current provisions for liabilities and charges	19	16	22
Non-current other liabilities	15	131	121
Non-current liabilities		**7,291**	**3,173**
Short-term financial debts	16	116	756
Trade and other payables	15	6,041	6,800
Income tax liability	7	-	31
Provisions for liabilities and charges	19	146	106
Current liabilities		**6,303**	**7,693**
Total liabilities		**13,594**	**10,866**
Total equity and liabilities		**33,254**	**31,238**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

In CZK million	Notes	Share capital	Share premium	Treasury shares	Funds	Retained earnings	Total
At 1 January 2015		**27,461**	**19,349**	**(1,596)**	**6,450**	**4, 706**	**56,370**
Profit for the year		-	-	-	-	4,711	4,711
Net profit attributable to shareholders of CETIN (from Discontinued Operations)		-	-	-	-	1,733	1,733
Total comprehensive income		**-**	**-**	**-**	**-**	**6,444**	**6,444**
Distribution declared in 2015	9	-	-	-	-	(4,103)	(4,103)
Dividends on treasury shares	23	-	-	-	-	71	71
Cancellation of treasury shares	23	(472)	(1,124)	1,596	-	-	-
Other movements		-	-	-	-	(17)	(17)
Distribution of profit and other distribution to CETIN shareholders relating to spin off project		(23,887)	(6,331)	-	(6,442)	(1,733)	(38,393)
At 31 December 2015		**3,102**	**11,894**	**-**	**8**	**5,368**	**20,372**
Profit for the year		-	-	-	-	5,394	5,394
Total comprehensive income		**-**	**-**	**-**	**-**	**5,394**	**5,394**
Distribution declared in 2016	9	-	-	-	-	(4,964)	(4,964)
Dividends on treasury shares	23	-	-	-	-	18	18
Acquisition of FTTx part of the subsidiary Internethome, s.r.o.	24	-	-	-	-	(8)	(8)
Acquisition of treasury shares	23	-	-	(1,152)	-	-	(1,152)
At 31 December 2016		**3,102**	**11,894**	**(1,152)**	**8**	**5,808**	**19,660**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax from continuing operations		6,485	5,666
Profit before tax from discontinued operations		-	2,187
Profit before tax		**6,485**	**7,853**
Non-cash adjustments for:			
Dividend income	6	(1,183)	(874)
Depreciation	10	631	1,604
Amortisation	11	1,888	2,135
Impairment loss		138	27
Profit (-)/loss (+) on sale of property, plant and equipment and intangible assets		(1)	(17)
Net interest cost		60	84
Foreign exchange losses (+)/gains (-) (net)		(2)	31
Fair value changes		2	1
Change in provisions and allowances		87	149
Other non-cash operations		31	42
Operating cash flow before working capital changes		**8,136**	**11,035**
Working capital adjustments:			
Increase (-)/decrease (+) in trade and other receivables		(280)	(243)
Increase (-)/decrease (+) in inventories		76	(309)
Increase/(decrease) of financial liabilities at fair value through profit or loss		(3)	-
Increase (+)/decrease (-) in trade and other payables		176	557
Cash flows from operating activities		**8,105**	**11,040**
Interest paid		(69)	(124)
Interest received		15	6
Income tax paid		(1,016)	(1,174)
Net cash flow from operating activities		**7,035**	**9,748**
Cash flows from investing activities			
Purchase of property, plant and equipment		(652)	(1,455)
Purchase of intangible assets		(3,221)	(1,084)
Proceeds from sales of property, plant and equipment and intangible assets		24	141
Cash purchase of financial investments		(100)	(98)
Dividends received		1,183	874
Repayment of loans		46	48
Provision of loans		-	(96)
Increase (-)/decrease (+) of restricted cash		432	(432)
Net cash used in investing activities		**(2,288)**	**(2,102)**
Cash flows from financing activities			
Proceeds from borrowings		5,000	3,000
Repayment of borrowings		(1,000)	(7,000)
Proceeds (+)/repayments (-) of other borrowings		(595)	454
Acquisition of treasury shares		(1,152)	-
Distribution of CETIN’s cash	4	-	(1,965)
Dividends paid		(4,946)	(4,033)
Net cash used in financing activities		**(2,693)**	**(9,544)**

Net increase/(decrease) in cash and cash equivalents		**2,054**	**(1,898)**
Cash and cash equivalents at beginning of year	14	1,296	3,209
Effect of foreign exchange rate movements on cash and cash equivalents		6	(15)
Cash and cash equivalents at the year end	14	3,356	1,296

ACCOUNTING POLICIES

Content Page

A Basis of preparation

The principal accounting policies applied in the preparation of the financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

Effective from 1 January 2005, a change in the Czech Act on Accounting No. 563/1991 Coll. requires the Company to prepare its financial statements in accordance with IFRS adopted by the EU (Regulation (EC) No 1606/2002). At the balance sheet date, there are no differences in the IFRS policies applied by the Company and IFRS adopted by the EU.

The financial statements are the separate financial statements of the Company and meet requirements of IFRS with respect to the preparation of parent's separate financial statements. The Company also issued consolidated financial statements prepared for the same period in accordance with IFRS, which were approved for issue by the Board of Directors.

The financial statements were prepared under the historical cost convention except for non-current assets held for sale, financial derivatives, share-based payments and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS required the Company to use certain critical accounting estimates. It also required estimates be used in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 Use of estimates, assumptions and judgements.

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

The Company is integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Company reports its operating segments according to these two main areas of services, i.e. fixed and mobile segment. For further detail refer to Note 3.

Adoption of new or revised IFRS standards and interpretations (includes standards and interpretations applicable for the Company)

For financial statements for the year ended 31 December 2016 the Company takes into account annual revisions 2012 to 2014, the purpose of which is to eliminate inconsistency and specify some formulations.

Annual revision 2012 to 2014 contains amendments of following standards:

IFRS 5 Non-current assets held for sale and discontinued operation
IFRS 7 Financial Instruments: disclosure
IFRS 19 Employee benefits
IAS 34 Interim financial reporting

New IFRS not yet effective as at 31 December 2016 (includes standards applicable for the Company)

At the date of preparation of the accompanying financial statements, the following IFRS had been published, but their application was not mandatory. The Company intends to adopt those standards when they become effective.

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IAS 7	Statement of cash flow	1 January 2017
IAS 12	Income tax	1 January 2017
IAS 40	Transfers of investment property	1 January 2018
IFRS 2	Share-based payment	1 January 2018
IFRS 4	Insurance contracts: deferred application of IFRS 9	1 January 2021
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial instruments - classification and measurement	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Company is currently assessing the impact of the application of these standards and amendments. Based on the analyses made to date, the Company estimates that adoption of the standards and amendments will not have a significant impact on the financial statements in the initial period of application, with the exceptions of IFRS 9, IFRS 15 and IIFRS 16.

IFRS 15 - Revenue from Contracts with Customers

The application of the new standard is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The core principle of the standard is for the Company to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for instance customers' material rights, principal versus agent considerations, etc.) and new guidance for multiple-element arrangements.

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

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

In accordance with the requirments of the new standard the transaction price will be allocated to separate performance obligations within a contract based on relative stand-alone selling prices of the goods or services promised in accordance with the requirements of the new standard.

The Company will recognise revenue when a good or service is transferred to the customer and the customer obtains control of that good or service. The Company will first assess whether the performance obligation is satisfied over time or at a point in time. Most services are provided over time because customers benefit from those services as the services are rendered.

Management plans to elect the modified cumulative retrospective transition approach, which means that the Company will use the new guidance only to contracts that are not completed at the adoption date of 1 January 2018. The cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018. Disclosures will cover required information regarding contracts with customers, significant estimates and judgments, contract acquisition costs and the relevant exemptions used under the standard. Comparative prior year periods will not be adjusted.

Expected impact on the financial statements

The adoption of the new standard will result in significant changes in the financial statements of the Company, primarily in respect of the timing of revenue recognition and in respect of capitalisation of costs of obtaining a contract with a customer. Management has already reviewed the Company's current offering in all business areas and identified expected adjustments (impact study).

The timing of revenue recognition and the classification of the Company's revenues as either service or equipment revenue will be affected due to the allocation of consideration in multiple element arrangements. Considering the current business models, the impact of applying the new standard would result in allocating more revenues upfront from sales of equipment. Service revenue is expected to decrease. There is also expected classification impact between particular service lines.

As a result of the front-loading revenue and capitalisation of costs to obtain contracts, management expects that net assets of the Company will increase due to implementation of IFRS 15.

Capitalised contract acquisition costs will be amortised over the average contract duration. The amortisation of those costs will be presented on line Depreciation and amortisation in the income statement. Therefore EBITDA will increase and Depreciation and amortisation will increase by the same amount.

Within the business models used by the Company, the financing element is not expected to be material for the Company's portfolio of offerings. Therefore neither operating profit nor finance costs are expected to be affected significantly.

The Company's operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial time. Management has launched an IFRS 15 implementation project. As at the date of preparation of the financial statements, the project is in the mature stage of design and implementation of IT systems solution. Before finalisation of the full IT solution it is not possible to make reasonable quantitative estimates of the effects of the new standard.

IFRS 9 – Financial instruments

The new standard IFRS 9 was amended in 2014 comprising requirements for (a) classification and measurement of financial assets and liabilities, (b) impairment model methodology and (c) hedge accounting. The IFRS 9 will replace the current IAS 39 Financial Instruments – Recognition and Measurement, effective from 1 January 2018.

With respect to classification and measurement, the number of categories for classification of financial assets was reduced compared to IAS 39 and all financial assets will be according to IFRS 9 subsequently measured at amortised cost or at fair value.

The impairment model in accordance with the IFRS 9 is based on expected credit losses that replaces the IAS 39 incurred loss model. Entities are generally required to recognize either 12-months or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition (simplified approach). The Company intends to apply the simplified approach for recognition of expected credit losses from trade receivables, lease receivables and contract assets under IFRS 15. The adoption of the new standard will have impact mostly on measurement of the Company´s financial assets.

IFRS 16 – Leasing

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both leasees and lessors. In accordance with the new standard the lessees will be required to recognize most leases on their balance sheets while lessor accounting is substantially unchanged.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard has not yet been endorsed by EU.

The Company is currently assessing concrete impacts of the new standard, however the Company expects significant increase of assets and liabilities as a result of the recognition of most leases on the balance sheet and classification impact on the statement of profit or loss. The Company plans to adopt the new standard on the required effective date.

B Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. Such balances of monetary items are translated at period-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

C Property, plant and equipment

All property, plant and equipment are initially recorded at cost and, except for freehold land, are subsequently carried at its cost less any accumulated depreciation and accumulated impairment losses. Freehold land is subsequently stated at cost less any accumulated impairment charges.

Property, plant and equipment acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated depreciation and accumulated impairment charges.

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent costs are recognised as property, plant and equipment only if it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs and maintenance costs are expensed as incurred.

Items of property, plant and equipment that are retired are not intended for sale and are not expected to create any future economic benefits or are otherwise disposed of, are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income, i.e. net gain or loss is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Items of property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method. Depreciation ceases at the earlier of the date the asset is either de-recognised or at the date the asset is classified as held for sale.

Depreciation does not cease, when the asset becomes temporarily idle or retired from active use, unless the asset is fully depreciated.

Estimated useful lives adopted in the financial statements are as follows:

	Years
Freehold buildings	up to 56
Cable and other related plant	10 to 41
Communication technology and related equipment	up to 26
Other fixed assets	up to 26

Freehold land is not depreciated as it is deemed to have an indefinite life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note G Impairment of assets).

D Intangible assets

Intangible assets of the Company include computer software, purchased goodwill, licences, valuable rights and customer bases. Computer software mainly represents the external acquisition costs of the Company's information systems that are intended for use within the Company. Generally, costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company and that have a probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, generally from one to five years. Valuable rights are amortised according to period for which the Company is allowed to utilize the rights, usually for the period from 1 to 5 years.

Intangible assets of the Company acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated amortisation and accumulated impairment charges and are amortised on a straight-line basis over their estimated useful lives. Customer bases are amortised over a period of the remaining average terms of the binding contracts or period over which production units are generally obtained from the asset by an entity.

Acquired licences are recorded at cost and amortised on a straight-line basis over the remaining life of the licence (i.e. over 15 to 20 years), from the start of commercial service, which best reflects the pattern by which the economic benefits of the intangible assets will be utilised by the Company.

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (see Note 11).

Goodwill, arising from the purchase of subsidiary undertakings and interests in associates and joint ventures, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill is not amortised but is tested for impairment at least annually or anytime there are indications of a decrease in its value.

The Company reviews at least at the balance sheet date the useful lives of intangible assets that are not amortised to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

On the balance sheet date, carrying amounts, residual values and the useful lives of assets are reviewed, revised and if necessary prospectively amended and accounted for as a change in an accounting estimate.

Intangible assets that are no longer in use and no future economic benefits are expected or that are disposed of for any other reason are de-recognised from the balance sheet together with the corresponding accumulated amortisation (for amortised assets only). All gains or losses arising in this respect are recognised in net operating income, i.e. net gain or loss is determined as the difference between net disposal proceeds, if any, and the carrying amount of the asset.

Intangible assets, with the exception of assets with an indefinite useful life, are amortised using the straight-line method from the time they are available for use. Amortisation ceases at the earlier of the date the asset is de-recognised, the date the asset is classified as having the indefinite useful life or the date the asset is classified as held for sale.

E Discontinued operations

On 28 April 2015, the General Meeting approved the separation of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). In accordance with national legislation, the Company was split into two separate accounting units with effective date 1 January 2015. In accordance with the International Financial Reporting Standards, the date when the control over the spun off part ceased was 1

June 2015. Under IFRS 5, financial indicators relating to company CETIN for the period from January to May 2015, or as of 31 May 2015 respectively, are classified in the financial statements for the year ended 31 December 2015 as *Discontinued operations*.

F Non-current assets held for sale

The Company classifies separately in the balance sheet asset (or disposal group) held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), its sale is highly probable and sale is expected within one year.

The Company measures a non-current asset (or disposal group) classified as assets held for sale at the lower of its carrying amount and fair value less costs to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell and is accounted for as an impairment loss with impact in profit or loss of the relevant period.

From the moment the asset is classified as held for sale and eventually revalued, it ceases to be depreciated/amortised and is reviewed only from impairment point of view.

Any gain from any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that has been recognized, is determined and is accounted for in profit or loss.

G Impairment of assets

Property, plant and equipment and other assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least on an annual basis for goodwill and for intangibles with an indefinite useful life and for intangibles not yet in use. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

Impairment losses are recognised in expenses when incurred. A previously recognised impairment loss is reversed (except for the Goodwill impairment loss) only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss in the period in which the reversal occurs.

The Company makes an assessment at least at each balance sheet date whether there is any indication that an impairment loss may no longer exist, may have decreased or may have increased. If any such indication exists, the Company estimates a recoverable amount of the assets and compares to the carrying value (net of the impairment allowance). In assessing whether there is any indication that the impairment loss recognised in the past may no longer exist, the Company considers both external and internal sources of information (asset's market value, changes expected in the market, including technological, economic or legal changes, market interest rates, significant changes with effect on the Company in the extent to which, or manner in which, the assets are used or are expected to be used, evidence available from internal reporting indicating economic performance of assets etc.). Where an estimate of recoverable amount is calculated, there is a number of management assumptions used.

H Investments and other financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2015 and 2014, the Company did not hold any financial assets in this category.

Investments with a fixed maturity that management intent to and has the ability to hold to maturity are classified as held-to-maturity and are disclosed as current or non-current assets, depending on the period in which the settlement will take place.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using an effective interest rate method and are disclosed as current or non-current assets, depending on the period in which the settlement will take place.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. During 2015 and 2014, the Company did not hold any investments in this category.

The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis, as required under IAS 39.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. The cost of purchase includes all transaction costs. Financial assets at fair value through profit or loss and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. On the contrary, unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in other comprehensive income in the period in which they arise, except for impairment losses, until the financial asset is de-recognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets

The Company assesses at each balance sheet date whether financial assets or groups of financial assets are impaired.

Assets carried at amortized costs

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss and only to the extent that the carrying amount of the financial asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or sold.

De-recognition of financial assets

A financial asset is de-recognised when:

a) the rights to receive cash flow from the asset have expired,
b) the Company retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

c) the Company has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

I Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfilment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the assets.

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment that is required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Company bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest. The corresponding lease obligations, net of finance charges, are included in other long-term payables (depending on maturity).

The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. If there is a reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

J Inventories

Inventory is stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using weighted average cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

K Trade receivables

Trade receivables are carried at original invoice amount less allowance for impairment of these receivables. Such allowance for impairment of trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the initial market rate of interest for similar borrowers. Cash flows relating to short-term receivables are usually not discounted. The amount of the allowance is recognized in profit or loss.

L Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (adjusted for negative deposits). Bank overdrafts are shown within Short-term financial debts in current liabilities section of the balance sheet.

M Financial debt

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs on debts used to finance the acquisition and construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

N Current and deferred income taxes

Income tax expense represents both current and deferred tax, where appropriate.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws, used to compute the amount, are those that are enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in profit or loss.

Deferred income tax is calculated using the liability method applied to all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates and laws expected to apply when the asset is realised or the liability is settled are used to determine the deferred income tax.

The principal temporary differences arise from differences in the tax and accounting values of property, plant and equipment and intangible assets, impairment of receivables and allowance for obsolete and slow moving inventories, non-tax deductible allowances and provisions, unused tax credits and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Company accounts for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill.

Deferred income tax assets and tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The same applies for offsetting of current tax assets and liabilities.

O Employee benefits

A Pension insurance and supplementary pension insurance

The Company remits contributions to the state pension insurance scheme at the statutory rates applicable during the period which are based on gross salaries. The contributions to the state budget for the funding of the state pension insurance correspond to the defined contribution plans. Company has no further payment obligations once the contributions have been paid. The contribution expense is charged to profit or loss in the same period as the related salary expense. The Company also makes contributions to defined supplementary pension insurance schemes operated by external pension funds. These contributions are charged to profit or loss in the period to which the contributions relate. The Company has no further payment obligations once the contributions have been paid.

B Redundancy and severance payments

Employees whose employment was terminated before term citing statutory reasons are entitled for redundancy and severance payment. The Company recognizes provision for redundancy and severance payments when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without the possibility of opt-out. Severance payments falling due more than 12 months after the balance sheet date are discounted to present value. The Company presently has no redundancy and severance obligations falling due more than 12 months after the balance sheet date.

C Bonus plans

The Company recognises employee bonuses related to the given accounting period in accordance with the expectations of achievement of the targets of the Company, which take into consideration key performance indicators such as turnover or free cash flow after adjustments. The Company recognises a provision where the Company is contractually obliged to grant bonuses or where there is a past practice that has created constructive obligation.

P Provisions

Provisions are recognised when the Company has either present legal or constructive obligation resulting from past events, and it is probable that an outflow of resources will be required to settle the obligation assuming that a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Q Revenue and expenses

Revenue, shown net of Value Added Tax and any discounts, comprises goods sold and services provided. Revenues are measured at their fair value of the consideration received or receivable. The amount of revenue is recognised if it can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. If necessary, revenue is split into separately identifiable components. Commission payments to dealers for activations, various marketing promotions and other activities are included in the costs of sales for the period.

Revenue and expenses are recognized on an accrual basis; i.e. when the flow of goods or services takes place, regardless of when the payment or collection is being made.

Voice, data and internet
Revenues from voice, data and internet services entail tariff fee plus a variable rate. Both wireline and wireless traffic is recognized as revenue as service is provided.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services or upon expiration of the card and related prepaid credit.

Equipment sales and sale of other goods
Revenue from the sale of telephone equipment and other goods is recognised at the time of sale i.e. when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are thus recognized when the product or service is delivered to the distributor or to the end customer. Losses arising from sale of handsets due to discount are recognised at the date of sale.

Information and communication technology and construction contracts
Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the provided service.

Revenue from fixed price construction contracts (long-term contracts) is recognised using the percentage of completion method, measured by reference to the percentage of actual cost incurred to date to estimated total costs of the contract. A loss expected from the construction contract is recognised as an expense immediately, when it is probable that total contract costs will exceed total contract revenue.

Roaming revenues
The mobile segment derives roaming revenue as a result of airtime and other services used by the mobile segment's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled net on a regular basis. Revenue is recognised when services are provided.

Interconnection revenues
Interconnection revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but terminate in or transit the Company's network. These revenues are recognised in profit or loss at the time when the call is received in the Company's network. The Company pays a proportion of the call revenue it collects from its customers to the other domestic and foreign operators' for the calls and other traffic originating in the Company's network, which use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled net on a regular basis.

Gross and net revenue recognition
In assessing whether revenue should be recognised gross, i.e. with separate disclosure of costs to arrive at gross profit, or on a net basis, the Company considers whether a transaction is considered to meet conditions of an agency arrangement. In such cases, the revenue is recognised only at the amount of the commission received/realised. The Company may enter agency relationship when providing premium SMS, audiotex, insurance or other services.

Dividend income
Dividend income is recognized when the right to receive payment is established.

Interest income
Income is recognised as interest accrues (using the effective interest method).

R Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

S Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, receivables and other financial assets, trade and other payables, borrowings and derivatives. Detailed figures are described in Note 17.

T Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

U Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Company designates certain derivatives as either:

a) hedge of the fair value of a recognised asset or liability (fair value hedge), or

b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective are recorded in profit or loss, along with changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognized in other comprehensive income. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in other comprehensive income are transferred to profit or loss and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects profit or loss.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management policies, either do not qualify for hedge accounting under the specific rules in IAS 39 or the Company has elected not to apply the specific IAS 39 hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognized immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized in profit or loss when the committed or forecasted transaction ultimately is recognized in profit or loss. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

The Company documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

V Investments in subsidiaries, joint ventures and associates

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

In relation to its interest in a joint arrangement, the Company recognises joint ventures that are recorded at cost less an allowance for diminution in value.

An associate is an enterprise where the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not exercise control.

Equity investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

No consolidation of subsidiaries or associates has been performed as these financial statements are presented on a stand-alone basis. In accordance with the requirements of the Act on Accounting, the Company prepares consolidated financial statements in accordance with IFRS.

W Transactions under common control

Business combination under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory

Investments acquired in business combinations under common control are recognized in the stand-alone financial statements of the Company at acquisition price.

X Change in accounting policy

No significant changes in accounting policies were applied in 2016 and 2015.

Y Treasury shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of changes in equity as a reduction in equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received from sale of treasury shares is presented in the financial statements as an addition to equity.

Z Operating profit

Operating profit is defined as profit before financial results and taxes and represents profit from the business operations. Financial results consist of interest income, interest expense, other financial expense (which includes primarily bank charges), fair value losses and gains on financial instruments and foreign exchange gains and losses.

NOTES TO THE FINANCIAL STATEMENTS

Content Page

1 Financial risk management

The Company is exposed to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates, debt taken on to finance its business and net investment in foreign operations as a result of ordinary business. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses either derivative financial instruments (such as forward and swap contracts) or non-derivative instruments (such as cash instruments) to hedge certain exposures.

The Company does not conduct any speculative trading activities.

Risk management is carried out by the treasury department under approved policies. The Board of Directors provides written principles for overall risk management. In line with these principles, policies exist for specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the euro and partially to US dollar:

a) balance sheet items (such as debt, bonds, receivables, payables) denominated in foreign currency,
b) probable/forecasted transactions or firm commitments (such as purchases or sales) denominated in foreign currency, and
c) net investment in the Slovak subsidiary (functional currency differs from CZK).

The Company's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

The Company primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR, USD or XDR. Only plain-vanilla instruments are currently used for hedging this kind of exposure.

The following nominal value of foreign exchange contracts was used by the Company to manage the currency risk:

In CZK million	**Notional principal amount**		**Fair value**	
	2016	**2015**	**2016**	**2015**
Foreign exchange contracts	-	399	-	(1)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates.

In CZK million	Effect on profit before tax 2016	2015
FX risk		
Value at Risk*	(29)	(47)
Stress testing*	(53)	(169)

* The Value at Risk (VaR) Model enables the Company estimate the probability of maximum possible loss to the portfolio value in the given time frame which will not be exceeded given the defined reliability level. For conducting a VaR calculation, the Company uses the risk variance and covariance method using the normal distribution (e.g. parametric method). The time frame used is one month with a 95% reliability rate. Considering the importance of net open positions resulting from financial assets and financial liabilities of the Company in individual foreign currencies, the Company models VaR from a position of translation and transaction in EUR and USD.

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 6% in an unfavourable direction.

The following table illustrates the comprehensive quantitative data about the Company´s exposure to currency risk. Within other currencies are included mainly Special Drawing Rights (XDR), which are used in certain transactions within the international roaming.

	31 December 2016			
In CZK million	**CZK**	**EUR**	**USD**	**Other**
Financial assets				
Cash and cash equivalents	2,924	234	198	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,923	1,107	6	354
Total financial assets	6,847	1,341	204	354
Financial liabilities				
Financial debts	7,092	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	2,982	1,821	99	59
Total financial liabilities	10,074	1,821	99	59

In CZK million	31 December 2015 CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	1,102	610	16	-
Trade and other receivables (excluding prepayments and indirect taxes)	4,286	750	33	56
Total financial assets	5,388	1,360	49	56
Financial liabilities				
Financial debts	3,131	595	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,100	1,317	179	36
Derivative financial instruments	-	-	1	-
Total financial liabilities	7,231	1,912	180	36

(ii) Interest rate risk

The Company is exposed to interest rate risk arising from floating interest rate bearing cash investments and debt instruments.

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The cash assets and short term debt are currently maintained on floating rates while long term debt instruments could be maintained on both floating and fixed rates. The Company may sometimes use interest rate swaps and forward rate agreements to manage a mix of fixed and variable interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates.

In CZK million	Effect on profit before tax 31 December 2016	31 December 2015
IR risk		
Stress testing*	(38)	(13)

* IR risk used stress scenario represents immediate one-off change of interest rates along the whole yield curve by 1 percentage point in an unfavorable direction. The calculation of unfavourable impact on Company within a 12 month time frame (due to an increase of interest cost or decrease of interest income) is made on a semi-annually basis.

(b) Liquidity risk

The Company's essential objective of liquidity risk management is having access to the cash resources sufficient to meet all its cash payment obligations as they fall due, allowing some flexibility. The cash resources consist of generated cash position (maintained in quickly liquid instruments), and committed credit facilities arranged with banks.

The Company is particularly focused on the liquidity profile within the time horizon of the next 12 months considering projected cash flow from operations and maturity structure of both debt obligations and financial investments. The balance between the funding continuity and flexibility is managed through maintaining the option to use bank overdrafts or bilateral credit lines.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2016 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	20	59	7,441	-
Cash-pooling and other intragroup borrowings	155	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,160	684	115	2
Financial guarantees	16	70	102	-
Total	4,351	813	7,658	2

At 31 December 2015 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	12	36	3,192	-
Cash-pooling and other intragroup borrowings	755	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,844	728	45	15
Derivative financial instruments	1	-	-	-
Financial guarantees	15	138	117	-
Total	5,627	902	3,354	15

(c) Credit risk

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic and the Slovak Republic. Although the Company does not currently foresee a dramatically higher credit risk associated with these receivables, the repayment is significantly impacted by the financial stability of a particular national economy.

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting into the non-significant Company's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 13. There is no significant concentration of credit risk within the Company.

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents, available for sale investments and certain derivative instruments, the Company's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit Risk is managed by the Credit Management Unit and is based on three main activities:

a) monitoring of accounts receivables: regular monitoring of payment moral of existing customers and monitoring and analysing of the receivable aging structure (internal and external indicators of any potential bad debts). Those activities are processed in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.
b) prevention: scoring of new customers – checking procedures (integrated Black Lists, Solus Debtors Register, other information), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.).
c) collection process: Credit Management cooperates with Customer Care on the setting up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care unit; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

See Note 17 for quantitative disclosures on credit risk.

(d) Fair value estimation

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

As at 31 December 2016 and 2015, the Company held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

The fair values of the derivative financial instruments reflect estimates based on calculations performed using the Company's own discounted cash flows models (using market rates).

Carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its 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 rate.

2 Use of estimates, assumptions and judgements

The preparation of financial statements in conformity with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Given the fact that these assumptions and estimates represent certain degree of uncertainty the actual results and recognised assets and liabilities could differ from those estimates.

The estimates and assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next years are discussed below:

(1) Income taxes and deferred taxes

The Company creates liability for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 7 and Note 18).

(2) Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict. Further details are described in Note C Property, plant and equipment and Note D Intangible assets.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in profit or loss. The decision to recognize an impairment loss involves estimates of amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

The Company evaluates performance of its cash-generating units regularly to identify potential impairments. Determining the recoverable amount of the cash-generating units also entails the use of assumptions and estimates and requires a significant element of judgment.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount where an impairment loss recognised in prior periods shall be subject to the reversal (see Note 11).

In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (see Note 11). However goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation to which the goodwill relates.

(3) Provisions and contingent liabilities

As set out in Note 20 the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Company's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (see Note 19). Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

Trade receivables are carried at original amount less bad debt allowance. The bad debt provision is estimated according to historical experience and individual assessment. Details regarding the determination of receivables impairment are stated in Note 13 Receivables and other non-current assets.

3 Segment information

Segments recognized by the Company are as follows:

- Czech Republic:
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company
  - mobile segment – mobile telecommunication and data services provided by the Company
- Discontinued operations – separately reported segment relating to CETIN (spun off entity), which provides wholesale services using its own fixed and mobile infrastructure (as stated in point G of the part Accounting policies this segment is only relevant for comparable period)

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

Inter-segment pricing rates in 2016 and 2015 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

Year ended 31 December 2016 In CZK million	Czech Republic			Total
	Fix	Mobil		
Revenues	10,449	19,324		
Cost of Sales (CoS)	(6,674)	(9,291)		
Gross margin	3,775	10,033		
Other income from non-telecommunication services			317	
Activation of fixed assets			216	
Other costs excluding CoS			(6,277)	
Earnings before interest, taxes, depreciation and amortization (EBITDA)			8,064	
Revenue			29,773	29,773
Other income from non-telecommunication services			317	317
Activation of fixed assets			216	216
Total income			30,306	30,306
Total cost			(22,242)	(22,242)
Earnings before interest, taxes, depreciation and amortization (EBITDA)			8,064	8,064
Depreciation and amortization			(2,519)	(2,519)
Impairment loss			(138)	(138)
Operating profit			5,407	5,407
Interest expense			(76)	(76)
Interest income			16	16
Other financial income/(expense)			1,138	1,138
Net financial income			1,078	1,078
Profit before tax			6,485	6,485
Corporate income tax			(1,091)	(1,091)
Profit for the period			**5,394**	**5, 394**
Assets (excl. Goodwill)			28,811	28,811
Goodwill			4,443	4,443
Total Assets			**33,254**	**33,254**
Trade and other payables			(6,041)	(6,041)
Other liabilities			(7,553)	(7,553)
Total liabilities			**(13, 594)**	**(13,594)**
Fixed assets additions			**3,128**	**3,128**

Year ended 31 December 2015 **In CZK million**	**Czech Republic** **Fix**	 **Mobile**	**Discontinued Operations**	**Elimination Continuing vs Discontinued operations ***	**Total**
Revenues	11,484	19,199			
Cost of Sales (CoS)	(7,294)	(9,459)			
Gross margin	4,190	9,740			
Other income from non-telecommunication services	259				
Activation of fixed assets	169				
Other costs excluding CoS	(6,632)				
Earnings before interest, taxes, depreciation and amortization (EBITDA)	7,726				
Revenues	30,683		7,959	(4,558)	34,084
Other income from non-telecommunication services	259		182	-	441
Activation of fixed assets	169		11	-	180
Total income	31,111		8,152	(4,558)	34,705
Total costs	(23,385)		(4,919)	4,558	(23,746)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	7,726		3,233	-	10,959
Depreciation and amortization	(2,695)		(1,044)	-	(3,739)
Impairment loss	(27)		-	-	(27)
Operating profit	5,004		2,189	-	7,193
Interest expense	(90)		-	-	(90)
Interest income	6		-	-	6
Other financial income/(expense)	746		(2)	-	744
Net financial income	662		(2)	-	660
Profit before tax	5,666		2,187	-	7,853
Corporate income tax	(955)		(454)	-	(1,409)
Profit for the period	**4,711**		**1,733**	**-**	**6,444**
Assets (excl. Goodwill)	26,795		-	-	26,795
Goodwill	4,443		-	-	4,443
Total Assets	**31,238**		**-**	**-**	**31,238**
Trade and other payables	(6,800)		-	-	(6,800)
Other liabilities	(4,066)		-	-	(4,066)
Total liabilities	**(10,866)**		**-**	**-**	**(10,866)**
Fixed assets additions	**2,714**		**807**	**-**	**3,521**

* Column *Elimination Continuing vs Discontinued operations* represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to May 2015 (further comments under point G of the part Accounting policies above and also in Note 4)

4 Discontinued operation (for comparative information only)

On 13 March 2015, the Board of Directors of the Company approved a separation project of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). On 28 April 2015, the General Meeting approved the separation of the Company. The decisive date of the separation is 1 January 2015, in accordance with the national legislation. From the perspective of the International Financial Reporting Standards the date when the Company cease the control over the spun off part CETIN is 1 June 2015.

