ANNUAL REPORT 2017

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”.

Table of Contents

1 | Foreword by the Chairman of the Board of Directors	5
2 | Financial and operating highlights	8
3 | Calendar of key events	12
4 | Board of Directors' Review of Business	15
5 | Corporate governance	36
6 | Financial part	61
Consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union	61
Financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union	138
7 | Declaration of persons responsible for the Annual Report	205
Independent auditor's report to the shareholders	207
Appendix: 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 2017	220

Foreword by the Chairman of the Board of Directors

1. Foreword by the Chairman of the Board of Directors

To Our Shareholders,
Let me briefly review our key strategic and commercial activities of 2017, and their significance for our operating and financial results.

I am glad that, in the past twelve months, we validated our leadership position of the largest integrated provider of telecommunications services in the Czech market. Last year we brought many new products and services to Czech consumers, the details of which you will find further in this Annual Report. And I am personally satisfied to note that customers have welcomed our new services with interest and that they actively use them. Household without sufficiently fast internet connectivity via xDSL can now take advantage of our unlimited wireless 4G LTE service. With the combination of both of these network technologies, we now reach 99% of all addresses in the Czech Republic. In August we debuted O_2 Smart Box, a new hardware for broadband internet connection and quality home Wi-Fi reception, which at the same time became the most affordable smart home hub on the market. Early in the year we went live with our new sports channel O_2 TV Tennis, which offers exclusive coverage of all women's WTA circuit tournaments and 14 men's ATP tournaments to tennis audiences.

In line with our strategy to be the leader in convergent services to smaller market segments, in May 2017 we became the only market operator to offer a unique tariff; our *O_2 Spolu* (*O_2 Together*) offers families, groups of friends and small businesses a flexible combination of three and more SIM cards with unlimited voice and SMS, mobile data and digital television or HD internet in one package. We raised the data allowance limits of our tariffs. In Slovakia, we debuted a family of innovative high-usage data tariffs under the commercial brand *O_2 Data*. In addition to that, we focus on promoting the sales of LTE-enabled smartphones. As a result of this effort, already more than 60% of our customers in both markets use a smartphone, and almost 40% enjoy the benefits of the LTE technology. In the Czech Republic, customer-generated traffic in our network in 2017 increased 106% year on year.

As the trends in the telecommunications industry evolve very fast, the pressure on the profitability of our conventional services continues, and, from 2017, our financial performance bears the negative impact of the European roaming regulation. As a result we focus also on the development and marketing of other, non-traditional services, including financial services, such as hardware insurance, travel insurance and fiscalization solutions.

In the Czech auction for frequency spectrum of 3,700 MHz, we acquired one 40 MHz spectrum block. At the same time, we successfully renewed the rights to our 450 MHz frequency spectrum by another fifteen years. As a result, we have the most spectrum available for further development of fast wireless internet and 5G service out of all market operators. The extension of our right to use the O_2 brand in both our markets by another three years beyond the present period, i.e. until 27 January 2022, was another event of strategic importance.

We also remain a member of the Telefónica Group's partner programme until the same date.

As concerns capital expenditure in the Czech Republic, investments related to IT transformation and mobile core network remained the key areas. In Slovakia, we forged ahead with our investments in improvements of the quality and coverage of our 2G network, with a view to reduce our dependency on national roaming and improve our future profitability. Thanks to the combination of our proprietary 2G network and the networks of partner operators, at the end of 2017 we had the broadest coverage of this service in Slovakia. We also focused on further roll-out of the 4G LTE network in Slovakia. At the end of the year, this fastest-yet technology was available to more than 90% of all population, which assured our number one position. Furthermore, we commenced the construction of our wireless LTE TDD network operating in the 3,500 MHz and 3,700 MHz spectrum. This network serves primarily as a platform for the distribution of the O_2 TV digital television and home internet. At the end of the year, the network reached customers in almost a half of all municipalities in Slovakia.

As regards financial results, consolidated revenue have remained more or less at the same level for the third consecutive year and reached CZK 37.7 billion. This result was primarily driven by the market demand for our new service proposition, which boosted the revenues from O_2 TV, mobile data and hardware sales. This growth has helped us offset lower revenues from traditional services and the negative effect of the European roaming regulation. Financial services were the fastest growing revenue area, which attests to the success of our market proposition. The consolidated operating expenses increased slightly by 0.4%. The increase in personnel costs due to insourcing and recruitment of new employees, especially in sales, has been compensated by lower commissions, lower external call centre and IT expenditure. The operating profit EBITDA increased slightly to CZK 10.5 billion and the EBITDA margin remained at 27.9% in 2017. We increased our net profit by 6.2% to CZK 5.6 billion.

Total capital expenditure, including the acquisition of the spectrum licences and the extension of the O_2 brand rights, amounted to CZK 4.4 billion. Excluding these items, capital expenditure remained the same year on year, and its ratio to revenues was 8.5%. Payments for these one-off items also affected the volume of free cash flows we generated in 2017. Without them, free cash flows would amount to CZK 5.1 billion. Our net debt to EBITDA remains relatively low, compared to our industry peers, at a factor of 0.61. At the end of 2017, we had drawn a total of CZK 10.5 billion financial debts from the total credit capacity of CZK 16.1 billion.

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

Financial and operating highlights

1 2 3 4 5 6 7

2. Financial and operating highlights

Financial data is based on the Consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

	2017	2016
Financials (in CZKm)		
Revenues [1]	37,709	37,522
EBITDA – Earnings before depreciation and amortization	10,513	10,451
Operating profit	7,158	6,857
Profit before taxes	7,098	6,744
Profit for the period	5,587	5,259
Total assets	34,842	33,306
Property, plant and equipment	5,636	5,075
Total equity	15,475	17,505
Financial debts (long-term and short-term)	10,486	6,977
Capital expenditure (fixed assets additions) [2]	4,405	4,422
Operating indicators (at end of period)		
Fixed voice lines (in thousand)	613	699
xDSL connections – retail (in thousand)	729	769
Pay TV – O_2 TV (IPTV and OTT, in thousand)	237	221
Mobile customers in the Czech Republic (in thousand)	4,938	4,941
– of this contract customers	3,429	3,356
prepaid customers	1,510	1,585
Mobile customers in Slovakia (in thousand)	1,937	1,892
Number of employees in O2 Group (as at year-end)	5,275	4,902
Ratios		
EBITDA margin (EBITDA/Revenues, in %)	27.9	27.9
Profit after taxes /Revenues (in %)	14.8	14.0
Capital expenditure2/Revenues (in %)	11.7	11.7
ROA (Profit after taxes /Total assets, in %)	16.0	15.8
ROE (Profit after taxes /Equity, in %)	36.1	30.0
Gross gearing (Financial debts/Total equity, in %)	67.8	39.9
Net debt (Financial debt less Cash and cash equivalents)/EBITDA	0.61	0.27
Profit [3] per share – consolidated	18.4	17.1
– unconsolidated	17.8	17.5
Macroeconomic indicators [4]		
CZK/EUR exchange rate – average	26.33	27.03
CZK/EUR exchange rate – at end of period	25.54	27.0

1) Excluding revenues from non-telecommunications services
2) 2016: including investments in 1,800 and 2,600 MHz spectrum licences (CZK 1,472m), 2017: including investments in a 3,700 MHz spectrum licence (CZK 203m), renewal of the existing 450 MHz spectrum licence (CZK 210m) and O_2 brand licence extension (CZK 781m)
3) Profit attributable to equity holders of the Company
4) Source: Czech National Bank web page (FX rates of other currencies)

Alternative performance measures

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

Measure	Definition	Purpose	Reconciliation to financial statements (in CZK million)
EBITDA	Earnings before tax, depreciation and amortization	Shows operating performance of the company	See the Consolidated statement of total comprehensive income (EBITDA): 2016: 10,451 2017: 10,513
EBITDA margin	EBITDA/Revenues	Measures operating profitability of the company	see the Consolidated statement of total comprehensive income (Revenues and EBITDA): 2016: 10,451/37,522 = 27.9% 2017: 10,513/37,709 = 27.9%
ROA	Profit for the period/ Total assets	Shows how effectively assets are used for profit generation	see the Consolidated statement of total comprehensive income (Profit for the period) and the Consolidated balance sheet (Total assets): 2016: 5,259/33,306 = 15.8% 2017: 5,587/34,842 = 16.0%
ROE	Profit for the period/ Total equity	A ratio of the reported profit to the capital invested by the shareholders in the company	see the Consolidated statement of total comprehensive income (Profit for the period) and the Consolidated balance sheet (Total equity): 2016: 5,259/17,505 = 30.0% 2017: 5,587/15,475 = 36.1%
Gross gearing	Borrowings/Total equity	Shows the share of borrowings the company uses for its operation to total equity	See the Consolidated balance sheet (Total equity, Long/short-term financial debts): 2016: (6,976+1)/17,505 = 39.9% 2017: (10,448+38)/15,475 = 67.8%
Net debt/ EBITDA	(Borrowings less Cash and cash equivalents)/EBITDA	Expresses the company's ability to pay its debts; roughly reflects the time the company needs to repay all its debts from its standard operating cash flow	See the Consolidated statement of total comprehensive income (EBITDA) and the Consolidated balance sheet (Cash and cash equivalents, Long/short-term financial debts): 2016: (6,976+1-4,137)/10,451 = 0.27 2017: (10,448+38-4,088)/10,513 = 0.61

Capital expenditures/ Revenues	Capital expenditures (Fixed assets additions)/Revenues	Expresses the amount the company invests in its future development	see the Consolidated statement of total comprehensive income (Revenues) and Note 3 "Segment information" of the Notes to the consolidated financial statements (Fixed assets additions): 2016: (4,422)/37,522 = 11.7% 2017: (4,405)/37,709 = 11.7%
Free cash flows	Net free operating cash flow less net free investing cash flow	Measures the volume of cash and cash equivalents which the Company generates after it has paid for all items necessary to continue its operations	See the Consolidated cash flow statements (Net operating cash flow, Net investing cash flow): 2016: 9,192 – 4,501 = 4,691 2017: 8,451 – 4,522 = 3,929

Calendar of key events

1 2 3 4 5 6 7

3. Calendar of key events

January

As part of the process of streamlining of the Company's management and governance, the organisation structure was significantly redesigned with effect from 1 January 2017. Two new divisions, Commercial Division and Operations Division, were established.

BOLT start-up accelerator owned by O2 CZ acquired a 100% share in INTENS Corporation, a provider of transport telematics solutions for corporations. BOLT acquired a minority stake in CROSS NETWORK INTELLIGENCE which designs network infrastructure solutions.

The Company started an LTE (VoLTE) voice service.

February

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

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

March

The Company exercised its rights as the sole member at the General Meeting of O2 Slovakia and approved the distribution of a part of the profit of the company for the year 2016, in the amount of EUR 40.7 million (approximately CZK 1.1 billion) to the sole member O2 CZ.

The Company started operating O_2 TV Free, a new television channel broadcast over the terrestrial multiplex 4. The channel is part free and part paid television, in the form of a Hybrid Broadcast Broadband (HbbTV).

The start-up accelerator BOLT partnered up with IP Fabric, an IP network mapping and analysis service, and acquired a minority stake in the company.

April

The Company successfully finalized the subscription phase of its new financing (Schuldschein) up to the limit of CZK 3.5 billion.

Virtual operators BLESKmobil, OpenCall, Moraviatel and Vinatel operating in the O2 CZ network started offering 4G LTE mobile internet access to their customers.

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

May

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

The Ordinary General Meeting of the Company was held, which approved financial statements of the Company for the year 2016. The supreme governing body of the Company approved the payment of dividends for the year 2016, in the amount of CZK 17 before tax per share, and the distribution of a part of the share premium, in the amount of CZK 4 before tax per share.

June

The Company unveiled innovations in the range of its *FREE* individual tariffs and the *O_2 Spolu* group tariffs. Customers can now enjoy unlimited calls, SMS and renewable data allowances in the European Union member states at the same rates as at home.

August

The Company started selling O_2 Smart Box, the first hardware designed completely in-house, from the first sketch to the final product. O_2 Smart Box combines the fastest modem in the market, a Wi-Fi router and technology for a connected and intelligent home.

September

The Company debuted its new *FREE 10 GB* tariff.

October

The Company increased the speed of its Premium VDSL service, from 80 Mbps to up to 100 Mbps.

The Company unveiled a new Moje menu user interface for its O_2 TV digital television.

November

As the first operator in the market, O2 CZ started selling Xiaomi smartphones and accessories.

The Company became the first to start live-testing a 3,700 MHz service.

December

The Company extended the playback time of its O_2 TV service to seven days.

The Company announced a redesign of all its stores across the country over a period of the next two years.

The Board of Directors decided to proceed with the second share-buyback programme on the regulated market.

Through its start-up accelerator BOLT, the Company sold its share in the multinational transport platform Taxify after its investment it reached the target valuation.

Board of Director's Review of Business

1 2 3 4 5 6 7

4. Board of Director's Review of Business

Factors influencing the business and results in 2017

Regulation

On 2 September 2017, an amendment to the Electronic Communications Act came into force, strengthening the protection of consumers' rights by adjusting the number portability period and the method of automatic renewal of fixed-term contracts. The power of the Czech Telecommunication Office (CTO) has also been strengthened, and the legal framework for transition to Digital Video Broadcasting – Terrestrial, the so-called DVB-T2, has been laid as part of the implementation of the Terrestrial Digital TV Broadcasting Strategy.

O2 CZ continued to meet the obligations imposed on it on the basis of relevant markets analysis and related decisions from previous periods. On 16 December 2016, the decision of the CTO establishing the new maximum wholesale price for the termination of voice calls in the O2 CZ network at CZK 0.248 per minute, excluding VAT, became effective. The new rate applies to pre-existing contractual relationships effective from 1 March 2017 (the original rate was CZK 0.270 per minute exclusive of VAT).

In August 2017, the CTO launched a public consultation on the evaluation of the test of three wholesale market access criteria for mobile services, with a specific focus on mobile data. The test is a prerequisite for future wholesale market regulation. CTO, following the settlement of comments made by representatives of the electronic communications sector, plans to publish a revised version of the three criteria test, with the comments incorporated from the consultation. Even though many comments had been submitted, according to the CTU, all three criteria have been cumulatively fulfilled. On the basis of this, CTO concluded that the wholesale market is suitable for ex-ante regulation, and therefore proposes it to be included in the list of relevant markets. As a next step, pre-notification negotiations between CTO and the European Commission can be expected.

Roaming services and prices in the European Union are regulated until 2022 by Regulation (EU) No 531/2012 of the European Parliament and of the Council. Effective from 15 June 2017, the provision of roaming services at retail and wholesale level has been revised in line with the amendments to the Regulation and the Implementing Regulations.

In 2017, a tender for frequencies in the 3,700 MHz spectrum, which covered five abstract blocks with a bandwidth of 40 MHz, with the reserve price CZK 145m (CZK 29m per block). In the auction part, which ended on 11 July 2017, O2 CZ acquired one block of 40 MHz at a price of CZK 203m. The relevant CTO decision on the allocation of radio frequencies to O2 CZ was granted on 24 November 2017 and is effective until 30 June 2032. Nordic Telecom 5G a.s. won two blocks for the total of CZK 406m, and PODA a.s. and Vodafone Czech Republic a.s. one block each for CZK 203m.

In April 2017, the CTO called a tender for the provision of a partial universal service of public payphones in the period 2018-2020, in which O2 CZ participated. The CTO's decision to impose the obligation to provide this partial universal service was issued in November.
In June, the CTO issued a decision charge O2 CZ with the obligation to provide this a partial universal service of special price plans for people with disabilities O2 CZ for another 3 years.

The Czech telecommunications market

As in 2016, the Czech telecommunications market in 2017 was dominated by innovations in mobile data and television services. For an overview of the main changes in the portfolio of O2 CZ, please see the section Products and services of this Annual Report. In the area of mobile services, Vodafone introduced a new family tariff, with which the customer gets four SIM cards with 42 GB of shared data. In May, *RED* tariffs were replaced with a new tariff family, *Red Naplno*, which offered between 5 and 20 GB of data. Customers could get extra 2 GB with each tariff through the application Můj Vodafone (My Vodafone). In October Vodafone started offering Vodafone Pass data bundles which do not include data usage from some applications into the data allowance.

T-Mobile completely redesigned its portfolio of consumer tariffs. The new tariffs go under the brand *Mobil*, with individual tariffs marked *S*, *M*, *L*, *XL* and *XXL* depending on the data allowance. A year after the launch of IPTV via a set-top box or mobile applications, in February 2017 T-Mobile started offering its IPTV service also online. In November, T-Mobile launched StreamOn, a service which does not count data usage from music and video streaming through selected applications into the data allowance. 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 Group reports the number of active mobile customers while T-Mobile and Vodafone report the number of registered customers. As at 30 September 2017 (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 Group in the Czech Republic recorded 4,917 thousand active customers, while the number of registered customers of T-Mobile and Vodafone was 6,177 thousand and 3,739 thousand, respectively, as of the same date.

In the segment of the Internet of Things (IoT), in May Vodafone debuted eDohled, a service primarily designed for tracking shipments and fleet vehicles. In November, Vodafone announced the completion of its national NB-IoT network for the Internet of Things. In June, T-Mobile went online with TEO, a new website dedicated to IoT. It is oriented primarily on businesses that want to digitize their operations. At the beginning of June, T-Mobile introduced its revamped service Chytré auto od T-Mobile (T-Mobile Smart car), and at the end of the year, it launched a pilot operation of its NB-IoT network.

O2 Czech Republic Group

Overview of the O2 Group and the main changes in 2017

Basic information about the Company and the O2 Group

Corporate name:	O2 Czech Republic a.s.
Registered seat:	Prague 4-Michle, Za Brumlovkou 266/2, postal code 140 22
Corporate ID:	60193336
Tax ID:	CZ60193336
Legal Entity Identifier (LEI)	3157004ICDH3MRKW7534
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 CZ is the largest integrated provider of telecommunications services in the Czech Republic. As part of the O2 Group, it provides mobile and fixed access services to 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 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. Virtual mobile operators, with O_2 Family, BLESKmobil, Tesco Mobile and MOBIL OD ČEZ having the largest customer base, also use the O2 CZ mobile network to distribute their services.

O2 Group comprises the parent company O2 CZ and its subsidiaries; for the full list, please refer to the Note 25 to the Consolidated Financial Statements, which forms an annex to this Annual Report. For full information about the changes in 2017, 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. From the beginning of 2016, O2 Business Services, a wholly owned subsidiary of O2 Slovakia, has been 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	
	2017	2016
Czech Republic	30,961	31,085
Slovakia	7,128	6,787
Consolidation adjustments	(380)	(350)
Consolidated revenues total	**37,709**	**37,522**

During the year 2017, the subsidiary Bolt Start Up Development and its BOLT start-up accelerator continued to look for viable investment opportunities. For detailed information on acquisitions in 2017, please refer to Note 25 to the Consolidated Financial Statements, which forms a part of this Annual Report. At the end of 2017, Bolt Start Up Development sold a stake in the Estonian company Taxify OÜ, which operates a personal transportation platform in Europe, Africa and America, after reaching the target valuation of its investment. The stake in Taxify was sold approximately one and a half years after the investment was made, with more than a nine fold appreciation. Net gain from the sale amounted to CZK 60m.

Total number of O2 Group customers:

(in thousands)	As at 31 December	
	2017	2016
Fixed voice lines	613	699
xDSL lines	729	769
- ADSL	194	269
- VDSL	535	500
O_2 TV (IPTV and OTT)	237	221
Fixed segment – Czech Republic	**1,579**	**1,689**
Contract customers	3,429	3,356
Prepaid customers	1,510	1,585
Mobile segment – Czech Republic	**4,939**	**4,941**
Contract customers	1,141	1,077
Prepaid customers	796	815
Mobile segment - Slovakia	**1,937**	**1,892**
Customers od O2 Group total	**8,456**	**8,522**

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

Throughout 2017, O2 CZ continued to implement its comprehensive transformation program Simple Online Company. A design of the remaining functionality of comprehensive solutions for corporate customers has been completed. At the same time, a data migration project has been completed, to ensure continuity of data from between the old and the new systems. At the end of June, the first comprehensive data migration test for resident customers took place. During the second half of the year, the development of comprehensive business solutions products and data migration for corporate customers were finalized. At the end of 2017, the entire functionality package, including data migration, was in the test phase. With the participation of employees of the Company, training for users and testing of the whole solution was done in parallel, which is a prerequisite for shutting down old and bringing new systems online. Simultaneously with user testing, performance, security tests, and production migration tests will be conducted. New intuitive systems that can be serviced without complex manuals will greatly simplify customer service across sales and service channels. The new systems will also attract lower running and development costs.

Total headcount of the O2 Group by region:

	As at 31 December	
	2017	**2016**
O2 Czech Republic	4,286	3,772
O2 Family	78	75
O2 TV	13	10
O2 IT Services	163	378
Other companies [1]	41	20
Employees in the Czech Republic	**4,581**	**4,255**
O2 Slovakia	658	614
O2 Business Services	36	33
Employees in Slovakia	**694**	**647**
O2 Group employees total	**5,275**	**4,902**

1) eKasa, INTENS Corporation, mluvii.com (formerly iCORD International), Misterine, O2 Financial Services

Trading in O2 CZ shares in 2017

	2017	**2016**
Shares issued (in million) [1]	303.6	308.2
Highest share price (in CZK) [2]	296.9	259.8
Lowest share price (in CZK) [2]	255.5	200.0
Share price at the end of the period (in CZK) [2]	276.5	259.8
Market capitalisation at the end of period (in billion CZK) billion) [2]	85.8	80.6

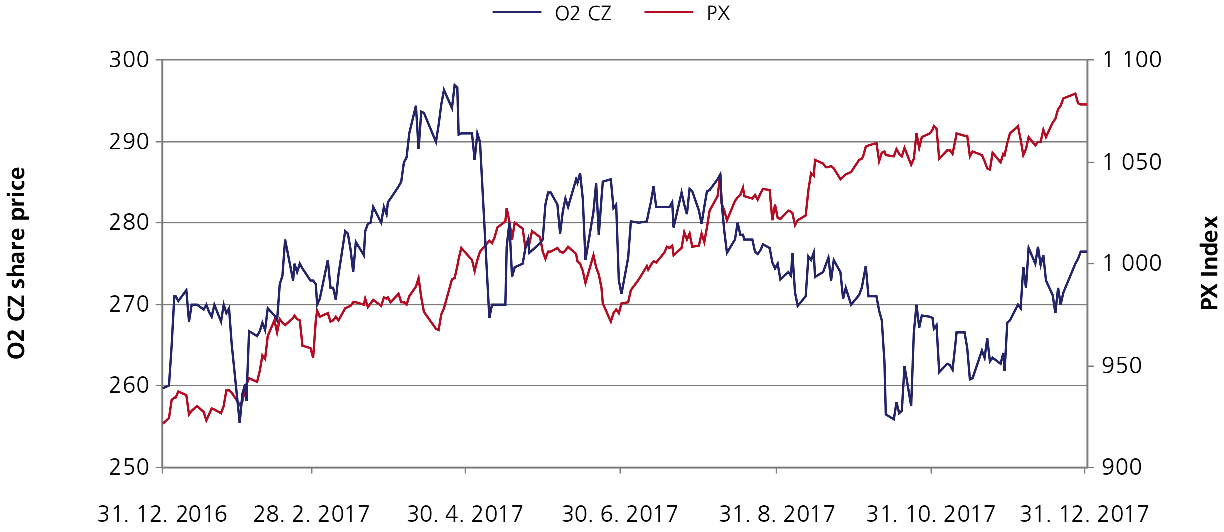
1) Weighted number of ordinary shares outstanding

2) Source: Prague Stock Exchange

In 2017, 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 9.1bn, which represents 6.6% 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 2017 reached CZK 36.4m, compared with CZK 33.1m in 2016. Market capitalisation as at 29 December 2017 (the last trading day on the PSE in 2017) was CZK 85.8bn (compared with CZK 80.6bn at the end of 2016), which puts 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.

From 2 January to 29 December 2017, the O2 CZ share price grew by 6.4% to CZK 276.50. In the same period, the PX index (the main index of the PSE) was up 17.0% to 1,078.2 points.

O2 CZ share performance against PX index



Dividend policy

During 2017 there was no change in long-term dividend policy. In the following periods, the Board of Directors of O2 CZ intends to propose to the shareholders at the General Meeting the payment of a dividend of 90 to 110% of the net unconsolidated profit. In addition, in 2016, the Company's Board of Directors announced that, above the scope of the payout of the current dividend (from previous year's profits and retained earnings from previous years), in the coming periods it intends to propose to shareholders a sustainable payout associated with gradual distribution of the entire share premium.

Dividends

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

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

Acquisition of treasury shares by the Company

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

a) the maximum number of shares that the Company may acquire: 31,022,005 book-entered ordinary shares of the Company, the nominal value of each share being 10 CZK on the date of adoption of this resolution;

b) the period for which the Company may acquire shares: 5 years from the date of adoption of this resolution;

c) the lowest price at which the Company may acquire individual shares: CZK 10;

d) the highest price for which the Company may acquire individual shares: CZK 297;

e) the highest aggregate price of all shares that the Company may acquire under this resolution: CZK 8 billion.

Following the decision, on 23 December 2015 the Company's Board of Directors decided to pursue, within the limits of the resolution of the General Meeting, a programme of buying back its own shares on the regulated market (Share Buyback Programme), over a period of the next two years. The Programme, which has been approved by the Board of Directors, stipulated the following terms and conditions:

a) the objective of the Programme is to optimize the Company's capital structure;

b) the maximum purchase price of shares acquired under the Programme must not exceed the lower of the following: the maximum purchase price established in accordance with Article 5 (1) of Commission Regulation (EC) No 2273/2003 and the maximum buying price for which the Company may acquire the individual shares according to the decision of the General Meeting;

c) the minimum buying price of the shares acquired under the Programme does not exceed the lowest buying price for which the Company may acquire the individual shares as decided by the General Meeting;

d) the volume of Shares purchased under the Scheme in one day does not exceed the average daily volume of the Company's shares traded on a regulated market in November 2015, i.e. in the month preceding the publication of the Terms of the Programme;

e) under the Programme, the Company will acquire no more than the number of shares corresponding to 4% of the total number of ordinary shares of the Company;

f) the duration of the Programme is no more than 2 years, or until the volume of the shares referred to in point (e) is reached.

Also in 2017, the Company retained the services of a brokerage firm WOOD & Company Financial Services, a.s. for the Programme. Acquisition of own shares on the regulated market of the Prague Stock Exchange took place in 2017 under the conditions published in connection with the approval of the Programme on 23 December 2015, whereby the number of shares acquired under the Programme in one day did not exceed 25% of the average daily volume shares of the Company traded on a regulated market in November 2015, i.e. 130,525 shares of the Company.

The acquisition of the Company's own shares in 2017 therefore took place on the basis and according to the decision of the General Meeting of 8 December 2015 and the Programme. In accordance with the Programme and its intent, the objective of acquiring the Company's own shares in the accounting period of 2017 was to optimize the Company's capital structure.

As of 1 January 2017, the Company held a total of 4,852,535 own shares with a nominal value of CZK 10 each (total nominal value of CZK 48,525,350), which represented 1.56% of the subscribed capital and 1.56% of all voting rights of the Company. The aggregate acquisition cost of these shares amounted to CZK 1,152m. As at 31 December 2017, O2 CZ held a total of 8,695,327 own shares with a nominal value of CZK 10 each (total nominal value of CZK 86,953,270), which represented 2.8% of the subscribed capital and 2.8% of all voting rights of the Company. The aggregate acquisition cost of these shares was CZK 2,204m.

Consequently, in the course of 2017, the Company acquired a total of 3,842,792 treasury shares with a nominal value of CZK 10 each (total nominal value of CZK 38,427,920), which represented 1.24% of the subscribed capital and 1.24% of all voting rights of the Company. The total acquisition cost of ordinary shares acquired by the Company in 2017 was CZK 1,052m. No ordinary shares have been alienated or cancelled.

In keeping with Section 309(1) of the Business Corporations Act, the Company does not exercise voting rights attached to the treasury shares.

On 13 December 2017, the Board of Directors of the Company decided to implement a share buy-back programme on the regulated market (New Programme), under the following terms and conditions:

a) the aim of the New Programme is to optimize the capital structure of the Company;

b) the maximum purchase price of shares acquired under the New Programme shall not exceed the lower of the following amounts: the maximum purchase price established in accordance with Article 3 (2) of Commission Delegation (EU) No 2016/1052 and the highest purchase price for which it may the company acquires the individual shares according to the decision of the General Meeting (CZK 297);

c) the lowest purchase price of shares acquired under the New Programme shall not exceed the lowest purchase price for which the Company may acquire individual shares according to the General Meeting's Decision (CZK 10);

d) the volume of shares purchased under the New Programme in one day does not exceed one quarter of the average daily volume of shares of the Company traded on a regulated market in November 2017, i.e. in the month preceding the month of the Board of Directors' decision;

e) Under the New Programme, the Company will acquire a maximum number of shares so that the total number of shares acquired by the Company cumulatively for both the Programme and the New Programme does not exceed 4% of all the Company's shares;

f) the duration of the New Programme is no more than two years, or until the volume of shares referred to in point (e) is reached.

By the end of 2017, O2 CZ did not acquire any treasury shares under the New Programme.

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

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 entered into software license agreements with Microsoft, Oracle, Hewlett-Packard, IBM, SAP, and Ericsson. O2 Group companies also use the O_2 trademark for their business in the Czech Republic and Slovakia under a license agreement from O2 Holdings Ltd. (see paragraph Valuable rights in Note 10 Intangible Assets in the Notes to Consolidated Financial Statements). O2 CZ has the licenses granted by CTO, which represent the right to operate mobile networks in UMTS, GSM, CDMA and LTE. O2 Slovakia has licenses to operate mobile networks in the GSM, UMTS, and LTE standard (see Note 22 Service concession arrangements to the Consolidated Financial Statements).

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, Česká telekomunikační infrastruktura (CETIN) became the principal supplier to the Company, with more than a 61% share of the total procurement volume in 2017. 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 24 Related party transactions to the Consolidated Financial Statements for the year ended 31 December 2017, which forms an annex to this Annual Report. Other major suppliers of network technology and IT were: O2 IT Services, NESS Czech, Oracle Czech; major suppliers of services were: Comdata Czech, Manpower Group and COPY GENERAL ONSITE SERVICES. The main suppliers of products (mobile phones, tablets, modems and accessories) were Samsung Electronics Czech and Slovak, Apple Distribution International and Huawei Technologies (Czech). Major network technology suppliers to O2 Slovakia were: NEC, Cisco, Nokia Solutions and Networks and Huawei Technologies. Main suppliers of products and merchandise were Apple Distribution International and IRDistribution.

