# ANNUAL REPORT 2018

*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”.

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# 1

# FINANCIAL AND OPERATING HIGHLIGHTS

# 1. FINANCIAL AND OPERATING HIGHLIGHTS

Financial data is based on the Consolidated Financial Statements for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

| **Financials (in CZKm)** | **2018** | **2017** |
|---|---|---|
| Revenues[1] | 37,996 | 37,709 |
| EBITDA – Earnings before depreciation and amortization | 11,163 | 10,513 |
| Operating profit | 7,108 | 7,158 |
| Profit before taxes | 6,916 | 7,098 |
| Profit for the period | 5,448 | 5,587 |
| Total assets | 36,130 | 34,842 |
| Property, plant and equipment | 6,130 | 5,636 |
| Intangible assets | 17,164 | 16,815 |
| Total equity | 15,225 | 15,475 |
| Financial debts (long-term and short-term) | 10,499 | 10,486 |
| Capital expenditure (fixed assets additions)[2] | 4,417 | 4,405 |
| Retained earnings – consolidated | 4,529 | 3,601 |
| – unconsolidated | 6,804 | 6,010 |
| | | |
| **Operating indicators (at end of period)** | | |
| Fixed voice lines (in thousand) | 514 | 613 |
| xDSL connections – retail (in thousand) | 699 | 729 |
| Pay TV – $O_2$ TV[3] (in thousand) | 335 | 273 |
| Mobile customers in the Czech Republic (in thousand) | 5,038 | 4,938 |
| Mobile customers in Slovakia (in thousand) | 2,028 | 1,937 |
| Number of employees in O2 Group (as at year-end) | 5,381 | 5,275 |
| | | |
| **Ratios** | | |
| EBITDA margin (EBITDA/Revenues, in %) | 29.4 | 27.9 |
| Profit after taxes /Revenues (in %) | 14.3 | 14.8 |
| Capital expenditure[2]/Revenues (in %) | 11.6 | 11.7 |
| ROA (Profit after taxes /Total assets, in %) | 15.1 | 16.0 |

1) Excluding revenues from non-telecommunications services.
2) 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) IPTV and OTT, including $O_2$ TV Multi service (second set-top box with any $O_2$ TV tariff).

| | | |
|---|---|---|
| ROE (Profit after taxes /Equity, in %) | 35.8 | 36.1 |
| Gross gearing (Financial debts/Total equity, in %) | 69.0 | 67.8 |
| Net debt (Financial debt less Cash and cash equivalents)/EBITDA | 0.72 | 0.61 |
| Profit[4] per share – consolidated | 18.1 | 18.4 |
| – unconsolidated | 17.8 | 17.8 |
| **Macroeconomic indicators[5]** | | |
| CZK/EUR exchange rate – average | 25.64 | 26.33 |
| CZK/EUR exchange rate – at end of period | 25.73 | 25.54 |

4) Profit attributable to equity holders of the Company.
5) Source: Czech National Bank web page (FX rates of other currencies).

# 2

# BASIC INFORMATION AS REQUIRED BY THE CAPITAL MARKETS UNDERTAKINGS ACT

# 2. BASIC INFORMATION AS REQUIRED BY THE CAPITAL MARKETS UNDERTAKINGS ACT

## COMPANY INFORMATION

| | |
|---|---|
| Business name: | O2 Czech Republic a.s. |
| Registered seat: | Praha 4-Michle, Za Brumlovkou 266/2, Postal Code 140 22, Czech Republic |
| Company ID no.: | 60193336 |
| VAT registration no.: | CZ60193336 |
| LEI (Legal Entity Identifier): | 3157004ICDH3MRKW7534 |
| Date of incorporation: | 16 December 1993 |
| Legally existing from: | 1 January 1994 |
| Legal form: | joint-stock company |
| Commercial court: | Municipal Court in Prague |
| Commercial court record number: | Section B, File 2322 |

Institutional investors and shareholders please contact:
Tel.: +420 271 462 076, +420 271 462 169
E-mail: investor_relations@o2.cz
Web: https://www.o2.cz/spolecnost/en/investor-relations/

## O2 CZECH REPUBLIC CONCERN AND O2 GROUP ORGANISATION STRUCTURE

The Company is the parent company of a number of companies which it owns directly or through other members of the O2 Czech Republic concern. Major subsidiaries, in which it directly holds 100% of the shares and with which it forms a group within the meaning of Section 79 et seq. of the Business Corporations Act (O2 CZ is here in the position of the dominant person), include the following companies:

With a registered seat in the Czech Republic[1]

- 4Local, s.r.o.
- O2 Family, s.r.o.
- O2 TV s.r.o.
- O2 IT Services s.r.o.
- Bolt Start Up Development a.s.
- eKasa s.r.o.
- O2 Financial Services s.r.o.

With a registered seat in Slovakia[2]

- O2 Slovakia, s.r.o.
- O2 Business Services, a.s.

Details of those companies, including the list of associates and joint ventures, are given in Note 23 to the Consolidated Financial Statements.

O2 Group consists of O2 CZ, the above-mentioned major subsidiaries and subsidiaries owned by another member of the O2 Czech Republic concern, specifically: mluvii.com s.r.o., Misterine s.r.o.[3], Smart home security s.r.o., INTENS Corporation s.r.o. and Tapito s.r.o.[4]

## EMPLOYEES

Total headcount in FTE of the O2 Group by market as at 31 December 2018:

| | |
|---|---:|
| O2 Czech Republic | 4,354 |
| O2 Family | 81 |
| O2 TV | 14 |
| O2 IT Services | 158 |
| Other companies* | 43 |
| **EMPLOYEES IN THE CZECH REPUBLIC** | **4,650** |
| O2 Slovakia | 689 |
| O2 Business Services | 42 |
| **EMPLOYEES IN SLOVAKIA** | **731** |
| **O2 GROUP EMPLOYEES TOTAL** | **5,381** |

* eKasa, O2 Financial Services, INTENS Corporation, mluvii.com, Misterine

1) The seat of all companies is Praha 4, Michle, Za Brumlovkou 266/2, Postal Code 140 22.
2) The seat of both companies is Bratislava, Einsteinova 24, Postal Code 851 01.
3) The company was part of the O2 Group until 17 September 2018, when an agreement for the transfer of a share in a limited liability company was signed, which involved the transfer of an 80% stake in Bolt Start Up Development a.s. to Misterine SPV s.r.o.
4) The original business name of TapMedia s.r.o. was changed to Tapito s.r.o. as of 18 May 2018.

## RATING

As at 31 December 2018, O2 CZ or any member of the O2 Group did not have a corporate rating.

# SUMMARY REPORT PURSUANT TO SECTION 118 OF THE CAPITAL MARKETS UNDERTAKINGS ACT

## EQUITY

Structure of unconsolidated capital of the Company as at 31 December 2018:

| | (in CZKm) |
|---|---:|
| Share capital | 3,102 |
| Share premium | 9,470 |
| Treasury shares | -2,204 |
| Funds | 43 |
| Retained earnings | 6,804 |
| **TOTAL** | **17,215** |

## SHARE CAPITAL

The share capital of O2 CZ as of 31 December 2018 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 2018.

## REGULATED MARKETS

Registered shares at a nominal value of CZK 10 were admitted for trading on the Prague Stock Exchange (Prime market) and the RM-SYSTÉM, česká burza cenných papírů a.s. The registered share in the nominal value of CZK 100 was not listed for trading on any regulated market in Europe.

## SIGNIFICANT DIRECT AND INDIRECT SHARES IN THE VOTING RIGHTS

Key shareholders of O2 CZ as of 31 December 2018*:

| | Name | Address | Share of the share capital | Share of the voting rights |
|---|---|---|---|---|
| 1 | PPF Telco B.V. | Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands | 65.79% | 67.69% |
| 2 | PPF A3 B.V. | Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands | 10.27% | 10.57% |
| 3 | PPF CYPRUS MANAGEMENT LIMITED | Themistokli Dervi 48, Nicosia, 1066, Republic of Cyprus | 5.00%** | 5.14% |
| PPF Group total | | | 81.06% | 83.40% |
| 4 | O2 Czech Republic a.s. (treasury shares) | Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic | 2.80% | 0.00% |
| 5 | Investment funds and individual shareholders | – | 16.14% | 16.60% |

* Source: Central Securities Depository.
** Rounded off.

On 22 March 2018, Petr Kellner announced that on 20 March 2018, 15,510,380 shares of ISIN CZ0009093209 representing a direct 4.99% stake in the voting rights of PPF Telco B.V. had been transferred for consideration to ANTHIAROSE LIMITED. On 28 November 2018, ANTHIAROSE LIMITED was renamed to PPF CYPRUS MANAGEMENT LIMITED. As at 31 December 2018, the change of the company name was not recorded in the Company's records kept by the Central Securities Depository.

## RIGHTS AND OBLIGATIONS RELATED TO SHARES

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.

## RESTRICTION ON THE TRANSFERABILITY OF SHARES

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.

## HOLDERS OF SHARES WITH SPECIAL RIGHTS, INCLUDING THE DESCRIPTION OF THESE RIGHTS

The Company has not issued any securities with special rights.

## RESTRICTION 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 with the exception of the exclusion of voting rights with respect to treasury shares.  Pursuant to Section 309(1) of the Business Corporations Act, the Company does not exercise any voting rights with respect to treasury shares. 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.

## AGREEMENTS BETWEEN SHAREHOLDERS WHICH COULD RESTRICT THE TRANSFERABILITY OF SHARES

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

## SPECIAL RULES FOR THE ELECTION AND RECALL OF MEMBERS OF THE STATUTORY BODY OR AMENDMENT TO THE ARTICLES OF ASSOCIATION

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.

## SPECIAL POWERS OF MEMBERS OF THE STATUTORY EXECUTIVE BODY

Members of the Board of the Company do not hold any special powers.

### SIGNIFICANT AGREEMENTS RELATING TO CHANGE IN CONTROL OVER THE COMPANY AS A RESULT OF A TAKEOVER BID

The Company has not entered into any agreements that become effective, will change or expire in the event of a change in the control of the issuer as a result of the takeover bid.

### AGREEMENTS BINDING THE COMPANY IN RELATION TO A TAKEOVER 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.

### EMPLOYEE SHARES

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.

## TRADING IN O2 CZ SHARES IN 2018

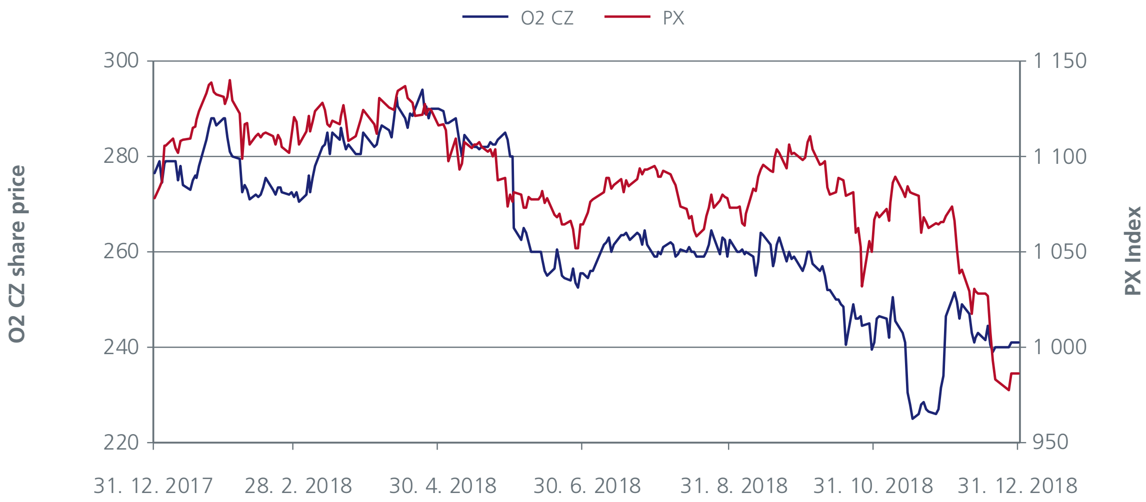
| | **2018** | **2017** |
|---|---|---|
| Number of shares (in thousand)* | 301,525 | 303,567 |
| Maximum price per share (in CZK)** | 294.0 | 296.9 |
| Minimum price per share (in CZK)** | 225.0 | 255.5 |
| Share price at the end of period (in CZK)** | 241.0 | 276.5 |
| Market capitalization at the end of period (in CZKbn)** | 74.5 | 85.8 |

* Weighted average of the number of ordinary shares in circulation.
** Source: Prague Stock Exchange.