The legal effect of the separation and formation of CETIN took place on the date when it was recorded in the Commercial Register, which happened on 1 June 2015. As a result of the separation a part of assets and liabilities in the amount of CZK 36,660 million has been transferred to CETIN, in particular fixed public communications network, physical infrastructure of public mobile communications network, data centres, all relevant evidence and relevant contracts, rights and obligations necessary for the future independent operations of the new company. In total 1,174 employees assigned to the Infrastructure and Wholesale division were also transferred to CETIN.

At the time of the separation an equal share exchange ratio was determined. One share in CETIN was assigned to all equity holders of the Company for each share of the Company that they held on the date of registration of the spin off in the Commercial Register.

Accounting items relating to the spun off company were identified based on the relation to the Infrastructure and Wholesale division in the way it was defined in the separation project, and mainly represent property and equipment and relating assets and liabilities of the Infrastructure and Wholesale division.

In relation to the spin off, new business relations were established as of 1 January 2015 with the company CETIN by a virtue of the purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Company.

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

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Company is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

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

The subject of RAO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment). Total cost for 2016 was approximately CZK 4,126 mil.

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

CETIN enables the Company access to end points, which include provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for 2016 was approximately CZK 951 mil.

PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

In CZK million	**For the five months ended 31 May 2015**
Revenues	8,152
Expenses	(4,919)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**3,233**
Depreciation and amortization	(1,044)
Impairment loss	-
Operating profit	2,189
Financial result	(2)
Profit before tax	2,187
Corporate income tax	(454)
Profit after tax from discontinued operations	**1,733**
Earnings per share for discontinued operations (CZK) – basic	6

Effect of disposal on the financial position	31 May 2015
Property, plant and equipment and intangible assets	31,952
Goodwill	9,005
Inventories	20
Trade and other receivables	1,702
Other financial receivables	81
Cash and cash equivalents	1,965
Total assets	**44,725**
Shareholders equity*	38,277
Trade and other payables	4,161
Deferred tax liability	2,287
Total equity and liabilities	**44,725**

Cash flows from Discontinued operations	For the five months ended 31 May 2015
Net cash flows from operating activities	2,701
Net cash flows from investing activities	(788)
Net increase/(decrease) for cash and cash equivalents for the period	**1,913**

*. Shareholders equity as at 31 May 2015 includes, inter alia, the consolidated profit for the period of January to May 2015 of the company CETIN amounting to CZK 1,733 million and corrections of booking of the demerger accounted in accordance with accounting principles against the equity amounting to CZK 120 million.

5 Revenues and costs

Revenues In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Revenues from voice services	11,958	12,585
Revenues from data services	10,573	9,977
Revenues from ICT services	856	1,887
Other telecommunication revenues	6,386	6,234
Total revenues	29,773	30,683

Decrease of revenues from ICT services results from the non-monetary contribution of Professional Services division into the subsidiary O2 IT Services s.r.o. made on 1 January 2016 (see Note 25). Revenues generated by Professional Services division were in 2015 reported in ICT revenue category.

Revenues from related parties are disclosed in Note 24.

Expenses In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Supplies	(15,965)	(16,753)
Staff costs	(2,918)	(3,030)
External services	(2,935)	(3,349)
Provisions for bad debts and inventories	(18)	4
Other expenses	(406)	(257)
Total expenses	(22,242)	(23,385)

Supplies include mainly these types of costs: interconnection and roaming expenses, cost of goods sold, sub-deliveries, commissions and other cost of sales.

The Company does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Company during 2016 and 2015. As a result of the restructuring process, the Company incurred restructuring costs of CZK 55 million during the year ended 31 December 2016 (2015: CZK 124 million).

Restructuring costs are included in staff costs.

Total fee for the services provided by KPMG Česká republika Audit, s.r.o. and its related parties was in 2016 and 2015 as follows:

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
KPMG Česká republika Audit, s.r.o.		
Statutory audit	7	7
Other assurance services	-	3
Other companies from KPMG network		
Other services (KPMG Česká republika, s.r.o.)	2	3
Total	9	13

Purchases from related parties are disclosed in Note 24.

6 Finance income and costs

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Finance income		
Interest income	16	6
Gain on fair value adjustments of financial instruments (net)	2	-
Other finance income	1,184	874
Total finance income	1,202	880
Finance costs		
Interest expenses	(76)	(90)
Foreign exchange loss (net)	-	(31)
Loss on fair value adjustments of financial instruments (net)	(2)	(1)
Other finance costs	(46)	(96)
Total finance costs	(124)	(218)

The Company recognises foreign exchange gains and losses on net basis. The same applies for the fair value adjustments of derivatives.

Other finance income contains dividend from the subsidiaries O2 Slovakia, s.r.o. of CZK 1,112 million (2015: CZK 849 million), O2 Family s.r.o. of CZK 31 million (2015:

CZK 21 million), O2 IT Services s.r.o. of CZK 26 million (2015: CZK 0 million), O2 TV s.r.o. of CZK 3 million (2015: CZK 0 million), from associated company První certifikační autorita, a.s. of CZK 4 million (2015: CZK 4 million) and from join venture Tesco Mobile ČR s.r.o. of CZK 7 million (2015: CZK 0 million).

7 Income tax

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Total income tax expense is made up of:		
Current income tax charge	983	900
Deferred income tax credit (Note 18)	108	55
Income tax	1,091	955

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the Company as follows:

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Profit before tax	6,485	5,666
Income tax charge calculated at the statutory rate of 19%	1,232	1,077
Tax effects of:		
- not taxable income	(225)	(167)
- expenses not deductible for tax purposes	50	51
Tax related to prior periods	34	(6)
Income tax	1,091	955
Effective tax rate	17%	17%

As at 31 December 2016 the total amount of liability for current income taxes was CZK 948 million (2015: CZK 906 million), advances paid for income taxes was CZK 950 million (2015: CZK 875 million) and the net deferred tax liability is CZK 168 million (2015: CZK 60 million).

8 Earnings per share

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 share transactions during the year (see Note 23).

Continuing operations

	31 December 2016	**31 December 2015**
Weighted number of ordinary shares outstanding (thousands)	308,205	310,220
Net profit attributable to shareholders (in CZK million)	5,394	4,711
Basic earnings per share (CZK)	18	15

Discontinued operations

	31 December 2015
Weighted number of ordinary shares outstanding (thousands)	310,220
Net profit attributable to shareholders (in CZK million)	1,733
Basic earnings per share (CZK)	6

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

9 Dividends and other distribution

In CZK million	31 December 2016	31 December 2015
Dividends declared (including withholding tax)	4,964	4,103
Total declared distribution	4,964	4,103

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2016 and 2015. Approval of the 2016 profit and the decision regarding the amount of any dividend payment for the 2016 financial year will take place at the Annual General Meeting.

The approval of the 2015 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 19 April 2016 (2014: 28 June 2015). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 16 per share from the 2015 profit were payable on 19 May 2016 (from the 2014 profit: CZK 13).

Distribution per share for the years ended 31 December was as follows:

In CZK	For the year ended 31 December 2015	For the year ended 31 December 2014
Dividend per share (nominal value of CZK 10)	16	13
Total distribution per share	16	13

10 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2016					
Opening net book amount	237	-	1,807	578	2,622
Transfers within the Group	-	-	(66)	(94)	(160)
Additions	8	-	369	180	557
Disposals	-	-	(13)	0	(13)
Reclassifications	2	6	(33)	35	10
Depreciation charge	(47)	-	(397)	(187)	(631)
Impairment charge	-	-	(5)	-	(5)
Closing net book amount	200	6	1,662	512	2,380
At 31 December 2016					
Cost	840	12	9,164	3,946	13,962
Accumulated depreciation and impairment allowance	(640)	(6)	(7,502)	(3,434)	(11,582)
Net book amount	200	6	1,662	512	2,380
At 31 December 2015					
Opening net book amount	8,479	17,111	7,614	848	34,052
Transferred to CETIN at 1 January 2015	(8,211)	(17,079)	(6,007)	(332)	(31,629)
Additions	1	-	670	269	940
Disposals	(19)	(1)	(101)	(2)	(123)
Reclassifications	(1)	(31)	61	(23)	6
Depreciation charge	(10)	-	(416)	(182)	(608)
Impairment charge	(2)	-	(14)	-	(16)
Closing net book amount	237	-	1,807	578	2,622
At 31 December 2015					
Cost	865	-	10,890	4,989	16,744
Accumulated depreciation and impairment allowance	(628)	-	(9,083)	(4,411)	(14,122)
Net book amount	237	-	1,807	578	2,622

The net book amount of Property, plant and equipment as at 31 December 2016 includes CZK 378 million of construction in progress (2015: CZK 546 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

No property, plant and equipment were pledged as at 31 December 2016 and 31 December 2015.

No borrowing costs were capitalized during the years 2016 and 2015.

The Company did not recognize any assets held for sale as at 31 December 2016 and 31 December 2015.

In 2016, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 3 million (2015: CZK 15 million) and total losses of CZK 5 million (2015: CZK 5 million).

Property, plant and equipment in amount of CZK 31,629 million as at 1 January 2015 were transferred to spun-off part CETIN on 31 May 2015. See Note 4 for further details.

11 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2016						
Opening net book amount	4,443	4,559	2,522	2,319	131	13,974
Transfers within the Group	-	(10)	(30)	-	-	(40)
Additions	-	1,472	1,055	-	44	2,571
Disposals	-	-	-	-	-	-
Reclassification	-	-	(6)	-	-	(6)
Amortisation charge	-	(511)	(592)	(752)	(33)	(1,888)
Impairment charge	-	-	(133)	-	-	(133)
Closing net book amount	4,443	5,510	2,816	1,567	142	14,478
At 31 December 2016						
Cost	4,443	8,768	21,755	3,197	217	38,380
Accumulated amortisation and impairment allowance	-	(3,258)	(18,939)	(1,630)	(75)	(23,902)
Net book amount	4,443	5,510	2,816	1,567	142	14,478
At 31 December 2015						
Opening net book amount	13,448	4,713	2,657	3,061	15	23,894
Transferred to CETIN at 1 January 2015	(9,005)	(14)	(577)	-	-	(9,596)
Additions	-	442	1,226	-	106	1,774
Disposals	-	-	-	-	-	-
Reclassification	-	12	(37)	-	25	-
Amortisation charge	-	(594)	(736)	(742)	(15)	(2,087)
Impairment charge	-	-	(11)	-	-	(11)
Closing net book amount	4,443	4,559	2,522	2,319	131	13,974
At 31 December 2015						
Cost	4,443	9,022	21,872	3,197	149	38,683
Accumulated amortisation and impairment allowance	-	(4,463)	(19,350)	(878)	(18)	(24,709)
Net book amount	4,443	4,559	2,522	2,319	131	13,974

The net book value of intangible assets as at 31 December 2016 includes CZK 1,016 million of construction in progress (2015: CZK 1,628 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Additions to intangible assets in the Software category relate mainly to ongoing complex transformation of IT systems of the Company.

In 2016 the Company recognized impairment loss of CZK 133 million (2015: CZK 11 million). Impairment loss mostly represents value of intangible assets, which were made redundant due to ongoing IT system transformation.

Intangible assets in amount of CZK 9,596 million as at 1 January 2015 were transferred to spun-off part CETIN on 31 May 2015. See Note 4 for further details.

Goodwill

Goodwill of CZK 4,315 million resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill is presented in the standalone financial statements of the Company since the effective date of merger with Český Telecom, a.s. The goodwill initially recognized of CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

Due to a revision of IFRS 3, IAS 36 and IAS 38 the Company ceased amortisation of the previously recognized goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 was eliminated with a corresponding decrease in the cost of goodwill (CZK 767 million). From the year ending 31 December 2005 onwards, goodwill is classified as an asset with an indefinite useful life which has been tested annually for the impairment, as well as when there are indications of impairment.

Part of the goodwill in the amount of CZK 9,005 million attributable to the spun off part of the business was in accordance with IAS 36 transferred in 2015 to CETIN. See Note 4 for further details

As at 31 December 2015 and 31 December 2014 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project of the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company from 2012.

The Company performed impairment tests, which did not result in impairment losses of goodwill in 2016 and 2015. The impairment test involves a determination of the recoverable amount of the czech cash-generating unit, which corresponds to the value in use.

Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a Company internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 4 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the four-year period are extrapolated using appropriate growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan and growth rates, include the trend of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

Any significant future changes in the market and competitive environments could have an adverse effect on the value of the cash-generating unit.
The calculation of value in use for the cash-generating unit is the most sensitive to the following key assumptions:

Estimated growth rate – the forecast of the market and regulatory environment, where the Company conducts its principal business, is the basis for determination of the value assigned to the estimated growth rate. The Company uses growth rate between -1% and 0% (2015: -1% and 0%).

Discount rate – discount rates reflect the management's estimate of the risk specific to the cash generating unit. Weighted average of cost of capital (WACC) forms the basis for the determination of the pre-tax discount rate. This rate is calculated using the capital asset pricing model (CAPM), the Company also uses relevant data taken from independent financial analysts as a benchmark.

The Company has no other intangible asset with indefinite useful life except for goodwill.

Intangible assets in progres are tested annually for impairment losses. The reviw performed as at 31 December 2016 and 2015 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks which are technologically neutral. Group uses following standards for operating cellular networks in the Czech Republic and Slovakia: GSM (Global System for Mobile Communication, the second generation technology), UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Details of individual licences are described in Note 22.

Carrying value of licences:

In CZK million	**31 December 2016**	**31 December 2015**
GSM licence	391	461
CDMA licence	5	10
UMTS licence	1,270	1,520
LTE licence	3,844	2,568
Total	5,510	4,559

No borrowing costs were capitalized during the years 2016 and 2015.

Valuable rights

The Company decided in 2014 on exercising the option under the license agreement, based on which the Company is using the O2 brand until 31 January 2019 in the Czech Republic. By exercising the option, the Company purchased O2 brand recognized within intangible assets as at 31 December 2016 in net book amount CZK 1,567 million (2015: CZK 2,319 million).

12 Inventories

In CZK million	**31 December 2016**	**31 December 2015**
Telecommunication material	8	80
Goods	506	518
Total	514	598

The inventories stated above are net of an allowance of CZK 80 million (2015: CZK 90 million), reducing the value of the inventories to their net realizable value. The amount of inventories recognized as an expense is CZK 2,171 million (2015: CZK 2,294 million).

In 2016 and 2015, the Company had no inventories pledged as a security for liabilities.

13 Receivables and other non-current assets

In CZK million	**31 December 2016**	**31 December 2015**
Trade receivables from third parties (net)	4,388	4,182
Trade receivables from related parties	769	666
Prepayments	380	513
Other debtors (net)	140	218
Indirect taxes	1	1
Total receivables	5,678	5,580

Trade receivables and other debtors are stated net of a bad debt provision of CZK 2,399 million (2015: CZK 2,829 million).

Receivables from related parties are disclosed in Note 24.

			Not impaired but overdue			
Trade receivables In CZK million	**Carrying amount**	**Neither impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2016	5,250	4,512	224	201	12	-
At 31 December 2015	4,907	4,399	149	9	17	-

Bad debt provisions In CZK million	
At 1 January 2015	3,534
Additions	1,564
Transferred to CETIN (Note 4) at 31 May 2015	(20)
Write-off of receivables	(659)
Retirements/amount paid	(1,590)
At 31December 2015	2,829
Additions	928
Write-off of receivables	(532)
Retirements/amount paid	(826)
At 31 December 2016	2,399

The Company's historical experience regarding the collection of accounts receivable is consistent with the recorded allowances. Because of these factors, the management believes that no additional credit risk beyond the amounts provided for is inherent in the Company's trade receivables.

In CZK million	31 December 2016	31 December 2015
Trade and other receivables – non-current	93	59
Prepayments	47	203
Total other non-current assets	140	262

Trade and other non-current receivables contained restricted cash of CZK 30 million (2015: CZK 29 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreement include particularly roaming and interconnection services. Financial instruments are as follows:

In CZK million	31 December 2016	31 December 2015
Gross amounts of trade receivables from third parties	563	407
Amounts that are set off	(233)	(265)
Net amounts of trade receivables from third parties	330	142

14 Cash and cash equivalents

In CZK million	31 December 2016	31 December 2015	Interest rate
Cash at current bank accounts and other cash equivalents	1,420	961	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	1,936	767	Floating
Total cash and cash equivalents	3,356	1,728	
- of which restricted cash	-	(432)	
Cash and cash equivalents included in cash flow statement	3,356	1,296	

Cash deposited on an escrow account held on behalf of the Company (restricted cash) as at 31 December 2015 was released to Czech Telecommunication Office (CTO) on 1 February 2016 in accordance with the concluded agreement.

As at 31 December 2016 and 2015, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2016, cash and cash equivalents of the Company amounted to CZK 3,356 million (2015: CZK 1,728 million) of which CZK 3,356 million (2015: CZK 1,296 million) were due within 1 month and CZK 0 million (2015: CZK 432 million) were due for more than 1 month.