A detailed report of the O2 Group's financial obligations as at 31 December 2017, and information about financing contracts, can be found in Note 15 Financial Debts to the Consolidated Financial Statements.

Rating information

As at 31 December 2017, the O2 Group did not have a corporate rating.

Non-financial information

The Company is required to disclose non-financial information under the Act 563/1991 Coll., on Accounting. To this end, the Company will make a separate report that will contain non-financial information to the extent specified in Section 32(g) of the Act on Accounting. The separate report will be available on the Company's website at www.o2.cz/spolecnost/en/ in section Investor Relations, under tab Non-financial Information section no later than 30 June 2018. As the Company makes separate report of non-financial information, it does not report in the Annual Report on its activities in the area of sustainability and labour-law relations. This practice is explicitly allowed in the Act on Accounting (Section 32(g)(6)). This information will be in the above-mentioned separate report along with non-financial information, to the extent specified in Section 32(g) of the Act on Accounting.

Information on application of diversity principles to the governing bodies of the Company

The Company does not apply any specific diversity policy to the Board of Directors, the Supervisory

Board and the Audit Committee, the main reason lies in how these corporate bodies are elected. Members of the Supervisory Board and the Audit Committee are elected by the General Meeting of the Company, and members of the Board of Directors are elected by the Supervisory Board. Also, grounded in practical experience, the Company fundamentally advocates and complies with the principles of non-discrimination and equal treatment. Consequently, to the extent the Company can influence the personnel composition of the governing bodies of the Company (e.g. by proposing candidates), in doing so it respects these principles and complies with the relevant laws and regulations, while taking care that the governing bodies are composed of members whose professional knowledge and experience are a premise of good service. Furthermore, the Company is aware that any measures that a possible diversity policy would have introduced should also be in compliance with the Anti-Discrimination Act which prohibits unequal treatment. This may pose a problem in terms of positive discrimination. The very definition of affected groups (e.g. by age, gender or education) which could be the subject of positive discrimination for the nomination to the governing bodies or appointment into the executive management as a result of application of a diversity policy is a highly sensitive issue.

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

The Board of Directors of O2 CZ is confident that the United Kingdom leaving the European Union will not substantially influence the business and the financial results of the Company.

Developments in Slovakia

In 2017, operators in the Slovak mobile market focused their attention on two key areas. The first of these was the massive construction of 4G LTE networks. The second, which had an impact on the entire telecommunications market in the European Union, was roaming regulation.

Based on publicly available information, population coverage of the fastest mobile data service, 4G LTE, increased during the year 2017 for individual operators as follows: Slovak Telekom from 86% to 89%, Orange from 66% to 90%, 4ka from 66% to 70% and O2 Slovakia from 70% to more than 90%.

In March 2017, Slovak Telekom introduced a new service, Smarthome, which lets customers combine mart home appliances in a solution which fits their specific needs. In mid-June, all operators launched a commercial offer according to the requirements of the new roaming regulation. In mid-September, Orange introduced an offer of the so-called *Triple-Play Love* tariffs that combine mobile voice and data with home internet and television. The youngest operator, 4ka, has consolidated its revenue from data services and increased the price for selected data packages at the turn of October and November.

As the operator 4ka does not publish the number of its customers, it is not possible to determine precisely the share of individual mobile operators in the Slovak mobile market. According to an estimate by the Slovak Office for the Regulation of Electronic Communications and Postal Services, the market share of operator 4ka reached about 5% as at 30 June 2017. As at 30 September 2017 (the last date before the date of approval of this Annual Report, when all three largest operators published their results), the number of mobile customers of the operator Orange reached 2,850,000; Slovak Telekom recorded 2,179,000 and O2 Slovakia 1,916,000 mobile customers. According to an estimate by O2 Slovakia's management, the company's market share was about 26%.

In the fixed telecommunication market there was no significant change in 2017. No acquisitions between major and medium-sized operators have taken place in the market, and none of the operators have debuted any new services of greater importance. Also, no regulatory decision was taken by the regulatory authority.

In 2017, O2 Group confirmed the growing trend in financial and operational indicators in Slovakia. For detailed information, see the sub-section

Overview of consolidated financial and operating results in this section of the Annual Report.

O2 Slovakia

As was the case of O2 CZ in the Czech Republic, new mobile tariffs with more generous data allowances featured among the main new products of O2 Slovakia. In addition, O2 Slovakia has recently started offering wireless internet and O_2 TV digital television over LTE TDD technology.

In the course of 2017, O2 Slovakia continued its focused effort to roll out and build up its own mobile network. In nearly two years, nearly 1,400 new locations have been added to the fastest 4G LTE network, and population coverage has increased from 25% to 90.6% at the end of 2017, making O2 Slovakia the number one in the Slovak market for fast mobile internet connectivity. Together with the construction of the 4G LTE network, O2 Slovakia also increased the population coverage of its 2G network, which at the end of 2017 was reached 97.9% of the population. In addition, as a result of a national roaming partnership with and free access to the network Slovak Telekom and, more recently, also Orange Slovensko, the total coverage of 2G networks reaches 99.8%.

As part of the celebration of its ten-year presence in the Slovak telecommunication market, O2 Slovakia debuted *O_2 Data*, a family of innovative high-usage data tariffs. These are targeted at customers with large data and lower SMS and voice consumption. They come with significantly higher data allowances (from 4 to 16 GB per SIM card), and voice and SMS are billed based on actual consumption. The data tariffs also include a hardware purchase bonus. If the customer chooses not to take advantage of the bonus, they get an extra data bundle, the size of which depends on the selected tariff.

In the middle of June and after an intermission of nine years, O2 Slovakia started offering a new prepaid card under the brand *O_2 Volnost*. For 10 cents per call, *O_2 Volnost* customers can make calls to all networks. They pay 5 cents per SMS, and they also get 1 GB of data for EUR 5. In September, O2 Slovakia unveiled a revamped version of its product *Stříbrný O_2 Paušál*, which comes with unlimited calls for EUR 20 per month. The price plan also includes unlimited SMS messaging and a monthly data allowance of up to 1 GB. From the beginning of April 2017, O2 Slovakia offers wireless Internet access for home and business. The service runs on the LTE TDD technology in the 3,500 MHz and 3,700 MHz frequency spectrum. The spectrum was won in tenders in 2015 and 2016. At the end of 2017, the service was available in almost every other municipality in Slovakia. In June, O2 Slovakia also launched a commercial offer of O_2 TV digital television. Customers could choose between three fixed O_2 TV packages. O_2 TV on the small screen remains on offer. The commercial operation gives customers of choice of up to 72 TV stations. In March, O2 Slovakia, in cooperation with the courier company Slovak Parcel Service / InTime, premiered the option of authentic electronic biometric signing of contracts delivered to customers at home. The supporting technology has been supplied by the successful startup Axepto, with which O2 Slovakia has cooperated in the past.

O2 Business Services

In 2017, O2 Business Services saw a year-on-year increase in the number of customers and the volume of services provided to them. Among corporations, the most significant acquisition of the year was Skytoll, which is the operator of the national toll system. O2 Business Services has implemented a server-housing solution together with a metropolitan data network for Skytoll. Another important customer was BRVZ, which uses the nationwide MPLS data network. In the public sector, O2 Business Services counted the National Council of the Slovak Republic (customer of its business internet service) and the Office of the Deputy Prime Minister for Investment and Informatics (mobile service). Mobile and fixed telecommunication services from O2 Business Services are also being used by the Railway Company of Slovakia, the Slovak Railways and the Slovak Technical University.

For O2 Business Services, the most important event of 2017 was the provision of telecommunication infrastructure for the organization of regional elections in Slovakia. O2 Business Services has delivered back-up online connections for more than one hundred data collection points of the Slovak Statistical Office and secured the network against potential external attacks.

In 2017, O2 Business Services added two new certificates to its list of ISO certifications, which are necessary for further development of the company: ISO / IEC 20000-1: 2011 and ISO / IEC 27018: 2014.

Risk management

Risk management is one of the primary management tools for the 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 the part of contractual partners with respect to payment and delivery terms, 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 to limiting the potential impact on the Company's results.

Products and services

Consumer segment

Mobile services

In 2017, the Company continued to improve the service and accelerate the roll-out of its 4G LTE mobile network. In the Czech Republic, it has built a number of new transmitters, increased the network capacity and utilized more capacity layers at a time. The newly acquired 40 MHz block of 3,700 MHz spectrum makes it the operator which is the best prepared for future development of services. The acquired spectrum is planned to be used both for new services and for improving the service quality for current customers. At the end of the year, the Company was the first to test this technology live. At the beginning of the year, the Company launched its voice LTE (VoLTE) service. VoLTE's greatest advantage is the very short call connection time and HD quality of the transmitted voice, with suppression of ambient noise.

In addition to continuous improvements to the mobile network, the Company also focused on making adjustments to its portfolio of tariffs.

It started offering new tariffs under the commercial brands *O_2 Spolu*. The tariffs let customers combine services and enjoy significant savings. The basic bundle comes with three SIM cards, unlimited calls, SMS and 3 GB of mobile data for each member, as well as O_2 TV M digital television at home and on four other mobile devices. Customers can also opt for adding a fourth cut-price or upgrade their O_2 TV programme subscription package. To customers who have a higher monthly data requirement, O2 CZ offers the opportunity to get an extra 6 GB of data per month per SIM card, and they can get even more data still, if needed. In the second half of the year, the Company added another version of *O_2 Spolu*, where, instead of the third mobile tariff, the customer gets a home internet product.

O2 CZ expanded its individual tariff proposition. Customers with a higher data requirement can now take advantage of the new *FREE 6 GB*, in which the customer gets a 4.5 GB more data compared with basic *FREE CZ*. Even more demanding customers can enjoy *FREE 20 GB*, which comes with 20 GB of data and 600 minutes of international call. The Company introduced *FREE Data 10 GB*, a new tariff designed for customers who use their mobile phone mostly for internet browsing and mobile applications, and who make fewer calls and send fewer conventional SMS.

From the middle of June, the Company has been offering all customers subscribed to the roaming tariff *Svět Basic* the option to use the service in all member states of the European Union at the same rates which apply when they make off-net calls and send off-net SMS. Customers can also use mobile data when they travel for the same price as at home.

The Company continued to focus on offering only 4G LTE-enabled mobile handsets, which was positively reflected in the growth of the mobile traffic and revenue.

Fixed services

In the course of 2017, the Company increased the availability of its home internet service Internet na doma. Internet na doma is distributed primarily using xDSL technology, which covers close to 90% of Czech households. Those homes that do not have access to broadband internet connectivity over xDSL can now take advantage of unlimited data connection using the wireless 4G LTE technology, which went live in February and is marketed in the form of the tariff *Internet Optimal* with download speeds up to 20 Mbps. Thanks to the combination of both technologies, Internet na doma is available to 99% of households in the Czech Republic.

The Company also debuted its first hardware designed completely in house, from the initial sketch to the final product. O_2 Smart Box offers a unique combination of fast DSL modem that uses VDSL3 and offers download speeds of up to 250 Mbps, and a high-quality Wi-Fi router for perfect network reception in the home or the office coverage, and a smart home hub functionality.

In addition, the Company introduced Internet HD, a new product range that comes with, in addition to standard internet connectivity, the fastest home Wi-Fi through the O_2 Smart Box modem, and offers also HD video quality for the vast majority of video content. The Company increased the speed from 80 Mbps to 100 Mbps of the *Premium Internet HD* tariff without raising the price.

O_2 TV Sport, a television channel with premium sports content which offers 24hr access for a daily fee, now has many satisfied viewers. Exclusive sports programming is popular also with customers who do not have O_2 TV at home.

At the end of the year, the Company extended the O_2 TV playback feature from 50 hours to seven days. The Company kept its focus on offering exclusive sports content. In January, a new television channel, O_2 TV Tenis, went online.

The Company also invested in the production of its own television content. TIKI-TAKA, a unique format of sports entertainment talk show, is dedicated to covering the news of the past week from the Czech football scene. The popular reality show OKTAGON, which follows the lives of martial arts fighters (MMA), returned with the second season.

Corporations and government

Throughout the year, the Company continued to develop its Elastic Business Solutions concept. Security is the leitmotif for the year 2017.

In the area of mobile services, the Company concentrated on its streamlined *Vario* tariff proposition and the profile offer.

In the fixed voice area, the Company continued to market its range of tariffs with unlimited calls to all fixed and mobile networks in the Czech Republic. Customers who often call other countries were offered a tariff with cut-rate international calls. The Company is also bolstering its VoIP tariff proposition.

As concerns data and internet access, throughout the year the Company worked on broadening its pool of infrastructure and national internet connectivity suppliers by forming direct partnerships. In 2017, the demand for high-capacity internet connection has grown significantly.

The Company is one of the leaders among providers of cloud solutions in the Czech Republic and the number one provider of cloud-based services. The Company debuted its already successful Managed WiFi for business and SME.

In the first half of the year, the Company also took over some activities developed by its subsidiary O2 IT Services in connection with the transfer of parts of a business from O2 IT Services to the Company.With that, the Company acquired products developed in O2 IT Servies and integrated the related products in its standard product proposition. The products include mainly a range of Smart City solutions which cover applications for the management of waste or city parking, among other things. The Company also started marketing O2 Security Expert Center, another solution it adopted, which is gaining relevance as various cybernetic attacks and threats intensify, and also with the imminent coming into force of the so-called GDPR (General Data Protection Regulation) Directive of the European Union in May 2018.

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. 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.

In line with the strategy to develop other services, which fall outside the scope of telecommunications, O2 CZ continued with commercial expansion of two key insurance products: handset/tablet insurance and "smart travel insurance" in a mobile phone. Travel insurance like roaming, is activated automatically, as soon as the visitor is outside the home country and their mobile number registers in a foreign network. Customers are insured in all countries of the world where the Company has a roaming partner.

Already more than a quarter of a million O2 CZ and O2 Slovakia customers use insurance products developed by the Company. Chytré cestovní pojištění is a unique product in the European market context, and in 2017 the Company came third in the poll for Insurance Innovator of the Year organised by Hospodářské noviny.

Together with Raiffeisenbank, in 2017 the Company introduced a new payment card which offers a saving of up to 40% their bill for any O2 CZ service.

Comments on the 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 2017. The financial data is based on the consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Consolidated financial results

Revenues, costs and EBITDA

Total consolidated revenues of the O2 Group reached CZK 37.7bn in 2017, up 0.5% on 2016. Also, in the third year after the separation, the O2 Group maintained stable revenue performance. In addition to the higher revenues from data services hardware and accessories sales in the Czech Republic and Slovakia and O_2 TV, the market success of the financial services also contributed to the overall result. Since the third quarter, revenues as well as costs have been negatively diluted by the new European Union's roaming regulation, which guarantees that customers can use the mobile services within the European Union for domestic prices, without any roaming surcharges.

Revenues in the Czech Republic declined to CZK 31bn in 2017, down 0.4% year on year. In the fixed segment, revenues were 6.7% lower at CZK 10.8bn, while revenue in the mobile segment showed a 3.4% year-on-year growth to CZK 20.2bn. In Slovakia, revenues reached CZK 7.1bn in 2017, up 5.0% year on year. Due to the year-on year- rally of the Czech koruna against the euro, the year-on-year growth of revenues in Slovakia in euros was higher.

Total consolidated operating expenditure went up 0.4% in 2017 to CZK 27.7bn. While in the Czech Republic it decreased 0.4% to CZK 23.2bn, in Slovakia it grew 4.6% to CZK 4.9bn. Direct costs of sales (supplies) were flat year on year, as the lower commissions helped by the conversion of franchise shops to company-owned ones, together with lower fixed costs of services, fully compensated for the higher equipment & accessories cost growth, in line with growing revenues. In addition, the higher roaming costs which the Company has had to pay to its wholesale international partners for its customers roaming in foreign networks, negatively impacted on the costs of sales in the mobile costs of service. Staff costs grew 7.4%, driven by the year-on-year headcount increase due to insourcing and recruitment of mainly sales staff (call centres and brand shops). Costs of external services declined 5.5% year on year in 2017. The biggest savings were reported in the area of network and IT maintenance and third-party call centre costs.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached CZK 10.5bn in 2017, up 0.6% year on year; the 1% decrease in the Czech Republic to CZK 8.2bn was more than compensated by the 6.4% EBITDA growth in Slovakia to CZK 2.3bn. The consolidated EBITDA margin was flat year-on-year and reached 27.9% in 2017.

Operating income, income before tax and net income

Consolidated operating income and income before tax in 2017 increased 4.4% and 5.3% to CZK 7.2bn and CZK 7.1bn, respectively. This has been driven by a 2.7% decline in depreciation and amortisation and a lower impairment charge of CZK 7m in 2017, compared with CZK 150m booked in 2016. Financial income in 2017 was positively boosted by a net profit of CZK 60m from the sale of a stake in the Estonian company Taxify OÜ owned through the subsidiary Bolt Start Up Development subsidiary. The consolidated net income improved 6.2% year on year to CZK 5.6bn in 2017.

Property, plant and equipment; intangible assets

Net book value of property, plant and equipment as at 31 December 2017 stood at CZK 5.6bn, up 11.1% on the end of 2016. The major part of the net book value of property, plant and equipment as at 31 December 2017 was communication technology and related equipment (CZK 3.0bn), which includes mainly exchanges and transmission technology.

Net book value of intangible assets as at 31 December 2017 stood at CZK 16.8bn, broadly stable compared with the 2016 year-end figure. A large part of the year-on-year increase in the net book value of intangible assets is attributed to licences, mainly as a result of the acquisition of the 3,700 MHz spectrum licences in the Czech Republic (CZK 203m), and the assignment (renewal) of the 450 MHz spectrum licences for a 15-year period, starting from 8 February 2018, for CZK 210m. Software related to the ongoing IT transformation in the Czech Republic and Slovakia was another significant factor in the year-on-year increase. The category of additions to valuable rights (CZK 781m) relates to the extension of the licence agreement with Telefónica concerning the right to use the O_2 brand for a period of three years beyond the present period which expires on 27 January 2019, i.e. until 27 January 2022.

Cash and debt

Consolidated financial debts (short- and long-term) as at 31 December 2017 were CZK 10.5bn. During the course of 2017, O2 CZ has successfully underwritten new funding (Schuldschein) in the total amount of CZK 3.5bn (CZK 3bn and EUR 20m), with 5- and 7-year maturity; the funding has been used for general corporate purposes. For detailed information on financial debts, please refer to Note 15 to the Consolidated Financial Statements, which forms a part of this Annual Report. The volume of cash and cash equivalents reached CZK 4.1bn as at 31 December 2017. The net debt [1] to EBITDA ratio was 0.61 as at 31 December 2017.

Capital expenditure

Total consolidated capital expenditure (additions to fixed assets) reached CZK 4.4bn in 2017, the same as in 2016. The amount of capital expenditure in both years included several one-off items: in 2016 the investment of CZK 1.5bn in the 1,800 MHz and 2,600 MHz spectrum acquisition in the Czech Republic; and in 2017 the amount of CZK 210m for the assignment (renewal) of the 450 MHz spectrum licences, CZK 781m for the extension of the licence agreement with Telefónica, which gives O2 CZ the right to use the O_2 brand, by another three years beyond the present period, i.e. until 27 January 2022, and CZK 203m for the acquisition of the 3,700 MHz spectrum licences in the Czech Republic. Excluding

1) Financial debt less cash

these one-off items, the total consolidated capital expenditure went up 8.9% year on year to CZK 3.2bn, and the capital expenditure to revenue ratio reached 8.5% (7.9% in 2016).

This increase has been driven mainly by a 15% capital expenditure growth to CZK 1.3bn in Slovakia, with the share in revenues of 18.0%, while the capital expenditure in the Czech Republic was 5.5% higher, reaching CZK 1.9bn, with a 6.3% share in the revenues. The focus of capital expenditure in the Czech Republic was on investments in areas connected with the IT transformation project and the core part of the mobile network. In Slovakia, investments were directed into the improvement of the 2G network quality and coverage expansion, with a view to reducing the dependence on national roaming and, consequently, improving future profitability. In addition, O2 Slovakia continued with its investments in the roll-out of its 4G LTE, backbone and transmission networks, to satisfy the growing customers' demand for mobile data, and roll-out of the wireless LTE TDD network in 3,500 MHz and 3,700 MHz spectrum.

All the investments in 2017 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 periods (in CZK million):

	2017	**2016**
Czech Republic	3,129	3,307
- of which spectrum licences	413	1,472
O_2 brand licence extension (valuable rights)	781	0
Slovakia	1,283	1,115
Consolidated adjustments	-7	0
Total	**4,405**	**4,422**

Cash flow

Net cash flow from operations reached CZK 8.5bn in 2017, down 8.1% year on year, while the net cash flow used as investments was flat year on year, and reached CZK 4.5bn. As a result, consolidated free cash flow [2)] reached CZK 3.9bn in 2017, down 16.2% year on year. This is largely a result of a negative change in the working capital compared with 2016, which was caused mainly by higher long-term receivables in Slovakia due to investments in a new instalment model of hardware sales.

Overview of consolidated revenues

In 2017, O2 Group successfully compensated the pressure on the prices of traditional services and the impact of the new European roaming regulation with a successful proposition of new services. As a result, the total consolidated revenues went up 0.5% year on year to CZK 37.7bn. Revenues in the Czech Republic declined slightly by 0.4% to CZK 31.0bn. Revenues in the fixed segment declined by 6.7% to CZK 10.8bn, while a sustained growth of revenues from O_2 TV could not fully compensate for lower revenues from traditional voice, data and ICT (without an impact on the absolute ICT margin). The mobile segment revenues were up 3.4% to CZK 20.1bn. The contraction of the voice and SMS revenues due to the roaming regulation and competitive pressure in the corporate and the government segments has been more than adequately compensated by higher revenues from mobile data and hardware sales. In Slovakia, the total revenues reached CZK 7.1bn, up 5.0% year on year.

2) Net cash flow from operations less net cash flow from investment

Revenue from voice services reached CZK 15.2bn in 2017, down 5.3% on 2016, mainly as a result of the lower fixed-segment revenues due to the ongoing fixed-to-mobile voice substitution. The loss of revenues has also been partly caused by lower effective mobile prices, as more customers take to using unlimited voice tariffs, and as a result of intense competition. In addition to that, the lower roaming revenues, because of the European Union's new regulation, have also been a factor.

Total mobile customer base in the Czech Republic reached 4,938 thousand at the end of December 2017, flat year on year. The number of contract customers increased 2.2% year on year to 3,429 thousand. During 2017, their number grew by 73 thousand. The number of prepaid customers reached 1,510 thousand, down 4.7% year on year. The share of contract customers in the total customer base reached 69.4%, up 1.5 percentage points year on year. In Slovakia, the number of mobile customers grew 2.3% year on year to 1,937 thousand at the end of December 2017, which represents an increase of 44 thousand over the year. This positive trend was fully driven by contract additions, which were 5.9% year on year, reaching 1,141 thousand, while the number of prepaid customers reached 796 thousand. The customer mix quality keeps improving and the share of contract customers in the total base in Slovakia reached 58.9%, up 2 percentage points year on year.

Blended monthly average churn rate in the Czech Republic grew slightly in 2017 to 1.7%. The contract customer churn remained low at 1.0% in 2017, while the prepaid monthly average churn was 3.5%.

Despite the negative impact of the European roaming regulation, the total monthly average revenue per mobile user (mobile ARPU)[3] in the Czech Republic increased 1.2% to CZK 293 in 2017. The improving quality of the customer base, higher data spend and a positive revenue contribution of financial services have proven to be more than adequate compensation for the lower roaming revenues and the pressures on the voice and SMS pricing. The contract ARPU improved 0.4% year on year to CZK 374, while prepaid ARPU declined 3.2% year on year to CZK 115. In Slovakia, the total mobile ARPU was up 3.2% year on year to EUR 9.6 (CZK 253) in 2017, mainly as a result of improvements in the customer mix and structure, and a higher demand for tariffs with more generous data plans. The contract ARPU improved 3.1% to EUR 12.9 (CZK 340), while the prepaid ARPU reached EUR 5.5 (CZK 146).

Total number of fixed voice lines reached 613 thousand at the end of December 2017.

Total revenues from data were up 5.4% in 2017 to CZK 11.6bn year on year, mainly as a result of the higher mobile data revenues in the Czech Republic and Slovakia powered by the growth in the mobile data user base and mobile data traffic. The volume of mobile data traffic grew 106% year on year in the Czech Republic and 55% in Slovakia. In 2017, the number of small-screen internet customers in the Czech Republic went up 25.3% year on year to 2,228 thousand, and in Slovakia 11.3% to over 960 thousand. The demand for mobile internet grew stronger, mainly as a result successful upselling to tariffs with more generous data allowances and higher smartphone sales, especially LTE-enabled devices. Smartphone penetration continued to grow; at the end of 2017 it reached 62.8% in the Czech Republic (up 6.5 percentage points year on year). LTE-enabled smartphones accounted already for 45.9% of all handsets in the O2 CZ network (up 13.6 percentage points year on year). In addition, close to 90% of customers who own an LTE-enabled mobile phone have exchanged their old SIM card for one that supports this technology. In Slovakia, smartphone penetration was 61.3% at the end of 2017, up 5.3 percentage points. The share of customers with LTE handsets reached 46.3%.

Revenues from fixed internet access dipped slightly as a result of the lower number of xDSL lines. At the same time, the revenues from O_2 TV were up by more than 10%, due to the higher number of customers and higher average revenue per user. The number of xDSL fixed internet customers

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

reached 729 thousand at the end of December 2017. Following an increase of internet speeds through the installation of remote DSLAMs, the share of customers enjoying VDSL technology in the total xDSL base went up to close to 75%. The number of O_2 TV connections over an O2 CZ fixed line (IPTV) and distributed through OTT (over-the-top) content providers reached 237 thousand as at 31 December 2017, up 7.5% year on year. In 2017 alone, the number grew by 16 thousand. A complementary MULTI service, which lets customers watch TV on multiple TV sets at once, has become very popular. Close to 36 thousand customers have already subscribed to this service, and O2 CZ now registers close to 275 thousand active set-top boxes.

Revenues from ICT services dropped 12.5% in 2017 to CZK 1.8bn, mainly due to fewer one-off ICT projects for the government. O2 CZ focuses primarily on retaining and developing long-term projects with higher profitability. As a result, the absolute ICT gross margin dilution was limited, despite lower revenues. Other telecommunications revenues increased in total 8.2% in 2017 on the previous year to CZK 9.1bn, mainly due to higher revenues from the sale of hardware and accessories in both countries and higher revenues from financial services (mobile handsets and tablets insurance, travel insurance and fiscalization solutions).

Outlook for 2018

In 2018, O2 Group will keep its focus on improving its proposition of products and services, to preserve the exceptional loyalty of its customers, meet their steadily growing expectations and to stimulate the demand for more services. In that the Group will rely, among other things, on marketing of flexible convergent bundles combining fixed and mobile services to households and smaller groups of customers. In keeping with its strategy, it will focus more on maximizing the customer instead of driving the number of customers. In the financial area, the O2 CZ Board of Directors will continue to put emphasis on revenues with higher added value and building up the gross margin, with a view to maintaining operational profitability.

The O2 CZ Board of Directors is confident that, in addition to revenues from O_2 TV, mobile and fixed data, internet and hardware sales, financial services be among the key drivers of growth. At the same time, it believes that the development and marketing of other than the traditional telecommunications services will help O2 Group eliminate, to an extent, the pressure on the profitability of traditional services and the negative impact of the European roaming regulation.

In 2018, O2 Group will continue with its investments in IT, billing and CRM systems in the Czech Republic. The new intuitive systems that can be serviced without complex manuals will greatly simplify customer service including order management and service delivery process across all sales and service channels. This will also lead to the reduction in the incidence of claims, negative and repeated calls in call centres, and an improved customer experience and satisfaction. The new systems will also attract lower running and development costs. The O2 CZ Board of Directors expects that deployment of the entire solution will take place in the course of the last quarter of 2018. In the corporate segment, the Group’s goal continues to be to protect its market share through offering a wider variety of services, and to turn around the negative trend in average spend. The O2 CZ Board of Directors expects that in 2018 CETIN will also forge ahead with its investments in the roll-out of VDSL technology to more locations, boosting the capacity of remote DSLAMs, vectoring and bonding, which will in turn reinforce the O2 Group’s position in the broadband internet market. Already in 2017, O2 CZ successfully piloted the WTTx technology in the 3,700 MHz frequency spectrum, and, as the first operator in the market, it is gearing up for the deployment of the 2,600 MHz TDD Massive MIMO technology, which will speed up wireless connection in areas with a high density of data users.

O2 Slovakia will continue offering its 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

2G LTE network in order to further reduce the operating costs associated with national roaming and increase the operating profitability going forward. The company will also persevere with its investments in the backbone fibre and transmission networks, to prepare itself for a higher volumes of mobile data traffic in future. Together with O2 Business Services, O2 Slovakia it will work on a joint proposition of services to corporate and government customers.

Corporate governance

1 2 3 4 5 6 7

5. 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). O2 CZ and most its subsidiaries form a concern pursuant to Section 79 et seq. of the Business Corporations Act. The Company is the dominant entity of the concern. O2 CZ also has ownership interests in other companies.

SUBSIDIARY COMPANIES (as at 31 December 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
4Local, 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
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 fiscalization solutions	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
Mluvii.com 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
TapMedia s.r.o.**	Mobile application development	03853365	CZK 1,000	100.00 %	NO
Smart home security s.r.o. **	Smart home security solutions	06321399	CZK 5,000	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 at 31 December 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
AUGUSTUS spol. s r.o.* **	Auction sales and consultancy	49356160	CZK 166,000	39.76%	NO
Dateio s.r.o.**	Precision-marketing online platform development	02216973	CZK 201,000	21.40%	NO

** Owned through subsidiary Bolt Start Up Development a.s.

*** The execution of owner's rights is limited due to ongoing insolvency proceedings.

JOINT VENTURES (as at 31 December 2017)					
Commercial name	**Area of business**	**Corporate number**	**Share capital**	**O2 CZ share in equity**	**Concern member**
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

* Owned through subsidiary O2 Slovakia, s.r.o.

Changes in subsidiary companies and ownership interests:

O2 Slovakia, s.r.o.

On 13 February 2017, the sole member decided to reduce the scope of business (independent financial agent within the scope of a licence issued by the National Bank of Slovakia). On 1 November 2017, the sole member discussed the resignation of Radek Štěrba from the supervisory board, and elected Jan Bechyně as new member of the supervisory board. On 20 December 2017, the sole member discussed the resignation of Tomáš Budník from the Supervisory Board, and on 29 December 2017, the resignation of Martin Štefunko from the Supervisory Board. On 10 January 2018, the sole member appointed Jindřich Fremuth a member of the Supervisory Board.