In 2018, the Company ranked among the most important companies traded on the Czech capital market measured by the market capitalization and volume of trades. The total volume of shares traded on the stock market of the Prague Stock Exchange (PSE) represented the value of CZK 8.9 billion (corresponding to 6.2% of the total volume), which ranks the Company fifth among all companies traded on the PSE. The average daily volume of trades was CZK 35.7 million in 2018, compared with CZK 36.4 million in 2017. The market capitalization was CZK 74.5 billion as at 28 December 2018 (the last trading day on the PSE in 2018) (end of 2017: CZK 85.8 billion).

Between 2 January and 28 December 2018, the O2 CZ share price dropped 12.8% to CZK 241. In the same period, the PX (main PSE) index went down 8.5% to 986.6 points. At its minimum for the year, on 16 November 2018, the share price of O2 CZ was CZK 225. The reason was the announcement of the exclusion of the Company's shares from the MSCI Czech Republic index after MSCI reclassified one of the Company's shareholders from a non-strategic to a strategic one. This was followed by a decrease of the so-called Foreign Inclusion Factor from 20% to 12%, below the 15% threshold required to be included in the index. The exclusion took effect at the end of the trading day of 30 November 2018.

### O2 CZ SHARE PERFORMANCE AGAINST PX INDEX




## AUDITOR FEES

Total remuneration collected by the audit form KPMG Česká republika Audit, s.r.o. and its related entities broken down by type of service in 2018:

| | For O2 CZ (in CZKm) | For the consolidated whole (in CZKm) |
|---|---|---|
| **KPMG Česká republika Audit, s.r.o.** | | |
| Statutory audit | 8 | 9 |
| Other audit services | 1 | 1 |
| **KPMG Slovensko spol. s r.o.** | | |
| Statutory audit | 0 | 1 |
| **Other companies in the KPMG network** | | |
| Other services | 0 | 1 |
| **TOTAL** | **9** | **12** |

## ALTERNATIVE PERFORMANCE MEASURES

The Annual Report lists some alternative performance measures which are not reported as standard in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. O2 CZ provides more detailed information on these alternative performance measures, which 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.

| Measure | Definition | Purpose | Reconciliation to financial statements (in CZKm) |
|---|---|---|---|
| **EBITDA** | Earnings before tax, depreciation and amortization | Shows operating performance of the company | see the Consolidated statement of total comprehensive income (EBITDA):<br>2017: 10,513<br>2018: 11,163 |
| **EBITDA margin** | EBITDA/Revenues | Measures operating profitability of the company | see the Consolidated statement of total comprehensive income (Revenues and EBITDA):<br>2017: 10,513/37,709 = 27.9%<br>2018: 11,163/37,996 = 29.4 % |
| **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):<br>2017: 5,587/34,842 = 16.0%<br>2018: 5,448/36,130 = 15.1% |
| **ROE** | Profit for the period/Total equity | A ratio of the reported profit to the capital invested by the shareholders in the company | see the Consolidated statement of total comprehensive income (Profit for the period) and the Consolidated balance sheet (Total equity):<br>2017: 5,587/15,475 = 36.1%<br>2018: 5,448/15,225 = 35.8% |
| **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):<br>2017: (10,448+38)/15,475 = 67.8%<br>2018: (10,461+38)/15,225 = 69.0% |
| **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):<br>2017: (10,448+38-4,088)/10,513 = 0.61<br>2018: (10,461+38-2,475)/11,163 = 0.72 |

| Measure | Definition | Purpose | Reconciliation to financial statements (in CZKm) |
|---|---|---|---|
| **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 1 "Segment information" of the Notes to the consolidated financial statements (Fixed assets additions):<br>2017: (4,405)/37,709 = 11.7%<br>2018: (4,417)/37,996 = 11.6% |
| **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):<br>2017: 8,451 – 4,522 = 3,929<br>2018: 7,527 – 2,813 = 4,714 |

# NON-FINANCIAL INFORMATION

The Company publishes non-financial information (including information on sustainability and employee relations activities) in a separate report in the scope as required by Section 32(g) of Act No. 563/1991, On accounting. The separate report will be made available on 30 June 2019 at the Company's website www.o2.cz/spolecnost under Investor Relations.

# LEGAL NORMS WHICH THE COMPANY OBSERVES IN THE COURSE OF ITS BUSINESS

As an issuer of listed securities, O2 CZ was governed in 2018 by its activities in particular by the following legal regulations:

- Act No. 89/2012 Coll., the Civil Code,
- Act No. 90/2012 Coll., the Business Corporations Act,
- Act No. 256/2004 Coll., On capital market undertakings,
- Act No. 127/2005 Coll., On electronic communications,
- Act No. 231/2001 Coll., On radio and television broadcasting,
- Act No. 134/2016 Coll., On public procurement,
- Act No. 257/2016 Coll., On consumer credit,
- Act No. 170/2018 Coll., On the distribution of insurance and reinsurance,
- Act No. 121/2000 Coll., On copyright,
- Act No. 480/2004 Coll., On certain information society services,

- Act No. 132/2010 Coll., On on-demand audio-visual media services,
- Act No. 496/2012 Coll., On audio-visual works and support of cinematography,
- Act No. 40/1995 Coll., On the regulation of advertising,
- Act No. 441/2003 Coll., On trademarks,
- Act No. 563/1991 Coll., On accounting,
- Act No. 101/2000 Coll., On the protection of personal data,
- Act No. 143/2001 Coll., On the protection of competition,
- Act No. 634/1992 Coll., On consumer protection,
- Act No. 181/2014 Coll., On cyber security,
- Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data,
- Regulation (EU) 531/2012 of the European Parliament and of the Council on roaming on public mobile communications networks in the Union,
- Regulation (EU) 2015/2120 of the European Parliament and of the Council laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union.

## ACTIVITIES IN RESEARCH AND DEVELOPMENT

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.

## FOREIGN BRANCHES

O2 CZ does not have a branch or any part of the business establishment in another country.

# 3

# BOARD OF DIRECTORS' REVIEW OF BUSINESS

# 3. BOARD OF DIRECTORS‘ REVIEW OF BUSINESS

## ABOUT O2 GROUP AND SUMMARY OF THE MAIN EVENTS IN 2018

O2 CZ is the largest integrated provider of telecommunication services in the Czech market with voice, internet, and data services for customers across all segments ranging from households, small and medium-sized businesses to large corporations. The Company also holds as significant market position in the government segment. The Company is one of the largest players in hosting and cloud services as well as in managed services. With his $O_2$ TV service, it is the market leader in television over the internet in the Czech Republic. Virtual mobile operators use O2 CZ network to provide their services. O2 Family, BLESKmobil, Tesco Mobile and MOBIL OD ČEZ are the largest MVNOs in terms of their customer base.

In Slovakia, O2 Slovakia offers mobile services for the consumer market and small and medium-sized businesses. Since 2017, the company has also been providing wireless internet and $O_2$ TV digital television over LTE TDD technology in the 3.5 GHz and 3.7 GHz frequency spectrum. O2 Business Services, a 100% subsidiary of O2 Slovakia, offers a comprehensive portfolio of fixed and mobile telecommunication services and ICT solutions for corporate customers.

In October 2018, O2 CZ completed the most important phase of its comprehensive transformation program Simple Online Company. The merger of Český Telecom and Eurotel in 2005 has led to increase of the number of IT systems in the newly established company to several hundred, their higher complexity and resulting operational inefficiency. In addition to a significant increase in the cost of system development and maintenance, this situation has led to higher complexity of tasks for customer-facing personnel and, subsequently, for customers themselves.

As a result, the management of the Company decided to embark on a large-scale and ambitious project in 2014, whose main goal was to build a unified interface that simplifies customer service across all sales and service channels. The project incorporated changes to, replacement or shutdown of some systems, and delivering a number of improvements in Moje $O_2$ self-service application, CRM, product catalogue, provisioning, billing, campaign management, customer documentation and management reporting, including complex data migration from legacy systems. The new unified interface also enables customers to make greater use of the intuitive My $O_2$ self-service application, which lets them easily address their requirements – just as O2 CZ employees can – including ordering, service activation and making changes. A significant simplification of the product portfolio was another major change resulting from the process.

The single online interface will enable the development of new and simpler products and services for consumers and accelerate their time-to-market. For employees, it is the ideal sales and customer care tool – not only in stores, but also in call centres and in direct contact with customers. The new system will also support a single invoice for all fixed and mobile services. It will also be more cost-effective in terms of operation and development. At the same time, it will reduce the average customer service lead time, which will increase the capacity of O2 CZ's sales and customer care personnel and improve the quality of customer service.

The Board of Directors regards the year 2018 as successful for the O2 Group. From the financial point of view, 2018 was the year of the highest volume of regular investment since the separation of the Company in 2015. In addition to investing in the transformation of information systems, the Company directed its investments also in areas with a high potential of growth, such as exclusive broadcasting rights for sports for $O_2$ TV and expanding the coverage and bolstering the capacity of its proprietary mobile network in Slovakia. The successful proposition of new products and services, coupled with record investments particularly in high-growth areas, helped the O2 Group remain robustly profitable in 2018.

O2 CZ and O2 Slovakia have brought out many new products for their customers and implemented improvements to their existing products. As a result, the number of $O_2$ TV's regular monthly subscriptions increased by more than 60,000 in 2018 and the number of mobile contract customers in the Czech Republic grew by 165,000. In 2018, O2 Slovakia focused on further expansion of its 4G LTE mobile data network, which at the end of the year reached 96% of the Slovak population. The attractive proposition helped increase the number of customers in Slovakia by almost 5% year on year to over 2 million.

# FACTORS INFLUENCING THE BUSINESS

## CZECH AND SLOVAK TELECOMMUNICATIONS MARKET

In the area of fixed internet access in the Czech Republic, providers continued to increase connection speeds; UPC upped the speeds of its home internet via cable, and T-Mobile increased the speed of its fixed internet over xDSL and recently added a tariff with the maximum speed of 250 Mbps to its portfolio. T-Mobile introduced a new product, Pevný internet do zásuvky, which offers a no-FUP connectivity over LTE technology through a power distribution network. Vodafone entered into a partnership agreement with Quadruple to expand its optical and cable internet service through regional network owners.

In line with the trends in the Czech telecommunications market, operators expanded their proposition of bundled services that combine fixed and mobile access. T-Mobile launched Magenta 1, which combines multiple services, and Extra pro podnikatele, which also combines a mobile and fixed services. Vodafone increased data allowances for both new and existing customers of its *Red+* and *Business Red+* tariffs. *Red Home* and *Red+ Home* customers can now combine mobile service with fixed access home internet and Vodafone Pass bundles. Nordic Telekom brought out its first home fixed internet over LTE price plans in two speed options: 40 and 100 Mbps. The service is currently available only in several smaller cities.

At the end of January, T-Mobile launched satellite TV broadcasting which uses a platform of its sister company Slovak Telekom.

The Slovak mobile telecommunications market in 2018 saw an acceleration of the rollout of the 4G LTE fast mobile data network and increases of mobile data allowances. According to public information, O2 Slovakia's proprietary 4G LTE network had the highest coverage out of all providers at the end of 2018. The main event in the Slovak fixed access market was the merger of Benestra and Swan, which, from January 2019, act as a single entity under one name.

As measured by the number of customers, O2 CZ and O2 Slovakia slightly strengthened their position in the Czech and Slovak mobile market during the year 2018 according to publicly available information.

## REGULATION

### LEGISLATION

On 13 June 2018, the Government of the Czech Republic approved the amendment to Government Regulation No. 154/2005 Coll., which led to the reduction of the fees for the use of radio frequencies in the 1 GHz to 2.2 GHz frequency spectrum of 30% with effect from 1 September 2018.

On 17 December 2018, Directive 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing a European Code for Electronic Communications was published in the Official Journal of the European Union. This directive, which will bring about major changes, in particular to the Electronic Communications Act, must be transposed into Czech legislation within two years.

### REGULATION OF ROAMING, INTERNATIONAL CALLS AND SMS

In the European Economic Area, roaming prices are regulated by Regulation (EU) No 531/2012 of the European Parliament and of the Council. In accordance with this regulation and the related implementing regulations, the Company has redesigned its wholesale roaming proposition as of 1 January 2018, and price adjustments have also been made at the retail level throughout the year. Under Regulation (EC) No 2018/1971 of the European Parliament and of the Council of 11 December 2018, consumer prices for international calls and SMS will also be regulated in the European Economic Area from 15 May 2019 until 2024.