In 2016 and 2015, the Company was using cash-pooling with a subsidiary O2 Slovakia, s.r.o. with interest rate based on 1M EURIBOR and with a subsidiary O2 Family, s.r.o. with interest rate based on 1M PRIBOR (see Note 16).

The committed and undrawn facilities available to the Group amounted to CZK 5,600 million as at 31 December 2016 (2015: CZK 9,600 million).

As at 31 December 2016 and 2015no cash and cash equivalents were pledged.

15 Trade and other payables

In CZK million	**31 December 2016**	**31 December 2015**
Trade payables	4,734	5,502
Tax and social security liability	545	463
Other deferred revenue	62	88
Prepaid cards	270	313
Employee wages and benefits	320	364
Other payables	110	70
Total current trade and other payables	6,041	6,800

In CZK million	**31 December 2016**	**31 December 2015**
Trade payables	62	39
Other payables	55	p21
Other long-term deferred revenue	14	61
Other non-current liabilities	131	121

Payables to related parties are disclosed in Note 24.

As at 31 December 2016 and 31 December 2015, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

Financial instruments that are subject to an enforceable master netting arrangement or similar agreement include particularly roaming and interconnection services. Financial instruments are as follows:

In CZK million	31 December 2016	31 December 2015
Gross amounts of trade payables	280	355
Amounts that are set off	(233)	(265)
Net amounts of trade payables	47	90

16 Financial debts

In CZK million	31 December 2016	31 December 2015
Debt in local currency	6,976	2,970
Intragroup cash-pooling (Note 24)	115	710
Other intragroup borrowings	-	45
Accrued interest	1	-
Financial derivative instruments	-	1
Total financial debt	7,092	3,726
Repayable:		
Within one year	116	756
Between one and five years	6,976	2,970
Total financial debt	7,092	3,726

On 16 December 2015 the Company entered into term facility agreement up to CZK 12 billion with maturity of 5 years. This loan was provided by Komerční banka, a.s. (acting as an agent), Česká spořitelna, a.s., Československá obchodní banka, a.s., Raiffeisenbank a.s., UniCredit Bank Czech Republic and Slovakia, a.s., Citibank Europe plc. and Tatra banka, a.s.

In accordance with the concluded term facility agreement the Company drawdown on 20 January 2016 a long-term loan facility in amount of CZK 4 billion and subsequently on 18 April 2016 facility in amount of CZK 1 billion that was repaid on 27 December 2016. As at 31 December 2016 the Company utilized in total CZK 7 billion from the long-term facility agreement (2015: CZK 3 billion).

The interest rate is 1M PRIBOR plus a margin amounting 0,60%. The Company uses the loan to refinance former debt and for general corporate purposes.

The Company uses cash-pooling with subsidiaries O2 Family, s.r.o. and O2 Slovakia, s.r.o. (see Note 14).

Borrowings are not secured over any assets of the Company.

17 Financial instruments

The following table shows the carrying amounts of classes of financial assets and liabilities split to respective financial instruments categories.

At 31 December 2016

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,390	-	5,390
Cash and cash equivalents	3,356	-	3,356
Total	8,746	-	8,746

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	7,092	-	7,092
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,961	-	4,961
Total	12,053	-	12,053

At 31 December 2015

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,125	-	5,125
Cash and cash equivalents	1,728	-	1,728
Total	6,853	-	6p,853

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	3,725	-	3,725
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liabilities)	5,632	-	5,632
Derivative financial instruments	-	1	1
Total	9,357	1	9,358

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to internal information about counterparty default rates profile:

In CZK million	31 December 2016	31 December 2015
Trade receivables		
Group 1	2,842	2,901
Group 2	1,004	999
Group 3	666	499
Total unimpaired trade receivables	4,512	4,399
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody´s):		
A1	521	104
A2	679	292
Baa1	199	557
Baa2	1	-
	1,400	953
Counterparties without external credit rating:		
Intragroup	1,936	767
	1,936	767
Cash in hand and other cash equivalents	20	8
Total cash and cash equivalents	3,356	1,728

Group 1 – end customers monitored in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.

Group 2 – Dealers and other business partners

Group 3 – Roaming partners

18 Deferred income taxes

Short-term and long-term deferred tax was calculated at 19% for both years 2016 and 2015.

In CZK million	2016	2015
At 1 January	(60)	(2,149)
Charged /(credited) to Profit or loss from continuing operations (Note 7)	(108)	(55)
Charged /(credited) to Profit or loss from discontinued operations	-	(143)
Transferred to CETIN (Note 4)	-	2,287
At 31 December	(168)	(60)

The following amounts, determined after offsetting, are shown in the balance sheet:

In CZK million	31 December 2016	31 December 2015
Deferred tax assets	256	289
Deferred tax liabilities	(424)	(349)
Total	(168)	(60)

The deferred tax asset includes CZK 106 million (2015: CZK 118 million) recoverable in less than twelve months and CZK 150 million (2015: CZK 171 million) recoverable after more than twelve months. The deferred tax liability includes CZK 176 million (2015: CZK 129 million) to be settled in less than twelve months and CZK 248 million (2015: CZK 220 million) to be settled in more than twelve months.

The deferred tax is determined by these components:

In CZK million	Balance sheet		Profit or loss	
	2016	2015	2016	2015
Temporary differences relating to:				
Property, plant and equipment and intangible assets	(321)	(256)	(65)	2,111
Trade receivables, inventories and other differences	153	196	(43)	(22)
Deferred tax liability transferred to CETIN (Note 4)	-	-	-	(2,287)
Total	(168)	(60)	(108)	(198)
- from continuing operations			(108)	(55)
- from discontinued operations			-	(143)

19 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
At 1 January 2015	**267**	**50**	**72**	**389**
Additions during the year	-	19	81	100
Utilized during the year	-	(11)	(36)	(47)
Transferred to CETIN (Note 4)	(267)	-	(47)	(314)
At 31 December 2015	**-**	**58**	**70**	**128**
Additions during the year	-	81	16	97
Utilized during the year	-	(25)	(37)	(62)
Transferred to O2 ITS (Note 25)	-	-	(1)	(1)
At 31 December 2016	**-**	**114**	**48**	**162**
Short-term provisions 2016	-	98	48	146
Long-term provisions 2016	-	16	-	16
	-	**114**	**48**	**162**
Short-term provisions 2015	-	36	70	106
Long-term provisions 2015	-	22	-	22
	-	**58**	**70**	**128**

Other provisions for which the expected timing of payments is not certain are expected to be utilized within the next twelve months from the balance sheet date. Other provisions consist mainly of provision for restructuring costs.

A provision for regulatory and court decisions is made for legal proceedings involving the Company (see Note 20).

20 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2016 some major proceedings were successfully closed and in some other cases at least success in the first instance has been reached. This confirmed successful trend in proceedings where the Company is involved. At the same time, other proceedings have been initiated or reopened. Majority of the cases lasts for more than 5 years without any decision in merit, respectively in proceedings with the Office for Protection of Economic Competition could be seen repeating cancelations and further attempts to impose unlawful fines.

Major legal disputes and other proceedings relating to the Company are described below.

I. ÚOHS (Office for Protection of Economic Competition)

i. Administrative proceeding on alleged abuse of dominant position on fix broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting so called "preliminary investigation" since November 2008 to determine whether the Company had abused its dominant position in the broadband market. The Company cooperated with the Office while repeatedly stating and proving that it had not held a dominant position in the market and, as such, no abuse could have been committed. Although the extent of information and documents required by the Office during more than a two-year long investigation grew immensely, the Company was never allowed to inspect the file to check its content and control how the information was interpreted by the Office. In the light of the above, the Company requested for court protection by legal action filed to the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from the continuation of the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation has to be stopped immediately. This verdict was later confirmed by Supreme Administrative Court in September 2011. The Office reacted by opening official administrative proceedings on dominant position on fix broadband market by ADSL technology in March 2011. The Company filed its statement proving that the Office incorrectly defines relevant market on which Company would allegedly hold dominant position and moreover even abuse it. Company's statement about strong competition between technological platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly confirmed by the Czech Telecommunication Office and European Commission. The Company also provided the Office with numerous documents proving that all steps of the Company were correct. More records are continuously filed into the file. The Company cannot estimate when the proceedings will be closed due to extreme length and volume of information. The Office hasn´t issued any decision not even during 2016 despite the fact the Company provides the Office with all necessary facts and information. By the end of 2016 the Company filed an extensive statement where nontransparent approach of the Office was refused and Company asked for oral hearing where it could defend its position and also it could ask for explanation about the proceedings and methods used by the Office so far. Neither in the case of financial statements for previous years nor in the case of financial statements for 2016 it was not possible to reliable estimate, whether this administrative proceedings would have any financial impact, eventually in which amount neither when this proceedings will be terminated.

ii. Proceeding for CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over the penalty of CZK 81.7 million imposed in December 2003 on the Company in the proceedings on the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office for returning the penalty including interest. Although the principal was returned by the Office, before it was decided on the interest charge, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. After all in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty and returned the case back to the Office where the Office should in compliance with law justify the penalty in relation to the judged period. Despite the objections of the Company regarding insufficient background, the Office issued a new decision imposing to the Company a fine CZK 91.9 million. The Company perceives such decision as an impermissible reprisal from the Office and filed a legal action including the proposal for suspension of the payment of the penalty during the court proceedings. The Regional court in Brno decided on suspension of the payment in February 2013 but by its decision from 23 October 2014 surprisingly dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But the Supreme Administrative Court by its decision from 15 April 2015 returned the case back to the Regional court in Brno, which, bound by the legal opinion, cancelled the Office´s decision on 11 September 2015. The Office returned the paid penalty, without interest, back to the Company.

The Supreme Administrative Court subsequently refused the cassation complaint filed by the Office and finally confirmed that the Company shouldn´t pay the penalty back again and the Office hasn´t any possibility to impose it. The Company was successful in claiming the interest in the amount of CZK 12.8 million. The proceedings is terminated and will not be further reported.

iii. Proceeding for CZK 49.5 million

This dispute was originally initiated in 2003 against Eurotel. The Company was therefore not involved in the administrative proceedings. The subject was the conclusion of an interconnection contract with Vodafone Czech Republic a.s. (former Czech Mobil), in which the parties have agreed that their network will connect directly.

Office in the proceedings considered such agreement as the cartel agreement, but without specifying who and how both companies should exclude from what market by such agreement. Each operator is logically the only entity which can offer the service of termination of calls in his own network. Thus, the competition on such market cannot exist. Regulation of Czech Telecommunucation Office and other European regulators as well is based on this basic principle. Logically, also in this context no other subject can offer a better price for termination than the network operator himself – because additional fee for transit is added while the termination fee remains the same.

Originally, Office imposed to Eurotel a fine in the amount of CZK 22 million, but Eurotel brought an administrative action. After a number of court levels in administrative judicial branch the courts finally abolished the decision. In the meantime, however, Eurotel ceased to exist, without possibility of the transfer of liability for administrative delicts.

However, in the second half of 2016, however, the Office of this fact suddenly completely passed and issued a "clarification of the subject of administrative proceedings" where the Company (which, however, did not conclude the interconnection contract), and in December 2016 issued the decision imposing fine of CZK 49.5 million. The company filed the appeal.

II. Disputes with AUGUSTUS spol. s r.o. company

The Company reached obvious turnaround in disputes with AUGUSTUS spol. s r.o. (“AUGUSTUS”) company in favor of the Company. The Company now concentrates on reclaiming unjust enrichment from the AUGUSTUS. Originally AUGUSTUS had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK

183 million with interest. AUGUSTUS claimed that the Company had illegally terminated the contract for the issue and distribution of phone cards signed for an indefinite period of time. Based on the decision of the High Court in Prague, in August 2006, the Company paid a sum of CZK 83 million plus relevant interest (total of CZK 139 million). Later on, there could be seen a positive turn in the proceedings in favour of the Company when the Supreme Court based on the Company's appeal cancelled the previous verdicts in June 2009. The Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed this dismissal in August 2011. In reaction to this, the Company filed a lawsuit against AUGUSTUS to return the amount of CZK 139 million. The Municipal Court in Prague granted the claim in September 2011. AUGUSTUS filed an appeal but wasn´t successful. Meanwhile it turned out that at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company is taking all legal steps to secure the property. High court in Prague confirmed the bankruptcy of AUGUSTUS in May 2013. The Company is the major creditor with the highest filed and confirmed claim.

The Municipal court in Prague issued the decision on partial distribution of the assets of AUGUSTUS on 13 October 2015, which was confirmed by the High court in Prague. Partial payment of CZK 32 million was distributed to the Company. According to available information from the administrator this amount shall be practically final.

Therefore the Company filed a legal action against the state for the recovery of damage to compensate the rest. But this dispute is the proceedings where the Company is the plaintiff and it does not represent any possible risk for the Company. The Company is still active in all steps to fully recover the damage.

Meanwhile during 2016, the Constitutional court rejected the constitutional complaint of AUGUSTUS, which was the last attempt to reverse the final verdict in the dispute lasting since 1996, where the Company was ultimately successful.

Regarding to major contingencies of the Company are the disputes completed and will not be further reported.

III. CNS a.s. – dispute on CZK 19.8 milion

In 2009, the employees of CNS a.s. ("CNS"), dealing with the development and updates of IT applications and the employees of the Company and Telefónica O2 Business Solutions, spol. s r.o. were having negotiations over the potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project was never materialised. CNS filed in August 2010 a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million for not signing any contract. The Company regards this claim as fabricated and the amount evidently exaggerated which can be demonstrated by the fact that in accordance with the annual profit and loss statement 2009, CNS generated a yearly profit of less than CZK 5.5 million. Municipal court in Prague fully dismissed the legal action in December 2012. CNS filed an appeal but only in extent of CZK 19.8 million. High court in Prague later confirmed that there wasn´t any contract concluded between CNS and the Company and therefore there is no claim of CNS from the contractual relationship. High court only ordered to Municipal court in Prague to decide on possible claims of CNS arising from the precontractual liability, however the court file does not contain any evidence regarding such claims. Just before the last oral hearing CNS announced to the court in October 2014 that it allegedly transferred all their "claims" to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement.

The Company had filed complaints, which were successful and the court did not allow entry of this speculative subject to the proceedings. This decision was later confirmed even by the Supreme court, which agreed with the argument that this represent only attempt of CNS to avoid payment of the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – dispute on CZK 4 billion

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The court has already started the proceedings in the matter and further oral hearings took place during the year 2013, including the hearings of witnesses and experts. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court.

Next hearing took place on 30 March 2016, where the court considered again the option of the revision expert nomination, who would review the opinion filed by VOLNÝ and by the Company as well. VOLNÝ proposed the expert which eventually turned out to be biased, because of the merit, thus the Company filed the protest. Subsequently the court appointed other expert and defined the set of questions. The outcome of expert's review is not known yet.

V. ČESKÉ RADIOKOMUNIKACE – dispute on CZK 3.1 billion

The legal action for CZK 3.1 billion filed by company ČESKÉ RADIOKOMUNIKACE a.s. ("ČRa") was delivered to the Company in October 2012. The plaintiff states that the Company allegedly caused the damage by abusing of dominant position on "xDSL market", which supposedly impact ČRa´s ability to reach "equitable position on retail xDSL market". The claimed sum is calculated as a difference between hypothetical price of the part of the business and the real price for which the part of the business was actually sold to T-Mobile Czech Republic, a.s. back in 2009. The Company considers the legal action as purely artificial claim and this was also communicated to the court in the statement. On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. ČRa filed an extraordinary appeal but it was declined by the Supreme court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, where all documentary evidence was proceeded.

The decision which fully dismissed the legal action against the Company was issued on the oral hearing held on 22 April 2016. The main reason was that the plaintiff did not provide the court with relevant facts and evidence. The legal action was based on arguments that by alleged margin squeeze in relation to services based on xDSL technology, which should cause the damage to Ceske Radiokomunikace. But none of this was proved, not even the damage nor any illegal action of the Company was confirmed. The decision is final, the proceedings is closed and will not be further reported.

VI. TELECONSULT INTERNATIONAL - dispute on CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. The court issued the decision on the hearing held on 14 January 2016, where the vast majority of the claim was dismissed and the Company shall receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was granted only by the amount CZK 1.7 million, which represents the difference between the volume of the minutes measured by both parties in May 1998. The Company filed the appeal against this part of the decision. The High court in Prague ordered the oral hearing on 22 February 2017.

VII. Vodafone Czech Republic a.s. – dispute on CZK 384.7 million

The legal action of Vodafone Czech Republic a.s. claiming CZK 384,691,000 was delivered to the Company on 2 April 2015. The legal action is grounded on alleged breach of the rules of the competition related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after only two page notice claiming this amount was delivered to the Company. According to the Company the whole claim is purely artificial case, which sole purpose was to damage the Company by the medialization. Vodafone Czech Republic a.s. claims that hasn´t reached 200 000 customers of xDSL internet services and therefore has lost the profit. The Company provided the court with its statement pointing out of the groundless of the claim. The oral hearing hasn´t took place yet.