Information on activities and results of O2 Slovakia, s.r.o. see the section O2 Czech Republic Group.

4Local, s.r.o.

On 1 March 2017, the sole member decided to change the company's business name to EIH – LK s.r.o. With effect from 1 April, the sole member decided to enter the company for liquidation. The current statutory executive Tomáš Elbl resigned on his position, and a new statutory executive, David Spies, was elected to the new company on 4 October 2017. With respect to the purpose of the new business activities within the concern, on 25 October 2017 the sole member canceled the decision to enter the company into liquidation with effect from 1 November 2017. The changes made included the change of the trade name to 4Local, s.r.o.

O2 IT Services s.r.o.

As of 30 April 2017, Zdeněk Kaplan and Václav Provazník resigned as statutory executives. With effect from 1 May 2017, the sole member elected Marek Růžička as the new statutory executive. At the same time, under agreements to buy a part of the business, division Application Support and Standard Customer Solutions division have been transferred to O2 Czech Republic, with effect from 1 May.

Bolt Start Up Development a.s.

On 14 June 2017 the sole shareholder elected Richard Siebenstich as the new member of the Board of Directors. On 15 December 2017, Tomáš Budník resigned from the Supervisory board. On 29 December 2017, Jakub Minařík resigned from the Board of Directors. On 18 October 2017, Bolt Start Up Development a.s. acquired the remaining stake in TapMedia. The company also acquired a stake in CROSS NETWORK INTELLIGENCE s.r.o. which develops network infrastructure solutions. On 18 October 2017, the company acquired Smart Home Security, a developer of smart home security solutions. On 18 December 2017, the company disposed of its stake in Taxify OÜ, a company incorporated in Estonia.

eKasa s.r.o.

Following the resignation of the statutory executive Luboš Lukasík, on 20 September 2017 the sole member elected Jan Hruška as the new statutory executive.

O2 Financial Services s.r.o.

On 11 January 2017, Jiří Straka resigned from his position of statutory executive; on 16 August 2017, the sole member decided to extend the scope of business with "Production, trade and services not listed in Annex 1-3 to the Trade Licencing Act".

Tesco Mobile ČR s.r.o.

The company's general meeting adopted the following resolutions on 17 January 2017: recalled Robert Timothy Noah Preston from the position of statutory executive, and elected Judith Cservák as the company's new statutory executive, and approved corresponding amendments to the company's articles of incorporation, specifically the sections that concern statutory executives.

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. Early in 2017, the organisation structure has changed as follows:

> Two new divisions were established with effect from 1 January 2017: Commercial Division and Operations Division

> From 1 January 2017, the Public Sector Unit has been transferred to the direct reporting line of the Chief Executive Officer.

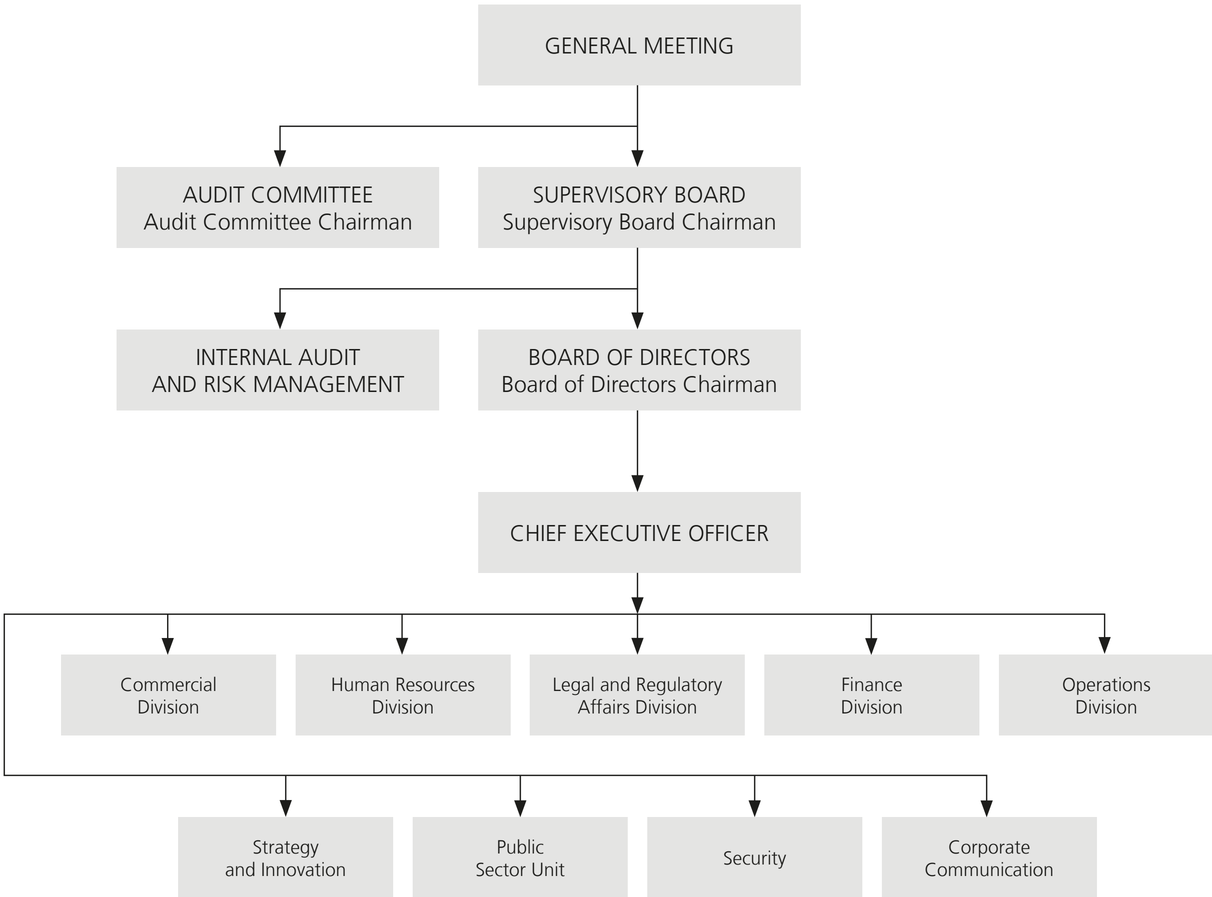
> With effect from 1 January 2017, a new unit, Corporate Communication, was established in the direct reporting line of the Chief Executive Officer.

After 1 February 2018, the organisation structure of the Company has changed as follows:

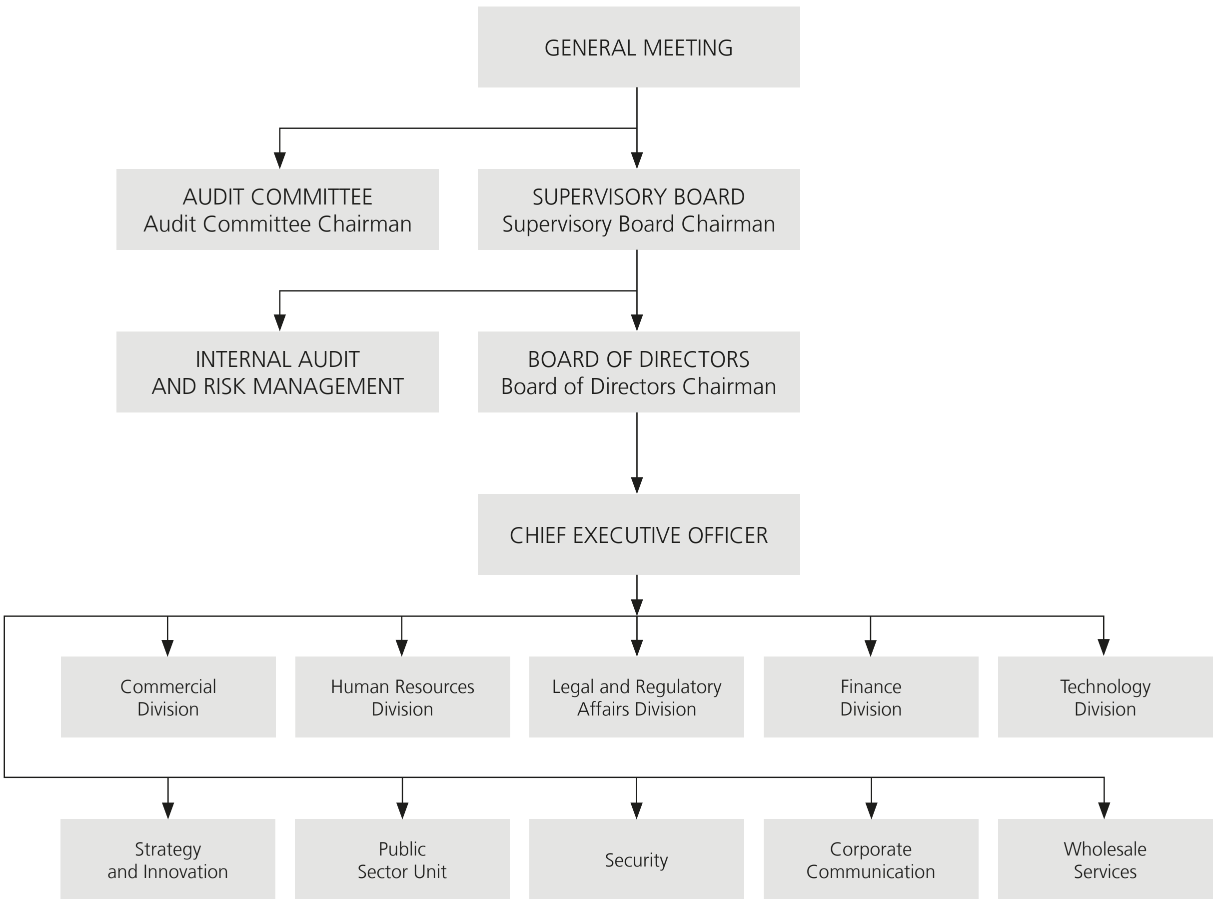
> The Operations Division has been renamed Technology Division.

> A new unit, Wholesale Services has been established in the direct reporting line of the Chief Executive Officer.

Basic organisation chart O2 Czech Republic a.s.: (until 31 January 2018):



Basic organisation chart O2 Czech Republic a.s.: (from 1 February 2018)



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 the rules of remuneration of members of the Supervisory Board and the Audit Committee, and determine the amount of remuneration members of the Supervisory Board and the Audit Committee;

- 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 members and substitute members of Audit Committee;
- decide 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.

General Meeting of 10 May 2017

- Approved the Company's annual financial statements and the consolidated financial statements for the year 2016 prepared in accordance with the International Financial Reporting Standards. The auditor KPMG Česká republika Audit, s.r.o. gave an unqualified opionion on both sets of financial statements.
- Approved the distribution of unconsolidated profit of the Company for the year 2016 in the total amount of CZK 5,274m, as dividends, i.e. CZK 17 before tax per share of nominal value CZK 10, and CZK 170 before tax per share of nominal value of CZK 100. The record day for the payment of dividends was 10 May 2017, and the dividend was payable on 9 June 2017.
- Approved the distribution of a part of the Company's share premium for the year 2016 up to the limit of CZK 1,241m .The amount payable was CZK 4 for each share in the nominal value of CZK 10, and CZK 40 for the share in the nominal value of CZK 100. The record day for the disbursement of the share premium was 10 May 2017, and the disbursement commenced on 9 June 2017.
- Confirmed the audit firm KPMG Česká republika Audit, s.r.o. as the statutory auditor for the year 2017, which extended the present audit contract.
- Elected Ladislav Bartoníček as member of the Supervisory Board; who had been a Supervisory Board member appointed by the Supervisory Board since 19 October 2016.

An overview of the conclusions of the General Meeting can be found on the Company's website (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; 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 20 meetings in 2017.

Composition of the Board of Directors

Members of the Board of Directors as at 31 December 2017

Tomáš Budník (*1969)
Chairman of the Board of Directors from 7 January 2015 until 31 December 2017

Member of the Board of Directors from 23 June 2014 until 31 December 2017

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., and in January 2015 he was elected Chairman of the Board of Directors of O2 Czech Republic a.s. As of June 2015 he is a member of the executive board of the foundation Nadace O2 and 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]

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.

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. Later 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 in 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 in the last five years. [4)]

Changes in the composition of the Board of Directors

- Tomáš Budník resigned from the Board of Directors and from the position of Chairman of the Board of Directors on from 31 December 2017.
- Jindřich Fremuth was elected member of the Board of Directors with effect from 1 January 2018, and Chairman of the Board of Directors on 10 January 2018.

Effective from 1 January 2018, the Board of Directors of the Company has the following composition:

Jindřich Fremuth (*1975)
Chairman of the Board of Directors as of 10 January 2018

Member of the Board of Directors as of 1 January 2018

He has been Director, Consumer Division since March 2013, and in January 2017 he became Chief Commercial Officer. 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 O_2 TV s.r.o.

---
3) 4Local, s.r.o.
4) Generali Real Estate Fund CEE a.s.

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

(résumé can be found in section Members of the Board of Directors as at 31 December 2017)

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

(résumé can be found in section Members of the Board of Directors as at 31 December 2017)

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.

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 subscription price by 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;

> propose the statutory auditor to the General Meeting.

The Supervisory Board grants its approval to the Board of Directors in the following matters: issue of debt securities; issue of global depository receipts for shares in the Company; submission of a request for acceptance of debt securities or global depository receipts 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 100m; investment or other expenditures exceeding CZK 500m; termination of employment relationships of over 10% of Company employees; transformation of the Company; disposal of the Company's assets in value exceeding CZK 100m; 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 100m; securing Company obligations exceeding CZK 100m; payment of any Company's own resources; creation and use of the Company funds.

The Supervisory Board of the Company had four meetings in 2017.

Members of the Supervisory Board as at 31 December 2017

Martin Štefunko (*1977)
Member and Chairman of the Supervisory Board from 29 January 2014 until 31 December 2017

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 of 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 in 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)]

5) EP Energy, a.s., Energetický a průmyslový holding, a.s., PPF Group N.V.
6) Nadace O2

Ladislav Bartoníček (*1964)
Member of the Supervisory Board
as of 19 October 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 [7).

Changes in the composition of the Supervisory Board

Martin Štefunko resigned from the Supervisory Board and his position as Chairman of the Supervisory Board with effect from 31 December 2017.

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.

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 2017.

Members of the Audit Committee

Martin Štefunko (*1977)
Chairman of the Audit Committee
as of 24 March 2014

member of the Audit Committee from 12 March 2014 until 27 January 2018

(résumé can be found in section Supervisory Board)

7) 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, Slovenský plynárenský priemysel, akciová spoločnosť, Energetický a průmyslový holding, a.s., GOPAS, a.s., O2 Czech Republic a.s., Sully system a.s.

Radek Neužil (*1970)
Vice-chairman of Audit Committee
as of 24 March 2014

member of Audit Committee
as of 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). In 2002, he became a chartered accountant. 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 2016 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. In 2011-2017, he was a member of the Executive Board of the Charles University, and from 2015 he has been a 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 [8] and he has also been a member of governing bodies in other corporations over the last five years. [9]

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 is 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. In 2014-2016, he was 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 in the last five years. [10]

Changes in the composition of the Audit Committee

The Audit Committee Chairman Martin Štefunko resigned from the Audit Committee and the position of Chairman of the committee; his tenure as Chairman ended on 27 January 2018.

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 2017:

Tomáš Budník (*1969)
Chief Executive Officer

(résumé can be found in section Board of Directors)

8) DATEV, družstvo, PASKI CLUB, v.o.s.
9) Daňová akademie s.r.o., Eláán, Paski club

10) Deloitte Audit s.r.o.

Tomáš Kouřil (*1974)
Chief Financial Officer

(résumé can be found in section Board of Directors)

Jindřich Fremuth (*1975)
Chief Commercial Officer

(résumé can be found in section Board of Directors as at 1 January 2018)

Václav Zakouřil (*1974)
Director, Legal and Regulatory Affairs

At O2 CZ he has been working in various positions in law and regulation since 2009. He was in charge of the area of mobile network regulation, the legal aspect of the entry of the subsidiary O2 Slovakia on the Slovak market, and he led the legal team which supports the sales and marketing function. In 2014, he took over overall responsibility for regulation and competition. Prior to joining O2 CZ, he worked for Ericsson s r.o. for one year, as a lawyer for the network construction project for a third mobile operator, and then worked for 5 years at the Freshfields Bruckhaus Deringer law firm. He is a member of the Czech Bar Association. He has also been a member of bodies in other corporations in the last five years. [11)]

Ctirad Lolek (*1973)
Director, Human Resources and Services to Employees Division

(résumé can be found in section Supervisory Board)

Marek Růžička (*1975)
Director, Operations Division

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 O2 Czech Republic 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, she has been a member of bodies in other corporations. [12)]

Changes in executive management

At the end of 2017, the following changes were made in the Company's executive management: with effect from 31 December, Tomáš Budník resigned as Chief Executive Officer; with effect from 1 January 2018, the Board of Directors of the Company mandated Jindřich Fremuth to act as Chief Executive Officer. In relation to the reorganisation described in section Organisation structure, the following persons make up the

11) MOPET CZ a.s.

12) CROSS NETWORK INTELLIGENCE s.r.o.

executive management of the Company from 1 February 2017: Jindřich Fremuth, Tomáš Kouřil, Ctirad Lolek, Richard Siebenstich, Jan Hruška, 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 or motivation 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 2017, members of the Supervisory Board submitted claims for remuneration in the minimum amount, which is CZK 6ths 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 2017. 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 and a performance-related bonus. 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.

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 2017, members of the Audit Committee received pecuniary and in-kind income from the Company in the amount of CZK 842,066. Audit Committee members did not receive any pecuniary or in-kind incomes from entities controlled by O2 CZ in 2017. In 2017, all Audit Committee members had an executive service agreement concluded with the Company, which stipulated their right to a compensation 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 is 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:

	Pecuniary and non-pecuniary income (in CZK)	Of which (in CZK) royalties
Board of Directors	39,437,445	0
Supervisory Board	762,306	0
Executive management [1, 2]	36,727,977	0

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

In 2017, 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 power

Information on the number of shares issued by O2 CZ and held by persons with executive powers as at 31 December 2017:

	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 non competition covenant for the duration of their service. The Supervisory Board approves executive service agreements concluded with members of the Board of Directors. In 2017, 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, 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 (presently under the following link: http://www.mfcr.cz/cs/archiv/transformacni-instituce/agenda-byvaleho-fnm/sprava-majetku/kodex-spravy-a-rizeni-spolecnosti-corpor/kodex-spravy-a-rizeni-spolecnosti-zaloze-14620; only Czech version is available). Nonetheless, the Company is aware that the Code has become obsolete in some respects, or made invalid by recent legislation (the new Civil Code, Business Corporations Act, the latest amendments to the Capital Markets Undertakings Act and the Act on Auditors, as well as new European legislation). Furthermore, some recommendations in the Code contain rules the compliance of which lies outside the direct control of the Company or its governing bodies and depends on decision of the Company's owners. Some recommendations in the Code have also become superfluous or impractical. For these reasons, further below we describe instances where the Company deviates from the recommendations of the Code.

The Company scrupulously respects the statutory requirements concerning the participation of shareholders and the option to exercise their rights at General Meetings. "Discussion" is not included as a separate item on the agenda of the General Meeting, despite the Code recommending the practice in the Code (beyond the requirement of the law). The reasons for this are mainly practical, including, but not limited to the number of shareholders of the Company. The intention here is to ensure a regular, unobstructed and logical progress of General Meetings. The Board of Directors aims to ensure that discussion at General Meetings is relevant to the item in question Discussion of shareholders is allowed for as part of the proceedings relating to the items on the agenda of the General Meeting, as required by the Business Corporations Act in the point that sets forth the shareholders' right to explanation. This way, the shareholders are allowed sufficient space to raise questions, express opinions and obtain explanation from the Company and its governing bodies.

With respect to the role of the so-called persons involved in the corporate governance, the Business Corporations Act, unlike the precedent legislation, originally did not stipulate a mandatory representation of employees in the supervisory board of joint-stock companies which have a headcount above a certain limit. As a result, the Company did not provide for employee representation in the Supervisory Board. A trade union organisation is active in the Company, which adequately advocates for the interests of employees. No later than by the beginning of 2019, the Company must comply with a later amendment of the same law which requires that, in corporations with more than 500 employees, one third of Supervisory Board members must be elected by employees.

The Code (beyond the scope of what the law requires) recommends that corporations make disclosure of their targets. The Company does not make public its individual quantitative targets. In keeping with Section 118 of the Capital

Markets Undertakings Act and Section 21 of the Act on Accounting, the Company makes sufficient disclosure of information, which gives a true and honest reflection of the outlook of the future (expected) financial situation, business and results, in its annual report.

As regards the recommendations in the Code which relate to the audit committee, its authority, activities and composition – the Company takes the view that these recommendations are obsolete or, as the case may be, superseded by a new and comprehensive legislation in the form of the Act on Auditors and EU regulation on statutory audit of public-interest entities under whose purview the Company (as a public-interest entity) falls. The Company gives preference to the currently applicable legislation governing the audit committee, its composition and authority, over the recommendations of the Code.

The Code recommends that all members of the Board of Directors and the Supervisory Board meet the independence principle, i.e. that members are not affiliated to the executive management of the Company or the majority shareholder. As concerns the Board of Directors, this requirement contravenes the scope of powers and functions of the board of directors as set forth in the Business Corporations Act. The Board of Directors has the authority to manage the commercial affairs of the Company; in the Company's organisation, the Board of Directors is the highest level of the Company management, and cannot be therefore independent on the executive management of the Company. As concerns the recommendation applying to the Supervisory Board, its members are elected and recalled, in keeping with the law, by the General Meeting. The Company does not choose the Supervisory Board by appointment and cannot, as per definition, ensure compliance with the recommendation of the Code. This, nonetheless, does not preclude members of the Supervisory Board from carrying out their duties with all due care and from having an independent and objective discretion in Company matters.

In contrary to the recommendation of the Code, the Company has not established a special nomination committee and a committee for the remuneration of members of the Board of Directors, Supervisory Board and key executives. The Company finds having these committees superfluous to practical requirement. The nomination to the Company's governing bodies and their remuneration are governed by the rules set forth in the Business Corporations Act, which the Company regards as adequate. In keeping with the law and the Company's Articles of Association, members of the Supervisory Board and the Audit Committee are elected and recalled directly by the General Meeting, which approves their executive service agreements and the rules of their remuneration. The Company does not exercise any direct influence over these matters, and these matters are decided primarily by the owners of the Company. As concerns the remuneration of members of the Board of Directors and other members of the executive management of the Company (who are employees), the Company's governing bodies cooperate directly with the Human Resources Division under which matters of remuneration fall within the Company.

The Company has a position of Company Secretary and a Corporate Governance Office. The Company Secretary and the Corporate Governance Office are in the organisation line of the Legal and Regulatory Affairs Division. The Company Secretary and the Corporate Governance Office provide day-to-day support to the Company's governing bodies, including the good practice of corporate governance and the compliance with the requirements of the Code. An information portal (CG Portal), which has many functions, serves the same purpose. It facilitates the distribution of documents for the meetings of the governing bodies of the Company and serves as an electronic archive of documents related to corporate governance. Through the CG Portal, members of the Board of Directors, Supervisory Board and the Audit Committee have access to archived and current documents and information from anywhere and at any time.

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 2017, Internal Audit and Risk Management carried out a total of 22 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 O2 Slovakia and O2 IT Services. 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.

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 reviewed.

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 monitored 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 at 31 December 2017 was as follows:

	(in CZKm)
Share capital	3,102
Share premium	10,676
Treasury shares	(2,204)
Funds from profit	29
Retained earnings	6,010
Total	**17,613**

The share capital of O2 CZ as of 31 December 2017 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 2017.

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 its 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 2017:

	Name	Address	% of share capital/voting rights
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 %
4	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic	2.80 %
5	Investment funds and individual shareholders – of which Belviport Trading Ltd	– Dionysiou Solomou 7, Frenaros, Kyperská republika	16.14 % 3.92%

As of 31 December 2017, 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, 81.06%.

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.

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

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 of participating nature 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 of participating nature at preferential terms.

Financial part

6. Financial part

O2 Czech Republic a.s.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

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.

CONTENT

	PAGES
GENERAL INFORMATION	63
CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME	65
CONSOLIDATED BALANCE SHEET	67
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	68
CONSOLIDATED STATEMENT OF CASH FLOWS	70
ACCOUNTING POLICIES	71
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	94

GENERAL INFORMATION

The O2 Czech Republic Group (the "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 convergent services.

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

As at 31 December 2017, 81.06% of the Company's voting rights was held indirectly by Mr. Petr Kellner through PPF Telco B.V. and PPF A3 B.V. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

The average number of employees employed by the Group in 2017 was 5,275 (2016: 4,870).

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

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 14 February 2018 and are subject to review by the Supervisory Board.

Main events of the year 2017

Share buyback

In accordance with the decision of the General Meeting on 8 December 2015 concerning acquisition of treasury shares (up to 10% of the total number of shares issued during the following 5 years), the Company continued in the share buyback programme. As at 31 December 2017 the Company held 8,695,327 treasury shares for a total purchase price of CZK 2,204 million.

Underwriting of new Schuldschein loan

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

O2 extends its brand license till January 2022

The Company extended the O2 brand licence period for an agreed fee by another three years beyond the current period, i.e. newly till 27 January 2022. Moreover, it extended the Partnership agreement with Telefónica till the same date. Furthermore, the Company will be entitled to extend the O2 brand licence by another five years, i.e. until 27 January 2027.

Auction of spectrum in 3,700 MHz band

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

Renewal of the existing assignment in 450 MHz band

In August 2017, the Czech Telecommunication Office renewed the existing 450 MHz radio frequency assignment to the Company for a period of 15 years from the expiry of the current allocation, i.e. till 7 February 2033. The Company paid CZK 210 million for the licence renewal.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2017

In CZK million	**Notes**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Revenues	3, 4	37,709	37,522
Other income from non-telecommunication services	3	146	208
Capitalisation of fixed assets	3	346	312
Expenses	3, 4	(27,688)	(27,591)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**10,513**	**10,451**
Depreciation and amortisation	9, 10	(3,348)	(3,442)
Impairment loss	9, 10	(7)	(152)
Operating profit		**7,158**	**6,857**
Finance income	5	120	19
Finance costs	5	(179)	(109)
Share of profit/(loss) of investments accounted for using the equity method	25	(1)	(23)
Profit before tax		**7,098**	**6,744**
Corporate income tax	6	(1,511)	(1,485)
Net profit		**5,587**	**5,259**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedging financial instruments, net of tax	1	21	-
Changes in fair value of securities available for sale, net of tax		3	-
Translation differences		(200)	-
Other comprehensive income, net of tax		**(176)**	**-**
Total comprehensive income, net of tax		**5,411**	**5,259**

Profit attributable to:			
Equity holders of the Company	7	5,592	5,259
Non-controlling interest		(5)	-
Total comprehensive income attributable to:			
Equity holders of the Company		5,416	5,259
Non-controlling interest		(5)	-
Earnings per share (CZK) from continuing operations – basic*	7	18	17

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

In CZK million	**Notes**	**31 December 2017**	**31 December 2016**
ASSETS			
Property, plant and equipment	9	5,636	5,075
Intangible assets	10	16,815	16,515
Investments in equity accounted investees	25	18	42
Other non-current assets	12	726	189
Deferred tax asset	18	216	250
Non-current assets		**23,411**	**22,071**
Inventories	11	824	624
Receivables	12	6,519	6,434
Income tax receivable	6	-	40
Cash and cash equivalents	13	4,088	4,137
Current assets		**11,431**	**11,235**
Total assets		**34,842**	**33,306**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	3,102
Treasury shares	23	(2,204)	(1,152)
Share premium	23	10,676	11,894
Retained earnings, funds and reserves		3,901	3,660
Equity attributable to owners of the parent		**15,475**	**17,504**
Non-controlling interest		-	1
Total equity		**15,475**	**17,505**
Long-term financial debts	15	10,448	6,976
Deferred tax liability	18	270	170
Non-current provisions for liabilities and charges	19	53	57
Other non-current liabilities	14	116	179
Non-current liabilities		**10,887**	**7,382**
Short-term financial debts	15	38	1
Trade and other payables	14	8,209	8,254
Income tax liability	6	139	8
Provisions for liabilities and charges	19	94	156
Current liabilities		**8,480**	**8,419**
Total liabilities		**19,367**	**15,801**
Total equity and liabilities		**34,842**	**33,306**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Available for sale financial assets	Cash flow hedging	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to owners of the parent										
As at 1 January 2017		**3,102**	**11,894**	**(1,152)**	**198**	**250**	**-**	**-**	**3,212**	**17,504**	**1**	**17,505**
Other comprehensive income		-	-	-	(200)	-	3	21	-	(176)	-	(176)
Profit for the period		-	-	-	-	-	-	-	5,592	5,592	(5)	5,587
Total comprehensive income		**-**	**-**	**-**	**(200)**	**-**	**3**	**21**	**5,592**	**5,416**	**(5)**	**5,411**
Capital contribution and other reclassifications		-	-	-	-	28	-	-	(28)	-	-	-
Distribution declared in 2017	8	-	(1,241)	-	-	-	-	-	(5,274)	(6,515)	-	(6,515)
Distribution on treasury shares	8	-	23	-	-	-	-	-	98	121	-	121
Acquisition of treasury shares	23	-	-	(1,052)	-	-	-	-	-	(1,052)	-	(1,052)
Acquisition of non-controlling interest	25	-	-	-	-	-	-	-	1	1	(1)	-
Acquisition of subsidiary with non-controlling interest	25	-	-	-	-	-	-	-	-	-	5	5
As at 31 December 2017		**3,102**	**10,676**	**(2,204)**	**(2)**	**278**	**3**	**21**	**3,601**	**15,475**	**-**	**15,475**

In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to owners of the parent								
As at 1 January 2016		**3,102**	**11,894**	**-**	**198**	**191**	**2,959**	**18,344**	**-**	**18,344**
Net profit		-	-	-	-	-	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	8	-	-	-	-	-	(4,964)	(4,964)	-	(4,964)
Dividends on treasury shares	8	-	-	-	-	-	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	-
As at 31 December 2016		**3,102**	**11,894**	**(1,152)**	**198**	**250**	**3,212**	**17,504**	**1**	**17,505**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax		**7,098**	**6,744**
Non-cash adjustments for:			
Share of (profit)/loss of investments accounted for using the equity method		1	23
Dividend income		(5)	(4)
Depreciation	9	1,122	1,042
Amortisation	10	2,226	2,400
Impairment loss		7	152
(Profit)/loss on sale of tangible and intangible fixed assets		2	(1)
(Profit)/loss on sale of part of business and other investments		(84)	-
Net interest cost		117	61
Unrealized foreign exchange (gains)/losses (net)		15	2
Fair value changes		2	2
Change in provisions and allowances and write-off of receivables		182	89
Other non-cash operations		-	57
Operating cash flow before working capital changes		**10,683**	**10,567**
Working capital adjustments:			
(Increase)/decrease in receivables and other assets		(853)	(245)
(Increase)/decrease in inventories		(225)	88
Increase/(decrease) of financial assets and liabilities at fair value through profit or loss		(1)	(3)
Increase/(decrease) in trade and other payables		175	418
Cash flows from operating activities		**9,779**	**10,825**
Interest paid		(99)	(68)
Interest received		1	14
Income tax paid		(1,230)	(1,579)
Net cash flow from operating activities		**8,451**	**9,192**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,914)	(1,510)
Purchase of intangible assets		(2,663)	(3,387)
Proceeds from sales of fixed assets		15	16
Proceeds from sales of part of business and other investments		106	-
Cash purchase of equity accounted investments		-	(40)
Cash purchase of subsidiary		(48)	(2)
Cash purchases of other investments		(20)	(21)
Dividends and other distributions received		15	11
Loans provided		(13)	-
(Increase)/decrease of restricted cash		-	432
Net cash used in investing activities		**(4,522)**	**(4,501)**
Cash flows from financing activities			
Proceeds from borrowings	16	5,511	5,000
Repayment of borrowings	16	(2,000)	(1,000)
Dividends and other distributions paid		(6,394)	(4,946)
Acquisition of treasury shares		(1,052)	(1,152)
Net cash used in financing activities		**(3,935)**	**(2,098)**
Net increase/(decrease) in cash and cash equivalents		**(6)**	**2,593**
Cash and cash equivalents at beginning of year	13	4,137	1,538
Effect of foreign exchange rate movements on cash and cash equivalents		(43)	6
Cash and cash equivalents at the year end	13	4,088	4,137

ACCOUNTING POLICIES

CONTENT

	PAGE
A | Basis of preparation	72
B | Subsidiaries	78
C | Transactions under common control	79
D | Investment in joint ventures and associates	79
E | Foreign currencies	80
F | Property, plant and equipment	80
G | Intangible assets	82
H | Non-current assets classified as held for sale	83
I | Impairment of assets	83
J | Investments and other financial assets	84
K | Leases	86
L | Inventories	86
M | Trade receivables	87
N | Cash and cash equivalents	87
O | Financial debt	87
P | Current and deferred income taxes	87
Q | Employee benefits	88
R | Provisions	89
S | Revenue and expenses	89
T | Dividend distribution	91
U | Offsetting financial instruments	91
V | Accounting for derivative financial instruments and hedging activities	91
W | Change in accounting policy	92
X | Treasury shares	93

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).