### RADIO FREQUENCY SPECTRUM MANAGEMENT

In July 2018, the Company received a decision of the Czech Telecommunication Office (CTO) to change the allocation of frequencies in the 2,100 MHz spectrum. This change was to allow for technological neutrality in the use of the allocated frequencies. On 1 August 2018, the CTO published a framework position paper and invited comments on the proposal for the basic principles of the tender for the granting of rights to use 2 x 30 MHz radio frequencies in the 700 MHz spectrum. On 2 January 2019, the CTO published an updated version of the basic principles of this tender, including the intention to extend it to the 3.5 GHz spectrum.

### UNIVERSAL SERVICE

In 2018, the Company continued to meet its obligation to provide universal service for public payphones, special pricing plans for people with disabilities, and access for persons with disabilities to publicly available telephone services through special telecommunication terminal equipment.

# COMMENTS ON THE CONSOLIDATED FINANCIAL AND OPERATING RESULTS

In this section we present and comment on the consolidated financial results of the O2 Group based on the consolidated financial statements for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

## CONSOLIDATED FINANCIAL RESULTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Total consolidated revenues of the O2 Group totalled CZK 38 billion in 2018, up 0.8% year on year. The popularity of *$O_2$ Spolu* family and group bundles and the new mobile tariffs *$O_2$ data* with a monthly data allowance of 4 to 20 GB for mobile phones, tablets and notebooks, combined with the increase in $O_2$ TV's customer base as a result of a new proposition of exclusive television content, propelled the growth of revenues from mobile data services and digital television. The Company acquired exclusive broadcasting rights for the most popular sports and will, from 2018 until 2021, show matches of the prestigious UEFA Champions League on an exklusive basis. From the 2018/2019 season until 2023, all matches of ice-hockey Tipsport Extraliga League, including the playoffs, will be shown exclusively to $O_2$ TV audiences. Under a new contract, $O_2$ TV will now also bring, for the first time in history, four seasons of all matches of the 1st Czech Football Fortuna League. The demand of customers for exclusive television content, unique features and the new $O_2$TV mobile app, whose menu is unified with the web-based interface and the television on-screen interface Moje menu, delivered a significant increase in revenues from digital television. Sales of equipment and accessories and financial services also maintained a steady pace of growth. Consolidated revenues were also driven by the strong performance in Slovakia, where, as in the Czech Republic, mobile data and equipment sales were the main growth areas. The rise in the above revenues has offset the negative impact of European roaming regulation and the decreasing revenues from traditional voice and data services.

Consolidated revenues shown in regional breakdown:

| | **year ended 31 December (in CZKm)** | |
|---|---|---|
| | **2018** | **2017** |
| Czech Republic | 30,874 | 30,961 |
| Slovakia | 7,486 | 7,128 |
| Consolidation adjustments | -364 | -380 |
| **CONSOLIDATED REVENUES TOTAL** | **37,996** | **37,709** |

Total consolidated costs declined 1.1% to CZK 27.4 billion year on year in 2018. While in the Czech Republic the costs were down 2% year on year to CZK 22.8 billion, in Slovakia they grew 2,6 % to CZK 5 billion, in line with the revenue growth and expansion of operating activities. Direct sales costs decreased 1.5% year on year, since lower fixed service costs and a decrease in commissions due to the capitalization commissions for customer engagement due to external and internal sales channels as a result of the application of the new IFRS more than offset the increase in the costs of equipment and accessories costs associated with higher revenues. The costs of sales of mobile services were negatively affected by the higher roaming costs caused by the higher volume of data services consumed by O2 Group customers abroad. Personnel costs increased by 2.4%, mainly due to the insourcing of external customer service personnel. The insourcing project also helped drive down third-party call centre costs, which was one of the major factors in a 6% year-on-year decline in third-party service costs.

Earnings before interest, tax and depreciation and amortization (EBITDA) came to CZK 11.2 billion in 2018, 6.2% up on the year 2017. In the Czech Republic, EBITDA was up 5% to CZK 8.6 billion, whereas in Slovakia it saw a 10.4% increase to CZK 2.6 billion. As a result, the consolidated EBITDA margin reached 29.4% in 2018, which is increase of 1.5 percentage points compared with 2017.

Consolidated operating income and income before tax declined 0.7% and 2.6% year on year to CZK 7.1 billion and CZK 6.9 billion, respectively. This moderate drop was due to a 6.7% increase in the depreciation of tangible and intangible assets as a result of higher investments in growth areas (sports content, proprietary network in Slovakia) and the transformation of the IT landscape. Consolidated income after tax reached CZK 5.4 billion in 2018, down 2.5% year on year. A one-off net income from the sale of a stake in the Estonian company Taxify through the subsidiary Bolt Start Up Development, which added about CZK 60 million to the financial income in 2017, contributed to this decline. Adoption of IFRS 15 had a positive impact on net consolidated profit of CZK 152 million in 2018.

## CONSOLIDATED BALANCE SHEET

Net book value of property, plant and equipment as at 31 December 2018 was CZK 6.1 billion, which is an increase of 8.8% compared with the end of 2017. Telecommunication technology and equipment, including, in particular, exchanges and telecommunication network transmission technology, represented the most significant part of the net book value of property, plant and equipment as at 31 December 2018.

Net book value of intangible assets increased 2.1% year on year to CZK 17.2 billion as at 31 December 2018. The largest year-on-year increase in the net book value of intangible assets occurred in the category of software and other intangible assets, mainly as a result of the acquisition of broadcasting rights to the UEFA Champions League, and the first Czech football and ice hockey league matches. Software related to the IT transformation project was the other significant driver of the year-on-year growth.

The total consolidated financial debt (short-term and long-term) amounted to CZK 10.5 billion as at 31 December 2018 as well as at the end of 2017. More information on financial debts is given in Note 14 to the Consolidated Financial Statements of this Annual Report. Cash and cash equivalents were CZK 2.5 billion as at 31 December 2018. The net debt to EBITDA ratio was 0.72 as at 31 December 2018.

## CONSOLIDATED CAPITAL EXPENDITURE

Total consolidated capital expenditure (additions to fixed assets) represented CZK 4.4 billion in 2018, as in 2017. Capital expenditure in 2017 included several one-off items: CZK 210 million for the renewal of the 450 MHz spectrum licence, CZK 203 million for the allocation of the 3,700 MHz spectrum (both in the Czech Republic) and CZK 781 million related to the extension of the license agreement with Telefónica for the use of the $O_2$ brand until 27 January 2022. In 2018, the consolidated capital expenditure to revenue ratio reached 11.6%.

Capital expenditure in Slovakia amounted to CZK 1.1 billion, down 13.3% year on year; its ratio to revenues was down 3.2 percentage points to 15.3%. Capital expenditure was mainly directed at increasing the coverage of the proprietary 2G network in order to reduce dependence on national roaming, which translated into higher operating profitability. O2 Slovakia also continued to expand its 4G LTE network service and increase backbone and transmission network capacity to meet the growing demand for mobile data.

In the Czech Republic, capital expenditure in came to CZK 3.3 billion in 2018 and its ratio to revenues was 10.6%. The main investment areas included the transformation of information systems, which was completed during the fourth quarter. Investments in the acquisition of broadcasting rights to the UEFA Champions League matches, ice-hockey Tipsport extraliga, and the Czech first football Fortuna league League were posted in the third quarter. In addition, the Company also invested in the conceptual redesign of its retail stores.

All investments in 2018 were made in the Czech Republic and in Slovakia and have been financed from own resources and from loans.

Consolidated capital expenditure shown in regional breakdown:

| | **year ended 31 December (in CZKm)** | |
|---|---|---|
| | **2018** | **2017** |
| Czech Republic | 3,312 | 3,129 |
| of which: spectrum licences | 0 | 413 |
| $O_2$ trademark (valuable rights) | 0 | 781 |
| Slovakia | 1,112 | 1,283 |
| Consolidation adjustments | -7 | -7 |
| **CONSOLIDATED CAPITAL EXPENDITURE TOTAL** | **4,417** | **4,405** |

## CONSOLIDATED CASH FLOW STATEMENT

Consolidated free cash flows amounted to CZK 4,714 million in 2018, which represents a year-on-year increase of 20%. Behind it is a 37.8% drop in the cash flow from investing activities as a result of lower cash flows for the acquisition of fixed assets. This was more than enough to compensate for the negative change in working capital, which is mainly a result of the Company's investment in the financing of the lucrative instalment sale of mobile equipment in Slovakia, which produced an increase in the long-term receivables.

## RESULTS IN THE CZECH REPUBLIC

Revenues in the Czech Republic in 2018 were down 0.3% to CZK 30.9 billion year on year. In the fixed access segment, they dropped by 3.6% to CZK 10.4 billion, because revenue growth from $O_2$ TV by a quarter and from equipment sales of 29% were not enough to compensate for the declining revenues from traditional voice and data services and the 2.5% dip in revenues from ICT services. Revenues from the mobile access segment grew 1.5% to CZK 20.5 billion. The 6.3% decrease in voice and SMS revenues due to the European roaming regulation and market pressure on prices were more than offset by an 8.6% increase in the revenues from mobile data and a 19.7% increase of revenues from hardware sales. The revenue growth in the mobile segment has been driven by revenues from financial services, especially hardware and travel insurance.

The total mobile customer base grew 2% year on year and reached 5,038,000 as at the end of 2018. The share of contract customers in the total customer base was 71.3% at the end of 2018, a which is a year-on-year increase of 1.9 percentage points. Smartphone penetration continued to grow, reaching nearly 70% at the end of 2018, with more than half of all handsets supporting 4G LTE technology.

The number of fixed voice lines reached 514 thousand at the end of December 2018, up 16.1% year on year, mainly due to the persisting fixed-to-mobile substitution. The number of customers using xDSL fixed access internet reached 699 thousand at the end of December 2018, down 4.1% year on year. However, the number of customers with a home internet connection over the 4G LTE wireless technology is growing.

The number of customers of $O_2$ TV (IPTV and OTT versions) which works over a fixed line from O2 or an internet connection from any provider, reached a total of 335 thousand as at 31 December 2018. Of this, more than 40 thousand households use the increasingly popular MULTI add-on service that allows you to watch $O_2$ TV on multiple television sets simultaneously. With each subscription, customers get four free licenses to the complete $O_2$TV programming which they can watch on a computer or in a mobile or tablet application. In 2018, 420 thousand viewers on average, including the new $O_2$ TV Sport Pack subscribers, took advantage of this option. $O_2$ TV Sport Pack gives sports fans 30-day access to exclusive programming of $O_2$ TV Sport, $O_2$ TV Fotbal and $O_2$ TV Tenis for CZK 199. By the end of 2018, the Company already registered nearly 758 thousand active $O_2$ TV digital television accesses.

### RESULTS IN SLOVAKIA

As a result of systematic investment in the proprietary mobile network, which is one of the most modern and available in Slovakia, popular tariffs, growing number of smartphone users and the higher share of customers with LTE-enabled devices, O2 Group in Slovakia further improved its operational and financial performance in 2018. In September 2018, O2 Slovakia increased the data allowance that comes with *Zlatý $O_2$ Paušál* and *Platinový $O_2$ Paušál* automatically for all customers of these tariffs without raising the price. The expansion of the 4G LTE service has allowed O2 Slovakia to add a new tariff, *Biely* $O_2$ *Internet na doma*, to its home internet portfolio. The new tariff is available also to customers within reach of the 4G network. As is the case with other Internet na doma tariffs, *Biely* also offers unlimited data and a download speed of up to 15 Mbps. As a result, the total revenues grew 5% year on year to CZK 7.5 billion in 2018. As was the case in the Czech Republic, this was mainly due to higher revenues from mobile data services and hardware sales.

The total number of mobile customers was up 4.7% in 2018 to 2.028 thousand at the end of the year. During 2018, their number grew by 91 thousand. This increase was fully propelled by the higher number of contract customers. The share of contract customers in the total customer base reached almost 63% at the end of 2018, up 3.7 percentage points year on year.

### OUTLOOK FOR 2019

The Board of Directors of O2 CZ plans to is to build on the business and commercial strategy and activities of 2018 as described in this Board of Directors' Review of Business. Accordingly, in 2019, the O2 Group will continue to market and promote its existing products and services, and develop new, innovative and in many ways unique services and products that will give customers new experiences and deliver on their expectations.

The Board of Directors of O2 CZ anticipates that the withdrawal of the United Kingdom from the European Union will not have a material impact on the business or financial results of the Company.