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

The Company registers two legal actions of shareholders, who claim the declaration of invalidity of the resolution of the general meeting held on 28 April 2015 to the item No. 7 (Discussion over and approval of the spin off the part of the Company with the creation of new company). These legal actions were filed by Ing. Tomáš Hájek and Pinara - Ponava, s.r.o. company. The Company considers these actions as groundless and filed to the court its statement pointing out relevant facts. The oral hearing hasn´t been ordered yet.

IX. The criminal proceeding lead according to the Act No. 418/2011 Coll.

The criminal proceedings has been initiated by the Police of the Czech Republic on 31 August 2015 with the Company as the corporation. The Company was accused of committing crimes which were allegedly committed between 2010 and 2013, in connection with the public tender for metropolitan network and digitization of documents for self-government in city of Přerov. The Company filed the complaint to the Supreme Public Prosecutor´s Office on 7 September 2015. The Supreme Public Prosecutor´s Office cancelled this decision on initiation of criminal proceedings against the Company 11 March 2016 and case was fully returned to the Police in order to deal with the case again. The Supreme Public Prosecutor´s Office pointed out that the initial decision did not proved but no even described, by which particular action could the Company commit alleged crimes.

Police hasn´t issued any further decision and the Company filed the proposal to the Police to adjourn the case against the Company with definitive effect.

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

Although the Constitutional Court of the Slovak Republic already once decided that the jurisdiction of Slovak courts is not given in the matter and proceedings was terminated, the Company discovered yet another attempt to start another lawsuit against the Company with different reasoning.

On 14 March 2016 the proposal of BELL TRADE company was delivered to the County court in Malacky, where BELL TRADE proposed the re-entry of the Company as the defendant into the procedure, which has been led solely between Slovak subjects - BELL TRADE and PET PACK SK s.r.o. on CZK 31 million, after Constitution court´s decision.

BELL TRADE, whose current sole statutory representative, shareholder and also the legal representative is attorney JUDr. Milan Fulec, try to base this new claim and new attempt to establish the jurisdiction of the County court in Malacky on the letter from 8 June 2015, in which he stated that "withdraws from all agreements concluded between the RVI, a.s. and O2" and reserves the right to claim recovery of damages caused by such withdrawal. New claim raised against the Company represents the amount CZK 5.2 billion with interest from 14 March 2016.

The entire claim is again completely artificial. No contracts were ever signed and the company never receive any delivery for which shall anybody claim any payment. BELL TRADE never claimed that it became a contractual party of contracts (which were never concluded). So far BELL TRADE always acted only as a "creditor", thus the holder of (supposedly existing and overdue) claims against the Company. Moreover BELL TRADE always claimed that contracts were allegedly concluded for 10 years period and would have therefore come to an end on 31 December 2013 at latest. But current claim of BELL TRADE is based on withdrawal which was sent year and a half after this date. By this, any damage could not ever occur to BELL TRADE. Such alleged damage could hardly be connected to contractual relations between PET-PACK SK s.r.o. and BELL TRADE and to Slovak courts in any way.

By decision from 16 May 2016 the County court in Malacky rejected the proposal of BELL TRADE to re-entry of the Company as the defendant. BELL TRADE filed the appeal to the Regional court in Bratislava. The decision hasn´t been issued yet.

The Company is involved in other legal disputes where the amount disputed reaches over CZK 5 million. The aggregate value of all these pending disputes totals to CZK 40 million. Possible impact of these disputes is reflected in the financial statements, however, risks 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 of the Company has been appropriately reflected in the financial statements.

21 Commitments

The aggregate future minimum lease payments (the Company as a lessee) and future incomes (the Company as a lessor) originating from non-cancellable operating leases are as following:

	31 December 2016		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	476	1,303	114
Operating leases - lessor	3	1	-

The aggregate future minimum lease payments arising from agreements with the company CETIN:

	31 December 2016		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	215	694	56

	31 December 2015		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	519	1,359	293
Operating leases - lessor	11	4	-

The total minimum lease payments relating to operating leasing of property, plant and equipment recognized as an expense in 2016 were CZK 461 million (2015: CZK 589 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2016 amounted to CZK 237 million (2015: CZK 383 million). The majority of contracted amounts relates to the telecommunication networks and service contracts.

22 Service concession arrangements

The Company performs communication activities as defined in the Act on Electronic Communications based on a notification and a certificate from the Czech Telecommunications Office no. 516 as amended by later changes no. 516/1, 516/2, 516/3, 516/4, 516/5,516/6, 516/7 a 516/8.

The communication activities include (within the territory of the Czech Republic):

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone services,
d) other voice services - service is defined as of public access,
e) leased lines - service is defined as of public access,
f) radio and TV signal broadcasting - service is defined as of public access,
g) data transmission - service is defined as of public access,
h) internet access services - service is defined as of public access,
i) other voice services - service is not defined as of public access,
j) leased lines - service is not defined as of public access,
k) radio and TV signal broadcasting - service is not defined as of public access,
l) data transmission - service is not defined as of public access,
m) internet access services - service is not defined as of public access.

The Company provides mobile services of electronic communications in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 22 October 2024, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignments from the CTO valid until 30 June 2029, in the 2100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

The radio frequency license can be extended by another license based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, the current regulatory and business environment in the Czech Republic, the prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Imposition of obligations related to the provision of the Universal Service

During 2016, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services,

b) access for persons with disability to the public telephone service, which must be equal to access enjoyed by other end users; such special access takes namely the form of specially adapted telecommunication equipment,
c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disability.

Universal Service is reimbursed by the CTO that receives funds from the state budget, which are remitted without delay to the Company's account.

23 Share capital and reserves

	31 December 2016	31 December 2015
Nominal value per ordinary registered share (CZK)	10	10
Number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (CZK)	100	100
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	3,102

On 28 April 2015, the General Meeting approved as part of the separation project of the Company (Note 4) decrease of nominal value of ordinary registered shares and cancellation of the treasury shares. No distribution was paid out to shareholders of the Company as a result of the decision.

CZK 23,887 million related to decrease of nominal value of ordinary shares (excluding treasury shares) was transferred to other capital funds. Remaining decrease of share capital in amount of CZK 472 million relates to nominal value of cancelled treasury shares with the carrying amount of CZK 1,596 million. Difference between nominal value and carrying value of cancelled treasury shares in amount of CZK 1,124 million was settled against share premium.

The legal effect of the decrease of nominal value of registered ordinary shares and the cancellation of treasury shares took place on the date when it was recorded in the Commercial Register, which was on 1 June 2015.

Shareholdings in the Company were as follows:

	31 December 2016	31 December 2015
PPF Telco B.V.	50.00 %	-
PPF Arena 1 B.V.	23.79 %	-
PPF Arena 2 B.V.	-	73.79 %
PPF A3 B.V.	10.27 %	10.27 %
O2 Czech Republic a.s. (treasury shares)	1.56 %	-
Other shareholders	14.38 %	15.94 %

The demerger of parent company PPF Arena 2 B.V. came into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. ceased to exist a new successor companies PPF Telco B.V. and PPF Infrastructure B.V. emerged. All shares of the Company were transferred to PPF Telco B.V. PPF Group owns 100% of PPF Telco B.V.

On 7 December 2016 there were transfer of Company's share representing direct 23.79% share on voting rights from PPF Telco B.V. to PPF Arena 1 B.V.

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing its capital are:

a) to safeguard the Company's ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

In the following periods, the Board of Directors will continue to make in-depth analysis and assessment of the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation and will optimize the capital structure to serve the purpose of achieving these plans.

There are no other specific objectives.

Equity structure as at 31 December 2016 and 2015:

In CZK million	**31 December 2016**	**31 December 2015**
Share capital	3,102	3,102
Treasury shares	(1,152)	-
Share premium	11,894	11,894
Funds and reserves	8	8
Retained earnings from previous years	414	657
Net income for current year	5,394	4,711
Total	**19,660**	**20,372**

The General Meeting approved on 8 December 2015 the ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

As at 31 December 2016 the Company held 4,852,535 treasury shares with the total purchase price of CZK 1,152 million.

Unpaid dividends related to treasury shares in the amount of CZK 18 million (2015: CZK 71 million) were transferred to retained earnings.

24 Related party transactions

Companies PPF Arena 2 B.V., PPF Telco B.V., PPF Arena 1 B.V. and PPF A3 B.V., through which Mr. Petr Kellner controlled the Company in 2016, are part of PPF Group.

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail and biotechnology. PPF's reach spans from Europe to Russia, across Asia and the USA.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are interest-free (excl. financial assets and liabilities used for financing), are unsecured and the settlement is expected to be either in cash or by offsetting. The financial assets balances are tested for the impairment at the balance sheet date.

The following transactions were carried out with related parties:

I. Parent company:

The total amount of dividend paid in 2016 to shareholders from the PPF Group was CZK 4,172 million (2015: CZK 3,417 million). Payables from the dividend to shareholders from the PPF Group was as of 31 December 2016 and 31 December 2015 respectively, fully settled.

II. Company´s subsidiaries:

Balance sheet **In CZK million**	**31 December 2016**	**31 December 2015**
a) Receivables	660	456
b) Short-term loans provided	50	137
c) Payables	426	432
d) Short term intragroup cash-pooling liability (Note 16)	115	710
e) Other short-term intragroup borrowings (Note 16)	-	45

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
a) Sales of services and goods	1,400	1,238
b) Dividend income	1,172	870
c) Purchases of services and goods	689	446
d) Interest income	2	2

As at 31 December 2015 the Company provided a short-term loan of CZK 200 million to Internethome, s.r.o. The loan bears a floating interest based on 1M PRIBOR. The loan conditions are based on the arm´s length principle. On 7 May 2016 the Board of Directors of the Company has approved with the confirmation from the Supervisory Board a voluntary monetary contribution to equity of subsidiary Internethome, s.r.o. in the amount of CZK 200 million. The receivable of the Company from the loan in subsidiary in the amount of CZK 200 million was offset against Company’s liability from approved monetary contribution.

The Company performed the impairment test of its investment and loan in subsidiary Internethome, s.r.o. as of 31 December 2016. The test involves a determination of the recoverable amount as the present value of future cash flows which are expected to be derived from Internethome, s.r.o. operations. Based on the result of the test Company has increased impairment allowance by CZK 22 million (2015: total impairment allowance in the amount of CZK 231 million, of which CZK 72 million against financial investment and CZK 159 million against loan).

As at 31 December 2016 the Company provided a short-term loan of CZK 50 million (2015: CZK 50 million) to O2 TV s.r.o. The loan conditions are based on the arm´s length principle.

There were no other impairment allowances to related party in 2016 or 2015.

The Company acquired on 1 June 2016 FTTx part of the subsidiary Internethome, s.r.o. In accordance with the accounting policies the acquired assets and liabilities are recognized in the financial statements of the Company in its original carrying values. Difference between the total acquisition price of CZK 34 million determined by the valuation report and the net carrying value of acquired assets and liabilities in amount of CZK 26 million as at the acquisition date is recognised directly in equity within retained earnings.

The Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF Group on 29 May 2015. All transactions since June 2015 with O2 IT Services s.r.o. are reported in transactions with related parties – Company’s subsidiaries above. Transactions made before June 2015 are reported in transactions with Other related parties – PPF Group below.

In 2016, the Company acquired fixed assets from subsidiary Internethome, s.r.o. in the amount of CZK 28 million (2015: CZK 106 million) and in the amount of CZK 46 million (2015: CZK 15 million) from subsidiary O2 IT Services s.r.o.

III. Associates and Joint ventures:

Balance sheet **In CZK million**	**31 December 2016**	**31 December 2015**
a) Receivables	51	49
b) Payables	52	86

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
a) Sales of services and goods	159	153
b) Dividend income	11	4
c) Purchases of services and goods	69	67

IV. Other related parties – PPF Group:

Balance sheet **In CZK million**	**31 December 2016**	**31 December 2015**
a) Receivables	58	161
b) Payables	967	1,043
c) Financial derivative instruments	-	(1)
d) Cash equivalents (Note 14)	1,936	767

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
a) Sales of services and goods	313	210
b) Purchases of services and goods	10,396	6,299
c) Management fees	-	35
d) Gain on fair value adjustments of financial instruments (net)	(2)	(1)
e) Interest income	-	4

For the period January – May 2015, the separated part of CETIN (more information in Note 4) was under control of the Company. Sales and purchase with CETIN in comparative period shown above therefore include only transactions for the period of June - December 2015. All significant contracts concluded with CETIN are described in Note 4.

Capital expenditures in 2016 were realized only with CETIN. The Company sold assets in the amount of CZK 7 million to CETIN (2015: CZK 112 million) and bought assets in the amount of CZK 0 million from CETIN (2015: CZK 95 million).

V. Remuneration and loans to members of the Board of Directors and Supervisory Board and executive management

Members of the Board of Directors, the Supervisory Board and executive management of the Company were provided with benefits from the Company as follows:

In CZK million	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Board of Directors	38	30
Supervisory Board	1	1
Executive management	52	35
Total	91	66

No loans were provided to members of the Board of Directors and Supervisory Board and executive management in 2016 and 2015.

25 Subsidiaries, associates and joint ventures

Investments in subsidiaries and securities can be split in following:

In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Subsidiaries	6,691	6,459
Associates	9	9
Joint ventures	6	6
Investments in total	6,706	6,474

These financial statements are prepared on stand-alone basis and there was no consolidation of subsidiaries, associates and joint ventures performed. Equity investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

As at 31 December 2016

	Subsidiaries	Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
2.	Internethome, s.r.o.	100%	272*	Czech Republic	Provision of WiFi internet access
3.	O2 Family, s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
4.	O2 TV s.r.o.	100 %	1	Czech Republic	Digital television
5.	O2 IT Services s.r.o.	100 %	242	Czech Republic	Information technology services
6.	Bolt Start Up Development a.s.	100 %	102	Czech Republic	Startup fund
7.	eKasa s.r.o.	100 %	10	Czech Republic	Electronic sales reporting ("EET") solution provider
8.	O2 Financial Services s.r.o.	100 %	-	Czech Republic	Financial Services intermediary
	Associates				
9.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
10.	AUGUSTUS, spol. s r.o.	40%	-	Czech Republic	Auction sales and advisory services

Joint ventures					
11.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

* The Company recognized provision for impairment of CZK 252 million for investment in Internethome, s.r.o.

On 8 December 2015, the Company's General Meeting has approved a non-monetary contribution of Professional Services Division into O2 IT Services s.r.o. As at 1 January 2016, the effective date of the non-monetary contribution, the carrying value of Professional Services Division was of CZK 153 million including cash in amount of CZK 30 million.

In 2016 the Company incorporated new subsidiary eKasa s.r.o. (with share capital of CZK 100,000) providing solutions for Electronic sales reporting ("EET") and subsidiary O2 Financial Services s.r.o. (with share capital of CZK 200,000) which was not active in 2016.

On 7 March 2016 the Company provided a voluntary monetary contribution to equity of subsidiary Internethome, s.r.o. in the amount of CZK 200 million (see Note 24).

On 13 July 2016 the Company provided a voluntary monetary contribution to equity of subsidiary Bolt Start Up Development a.s. in the amount of CZK 50 million.

Company O2 Business Services, a.s., a 100% subsidiary of O2 Slovakia, s.r.o., took over in 2016 all business activities of the branch O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s. that was subsequently on 25 July 2016 closed down.

As at 31 December 2015

	Subsidiaries	Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
2.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access
3.	O2 Family, s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
4.	O2 TV s.r.o.	100%	1	Czech Republic	Digital television
5.	O2 IT Services s.r.o.	100%	90	Czech Republic	Information technology services
6.	Bolt Start Up Development a.s.	100%	52	Czech Republic	Startup fund
	Associates				
7.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
8.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services
	Joint ventures				
9.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

* The Company recognised as at 31 December 2015 provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

26 Post balance sheet events

Company's share transfers

On 10 January 2017 there was a transfer of Company's share representing direct 23.79% share on voting rights from PPF Arena 1 B.V. to PPF Telco B.V.

On 7 February 2017, PPF Telco B.V., a member of PPF Group, released a statement that it had sold 9.3 million shares in the Company, representing 3.0% of the share capital.

Drawdown of long-term loan facility

The Company drawdown on 24 January 2017 a long-term loan facility in the amount of CZK 1 billion in accordance with the concluded term facility agreement (Note 16). By the date of approval and issue of the financial statements for the year ended 31 December 2016 the Company have utilized in total CZK 8 billion from the long-term facility agreement.

These events have no impact on the financial statements for the year ended 31 December 2016.

Other

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2016.