The consolidated financial statements were prepared under the historical cost convention except for cases when IFRS require different measurement method, 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 for 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 of 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 reports two geographic segments. For further detail, refer to Note 3.

Adoption of new or revised IFRS standards and interpretations

For financial statements for the year ended 31 December 2017 the Group adopted new or revised standards and interpretations as mentioned below.

Revision of IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses

Revision of IAS 7 Statement of cash flows: Disclosure initiative

Annual improvements to IFRS 2014 to 2016, containing amendments of the following standards:
- IFRS 1 First-time adoption of International Financial Reporting Standards
- IFRS 12 Disclosure of interests in other entities
- IAS 28 Investments in associates and joint ventures

New IFRS not yet effective as at 31 December 2017 (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**
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial Instruments – classification and measurement	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018*
	Annual improvements to IFRS 2014-2016 Cycle (issued on 8 December 2016)	1 January 2018*
	Annual improvements to IFRS 2015-2017 Cycle (issued on 12 December 2017)	1 January 2019*
IFRS 16	Leases	1 January 2019

* These improvements/interpretation has not yet passed the EU approval process.

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 IFRS 16.

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.

The impact of the adoption of IFRS 9 on the Group's financial statements in 2018 will depend on the financial instruments that the Group will hold and on the economic conditions at that time as well as judgements that it will make in the future. The Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its position as at 31 December 2017 in each area.

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 subsequently measured at amortised cost or at fair value according to IFRS 9. Financial assets may be measured at amortized cost unless they are held in accordance with a business model whose objective is to collect the contractual cash flows from the asset arising under the contractual terms and conditions of the financial asset. Cash flows are solely for the payments of principal and interest from the outstanding principal. All financial assets for which neither of these conditions are met are equity instruments that are measured at fair value, the changes are accounted in the other comprehensive income or in profit or loss. Trading instruments must be measured at fair value through profit or loss. For instruments that meet the definition of an equity instrument in IAS 32 not designated for trading, the entity has the option of making a choice (the decision is irreversible) on whether the changes in fair value are recognized in the other comprehensive income or in the profit or loss.

The Group does not believe that the new classification requirements, if applied as at 31 December 2017, would have had a material impact on the Group financial statements.

The impairment model in accordance with the IFRS 9 is based on forward looking ‘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 will apply the simplified approach for recognition of expected credit losses from trade receivables and contract assets under IFRS 15. The adoption of the new standard will have impact mainly on measurement of the Group´s financial assets.

The Group believes that impairment losses will increase and will become more volatile for assets in the scope of the IFRS 9 impairment model. The Group’s detail assessment indicates that application of IFRS 9’s impairment requirement as at 31 December 2017 would resulted in an increase of CZK 11 million in loss allowances compared with impairment losses recognized under IAS 39. This would also result in a deferred tax asset of CZK 2 million.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group’s risk management objectives and strategy and to apply a more qualitative and forward looking approach assessing hedge effectiveness. The Group uses interest rate SWAP to hedge interest rate risk arising from changes in floating interest rates on loans. The Group will apply the transitional provision and will apply IAS 39 for existing hedging relationships.

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

I. Estimated impact of the adoption of IFRS 15

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 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 estimates that net assets of the Group will increase due to implementation of IFRS 15. The estimated impact of the adoption of the standard on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standard at 1 January 2018 may change because:

- as of the date of authorisation of the financial statements for issue the Group is in post-implementation phase of the project, has launched new IT systems for the IFRS 15 purposes and final control procedures and evaluations are running;
- the new accounting policies are subject to changes until the Group presents its first financial statements that include the date of initial application.

In CZK million	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at 1 January 2018
Retained earnings	3,601	626	4,227
Non-controlling interest	-	-	-

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is CZK 626 million. The principal components of the estimated adjustments are as follows.

- Contracts containing bundle of telecommunication service and equipment are driving an increase of CZK 180 million in retained earnings, due to earlier recognition of equipment revenue from contracts with residential or corporate customers (see also II.).

- Capitalization of cost to obtain contracts effect is estimated to increase retained earnings by CZK 435 million, due to deferral of these costs at the transition to IFRS 15 (see II.).

- An increase of CZK 11 million in retained earnings is due to other minor propositions which are subject to IFRS 15 adjustments from contracts mainly with residential customers (see also II.).

II. Key areas of the application of IFRS 15 by the Group

a. Bundles of telecommunication service and equipment

The core principle of the new standard is for the Group to recognise revenue to depict the transfer of promised 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.

Under current framework, the Group's accounting treatment of several bundles of telecommunication service and equipment for residential segment is in accordance with the contingent revenue cap, which is required to be applied for such type of legal contracts. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to re-allocation of revenues will increase. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of CZK 84 million. The impact of these changes on other items in the consolidated statement of financial position is a recognition of Contract Assets in the amount of CZK 234 million.

Other type of contract which will be subject to adjustment under the new standard are corporate contracts where telecommunication service is incentivised by the equipment budget. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of CZK 95 million. In comparison to residential segment, where equipment is transferred to customer at the inception of the contract, corporate contracts usually allow customers to utilise the budget during the whole duration of the contract. Transition adjustment on other items in the consolidated statement of financial position is hence depending on real progress of utilisation of the budget and is estimated at 1 January 2018 as CZK 199 million.

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 requirements 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. Stand-alone selling price is the price at which the Group would sell a promised good or service separately to a customer. In majority cases the Group is considering list prices for goods and services to be the stand-alone selling prices.

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.

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.

b. Portfolio approach

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

c. Commissions: incremental cost to obtain contracts

Capitalised contract acquisition incremental costs represent mainly external sales commissions which are directly attributable to the acquisition of the contract and are incremental. Amortisation period of such capitalised costs will vary between the estimated average contract duration period for business customers and the estimated average customer life-time period for residential customers. The amortisation of those costs will be presented within the line Depreciation and amortisation in the income statement. Therefore EBITDA will increase and Depreciation and amortisation will increase by the same amount.

d. Transition

Management decided to adopt IFRS 15 using the modified cumulative retrospective transition method, 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.

IFRS 16 – Leases

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both lessees and lessors. In accordance with the new standard the lessees will be required to recognise most leases on their balance sheets while lessor accounting is substantially unchanged. This model applies to leases, except for short-term leases and leases where the underlying asset has low value.

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 Group plans to adopt the new standard on the required effective date.

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

The Group is currently assessing the exact 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.

B Subsidiaries

Subsidiaries, which are those companies in which the Company, directly or indirectly, holds 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. Subsequent changes in the fair value are recognised in profit or loss. 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.

In the case of a successive business combination, the Group, as the acquirer, will revalue the currently held equity interests of the acquiree through profit and loss to its fair value at the acquisition date.

A change in ownership interest in a subsidiary that does not result in the loss of control is accounted for through equity.

Goodwill is initially measured at cost being the excess of the purchase price of the business combination including the amount recognised 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 recognised in profit or loss on the date, when the Group obtained the control. For detail refer to Accounting policies (see Note G Intangible assets and Note 10 Intangible assets).

Intercompany transactions, balances and unrealised gains from transactions among the Group companies are eliminated. Unrealised losses are eliminated except for transaction providing 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 other companies within the Group.

C Transactions under common control

Assets and liabilities acquired are recognised 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, which are accounted for using the equity method.

An associate 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. At least annually as at the balance sheet date, equity accounted investments are tested for impairment. Impairment loss is recognised 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. Balances of monetary items are translated at period-end exchange rates. Translation differences on equity securities classified as available for sale financial assets are included in equity.

(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 reported in 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 de-recognised 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 I 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 the period for which the Group is allowed to utilise 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 they are utilisable to generate economic benefit for the entity.

Acquired licences are recorded at cost and amortised on a straight-line basis from the start of commercial service over the remaining life of the licence (i.e. over 15 to 20 years) to best reflect 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 10).

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 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 net realisable value.

The Group recognises 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 for impairment purposes only.

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 recognised, is determined and is accounted for in profit or loss.

I 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 fair value less costs of disposal 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 and disclosed in Impairment of assets. 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.

J 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. Realised and unrealised gains and losses arising from changes in fair value are recognised in profit or loss in the period in which they arise.

Investments with a fixed maturity that the management intends 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. Investments held to maturity are carried at amortised cost using the effective interest method.

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.

Gains or losses from the revaluation of available-for-sale financial assets are disclosed as a separate item of other comprehensive income until the relevant available-for-sale asset is sold, disposed in another way or there is a permanent impairment of the asset. Non-market equity securities classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost.

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 settlement date. At initial recognition, the Group measures financial instruments at fair value, except instruments measured at fair value with an impact in profit and loss, which is increased by any transaction costs associated with the acquisition or issue of the instrument.

Impairment of financial assets

The Group assesses at least at each balance sheet date whether financial assets or groups of financial assets are impaired.
Assets carried at amortised 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 de-recognised when they are assessed as uncollectible or sold.

Available for sale assets
For available for sale financial assets, objective evidence of impairment is significant or long-term decline in fair value below their cost. "Significant" is considered in relation to the original purchase price and "long-term" in relation to the period in which the fair value was below the original purchase price. If such evidence exists, the cumulative loss, defined as the difference between the cost and the present fair value less the impairment loss on that investment previously recognised in cost, is de-recognised from other comprehensive income and recognised in the cost. The

increase in the fair value of debt available-for-sale financial asset that occurs after the impairment loss is recognised is reversed in the income statement. Impairment losses on equity securities cannot be reversed through the income statement.

De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flow from the asset have expired or 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.

K 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 capitalised 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.

L 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.

M 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. For individually significant 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. Smaller, individually insignificant receivables are aggregated into homogenous groups for which the allowance is calculated based on the historical data. The amount of the allowance is recognised in profit or loss.

N 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, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less, adjusted for bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities section of the balance sheet.

O 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 capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

P Current and deferred income taxes

Income tax expense represents both current and deferred taxation.

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 in force or enacted by the balance sheet date in the relevant country.

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 inventories, tax non-deductible provisions and unused tax losses.

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. Deferred tax liabilities are always recognised.

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.

Q 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.

R Provisions

Provisions are recognised when the Group will be obliged to pay the present liability and it is possible to reliably estimate its amount. 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.

S 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 recognised 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 recognised 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 recognised 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 SMS 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 or SMS are 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, 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 net amount, i.e. 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 recognised when the right to receive payment is established.

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

T Dividend distribution

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

U 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.

V Accounting for derivative financial instruments and hedging activities

The Group uses financial derivatives, in particular interest rate swaps and currency contracts, to hedge the risks associated with the movement of interest rates and exchange rates. Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently revaluated to their fair value.

The method of reporting the final gain or loss from revaluation to fair value depends on whether the derivative is classified as a hedging instrument and the nature of the hedged item.

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.

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),
b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or
c) other derivatives

a) Fair value hedging derivatives
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.

b) Cash flow hedging derivatives
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.

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.

c) Other derivatives
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.

W Change in accounting policy

No significant changes in accounting policies were applied in 2017 and 2016.

X 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 recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

	PAGE
1 | Financial risk management	95
2 | Use of estimates, assumptions and judgements	100
3 | Segment information	102
4 | Revenue and expenses	105
5 | Finance income and costs	106
6 | Income tax	106
7 | Earnings per share	107
8 | Dividends and other distribution	108
9 | Property, plant and equipment	109
10 | Intangible assets	111
11 | Inventories	114
12 | Receivables and other non – current assets	114
13 | Cash and cash equivalents	116
14 | Trade and other payables	116
15 | Financial debts	117
16 | Changes in liabilities arising from financial activities	118
17 | Financial instruments	118
18 | Deferred income taxes	120
19 | Provisions for liabilities and charges	122
20 | Contingencies and litigations	122
21 | Commitments	127
22 | Service concession arrangements	128
23 | Share capital and reserves	129
24 | Related party transactions	130
25 | Associates and joint ventures	133
26 | Post balance sheet events	136

1 Financial risk management

The Group is exposed to a variety of financial risks: market risk (including the effects of changes in market prices, exchange rates and interest rates), liquidity risk and credit risk. The Group's overall risk management strategy focuses on the minimisation of potential adverse effects on the financial performance of the Group. To hedge market exposure the Group uses either derivative financial instruments (such as forward and swap contracts) or non-derivative instruments (such as deposit instruments).

The Group does not conduct any speculative trading activities.

Risk management is carried out by the treasury department in accordance with approved policies. The Board of Directors provides written principles for overall risk management. In accordance with these principles, there are policies in place 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 exchange risk arising from various currency exposures, primarily with respect to the items denominated in euro, XDR and partially to the US dollar:

a) balance sheet items (such as debt, obligations, receivables, payables) denominated in foreign currency,
b) probable/expected 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 minimise earnings and cash flow volatility associated with foreign exchange rate changes. The Group manages currency risk at the Company level, the exposure of other Group companies to currency risk is not significant.

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 these liabilities.

The following foreign exchange contracts were used by the Group to manage the currency risk:

In CZK million	**Notional amount as at 31 December**		**Fair value as at 31 December**	
	2017	**2016**	**2017**	**2016**
Foreign exchange contracts	72	-	(1)	-

The following table demonstrates the sensitivity of profit before tax to foreign exchange rates.

In CZK million	Effect on profit before tax as at 31 December 2017	2016
FX risk		
Value at Risk*	(39)	(29)
Stress testing*	(13)	(56)

* The Value at Risk (VaR) Model enables the Group to estimate the probability of maximum possible loss to the portfolio value in a given time frame which will not be exceeded given the defined confidence 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% confidence level. 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 for translation and transaction in EUR and USD position.

The foreign currency stress test represents the immediate loss caused by 6 % change in the foreign exchange rate in an unfavourable direction.

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

In CZK million	31 December 2017 CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	3,468	515	105	-
Financial derivatives - interest (hedge accounting)*	26	-	-	-
Loans provided	-	13	-	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,873	2,696	190	102
Total financial assets	**7,367**	**3,224**	**295**	**102**
Financial liabilities				
Financial debts	9,972	513	-	-
Financial derivatives – foreign currency (trading)*	-	51	21	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	2,988	3,128	216	99
Total financial liabilities	**12,960**	**3,692**	**237**	**99**

In CZK million	31 December 2016 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

* For currency financial derivatives notional amount of the contract is disclosed (translated to CZK using exchange rate as at 31 December 2017). For interest financial derivatives fair value as at 31 December 2017 is disclosed.

(ii) Interest rate risk

The Group is exposed to interest rate risk arising from floating interest rate bearing cash investments (Note 13) and debt instruments (Note 15).

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 (Note 1(e)).

The following table demonstrates the sensitivity of profit before tax to a change in interest rates.

In CZK million	Effect on profit before tax 31 December 2017	31 December 2016
IR risk		
Stress testing*	(12)	(29)

* To quantify the potential impact of interest rate risk, the sensitivity of interest income and cost to the parallel shift of the relevant yield curves by 1 percentage point was selected. The sensitivity of the relevant portion of the profit and loss statement is measured as a change in annual interest income and cost from interest-sensitive positions as at 31 December.

.

(b) Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2017

In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Interest bearing loans and borrowings	28	152	8,364	2,740
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,257	1,101	73	-
Financial derivatives – foreign currency (trading)*	1	-	-	-
Financial guarantees	9	180	40	-
Total	**5,295**	**1,433**	**8,477**	**2,740**

As 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**

* For foreign currency financial derivatives is disclosed fair value as at 31 December 2017.

(c) Credit risk

Credit risk, with respect to trade accounts receivable, is due to the large number of customers limited. 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 collectability is significantly impacted by the financial stability of particular national economies.

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 maximal possible credit risk arising from receivables and other financial assets equals the carrying amount of those financial instruments.

Credit Risk is managed by the Credit Management Unit and consists of three main activities:

a) prevention: scoring of new customers – activation control 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, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.).

b) monitoring of accounts receivables: regular monitoring of creditworthiness 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 an integrated system solution for scoring, maintenance and collection of receivables.

c) collection process: Credit Management cooperates with Customer Care on implementation 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; collection after the contract is cancelled falls within 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 2017 and as at 31 December 2016 the Group held only available-for-sale financial assets classified as Level 3 financial instruments measured at fair value and swap contracts in foreign currencies and interest rate swaps classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2017 and 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3.

The fair values of the derivative financial instruments is calculated based on 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. An exception are the two tranches of new financing Schuldschein with fixed interest rate (Note 15) with total carrying amount of CZK 2,750 million and fair value of CZK 2,626 million as at 31 December 2017.

The fair value was calculated based on contractual cash flows discounted using a current yield rate. It is classified as level 3 fair value in the fair value hierarchy due to the inclusion of unobservable inputs such as own credit risk.

(e) Hedging accounting

The Group began to hedge cash flows arising from a long-term debt denominated in CZK with floating interest rate in order to hedge interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. Hedged cash flows are the expected monthly payments from September 2017 to November 2020. The Group's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept.

As at 31 December 2017, the total nominal value of hedging instruments was CZK 2,500 million and their fair value was in total CZK 26 million. The hedge was assessed as effective at 31 December 2017 and the net unrealised gain of CZK 26 million, net of deferred tax of CZK 5 million, was recognised in other comprehensive income.

In 2017, cash flow hedge was effective and no ineffectiveness was recognized in profit or loss.

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 an estimate for current income tax and in consideration of the temporary differences also for deferred tax. There is no final tax assessment of a number of transactions and calculations at the time of making the estimates, and the determination of the deferred tax liability and receivable reflects the expectation of how the Company's assets will be used and its liabilities settled. Where the final non-deductible/non-taxable items are different from the amounts that were calculated, such differences will be recognised in the period in which such determination is made (see Note 6 and Note 18).

(2) Property, plant and equipment and intangible assets

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 amortisation purposes.

Determining useful life of software, telecommunication technologies (Note 9 and 10) and equipment 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.

The set useful asset life is reviewed and revised at each balance sheet date and it is adjusted as a change in accounting estimate if needed.

(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. For every litigation and administrative proceeding, it is necessary to estimate the probability of occurrence of the liability, its amount and the moment of its occurrence. Provisions are recognized only when it is probable that the Group will be forced to pay a present obligation in future and it is possible to reliably estimate its amount. 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.

(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 M Trade receivables and Note 12.

3 Segment information

Segments recognised by the Group are as follows:

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

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 operating cost and allocation of resources are controlled and reviewed by the management of the entire reportable segment.

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

For the year ended 31 December 2017	**Czech Republic**		**Slovak Republic**	**Elimination CR vs SR**	**Group**
In CZK million					
	Fix	**Mobil**			
Revenues	10,788	20,173			
Cost of Sales (CoS)	(6,808)	(9,752)			
Gross margin	3,980	10,421			
Other income from non-telecommunication services	143				
Capitalization of fixed assets	271				
Other costs excluding CoS	(6,648)				
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,167**				
Revenue	30,961		7,128	(380)	37,709
Other income from non-telecommunication services	143		3	-	146
Capitalization of fixed assets	271		67	8	346
Total consolidated cost	(23,208)		(4,852)	372	(27,688)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,167**		**2,346**	**-**	**10,513**
Depreciation and amortisation	(2,621)		(727)	-	(3,348)
Impairment loss	(7)		-	-	(7)
Operating profit	**5,539**		**1,619**	**-**	**7,158**
Interest expense	(117)		(9)	8	(118)
Interest income	9		-	(8)	1
Other financial income/(expense)	58		-	-	58
Net financial loss	**(50)**		**(9)**	**-**	**(59)**
Share of profit/(loss) of investments accounted for using the equity method	(1)		-	-	(1)
Profit before tax	**5,488**		**1,610**	**-**	**7,098**
Corporate income tax	(1,084)		(427)	-	(1,511)
Profit for the period	**4,404**		**1,183**	**-**	**5,587**
Assets (excl. Goodwill)	30,167		7,073	(6,875)	30,365
Goodwill	4,477		-	-	4,477
Total Assets	**34,644**		**7,073**	**(6,875)**	**34,842**
Trade and other payables	(6,007)		(2,322)	120	(8,209)
Other liabilities	(11,015)		(783)	640	(11,158)
Total liabilities	**(17,022)**		**(3,105)**	**760**	**(19,367)**
Fixed assets additions*	**3,129**		**1,283**	**(7)**	**4,405**

* Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations.

For the 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				
Capitalization of fixed assets	255				
Other costs excluding CoS	(6,687)				
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,247**				
Revenue	31,085		6,787	(350)	37,522
Other income from non-telecommunication services	202		6	-	208
Capitalization of fixed assets	255		49	8	312
Total consolidated cost	(23,295)		(4,638)	342	(27,591)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,247**		**2,204**	**-**	**10,451**
Depreciation and amortisation	(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**

As at 31 December 2017, the net book value of non-current assets deployed in the Slovak Republic amounted to CZK 4,537 million (2016: CZK 4,222 million).

4 Revenue and expenses

Revenues **In CZK million**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Revenues from voice services	15,247	16,096
Revenues from data services	11,567	10,971
Revenues from ICT Services	1,755	2,006
Other telecommunication revenues	9,140	8,449
Total	**37,709**	**37,522**

Expenses **In CZK million**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Cost of sales	19,423	19,430
Staff costs	4,282	3,987
External services	3,432	3,630
Bad debts expense	192	56
Other expenses	359	488
Total expenses	**27,688**	**27,591**

Cost of sales includes 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 2017 and 2016. As a result of the restructuring process the Group incurred restructuring costs of CZK 27 million during the year ended 31 December 2017 (2016: CZK 55 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 2017 and 2016 as follows:

In CZK million	**Year ended 31 December 2017**	**Year ended 31 December 2016**
KPMG Česká republika Audit, s.r.o.		
Statutory audit	8	8
Other assurance services	1	-
KPMG Slovensko spol. s.r.o.		
Statutory audit	1	1
Other companies from KPMG network		
Other services	2	2
Total	**12**	**11**

5 Finance income and costs

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Finance income		
Interest income	1	14
Foreign exchange gain (net)	54	-
Other finance income	65	5
Total finance income	**120**	**19**
Finance costs		
Interest expenses	118	75
Foreign exchange loss (net)	-	2
Other finance costs	30	30
Loss on fair value adjustments and settlement of financial derivatives (net)	31	2
Total finance costs	**179**	**109**

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

Other financial income mainly include profit of CZK 60 million from the sale of a share in the transnational transport platform Taxify.

In 2017, interest expense in the amount of CZK 10 million (2016: CZK 0 million) was capitalised. The capitalisation rate used to determine the amount of borrowing cost to be capitalised is the weighted average interest rate applicable to the Group´s general borrowings, in this case 1.2%.

6 Income tax

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Total income tax expense is made up of:		
Current income tax charge	1,402	1,301
Deferred income tax (Note 18)	109	184
Income tax	**1,511**	**1,485**

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

In CZK million	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Profit before tax	7,098	6,744
Income tax charge calculated at the weighted average statutory rate (Note 18)	1,386	1,332
Tax effects of:		
- not taxable income	(18)	(18)
- expenses not deductible for tax purposes	61	84
- loss for the period not included in the deferred tax calculation	7	-
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.	87	44
Tax related to prior periods	(12)	33
Income tax	**1,511**	**1,485**
Effective tax rate	21 %	22%

As at 31 December 2017 the total amount of current income tax liability was CZK 1,332 million (2016: CZK 1,223 million), advances paid for corporate income tax were CZK 1,193 million (2016: CZK 1,255 million) and the net deferred tax liability was CZK 54 million (2016: net deferred tax asset CZK 80 million).

7 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).

	31 December 2017	**31 December 2016**
Weighted number of ordinary shares outstanding (in thousands)	303,567	308,205
Net profit attributable to shareholders (in CZK million)	5,592	5,259
Basic earnings per share (in CZK)	18	17

Since the Company has not issued any convertible instruments, there is no dilution of profit.

8 Dividends and other distribution

In CZK million	31 December 2017	31 December 2016
Dividends declared (including withholding tax)	5,274	4,964
Other distribution	1,241	-
Total declared distribution	**6,515**	**4,964**

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

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

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

In CZK	Year ended 31 December 2017	Year ended 31 December 2016
Dividend per share (nominal value of CZK 10)	17	16
Other distribution	4	-
Total distribution per share	**21**	**16**

9 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
As at 31 December 2017					
Opening net book amount	1,021	290	3,084	680	5,075
Additions	92	-	816	937	1,845
Additions from acquisition of subsidiaries (Note 25)	-	-	-	-	-
Disposals	(2)	(5)	(6)	(4)	(17)
Reclassifications and currency differences	3	(27)	(68)	(46)	(138)
Depreciation	(113)	(2)	(724)	(283)	(1,122)
Impairment	-	-	-	(7)	(7)
Closing net book amount	**1,001**	**256**	**3,102**	**1,277**	**5,636**
As at 31 December 2017					
Purchase price	2,172	266	11,291	4,850	18,579
Accumulated depreciation and impairment	(1,171)	(10)	(8,189)	(3,573)	(12,943)
Net book amount	**1,001**	**256**	**3,102**	**1,277**	**5,636**
As 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	(116)	(2)	(678)	(246)	(1,042)
Impairment	-	-	(5)	-	(5)
Closing net book amount	**1,021**	**290**	**3,084**	**680**	**5,075**
As at 31 December 2016					
Purchase price	2,175	305	12,316	4,595	19,391
Accumulated depreciation and impairment	(1,154)	(15)	(9,232)	(3,915)	(14,316)
Net book amount	**1,021**	**290**	**3,084**	**680**	**5,075**

The net book amount of Property, plant and equipment as at 31 December 2017 includes CZK 1,586 million of construction in progress (2016: CZK 1,274 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.

In 2017 the Group recognized impairment of fixed assets in total amount of CZK 7 million CZK (2016: CZK 5 million).

No property, plant and equipment were pledged as at 31 December 2017 and 31 December 2016.

The Group did not recognise any assets held for sale as at 31 December 2017 and 31 December 2016.

In 2017, the Group achieved a total gain from the sale of the fixed assets amounting to CZK 9 million (2016: CZK 5 million) and total losses of CZK 12 million (2016: CZK 7 million).

10 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
As at 31 December 2017						
Opening net book amount	4,458	6,565	3,398	1,833	261	16,515
Additions	-	430	1,349	781	-	2,560
Additions from acquisition of subsidiaries (Note 25)	19	-	47	-	-	66
Disposals	-	(1)	(11)	-	(7)	(19)
Reclassifications and currency differences	-	(75)	(3)	(11)	8	(81)
Amortisation	-	(598)	(794)	(740)	(94)	(2,226)
Impairment	-	-	-	-	-	-
Closing net book amount	**4,477**	**6,321**	**3,986**	**1,863**	**168**	**16,815**
Aa at 31 December 2017						
Purchase price	4,477	10,436	23,479	4,481	536	43,409
Accumulated amortisation and impairment	-	(4,115)	(19,493)	(2,618)	(368)	(26,594)
Net book amount	**4,477**	**6,321**	**3,986**	**1,863**	**168**	**16,815**
As 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	-	(600)	(837)	(880)	(83)	(2,400)
Impairment	-	-	(133)	-	(14)	(147)
Closing net book amount	**4,458**	**6,565**	**3,398**	**1,833**	**261**	**16,515**
As at 31 December 2016						
Purchase price	4,458	10,094	24,107	3,729	577	42,965
Accumulated amortisation and impairment	-	(3,529)	(20,709)	(1,896)	(316)	(26,450)
Net book amount	**4,458**	**6,565**	**3,398**	**1,833**	**261**	**16,515**

The net book amount of intangible assets as at 31 December 2017 includes CZK 1,992 million of construction in progress (2016: CZK 1,154 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 2017 the Group did not recognised any impairment loss (2016: CZK 147 million).