## ACQUISITION OF TREASURY SHARES OF 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.

The Board of Directors subsequently decided on 23 December 2015 to implement, based on a resolution approved by the General Meeting, a share buyback program on the regulated market. The acquisition of the Company's treasury shares in 2016 and 2017 therefore took place on the basis and within the remit of the resolution of the General Meeting of 8 December 2015 and the program approved by the Board of Directors on 23 December 2015.

On 13 December 2017, the Company's Board of Directors decided to implement a new share buyback program on the regulated market, within the framework of the General Meeting resolution and under the following 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 Regulation (EU) No 2016/1052 and the highest purchase price for which the Company may the acquire individual shares according to the resolution of the General Meeting (CZK 297);
c) the lowest purchase price of shares acquired under the new programme will not exceed the lowest purchase price for which the Company may acquire individual shares according to the resolution of the General Meeting(CZK 10);
d) the volume of shares purchased under the new programme in one day will 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 previous 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.

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

In the actual implementation, the Company gives the authorized securities trader, Wood & Company Financial Services, instructions only in the scope which is inevitable for the implementation of the new program. As part of the its internal analysis in connection with the implementation of the new program, the Company evaluates, in particular, the market price of the shares, liquidity, but also the Company's financing needs and alternative investment opportunities.

During 2018, the Company did not acquire any treasury shares. At the same time, no treasury shares were alienated or cancelled. In the period from 1 January to 31 December 2018, O2 CZ held a total of 8,695,327 own shares with a nominal value of one share of CZK 10 (in total value of CZK 86,953,270), which represented 2.8% of the subscribed share capital and 2.8% share of the voting rights in the Company. The total acquisition cost of these shares was CZK 2,204 million. In accordance with Section 309 (1) of the Business Corporations Act, the Company does not exercise voting rights attached to its own shares.

## DIVIDEND POLICY AND DIVIDEND PAID OUT IN 2018

In 2015, the Company's Board of Directors published a medium-term dividend policy to pay dividends of between 90% and 110% of the net unconsolidated profit to shareholders. In 2016, the Company also announced that, in addition to the payment of ordinary dividends (from the profit of the past year and retained earnings from previous years), the Company's Board of Directors intended to pay distribute a part of the share premium to shareholders. In 2018 there was no change in this dividend policy.

With view to the above, in 2018 the Company's Board of Directors proposed to shareholders a dividend of 2017 earnings per share of CZK 17 before tax for each share in the nominal value of CZK 10, and CZK 170 for the share in the nominal value of CZK 100, and distribution (reduction) of a part of the share premium, of CZK 4 before tax, and CZK 40 for the share in the nominal value of CZK 100, to the shareholders. The shareholders approved both proposals at the General Meeting held on 4 June 2018. Those who were shareholders on 4 June 2018 were entitled to the payment of both amounts. The pay-out was made by Česká spořitelna and started on 4 July 2018.

As treasury shares were also included in the business assets of O2 CZ as of 4 June 2018, the Company's share of the profits associated with those shares expired on the day of maturity. At the same time, the Company did not have any right to payment of the amount related to the distribution of a part of the share premium. The total amount (before tax) of the dividends for 2017 and the amount resulting from the distribution of a part of the share premium amounted to CZK 6.332 billion (dividends for the year 2017: CZK 5.126 billion, distribution of a part of the share premium: CZK 1.206 billion). A dividend of CZK 148 million and the amount of CZK 35 million related to the distribution (reduction) of a part of the share premium attributable to the Company's own shares have not been paid out. The dividend was transferred to the retained earnings from previous periods, and the relevant part of the share premium remained on the share premium account.

# 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 integral tool for internal control of the Company. 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. Risks are 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 below mentioned 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 adversely affect market demand. 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 results. 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 conventional 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 contractual 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 whose default could lead to restrictions of service to customers. The Company is also implicated in several significant litigation cases and figures in several administrative proceedings with regulators whose 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 management of the Company regularly monitors and addresses the risks in a way that corresponds to the nature of the risk, with the view to limiting the potential impact on the Company's results.

## DETAILS OF PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS

The Company is not aware of any dependence of its business on the rights to use patents of specific persons. The use of technology is always subject to a contract relationship with the vendor which provides for the vendor's liability for any violations of industrial or intellectual property rights. O2 CZ has entered into software license agreements with Microsoft, Oracle, Hewlett-Packard, IBM, SAP, Ericsson, Teradata, RedHat and others. O2 Group companies also use the $O_2$ trademark for their business in the Czech Republic and Slovakia under a license agreement from O2 Worldwide (see paragraph Valuable rights in Note 9 Intangible Assets in the Notes to Consolidated Financial Statements). O2 CZ operates under licences granted by the CTO, which represent the right to operate mobile networks. O2 Slovakia has licenses to operate mobile networks in the GSM, UMTS, and LTE standard (see Note 20 Service Concession Arrangements to the Consolidated Financial Statements).

O2 CZ and O2 Slovakia maintain a diverse supplier portfolio; supplier diversity is the fundamental pre-requisite of maintaining a competitive situation on the supply side. All supply contracts are awarded by tender; 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 65% share of the total procurement volume in 2018. Other major suppliers of network technology and IT were ALEF Distribution CZ, IMPROMAT-COMPUTER, O2 IT Services, Oracle Czech; in the segment of media supplies it was COPY GENERAL ONSITE SERVICES, Comdata Czech. Samsung Electronics Czech and Slovak, Huawei Technologies (Czech), TCCM, KAON and Apple Distribution International featured as the main suppliers of goods (mobile handsets, tablets, modems and accessories).

A detailed report of the O2 Group’s financial obligations as at 31 December 2018, and information about financing contracts, can be found in Note 14 Loans and other financial debts to the Consolidated Financial Statements.

All agreements concluded by the Company and/or a member of the O2 Group were made within the scope of their regular business.

# 4
# CORPORATE GOVERNANCE

# 4. CORPORATE GOVERNANCE

## ORGANISATION STRUCTURE OF O2 CZECH REPUBLIC A.S.

O2 CZ is headed by the Board of Directors[1], to which the Chief Executive Officer directly reports. The first executive line of the organisation directly under the Chief Executive Officer branches out into the following divisions and specialised units: Commercial Division, Technology Division, Finance Division, Legal and Regulatory Affairs Division, Human Resources Division, Strategy and Innovation Unit, Public Sector Unit, Wholesale Services Unit, Security Unit and Corporate Communication Unit.

## THOSE CHARGED WITH GOVERNANCE

Within the meaning of the Capital Market Undertakings Act, those charged with governance include members of the Company's Board of Directors, Supervisory Board and the executive management of the Company.

### 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 following key powers to:

- 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). or on the option to offset a pecuniary receivable due from the Company against receivable of payment of the subscription price of shares;

1) The Supervisory Board oversees the discharge of executive powers by the Board of Directors (see point Board of Directors further in this section.

- 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;
- elect and recall members and substitute members of Audit Committee;
- 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[2];
- 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;
- approve of executive service agreements for members of the Supervisory Board and members of the Audit Committee, resolve on remuneration to be paid to these members and approve the rules for the remuneration and awarding any additional of perquisites to these members;
- decide on approval of silent partnership (as well as any changes thereto or termination thereof);
- decide on determination of an auditor to carry out mandatory audits or to audit other documents if necessary;
- 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.

## KEY DECISIONS OF THE GENERAL MEETING HELD ON 4 JUNE 2018

- Approved the Company's annual and consolidated financial statements for the year 2017.
- Approved the distribution of profit for the year 2017 of CZK 5,274 million; a dividend is CZK 17 for each share with a nominal value of CZK 10, and CZK 170 for the share with a nominal value of CZK 100.
- Approved the distribution of a part of the share premium up to the limit of CZK 1,241 million; the amount of CZK 4 for each share with a nominal value of CZK 10, and CZK 40 for the share with a nominal value of CZK 100.

2) According to the Act No. 563/1991 Coll. on Accounting, as amended (Accounting Act).

- Appointed by KPMG Česká republika Audit, s.r.o. to perform the statutory audit for the year 2018, thereby prolonging the existing audit contract.
- Approved a proposal by the Board of Directors to amend the Articles of Association and a proposal by the qualified shareholder to amend the Articles of Association.
- Approved a change in the rules for the remuneration of members of the Supervisory Board.
- Elected Kateřina Pospíšilová as member of the Supervisory Board.
- Selected Michal Krejčík as member of the Audit Committee and Ondřej Chaloupecký as substitute member of the same.

## SUPERVISORY BOARD

The Supervisory Board is a supervisory body of the Company and it oversees the discharge of the executive powers by the Board of Directors. Two thirds of members are elected and recalled by the General Meeting; one third is elected and recalled by employees of the Company. The tenure of Supervisory Board members is five years. The Supervisory Board has three members and constitutes a quorum if a simple majority of its members is present at the meeting. 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.

The Supervisory Board serves the following principal functions:

- 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;
- elect and recall members of the Board of Directors; approve executive service agreements for members of the Board of Directors and approve benefits granted to members of the Board of Directors;
- convene a General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting;
- present its positions, recommendations and conclusion of its supervisory activities to the General Meeting;
- acting upon request of qualified shareholders, the Supervisory Board will review the discharge of executive powers by the Board of Directors and, on behalf of the Company, enforce a claim to compensation visavis a member of the Board of Directors or the Supervisory Board;
- 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, and inform the General Meeting of the review of this report and to submit its standpoint to the General Meeting;
- propose the statutory auditor to the General Meeting.

## CHAIRMAN OF THE SUPERVISORY BOARD

Ladislav Bartoníček

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 until March 2013.  In 2014-2018, he was CEO of SOTIO a.s., PPF Group' biotechnology business. He is presently a member of the supervisory board of SOTIO a.s. He has been a shareholder of the PPF Group since 2007. He acts, and in the last five years he has been acting, in other corporations[3].

Member of the Supervisory Board from 10 May 2017; Chairman from 5 June 2018.

## VICE-CHAIRMAN OF THE SUPERVISORY BOARD

Ctirad Lolek

Graduated from the Palacký University in Olomouc, where he studied sociology and adult education with a specialisation in HR management. In 2001 he was appointed HR director for The Timken Company. In 2008 he joined ArcelorMittal Ostrava as HR Director and member of the Board of Directors. In 2010 he relocated to Luxembourg where he was HR Director of the division ArcelorMittal Long Carbon Europe. In 2011-2018 he was Director, Human Resources O2 Czech Republic a.s. and a trustee and later also vice-chair of the Board of Trustees of the O2 Foundation.

Member of the Supervisory Board from 1 June 2015 until 13 January 2019; Vice-chairman from 3 June 2015 until 13 January 2019.

## MEMBER OF THE SUPERVISORY BOARD

Kateřina Pospíšilová

Graduated from the Faculty of Law at the Masaryk University in Brno. In 2009-2012 she worked as a lawyer at the Office for the Protection of Economic Competition. She joined O2 Czech Republic a.s. in 2012. In 2013 and 2014 she was involved in the negotiation and drafting of network sharing

3) 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., Mall Group a.s.

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 2015, she was the head of the regulation and competitive law team and in 2017 she was appointed Director for Strategy and Innovation. In the past five years she acted in other corporations[4].

Member of the Supervisory Board since 4 June 2018; co-opted as member on 28 February 2018.

Changes in the composition of the Supervisory Board: on 13 January 2019, Ctirad Lolek resigned as Vice-chairman and member of the Supervisory Board; with effect from 14 January 2019, Pavel Milec was elected to the Supervisory Board as employee representative.

## MEMBER OF THE SUPERVISORY BOARD ELECTED BY EMPLOYEES

Pavel Milec

Graduated from the Czech Technical University in Prague, Faculty of Transport, in Automation in Transport and Telecommunications. In 2007 he joined Telefónica O2 Czech Republic, a.s., where he went through several positions. From 2010 until 2013, he served as Director of Customer Experience at Telefónica O2 Slovakia, s.r.o. After returning to the Czech Republic, he joined Telefónica O2 Czech Republic, a.s. as Director for Call Centres. His responsibilities included, among other things, the consolidation and automation of call centre operations. Since January 2019 he has been Director of Human Resources at O2 Czech Republic a.s. and is also a member of the O2 Foundation's Board of Trustees. He also acts in other corporations[5].

Member of the Supervisory Board since 14 January 2019.

## AUDIT COMMITTEE

The Audit Committee is an autonomous body of the Company. Members of the Audit Committee, as well as any substitute members, are elected and recalled by the Company’s General Meeting. They may be elected from the members of the Supervisory Board or they may be persons external to the Company. The Audit Committee members are elected for a period of five years. The Audit Committee has three members and constitutes a quorum if a simple majority of its members is present at the meeting. 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.