13 February 2017

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

Declaration of persons **responsible** for the Annual Report

Declaration of persons **responsible** for the Annual Report

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

and

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

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

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

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

In Prague on 13 February 2017

Report on **Relations**

Report on **Relations**

between the controlling person and the controlled person, and between the controlled person and persons controlled by the same controlling person for the accounting period of 2016

The Company: O2 Czech Republic a.s., with its registered seat at Prague 4 – Michle, Za Brumlovkou 266/2, Postal code 140 22, Identification No.: 601 93 336, registered in the Commercial Register maintained by the Municipal Court in Prague under File No. B 2322 (the Company or O2 CZ or also as O2 Czech Republic) is obliged to elaborate so-called report on relations between the controlling person and the Company, and between the Company and other persons controlled by the same controlling person for the accounting period of 2016 (1 January 2016–31 December 2016) pursuant to Sec 82 et seq. of the Business Corporations Act (Report on Relations).

1. Controlling person

Controlling person: Ing. Petr Kellner
Born on: 20 May 1964
Residence: Vrané nad Vltavou, Březovská 509, Praha-západ, Postal code 252 45

In the period from 1 January 2016 till 31 December 2016, Mr Petr Kellner indirectly controlled an 84.06% share in the voting rights of the Company. In this period, he was the controlling person of the Company through the following companies:

PPF Arena 2 B.V.

- with effect on23 January 2016, this company was demerged into two successor companies and, as a result of the demerger, the company terminated.

PPF Telco B.V.

- as a consequence of PPF Arena 2 B.V. demerger, the company was formed as a successor company
- this company became the owner of all shares in O2 CZ originally owned by PPF Arena 2 B.V.

PPF A3 B.V.

PPF Arena 1 B.V.

- on 7 December 2016, a part of the shares in O2 CZ has been transferred to this company from PPF Telco B.V.

These companies, through which Petr Kellner was the controlling person of O2 CZ in 2016, are members of the PPF Group.

2. Structure of relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person

PPF Group controlled by Petr Kellner is an international investment group. It operates in Europe, Asia and North America. The PPF Group controls sector-diversified companies, which are active especially in the markets of consumer financing (Home Credit Group), banking (PPF banka, Air Bank), insurance (PPF Life Insurance), biotechnology (SOTIO), real estate (PPF Real Estate Holding) or telecommunications (Česká telekomunikační infrastruktura a.s. and an investment in O2 Czech Republic).

PPF Group has its corporate ownership and controlling structure located in the Netherlands: PPF Group N.V. with its registered seat in Amsterdam is the key holding company of the PPF Group.

In each business area where the PPF Group is active (banking, financial services, real estate, telecommunications, biotechnology, agriculture, etc.), specific sub holding structures are typically established addressing the specific matters relating to the business in question and the entities concerned. Special purpose vehicles (SPV) are used within these structures, which reflect the specificities of the entities within the PPF Group.

According to information provided by PPF a.s., an overview of entities controlled directly or indirectly by the same controlling person, Mr. Petr Kellner, was compiled, including additional data on their structure. The overview is attached as Appendix 1 to the Report on Relations.

In relation to the Company, the PPF Group declared on its website (www.ppf.eu) that from the PPF Group (and its controlling persons') perspective the Company is a financial investment, and PPF Group did not interfere with the business management of the Company.

3. Role of the Company and O2 Czech Republic concern

Role of the Company

The Company is in the position of an independent telecommunications operator providing primarily electronic communications services through fixed and mobile networks within the territory of the Czech Republic, and, through a wholly owned subsidiary, also in Slovakia, where it provides electronic communications services through mobile networks. If negotiated, the Company also provides electronic communications services to other persons within the PPF Group.

O2 Czech Republic concern

As of 1 April 2016, the Company (as a managing person) applies a concern management to the majority of its subsidiaries pursuant to the provisions of Sec 79 of the Business Corporations Act. The main reason for this is a single management to ensure long-term advancement of the concern's interests within the single O2 Czech Republic concern policy. The Company manages the concern, with varying degree of intensity, by way of coordination and conceptual management of the concern's businesses.

As of the date of this Report, the following companies were members of the O2 Czech Republic concern: O2 Family, s.r.o., O2 Financial Services s.r.o., O2 IT Services s.r.o. (concern management since 22 December 2015), O2 TV s.r.o., O2 Slovakia, s.r.o., O2 Business Services, a. s. (owned through O2 Slovakia, s.r.o.), Internethome, s.r.o., Bolt Start Up Development a.s. and eKasa s.r.o.

The Company maintains an up-to-date list of companies forming the O2 Czech Republic concern on its website (https://www.o2.cz/spolecnost/en/376775-skupina_o2_cr_a_ostatni_ucasti/).

4. Method and means of control

Petr Kellner controls the Company (pursuant to the Business Corporations Act) through companies listed in point 1 above that own the majority of the Company's shares and, as a result, have the majority in the voting rights. The voting rights are exercised at the Company's General Meetings.

Above the scope of this means of control, PPF Telco B.V. and PPF A3 B.V. (acting in concert) approached the Supervisory Board of the Company with a suggestion to co-opt Ing. Ladislav Bartoníček as a substitute member of the Supervisory Board instead of Ing. Aleš Minx who had resigned from his membership in the Supervisory Board. After due consideration, the Company's Supervisory Board appointed (co-opted) Ing. Bartoníček as a substitute member of the Supervisory Board of the Company till the next General Meeting. The alternative, i.e. that the above mentioned companies would, as the majority (qualified) shareholder, request to convene a General Meeting of the Company for the sole purpose of election of a new Supervisory Board member, where they could (as they jointly held a majority in the Company) have their proposal approved, would have been inefficient from the point of the Company.

The PPF Group (which, in this Report, includes also the person controlling PPF Group, as stated in Appendix 1 to this Report on Relations) does not interfere with the business management of the Company (as also declared by the PPF Group – see the end of point 2 above), and thus PPF Group is not a managing person with respect to the Company pursuant to Section 79 of the Business Corporations Act.

5. Overview of negotiations pursuant to Sec 82(2)(d) of the Business Corporations Act

In the 2016 accounting period, the Company did not pursue any actions on the initiative or in the interest of the controlling person or persons controlled by the same controlling person, which would result in disposal of the Company's assets exceeding 10% of the Company's share capital according to the last financial statements.

6. Overview of agreements

In the 2016 accounting period, the following agreements were in force between the Company on the one hand, and the controlling person or persons controlled by the same controlling person on the other:

AGREEMENTS WITH COMPANIES OF THE PPF GROUP

Agreements with Air Bank a.s.

- Framework agreement on the provision of telecommunication, managed services and other services, description of supply under contract: the Company provides to the contractual partner, electronic communication services, managed services and other related services under contracted terms and conditions.

- Implementing agreement on the provision of WAN services, description of supply under contract: the Company provides to the contractual partner telecommunication services of WAN access and connection under contracted terms and conditions.

- Implementing agreements on the provision of hosting services, description of supply under contract: the Company provides to the contractual partner hosting services including WAN connection and access under contracted terms and conditions.

- Agreement on the provision of Bulk SMS Connector service, description of supply under contract: the Company provides to the contractual partner, a service of bulk text messaging from customer applications to the networks of mobile and fixed access operators, including foreign networks, and provides also the functionality for managing SMS messages.

Agreements with Bestsport, a.s. (formerly Bestsport Arena, a.s.)

- Agreement on the provision of public electronic communication services, description of supply under contract: the Company provides to the contractual partner voice and data services under contracted terms and conditions.

- Agreement to use the arena name and other cooperation, description of supply under contract: the agreement is to grant a right to the Company to name the arena and use it for its commercial and marketing purposes as the general and titular partner of the arena, and for the promotion of the brand, logo, products and services of the Company on the outside and inside of the arena, and ticket sales for events in the arena.

- Agreement on cooperation, description of supply under contract: cooperation as part of the O_2 Extra výhody programme for O2 CZ customers.

- Lease agreement, description of supply under contract: lease of advertising space from Bestsport, a.s.

- Agreement for the use of VIP Skybox, description of supply under contract: the Company can use the VIP Skybox at the Generali Arena football stadium under the contracted terms and conditions.

- Agreement to provide documentation, protect information and prevent its misuse, description of supply under contract: terms and conditions under which documentation is provided to O2 CZ, including an undertaking to protect protected information in this documentation.

- Subscriber agreement on the provision of public service of electronic communications and a framework agreement on the terms and conditions of the provision of services of electronic communications, description of supply under contract: provision of services of electronic communications.

Agreements with Česká telekomunikační infrastruktura a.s. (CETIN)

- Mobile Network Services Agreement, description of supply under contract: mobile network services agreement for CETIN to grant to O2 CZ access to Radio Access Network and the functionality of this mobile network, and the undertaking of CETIN to operate and maintain the 2G, 3G, LTE and CDMA networks, consolidate 2G and 3G networks and roll out the LTE network.

- Non-Disclosure Agreement; description of supply under contract: application of the confidentiality rules to the contents of the Mobile Network Services Agreement between CETIN and the Company in the course of cooperation with T- Mobile Czech Republic a.s.

- Termination point access agreement: description of supply under contract: data services according to the new reference offer with termination in regional capitals.

- Agreement on access to the public fixed telecommunications network; description of supply under contract: agreement based on a reference offer, for access to the network in the terminal point, access to the public telephone services and fixed broadband access in the network of CETIN.

- Agreement on the interconnection of the fixed communications network of CETIN and the public mobile communications network of O2 CZ, description of supply under contract: provision of electronic communication services and activities to subscribers connected to third party networks and other users, interconnection and maintenance of interconnected infrastructure of the partners' public telecommunications networks.

- Service Agreement, description of supply under contract: entering into discount agreements with roaming partners on behalf of O2 CZ.

- Agreement on the provision of services of data centres, description of supply under contract: data centre capacity leases in CETIN data centres.

- Co-location agreements for specific locations, description of supply under contract: granting of co-location space and services of physical co-location in specific locations.

- Agreement on the provision of Carrier-type services, description of supply under contract: wholesale Carrier data services ;

- Agreement on the provision of billing for wholesale services, description of supply under contract: billing for wholesale services of O2 CZ.

- Lease agreements, description of supply under contract: lease or sub-lease of office space in the ownership of CETIN.

- Agreements on the supply of support services by CETIN to O2 CZ and by O2 CZ to CETIN, description of supply under contract: temporary provision of support services on mutual basis.

- Agreement on termination of international voice traffic, description of supply under contract: transit of international voice traffic originated in the mobile and fixed access network of O2 CZ, including traffic originated in the network of O2 Slovakia.

- Agreement on the lease of optical fibres, description of supply under contract: optical fibre lease.

- Agreement on the provision of technology housing services, description of supply under contract: lease of space in CETIN technology centres to house O2 CZ technology O2 CZ.

- Purchase agreement, description of supply under contract: the sale of movable assets to CETIN.

- Services Agreement on Signalling and GRX / IPX, description of supply under contract: CETIN provides SCCP and diameter signalling, GRX/S8 payload mobile data exchange.

- Framework agreement on the terms and conditions of service of mobile electronic communications, description of supply under contract: the Company supplies to the contractual partner, and other entities, electronic communication services in mobile telecommunications networks and supplies mobile phones and accessories under contracted terms and conditions.

- Agreement on the terms and conditions of supply of Microsoft products; description of supply under contract: the agreement provides for a transfer of Microsoft licences, which O2 CZ acquired prior to 31 May 2015, to CETIN.

- Agreement to enter a future agreement of cooperation, description of supply under contract: cooperation on a public contract for the operation of a WAN network for the Czech Ministry of Foreign Affairs (2016–2020) awarded by the Ministry of Foreign Affairs.

- Assignment of Agreements (another party to the agreement: Polystar OSIX AB); description of supply under contract: assignment of rights and obligations under contracts with Polystar OSIX AB tot CETIN.

- Novation agreement (another party to the agreement: Independent Technology Systems Limited), description of supply under contract: assurance among the parties of the transfer of Licence Agreements with Independent Technology Systems Limited from O2 CZ to CETIN as a consequence of the separation of the Company.

- Agreement for the assignment of rights and obligations under a licence agreement, description of supply under contract: Assignment for consideration of some unused licences to CETIN.

- Agreement on the provision of archiving services, principles of a possible separation of the archive and related cooperation, description of supply under contract: archiving and retrieving of archive documents belonging to CETIN which are stored in the O2 Czech Republic central archive according to the separation project or relating to the common corporate history of both companies.

Agreements with Home Credit a.s.

- Agreement on cooperation in financing purchases of merchandise from O2, description of supply under contract: the agreement regulates the provision of interest-free loans to natural persons who have a contract with O2 CZ for the provision of services of electronic communications, for the purchase of mobile hardware from O2 CZ or its franchisees, as well as the cooperation in the marketing and selling of the loan products.

- Agreement on cooperation in the provision Extra karta, description of supply under contract: rules for the design, promotion and sale of Extra karta, a joint product of the two contractual partners.

- Cooperation agreements, description of supply under contract: provision of information by O2 CZ to Home Credit a.s. subject to the customer's consent and in connection with the analysis of the creditworthiness of applicants for Home Credit a.s. loans.

Agreements with Home Credit International, a.s.

- Agreement on the supply of public electronic communication services, description of supply under contract: the Company supplies to the contractual partner, voice and data services under contracted terms and conditions.

Agreements with PPF a.s.

- Framework agreement on terms and conditions of the provision of mobile services of electronic communications, description of supply under contract: the Company provides to the contractual partner and other companies in the PPF Group, services of electronic communications in mobile networks and supplies mobile hardware and accessories under contracted terms and conditions.

- Agreement to provide a voice solution, description of supply under contract: the Company provides to the contractual partner and other entities services of electronic communications in fixed access networks under contracted terms and conditions.

- Agreement on the compensation of the costs of the Christmas party, description of supply under contract: compensation of costs of the Christmas party.

- Purchase agreements, description of supply under contract: sale of mobile and related hardware to O2 CZ.

Agreements with PPF banka a.s.

- Framework agreement on payment and bank services, description of supply under contract: the agreement sets up a credit limit and opens bank accounts in CZK, EUR and USD for the Company.

- Framework agreement on trading on the financial market, description of supply under contract: trading transactions to hedge against financial risks.

Agreements with Public Picture & Marketing a.s.

- Framework agreement on the provision of event management services, description of supply under contract: the contractual partner provides to the Company the services of event planning and organisation, promotional services for various target groups, in various scope, subject to the needs and brief of the Company: Below the Line services, loyalty programmes, organisation of conferences, training, lectures and one-off events. No supply was provided under contract in 2016.

- Framework agreement on the provision or agency of Travel Desk services, description of supply under contract: the contractual party provides to the Company a package of services which include flight booking, accommodation booking, visa arrangement, car hire booking, reporting. No supply was provided under contract in 2016.

AGREEMENTS WITH SUBSIDIARIES OF O2 CZECH REPUBLIC

Agreements with eKasa, s.r.o.

- Subscriber agreements, description of supply under contract: provision of services of electronic communications to eKasa, s.r.o., its employees and business partners.

- Discount agreement (for the business solution O_2 Profi), description of supply under contract: O2 undertakes to grant to eKasa s.r.o. a discount on specific items in the billing for electronic communications services, depending on the monthly flat rate for the electronic communications services.

Agreements with Internethome, s.r.o.

- Agreement on the provision of support services, description of supply under contract: the supply of support services from O2 CZ to Internethome, s.r.o.

- Credit Facility Agreement, description of supply under contract: an agreement to provide a credit facility to Internethome, s.r.o.

- Customer migration agreement, description of supply under contract: assignment of the right and obligations to O2 CZ, to take over the supply of a broadband internet (DSL) service under contracts to provide electronic communications services with the customers of Internethome, s.r.o.

- Framework agreement on the terms and conditions of provision of electronic communications mobile services, description of supply under contract: provision of electronic communication mobile services.

- Agreement on the sale of a part of a business enterprise, description of supply under contract: sale of a part of a business enterprise of Internethome, s.r.o. designated as FTTx to O2 CZ.

- Agreement on the settlement of mutual obligations and on the assignment of some rights and on the performance of some activities, description of supply under contract: settlement of mutual obligations between Internethome, s.r.o. and O2 CZ from previous periods and organisation of the performance of activities falling outside the scope of the agreement on support services.

- Agreements on assignment of receivables, description of supply under contract: assignment of receivables from Internethome, s.r.o., to O2 CZ.

Agreements with O2 Business Services, a. s.

- Agreement on the sale of a part of a business enterprise specified as an organisational unit O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., description of supply under contract: the sale of a part of a business enterprise specified as on organisational unit O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., to the controlled company O2 Business Services, a.s.

- Agreement on the provision and operation of communication and security services in LAN/WAN networks for the Slovak Statistical Office (O2 CZ and O2 Business Services, a. s., jointly signed the agreement on the supplier side), description of supply under contract: the supply and operation of communication and security services in LAN/WAN networks for the Slovak Statistical Office.

Agreements with O2 Family, s.r.o.