Goodwill

Goodwill from individual companies as at 31 December:

In CZK million	**31 December 2017**	**31 December 2016**
O2 Czech Republic a.s.	4,443	4,443
O2 IT Services s.r.o.	13	13
TapMedia s.r.o. (Note 25)	13	-
INTENS Corporation s.r.o. (Note 25)	6	-
mluvii.com s.r.o.	1	1
Bolt Start Up Development a.s.	1	1
Total	**4,477**	**4,458**

As at 31 December 2017 and 31 December 2016 goodwill at O2 Czech Republic a.s. contained goodwill of CZK 4,315 million resulting from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel) and 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 Group performed impairment tests, which did not result in any impairment losses of goodwill, in 2017 and 2016. The impairment test involves a determination of the recoverable amount of a 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 the Group´s 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 5 years. The business plan has been approved by the management and is current as 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 five-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, include estimates of future development of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share abd growth rates.

Any significant future changes in 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 – basis for determination of the value assigned to the estimated growth rate is the forecast of the market and regulatory environment, where the Group conducts its principal business. The Group uses growth rate between -1% and 0% (2016: -1% and 0%).

Discount rate – discount rate reflects the management's estimate of the risk specific to a cash generating unit. Weighted average cost of capital (WACC) is used as the discount rate. It is estimated using the capital asset pricing model (CAPM) and publicly available data from capital markets.

Reasonable potential changes in the key assumptions, on which the recoverable amount is based, would not cause it to fall below book value because the value in use is significantly higher than the carrying amount of goodwill at O2 Czech Republic a.s. Impairment of goodwill is considered unlikely.

The Group also performed impairment test of goodwill in other companies. The calculation methodology is the same as for O2 Czech Republic a.s. Tests did not indicate any impairment loss as of 31 December 2017 and 31 December 2016.

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

Intangible assets in progress are tested annually for impairment losses. The tests performed as at 31 December 2017 and 31 December 2016 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks. The licences are technologically neutral. The Group uses the following standards for the operation of 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 the individual licences are described in Note 22.

Carrying value of licences:

In CZK million	31 December 2017	31 December 2016
GSM licence	341	391
CDMA licence	211	5
UMTS licence	1,020	1,270
LTE licence	3,836	3,844
GSM and UMTS licence – the Slovak Republic	64	75
LTE licence – the Slovak Republic	849	971
MFCN licence – the Slovak Republic	-	9
Total	**6,321**	**6,565**

Valuable rights

The Group decided in 2014 on exercising the option under the licence agreement, based on which the Group is using the O2 brand until 27 January 2019 in the Czech Republic and Slovakia. In 2017, the Company extended the O2 brand license period by another three years beyond the current period, i.e. newly till 27 January 2022. Furthermore, the Company will be entitled to extend the O2 brand license by another five years, i.e. until 27 January 2027. The O2 brand is recognised within intangible assets as at 31 December 2017 in the net book amount CZK 1,863 million (2016: CZK 1,833 million).

11 Inventories

In CZK million	31 December 2017	31 December 2016
Telecommunication material	10	12
Goods	814	612
Total	**824**	**624**

The inventories stated above are net of an allowance of CZK 96 million (2016: CZK 81 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 3,272 million (2016: CZK 3,251 million).

12 Receivables and other non – current assets

In CZK million	31 December 2017	31 December 2016
Trade receivables from third parties (net)	6,074	5,683
Trade receivables from related parties	153	152
Prepayments	199	479
Other debtors (net)	90	101
Indirect taxes	3	19
Total receivables	**6,519**	**6,434**

Trade receivables and other debtors are stated net of bad debt provision of CZK 2,378 million (2016: CZK 2,631 million).

Trade receivables In CZK million	**Carrying amount**	**Neither Impaired nor overdue**	**Not impaired but overdue** Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
As at 31 December 2017	6,771	5,398	115	6	2	5
As at 31 December 2016	5,969	5,018	282	211	21	1

Bad debt provisions In CZK million	
As at 1 January 2016	**3,098**
Additions	984
Write-off of receivables	(599)
Retirements/amount paid	(852)
As at 31 December 2016	**2,631**
Additions	1,078
Write-off of receivables	(457)
Retirements/amount paid	(863)
Foreign exchange translation reserve	(11)
As at 31 December 2017	**2,378**

The Group's historical experience regarding the collection of accounts receivable is consistent with the recorded allowances. 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 2017**	**31 December 2016**
Trade and other receivables – non-current	544	134
Prepayments	119	47
Loans provided	13	-
Financial derivatives	26	-
Available-for-sale equity investments	24	8
Total other non-current assets	**726**	**189**

Trade and other non-current receivables contained restricted cash of CZK 30 million (2016: CZK 30 million) resulting from the legal requirements of the Czech National Bank as a financial regulator for the Company as small-scale payment services provider.

Available-for-sale equity investments as at 31 December 2017 represent share in CROSS NETWORK INTELLIGENCE s.r.o. and IP FABRIC, INC., which have been acquired through subsidiary Bolt Start Up Development a.s. The Group sold share in Taxify OÜ in 2017 (Note 5).

The increase in non-current trade receivables is related to the introduction of an internal installment sale in the subsidiary O2 Slovakia, s.r.o.

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

In CZK million	31 December 2017	31 December 2016
Gross amounts of trade receivables from third parties	398	1,313
Amounts that are set off	(214)	(294)
Net amounts of trade receivables from third parties	**184**	**1,019**

13 Cash and cash equivalents

In CZK million	31 December 2017	31 December 2016	Interest rate
Cash at current bank accounts and other cash equivalents	1,804	2,098	Floating
Cash at current bank accounts and other cash equivalents (inter-company) (see Note 24)	2,284	2,039	Floating
Total cash and cash equivalents	**4,088**	**4,137**	

As at 31 December 2017 and 2016, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of one month.

The committed and undrawn facilities available to the Group amounted to CZK 5,638 million as at 31 December 2017 (2016: CZK 5,662 million).

14 Trade and other payables

In CZK million	31 December 2017	31 December 2016
Trade payables	6,270	6,492
Tax and social security liability	782	697
Other deferred revenue	70	94
Prepaid cards	433	443
Employee wages and benefits	566	440
Other payables	88	88
Total current trade and other payables	**8,209**	**8,254**
Trade payables	41	113
Other payables	32	55
Other long-term deferred revenue	43	11
Other non-current liabilities	**116**	**179**

.

As at 31 December 2017 and 2016, 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 2017**	**31 December 2016**
Gross amounts of trade payables	274	1,975
Amounts that are set off	(214)	(294)
Net amounts of trade payables	**60**	**1,681**

15 Financial debts

In CZK million	**31 December 2017**	**31 December 2016**
Debt in local currency	10,448	6,976
Accrued interest	37	1
Financial derivative instruments	1	-
Total financial debt	**10,486**	**6,977**
Repayable:		
Within one year	38	1
Between one and five years	10,448	6,976
Total financial debt	**10,486**	**6,977**

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

In line with the facility agreement, the Company drew a facility in the amount of CZK 1 billion on 24 January 2017 and subsequently on 31 March 2017 a facility in the amount of CZK 1 billion. These facilities were repaid on 24 April 2017 and 28 April 2017. As at 31 December 2017, the Company utilised in total CZK 7 billion (2016: CZK 7 billion) from the long-term facility agreement.

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

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

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

No assets of the Group serve as a collateral in connection with the drawing of existing loans.

16 Changes in liabilities arising from financial activities

		Cash flows		Non-cash flows		
In CZK million	**31 December 2016**	**Drawing**	**Repayment**	**Exchange rate revaluation**	**Other**	**31 December 2017**
Long-term loans (Note 15)	6,976	5,511	(2,000)	(30)	(9)	10,448
Total	**6,976**	**5,511**	**(2,000)**	**(30)**	**(9)**	**10,448**

Other non-cash movements include the dissolution of costs directly related to the acquisition of loans.

17 Financial instruments

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

Aa at 31 December 2017

In CZK million	**Loans and receivables**	**Assets at fair value through other comprehensive income**	**Total**
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	6,861	-	6,861
Loans provided	13	-	13
Available-for-sale equity investments	-	24	24
Financial derivatives – interest (hedge accounting)	-	26	26
Cash and cash equivalents	4,088	-	4,088
Total	**10,962**	**50**	**11,012**

As at 31 December 2016

In CZK million	Loans and receivables	Assets at fair value through other comprehensive income	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**

As at 31 December 2017	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	10,485	-	10,485
Financial derivatives – foreign currency (trading)	-	1	1
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	6,431	-	6,431
Total	**16,916**	**1**	**16,917**

As at 31 December 2016	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	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**

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 2017	31 December 2016
Trade receivables		
Group 1	2,629	3,134
Group 2	1,896	1,179
Group 3	873	705
Total unimpaired trade receivables	**5,398**	**5,018**
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody´s):		
A1	210	547
A2	1,224	1,300
A3	26	-
Baa1	294	199
Baa2	14	26
	1,768	**2,072**
Counterparties without external credit rating:		
Intragroup – PPF group	2,284	2,039
	2,284	**2,039**
Cash in hand and other cash equivalents	36	26
Total cash and cash equivalents	**4,088**	**4,137**

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

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 2017 at statutory rate 19% for the Czech Republic (2016: 19%) and 21% for the Slovak Republic (2016: 21%).

In CZK million	2017	2016
As at 1 January	80	263
Charged /(credited) to Profit or loss (Note 6)	(109)	(184)
Charged /(credited) to Other comprehensive income	(6)	-
Deferred tax from acquisitions of subsidiaries (Note 25)	(9)	-
Foreign exchange translation reserve	(10)	1
As at 31 December	**(54)**	**80**

Deferred tax asset is not recognized on the following tax losses:

In CZK million	31 December 2017	Expiration	31 December 2016	Expiration
O2 Business Services, a. s.	62	2018-2021	41	2017-2020
TapMedia s.r.o.	18	2020-2022	-	-
Misterine s.r.o.	4	2022	-	-
Total	**84**		**41**	

As at 31 December 2017 deferred tax asset was not recognised in respect of tax losses carried forward amounting to CZK 84 million (2016: CZK 41 million) as managements of the companies are not certain that the realisation of the related tax benefit through future taxable profits is probable.

The following amounts are offset in the consolidated balance sheet:

In CZK million	31 December 2017	31 December 2016
Deferred tax assets	492	515
Deferred tax liabilities	(546)	(435)
Total	**(54)**	**80**

The deferred tax asset includes CZK 300 million (2016: CZK 301 million) recoverable within twelve months and CZK 192 million (2016: CZK 214 million) recoverable after more than twelve months. The deferred tax liability includes CZK 166 million (2016: CZK 179 million) to be settled within twelve months and CZK 380 million (2016: CZK 256 million) to be settled in more than twelve months.

The net deferred tax comprises the following components:

In CZK million	Balance sheet		Profit or loss		Other comprehensive income	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Deferred tax from temporary differences relating to:						
Tax losses	37	26	11	26	-	-
Property, plant and equipment and intangible assets	(395)	(236)	(150)	(166)	-	-
Trade receivables, inventories and other differences	310	290	30	(44)	-	-
Financial derivatives – hedge accounting	(5)	-	-	-	(5)	-
Revaluation of available-for-sale equity securities	(1)	-	-	-	(1)	-
Total	**(54)**	**80**	**(109)**	**(184)**	**(6)**	**-**

19 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
As at 1 January 2016	**-**	**59**	**94**	**153**
Additions during the year	42	83	21	146
Utilised during the year	-	(25)	(61)	(86)
As at 31 December 2016	**42**	**117**	**54**	**213**
Additions during the year	11	2	-	13
Utilised during the year	-	(45)	(31)	(76)
Foreign currency differences	(3)	-	-	(3)
As at 31 December 2017	**50**	**74**	**23**	**147**
Short-term provisions 2017	1	70	23	94
Long-term provisions 2017	49	4	-	53
As at 31 December 2017	**50**	**74**	**23**	**147**
Short-term provisions 2016	1	101	54	156
Long-term provisions 2016	41	16	-	57
As at 31 December 2016	**42**	**117**	**54**	**213**

As at 31 December 2017, the Group has recognised the provision for estimated costs of dismantling, removing assets and restoring sites amounting to CZK 50 million (2016: CZK 42 million). The reason for recognition of the 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 estimate, 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 restructuring costs provision.

Provisions for regulatory and court decisions are made in respect of 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 2017 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 the 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 in proceedings with the Office for Protection of Economic Competition there occur repeating cancelations of previous decisions 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.

By the end of 2016 the Company filed an extensive statement against nontransparent approach of the Office and Company asked for oral hearing. In October 2017, the Regional Court in Brno stated in its decision that the administrative file and documentation have not been administered by the Office in compliance with law and the court also articulated its legal opinion on incompliance of the whole proceeding with law. After more than 9 years since the beginning of the preliminary investigation, it is therefore obvious that the proceedings suffers with substantial errors without the initial suspicion being confirmed. The Company cooperates with renowned European experts to show methodical errors in the basic approach of the Office and also to document that any delict was not and even could not be committed by the Company. 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, how long the proceedings would last and when it will be closed.

ii. 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 (then 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 termination of calls in his own network. Thus, the competition on this market cannot exist. Regulation of Czech Telecommunication 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.

In the second half of 2016, 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, but decision has not been issued during the year 2017.

II. CNS a.s. – dispute on CZK 19.8 million

In 2009, the employees of CNS a.s., dealing with the development and updates of IT applications and the employees of 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 materialized. CNS a.s. 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. Municipal Court in Prague fully dismissed the legal action in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. High Court in Prague later confirmed that there was not 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 pre-contractual 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. The proceedings was finally terminated because of withdrawal of the legal action without any duty imposed to the Company. The dispute is successfully closed and will not be further reported.

III. 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 proceeding 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 the possibility of the revision expert opinion, which 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 revision expert opinion has confirmed the statement of the Company. The expert opinion stated that any anti- competition practice of the Company was not proved and also pointed on the question of absence of the dominant position on the market of Internet broadband connection.

The next oral hearing was ordered on February 2018.

IV. 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. New evidence did not bring any finding in favor of the plaintiff. 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 volumes 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 confirmed the dismissal of the legal action against the Company and moreover changed also the original verdict regarding the amount CZK 1.7 million in its decision from 29 March 2017. Ultimately the Company was completely successful in this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court and the Company filed its statement.

V. 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 has not 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 has not taken place yet.

VI. 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 has not been ordered yet.

VII. 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 proceeding 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 director, 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 maintained 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 has not been issued yet.

The Company filed the legal action to the Municipal court in Prague as a reaction to the repeated attempts organized by the connected companies BELL TRADE and PET-PACK SK s.r.o. The Company claims that no contracts have ever been concluded and that the Company has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed the Company´s arguments and upheld the legal action on the hearing on 26 June 2017. BELL TRADE and PET-PACK SK s.r.o. filed the appeal to the High Court in Prague but the decision has not been issued yet.

VIII. Other

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 32 million. Possible impact of these disputes is reflected in the financial statements, however, risks associated with these 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) originating from non-cancellable operating leases are as following:

	31 December 2017		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	715	1,438	322
- *Of which contractual obligations with CETIN*	*155*	*489*	-

	31 December 2016		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	685	1,753	334
- *Of which contractual obligations with CETIN*	*215*	*694*	*56*

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2017 were CZK 679 million (2016: CZK 722 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2017 amounted to CZK 465 million (2016: CZK 293 million). The majority of contracted amounts relates to the telecommunication networks and service contracts.

The Group has contractual obligations as at 31 December 2017 relating to acquisitions of minority interests in CROSS NETWORK INTELLIGENCE s.r.o. and IP FABRIC, INC. Upon fulfilment of the specified conditions, the Group is obliged to increase its share for the agreed amount of CZK 19 million.

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 and 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 on the basis of radio frequency assignment from the CTO valid until 22 October 2024, 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, in the 800, 1800 and 2600 MHz frequency bands under LTE standard on the basis of radio frequency assignments from the CTO valid until 22 October 2024 for frequency band 1800 MHz and until 30 June 2029 for frequency bands 800 a 2600 MHz, 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 Company also holds the radio frequency assignment in the 3.7 GHz frequency band valid until 30 June 2032, which was used for experimental broadcasting in 2017 and the radio frequency assignment in the 450 MHz frequency band valid from 8 February 2018 to 7 February 2033, which prolongs the mentioned above frequency assignment in this frequency band.

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.

Provision of electronic communications services in the Slovak Republic

O2 Slovakia, s.r.o. provides electronic communication services by the means of a public mobile electronic communication network in the 900 MHz 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 7 September 2026, in the 2,100 MHz frequency bands under 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 MHz 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 valid until 7 September 2026 (for 1,800 MHz frequency band) and as well as provides services of electronic communications by the means of MFCN (Mobile Fixed Communications Networks) in the 3,500 MHz and 3,700 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 2017, 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 2017	31 December 2016
Nominal value per ordinary registered share (in CZK)	10	10
Number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (in CZK)	100	100
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	3,102

Shareholdings in the Company were as follows:

	31 December 2017	31 December 2016
PPF Telco B.V.	70,79 %	50.00 %
PPF Arena 1 B.V.	0 %	23.79 %
PPF A3 B.V.	10,27 %	10.27 %
O2 Czech Republic a.s. (treasury shares)	2,80 %	1.56 %
Other shareholders	16,14 %	14.38 %

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 optimise the capital structure to serve the purpose of achieving these plans.

Standalone equity structure as at 31 December 2017 and 2016:

In CZK million	**31 December 2017**	**31 December 2016**
Share capital	3,102	3,102
Treasury shares	(2,204)	(1,152)
Share premium	10,676	11,894
Funds and reserves	8	8
Cash flow hedging	21	-
Retained earnings from previous years	614	414
Net income for current year	5,396	5,394
Total	**17,613**	**19,660**

In 2017, the Company continued in accordance with the decision of the General Meeting made on 8 December 2015 relating to the ordinary share acquisition program (up to 10 % over the next 5 years) in the acquisition. As at 31 December 2017 the Company held 8,695,327 treasury shares with the total purchase price of CZK 2,204 million (2016: 4,852,535 treasury shares with the total purchase price of CZK 1,152 million).

24 Related party transactions

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

PPF Group invests in various industries such as banking and financial services, telecommunication, real estate, 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 are tested for the impairment at the balance sheet date, and neither allowance nor write-off were recorded due to a value decrease.

The following transactions were carried out with related parties:

I. Parent company:

The total amount of dividend paid in 2017 to shareholders from the PPF Group was CZK 5,281 million (2016: CZK 4,172 million). Payables from the dividend to shareholders from the PPF Group was fully settled as of 31 December 2017 and 31 December 2016 respectively.

II. Other related parties – PPF Group:

Balance sheet **In CZK million**	**31 December 2017**	**31 December 2016**
a) Receivables	102	152
b) Payables	1,016	1,024
c) Financial derivatives – assets	9	-
d) Financial derivatives – liabilities	1	-
e) Cash equivalents (Note 13)	2,284	2,039

Statement of comprehensive income **In CZK million**	**Year ended** **31 December 2017**	**Year ended** **31 December 2016**
a) Sales of services and goods	441	405
b) Purchases of services and goods	10,482	10,668
c) Interest expense	1	-
d) Loss on fair value adjustments of financial instruments (net)	(17)	(2)
e) Other financial expenses	1	1

The Company sold assets in the amount of CZK 9 million to CETIN (2016: CZK 7 million).

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

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

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years.

The Group is obliged to use the services for a period of 7 years, two years before the expiration of this term, negotiations on price for the next period begin. Total payment was in 2017 approximately CZK 4.5 billion (2016: CZK 4.4 billion).

b) agreement on the access to the public fixed communications network (so-called MMO)
The subject of MMO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment). In 2017, total cost was approximately CZK 3,993 million (2016: CZK 4,126 million).

c) agreement on the access to end points (so-called RADO)
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. In 2017, the total cost was approximately CZK 897 million (2016: CZK 951 million).

III. Associates and joint ventures

Balance sheet In CZK million	31 December 2017	31 December 2016
a) Receivables	51	52
b) Payables	68	78

Statement of comprehensive income In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
a) Sales of services and goods	160	160
b) Dividend income	9	11
c) Purchases of services and goods	195	195

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 2017	Year ended 31 December 2016
Board of Directors	39	38
Supervisory Board	1	1
Executive management	37	52
Total	**77**	**91**

No loans were provided to members of the Board of Directors and Supervisory Board and executive management in 2017 and 2016.

25 Associates and joint ventures

Investments in equity accounted investees can be analysed as follows:

In CZK million	31 December 2017	31 December 2016
Associates	15	32
Joint ventures	3	10
Investments in total	**18**	**42**

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 material for the Group are presented in the table below. 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 01-12/2017	For the period 01-12/2016
Revenue	277	268
Profit/(loss) before tax	6	(3)
Profit/(loss) after tax	5	(2)
In CZK million	**31 December 2017**	**31 December 2016**
Current assets	101	110
Non-current assets	5	5
Current liabilities	101	98
Equity	5	17

* 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	**2017**	**2016**
Net assets as at 1 January	17	30
Share of the Group on net assets as at 1 January	10	18
Share of the Group on profit/(loss) after tax	3	(1)
Dividend income	(10)	(7)
Total investment in joint venture	**3**	**10**

The Group has also interests in several individually insignificant associates that are accounted for in the consolidated financial statements of the Group using the equity method.

In CZK million	**2017**	**2016**
Investments in associates as at 31 December	15	32
Share of the Group on:		
- profit/(loss) after tax	(2)	(2)
- impairment of equity accounted investments	(2)	(20)

The Group held interests in the following entities as at 31 December 2017:

		Group's interest as at31 December				
Subsidiaries		**2017**	**2016**	**Country of incorporation**	**Activity**	**Method of consolidation**
1.	O2 Slovakia, s.r.o.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
2.	4Local, s.r.o. (former Internethome, s.r.o.)	100 %	100 %	Czech Republic	Provision of WiFi internet access	Consolidated (full consolidation)
3.	O2 Family, s.r.o.	100 %	100 %	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
4.	O2 TV s.r.o.	100 %	100 %	Czech Republic	Digital television	Consolidated (full consolidation)
5.	O2 IT Services s.r.o.	100 %	100 %	Czech Republic	Information technology services	Consolidated (full consolidation)
6.	Bolt Start Up Development a.s.	100 %	100 %	Czech Republic	Startup fund	Consolidated (full consolidation)
7.	O2 Business Services, a.s.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)

8.	eKasa s.r.o.	100 %	100 %	Czech Republic	Electronic sales reporting ("EET") solution provider	Consolidated (full consolidation)
9.	O2 Financial Services s.r.o.	100 %	100 %	Czech Republic	Financial Services intermediary	Consolidated (full consolidation)
10.	mluvii.com s.r.o. (former iCORD International s.r.o.)	90 %	90 %	Czech Republic	On-line communication platform	Consolidated (full consolidation)
11.	Misterine s.r.o.	80 %	80 %	Czech Republic	Virtual and augmented reality	Consolidated (full consolidation)
12.	Smart home security s.r.o.	100 %	-	Czech Republic	Provider of home security equipment and services	Consolidated (full consolidation)
13.	INTENS Corporation s.r.o.	100 %	-	Czech Republic	Provider of transport telematics services	Consolidated (full consolidation)
14.	TapMedia s.r.o.	100 %	34 %	Czech Republic	Mobile applications development	Consolidated (full consolidation)
Associates						
15.	První certifikační autorita, a.s.	23 %	23 %	Czech Republic	Certification services	Not consolidated (immaterial)
16.	AUGUSTUS, spol. s.r.o.	40 %	40 %	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
17.	Dateio s.r.o.	21 %	21 %	Czech Republic	Direct marketing platform development	Consolidated (equity method)
Joint ventures						
18.	Tesco Mobile ČR s.r.o.	50 %	50 %	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
19.	Tesco Mobile Slovakia, s.r.o.	50 %	50 %	Slovak Republic	Mobile virtual network operator for prepaid services	Not consolidated (immaterial)

Acquisitions of subsidiaries during 2017

On 1 January 2017, the Group gained control, through the subsidiary Bolt Start Up Development a.s., in the company INTENS Corporation s.r.o., in which it acquired 100% share.

On 28 February 2017, the Group increased its share through the subsidiary Bolt Start Up Development a.s. in the company TapMedia s.r.o. to 51 %, in which it newly gained control. The non-controlling interest was valued at the proportionate share of the acquiree's identifiable net assets.

The fair values of identifiable assets and liabilities acquired at the date of acquisition were as follows:

In CZK million	INTENS Corporation s.r.o.	TapMedia s.r.o.	Total
Intangible assets	41	6	47
Short-term receivables	16	3	19
Cash and cash equivalents	9	3	12
Deferred tax liability	(8)	(1)	(9)
Trade and other payable	(10)	(2)	(12)
Income tax liability	(1)	-	(1)
Total net assets	**47**	**9**	**56**
Non-controlling interest	-	(4)	(4)
Fair value of the previously acquired share	-	(12)	(12)
Goodwill (see Note 10)	6	13	19
Total purchase price	**53**	**6**	**59**

Since the date of acquisition, these companies contributed loss of CZK 7 million to the Group's earnings after tax for the year 2017 and gains of CZK 40 million. If these acquisitions had been made at the beginning of 2017, the Group's profit after tax for the year 2017 would have been CZK 5,587 million and the gains would have been CZK 37,709 million.

Reported goodwill of the above business combinations consists of the fair value of the synergies resulting from acquisitions, employees and their know-how, and intangible assets not qualified for separate reporting.

Acquisition of non-controlling interest during 2017

On 18 October 2017, the Group increased its share through the subsidiary Bolt Start Up Development a.s. in the company TapMedia s.r.o. from 51 % to 100 %. The impact of the transaction is shown in the table below.

In CZK million	2017
Value of non-controlling share at acquisition date	1
Purchase price of non-controlling interest	-
Impact on equity	**(1)**

No transactions with non-controlling interests were carried out in 2016.

26 Post balance sheet events

Purchase of UEFA Champions League rights

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

This event has no impact on the financial statements for the year ended 31 December 2017.

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 2017.

14 February 2018

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

O2 Czech Republic a.s.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

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.

CONTENT

PAGES

GENERAL INFORMATION 140

STATEMENT OF TOTAL COMPREHENSIVE INCOME 142

BALANCE SHEET 143

STATEMENT OF CHANGES IN EQUITY 144

STATEMENT OF CASH FLOWS 145

ACCOUNTING POLICIES 147

NOTES TO THE FINANCIAL STATEMENTS 166

GENERAL INFORMATION

O2 Czech Republic a.s., (the "Company") has the form of a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Za Brumlovkou 266/2, Prague 4, 140 22, Czech Republic.

As at 31 December 2017, 81.06% of the Company's voting rights was held indirectly by Mr. Petr Kellner through PPF Telco B.V. and PPF A3 B.V. – companies from the PPF group which is controlled by Mr. Petr Kellner.

The Company is the largest integrated telecommunications provider in the Czech market providing fully convergent services.

The average number of employees employed by the Company in 2017 was 4,286 (2016: 3,772).

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

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2018 and are subject to review by the Supervisory Board.

Main events of the year 2017

Share buyback

In accordance with the decision of the General Meeting on 8 December 2015 concerning acquisition of treasury shares (up to 10% of the total number of shares issued during the following 5 years), the Company continued in the share buyback programme. As at 31 December 2017 the Company held 8,695,327 treasury shares for a total purchase price of CZK 2,204 million.

Underwriting of new Schuldschein loan

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

O2 extends its brand license till January 2022

The Company extended the O2 brand licence period for an agreed fee by another three years beyond the current period, i.e. newly till 27 January 2022. Moreover, it extended the Partnership agreement with Telefónica till the same date. Furthermore, the Company will be entitled to extend the O2 brand licence by another five years, i.e. until 27 January 2027.