4) CROSS NETWORK INTELLIGENCE s.r.o.
5) JANTEPA GROUP s.r.o.

The Audit Committee serves the following principal functions:

- monitor the process of compilation of the annual financial statements and the consolidated financial statements;
- evaluate the effectiveness of the Company's internal controls, risk management, internal audit and risk management systems functional independence;
- monitor the process of the statutory audit of the annual financial statements and the consolidated financial statements, and inform the Supervisory Board of the conclusions of the statutory audit;
- review the independence of the statutory auditor and the audit firm, and the provision of non-audit services to the Company by the statutory auditor and the audit firm;
- approve the supply of non-audit services in cases required by law;
- recommend an auditor to the Company's Supervisory Board;
- receive from and discuss with the auditor all and any information, declarations and communications as per the applicable laws;
- make a report of the Audit Committee's work for the Public Audit Oversight Board.

## CHAIRMAN OF THE AUDIT COMMITTEE

Radek Neužil

He earned the title LL.M. at the Faculty of Law of Masaryk University in Brno and the title of Ing. (MSc) in Economics and Management of Mechanical Engineering at the Faculty 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 chartered accountant. From 2009 until May 2015, he was member of the presidium of the Public Audit Oversight Board and Chairman of the Audit Cooperation and Coordination Committee. Since November 2015, he has been member of the Disciplinary Committee of the same body; in April 2016 he was elected chairman. 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. and in 2017 he became member of the audit committee of Brněnské vodárny a kanalizace, a.s. He acts, and in the last five years he has been acting, in other corporations[6].

Member of the Audit Committee since 12 March 2014; Chairman since 20 June 2018.

6) DATEV, družstvo, PASKI CLUB, v.o.s., Eláán, Paski club

## VICE-CHAIRMAN OF THE AUDIT COMMITTEE

Michal Brandejs

Graduated from the University of Economics in Prague in 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. In the past five years he acted in other corporations[7].

Member of the Audit Committee since 8 December 2015; Vice-chairman since 20 June 2018.

## MEMBER OF THE AUDIT COMMITTEE

Michal Krejčík

He graduated from the Faculty of Law of Charles University with the title JUDr. in 2003. As a judicial candidate, he was preparing for the position of a judge and in 2005 he passed the judicial examinations. In 2005, he joined Eurotel Praha, where he worked in the Legal and Regulatory Affairs Division as a specialist in the area of conflict prevention and resolution. At O2 Czech Republic a.s. he has been Director of Litigation since 2010, and was appointed Compliance Officer in 2011. He is a member of expert working groups and bodies within the Czech Association for Electronic Communications (ČAEK) and the Association of Mobile Network Operators (APMS). In the past five years he acted in other corporations[8].

Member of the Audit Committee since 4 June 2018.

Changes in the composition of the Audit Committee: As of 27 January 2018, Martin Štefunko (for his professional résumé please see the 2017 Annual Report) resigned as Chairman and member of the Audit Committee; with effect from 4 June 2018, the General Meeting elected Michal Krejčík, a member of the Audit Committee, and Ondřej Chaloupecký as a substitute member of the same.

7) Deloitte Audit, s.r.o.
8) 4Local s.r.o.

## 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 per the Articles of Association, 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 three members and constitutes a quorum if a simple majority of its members is present at the meeting.

The Board of Directors serves the following principal functions:

- manage the commercial side of the business and ensure due and proper keeping of accounts and Company documents;
- convene the General Meeting; present to the General Meeting matters reserved for the authority of the General Meeting and implement the decisions of the General Meeting;
- submit to the Supervisory Board for review the Company's annual, extraordinary or, as the case may be, interim financial statements, 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;
- use retained earnings in line with the decision of the General Meeting; decide 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 Business Corporations Act, the annual and half-year report according to the Act on Accounting, Capital Markets Undertakings Act, including a related undertakings report, and an interim and a summary explanatory report pursuant to the Capital Markets Undertakings Act;
- set the Company’s business policy; grant and revoke proxy; stipulate principles for the collective bargaining process; and stipulate the rules for the creation and use of the Social Fund on the basis of collective bargaining;
- organize employee elections to the Supervisory Board.

## CHAIRMAN OF THE BOARD OF DIRECTORS

Jindřich Fremuth

Graduated from the University of Economics in Prague and before joining O2 Czech Republic a.s. he worked for 10 years in marketing and sales. He served as CEO of Euro RSCG 4D (Havas Group) in digital marketing, direct marketing and sales promotion. As a consultant at McKinsey & Company, he focused on telecom and technology projects for major companies in Europe and the Middle East. He joined O2 Czech Republic a.s. in 2009 as Director for Online Channels; in 2011 he took over responsibility for the strategy of consumer distribution channels. From 2013, he held the position of Director, Consumer Division, and in 2017 he was appointed Director, Commercial Division. He has also been a member of the governing bodies in other corporations over the last five years. In the past five years he acted in other corporations[9].

Member of the Board of Directors since 1 January 2018; Chairman since 10 January 2018.

## VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

Tomáš Kouřil

Before joining the Company, he worked for the professional services consultancy Deloitte. He has held various executive positions in the Company since 2003. In 2006, he was responsible for the start-up of the operations of the O2 mobile operator in Slovakia. Later he took over responsibility for corporate finance. 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. In the last five years he was not a member in other governing, executive or supervisory bodies.

Member of the Board of Directors since 1 January 2015; Vice-chairman since 7 January 2015.

## MEMBER OF THE BOARD OF DIRECTORS

Václav Zakouřil

He graduated from the Faculty of Law of the Charles University and subsequently worked at Ericsson spol. s r.o. as a lawyer for a networking project of the third mobile operator, and then five years at the law firm Freshfields Bruckhaus Deringer. He joined O2 Czech Republic a.s. in 2009 and has been working in legal and regulatory positions. In 2014, he assumed overall responsibility for matters related to regulation and competition, and since 2016 he has been the Director of Legal and Regulatory Affairs. In the past five years he acted in other corporations[10].

Member of the Board of Directors since 16 March 2018.

9) O2 TV s.r.o.
10) MOPET CZ a.s.

Changes in the composition of the Board of Directors: as of 15 March 2018, Jiří Hrabovský resigned as a member of the Board of Directors (for his professional résumé please see the 2017 Annual Report); the Supervisory Board subsequently elected Václav Zakouřil as member of the Board of Directors with effect from 16 March 2018.

## INFORMATION ON THE APPLICATION OF DIVERSITY POLICY TO CORPORATE BODIES

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 predispose them to 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.

## EXECUTIVE MANAGEMENT

Division directors reporting directly to the Chief Executive Officer are the executive management of the Company

## CHIEF EXECUTIVE OFFICER

Jindřich Fremuth
(résumé given in section Board of Directors)

## DIRECTOR, FINANCE DIVISION

Tomáš Kouřil
(résumé given in section Board of Directors)

## DIRECTOR, LEGAL AND REGULATORY AFFAIRS

Václav Zakouřil
(résumé given in section Board of Directors)

## DIRECTOR, HUMAN RESOURCES DIVISION

Ctirad Lolek
(résumé given in section Supervisory Board)

## DIRECTOR, STRATEGY AND INNOVATION

Kateřina Pospíšilová
(résumé given in section Supervisory Board)

## DIRECTOR, COMMERCIAL DIVISION

Richard Siebenstich

Graduated in Finance at the University of Economics in Bratislava. In 2003-2012, he worked in various management positions at Coca-Cola HBC. In 2012 he joined O2 CZ as a director for brand stores. From 2013 he managed all sales channels, and, from 2017, also marketing communication and online platforms. He is a member of the board of directors of Bolt Start Up Development a.s., statutory executive of mluvii.com s.r.o. and O2 TV s.r.o. and a member of the O2 Foundation's Board of Trustees. In the last five years, he has not been a member of governing, executive or supervisory bodies outside the O2 Group.

## DIRECTOR, TECHNOLOGY DIVISION

Jan Hruška

Graduated from Charles University in Prague, Faculty of Informatics. From 1997 he worked as consultant at ANIMA Praha spol. s r.o. on IT project design, business and marketing processes and strategic planning for prominent clients, especially in banking and energy. In 2004 he joined Eurotel Praha spol. s r.o., which became Telefónica Czech Republic, a.s. and later O2 Czech Republic a.s., where he has served in a number of management roles, especially as an e-commerce manager, director of distribution strategy and planning, marketing director for fixed services to the current position of Director of the Technology Division. Jan has extensive experience in managing the entire value chain of a telecommunications, from planning and designing marketing propositions through sales performance management and motivation systems, product lifecycle management, profitability management to specific technology. He is Managing Director of eKasa s.r.o. and O2 IT Services s.r.o. He also acts in other corporations[11].

11) Rodiče pro Čisovice a Bojov, z.s.

Changes in senior management: Ctirad Lolek left the Company as of 31 December 2018; Pavel Milec became the new Director of the Human Resources Division as of 1 January 2019.

## DIRECTOR, HUMAN RESOURCES DIVISION

Pavel Milec
(résumé given in section Supervisory Board)

## REMUNERATION OF THOSE CHARGED WITH GOVERNANCE

## PECUNIARY AND NON-PECUNIARY (IN-KIND) INCOME OF DIRECTORS AND MEMBERS OF SUPERVISORY BOARDS IN 2018

| | **From O2 CZ (in CZKm)** | **Of which royalties (in CZK)** | **From persons controlled by O2 CZ (in CZK)** |
|---|---|---|---|
| Board of Directors | 44.6 | 0 | 0 |
| Supervisory Board | 1.4 | 0 | 0 |
| Executive management* | 23.2 | 0 | 0 |

* Income of persons who are at the same time members of the Board of Directors is accounted for in the Board of Directors total category.

## PRINCIPLES OF REMUNERATION AND INFORMATION ABOUT EXECUTIVE SERVICE AGREEMENTS 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 and the executive service agreements. Members of the Board of Directors enter into an executive service agreement which binds them with a non-competition covenant for the duration of their service.
- Members of the Board of Directors are entitled to (i) a compensation fee equal to the amount of mandatory payments (taxes, public health insurance, etc.) which a member of the Board of Directors is obliged to bear because the Company pays insurance premiums for insurance against the member's liability for losses caused by breach of duties in the course of the member's service; (ii) special remuneration, the amount of which is negotiated in the service agreement, is individual and takes into account the responsibility of the member of the Board of Directors for the management of the specified scope of activities of the Company; (iii) stabilization or incentive remuneration, the amount and terms of which are negotiated in a separate agreement in accordance with Section 61 (1) of the Business Corporations Act and in accordance with Article 1.3 of the Rules for the Remuneration of Members of the Board of

Directors; the agreement is approved by the Supervisory Board and the amount of the remuneration depends on the Company's operating performance.

- The Company also provides other performances to members of the Board of Directors for the purpose of fulfilling the obligations arising from their service. These include voice and data services, communication and IT technology, and liability insurance for losses caused by a breach of duties in the course of a service as member of the Board of Directors.

## PRINCIPLES OF REMUNERATION AND INFORMATION ABOUT EXECUTIVE SERVICE AGREEMENTS OF MEMBERS OF THE SUPERVISORY BOARD

- Remuneration is governed by the rules for the remuneration and provision of other benefits as approved by the General Meeting of the Company. A member of the Supervisory Board is entitled to remuneration only if he/she makes a claim for it. Members of the Supervisory Board are entitled to a pecuniary monthly fee consisting of (i) an amount covering mandatory payments (taxes, health insurance, etc.) which a member of the Supervisory Board is obliged to bear because the Company pays insurance premiums for the insurance of the member’s liability for losses caused by a breach of duties in the course of the member’s service; (ii) the amount payable to members of the Supervisory Board per month - member: CZK 8 thousand; Chairman: CZK 10 thousand; (iii) the amount of CZK 5 thousand to each member for each Supervisory Board meeting attended.
- The Company also provides other performances to members of the Supervisory Board for the purpose of fulfilling the obligations arising from their service. These include voice and data services, communication and IT technology, and liability insurance for losses caused by a breach of duties in the course of a service as member of the Supervisory Board.
- In 2018, all members of the Supervisory Board were bound by an executive service agreement with the Company, which was approved by the General Meeting of the Company. In the agreement, members of the Supervisory Board accepted a non-competition covenant, i.e. not to act independently or to the benefit of another person on the territory of the Czech Republic in the field of telecommunications, unless it is within the concern. The non-competition covenant applies for six months from the date of termination of service. For the commitment of non-competition, the Company is obliged to provide a member with a pecuniary compensation equivalent to six times the amount of average flat remuneration.