- Agreement on the access to a public mobile electronic communication network, description of supply under contract: O2 CZ provides to O2 Family, s.r.o., the access to a public mobile electronic communication network for the purpose of providing public electronic communications services by the company to its subscribers.

- Credit Facility Agreement, description of supply under contract: agreement to provide a credit facility to O2 Family, s.r.o.
- Subscriber agreement for the provision of public electronic communications services and a framework agreement on the terms and conditions of the provision of public electronic communications services, description of supply under contract: O2 CZ provides, to the contractual partner, electronic communications services in mobile networks, supplies mobile hardware and accessories and other products.
- Data processing agreement, description of supply under contract: agreement laying down the terms and conditions of processing of personal and other data under the Personal Data Protection Act.
- Deposit Agreement, description of supply under contract: cash pooling rules and related terms and conditions.
- Agreement on cooperation in the broadcasting of O_2 Info, description of supply under contract: cooperation between the contractual partners in the broadcasting of O_2 Info which is a support service of O_2 TV.

Agreements with O2 IT Services s.r.o.

- Agreement on the provision of information technology services, description of supply under contract: O2 CZ buys services of IT operations, IT infrastructure support and application support.
- Contracts on future contracts, description of supply under contract: O2 IT Services s.r.o. undertakes to act as subcontractor for selected public contracts of O2 CZ.
- Agreement on cooperation, description of supply under contract: cooperation in the submission of a joint tender and in joint delivery under a public contract "Implementation of a global data network – phase one" of the Ministry of Defence of the Czech Republic.
- Lease agreements, description of supply under contract: lease or sub-lease of commercial space from O2 CZ.
- Non-disclosure and confidentiality agreements, description of supply under contract: rules of non-disclosure and confidentiality of some information in relation to business negotiations between the contractual parties.
- Agreement on the provision of support services, description of supply under contract: provision of selected support services to O2 IT Services s.r.o.
- Data processing agreements, contractual party: O2 IT Services s.r.o., description of supply under contract: terms and conditions for the processing of personal and other information between the parties subject to privacy laws.
- Purchase agreements, description of supply under contract: purchase of movable things.
- Framework loan agreement, description of supply under contract: terms and conditions for loans provided to O2 IT Services s.r.o.
- Agreement on contribution of part of business enterprise, description of supply under contract: the Company, as contributor, transferred (effective on 1 January 2016) a part of the business enterprise to O2 IT Services s.r.o, by way of a non-pecuniary contribution to O2 IT Services s.r.o.
- Sub-supply agreement for the Emergency Number Call Centre, description of supply under contract: sub-supply of O2 CZ services to O2 IT Services s.r.o. in order to perform under the contract to operate the Emergency Number Call Centre with the Ministry of Interior of the Czech Republic.
- Framework agreement on the supply of wholesale data services, description of supply under contract: a mechanism and the terms and conditions for the provision of wholesale data services for O2 IT Services s.r.o. for resale to the customers of O2 IT Services s.r.o.
- Agreement for the access to a public mobile communication network, description of supply under contract: O2 CZ provides to O2 IT Services s.r.o. the access to the public mobile electronic communication network.
- Trade Mark Sub-Licence Agreement, description of supply under contract: agreement to grant a sub-licence

for the use of the O2 brand in connection with the commercial operations of O2 IT Services s.r.o. in the Czech Republic.

- Framework agreement on terms and conditions of the supply of electronic communications services, description of supply under contract: O2 CZ provides to the contractual partner the services of electronic communications for machine-to-machine (M2M) communication.

- Framework agreement on terms and conditions of the supply of electronic communications services, description of supply under contract: O2 CZ provides electronic communications services in mobile networks.

- Technical specifications of services, description of supply under contract: provision of IP connect, hosting or cloud services.

Agreements with O2 Slovakia, s.r.o.

- Framework agreement on cooperation in functional areas, description of supply under contract: provision of support services to O2 Slovakia, s.r.o.

- Agreement on the assignment of rights and obligations, description of supply under contract: the assignment of rights and obligations arising from an individual licence to use spectrum frequencies on the territory of the Slovak Republic from O2 CZ, specifically from its organizational unit O2 Business Services Slovakia, to O2 Slovakia, s.r.o. (taking into account the decision of the Office for the Regulation of Electronic Communications and Postal Services, which lays down the terms and conditions for the use of specific spectrum frequencies).

- Credit Facility Agreement, description of supply under contract: agreement to provide a credit facility to O2 Slovakia, s.r.o. (substituted by the Revolving Credit Facility Agreement).

- Revolving Credit Facility Agreement, description of supply under contract: provision of revolving credit facility to O2 Slovakia, s.r.o.

- Bilateral International Roaming Agreement, description of supply under contract: mutual provision of wholesale roaming services.

- Framework agreement on terms and conditions of supply of mobile electronic communications services, description of supply under contract: provision of mobile electronic communications services to O2 Slovakia, s.r.o.

- iPhone Contract of Adherence to the iPhone Agreement between Apple and O2 Czech Republic (between Apple Distribution International, O2 CZ and O2 Slovakia s.r.o.), description of supply under contract: accession of O2 Slovakia, s.r.o., to the agreement between O2 CZ and Apple Distribution International for the purchase of hardware and the supply of related services.

- Agreement on O&M Fees for the period from 2016 to 2022 between O2 CZ a O2 Slovakia, s.r.o. (on the buyer side) and Huawei Technologies (Czech) s.r.o. and Huawei Technologies (Slovak), s.r.o. (on the supplier side); description of supply under contract: agreement laying down some additional terms and conditions for the provision of Operation and Maintenance Support Services.

- Framework agreement for the supply of telecommunication equipment, description of supply under contract: supply of telecommunication equipment to O2 CZ.

Agreements with O2 TV s.r.o.

- Agreements on the supply of support services, description of supply under contract: supply of support services by O2 CZ to O2 TV s.r.o.

- Agreement to include the programming of O_2 Sport in the service O_2 TV, description of supply under contract: O2 TV s.r.o. grants an exclusive licence to the Company to broadcast O_2 Sport within the territory of the Czech Republic as part of the O_2 TV service; also, the cooperation in the area of media and marketing support of O_2 TV and the use of media space on O_2 Sport.

- Agreement to grant rights, description of supply under contract: O2 CZ grants the rights to broadcast Champions League matches as part of O_2 Sport programming.

- Framework agreement on the terms and conditions of the supply of mobile electronic communications services, description of supply under contract: the supply of mobile electronic communications services and the supply of mobile hardware and accessories and other products.

- Agreement to transfer subscribership to data services, description of supply under contract: installation and supply of data services for O2 TV s.r.o.

- Agreement related to sports event broadcasting, description of supply under contract: cooperation in broadcasting sports events, including the use of live transmission vehicles.

- Framework loan agreement, description of supply under contract: the terms and rules for the provision of loans to O2 TV s.r.o.

AGREEMENTS WITH TESCO MOBILE ČR S.R.O. (JOIN-VENTURE OF O2 CZ AND TESCO STORES ČR A.S.)

- Shareholders' Agreement (between O2 CZ, Tesco Stores ČR a.s. and Tesco Mobile ČR s.r.o.), description of supply under contract: agreement regulating the relationships between the shareholders of Tesco Mobile ČR s.r.o.

- Mobile Services Agreement, description of supply under contract: agreement on rights and obligations of the parties in relation to the access of Tesco Mobile ČR s.r.o. to the mobile transmission network of O2 CZ.

- Framework Loans Agreement, description of supply under contract: the rules and the terms for providing loans to Tesco Mobile ČR s.r.o. Tesco Mobile ČR s.r.o. did not draw any funds under this agreement in 2016.

- Secondment Agreement, description of supply under contract: the terms and conditions of the secondment of O2 CZ personnel to Tesco Mobile ČR s.r.o. pursuant to the provisions of Sec 43a of the Labour Code.

- Agreement on cooperation in selling through online shop, description of supply under contract: cooperation in marketing and sale of goods and SIM cards through online shop.

As far as the controlled person is concerned, the value of the supply under the above agreements was in all cases comparable to the price and quality of third party services on the market, as did the services provided to third parties. Further details of the agreements cannot be disclosed with respect to the need to honour the commitment of confidentiality.

7. Review of any potential loss to the Company and analysis of its settlement pursuant to Sec 71 and Sec 72 of the Business Corporations Act

All actions described in point 6 of this Report were made under standard business terms and conditions; likewise, all supplied or received services under these agreements conformed to standard terms and conditions of business, and the Company incurred no loss as a result of these agreements.

8. Conclusion

The Board of Directors declares that, based on assessment of the role of the Company towards the controlling person and persons controlled by the same controlling person, the Company did not benefit from any special advantages or suffered any disadvantages or risks resulting from the relations between the Company and the person controlling it and/or persons controlled by the same controlling person. The Company incurred no loss that should be settled according to Sec 71 and 72 of the Business Corporations Act.

The Company Board of Directors declares that, in the process of collecting and verifying information for the purpose of this Report, it applied proper effort, and its conclusions have been formulated after careful consideration, and the Board of Directors considers all information presented in this Report on Relations to be correct and complete.

In Prague on 13 February 2017

O2 Czech Republic a.s.

Appendix 1 – List of companies directly or indirectly controlled by the same controlling person

CONTROLLING PERSON: ING. PETR KELLNER

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
AB 1 B.V.	56007043	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 18 October 2016	Air Bank a.s.
AB 2 B.V.	57279667	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 3 B.V.	58435425	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 18 October 2016	Air Bank a.s.
AB 4 B.V.	34186049	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 5 B.V.	34192873	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 18 October 2016	Air Bank a.s.
AB 6 B.V.	58435956	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 18 October 2016	Air Bank a.s.
AB 7 B.V.	57279241	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
Accord Research, s.r.o.	29048974	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.
Air 24 a.s.	5479070	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 14 October 2016	PPF a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Air Bank a.s.	29045371	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Airline Gate 1 s.r.o.	2973081	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
ALCAMORA LIMITED	HE 290 379	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ALMONDSEY LIMITED	HE 291 856	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ALRIK VENTURES LIMITED	HE 318 488	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED
ANTHEMONA LIMITED	HE 289 677	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.
ANTHIAROSE LIMITED	HE 224463	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Areál Ďáblice s.r.o.	3762939	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Nine s.r.o.
Art Office Gallery a.s.	24209627	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
ASTAVEDO LIMITED	HE 316 792	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Autotým, s.r.o.	3040836	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Lab N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
B2S Servisní, a.s. v likvidaci	19013825	Czech Republic	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Bavella B.V.	52522911	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Bestsport Services, a.s. v likvidaci	24215171	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 15 September 2016	ANTHIAROSE LIMITED
Bestsport, a.s.	24214795	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED
BONAK a.s.	5098815	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 19 May 2016	PPF a.s.
Bolt Start Up Development a.s.	4071336	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
BORACORA LIMITED	HE 251 936	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC. FIGERA LIMITED
BOVESTO LIMITED	HE353152	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	From 7 May 2016 until 8 December 2016	FACIPERO INVESTMENTS LIMITED
Boryspil Project Management Ltd.	34999054	Ukraine	Person controlled by the same controlling person through an ownership interest		Pharma Consulting Group Ltd.
Bucca Properties Ltd.	1377468	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		BORACORA LIMITED
Capellalaan (Hoofddorp) B.V.	58391312	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
CAPERTON HOLDINGS LIMITED	HE 173 977	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 27 September 2016	Corvus Services Limited
Celestial Holdings Group Limited	1471389	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
CETIN Finance B.V.	66805589	Netherlands	Person controlled by the same controlling person through an ownership interest		Česká telekomunikační infrastruktura a.s.
CETIN služby s.r.o.	5022983	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 25 April 2016 until 1 September 2016	Česká telekomunikační infrastruktura a.s.
CF Commercial Consulting (Beijing) Limited	78860280-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
CITY TOWER Holding a.s.	2650665	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
CITY TOWER, a.s.	271 03 251	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 27 September 2016	CITY TOWER Holding a.s.
CJSC "Intrust NN"	1065259035896	Russian Federation	Person controlled by the same controlling person through an ownership interest		STINCTUM HOLDINGS LIMITED
CJSC "Investments trust"	1037739865052	Russian Federation	Person controlled by the same controlling person through an ownership interest		Trilogy Park Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
«Closed Joint Stock Insurance Company «Asnova Insurance»”	806000245	Belarus	Person controlled by the same controlling person through an ownership interest		SEPTUS HOLDING LIMITED, TALPA ESTERO LIMITED, RHASKOS FINANCE LIMITED, SYLANDER CAPITAL LIMITED, ENADOCO LIMITED, ASTAVEDO LIMITED
Codar Invest B.V.	27278985	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 30 June 2016	ANTHIAROSE LIMITED
Comcity Office Holding B.V.	64411761	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Corvus Services Limited	1061050	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	Until 29 December 2016	VELTHEMIA LIMITED
Czech Equestrian Team a.s.	019 52 684	Czech Republic	Person controlled by the same controlling person through an ownership interest		SUNDOWN FARMS LIMITED
CZECH TELECOM Austria GmbH	229578s	Austria	Person controlled by the same controlling person through an ownership interest		Česká telekomunikační infrastruktura a.s.
CZECH TELECOM Germany GmbH	HRB 51503	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		Česká telekomunikační infrastruktura a.s.
Česká telekomunikační infrastruktura a.s.	040 84 063	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Infrastructure B.V. PPF A3 B.V.
DADRIN LIMITED	HE 321 173	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
De Reling (Dronten) B.V.	58164235	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
DELIFLEX LIMITED	HE 221 768	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
DOUSAVI LIMITED	HE 331 420	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 12 July 2016	Bavella B.V.
Eastern Properties B.V.	58756566	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
eKasa s.r.o.	050 89 131	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 17 May 2016	O2 Czech Republic a.s.
ELDORADO LICENSING LIMITED	HE 144 889	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 26 April 2016	LLC Eldorado
ELTHYSIA LIMITED	HE 290 356	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ENADOCO LIMITED	HE 316 486	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
ETO LICENSING LIMITED	HE 179 386	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		FACIPERO INVESTMENTS LIMITED
EusebiusBS (Arnhem) B.V.	58169778	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
FACIPERO INVESTMENTS LIMITED	HE 232 483	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Favour Ocean Limited	1065678	Hong Kong	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
FELISTON ENTERPRISES LIMITED	HE 152674	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
FERRYMAT HOLDINGS LIMITED	HE 313289	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
FIGERA LIMITED	HE 251 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Fodina B.V.	59400676	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
GABELLI CONSULTANCY LIMITED	HE 160 589	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
GALIO INVESTMENTS LIMITED	HE 310 260	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
Garco Group B.V.	34245884	Netherlands	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC.
Gen Office Gallery a.s.	24209881	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
German Properties B.V.	61008664	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
GRACESPRING LIMITED	HE 208 337	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Grandview Resources Corp.	1664098	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
Guangdong Home Credit Number Two Consulting Co., Ltd	76732894-1	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
HC Asia N.V.	34253829	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
HC Broker, s.r.o.	29196540	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit a.s.
HC Consumer Finance Philippines, Inc	CS 201301354	Philippine Republic	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
HC Insurance Services s.r.o.	1487779	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
HC Philippines Holding B.V.	35024270	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Hofplein Offices (Rotterdam) B.V.	64398064	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Home Credit a.s.	26978636	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Home Credit Asia Limited	890063	Hong Kong	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Home Credit B.V.	34126597	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Financial Holding B.V.
Home Credit Business Management (Tianjin) Co., Ltd.	67596220-8	People’s Republic of China	Person controlled by the same controlling person through an ownership interest	Until 25 July 2016	Home Credit Asia Limited
Home Credit Consumer Finance Co., Ltd	91120116636067462H	People’s Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Egypt Trade S.A.E.	50614	Egypt	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
HOME CREDIT EUROPE PLC	7744459	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Home Credit India B.V.	52695255	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
HOME CREDIT INDIA FINANCE PRIVATE LIMITED	U65910HR1997PTC047448	Republic of India	Person controlled by the same controlling person through an ownership interest		Home Credit India B.V.
Home Credit Indonesia B.V.	52695557	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Home Credit International a.s.	60192666	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Lab N.V.	52695689	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Home Credit Slovakia, a.s.	36234176	Slovak Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit US Holding, LLC	5467913	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit US, LLC	5482663	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit US Holding
Home Credit Vietnam Finance Company Limited	307672788	Vietnam	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
HOPAR LIMITED	HE 188 923	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
Horse Arena s.r.o.	044 79 823	Czech Republic	Person controlled by the same controlling person through an ownership interest		SUNDOWN FARMS LIMITED
Chelton Properties Limited	1441835	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
iCORD International s.r.o.	27405354	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 2 September 2016	Bolt Start Up Development a.s.
Internethome, s.r.o.	24161357	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
JARVAN HOLDINGS LIMITED	HE 310 140	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
JH Media Services Plus s.r.o.	4002423	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bestsport, a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Johan H (Amsterdam) B.V.	58163239	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Joint Stock Company "Gorod Molodogo Pokolenija"	1027700473756	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
Joint Stoct Company "Sibzavod Centre"	1035501017221	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Trust - Invest
JONSA LIMITED	HE 275 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited FIGERA LIMITED
JSC Yugo - Vostochnaya promyshlennaya companiya "KARTONTARA"	1037700008895	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
JSC HC Kazakhstan	70-700-1910-AO	Kazakhstan	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
KARMION HOLDINGS LIMITED	HE 312 004	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Karperstraat (Amsterdam) B.V.	58163883	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Kateřinská Office Building s.r.o.	3495663	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o.
Langen Property B.V.	61012777	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
LINDUS Real s.r.o.	29139309	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LINDUS SERVICES LIMITED	HE 281 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
LLC Alfa South	1077760158618	Russian Federation	Person controlled by the same controlling person through an ownership interest		GRACESPRING LIMITED
LLC Alians R	1086627000635	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED
LLC Almondsey	1127747228190	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC Bonus Center Operations	1127746491861	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
LLC BRAMA	1107746950431	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Bryanskii Torgovij Centr-Invest	1063250034385	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 17 October 2016	JARVAN HOLDINGS LIMITED
LLC Collect Credit	36726094	Ukraine	Person controlled by the same controlling person through an ownership interest	Until 22 June 2016	Home Credit B.V.
LLC Comcity Kotelnaya	5157746112959	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 8 February 2016	Comcity Office Holding B.V.
LLC Delta Com	1137746330358	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC El Logistic	1020201302472	Russian Federation	Person controlled by the same controlling person through an ownership interest		TAPADEO LIMITED
LLC Eldomarket	1045002950354	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	LLC Eldorado BOVESTO LIMITED
LLC Eldorado	5077746354450	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	BOVESTO LIMITED
LLC Ellin	1021601767395	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	LLC Invest Realty
LLC ERKO	1044702180863	Russian Federation	Person controlled by the same controlling person through an ownership interest		Joint Stock Company "Gorod Molodogo Pokolenija"
LLC Fantom	1053001163302	Russian Federation	Person controlled by the same controlling person through an ownership interest		FAYDE INVESTMENTS LIMITED
LLC Financial Innovations	1047796566223	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V. Home Credit International a.s.
LLC Home Credit Insurance	1027739236018	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
LLC Home Credit Online	1157746587943	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit Lab N.V.
LLC HOMER SOFTWARE HOUSE	35364346	Ukraine	Person controlled by the same controlling person through an ownership interest		REDLIONE LIMITED Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Charlie Com	1137746330336	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Almondsey
LLC ICC Klokovo	1127746186501	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Rutar Invest
LLC In Vino	1052309138628	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Alfa South
LLC IN VINO - ANAPA - 2	1072301000200	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 20 July 2016	LLC IN VINO HOLDING
LLC IN VINO HOLDING	7734565173	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 20 July 2016	UNDERTREA HOLDINGS LIMITED
LLC In Vino Natukhaevskoe	1052309081880	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 20 July 2016	LLC IN VINO HOLDING
LLC Invest Realty	1057746212666	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	LLC Eldorado BOVESTO LIMITED
LLC K-Development	1077760004629	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC KEPS	1127746190604	Russian Federation	Person controlled by the same controlling person through an ownership interest		GALIO INVESTMENTS LIMITED
LLC Kvartal Togliatti	1056320172567	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
LLC LB Orel	1135749000793	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC EASTERN PROPERTIES RUSSIA LLC LB Voronezh