Auction of spectrum in 3,700 MHz band

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

Renewal of the existing assignment in 450 MHz band

In August 2017, the Czech Telecommunication Office renewed the existing 450 MHz radio frequency assignment to the Company for a period of 15 years from the expiry of the current allocation, i.e. till 7 February 2033. The Company paid CZK 210 million for the licence renewal.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2017

In CZK million	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Revenues	3, 4	29,918	29,773
Other income from non-telecommunication services	3	215	317
Capitalisation of fixed assets	3	238	216
Expenses	3, 4	(22,566)	(22,242)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**7,805**	**8,064**
Depreciation and amortisation	9, 10	(2,383)	(2,519)
Impairment loss	9, 10	(7)	(138)
Operating profit		**5,415**	**5,407**
Finance income	5	1,196	1,202
Finance expenses	5	(172)	(124)
Profit before tax		**6,439**	**6,485**
Corporate income tax	6	(1,043)	(1,091)
Net profit		**5,396**	**5,394**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedging financial instruments, net of tax	1	21	-
Other comprehensive income, net of tax		**21**	**-**
Total comprehensive income, net of tax		**5,417**	**5,394**
Earnings per share (in CZK) – basic*	7	18	18

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

BALANCE SHEET

As at 31 December 2017

In CZK million	Notes	31 December 2017	31 December 2016
ASSETS			
Property, plant and equipment	9	2,402	2,380
Intangible assets	10	15,000	14,478
Investment in subsidiaries and equity accounted investees	25	6,885	6,706
Other non-current assets	12	215	140
Non-current assets		**24,502**	**23,704**
Inventories	11	625	514
Receivables	12	5,773	5,678
Income tax receivable	6	-	2
Cash and cash equivalents	13	3,434	3,356
Current assets		**9,832**	**9,550**
Total assets		**34,334**	**33,254**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	3,102
Treasury shares	23	(2,204)	(1,152)
Share premium	23	10,676	11,894
Retained earnings, funds and reserves		6,039	5,816
Total equity		**17,613**	**19,660**
Long-term financial debts	15	10,448	6,976
Deferred tax liability	18	258	168
Non-current provisions for liabilities and charges	19	4	16
Non-current other liabilities	14	60	131
Non-current liabilities		**10,770**	**7,291**
Short-term financial debts	15	153	116
Trade and other payables	14	5,685	6,041
Income tax liability	6	21	-
Provisions for liabilities and charges	19	92	146
Current liabilities		**5,951**	**6,303**
Total liabilities		**16,721**	**13,594**
Total equity and liabilities		**34,334**	**33,254**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

In CZK million	Notes	Share capital	Share premium	Treasury shares	Funds	Cash flow hedging	Retained earnings	Total
As at 1 January 2016		**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	8	-	-	-	-	-	(4,964)	(4,964)
Distribution 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)
As at 31 December 2016		**3,102**	**11,894**	**(1,152)**	**8**	**-**	**5,808**	**19,660**
Profit for the year		-	-	-	-	-	5,396	5,396
Other comprehensive income		-	-	-	-	21	-	21
Total comprehensive income		**-**	**-**	**-**	**-**	**21**	**5,396**	**5,417**
Distribution declared in 2017	8	-	(1,241)	-	-	-	(5,274)	(6,515)
Distribution on treasury shares	23	-	23	-	-	-	98	121
Acquisition of parts of the subsidiary O2 IT Services s.r.o.	24	-	-	-	-	-	(18)	(18)
Acquisition of treasury shares	23	-	-	(1,052)	-	-	-	(1,052)
As at 31 December 2017		**3,102**	**10,676**	**(2,204)**	**8**	**21**	**6,010**	**17,613**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax		**6,439**	**6,485**
Non-cash adjustments for:			
Dividend income	5	(1,142)	(1,183)
Depreciation	9	656	631
Amortisation	10	1,727	1,888
Impairment loss		7	138
(Profit)/loss on sale of property, plant and equipment and intangible assets		(7)	(1)
(Profit)/loss on sale of part of business		(24)	-
Net interest cost		107	60
Unrealised foreign exchange losses/(gains) (net)		23	(2)
Fair value changes		1	2
Change in provisions and allowances and write-off of receivables		106	87
Other non-cash operations		(26)	31
Operating cash flow before working capital changes		**7,867**	**8,136**
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		283	(280)
(Increase)/decrease in inventories		(127)	76
Increase/(decrease) of financial assets and liabilities at fair value through profit or loss		(1)	(3)
Increase/(decrease) in trade and other payables		(294)	176
Cash flows from operating activities		**7,728**	**8,105**
Interest paid		(99)	(69)
Interest received		10	15
Income tax paid		(935)	(1,016)
Net cash flow from operating activities		**6,704**	**7,035**
Cash flows from investing activities			
Purchase of property, plant and equipment		(711)	(652)
Purchase of intangible assets		(2,336)	(3,221)
Proceeds from sales of property, plant and equipment and intangible assets		20	24
Cash purchase of financial investments and part of business		(148)	(100)
Proceeds from sales of part of business		35	-
Dividends received		1,148	1,183
Provision of loans		(677)	-
Repayment of loans		-	46
(Increase)/decrease of restricted cash		-	432
Net cash used in investing activities		**(2,669)**	**(2,288)**
Cash flows from financing activities			
Proceeds from borrowings	16	5,511	5,000
Repayment of borrowings	16	(2,000)	(1,000)
Proceeds/(repayments) of other borrowings		-	(595)
Acquisition of treasury shares		(1,052)	(1,152)
Dividends and other distributions paid		(6,394)	(4,946)
Net cash used in financing activities		**(3,935)**	**(2,693)**
Net increase/(decrease) in cash and cash equivalents		**100**	**2,054**

Cash and cash equivalents – beginning of year	13	3,356	1,296
Effect of foreign exchange rate movements on cash and cash equivalents		(22)	6
Cash and cash equivalents – end of year	13	3,434	3,356

ACCOUNTING POLICIES

CONTENT

CONTENT	PAGE
A | Basis of preparation	146
B | Foreign currencies	153
C | Property, plant and equipment	154
D | Intangible assets	155
E | Non-current assets held for sale	156
F | Impairment of assets	156
G | Investments and other financial assets	157
H | Leases	159
I | Inventories	159
J | Trade receivables	159
K | Cash and cash equivalents	160
L | Financial debt	160
M | Current and deferred income taxes	160
N | Employee benefits	161
O | Provisions	161
P | Revenue and expenses	161
Q | Dividend distribution	163
R | Offsetting financial instruments	163
S | Accounting for derivative financial instruments and hedging activities	163
T | Investments in subsidiaries, joint ventures and associates	164
U | Transactions under common control	165
V | Change in accounting policy	165
W | Treasury shares	165

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).

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 cases when IFRS require different measurement method, 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 for 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 of 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

For financial statements for the year ended 31 December 2017 the Company adopted new or revised standards and interpretations as mentioned below.

Revision of IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses

Revision of IAS 7 Statement of cash flows: Disclosure initiative

Annual improvements to IFRS 2014 to 2016, containing amendments of the following standards:
- IFRS 1 First-time adoption of International Financial Reporting Standards
- IFRS 12 Disclosure of interests in other entities
- IAS 28 Investments in associates and joint ventures

New IFRS not yet effective as at 31 December 2017 (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**
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial Instruments – classification and measurement	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018*
	Annual improvements to IFRS 2014-2016 Cycle (issued on 8 December 2016)	1 January 2018*
	Annual improvements to IFRS 2015-2017 Cycle (issued on 12 December 2017)	1 January 2019*
IFRS 16	Leases	1 January 2019

* These improvements/interpretation has not yet passed the EU approval process.

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 IFRS 16.

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.

The impact of the adoption of IFRS 9 on the Company's financial statements in 2018 will depend on the financial instruments that the Company will hold and on the economic conditions at that time as well as judgements that it will make in the future. The Company has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its position as at 31 December 2017 in each area.

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 subsequently measured at amortised cost or at fair value according to IFRS 9. Financial assets may be measured at amortised cost unless they are held in accordance with a business model whose objective is to collect the contractual cash flows from the asset arising under the contractual terms and conditions of the financial asset. Cash flows are solely for the payments of principal and interest from the outstanding principal. All financial assets for which neither of these conditions are met are equity instruments that are measured at fair value, the changes are accounted in the other comprehensive income or in profit or loss. Trading instruments must be measured at fair value through profit or loss. For instruments that meet the definition of an equity instrument in IAS 32 not designated for trading, the entity may make a choice (the decision is irreversible) on whether the changes in fair value are recognised in the other comprehensive income or in the profit or loss.

The Company does not believe that the new classification requirements, if applied as at 31 December 2017, would have a material impact on the Company's financial statements.

The impairment model in accordance with the IFRS 9 is based on forward looking 'expected credit losses' that replaces the IAS 39 incurred loss model. Entities are generally required to recognise 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 will apply the simplified approach for recognition of expected credit losses from trade receivables and contract assets under IFRS 15. The adoption of the new standard will have impact mainly on measurement of the Company's financial assets.

The Company believes that impairment losses will increase and will become more volatile for assets in the scope of the IFRS 9 impairment model. The Company's detailed assessment indicated that application of IFRS 9's impairment requirement as at 31 December 2017 would resulted in an increase of CZK 11 million in loss allowances compared with impairment losses recognised under IAS 39. This would also result in a deferred tax asset of CZK 2 million.

IFRS 9 will require the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach assessing hedge effectiveness. The Company uses interest rate swaps to hedge interest rate risk arising from changes in floating interest rates on loans. The Company will apply the transitional provision and will apply IAS 39 for existing hedging relationships.

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

I. Estimated impact of the adoption of IFRS 15

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 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 estimates that net assets of the Company will increase due to implementation of IFRS 15. The estimated impact of the adoption of the standard on the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standard at 1 January 2018 may change because:

- as of the date of authorisation of financial statements for issue the Company is in post-implementation phase of the project, has launched new IT systems for the IFRS 15 purposes and final control procedures and evaluations are running;
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

In CZK million	**As reported at 31 December 2017**	**Estimated adjustments due to adoption of IFRS 15**	**Estimated adjusted opening balance at 1 January 2018**
Retained earnings	6,010	563	6,573

The total estimated adjustment (net of tax) to the opening balance of the Company's equity at 1 January 2018 is CZK 563 million. The principal components of the estimated adjustment are as follows.

- Contracts containing bundle of telecommunication service and equipment are driving an increase of CZK 177 million in retained earnings, due to earlier recognition of equipment revenue from contracts with residential or corporate customers (see also II.).

- Capitalization of incremental cost to obtain contracts effect is estimated to increase retained earnings by CZK 375 million, due to deferral of these costs at the transition to IFRS 15 (see II.).

- An increase of CZK 11 million in retained earnings is due to other minor propositions which are subject to IFRS 15 adjustments from contracts with residential customers mainly (see also II.).

II. Key areas of the application of IFRS 15 by the Company

a. Bundles of telecommunication service and equipment

The core principle of the new standard is for the Company to recognise revenue to depict the transfer of promised 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.

Under current framework, the Company's accounting treatment of several bundles of telecommunication service and equipment for residential segment is in accordance with the contingent revenue cap, which is required to be applied for such type of legal contracts. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to re-allocation of revenues will increase. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of CZK 84 million. The impact of these changes on other items in the consolidated statement of financial position is a recognition of Contract Assets in the amount of CZK 234 million.

Other type of contract which will be subject to adjustment under the new standard are corporate contracts where telecommunication service is incentivised by the equipment budget. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of CZK 92 million. In comparison to residential segment, where equipment is transferred to customer at the inception of the contract, corporate contracts usually allow customers to utilise the budget during the whole duration of the contract. Transition adjustment on other items in the statement of financial position is hence depending on real progress of utilisation of the budget and is estimated at 1 January 2018 as CZK 196 million of Contract Assets.

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 requirements 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. Stand-alone selling price is the price at which the Company would sell a promised good or service separately to a customer. In majority cases the Company is considering list prices for goods and services to be the stand-alone selling prices.

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.

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.

b. Portfolio approach

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

c. Commissions: incremental cost to obtain contracts

Capitalised contract acquisition incremental costs represent mainly external sales commissions which are directly attributable to the acquisition of the contract and are incremental. Amortisation period of such capitalised costs will vary between the estimated average contract duration period for business customers and the estimated average customer life-time period for residential customers. The amortisation of those costs will be presented within the line Depreciation and amortisation in the income statement. Therefore EBITDA will increase and Depreciation and amortisation will increase by the same amount.

d. Transition

Management decided to adopt IFRS 15 using the modified cumulative retrospective transition method, 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.

IFRS 16 – Leases

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both lessees and lessors. In accordance with the new standard the lessees will be required to recognise most leases on their balance sheets while lessor accounting is substantially unchanged. This model applies to leases, except for short-term leases and leases where the underlying asset has low value.

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 Company plans to adopt the new standard on the required effective date.

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

The Company is currently assessing the exact 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.

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 recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. 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 de-recognised 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 F 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 the period for which the Company is allowed to utilise 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 they are utilisable to generate economic benefit for the entity.

Acquired licences are recorded at cost and amortised on a straight-line basis from the start of commercial service over the remaining life of the licence (i.e. over 15 to 20 years) to best reflect 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 10).

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 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 recognises 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 for impairment purposes only.

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 recognised, is determined and is accounted for in profit or loss.

F 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 fair value less costs of disposal 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.

G 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. Realised and unrealised gains and losses arising from changes in fair value are recognised in profit or loss in the period in which they arise.

Investments with a fixed maturity that the management intends 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. Investments held to maturity are carried at amortised cost using the effective interest method.

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.

Gains or losses from the revaluation of available-for-sale financial assets are disclosed as a separate item of other comprehensive income until the relevant available-for-sale asset is sold, disposed in another way or there is a permanent impairment of the asset. Non-market equity securities classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost.

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 settlement date. At initial recognition, the Group measures financial instruments at fair value, except instruments measured at fair value with an impact in profit and loss, which is increased by any transaction costs associated with the acquisition or issue of the instrument.

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 amortised 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 de-recognised when they are assessed as uncollectible or sold.

Available for sale assets

For available for sale financial assets, objective evidence of impairment is significant or long-term decline in fair value below their cost. "Significant" is considered in relation to the original purchase price and "long-term" in relation to the period in which the fair value was below the original purchase price. If such evidence exists, the cumulative loss, defined as the difference between the cost and the present fair value less the impairment loss on that investment previously recognised in cost, is de-recognised from other comprehensive income and recognised in the cost. The increase in the fair value of debt available-for-sale financial asset that occurs after the impairment loss is recognised is reversed in the income statement. Impairment losses on equity securities cannot be reversed through the income statement

De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flow from the asset have expired or 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.

H 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 capitalised 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 financial expenses 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.

I 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.

J 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. For individually significant 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. Smaller, individually insignificant receivables are aggregated into homogenous groups for which the allowance is calculated based on the historical data. The amount of the allowance is recognised in profit or loss.

K 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, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less, adjusted for bank overdrafts. Bank overdrafts are shown within Short-term financial debts in current liabilities section of the balance sheet.

L 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 capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

M Current and deferred income taxes

Income tax expense represents both current and deferred taxation.

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 in force or enacted by the balance sheet date.

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, tax non-deductible allowances and provisions and unused tax credits.

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. Deferred tax liabilities are always recognised.

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.

N 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 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 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.

O Provisions

Provisions are recognised when the Company will be obliged to pay the present liability and it is possible to reliably estimate its amount. 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.

P 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 recognised 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 recognised 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 recognised 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 recognised when the right to receive payment is established.

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

Q Dividend distribution

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

R 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.

S Accounting for derivative financial instruments and hedging activities

The Company uses financial derivatives, in particular interest rate swaps and currency contracts, to hedge the risks associated with the movement of interest rates and exchange rates. Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently revaluated to their fair value.

The method of reporting the final gain or loss from revaluation to fair value depends on whether the derivative is classified as a hedging instrument and the nature of the hedged item.

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.

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),
b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or
c) other derivatives

a) Fair value hedging derivatives
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.

b) Cash flow hedging derivatives
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.

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.

c) Other derivatives
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 recognised immediately in profit or loss.

T 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, which 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.

U 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 recognised in the stand-alone financial statements of the Company at acquisition price.

V Change in accounting policy

No significant changes in accounting policies were applied in 2017 and 2016.

W 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 recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

CONTENT

	PAGE
1 | Financial risk management	167
2 | Use of estimates, assumptions and judgements	172
3 | Segment information	173
4 | Revenues and expenses	176
5 | Finance income and expenses	177
6 | Income tax	177
7 | Earnings per share	178
8 | Dividends and other distribution	178
9 | Property, plant and equipment	180
10 | Intangible assets	181
11 | Inventories	183
12 | Receivables and other non-current assets	184
13 | Cash and cash equivalents	185
14 | Trade and other payables	185
15 | Financial debts	186
16 | Changes in liabilities from financing activities	187
17 | Financial instruments	187
18 | Deferred income taxes	189
19 | Provisions for liabilities and charges	190
20 | Contingencies and litigations	191
21 | Commitments	195
22 | Service concession arrangements	196
23 | Share capital and reserves	197
24 | Related party transactions	198
25 | Subsidiaries, associates and joint ventures	201
26 | Post balance sheet events	203

1 Financial risk management

The Company is exposed to a variety of financial risks: market risk (including the effects of changes in market prices, exchange rates and interest rates), liquidity risk and credit risk. The Company's overall risk management strategy focuses on the minimisation of potential adverse effects on the financial performance of the Company. To hedge market exposures, the Company uses either derivative financial instruments (such as forward and swap contracts) or non-derivative instruments (such as deposit instruments).

The Company does not conduct any speculative trading activities.

Risk management is carried out by the treasury department in accordance with approved policies. The Board of Directors provides written principles for overall risk management. In accordance with these principles, there are policies in place 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 exchange risk arising from various currency exposures, primarily with respect to the items denominated in euro, XDR and partially to the US dollar:

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

The Company's objective in managing its exposure to foreign currency fluctuations is to minimise 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 these liabilities.

The following foreign exchange contracts were used by the Company to manage the currency risk:

In CZK million	Notional amount as at 31 December		Fair value as at 31 December	
	2017	**2016**	**2017**	**2016**
Exchange rate contracts	72	-	(1)	-

The following table demonstrates the sensitivity of profit before tax to foreign exchange rates.

In CZK million	Effect on profit before tax as at 31 December 2017	as at 31 December 2016
FX risk		
Value at Risk*	(39)	(29)
Stress testing*	(13)	(53)

* The Value at Risk (VaR) Model enables the Company estimate the probability of maximum possible loss to the portfolio value in a given time frame which will not be exceeded given the defined confidence 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% confidence level. 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 for a translation and transaction EUR and USD position.

The foreign currency stress test represents the immediate loss caused by a 6 % change in the foreign exchange rate in an unfavourable direction.

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

In CZK million	31 December 2017 CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	3,057	274	103	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,931	1,574	190	88
Financial derivatives – interest (hedge accounting)*	26	-	-	-
Total financial assets	**7,014**	**1,848**	**293**	**88**
Financial liabilities				
Financial debts	10,087	513	-	-
Financial derivatives – foreign currency (trading)*	-	51	21	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	2,784	1,348	149	62
Total financial liabilities	**12,871**	**1,912**	**170**	**62**

* For currency financial derivatives notional amount of the contract is disclosed (translated to CZK using exchange rate as at 31 December 2017). For interest financial derivatives fair value as at 31 December 2017 is disclosed.

In CZK million	31 December 2016 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**

(ii) Interest rate risk

The Company is exposed to interest rate risk arising from floating interest rate on financial instruments (Note 13) and borrowings (Note 15).

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The financial assets and short-term liabilities are currently maintained on floating rates while long term debts could be maintained on both floating and fixed rates. The Company uses interest rate swaps to manage ratio of debts with fixed and variable interest rates (Note 1(e)).

The following table demonstrates the sensitivity of profit before tax to a change in interest rates.

In CZK million	Effect on profit before tax 31 December 2017	31 December 2016
Interest rate risk		
Stress testing*	(13)	(38)

* To quantify the potential impact of interest rate risk, the Company assesses sensitivity of interest income and expense to the parallel shift of the relevant yield curves by 1 percentage point. The sensitivity of the relevant section of the profit and loss statement is measured as a change in annual interest income and expense from the interest-sensitive positions as at 31 December.

(b) Liquidity risk

The Company's essential objective of liquidity risk management is having sufficient access to the financial resources to meet all its cash payment obligations as they fall due. Financial resources consist of cash and cash equivalents (including highly liquid financial instruments), and committed credit facilities arranged with banks.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and as at 31 December 2016 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2017 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing borrowings	28	152	8,364	2,740
Cash-pooling and other intragroup borrowings	115	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	3,674	620	49	-
Financial derivatives – foreign currency (trading)*	1	-	-	-
Financial guarantees	8	151	35	-
Total	**3,826**	**923**	**8,448**	**2,740**

As at 31 December 2016 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing 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**

* For foreign currency financial derivatives fair value as at 31 December 2017 are disclosed.

(c) Credit risk

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

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 in order to minimise the Company's exposure to bad debts.

The maximum possible credit risk arising from receivables and other financial assets equals the carrying amount of those financial instruments.

Credit Risk is managed by the Credit Management Unit and consists of three main activities:

a) prevention: scoring of new customers – activation control 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.).

b) monitoring of accounts receivables: regular monitoring of creditworthiness 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 an integrated system solution for scoring, maintenance and collection of receivables.

c) collection process: Credit Management cooperates with Customer Care on implementation 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; collection after the contract is cancelled falls within 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 2017 and as at 31 December 2016, the Company held foreign currency forward and swap contracts and interest rate swaps classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2017 and 31 December 2016, 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 is calculated based on discounted cash flow model (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. An exception are the two tranches of new financing Schuldschein with fixed interest rate (Note 15) with total carrying amount of CZK 2,750 million and fair value of CZK 2,626 million as at 31 December 2017.

The fair value was calculated based on contractual cash flows discounted using a current yield rate. It is classified as level 3 fair value in the fair value hierarchy due to the inclusion of unobservable inputs such as own credit risk.

(e) Hedging accounting

The Company began to hedge cash flows arising from a long-term debt denominated in CZK with floating interest rate in order to hedge interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. Hedged cash flows are the expected monthly payments from September 2017 to November 2020. The Group's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept.

As at 31 December 2017, the total nominal value of hedging instruments was CZK 2,500 million and their fair value was in total CZK 26 million. The hedge was assessed as effective at 31 December 2017 and the net unrealised gain of CZK 26 million, net of deferred tax of CZK 5 million, was recognised in other comprehensive income.

In 2017, cash flow hedge was effective and no ineffectiveness was recognised in profit or loss.

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. 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 effect on the carrying amounts of assets and liabilities are discussed below:

(1) Income taxes and deferred taxes

The Company creates an estimate for current income tax and in consideration of the temporary differences also for deferred tax. There is no final tax assessment of a number of transactions and calculations at the time of making the estimates, and the determination of the deferred tax liability and receivable reflects the expectation of how the Company's assets will be used and its liabilities settled. Where the final non-deductible/non-taxable items are different from the amounts that were calculated, such differences will be recognised in the period in which such determination is made (see Note 6 and Note 18).

(2) Property, plant and equipment and intangible assets

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 amortisation purposes.

It is necessary to make the estimates in connection with future technological developments and alternative uses for assets for the purpose of determination of useful life of software and telecommunication technologies and equipment (see Note 9 and 10). 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.

The set useful asset life is reviewed and revised at each balance sheet date and it is adjusted as a change in accounting estimate if needed.

(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. For every litigation and administrative proceedings, it is necessary to estimate the probability of occurrence of the liability, its amount and the moment of its occurrence. Provisions are recognised only when it is probable that the Company will be forced to pay a present obligation in future and it is possible to reliably estimate its amount.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.

(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 12 Receivables and other non-current assets.

3 Segment information

Segments recognised by the Company are as follows:

- The 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

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 Company level.

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

Year ended
31 December 2017

In CZK million

	Fix	Mobil	Total
Revenues	9,965	19,953	29,918
Cost of Sales (CoS)	(6,472)	(9,788)	(16,260)
Gross margin	3,493	10,165	13,658
Other income from non-telecommunication services			215
Capitalisation of fixed assets			238
Other costs excluding CoS			(6,306)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			**7,805**
Depreciation and amortisation			(2,383)
Impairment loss			(7)
Operating profit			**5,415**
Interest expense			(116)
Interest income			9
Other finance income/(expense)			1,131
Net finance income			**1,024**
Profit before tax			**6,439**
Corporate income tax			(1,043)
Profit for the period			**5,396**
Assets (excl. Goodwill)			29,891
Goodwill			4,443
Total Assets			**34,334**
Trade and other payables			(5,685)
Other liabilities			(11,036)
Total liabilities			**(16,721)**
Fixed assets additions*			**2,953**

* Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations.

Year ended
31 December 2016

In CZK million

	Fix	**Mobil**	**Total**
Revenues	10,449	19,324	29,773
Cost of Sales (CoS)	(6,674)	(9,291)	(15,965)
Gross margin	3,775	10,033	13,808
Other income from non-telecommunication services			317
Capitalisation of fixed assets			216
Other costs excluding CoS			(6,277)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			**8,064**
Depreciation and amortisation			(2,519)
Impairment loss			(138)
Operating profit			**5,407**
Interest expense			(76)
Interest income			16
Other finance income/(expense)			1,138
Net finance income			**1,078**
Profit before tax			**6,485**
Corporate income tax			(1,091)
Profit for the period			**5,394**
Assets (excl. Goodwill)			28,811
Goodwill			4,443
Total Assets			**33,254**
Trade and other payables			(6,041)
Other liabilities			(7,553)
Total liabilities			**(13,594)**
Fixed assets additions			**3,128**

4 Revenues and expenses

Revenues In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Revenues from voice services	11,232	11,958
Revenues from data services	11,124	10,573
Revenues from ICT services	880	856
Other telecommunication revenues	6,682	6,386
Total revenues	**29,918**	**29,773**

Expenses In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Cost of sales	16,260	15,965
Staff costs	3,285	2,918
External services	2,638	2,935
Bad debts expense	118	18
Other expenses	265	406
Total expenses	**22,566**	**22,242**

Cost of sales includes 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 2017 and 2016. As a result of the restructuring process, the Company incurred restructuring costs of CZK 18 million during the year ended 31 December 2017 (2016: CZK 55 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 2017 and 2016 as follows:

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
KPMG Česká republika Audit, s.r.o.		
Statutory audit	7	7
Other assurance services	1	-
Other companies from KPMG network		
Other services	2	2
Total	**10**	**9**

5 Finance income and expenses

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Finance income		
Interest income	9	16
Foreign exchange gain (net)	45	2
Other finance income	1,142	1,184
Total finance income	**1,196**	**1,202**
Finance expenses		
Interest expenses	116	76
Loss on fair value adjustments and settlement of financial derivatives (net)	31	2
Other finance expenses	25	46
Total finance expenses	**172**	**124**

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 1,099 million (2016: CZK 1,112 million), O2 Family, s.r.o. of CZK 33 million (2016: CZK 31 million), O2 IT Services s.r.o. of CZK 1 million (2016: CZK 26 million), O2 TV s.r.o. of CZK 0 million (2016: CZK 3 million), from associated company První certifikační autorita, a.s. of CZK 5 million (2016: CZK 4 million) and from Tesco Mobile ČR s.r.o. of CZK 4 million (2015: CZK 7 million).

In 2017, interest expense in the amount of CZK 10 million (2016: CZK 0 million) was capitalised. The capitalisation rate used to determine the amount of borrowing cost to be capitalised is the weighted average interest rate applicable to the Company´s general borrowings, in this case 1.2%.

6 Income tax

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Total income tax expense is made up of:		
Current income tax charge	958	983
Deferred income tax charge (Note 18)	85	108
Income tax	**1,043**	**1,091**

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

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax	6,439	6,485
Income tax charge calculated at the statutory rate of 19%	1,223	1,232
Tax effects of:		
- not taxable income	(217)	(225)
- expenses not deductible for tax purposes	45	50
Tax related to prior periods	(8)	34
Income tax	**1,043**	**1,091**
Effective tax rate	16 %	17 %

As at 31 December 2017 the total amount of current income tax liability was CZK 967 million (2016: CZK 948 million), advances paid for corporate income tax were CZK 946 million (2016: CZK 950 million) and the net deferred tax liability was CZK 258 million (2015: CZK 168 million).

7 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).

	31 December 2017	31 December 2016
Weighted number of ordinary shares outstanding (in thousands)	303,567	308,205
Net profit attributable to shareholders (in CZK million)	5,396	5,394
Basic earnings per share (in CZK)	18	18

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

8 Dividends and other distribution

In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
Dividends declared (including withholding tax)	5,274	4,964
Other distribution	1,241	-
Total declared distributions	**6,515**	**4,964**

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

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

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

In CZK	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Dividend per share (nominal value of CZK 10)	17	16
Other distribution	4	-
Total distribution per share	**21**	**16**

9 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
As at 31 December 2017					
Opening net book amount	200	6	1,662	512	2,380
Transfers within the Group	-	-	-	1	1
Additions	1	-	473	222	696
Disposals	(1)	(5)	(4)	(4)	(14)
Reclassifications	-	-	(50)	52	2
Depreciation	(43)	-	(406)	(207)	(656)
Impairment	-	-	-	(7)	(7)
Closing net book amount	157	1	1,675	569	2,402
As at 31 December 2017					
Purchase price	777	1	8,065	3,629	12,472
Accumulated depreciation and impairments	(620)	-	(6,390)	(3,060)	(10,070)
Net book amount	157	1	1,675	569	2,402
As 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)	-	(13)
Reclassifications	2	6	(33)	35	10
Depreciation	(47)	-	(397)	(187)	(631)
Impairment	-	-	(5)	-	(5)
Closing net book amount	200	6	1,662	512	2,380
As at 31 December 2016					
Cost	840	12	9,164	3,946	13,962
Accumulated depreciation and impairments	(640)	(6)	(7,502)	(3,434)	(11,582)
Net book amount	200	6	1,662	512	2,380

The net book amount of Property, plant and equipment as at 31 December 2017 includes CZK 242 million of construction in progress (2016: CZK 378 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 2017 and 31 December 2016.

The Company did not recognise any assets held for sale as at 31 December 2017 and 31 December 2016.

In 2017, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 9 million (2016: CZK 3 million) and total losses of CZK 3 million (2016: CZK 5 million).

10 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
As at 31 December 2017						
Opening net book amount	4,443	5,510	2,816	1,567	142	14,478
Transfers within the Group	-	-	13	-	-	13
Additions	-	413	1,063	781	-	2,257
Disposals	-	-	(11)	-	(7)	(18)
Reclassification	-	-	(3)	-	-	(3)
Amortisation	-	(515)	(561)	(616)	(35)	(1,727)
Impairment	-	-	-	-	-	-
Closing net book amount	4,443	5,408	3,317	1,732	100	15,000
As at 31 December 2017						
Cost	4,443	9,181	20,888	3,978	176	38,666
Accumulated amortisation and impairment	-	(3,773)	(17,571)	(2,246)	(76)	(23,666)
Net book amount	4,443	5,408	3,317	1,732	100	15,000
As 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	-	(511)	(592)	(752)	(33)	(1,888)
Impairment	-	-	(133)	-	-	(133)
Closing net book amount	4,443	5,510	2,816	1,567	142	14,478
As at 31 December 2016						
Cost	4,443	8,768	21,755	3,197	217	38,380
Accumulated amortisation and impairments	-	(3,258)	(18,939)	(1,630)	(75)	(23,902)
Net book amount	4,443	5,510	2,816	1,567	142	14,478

The net book value of intangible assets as at 31 December 2017 includes CZK 1,857 million of construction in progress (2016: CZK 1,016 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 2017 the Company recognised impairment loss of CZK 0 million (2016: CZK 133 million). Impairment loss mostly represents value of intangible assets which were made redundant due to ongoing IT system transformation.

Goodwill

As at 31 December 2017 and 2016, goodwill consisted of CZK 4,315 million resulting from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel) and CZK 128 million related to the take-over of assets as a part of the project of merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company in 2012.

The Company performed impairment tests, which did not result in impairment losses of goodwill in 2017 and 2016. The impairment test involves a determination of the recoverable amount of a 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 the Company's 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 5 years. The business plan has been approved by the management and it is current as 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 five-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, include estimates of future development of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share and growth rates.

Any significant future changes in 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 most sensitive to the following key assumptions:

Estimated growth rate – basis for determination of the value assigned to the estimated growth rate is the forecast of the market and regulatory environment, where the Company conducts its principal business. The Company uses growth rate between -1% and 0% (2016: -1% and 0%).

Discount rate – discount rate reflects the management's estimate of the risk specific to a cash-generating unit. Weighted average of cost of capital (WACC) is used as the discount rate. It is estimated using the capital asset pricing model (CAPM) and publicly available data from capital markets.

Reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount because the value in use is significantly higher than the book value. Impairment of goodwill is considered unlikely.

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

Intangible assets in progress are tested annually for impairment losses. The review performed as at 31 December 2017 and 2016 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks. The licences are technologically neutral. The Company uses the following standards for the operation of 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 the individual licences are described in Note 22.

Carrying value of licences:

In CZK million	**31 December 2017**	**31 December 2016**
GSM licence	341	391
CDMA licence	211	5
UMTS licence	1,020	1,270
LTE licence	3,836	3,844
Total	**5,408**	**5,510**

Valuable rights

The Company decided in 2014 on exercising the option under the licence agreement, based on which the Company is using the O2 brand until 27 January 2019 in the Czech Republic and the Slovak Republic. The Company extended the O2 brand license period by another three years beyond the current period, i.e. newly till 27 January 2022. Furthermore, the Company will be entitled to extend the O2 brand license by another five years, i.e. until 27 January 2027. The O2 brand is recognised within intangible assets as at 31 December 2017 in the net book amount CZK 1,732 million (2016: CZK 1,567 million).