## PRINCIPLES OF REMUNERATION OF MEMBERS OF THE EXECUTIVE MANAGEMENT

- The remuneration principles are set forth in the Internal Remuneration Directive, which is approved by the Director of Human Resources. The directive defines the principles and the mechanism for determining the basic wage and the performance-related bonus.

- 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 which represent key performance indicators of both financial and non-financial nature and general performance of the whole Company. The performance of individual targets of executive managers is approved by the Company's Chief Executive Officer, and individual performance indicators at the company level are set by the Chief Executive Officer and evaluated by the Board of Directors of the Company. 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.

## OTHER INFORMATION CONCERNING DIRECTORS AND MEMBERS OF SUPERVISORY BODIES

### OWNERSHIP OF SHARES

Information on the number of shares issued by O2 CZ and held by those charged with governance as at 31 December 2018:

| | Number of shares |
|---|---|
| Board of Directors | 604 |
| Supervisory Board | 0 |
| Executive management* | 0 |

* 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

No conflict of interest was found in relation to those charged with governance. 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 INTERNAL CONTROL PRINCIPLES AND PROCEDURES

The Company 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 2018, Internal Audit and Risk Management carried out a total of 18 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, potential 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 ON CORPORATE GOVERNANCE CODES OF THE COMPANY

The Company is guided by the recommendations of the Czech Code of Corporate Governance, based on the OECD principles of 2004 ("Code"), which is available on the website of the Ministry of Finance of the Czech Republic www.mfcr.cz.

However, the Company is aware that the Code is obsolete in some respects, or has been surpassed by the new Civil Code, the Business Corporations Act, the latest Capital Market Undertakings Act, and the Act on Auditors, as well as by the latest European legislation. Some recommendations of the Code contain rules whose observance is not directly influenced by the Company and depend on the decision-making of the Company's owners; some recommendations of the Code in practice have proved redundant or impractical. For these reasons, the following are the cases when the Company deviates from the Code.

- Separate item Discussion at the General Meeting. The Company has consistently adhered to the statutory rules governing the participation of shareholders and the exercise of their rights in general meetings. However, the General Meeting does not include a separate item Discussion, although this Code (beyond and above the statutory requirements) recommends its. The reasons are mainly practical, even with regard to the large number of shareholders. The Board of Directors seeks to ensure the smooth, smooth and logical course of the General Meeting, and relevant discussion is thus made available to shareholders, in accordance with the shareholders' right to explain in the Business Corporations Act, under the individual points on the agenda.
- Publishing the Company's targets. The Code (beyond and above the statutory requirements) recommends that companies publish their targets. The Board of Directors does not regularly publish specific quantitative targets of the Company. As part of its annual reports in accordance with Section 118 of the Capital Market Undertakings Act and Section 21 of the Accounting Act, the Company publishes in sufficiently detailed information that provides a true and fair view of the prospects for the future financial situation, business and results.
- Scope and activity of the Audit Committee. The recommendations of Code concerning the audit committee is, in the Company's opinion, obsolete, fully surpassed by the new and com-

prehensive legal regulation contained in the Act on Auditors, as well as in the EU legislation on specific requirements for statutory audit of public interest entities by which the Company is bound. The Company favours current legislation regarding the audit committee over the recommendations of the Code.

- Independence of members of the Board of Directors and the Supervisory Board. The Code recommends that most members of the Board of Directors and the Supervisory Board fulfil the criterion of independence, i.e. that members are not related to the executive management of the Company or the majority shareholder. In relation to the Board of Directors, this requirement is not incompatible with the scope and functions of the Board of Directors in the Corporate Corporations Act. The Board of Directors manages the business; it is the highest executive element in the management of the Company, which cannot be independent of the management of the Company. The members of the Supervisory Board are elected and recalled by the General Meeting in accordance with the law. Therefore, the Company does not decide on the appointment of the Supervisory Board and cannot, by definition, directly ensure the fulfilment of the recommendations of the Code by nature. This does not prevent the members of the Supervisory Board from performing their functions properly and having an independent and objective judgment.
- Nomination and Remuneration Committees. There are no committees in the Company for the nomination and remuneration of the Board of Directors, the Supervisory Board and key executive members. In practice, the establishment of these committees appears to be redundant as the occupation of the Company's bodies and their remuneration is governed by the rules of the Business Corporations Act, which the Company considers to be sufficient. In accordance with the law and the Articles of Association, members of the Supervisory Board and the Audit Committee are elected and recalled by the General Meeting which also approves the executive service agreements and the remuneration rules. The Company does not directly influence these matters, and it primarily depends on the decision of the Company's owners. In the area of remuneration of members of the Board of Directors and other executives (employees), the corporate bodies work directly with the Human Resources Division, which is responsible for remuneration-related matters in the Company.

The Company Secretary, which is a permanent position in the Company, supports the processes of good corporate governance, including meeting the requirements of the Code. The Company Secretary falls into the organisation of the Legal and Regulatory Affairs Division.

# 5
# FINANCIAL PART

# 5. FINANCIAL PART

## 5.1 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

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## 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 2018, 81.06% of the Company's voting rights were held indirectly by Mr. Petr Kellner through PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

The average number of employees employed by the Group was 5,381 (2017: 5,275) as at 31 December 2018.

The Company's shares are traded on the Prague Stock Exchange and on RM-SYSTÉM, česká burza cenných papírů a.s.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 February 2019 and are subject to review by the Supervisory Board.

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2018

| In CZK million | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Revenues | 1, 2 | 37,996 | 37,709 |
| Other income from non-telecommunication services | 1 | 207 | 146 |
| Capitalisation of fixed assets | 1 | 335 | 346 |
| Expenses | 3 | (27,140) | (27,496) |
| Impairment loss on financial assets | 11, 15 | (235) | (192) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **11,163** | **10,513** |
| Depreciation and amortisation | 8, 9 | (3,573) | (3,348) |
| Amortisation of costs to obtain contracts | 2 | (455) | - |
| Impairment loss on non-current assets | 8, 9 | (27) | (7) |
| **Operating profit** | | **7,108** | **7,158** |
| Finance income | 4 | 30 | 120 |
| Finance costs | 4 | (224) | (179) |
| Share of profit/(loss) of investments accounted for using the equity method | 23 | 2 | (1) |
| **Profit before tax** | | **6,916** | **7,098** |
| Corporate income tax | 6 | (1,468) | (1,511) |
| **Net profit** | | **5,448** | **5,587** |
| **Other comprehensive income** | | | |
| **Items that may subsequently be reclassified to profit or loss** | | | |
| Changes in fair value of financial instruments hedging cash flows net of tax | 15 | 14 | 21 |
| Changes in fair value of financial instruments measured at fair value through other comprehensive income, net of tax | 15 | - | 3 |
| Translation differences | | 19 | (200) |
| **Items that will not be reclassified to profit or loss** | | | |
| Changes in fair value of financial instruments measured at fair value through other comprehensive income, net of tax | 15 | (19) | - |
| **Other comprehensive income, net of tax** | | **14** | **(176)** |
| **Total comprehensive income, net of tax** | | **5,462** | **5,411** |

| | | | |
|---|---|---|---|
| Profit attributable to: | | | |
| Equity holders of the Company | 5 | 5,450 | 5,592 |
| Non-controlling interests | | (2) | (5) |
| | | | |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 5,464 | 5,416 |
| Non-controlling interests | | (2) | (5) |
| | | | |
| Earnings per share (CZK) attributable to equity holders – basic* | 5 | 18 | 18 |

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

## CONSOLIDATED BALANCE SHEET

As at 31 December 2018

| In CZK million | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 8 | 6,130 | 5,636 |
| Intangible assets | 9 | 17,164 | 16,815 |
| Costs to obtain contracts | 2 | 678 | - |
| Investments in equity accounted investees | 23 | 16 | 18 |
| Contract assets | 2 | 134 | - |
| Other non-current assets | 11 | 900 | 726 |
| Deferred tax asset | 16 | 168 | 216 |
| **Non-current assets** | | **25,190** | **23,411** |
| | | | |
| Inventories | 10 | 906 | 824 |
| Receivables | 11 | 7,067 | 6,519 |
| Income tax receivable | 6 | 81 | - |
| Contract assets | 2 | 411 | - |
| Cash and cash equivalents | 12 | 2,475 | 4,088 |
| **Current assets** | | **10,940** | **11,431** |
| | | | |
| **Total assets** | | **36,130** | **34,842** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Ordinary shares | 21 | 3,102 | 3,102 |
| Treasury shares | 21 | (2,204) | (2,204) |
| Share premium | 21 | 9,470 | 10,676 |
| Retained earnings, funds and reserves | | 4,857 | 3,901 |
| **Equity attributable to owners of the parent** | | **15,225** | **15,475** |
| Non-controlling interests | | - | - |
| **Total equity** | | **15,225** | **15,475** |
| | | | |
| Financial debts | 14 | 10,461 | 10,448 |
| Deferred tax liability | 16 | 484 | 270 |
| Provisions for liabilities and charges | 17 | 66 | 53 |
| Contract liabilities | 2 | 81 | - |
| Other liabilities | 13 | 991 | 116 |
| **Non-current liabilities** | | **12,083** | **10,887** |
| | | | |
| Financial debts | 14 | 38 | 38 |
| Trade and other payables | 13 | 7,975 | 8,209 |
| Income tax liability | 6 | 116 | 139 |
| Contract liabilities | 2 | 610 | - |
| Provisions for liabilities and charges | 17 | 83 | 94 |
| **Current liabilities** | | **8,822** | **8,480** |
| **Total liabilities** | | **20,905** | **19,367** |
| | | | |
| **Total equity and liabilities** | | **36,130** | **34,842** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

| | | Equity attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **In CZK million** | **Notes** | **Share capital** | **Share premium** | **Treasury shares** | **Currency translation reserve** | **Funds** | **Revaluation reserve** | **Cash flow hedging** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **As at 1 January 2018** | | **3,102** | **10,676** | **(2,204)** | **(2)** | **278** | **3** | **21** | **3,601** | **15,475** | **-** | **15,475** |
| Adjustment for initial application of IFRS 9 (net of tax) | A | - | - | - | - | - | - | - | (9) | (9) | - | (9) |
| Adjustment for initial application of IFRS 15 (net of tax) | A | - | - | - | - | - | - | - | 626 | 626 | - | 626 |
| **Adjusted balance as at 1 January 2018** | | **3,102** | **10,676** | **(2,204)** | **(2)** | **278** | **3** | **21** | **4,218** | **16,092** | **-** | **16,092** |
| Other comprehensive income | | - | - | - | 19 | - | (19) | 14 | - | 14 | - | 14 |
| Profit for the period | | - | - | - | - | - | - | - | 5,450 | 5,450 | (2) | 5,448 |
| **Total comprehensive income** | | **-** | **-** | **-** | **19** | **-** | **(19)** | **14** | **5,450** | **5,464** | **(2)** | **5,462** |
| Sale of financial assets measured through other comprehensive income | | - | - | - | - | - | 14 | - | (14) | - | - | - |
| Distribution declared in 2018 | 7 | - | (1,206) | - | - | - | - | - | (5,274) | (6,480) | - | (6,480) |
| Distribution on treasury shares | 7 | - | - | - | - | - | - | - | 148 | 148 | - | 148 |
| Transactions with non-controlling interest | 23 | - | - | - | - | - | - | - | 1 | 1 | 2 | 3 |
| **As at 31 December 2018** | | **3,102** | **9,470** | **(2,204)** | **17** | **278** | **(2)** | **35** | **4,529** | **15,225** | **-** | **15,225** |