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC LB Voronezh	1133668033872	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC EASTERN PROPERTIES RUSSIA LLC LB Orel
LLC Logistics - A	1115048002156	Russian Federation	Person controlled by the same controlling person through an ownership interest		ELTHYSIA LIMITED FIGERA LIMITED
LLC Logistika - Rostov	1167746090236	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 26 January 2016	FERRYMAT HOLDINGS LIMITED
LLC Logistika - Ufa	1150280069477	Russian Federation	Person controlled by the same controlling person through an ownership interest		TAPADEO LIMITED
LLC MCC Kupi ne kopi	1027700280640	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
LLC Mitino Sport City	1107746473383	Russian Federation	Person controlled by the same controlling person through an ownership interest		MICROLIGHT TRADING LIMITED
LLC My Gym	5157746112915	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 9 February 2016	Comcity Office Holding B.V.
LLC Oil Investments	1167746861677	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 28 September 2016	Paleos Industries B.V.
LLC PPF Life Insurance	1027739031099	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
LLC PPF Real Estate Russia	1057749557568	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
LLC RAV Agro	1073667022879	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V. Grandview Resources Corp.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC RAV Agro Orel	1115741001496	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC RAV Agro Penza	1115802001765	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 26 March 2016	LLC RAV Agro
LLC RAV Agro Pro	1033600135557	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro LLC RAV Molokoprodukt
LLC RAV Molokoprodukt	1083627001567	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro Bavella B.V. Grandview Resources Corp.
LLC RAV Myasoproduct - Orel	1135749001684	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Molokoprodukt –
LLC RAV Niva	1023601232522	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC RAV Niva Orel	1113668051090	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC Razvitie	1155009002609	Russian Federation	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
LLC Regional Real Estate	1137746217950	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF REAL ESTATE LIMITED
LLC Rentol	1027700403500	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	LLC Eldorado BOVESTO LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LC ROKO	5107746049329	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED
LLC ROST Agro	1103601000030	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC Rutar Invest	1137746325640	Russian Federation	Person controlled by the same controlling person through an ownership interest		STEPHOLD LIMITED
LLC Skladi 104	5009049271	Russian Federation	Person controlled by the same controlling person through an ownership interest		GABELLI CONSULANCY LIMITED
LLC Skolkovo Gate	1137746214979	Russian Federation	Person controlled by the same controlling person through an ownership interest		Trigon II B.V.
LLC Sotio	1117746901502	Russian Federation	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Sotio	EIN 35-2424961	United States of America	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Spectrum	1097746356806	Russian Federation	Person controlled by the same controlling person through an ownership interest		NIDALEE HOLDING LIMITED
LLC Strata	7702765300	Russian Federation	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
LLC Stroyinvest	1056320172611	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 5 August 2016	LLC Kvartal Togliatti
LLC TGK - Trilogy	1155027001030	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC PPF Real Estate Russia

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC TK Donskoe	1056102003715	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Trust - Invest
LLC Torgovij complex Lipetskiy	1074823001593	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Tower	1117746550020	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
LLC Trade center “Permskiy”	1087746243694	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 8 December 2016	LLC Eldorado BOVESTO LIMITED
LLC Trilogy Services	1155027007398	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 24 November 2016	Trilogy Park Holding B.V.
LLC Trust - Invest	1057746391306	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Uhrozhay	1063627011910	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Yug
LLC Yug	1083627001567	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC LB Voronezh
LvZH (Rijswijk) B.V.	58163999	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Mapleridge Development Limited	1668985	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	Until 22 December 2016	ANTHIAROSE LIMITED
Maraflex s.r.o.	2415852	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
MICROLIGHT TRADING LIMITED	HE 224 515	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Millennium Tower (Rotterdam) B.V.	56261330	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
MINIFLEX LIMITED	HE 221 915	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Misterine s.r.o.	5249899	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 22 September 2016	Bolt Start Up Development a.s.
MOETON a.s.	27864561	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
Monheim Property B.V.	61012521	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
Monchyplein (Den Haag) B.V.	58163603	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Montería, spol. s r.o.	27901998	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
Moranda, a.s.	28171934	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Mystery Services s.r.o.	24768103	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
NACUDU LIMITED	HE 254 166	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 12 July 2016	PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Naneva B.V.	67400639	Netherlands	Person controlled by the same controlling person through an ownership interest	From 2 December 2016	PPF Group N.V.
Net Gate s.r.o.	247 65 651	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
O2 Business Services, a.s.	50087487	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 Czech Republic a.s.	60193336	Czech Republic	Person controlled by the same controlling person through an ownership interest	Details in point 1 of the Report on Relations	PPF Telco B.V. PPF A3 B.V.
O2 Family, s.r.o.	24215554	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 Financial Services s.r.o.	5423716	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 26 September 2016	O2 Czech Republic a.s.
O2 IT Services s.r.o.	2819678	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 Slovakia, s.r.o.	35848863	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 TV s.r.o.	3998380	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
Office Star Eight a.s.	27639177	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Office Star Five, spol. s r.o.	27639185	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 31 May 2016	TENACITY LIMITED
Office Star Nine, spol. s r. o.	27904385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
Office Star Two, spol. s r.o.	27639169	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 31 May 2016	TENACITY LIMITED
OJSC „Non-banking Credit and Financial Organization „Home Credit“	807000056	Belarus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
ORIBASE Pharma SAS	499824670	Francie	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.
PACHATA LIMITED	HE 188 914	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Paleos Industries B.V.	66846919	Netherlands	Person controlled by the same controlling person through an ownership interest	From 19 September 2016	PPF Group N.V.
Pharma Consulting Group Ltd.	34529634	Ukraine	Person controlled by the same controlling person through an ownership interest		HOPAR LIMITED FIGERA LIMITED
Pompenburg (Rotterdam) B.V.	58163506	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
PPF a.s.	25099345	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF A3 B.V.	61684201	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF A4 B.V.	63365391	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Advisory (CR) a.s.	25792385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF ADVISORY (RUSSIA) LIMITED	HE 276 979	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Advisory (UK) Limited	5539859	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF ADVISORY (UKRAINE) LIMITED	HE 162 172	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Arena 1 B.V.	59009187	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Arena 2 B.V.	59029765	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 22 January 2016	PPF Arena 1 B.V.
PPF Art a.s.	63080672	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
PPF banka a.s.	47116129	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Financial Holding B.V.
PPF Beer Bidco B.V.	67332722	Netherlands	Person controlled by the same controlling person through an ownership interest	From 23 November 2016	PPF Beer IM Holdco B.V.
PPF Beer Holdco 1 B.V.	67330495	Netherlands	Person controlled by the same controlling person through an ownership interest	From 23 November 2016	PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Beer Holdco 2 B.V.	67330355	Netherlands	Person controlled by the same controlling person through an ownership interest	From 23 November 2016	PPF Group N.V.
PPF Beer IM Holdco B.V.	67331378	Netherlands	Person controlled by the same controlling person through an ownership interest	From 23 November 2016	PPF Beer Holdco 1 B.V.
PPF Beer Topholdco B.V.	67420427	Netherlands	Person controlled by the same controlling person through an ownership interest	From 6 December 2016	PPF Group N.V.
PPF Capital Partners Fund B.V.	55003982	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF CO 1 B.V.	34275402	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 30 December 2016	PPF Group N.V.
PPF CO 3 B.V.	34360935	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
PPF Financial Holdings B.V.	61880353	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF FO Management B.V.	34186296	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Holdings S.á r.l.
PPF GATE a.s.	27654524	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Group N.V.	33264887	Netherlands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner PPF Holdings B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Healthcare N.V.	34308251	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Holdings B.V	34186294	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Holdings S.á r.l.
PPF Holdings S.á r.l.	B 186335	Luxembourg	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
PPF Infrastructure B.V.	65167899	Netherlands	Person controlled by the same controlling person through an ownership interest	From 22 January 2016	PPF Arena 1 B.V.
PPF Partners 1 GP Limited	49291	Guernsey	Person controlled by the same controlling person through an ownership interest	Until 6 July 2016	PPF Partners Limited
PPF Partners a.s. v likvidaci	28515064	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 9 March 2016	PPF a.s.
PPF Partners Limited	49292	Guernsey	Person controlled by the same controlling person through an ownership interest	Until 6 July 2016	PPF Group N.V.
PPF PROPERTY LIMITED	HE 189 164	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC. FIGERA LIMITED
PPF Real Estate Holding B.V.	34276162	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF REAL ESTATE LIMITED	HE 188 089	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Real Estate s.r.o.	27638987	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. Figera Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF reality a.s.	29030072	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF RUSSIA LIMITED	HE 172467	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 6 July 2016	PPF Group N.V.
PPF SECRETARIAL LIMITED	HE 340 708	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF SERVICES LIMITED
PPF SERVICES LIMITED	HE 92432	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Telco B.V.	65167902	Netherlands	Person controlled by the same controlling person through an ownership interest	From 22 January 2016	PPF Arena 1 B.V.
Prague Entertainment Group B.V.	63600757	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PT Home Credit Indonesia	03.193.870.7-021.000	Republic of Indonesia	Person controlled by the same controlling person through an ownership interest		Home Credit Indonesia B.V.
Public Picture & Marketing a.s.	25667254	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
RAVENSBOURNE LIMITED	HE 188 284	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
RC PROPERTIES S.R.L.	12663031	Romania	Person controlled by the same controlling person through an ownership interest	From 10 October 2016	PPF Real Estate s.r.o.
Real Estate Russia B.V.	63458373	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
REDLIONE LIMITED	HE 178 059	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
REPIENO LIMITED	HE 282 866	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. GLANCUS INVESTMENTS INC.
Retail Star 22, spol. s r.o.	24132161	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
RHASKOS FINANCE LIMITED	HE 316 591	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
RobbyNet s.r.o.	014 08 437	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 30 June 2016	PPF Real Estate Holding B.V.
Ruconfin B.V.	55391176	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
RYAZAN INVESTORS COMPANY LIMITED	HE 180 968	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC.
RYAZAN SHOPPING MALL LIMITED	HE 180 951	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		RYAZAN INVESTORS COMPANY LIMITED
Saint World Limited	1065677	Hong Kong	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
SALEMONTO LIMITED	HE 161 006	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		BORACORA LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
JSC Bank Home Credit	513-1900-AO (UI)	Kazakhstan	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Settembre Holdings Limited	1449898	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	Until 14 July 2016	ANTHIAROSE LIMITED
Seven Assets Holding B.V.	58163050	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Shenzhen Home Credit Financial Services Co., Ltd.	79663852-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Favour Ocean Limited
Shenzhen Home Credit Number One Consulting Co., Ltd.	66417425-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
Sichuan Home Credit Financing Guarantee Co., Ltd.	66046758-9	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
SILINE CONSULTING LIMITED	HE 281 961	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
SILLERUD LIMITED	HE 224 392	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Slovak Trade Company, s.r.o. v likvidácii	36659 061	Slovak Republic	Person controlled by the same controlling person through an ownership interest		SILINE CONSULTING LIMITED
SOTIO a.s.	24662623	Czech Republic	Person controlled by the same controlling person through an ownership interest		Sotio N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Sotio Medical Research (Beijing) Co. Ltd	110000410283022	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
Sotio N.V.	34302290	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Standish Holdings Ltd.	1870560	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	Until 22 December 2016	PPF Real Estate Holding B.V.
STEPHOLD LIMITED	HE 221 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
STINCTUM HOLDINGS LIMITED	HE 177 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
SUNDOWN FARMS LIMITED	HE 310 721	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Vixon Resources Limited Chelton Properties Limited
Sundown s.r.o.	242 60 479	Czech Republic	Person controlled by the same controlling person through an ownership interest		SUNDOWN FARMS LIMITED
SYLANDER CAPITAL LIMITED	HE 316 597	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
TALPA ESTERO LIMITED	HE 316 502	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
TANAINA HOLDINGS LIMITED	HE 318 484	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
TANFORD LIMITED	HE 167 324	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
TAPADEO LIMITED	HE 341 777	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Eastern Properties B.V.
TENACITY LIMITED	HE 180 866	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 31 May 2016	PPF Real Estate Holding B.V. FIGERA LIMITED
Tesco Mobile ČR s.r.o.	29147506	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
Tesco Mobile Slovakia, s.r.o.	36863521	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Slovakia, s.r.o.
TIMEWORTH HOLDINGS LTD.	HE 187 475	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
TOLESTO LIMITED	HE 322 834	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
Trilogy Park Holding B.V.	60006609	Netherlands	Person controlled by the same controlling person through an ownership interest	From 24 November 2016	PPF Real Estate Holding B.V.
Trigon Berlin B.V.	55440916	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Trigon II B.V.	56068948	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
TROMSON ENTERPRISES LIMITED	233665	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
UNDERTREA HOLDINGS LIMITED	HE 221 285	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 20 July 2016	Celestial Holdings Group Limited
UNILEAVE LIMITED	HE 179 204	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
VALMARIE HOLDINGS LIMITED	HE 300 697	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 9 June 2016	Corvus Services Limited
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		REPIENO LIMITED
Vítězné náměstí a.s.	28511441	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 16 March 2016	PPF Real Estate Holding B.V.
Vixon Resources Limited	144 18 84	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner (acting in concert)
Vox Ventures B.V.	65879554	Netherlands	Person controlled by the same controlling person through an ownership interest	From 21 April 2016	PPF Group N.V.
Wilhelminaplein (Rotterdam) B.V.	59494034	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
WOODBERRY LIMITED	HE 181 999	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Zonky s.r.o.	035 70 967	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Lab N.V.