11 Inventories

In CZK million	**31 December 2017**	**31 December 2016**
Telecommunication material	6	8
Goods	619	506
Total	**625**	**514**

The inventories stated above are net of an allowance of CZK 95 million (2016: CZK 80 million), reducing the value of the inventories to their net realizable value. The amount of inventories recognised as an expense from sale of goods and utilisation of material is CZK 2,182 million (2016: CZK 2,171 million).

12 Receivables and other non-current assets

In CZK million	**31 December 2017**	**31 December 2016**
Trade receivables from third parties (net)	4,264	4,388
Trade receivables from related parties	626	769
Prepayments	111	380
Other debtors (net)	772	140
Indirect taxes	-	1
Total receivables	**5,773**	**5,678**

Trade receivables and other debtors are stated net of a bad debt provision of CZK 2,162 million (2016: CZK 2,399 million).

Other debtors (net) as at 31 December 2017 includes short-term loans provided to O2 TV s.r.o. of CZK 50 million (2016: CZK 50 million) and to O2 Slovakia, s.r.o. of CZK 639 million (2016: CZK 0 million).

			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
As at 31 December 2017	5,011	4,505	99	3	-	4
As at 31 December 2016	5,250	4,512	224	201	12	-

Bad debt provisions In CZK million	
As at 1 January 2016	**2,829**
Additions	928
Write-off of receivables	(532)
Retirements/amount paid	(826)
As at 31 December 2016	**2,399**
Additions	1,006
Write-off of receivables	(381)
Retirements/amount paid	(862)
As at 31 December 2017	**2,162**

The Company's historical experience regarding the collection of accounts receivable is consistent with the recorded allowances. 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 2017**	**31 December 2016**
Trade and other receivables – non-current	121	93
Prepayments	68	47
Financial derivatives	26	**-**
Total other non-current assets	**215**	**140**

Trade and other non-current receivables contained restricted cash of CZK 30 million (2016: CZK 30 million) resulting from the legal requirements of the Czech National Bank as a financial market regulator for the Company as a small-scale payment service provider.

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

In CZK million	**31 December 2017**	**31 December 2016**
Gross amounts of trade receivables from third parties	259	563
Amounts that are set off	(199)	(233)
Net amounts of trade receivables from third parties	**60**	**330**

13 Cash and cash equivalents

In CZK million	**31 December 2017**	**31 December 2016**	**Interest rate**
Cash at current bank accounts and other cash equivalents	1,379	1,420	Floating
Cash at current bank accounts and other cash equivalents (inter-company) (see Note 24)	2,055	1,936	Floating
Total cash and cash equivalents	**3,434**	**3,356**	

As at 31 December 2017 and 2016, cash and cash equivalents of the Group comprised interest-bearing deposits with the maximum maturity of one month.

In 2017, the Company was using cash-pooling with subsidiary O2 Family, s.r.o., with interest rate based on 1M PRIBOR. In 2016, the Company was using cash-pooling with subsidiary O2 Slovakia, s.r.o., with interest rate based on 1M EURIBOR and with subsidiary O2 Family, s.r.o., with interest rate based on 1M PRIBOR (see Note 15).

The committed and undrawn facilities available to the Company amounted to CZK 5,600 million as at 31 December 2017 (2016: CZK 5,600 million).

14 Trade and other payables

In CZK million	**31 December 2017**	**31 December 2016**
Trade payables	4,224	4,734
Tax and social security liability	637	545
Other deferred revenue	30	62
Prepaid cards	270	270
Employee wages and benefits	454	320
Other payables	70	110
Total current trade and other payables	**5,685**	**6,041**

In CZK million	31 December 2017	31 December 2016
Trade payables	29	62
Other payables	20	55
Other long-term deferred revenue	11	14
Other non-current liabilities	**60**	**131**

As at 31 December 2017 and 31 December 2016, 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. The financial instruments are as follows:

In CZK million	31 December 2017	31 December 2016
Gross amounts of trade payables	204	280
Amounts that are set off	(199)	(233)
Net amounts of trade payables	**5**	**47**

15 Financial debts

In CZK million	31 December 2017	31 December 2016
Debt in local currency	10,448	6,976
Intragroup cash-pooling (Note 24)	115	115
Accrued interest	37	1
Financial derivatives	1	-
Total financial debt	**10,601**	**7,092**
Repayable:		
Within one year	153	116
Between one and five years	10,448	6,976
Total financial debt	**10,601**	**7,092**

On 16 December 2015 the Company entered into term facility agreement up to CZK 12 billion with maturity of 5 years. The interest rate is based on 1M PRIBOR increased by 0.60% margin. The debt is not secured by any assets owned by the Company.

In line with the facility agreement, the Company drew a facility in the amount of CZK 1 billion on 24 January 2017 and subsequently on 31 March 2017 a facility in the amount of CZK 1 billion. These facilities were repaid on 24 April 2017 and 28 April 2017. As at 31 December 2017, the Company utilised in total CZK 7 billion (2016: CZK 7 billion) from the long-term facility agreement.

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

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

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

No assets of the Company serve as a collateral in connection with the drawing of existing loans.

16 Changes in liabilities from financing activities

		Cash flows		Other non-cash movements		
In CZK million	**31 December 2016**	**Drawing**	**Repayment**	**Foreign exchange adjustments**	**Other**	**31 December 2017**
Long-term debts (Note 15)	6,976	5,511	(2,000)	(30)	(9)	10,448
Short-term debts (Note 15)	115	-	-	-	-	115
Total	**7,091**	**5,511**	**(2,000)**	**(30)**	**(9)**	**10,563**

Other non-cash movements include the change of costs directly related to the acquisition of borrowings.

17 Financial instruments

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

As at 31 December 2017

In CZK million	Loans and receivables	Assets at fair value through other comprehensive income	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,783	-	5,783
Financial derivatives	-	26	26
Cash and cash equivalents	3,434	-	3,434
Total	**9,217**	**26**	**9,243**

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	10,600	-	10,600
Financial derivatives	-	1	1
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,343	-	4,343
Total	**14,943**	**1**	**14,944**

As 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 liabilities)	4,961	-	4,961
Total	**12,053**	**-**	**12,053**

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 2017	31 December 2016
Trade receivables		
Group 1	2,853	2,842
Group 2	941	1,004
Group 3	711	666
Total unimpaired trade receivables	**4,505**	**4,512**
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody's):		
A1	196	521
A2	863	679
Baa1	292	199
Baa2	-	1
	1,351	**1,400**
Counterparties without external credit rating:		
Intragroup – PPF group	2,055	1,936
	2,055	**1,936**
Cash in hand and other cash equivalents	28	20
Total cash and cash equivalents	**3,434**	**3,356**

Group 1 – End customers monitored in the integrated system solution for scoring, maintenance and collection of receivables

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 2017 and 2016.

In CZK million	2017	2016
As at 1 January	**(168)**	**(60)**
Charged/(credited) to Profit or loss (Note 6)	(85)	(108)
Charged/(credited) to Other comprehensive income (Note 1(e))	(5)	-
As at 31 December	**(258)**	**(168)**

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

In CZK million	31 December 2017	31 December 2016
Deferred tax assets	258	256
Deferred tax liabilities	(516)	(424)
Total	**(258)**	**(168)**

The deferred tax asset includes CZK 127 million (2016: CZK 106 million) recoverable in less than twelve months and CZK 131 million (2016: CZK 150 million) recoverable after more than twelve months. The deferred tax liability includes CZK 159 million (2016: CZK 176 million) to be settled in less than twelve months and CZK 357 million (2016: CZK 248 million) to be settled in more than twelve months.

The deferred tax comprises the following components:

In CZK million	Balance sheet		Profit or loss		Other comprehensive income	
	2017	2016	2017	2016	2017	2016
Temporary differences relating to:						
Property, plant and equipment and intangible assets	(396)	(321)	(75)	(65)	-	-
Trade receivables, inventories and other differences	143	153	(10)	(43)	-	-
Financial derivatives – cash flow hedge	(5)	-	-	-	(5)	-
Total	**(258)**	**(168)**	**(85)**	**(108)**	**(5)**	**-**

19 Provisions for liabilities and charges

In CZK million	Regulatory and court decisions	Other provisions	Total
As at 1 January 2016	**58**	**70**	**128**
Additions during the year	81	16	97
Utilised during the year	(25)	(37)	(62)
Transferred to O2 IT Services s.r.o. (Note 25)	-	(1)	(1)
As at 31 December 2016	**114**	**48**	**162**
Additions during the year	2	-	2
Utilised during the year	(43)	(25)	(68)
As at 31 December 2017	**73**	**23**	**96**
Short-term provisions 2017	69	23	92
Long-term provisions 2017	4	-	4
Total as at 31 December 2017	**73**	**23**	**96**
Short-term provisions 2016	98	48	146
Long-term provisions 2016	16	-	16
Total as at 31 December 2016	**114**	**48**	**162**

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 a 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 2017, 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 the 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. In proceedings with the Office for Protection of Economic Competition there occur repeating cancelations of previous decisions 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 proceedings on alleged abuse of dominant position on fixed 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 how the information was interpreted by the Office. In the light of the above, the Company requested 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 shall be stopped immediately. This verdict was later confirmed by the Supreme Administrative Court in September 2011. The Office reacted by opening official administrative proceedings on the dominant position on fixed broadband market by ADSL technology in March 2011. The Company filed its statement proving that the Office defines incorrectly the relevant market on which the Company would allegedly hold dominant position and moreover even abuse it. The 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 the European Commission. The Company also provided the Office with numerous documents proving that all steps of the Company were proper. Additional records are continuously filed into the file.

At the end of 2016, the Company filed an extensive statement against the non-transparent approach of the Office and the Company requested a hearing. In October 2017, the Regional Court in Brno stated in its decision that the administrative file and the documentation had not been administered by the Office in compliance with the law and the court also articulated its legal opinion on non-compliance of the whole proceedings with the law. More than 9 years after the beginning of the preliminary investigation, it is therefore obvious that the proceedings suffer from substantial errors and the initial suspicion has not been confirmed. The Company cooperates with renowned European experts to show methodological errors in the approach of the Office and also to document that no delict was committed by the Company. Neither in the case of the financial statements for previous years nor in the case of these financial statements it was possible to make a reliable estimate of how long the proceedings would last and when will they be closed.

ii. Proceedings on fine of 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 of the proceedings was the conclusion of an interconnection contract with Vodafone (then Czech Mobil) in which the parties have agreed that their network will directly connect.

In the proceedings, The Office considered such agreement as a cartel agreement, but without specifying whom, how and from which market the companies should exclude by such agreement. Each operator is by its very nature the only entity which can offer the service of termination of calls in its own network. Thus, the competition on this market cannot exist. The regulation by the Czech Telecommunication Office and other European regulators is as well based on this basic principle. Naturally, in this context no other subject can offer a better price for termination than the network operator itself – as in the case of indirect connection, additional fee for transit is added while the termination fee remains the same.

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

In the second half of 2016, the Office suddenly completely disregarded this fact and issued a "clarification of the subject of administrative proceedings" where the Company (which, however, did not conclude the interconnection contract) was accused of the alleged misconduct. In December 2016, the Office issued a decision by which it imposed a fine of CZK 49.5 million on the Company. The company filed an appeal, but no decision has been issued during 2017.

II. CNS a.s. – dispute over CZK 19.8 million

In 2009, the employees of CNS a.s. (CNS), dealing with the development and updates of IT applications, and the employees of Telefónica O2 Business Solutions, spol. s r.o. held negotiations over a potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project never materialised. In August 2010, CNS a.s. filed a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million due to not signing any contract. The Municipal Court in Prague fully dismissed the legal action in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. The High Court in Prague later confirmed that there was not any contract concluded between CNS and the Company and therefore there is no claim of CNS from the contractual relationship. The High Court ordered the Municipal Court in Prague to decide on possible claims of CNS arising from pre-contractual liability, however the court file does not contain any evidence regarding such claims. Just before the last hearing in October 2014, CNS announced to the court that they had allegedly transferred all their "claims" to the company NAMARA INVESTMENT PARTNERS. This company was established in London just 14 days before this announcement.

The Company filed complaints against the proposal. The complaints were successful and the court did not allow entry of this speculative subject into the proceedings. The proceedings were finally terminated because of a withdrawal of the legal action without any duty imposed on the Company. The dispute has been successfully closed and will not be further reported.

III. VOLNÝ, a.s. – dispute over CZK 4 billion

On 28 March 2011, VOLNÝ, a.s., (VOLNÝ) 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 claimed it had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have had the same result on the broadband market. It did not attain such a share, allegedly due to a margin squeeze applied by the Company on the fixed 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 the discrepancies in the petition claims. The court started the proceedings in the matter and hearings took place during the year 2013, including the hearings of witnesses and experts. Last hearing took place in February 2014 when the court indicated that a revision expert opinion could be considered by the court.

Another hearing took place on 30 March 2016, where the court considered the possibility of the revision expert opinion, which would review the opinion filed by VOLNÝ and by the Company as well. VOLNÝ proposed an expert which eventually turned out to be biased in relation to the matter. The Company filed a protest in the matter of the bias. Subsequently the court appointed other expert and defined a set of questions. The revision expert opinion has confirmed the statement of the Company. The expert opinion stated that no anti-competition practice of the Company was proved and also pointed at the question of absence of the dominant position on the market of Internet broadband connection.

The next hearing was ordered for February 2018.

IV. TELECONSULT INTERNATIONAL – dispute over 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 procedural and formal nature, the Municipal Court in Prague is obliged to go through all the evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused damage (lost profit) to it between May and October 1998. New evidence did not bring any finding in favour of the plaintiff. The court issued the decision at 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 CZK 1.7 million which represents the difference between the volumes of minutes measured by both parties in May 1998. The Company filed an appeal against this part of the decision. In its decision from 29 March 2017, the High Court in Prague confirmed the dismissal of the legal action against the Company and moreover also changed the original verdict regarding the amount CZK 1.7 million in favour of the Company. Ultimately, the Company has been successful in all parts of this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court and the Company filed its statement to it.

V. Vodafone Czech Republic a.s. – dispute over CZK 384.7 million

The legal action of Vodafone Czech Republic a.s. claiming CZK 384.7 million was delivered to the Company on 2 April 2015. The legal action is grounded on alleged breach of the competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed two weeks after a two page notice claiming the amount was delivered to the Company. The Company deems the whole claim to be a purely artificial case, whose sole purpose was to damage the Company by negative media coverage. Vodafone Czech Republic a.s. claims that it had not reached 200 000 customers of xDSL internet services and therefore lost profit. The Company provided the court with its statement pointing out the groundlessness of the claim. No hearing has taken place yet.

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

The Company registers two legal actions by shareholders who claim a declaration of invalidity of the resolution of the general meeting held on 28 April 2015 in the item No. 7 (Discussion on and approval of the spin-off of a part of the Company with the creation of a new company). These legal actions were filed by Ing. Tomáš Hájek and Pinara Ponava, s.r.o. The Company considers these actions groundless and it filed its statement with the court pointing out relevant facts. No hearing has been ordered yet.

VII. BELL TRADE s.r.o. – legal action over CZK 5.2 billion

Although the Constitutional Court of the Slovak Republic decided that Slovak courts had no jurisdiction in the matter and the proceedings were terminated, the Company recorded yet another attempt of a start of a 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 had been led solely between Slovak subjects – BELL TRADE and PET PACK SK s.r.o. over CZK 31 million.

BELL TRADE, whose current sole director, shareholder and also the legal representative is attorney JUDr. Milan Fulec, tries 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 he “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. In the new claim raised against the Company, the plaintiff claims CZK 5.2 billion with interest applied from 14 March 2016.

The entire claim is again completely artificial. No contracts have ever been signed and the Company has never received any performance for which someone could claim some payments. BELL TRADE has never claimed that it became a contractual party of the (never concluded) contracts. So far, BELL TRADE has always acted only as a “creditor” and thus a holder of (supposedly existing and payable) claims against the Company. Moreover, BELL TRADE has always maintained that contracts were allegedly concluded for 10 years period and would have therefore come to an end on 31 December 2013 at the latest. Nevertheless, the current claim by BELL TRADE is based on a withdrawal which was sent a year and a half after this date. Therefore, no damage could have ever occurred to BELL TRADE. Such alleged damage could have hardly been 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 the re-entry of the Company as the defendant. BELL TRADE filed an appeal to the Regional Court in Bratislava. No decision has been issued yet.

As a reaction to the repeated attempts organised by the related companies BELL TRADE and PET-PACK SK s.r.o., the Company filed a legal action to the Municipal court in Prague. The Company claims that no contracts have ever been concluded and that the Company has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed the Company's arguments and on 26 June 2017 upheld the legal action in the hearing. BELL TRADE and PET-PACK SK s.r.o. filed an appeal to the High Court in Prague but no decision has been issued yet.

VIII. Other

The Company is involved in other legal disputes where the amount disputed is over CZK 5 million. The aggregate value of all these pending disputes totals nearly CZK 32 million. The possible impact of these disputes is reflected in the financial statements, however, the risks associated with these disputes are not significant.

The Company considers disclosing other information regarding the mentioned 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 2017		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	525	971	28
- *Of which contractual obligations with CETIN*	*155*	*489*	-

	31 December 2016		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	476	1 303	114
- *Of which contractual obligations with CETIN*	*215*	*694*	*56*

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2017 were CZK 441 million (2016: CZK 461 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2017 amounted to CZK 169 million (2016: CZK 237 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 (CTO) 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 public access service,
e) leased lines - service is defined as public access service,
f) radio and TV signal broadcasting - service is defined as public access service,
g) data transmission - service is defined as public access service,
h) internet access services - service is defined as public access service,
i) other voice services - service is defined as public access service,
j) leased lines - service is not defined as public access service,
k) radio and TV signal broadcasting - service is not defined as public access service,
l) data transmission - service is not defined as public access service,
m) internet access services - service is not defined as public access service.

The Company provides electronic communications services in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard using radio frequency assignment by the CTO valid until 22 October 2024, in the 2100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard using radio frequency assignment by the CTO valid until 1 January 2022, in the 800, 1800 a 2600 MHz frequency bands under LTE standard using radio frequency assignments by the CTO valid until 22 October 2024 for the 1800 MHz frequency band and until 30 June 2029 for the 800 and 2600 MHz frequency bands, and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access, 3G) providing broadband mobile access to Internet using radio frequency assignment by the CTO valid until 7 February 2018. The Company also holds the radio frequency assignment in the 3.7 GHz frequency band valid until 30 June 2032, which was used for experimental broadcasting in 2017 and the radio frequency assignment in the 450 MHz frequency band valid from 8 February 2018 to 7 February 2033, which prolongs the above-mentioned frequency assignment in this frequency band.

The radio frequency assignment can be extended 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 2017, 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 specifically 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, which receives funds from the state budget. These funds are remitted without delay to the Company's account.

23 Share capital and reserves

	31 December 2017	31 December 2016
Nominal value per ordinary registered share (in CZK)	10	10
- number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (in CZK)	100	100
- number of shares – fully paid-up	1	1
Total nominal value of ordinary shares (in CZK million)	3,102	3,102

Shareholdings in the Company were as follows:

	31 December 2017	31 December 2016
PPF Telco B.V.	70.79 %	50.00 %
PPF Arena 1 B.V.	- %	23.79 %
PPF A3 B.V.	10.27 %	10.27 %
O2 Czech Republic a.s. (treasury shares)	2.80 %	1.56 %
Other shareholders	16.14 %	14.38 %

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 respect of managing the Company's capital features focus on investing in areas with a high growth potential, such as 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. Other investment activities include IT systems renewal and upgrade with the aim to simplify and improve processes leading 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 optimise the capital structure to serve the purpose of achieving these plans.

Equity structure as at 31 December 2017 and 2016:

In CZK million	**31 December 2017**	**31 December 2016**
Share capital	3,102	3,102
Treasury shares	(2,204)	(1,152)
Share premium	10,676	11,894
Funds and reserves	8	8
Cash flow hedges	21	-
Retained earnings from previous years	614	414
Net income for the current year	5,396	5,394
Total	**17,613**	**19,660**

In accordance with the decision of the General Meeting on 8 December 2015 concerning acquisition of treasury shares (up to 10% of the total number of shares issued for the following 5 years), the Company continued in the share buyback programme. As at 31 December 2017 the Company held 8,695,327 treasury shares for a total purchase price of CZK 2,204 million (2016: 4,852,535 treasury shares for a total purchase price of CZK 1,152 million).

24 Related party transactions

PPF Telco B.V. and PPF A3 B.V., through which Mr. Petr Kellner controlled the Company in 2017, are part of the PPF Group.

The 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.

All 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), 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 and other distributions paid in 2017 to shareholders from the PPF Group was CZK 5,281 million (2016: CZK 4,172 million). Payables from the dividend and other distributions to shareholders from the PPF Group as at 31 December 2017 and 31 December 2016, respectively, were fully settled.

II. Company's subsidiaries:

Balance sheet In CZK million	31 December 2017	31 December 2016
a) Receivables	476	660
b) Short-term loans provided	689	50
c) Payables	90	426
d) Short term intragroup cash-pooling liability (Note 15)	115	115

Statement of comprehensive income In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
a) Sales of services and goods	1,480	1,400
b) Dividend income (Note 5)	1,133	1,172
c) Purchases of services and goods	674	689
d) Interest income	8	2

The Company performed an impairment test of its investment in 4Local, s.r.o. (former Internethome, s.r.o.) as of 31 December 2017. The test involves a determination of the recoverable amount as the present value of future cash flows which are expected to be generated by 4Local, s.r.o. Based on the result of the test, the Company kept the impairment allowance of CZK 252 million unchanged.

As at 31 December 2017, the Company provided a short-term loan of CZK 50 million (2016: CZK 50 million) to O2 TV s.r.o. and CZK 639 million to O2 Slovakia, s.r.o. (2016: CZK 0 million). The loan conditions are based on the arm's length principle.

There were no other impairments in relation to related parties in 2017 or 2016.

On 1 May 2017, the Company acquired the Application support division and the Standard customer solutions division from the O2 IT Services s.r.o. subsidiary. In accordance with the accounting policies, the acquired assets and liabilities are recognised in the financial statements of the Company in its original carrying values. Difference between the total acquisition price of CZK 28 million determined by the valuation reports and the net carrying value of acquired assets and liabilities in amount of CZK 10 million as at the acquisition date is recognised directly in equity within retained earnings.

In 2017, the Company acquired fixed assets from the subsidiary O2 IT Services s.r.o. in the amount of CZK 24 million (2016: CZK 46 million). In 2016, the Company also acquired fixed assets from the subsidiary 4Local, s.r.o. (former Internethome, s.r.o.) in the amount of CZK 28 million.

In 2017, the Company sold property, plant and equipment in the amount of CZK 7 million to the subsidiary O2 Slovakia, s.r.o.

III. Associates and Joint ventures:

Balance sheet In CZK million	31 December 2017	31 December 2016
a) Receivables	51	51
b) Payables	57	52

Statement of comprehensive income In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
a) Sales of services and goods	158	159
b) Dividend income	9	11
c) Purchases of services and goods	69	69

IV. Other related parties – PPF Group:

Balance sheet In CZK million	31 December 2017	31 December 2016
a) Receivables	99	58
b) Payables	957	967
c) Financial derivative instruments - assets	9	-
d) Financial derivative instruments - liabilities	1	-
e) Cash equivalents (Note 13)	2,055	1,936

Statement of comprehensive income In CZK million	Year ended 31 December 2017	Year ended 31 December 2016
a) Sales of services and goods	345	313
b) Purchases of services and goods	10,287	10,396
c) Gain on fair value adjustments of financial instruments (net)	(17)	(2)
d) Interest expenses	1	-

In 2017, the Company sold property, plant and equipment in the amount of CZK 9 million to CETIN (2016: CZK 7 million).

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

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

a) mobile network services agreement

The subject of the 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. Two years before the expiration of this term, negotiations on price for the next period begin. In 2017, the total cost was approximately CZK 4.5 billion (2016: CZK 4.4 billion).

b) agreement on the access to the public fixed communications network (so-called MMO)
The subject of the MMO agreement is the access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment). In 2017, the total cost was approximately CZK 3,993 million (2016: CZK 4,126 million).

c) agreement on the access to end points (so-called RADO) and others
CETIN enables the Group access to end points, which include provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. In 2017, the total cost was approximately CZK 897 million (2016: CZK 951 million).

V. Remuneration and loans to members of 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 2017**	**Year ended 31 December 2016**
Board of Directors	39	38
Supervisory Board	1	1
Executive management	37	52
Total	**77**	**91**

No loans were provided to members of the Board of Directors and the Supervisory Board and executive management in 2017 and 2016.

25 Subsidiaries, associates and joint ventures

Investments in subsidiaries and securities can be split in the following manner:

In CZK million	**31 December 2017**	**31 December 2016**
Subsidiaries	6,876	6,691
Associates	9	9
Joint ventures	-	6
Investments in total	**6,885**	**6,706**

These financial statements are prepared on stand-alone basis and no consolidation of subsidiaries, associates and joint ventures was performed. Equity investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

Subsidiaries		Company's interest as at 31 December 2017	Company's interest as at 31 December 2016	Carrying amount as at 31 December 2017	Carrying amount as at 31 December 2016	Country of incorporation	Activity
1.	O2 Slovakia, s.r.o.	100 %	100 %	6 116	6 116	Slovak Republic	Mobile telephony, internet and data transmission services t
2.	4Local, s.r.o. (former Internethome, s.r.o.)	100 %	100 %	20	20	Czech Republic	Provision of WiFi internet access
3.	O2 Family, s.r.o.	100 %	100 %	200	200	Czech Republic	Mobile telephony, internet and data transmission services
4.	O2 TV s.r.o.	100 %	100 %	1	1	Czech Republic	Digital television
5.	O2 IT Services s.r.o.	100 %	100 %	242	242	Czech Republic	Information technology services
6.	Bolt Start Up Development a.s.	100 %	100 %	177	102	Czech Republic	Startup fund
7.	eKasa s.r.o.	100 %	100 %	120	10	Czech Republic	Electronic sales reporting ("EET") solution provider
8.	O2 Financial Services s.r.o.	100 %	100 %	-	-	Czech Republic	Financial Services intermediary
Associates							
9.	První certifikační autorita, a.s.	23 %	23 %	9	9	Czech Republic	Certification services
10.	AUGUSTUS, spol. s r.o.	40 %	40 %	-	-	Czech Republic	Auction sales and advisory services
Joint ventures							
11.	Tesco Mobile ČR s.r.o.	50 %	50 %	-	6	Czech Republic	Mobile virtual network operator for prepaid services

At the balance sheet date, the Company assesses whether there are indicators of a possible impairment of equity investments in subsidiaries and equity accounted investments. If such impairment indicators exist, the Company verifies that the recoverable amount of the investments is not lower than their net book value. As at 31 December 2017 and 2016, the Company recognised impairment relating to investment in its subsidiary 4Local, s.r.o. (formerly Internethome, s.r.o.) amounting to CZK 252 million.

Transactions during 2017

In 2017, the Company provided a voluntary monetary contribution to equity of the subsidiary Bolt Start Up Development a.s. in the amount of CZK 75 million.

On 8 March 2017, the Company provided a voluntary monetary contribution to equity of the subsidiary eKasa s.r.o. in the amount of CZK 110 million, out of which CZK 100 million were offset against Company's payables to the subsidiary eKasa s.r.o.

On 25 August 2017, the General Meeting of Tesco Mobile ČR s.r.o. approved the repayment of capital contributions to shareholders. The Company as a shareholder received in total CZK 6 million on 21 September 2017.

Transactions during 2016

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 a new subsidiary eKasa s.r.o. (with share capital of CZK 100,000), providing solutions for electronic sales reporting ("EET"), and a 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 the 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 the subsidiary Bolt Start Up Development a.s. in the amount of CZK 50 million.

In 2016, O2 Business Services, a.s., a 100% subsidiary of O2 Slovakia, s.r.o., took over all business activities of the branch O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., which was subsequently closed down on 25 July 2016.

26 Post balance sheet events

Purchase of UEFA Champions League rights

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

This event has no impact on the financial statements for the year ended 31 December 2017.

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 2017.

14 February 2018

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

Declaration of persons responsible for the Annual Report

7. Declaration of persons responsible for the Annual Report

Jindřich Fremuth, 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.

Jindřich Fremuth
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 14 February 2018

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 2017, 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 2017, 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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.

Accuracy and completeness of revenue (CZK 37,709 million)
See paragraph S of "Accounting policies", and Note 4.

Description of the key audit matter

The accuracy and completeness of revenues recognized 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.

Auditor's approach to the key audit matter

Our audit procedures included, in particular:
- general and application IT controls focusing on 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 journal entries.

We also performed:
- analytical procedures and detailed calculation relating to recorded 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.

KPMG

Valuation of intangible assets other than goodwill (CZK 12,338 million) with emphasis on intangible assets under construction (CZK 1,992 million)
See paragraph G of "Accounting policies", and Note 10.

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 replace certain major IT systems with new IT solutions under development.

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 which may result in a need to recognise an impairment loss,
- 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 included, 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 details of intangible fixed assets under construction, focusing on fulfilment of criteria for capitalization, especially planned completion. Our procedures were supported by an inquiry of responsible project managers and a testing of supporting documentation including a detailed examination of the intangible assets under construction account listing,
- 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 the Company had tested for impairment, and (where appropriate) recognised the impairment of, those assets that were identified as potentially impaired;
- substantive tests of consistency between the amortization periods and economic lives for those IT systems that the Company plans to replace with the new solution.

Expected impact of transition to IFRS 15 standard (impact on equity as at 1 January 2018 totalling CZK 626 million)
See paragraph A of "Accounting policies".

Description of the key audit matter

The new IFRS 15 standard - Revenue from Contracts with Customers - is a significant milestone in the recognition of revenues and expenses. Telecommunications is one of the industries expected to be impacted most by the new standard. In order to report the expected impact of the new standard on its consolidated financial statements, during the implementation of the standard the Company had to make a number of key judgements (e.g. setting the time for amortizing contractual assets relating to the contract conclusion or setting the process for determining individual standalone selling prices) and implement new IT solutions.