| 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 funds | | - | - | - | - | 28 | - | - | (28) | - | - | - |
| Distribution declared in 2017 | 7 | - | (1,218) | - | - | - | - | - | (5,274) | (6,492) | - | (6,492) |
| Distribution on treasury shares | 7 | - | - | - | - | - | - | - | 98 | 98 | - | 98 |
| Acquisition of treasury shares | 21 | - | - | (1,052) | - | - | - | - | - | (1,052) | - | (1,052) |
| Acquisition of non-controlling interest | 23 | - | - | - | - | - | - | - | 1 | 1 | (1) | - |
| Acquisition of subsidiary with non-controlling interest | 23 | - | - | - | - | - | - | - | - | - | 5 | 5 |
| **As at 31 December 2017** | | **3,102** | **10,676** | **(2,204)** | **(2)** | **278** | **3** | **21** | **3,601** | **15,475** | **-** | **15,475** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Profit before tax** | | **6,916** | **7,098** |
| Non-cash adjustments for: | | | |
| Share of (profit)/loss of investments accounted for using the equity method | | (2) | 1 |
| Dividend income | | (5) | (5) |
| Depreciation | 8 | 1,147 | 1,122 |
| Amortisation | 9 | 2,426 | 2,226 |
| Amortisation of costs to obtain contracts | 2 | 455 | - |
| Impairment loss | | 27 | 7 |
| (Profit)/loss on sale of tangible and intangible fixed assets | | 2 | 2 |
| (Profit)/loss on sale of part of business and other investments | | (36) | (84) |
| Net interest cost | | 175 | 117 |
| Unrealised foreign exchange (gains)/losses (net) | | (10) | 15 |
| Fair value changes | | (1) | 2 |
| Change in provisions and allowances and write-off of receivables | | 252 | 182 |
| **Operating cash flow before working capital changes** | | **11,346** | **10,683** |
| **Working capital changes:** | | | |
| (Increase)/decrease in receivables and other assets | | (1,132) | (853) |
| (Increase)/decrease in inventories | | (70) | (225) |
| Increase/(decrease) of financial assets and liabilities at fair value through profit or loss | | - | (1) |
| (Increase) of costs to obtain contracts | 2 | (594) | - |
| (Increase)/decrease of contract assets | | (91) | - |
| Increase/(decrease) in trade and other payables | | (299) | 175 |
| **Cash flows from operating activities** | | **9,160** | **9,779** |
| Interest paid | | (186) | (99) |
| Interest received | | 11 | 1 |
| Income tax paid | | (1,458) | (1,230) |
| **Net cash flow from operating activities** | | **7,527** | **8,451** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (1,479) | (1,914) |
| Purchase of intangible assets | | (1,382) | (2,663) |
| Proceeds from sales of fixed assets | | 13 | 15 |
| Proceeds from sales of part of business and other investments | | 25 | 106 |
| Cash purchase of subsidiary | | (2) | (48) |
| Cash purchases of other investments | | - | (20) |
| Dividends and other distributions received | | 9 | 15 |
| Loans provided | | - | (13) |
| Repayment of loans | | 3 | - |
| **Net cash used in investing activities** | | **(2,813)** | **(4,522)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 14 | 1,200 | 5,511 |
| Repayment of borrowings | 14 | (1,200) | (2,000) |
| Dividends and other distributions paid | | (6,332) | (6,394) |
| Acquisition of treasury shares | | - | (1,052) |
| **Net cash used in financing activities** | | **(6,332)** | **(3,935)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,618)** | **(6)** |
| Cash and cash equivalents at beginning of year | 12 | 4,088 | 4,137 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | 5 | (43) |
| Cash and cash equivalents at the year end | 12 | 2,475 | 4,088 |

## ACCOUNTING POLICIES

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## 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 a 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 B - Use of estimates, assumptions and judgements.

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

The Group is an 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 two main areas of services, i.e. the fixed segment and the mobile segment. The Group also reports two geographic segments. For further details, refer to Note 1.

### Adoption of new or revised IFRS standards and interpretations

For financial statements for the year ended 31 December 2018, the Group adopted new or revised standards and interpretations as mentioned below.

- New standard IFRS 15 - Revenue from Contracts with Customers (issued in May 2014)
- New standard IFRS 9 - Financial Instruments – classification and measurement (issued in July 2014)
- Revision of IAS 40 - Investment property: Transfers of investment property
- Revision of IFRS 2 - Share-based payments: Classification and measurement of share-based payment transactions
- Revision of IFRS 4 - Insurance contracts: Applying IFRS 9 - Financial instruments with IFRS 4 - Insurance contracts
- Annual improvements to IFRSs 2014-2016 cycle:
    - Revision to IFRS 1 - First-time adoption of International Financial Reporting Standards
    - Revision to IAS 28 - Investments in associates and joint ventures
- New interpretation of IFRIC 22 - Foreign currency transactions and advance consideration

Standards IFRS 9 - Financial instruments and IFRS 15 - Revenue from contracts with customers have significant impact on the Group and their implementation is described below.

**IFRS 9 – Financial Instruments**

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

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

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

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

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

### *a. Classification and measurement of financial assets and liabilities*

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

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

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

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

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

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

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

The Group evaluates the objectives of business models in which financial assets are held at the portfolio level, as they are composed of financial assets with the same characteristics of the contractual terms and the expected cash flows. To determine the business model, the Group considers the different types of risks affecting the assets, their management, the measurement of profitability and performance of individually significant financial assets and entire portfolios, as well as the decision to hold or sell comparable assets in the past.

The Group determines whether the contractual cash flows are solely payments of principal and interest on the unpaid part of the principal based on the contractual terms of the financial instrument. The Group considers events that may affect the amount or timing of cash flows, the amount of prepayment received and the conditions for determining variable interest income, as well as the extension of the duration of financial instruments or the limitation of the Group's claim to expected cash flows.

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

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

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

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

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

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

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

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

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

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

Equity securities represent investments in equity instruments held by the Group for the purpose of long-term investments or sale and the Group classifies them as financial assets at fair value through other comprehensive income.

The table above does not contain contract assets recorded in relation to the implementation of the new standard IFRS 15, for which impairment of CZK 5 million was recognised.

### *b. Impairment of financial assets*

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

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the default risk of a financial instrument at the balance sheet date with the risk at the date of initial recognition and considers reasonable and supportable information that is relevant and available without undue cost or effort and that indicates a significant increase in the credit risk. The assessment is mainly based on the Group's historical experience, available information and market analyses, including actual macroeconomic indicators and future forecasts.

Regardless of these analyses, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days overdue. In the case of cash and cash equivalents, it includes the situation where Moody's external credit rating falls from the investment grade (Aaa–Baa3 rating) to the speculative (non-investment) grade (Ba1-B3 rating). The Group categorises these assets into the 2$^{nd}$ stage of the IFRS 9 impairment model and calculates a loss allowance equal to expected lifetime credit losses. Credit-impaired financial assets are included in the 3$^{rd}$ stage of the IFRS 9 impairment model. The Group assesses a financial asset as credit-impaired when one or more of the following events occurs: the debtor is facing significant financial difficulty; it is probable that the debtor will enter bankruptcy or other financial reorganisation; the financial asset is more than 90 days overdue. Loss allowance for assets in the 3$^{rd}$ stage is equal to the expected lifetime credit losses and the interest is calculated from the net value of the asset.

A financial asset is considered to be in default when it is more than 90 days overdue. And in the case of cash and cash equivalents, it includes the situation, where according to Moody's, the external credit rating of the counterparty decreases to risk grade (Caa1-C rating) or below.

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

Impairment losses on financial assets, including contract assets, are newly recognised in the income statement within a separate line Impairment loss on financial assets. Therefore, the Group reclassified the impairment loss of CZK 192 million recognised in accordance with IAS 39 from the line Expenses to the line Impairment losses on financial assets in the income statement for the comparative period, i.e. the year ended 31 December 2017.

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

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

The implementation of IFRS 9 had no material impact for earnings per share as at 31 December 2017 and 31 December 2018. The calculation of earnings per share is described in Note 5.

### *c. Hedge accounting*

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

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

## IFRS 15 - Revenue from Contracts with Customers

The new IFRS 15 standard establishes a comprehensive framework for recording revenues from contracts with customers. Since the effective date of 1 January 2018, it has replaced the following standards and interpretations for revenue recognition:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC 31 Revenue – Barter Transactions Involving Advertising Services

IFRS 15 only relates to revenue from customer contracts. According to IFRS 15, a customer of an accounting unit is an entity that has entered into a for-consideration contract with the accounting unit for the supply of goods or services that are the output of the accounting unit's standard business. The new revenue recognition standard introduces a unified model for the treatment of revenues from customer contracts. This model is based on the underlying principle that an entity recognises revenues to capture the transfer of the promised goods or services to customers in an amount that reflects the consideration the accounting unit is, as per its expectation, entitled to in exchange for those goods or services.

**The impact of implementing IFRS 15**

The adoption of the new standard as of 1 January 2018 resulted in significant changes in the Group's financial statements, in particular as regards the timing of revenue recognition and in relation to the activation of costs to obtain contracts.

The timing of revenue recognition and the classification of the Group's revenue as a service provided or the sale of equipment are affected due to the allocation of the price to more performance obligations. According to current business models, a large part of the revenues would be allocated and recognised earlier, and as revenue from the sale of equipment, based on this standard.

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

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

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

The following tables illustrate the impact of adopting IFRS 15 on the consolidated balance sheet as at 31 December 2018 and on the consolidated income statement for the year ended 31 December 2018.

Impact on the balance sheet as at 31 December 2018:

| In CZK million | Note | Amounts recognised under IFRS 15 | Adjustment | Amounts without adoption of IFRS 15 |
|---|---|---|---|---|
| **Assets** | | | | |
| Costs to obtain contracts | c | 678 | (678) | - |
| Contract assets | a | 134 | (134) | - |
| Other assets | | 900 | 50 | 950 |
| Deferred tax assets | | 168 | 2 | 170 |
| **Non-current assets** | | **25,190** | **(761)** | **24,429** |
| Receivables | a | 7,067 | 240 | 7,307 |
| Contract assets | a | 411 | (411) | - |
| **Current assets** | | **10,940** | **(171)** | **10,769** |
| **Total assets** | | **36,130** | **(932)** | **35,198** |
| **Equity** | | | | |
| Retained earnings | | 4,857 | (778) | 4,079 |
| **Total equity** | | **15,225** | **(778)** | **14,447** |
| **Liabilities** | | | | |
| Deferred tax liability | | 484 | (169) | 315 |
| Other liabilities | | 991 | 81 | 1,072 |
| Contract liabilities | | 81 | (81) | - |
| **Non-current liabilities** | | **12,083** | **(169)** | **11,914** |
| Trade and other payables | a, d | 7,975 | 625 | 8,600 |
| Contract liabilities | a, d | 610 | (610) | - |
| **Current liabilities** | | **8,822** | **15** | **8,837** |
| **Total equity and liabilities** | | **36,130** | **(932)** | **35,198** |

Impact on the consolidated statement of total comprehensive income for the year ended 31 December 2018:

| In CZK million | Note | Amounts recognised under IFRS 15 | Adjustment | Amounts without adoption of IFRS 15 |
|---|---|---|---|---|
| Revenue | a | 37,996 | (50) | 37,946 |
| Expenses | c | (27,140) | (594) | (27,734) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **11,163** | **(644)** | **10,519** |
| Amortisation of costs to obtain contracts | c | (455) | 455 | - |
| **Operating profit** | | **7,108** | **(189)** | **6,919** |
| **Profit before tax** | | **6,916** | **(189)** | **6,727** |
| Corporate income tax | | (1,468) | 37 | (1,431) |
| **Profit for the period** | | **5,448** | **(152)** | **5,296** |

The implementation of IFRS 15 had no material impact on earnings per share as at 31 December 2017 and 31 December 2018. Calculation of earnings per share is described in Note 5.

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

### *a. Bundles of telecommunication service and equipment*

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

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

Other types of contracts that are newly subject to adjustments under IFRS 15 are contracts with corporate customers where the supply of telecommunication services is complemented by the sale of telecommunication equipment on preferential terms. The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed by that date is an increase of CZK 95 million. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the preferential terms for the purchase of telecommunication equipment to be used throughout the entire duration of the contract.

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

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

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

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

### *b. Portfolio approach*

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

### *c. Commissions: incremental cost to obtain contracts*

Capitalised incremental costs to obtain contracts mainly represent external sales commissions which are directly attributable to the acquisition of the contract with customers and are incremental. These expenditures are recognised in the balance sheet within the line Costs to obtain contracts and are linearly amortised. The amortisation of those costs is presented within the line Amortisation of costs to obtain contracts in the income statement, the amortisation period is determined on the basis of the estimated average contract duration period for business and residential customers (within an interval of 16 to 48 months).

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

### *d. Change in classification of deferred revenue*

In line with the requirements of IFRS 15, the Group changed the classification of deferred revenue and revenue from prepaid services from customers. These items are newly presented as contract liabilities.

### New IFRS not yet effective as at 31 December 2018 (includes standards applicable for the Group)

At the date of preparation of the financial statements, the following IFRS standards 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 16 | Leases | 1 January 2019 |
| IFRIC 23 | Uncertainty over Income Tax Treatment | 1 January 2019 |
| Revision IFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 |
| Revision IAS 28 | Long-term Interests in Associates and Joint Ventures | 1 January 2019* |
| | Annual improvements to IFRS 2015-2017 Cycle (issued on 12 December 2017) | 1 January 2019* |
| | Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020* |
| Revision IFRS 3 | Business Combinations | 1 January 2020* |
| Revision IAS 1 and IAS 8 | Definition of Material | 1 January 2020* |
| Revision IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred indefinitely |

* These revisions/interpretations have not yet passed the EU endorsement 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 the adoption of the standards and amendments will not have a significant impact on the financial statements in the initial period of application, with the exception of IFRS 16.