Auditor's approach to the key audit matter

Our audit procedures included, in particular:

- assessment of an internal analysis prepared by the Company focusing on the differences between the current recognition of revenues and the recognition under the new IFRS 15 including a test over the completeness of the analysis. Based on our knowledge of the Company, as part of the test we performed our own assessment of areas to be impacted by the new standard and subsequently compared them with the results of the Company's internal analysis to make sure that the Company identified and evaluated all expected significant impacts in its analysis;
- assessment of the implementation of systems for the calculation of relevant accounting adjustments between the invoicing and revenues under IFRS 15. We performed the assessment with the help of our IT specialists. In addition, we tested controls used by the Company over the calculation of relevant accounting adjustments;
- performance of detailed substantive and analytical procedures for accounting adjustments in respect of which we expected the most significant impact on the Company's equity as at 1 January 2018;
- assessment of the completeness and appropriateness of information disclosed in the notes to the financial statements concerning the expected impact of the new standard in the context of the relevant IFRS requirements.

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 financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements and financial statements does not cover the other information. In connection with our audit of the consolidated financial statements and 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 and 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 and financial statements is, in all material respects, consistent with the consolidated financial statements and 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 is responsible for the oversight of the Company's financial reporting process. The Audit Committee is responsible for the monitoring 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 2017, 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 2017, 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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.

Accuracy and completeness or revenue (CZK 29,918 million)
See paragraph P of "Accounting policies", and Note 4.

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.

Auditor's approach to the key audit matter

Our audit procedures included, in particular:

- general and application IT controls focusing on 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 journal entries.

We also performed:

- analytical procedures and detailed calculation relating to recorded 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 (CZK 10,557 million) with emphasis on intangible assets under construction (CZK 1,857 million)
See paragraph D of "Accounting policies", and Note 10.

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 replace certain major IT systems with new IT solutions under development.

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 which may result in a need to recognise an impairment loss,
- 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 included, 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 details of intangible fixed assets under construction, focusing on fulfilment of criteria for capitalization, especially planned completion. Our procedures were supported by an inquiry of responsible project managers and a testing of supporting documentation including a detailed examination of the intangible assets under construction account listing,
- 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 the Company had tested for impairment, and (where appropriate) recognised the impairment of, those assets that were identified as potentially impaired;
- substantive tests of consistency between the amortization periods and economic lives for those IT systems that the Company plans to replace with the new solution.

Expected impact of transition to IFRS 15 standard (impact on equity as at 1 January 2018 totalling CZK 563 million)
See paragraph A of "Accounting policies".

Description of the key audit matter

The new IFRS 15 standard - Revenue from Contracts with Customers - is a significant milestone in the recognition of revenues and expenses. Telecommunications is one of the industries expected to be impacted most by the new standard. In order to report the expected impact of the new standard on its financial statements, during the implementation of the standard the Company had to make a number of key judgements (e.g. setting the time for amortising contractual assets relating to the contract conclusion or setting the process for determining individual standalone selling prices) and implement new IT solutions.

Auditor's approach to the key audit matter

Our audit procedures included, in particular:
- assessment of an internal analysis prepared by the Company focusing on the differences between the current recognition of revenues and the recognition under the new IFRS 15 including a test over the completeness of the analysis. Based on our knowledge of the Company, as part of the test we performed our own assessment of areas to be impacted by the new standard and subsequently compared them with the results of the Company's internal analysis to make sure that the Company identified and evaluated all expected significant impacts in its analysis;
- assessment of the implementation of systems for the calculation of relevant accounting adjustments between the invoicing and revenues under IFRS 15. We performed the assessment with the help of our IT specialists. In addition, we tested controls used by the Company over the calculation of relevant accounting adjustments;

- performance of detailed substantive and analytical procedures for accounting adjustments in respect of which we expected the most significant impact on the Company's equity as at 1 January 2018;
- assessment of the completeness and appropriateness of information disclosed in the notes to the financial statements concerning the expected impact of the new standard in the context of the relevant IFRS requirements.

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 is responsible for the oversight of the Company's financial reporting process. The Audit Committee is responsible for the monitoring 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.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 10 May 2017 and our uninterrupted engagement has lasted for 4 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 14 February 2018 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

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 2017. 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 2017 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 2017, based on which this independent auditor's report has been prepared.

Prague
14 February 2018

Signed by

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

Signed by

Petr Škoda
Partner
Registration number 1842

Appendix:
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 2017

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 2017

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 2017 (1 January 2017–31 December 2017) 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 2017 till 31 December 2017, Mr Petr Kellner held a controlling share in the Company. In the period from 1 January 2017 till 9 February 2017, he indirectly controlled an 84.06% share in the voting rights of the Company, and in the period from 9 February 2017 till 31 December 2017, he indirectly controlled an 81.06% share in the voting rights of the Company. In this period, Mr. Petr Kellner was the controlling person of the Company through the following companies:

> PPF Telco B.V.
> PPF A3 B.V.
> PPF Arena 1 B.V.

– on 10 January 2017, O2 CZ shares in the ownership of PPF Arena 1 B.V. were transferred to PPF Telco B.V.

These companies, through which Mr. Petr Kellner was the controlling person of O2 CZ in 2017, 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 Mr. Petr Kellner is an international investment group. It operates in Europe, Russia, 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 and other companies), real estate (PPF Real Estate Holding), agriculture (RAV Agro) 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 also published a declaration on its website (www.ppf.eu/en/) that from the PPF Group (and its controlling person's) 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. With its O_2 TV service, the Company is the IPTV leader in the Czech market.

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 making 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., O2 TV s.r.o., O2 Slovakia, s.r.o., O2 Business Services, a. s. (owned through O2 Slovakia, s.r.o.), 4Local, 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

Mr. 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, has the majority in the voting rights. The voting rights are exercised at the Company's General Meetings.

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 2017 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 2017 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.

> 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.

> 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, information protection 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 Club Shop s.r.o.

> Subscriber agreement on 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.

> 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.

> Data processing agreements; *description of supply under contract:* processing of personal information in connection with the performance under selected agreements with 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 (EU+, TGR representation); *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 and the supply of additional services related to the housing and operation of the technology of O2 CZ and its customers.

> 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 and sub-lease agreements; *description of supply under contract:* lease or sub-lease of office, warehouse and other space, as well as movable things.

> Agreements on the provision of support services by O2 CZ to CETIN, *description of supply under contract:* temporary provision of support services.

> Agreement on termination of international voice traffic, d*escription 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:* procurement of space to house technology for exercise of the business of O2 CZ in specific locations, and services directly related thereto.

> Purchase agreements, *description of supply under contract:* the sale/purchase of movable assets to/from CETIN.

> Master 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:* O2 CZ supplies to the contractual partner, and other entities, electronic communication services in mobile telecommunications networks and supplies mobile handsets and accessories under contracted terms and conditions.

> Letter of intent; *description of supply under contract:* specification of rights and obligations of the parties concerning the preparation of a tender for a public contract, and possible future cooperation on the supply under contract.

> Agreements for the assignment of rights and obligations under licence agreements; *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.

> Agreement on the provision of security services, *description of supply under contract:* provision of security services by CETIN.

> Service migration agreement, *description of supply under contract:* migration of selected services from the existing technology to a new technical solution.

> Settlement agreement, *description of supply under contract:* settlement of mutual rights and obligations in relation to the housing and maintenance of CETIN technology at the address Hvězdova, Prague 4.

> Agreement on termination and change of contractual relations in connection with the sale of the ÚTB, *description of supply under contract:* agreement on early termination of the tenancy in the ÚTB and setting forth the conditions for the relocation of O2 CZ technology into a new location.

> Settlement agreement, *description of supply under contract:* settlement of mutual rights and obligations in relation to a termination of a dispute with a third party.

> Agreements on the use of a test lab – SELFLAB, *description of supply under contract:* use to the facilities of a CETIN test lab.

> Agreement on the provision of a technology housing services at the address Prague – Hvězdova; *description of supply under contract:* procurement of space to house technology for exercise of the business of CETIN, and services directly related thereto.

> Confidentiality and non-disclosure agreements, *description of supply under contract:* non-disclosure of information learned in the process of commercial negotiations between the parties.

> Agreement on the provision of a voice solution, *description of supply under contract:* provision of the VOLUME 1 + 1 voice solution.

> Agreement on the provision of address space, *description of supply under*

contract: mutual provision of address spaces for use (IP address spaces).

> Service agreement, *description of supply under contract:* maintenance of optical communication infrastructure elements.

Agreements with Digital Engines s.r.o.

> Subscriber agreement on the provision of services of electronic communications; *description of supply under contract:* provision of services of electronic communications.

Agreements with Heureka Shopping s.r.o.

> Subscriber agreement on the provision of services of electronic communications; *description of supply under contract:* provision of services of electronic communications

Agreements with Home Credit a.s.

> Agreement on cooperation in financing purchases of merchandise from O2, *description of the 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 offering and providing such 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.

> Implementation agreement on the provision of WAN services, *description of supply under contract:* O2 CZ provides data connection and interconnection services and data network security, as well as other data services, subject to the terms and conditions set forth in the implementation agreement.

Agreements with Home Credit International, 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.

> Purchase agreement, *description of supply under contract:* sale of MDM licences and maintenance to Home Credit International, a.s.

Agreements with Internet Mall, 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 entities, services of electronic communications in mobile networks and provides mobile hardware and accessories under contracted terms and conditions.

Agreements with Košík.cz s.r.o.

> Framework agreement on cooperation in the provision of products of prepaid O2 services, HW and telephone cards; *description of supply under contract:* cooperation between the parties in the supply of products specified therein.

Agreements with PPF a.s.

> Framework agreement on the conditions for the provision of mobile electronic communications services, *description of supply under contract:* the Company provides, to the contractual partner and other entities from the PPF Group, mobile services of electronic

communications, and provides mobile phones and accessories under negotiated conditions.

> Contract for the provision of voice solutions, *description of supply under contract:* the Company provides, to the contractual partners and other entities, services of electronic communications through fixed networks under negotiated conditions.

> Agreement on the coverage of Christmas party costs, *description of supply under contract:* payment of the cost of the Christmas party.

> O_2 Mobile Device Management Service Agreement, *description of supply under contract:* The Company provides the O_2 Mobile Device Management service to the contractual partner.

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.

> Subscriber agreement on the provision of publicly available services of electronic communications, *description of supply under contract:* provision of services of electronic communications.

> Agreement on the provision of cloud, housing and related services, *description of supply under contract:* provision of cloud, housing and related services to the other contracting party.

> Agreement on the provision of Aculla SIPREC SRS recording system, *description of the supply under contract:* the agreement regulates the terms of the provision of the recording system to the other party and the terms of its use for the purposes of meeting the MiFID (Markets in Financial Instruments Directive) requirements.

> SIPREC Mobile Service Agreement, *description of supply under contract:* provision of call monitoring and recording services for the purposes of meeting MiFID (Markets in Financial Instruments Directive) requirements.

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 2017.

> 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 2017.

Agreements with Rozbaleno.cz s.r.o.

> Subscriber agreement on the provision of services of electronic communications, *description of supply under contract:* provision of services of electronic communications.

Agreements with Uloženka s.r.o.

> Subscriber agreement on the provision of services of electronic communications, *description of supply under contract:* provision of services of electronic communications.

Agreements with VIVANTIS a.s.

> Subscriber agreement on the provision of services of electronic communications, *description of supply under contract:* provision of services of electronic communications.

Agreements with Zonky s.r.o.

> Agreement on cooperation, *description of supply under contract:* provision of information by O2 CZ to Zonky s.r.o., with the customer's consent, in connection with the assessment of the creditworthiness and solvency of the customer applying for a loan with Zonky s.r.o.

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.

> Agreement on the assignment of a Memorandum of Understanding, *description of supply under contract:* assignment of the rights and obligations to eKasa s.r.o.

> Agreement on the assignment of the EET Application Contract, *description of supply under contract:* assignment of the rights and obligations to eKasa s.r.o.

> Agreement on the provision of support services, *description of supply under contract:* provision of support services by O2 CZ to eKasa s.r.o.

Agreements with 4Local, s.r.o.

> Agreement on the provision of support services, *description of supply under contract:* provision of support services by O2 CZ to 4Local, s.r.o.

> Credit Facility Agreement, *description of supply under contract:* provision of a credit line to 4Local, s.r.o.

Agreements with 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, provides 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 procured services of IT operations, IT infrastructure support and application support.

- Agreement on the provision of ICT operations; *description of supply under contract:* the implementation of a public contract "Provision of ICT operations 2017+" for the contracting authority – Czech Republic – Ministry of Agriculture.

- 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.

- Lease and sub-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 support services to O2 IT Services s.r.o.

- Data processing agreements, *description of supply under contract:* terms and conditions for the processing of personal and other information between the parties according to Personal Data Protection Act.

- 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.

- 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 provision 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 O_2 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.

> Agreement on purchase of a part of an enterprise; *description of supply under contract:* O2 CZ acquired a part of the enterprise, designated as Application Support division, from O2 IT Services s.r.o.

> Agreement on purchase of a part of an enterprise; *description of supply under contract:* O2 CZ acquired a part of the enterprise, designated as Standard Customer Solutions division, from O2 IT Services s.r.o.

> C-Roads Czech Republic Consortium Agreement and the related agreement on grant provided by the Innovation and Networks Executive Agency (INEA) (the consortium consists of several companies and entities, including O2 Czech Republic and INTENS Corporation s.r.o. as beneficiaries, and O2 IT Services s.r.o. as the so-called affiliated entity O2 Czech Republic a.s.); *description of supply under contract:* the agreement sets forth the internal rules and operation of a consortium for the purpose of the C-Roads project, which aims to test C-ITS technology (cooperative intelligent transport systems) in practical scenarios.

Agreements with O2 Slovakia, s.r.o.

> Trade Mark Sub-Licence Agreement, *description of supply under contract:* provision of a sub-licence to use the O_2 brand in commercial activities of O2 Slovakia, s.r.o. in the Slovak Republic.

> Framework agreement on cooperation in functional areas, *description of supply under contract:* provision of support services to O2 Slovakia, s.r.o.

> Revolving Credit Facility Agreement, *description of supply under contract:* agreement to provide a revolving credit facility to O2 Slovakia, s.r.o.

> Deposit Agreement, *description of supply under contract:* a cash-pooling arrangement and the related terms and conditions.

> 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 and 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 provision of telecommunication equipment, *description of supply under contract:* provision of telecommunication equipment to O2 CZ.

> Assignment of unused licence rights, *description of supply under contract:* assignment of unused licence rights to Oracle software in to the post-paid billing system from the Company to O2 Slovakia, s.r.o.

- > Agreement on the amount of consideration for the assignment of rights, *description of supply under contract:* the agreement sets forth the amount of consideration for assignment of unused licence rights to Oracle software in to the post-paid billing system between O2 CZ and O2 Slovakia, s.r.o.

- > Personal data protection agreement, *description of supply under contract:* fulfilment of the obligations imposed by the Slovak law on the protection of personal data.

- > Cooperation agreement, *description of supply under contract:* creation of a group of suppliers for the purpose of performing a public contract "Provision of mobile electronic communication services" for the contracting authority Železničná spoločnosť Slovensko, a.s.

- > Cooperation agreement for the provision of digital television, *description of supply under contract:* O2 CZ gives support in the process of broadcasting and making selected programming content available to paying users within the territory of the Slovak Republic.

- > Service Agreement, *description of supply under contract:* provision of services by O2 Slovakia, s.r.o. to O2 CZ, consisting of the takeover of obligations under Oracle licenses and the related arrangement for the termination of maintenance on these licenses.

- > Purchase agreement, *description of supply under contract:* sale of a part of technological HW to O2 Slovakia, s.r.o.

- > Agreement of undisclosed mandate, *description of supply under contract:* representation of interests of O2 Slovakia, s.r.o. in relation to suppliers.

Agreements with O2 TV s.r.o.

- > Agreements on the provision of support services, *description of supply under contract:* provision 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 provision of mobile electronic communications services, *description of supply under contract:* the supply of mobile electronic communications services and the provision of mobile hardware and accessories and other products.

- > Agreement to transfer subscribership to data services, d*escription of supply under contract:* installation and provision 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 O2 Financial Services s.r.o.

- > Articles of incorporation of a company without legal personality (association) between O2 Czech Republic a.s. and O2 Financial Services s.r.o., *description of supply under contract:* the purpose of the association is in particular to cooperate in the creation, development and sale of specialized services in the financial area.

- > Agreement on the provision of specialized financial services, *description of supply under* *contract:* O2 Financial Services s.r.o. provides specialized financial services to O2 CZ.

Agreements with Bolt Start Up Development a.s.

> Service agreements, *description of supply under contract:* providing support services to Bolt Start Up Development a.s.

> Framework loan agreement, *description of supply under contract:* terms and conditions for the provision of loans to Bolt Start Up Development a.s.

Agreements between O2 Czech Republic and other subsidiaries outside the O2 Czech Republic concern

Agreements with INTENS Corporation s.r.o.

> Non-disclosure agreement, *description of supply under contract:* the reciprocal non-disclosure of trade secrets.

> Agreement on consultancy services, *description of supply under contract:* INTENS Corporation s.r.o. provides consultancy services in the area of transport telematics, mobile and FC data to O2 CZ.

> C-Roads Czech Republic Consortium Agreement and the related grant agreement provided by the Innovation and Networks Executive Agency (INEA) (the consortium consists of several companies and entities, including O2 Czech Republic and INTENS Corporation s.r.o. as beneficiaries , and O2 IT Services s.r.o. as the so-called affiliated entity O2 Czech Republic a.s.); *description of supply under contract:* the agreement sets forth the of internal rules and operation of a consortium for the purpose of the C-Roads project, which aims to test C-ITS technology (cooperative intelligent transport systems) in practical scenarios.

Agreements with Misterine s.r.o.

> Framework agreement laying down the terms and conditions of provision of mobile electronic communications services, *description of supply under contract:* provision of mobile electronic communications services to Misterine s.r.o.

Agreements with mluvii.com s.r.o.

> Framework agreement laying down the terms and conditions of provision of mobile electronic communications services, *description of supply under contract:* provision of mobile electronic communications services to mluvii.com s.r.o.

> Sub-supply agreement; *description of supply under contract:* subcontracting arrangement for an online communication platform supplied to O2 CZ.

Agreements with TapMedia s.r.o.

> Framework cooperation agreement; *description of supply under contract:* provision of a native application Tapito for smartphone and tablets.

> Cooperation agreement; *description of supply under contract:* use of advertising space in O_2 TV by Tapmedia.

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 regulates 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 2017.

- 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 market conditions, i.e. to standard conditions in business for the fulfilment provided to third party, or rather by third party. 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 10 February 2018

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 2 B.V.	57279667	Netherlands	Person controlled by the same controlling person through an ownership interest		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 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.
AF Airfueling s.r.o.	2223953	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.
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 v likvidaci	HE 290 379	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 29 November 2017	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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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 224 463	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
AR SPORT SNOWBOARDS, s.r.o.	25599208	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-commerce Holding, a.s.
Areál Ďáblice s.r.o.	3762939	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 26 April 2017	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.
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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Bestsport holding a.s.	6613161	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 20 November 2017	Prague Entertainment Group B.V.
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		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
Boryspil Project Management Ltd.	34999054	Ukraine	Person controlled by the same controlling person through an ownership interest		Pharma Consulting Group Ltd.
Brands Diffusion, a.s.	29037531	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Rock Fashion s.r.o.
Bucca Properties Ltd.	1377468	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		BORACORA LIMITED
C & R Office Center Two s.r.o.	28227913	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 20 June 2017	Bestsport, a.s.
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
Carolia Westminster Hotel Limited	9331282	United Kingdom of Great Britain and N. Ireland	Person controlled by the same controlling person acting in concert through an ownership interest	from 27 January 2017	C.W. Investor S.á.r.l.
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.	6095577	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 11 May 2017	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.
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.
«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
Club Shop s.r.o.	28093887	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-commerce Holding, a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
COLANDS s.r.o.	3883663	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 20 June 2017	Bestsport, a.s.
Comcity Office Holding B.V.	64411761	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
CW Investor S.á.r.l.	B211446	Luxembourg	Person controlled by the same controlling person acting in concert through an ownership interest	from 27 January 2017	Westminster JV a.s.
CZC.cz s.r.o.	25655701	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-commerce Holding, a.s.
Czech Equestrian Team a.s.	01952684	Czech Republic	Person controlled by the same controlling person acting in concert 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.
CzechToll s.r.o.	06315160	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 2 August 2017	PPF a.s.
Česká telekomunikační infrastruktura a.s.	04084063	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 v likvidaci	HE 221 768	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 1 May 2017	Celestial Holdings Group Limited
DEVEDIACO ENTERPRISES LIMITED	HE 372 136	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 9 August 2017	TELISTAN LIMITED
Digital Engines s.r.o.	24204196	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-commerce Holding, a.s.
DRAK INVESTMENT HOLDING LTD	324472	Cayman Islands	Person controlled by the same controlling person through an ownership interest	from 10 July 2017	GONDRA HOLDINGS LTD
Duoland s.r.o.	06179410	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 9 June 2017	Prague Entertainment Group 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.
E-commerce Holding, a.s.	27575021	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Sully system a.s.
eKasa s.r.o.	05089131	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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.
Favour Ocean Limited	1065678	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
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 152 674	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
FERRYMAT HOLDINGS LIMITED	HE 313 289	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.
Filcommerce Holdings, Inc	CS 201 310 129	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest	from 5 September 2017	HC Philippines Holding B.V

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
FLOGESCO LIMITED	HE 172 588	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	Gilbey Holdings Limited
Fodina B.V.	59400676	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
FOSOL ENTERPRISES LIMITED	HE 372 077	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 9 August 2017	DEVEDIACO ENTERPPRISES LIMITED
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.
Gilbey Holdings Limited	HE 182 860	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	BUCCA PROPERTIES LTD.
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	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
GONDRA HOLDINGS LTD	324452	Cayman Islands	Person controlled by the same controlling person through an ownership interest	from 10 July 2017	Salonica Holdings Limited
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.
Great Content s.r.o.	04374886	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-Commerce Holding, a.s.
Guangdong Home Credit Number Two Information 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	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
HC Advisory 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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
HCPH Financing I. Inc	CS 201 727 565	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest	from 22 August 2017	HC Philippines Holding B.V.
Heureka Shopping s.r.o.	2387727	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Sully system a.s.
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 International a.s.
Home Credit Asia Limited	890063	People's Republic of China	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 Consumer Finance Co., Ltd	9112011663606 7462H	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 N. Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Home Credit Group B.V.	69638284	Netherlands	Person controlled by the same controlling person through an ownership interest	from 21 September 2017	PPF Financial Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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	U65910HR1997 PTC047448	Republic of India	Person controlled by the same controlling person through an ownership interest		Home Credit India B.V., Home Credit International a.s.
HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED	U7499HR2017FT C070364	Republic of India	Person controlled by the same controlling person through an ownership interest	from 16 August 2017	Home Credit India B.V., Home Credit International a.s.
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.
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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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.	04479823	Czech Republic	Person controlled by the same controlling person acting in concert 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
4Local, s.r.o.	24161357	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
INTENS Corporation s.r.o.	28435575	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 17 January 2017	Bolt Start Up Development a.s.
Internet mall d.o.o.	080976802	Croatia	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
Internet Mall Hungary Kft.	01-09-861959	Hungary	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
Internet Mall Slovakia, s.r.o.	35 950 226	Slovak Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
Internet Mall, a.s.	26204967	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Izotrem Investments Limited	HE 192 753	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	Gilbey Holdings Limited
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.
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 Stock 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	until 13 March 2017	HC Asia N.V.
KARMION HOLDINGS LIMITED	HE 312 004	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
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.
Komodor LLC	32069917	Ukraine	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	West Logistic Park LLC
Košík.cz s.r.o.	03023877	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-Commerce Holding, a.s.
Langen Property B.V.	61012777	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
Letiště Praha Letňany, s.r.o.	24678350	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.
Letňany Air Land s.r.o.	06138462	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.
Letňany Air Logistics s.r.o.	06138411	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.
Letňany eGate s.r.o.	06137628	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.
Letňany Park Gate s.r.o.	06138446	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 31 May 2017	Prague Entertainment Group B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LGSTCS, a.s.	04126751	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-Commerce Holding, a.s.
LINDUS Real s.r.o.	29139309	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED
LINDUS SERVICES LIMITED	HE 281 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Bestsport holding a.s.
LLC Alfa South	1077760158618	Russian Federation	Person controlled by the same controlling person through an ownership interest	until 3 November 2017	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	until 3 January 2017	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 Comcity Kotelnaya	5157746112959	Russian Federation	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.
LLC Delta Com	1137746330358	Russian Federation	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V. Anthemona Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
LLC El Logistic	1020201302472	Russian Federation	Person controlled by the same controlling person through an ownership interest	until 8 June 2017	TAPADEO LIMITED
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.
LLC Charlie Com	1137746330336	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Almondsey

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC ICC Klokovo	1127746186501	Russian Federation	Person controlled by the same controlling person through an ownership interest		STEPHOLD LIMITED
LLC In Vino	1052309138628	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Alfa South
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
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		FERRYMAT HOLDINGS LIMITED
LLC Logistika - Ufa	1150280069477	Russian Federation	Person controlled by the same controlling person through an ownership interest		TAPADEO LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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		Comcity Office Holding B.V.
LLC Oil Investments	1167746861677	Russian Federation	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
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.
LLC RAV Agro Orel	1115741001496	Russian Federation	Person controlled by the same controlling person through an ownership interest		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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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 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	until 19 September 2017	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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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 TGK - Trilogy	1155027001030	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC PPF Real Estate Russia
LLC TK Donskoe	1056102003715	Russian Federation	Person controlled by the same controlling person through an ownership interest	until 21 July 2017	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	until 11 August 2017	PPF Real Estate Holding B.V.
LLC Trilogy Services	1155027007398	Russian Federation	Person controlled by the same controlling person through an ownership interest		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

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Urozhay	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.
Maraflex s.r.o.	2415852	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
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.
Mimovrste d.o.o.	1589121	Slovenia	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
MINIFLEX LIMITED v likvidaci	HE 221 915	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 25 August 2017	Celestial Holdings Group Limited
Misterine s.r.o.	5249899	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bolt Start Up Development a.s.
mluvii.com s.r.o.	27405354	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bolt Start Up Development a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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.
MP Holding 2 B.V.	69457018	Netherlands	Person controlled by the same controlling person through an ownership interest	from 25 August 2017	DEVEDIACO ENTERPPRISES LIMITED
Moranda, a.s.	28171934	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
My Air a.s.	5479070	Czech Republic	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
Mystery Services s.r.o.	24768103	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
Naneva B.V.	67400639	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Net Gate s.r.o.	24765651	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Netretail Holding B.V.	34289200	Netherlands	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Sully system a.s.
Netretail Sp. z.o.o.	0000319695	Poland	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
Netretail Kereskedelmi és Szolgáltató Kft	01-09-915285	Hungary	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Netretail Holding B.V.
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	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Slovakia, s.r.o.
O2 Czech Republic a.s.	60193336	Czech Republic	Person controlled by the same controlling person through an ownership interest		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		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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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
Office Star Nine, spol. s r. o.	27904385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY 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.
Online Comparison Shopping Kft.	01-09-186759	Hungary	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Sully system a.s.
ORIBASE Pharma SAS	499824670	France	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		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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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.
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 N. 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 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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Beer Bidco B.V.	67332722	Netherlands	Person controlled by the same controlling person through an ownership interest		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		PPF Group N.V.
PPF Beer IM Holdco B.V.	67331378	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Beer Holdco 1 B.V.
PPF Beer Topholdco B.V.	67420427	Netherlands	Person controlled by the same controlling person through an ownership interest		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 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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Group N.V.	33264887	Netherlands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner PPF Holdings B.V.
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	Luxembourgh	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		PPF Arena 1 B.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
PPF reality a.s.	29030072	Czech Republic	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
PPF SECRETARIAL LTD	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		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 INVESTMENTS LIMITED v likvidaci	HE 188 284	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 18 January 2017	Celestial Holdings Group Limited
RC PROPERTIES S.R.L.	12663031	Romania	Person controlled by the same controlling person through an ownership interest		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.
REDLIONE LTD	HE 178 059	Republic of Cyprus	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
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.
Rock Fashion s.r.o.	1451669	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-commerce Holding, a.s.
Rozbaleno.cz s.r.o.	27599248	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-Commerce Holding, a.s.
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	People's Republic of China	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
Salonica Holding Limited	1949492	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	Petr Kellner
SB 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
SCI LA FORET	309844371 R.C.S. Chambery	France	Person controlled by the same controlling person through an ownership interest	from 1 January 2017	Petr Kellner
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
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 Xinchi Consulting Co., Ltd.	9144030079663 8527A	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.	9144030066417 4257K	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
SIGURNO LIMITED	HE 172 539	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	Gilbey Holdings Limited
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd.	901510100660 467589T	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

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
SILLERUD LIMITED v likvidaci	HE 224 392	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 25 August 2017	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	until 25 January 2017	SILINE CONSULTING LIMITED
Smart home security s.r.o.	6321399	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 18 October 2017	Bolt Start Up Development a.s.
SOTIO a.s.	24662623	Czech Republic	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
Sotio Medical Research (Beijing) Co. Ltd	110000410283 022	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.
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
Sully system a.s.	4196830	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	BONAK a.s.
SUNDOWN FARMS LIMITED	HE 310 721	Republic of Cyprus	Person controlled by the same controlling person acting in concert through an ownership interest		Vixon Resources Limited Chelton Properties Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Sundown s.r.o. v likvidaci	24260479	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	until 6 September 2017	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
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
TapMedia s.r.o.	3853365	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 28 February 2017	Bolt Start Up Development a.s.
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Eastern Properties B.V.
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.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
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		PPF Real Estate Holding B.V.
Trilogy Park Nizhny Novgorod Holding B.V.	67330355	Netherlands	Person controlled by the same controlling person through an ownership interest		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.
TROMSON ENTERPRISES LIMITED	233665	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Uloženka s.r.o.	24299162	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	LGSTCS, a.s.
Uloženka Slovakia s.r.o.	46 063 714	Slovak Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	Uloženka s.r.o.
UNILEAVE LIMITED v likvidaci	HE 179 204	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		REPIENO LIMITED
VIVANTIS a.s.	25977687	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 18 October 2017	E-Commerce Holding, a.s.
Vixon Resources Limited	144 18 84	British Virgin Islands	Person controlled by the same controlling person acting in concert 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		PPF Group N.V.
West Logistics Park LLC	35093235	Ukraine	Person controlled by the same controlling person through an ownership interest	from 3 July 2017	Izotrem Investments Limited
Westminster JV a.s.	5714354	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest	from 16 January 2017	PPF a.s.
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	until 1 May 2017	Celestial Holdings Group Limited
Zonky s.r.o.	03570967	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit International a.s.

O2 Czech Republic a.s.
Za Brumlovkou 266/2, 140 22 Praha 4
t.: 800 02 02 02

www.o2.cz