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

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

IFRS 16 provides a single balance sheet accounting model for leases. The lessee accounts for the right to use the asset, that represents his/her right to use the underlying asset, and for his/her liability under the lease, which expresses the obligation to pay the lease payments. The standard provides for exceptions from this recognition that apply to short-term leases and leases where the asset has a low value. The lessor's accounting remains similar to the current standard – i.e. the lessor continues to classify leases either as financial or as operating.

**(i) Leases where the Group is the lessee**
The Group will re-classify its recognition of assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of these related costs has now changed; the depreciation of usage rights and interest expense of lease liabilities will be recognised, instead of operating costs as before.

Based on currently available information, the Group estimates that, as at 1 January 2019, it will recognise lease liabilities in the range from CZK 4,100 million to CZK 4,700 million. The difference between the expected lease liability under IFRS 16 and the total of future minimal lease payments from non-cancellable operating lease contracts (see Note 19) arises mainly from the different approach to the contract length determination in case of contracts with indefinite lease period and future payments discounting. The actual impact of the application of the standard as at 1 January 2019 may be different, mainly due to ongoing analyses of the determination of lease periods for contracts that do not have specifically agreed lease terms.

**(ii) Leases where the Group is the lessor**
The Group does not expect a material impact from leases where it functions as the lessor.

**(iii) Adoption of the standard**
The Group plans to initially adopt the standard as of 1 January 2019 using a modified retrospective method. Comparable data for the previous period will not be adjusted.

The Group will use the exception to the standard where the lease term is less than 12 months at the date of adoption of the standard and for leases with a low-value underlying asset. These exceptional cases will be accounted for by the Group as before.

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

## B Use of estimates, assumptions and judgements

The preparation of financial statements in conformity with IFRS requires the Group's management 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, as well as 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 a 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:

(i) Income taxes and deferred taxes

The Group creates an estimate for current income tax and, considering 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 Group'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 16).

(ii) 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.

Due to future technological developments and alternative uses for assets, it is necessary to make estimates for the purpose of determining the useful life of software and telecommunication technologies and equipment (see Note 8 and Note 9). 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 useful life of an asset is reviewed and revised at each balance sheet date and it is adjusted as a change in accounting estimate if needed.

(iii) Provisions and contingent liabilities

As set out in Note 18, the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. For all 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 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 fully within the control of the Group.

(iv) Receivables

Trade receivables are carried at face value less a bad debt allowance. The loss allowance is equal to the expected credit losses in the lifetime of the contract. Details regarding the determination of receivables impairment are stated in Note K Financial instruments and Note 15 - Financial instruments and financial risk management.

(v) Commission as costs to obtain contracts with customers

For the capitalised costs to obtain contracts, the amortisation period was determined as the expected average period over which the customer will continue to use the Group's services. This amortisation period was further specified by customer segments of the Group, which include resident customers, entrepreneurs and medium and large corporate clients.

Throughout the amortisation period, the actual values are subject to periodic review and reassessment against the developments of business activities, trends in the telecommunications sector, and the structure of business channels.

(vi) Stand-alone selling prices

In accordance with the requirements of the new IFRS 15, the transaction price is allocated to separate performance obligations based on the proportional stand-alone selling prices of the products and services provided. A stand-alone selling price is the price at which the Group sells a promised product or service to its customers in a stand-alone transaction. In most cases, the Group considers the prices shown in its price list as the stand-alone selling prices.

## C Subsidiaries

Subsidiaries, which are those companies in which the Group, 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 Group 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 or 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 a 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 as gain in profit or loss on the date when the Group obtained control. For details, refer to Accounting policies (see Note H - Intangible assets and Note 9).

Intergroup transactions, balances and unrealised gains from transactions among the Group companies are eliminated. Unrealised losses are eliminated except for transactions 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.

## D Transactions under common control

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

## E 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 to 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.

## F 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 the 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. 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.

Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, with the exception of transactions related to qualifying cash flow hedges recognised in other comprehensive income and investments in equity securities measured at fair value through other comprehensive income.

(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 prevailing on the balance sheet day. Exchange differences arising from the translation 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 the sale.

## G 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 charges. 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 as 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, are not expected to create any future economic benefits and/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. the 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** |
|---|---|
| Buildings | up to 56 |
| 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 immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note J - Impairment of non-current non-financial assets).

## H 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 a period of 1 to 5 years.

The Group's intangible assets acquired in business combinations are stated at their acquisition costs (which are equal to their fair value as at the date of acquisition) less the accumulated amortisation and accumulated impairment charges and are amortised on a straight-line basis over their estimated useful lives. Customer bases are amortised over the period of the remaining average terms of the binding contracts or the period over which they can be used to generate economic benefit for the entity.

Acquired licences are recorded at cost and amortised on a straight-line basis from the start of the 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 9).

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.

On the balance sheet date, the Group reviews 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. the 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 an indefinite useful life or the date the asset is classified as held for sale.

## I Non-current assets held for sale

In the balance sheet, the Group classifies an asset (or disposal group) held for sale separately 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 assets (or disposal group) to fair value less costs to sell and is accounted for as an impairment loss with an impact on the 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 a 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 accounted for in profit or loss.

## J Impairment of non-current non-financial 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, 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 profit or loss when incurred and disclosed in Impairment loss on non-current 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.

## K Financial instruments

Trade receivables and debt securities issued are initially recognised when they originate. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

The Group has applied standard IFRS 9 - Financial instruments – classification and measurement for initial recognition and subsequent measurement of financial instruments since 1 January 2018. Its impact on the classification and measurement of financial liabilities is not significant for the Group and related accounting policies are described below. Classification and measurement of financial assets and related accounting policies are included in Note A Basis of preparation, section IFRS 9.

**Accounting policies valid from 1 January 2018**

(i) Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial liability is classified as FVTPL if it is classified as held-for-sale, it is a derivative financial instrument, or it is designated as such at initial recognition. These financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, except for changes in fair value due to changes in the credit risk of the Group, which are recognised in other comprehensive income.

Other financial liabilities are recognised initially at the amount of proceeds received, net of transaction costs incurred. In subsequent periods, other financial liabilities are measured at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as incurred.

Financial liabilities 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 time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(ii) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are initially measured at cost with subsequent measurement at amortised cost decreased by a loss allowance according to the IFRS 9 impairment model. 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 the financial liabilities section of the balance sheet.

(iii) 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 has either 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.

A financial asset is written-off, if the Group is certain, that either a part or the total balance of the asset will not be recovered, that means when the Group has used all available options to recover the asset. The accounting write-off does not represent loss of legal right and it does not impede the possible repayment of the financial asset in the future. Expenses related to written-off amounts are included in profit or loss in the line Impairment loss on financial assets.

Financial liabilities are de-recognised when the Group's contractual obligations are discharged, cancelled or expired. The difference between the carrying amount and the consideration paid for the liability is recognised in profit or loss in the relevant period.

(iv) 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 Group or the counterparty.

**Accounting policies valid until 31 December 2017**

The following section describes the accounting policies only valid until 31 December 2017, which were changed as of 1 January 2018.

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

Investments with fixed maturity dates, for which the Group's management had the intent and ability to hold them to maturity, have been classified as held-to-maturity investments and are included in current or non-current assets depending on the period when they are settled. Investments held-to-maturity were measured at amortised cost using the effective interest method.

Assets with fixed or determinable payments that were not quoted in an active market were classified as loans and receivables. Such assets were carried at amortised cost using the effective interest method and were disclosed as current or non-current assets depending on the period when they were settled.

Financial assets that the Group intended to hold indefinitely but had the opportunity to sell were classified as available-for-sale financial assets; these investments were included in the item of non-current assets unless management had an explicit intention to hold them for less than 12 months from the balance sheet date. In that case, they were included in current assets.

Gains or losses arising from the revaluation of available-for-sale financial assets were reported as a separate item of other comprehensive income until the relevant asset was sold, disposed in another way, or permanently impaired. Equity securities not traded in an active market classified as available-for-sale, whose fair value cannot be measured reliably, were measured at cost.

If the events indicated impairment losses on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss was determined as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the initial effective interest rate of the asset.

The Group first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If it was determined that no objective evidence of impairment existed for individually assessed financial assets, whether significant or not, it was included in a group of financial assets with similar credit risk characteristics and that group of financial assets was collectively assessed for impairment.

Regarding trade receivables, their carrying amount was reduced by an allowance when there was objective evidence (e.g. probability of default) and the Group was unable to recover all the amounts due under the original terms of the contract.

Regarding available-for-sale financial assets, objective evidence of impairment was a significant or long-term decline in their fair value below their cost. "Significant" was measured 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 existed, the cumulative loss, defined as the difference between the cost and the present fair value less the impairment loss previously recognised in the income statement, has been taken from other comprehensive income and expensed. The increase in the fair value of the available-for-sale financial asset that occurred after the impairment loss was recognised in profit or loss, was reversed. Impairment losses on equity securities could not be reversed through the profit or loss.

## L Accounting for financial derivatives 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.

At the inception of the transaction, the Group documents 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.

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018, the Group has no new hedging relations, for which IFRS 9 should be applied, and all current hedging relations are accounted for in line with IAS 39. For a detailed description of initial implementation of IFRS 9, refer to Note A - Basis of preparation, section IFRS 9 Financial Instruments.

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 is ultimately 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 previously included in IAS 39 and currently in IFRS 9 or the Group has elected not to apply the specific 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 in line with IFRS 9.

## M Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement as at the inception date or whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/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 all the substantial risks and rewards of ownership are classified as finance leases. At the inception of the lease, finance leases are capitalised 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.

## N Inventories

Inventories are 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 the 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.

## O 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 main temporary differences arise from differences in the tax and accounting values of tangible and intangible fixed assets, impairment of receivables and inventories, contract assets and cost to obtain contracts recognised in accordance with IFRS 15, non-deductible tax provisions and unused tax losses.

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

## P Employee benefits

(i) Pension insurance and supplementary pension insurance

The Group remits contributions to the state pension insurance scheme at the statutory rates applicable during the period. 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.

(ii) Redundancy and severance payments

Employees whose employment was terminated before term citing statutory reasons are entitled to redundancy and severance payments. 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 and formal plan without the possibility of opt-outs. Severance payments falling due more than 12 months after the balance sheet date are discounted to present value. Presently, the Group has no redundancy and severance obligations falling due more than 12 months after the balance sheet date.

(iii) Bonus plans

The Group recognises employee bonuses related to the relevant accounting period in accordance with the expectations of achievement of the Group's targets, 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 a constructive obligation.

## Q Provisions

Provisions are recognised when the Group will be obliged to pay a present liability in the future 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.

## R Revenue and expenses

The Group generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, Internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. Products and services may be sold separately or in bundles. The standard length of contracts with customers that includes a bundle is 24 months.

In the case of contracts containing bundles, the Group accounts separately for specific products or services if these products or services can be separated and have added value for the customer in that stand-alone form. The total price invoiced to customers is allocated to respective products and services based on their stand-alone selling prices.

In determining whether the revenues are recognised as gross (i.e. with costs recognised separately) or net, the Group assesses whether it is in an agency relationship. If it is, the Group recognises revenues in net amounts, i.e. only the amount corresponding to the margin or commission is recognised. The Group may enter into a relationship with an agency character in the provision of premium SMS, premium audiotex or other services.

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. Capitalised incremental costs to obtain contracts are amortised over the expected average period that the customer uses the service of the Group.

***Mobile origination – Internet and data, voice services, MMS and SMS***
Revenues from mobile services include revenues from both contract and prepaid cards for the provision of telecommunication services (internet and data, voice, MMS and SMS services).

Contract service comprises a flat rate and a variable part invoiced according to the actual usage. Revenues are recognised, invoiced and paid by customers on a monthly basis according to the actual utilization of services with the exception of contracts containing multiple services and products where the total transaction price is allocated based on the standalone selling prices of respective performance obligations. A typical contract is for 24 months.

Revenues from prepaid cards are recognised when voice or data traffic is made, other services are provided or the card expires and the associated prepaid credit expires. Prepaid cards are paid by customers purchasing a coupon or recharging an already purchased SIM card.

***Fixed services – voice, internet, data and television***
Revenues from fixed telecommunication services include revenues from Internet connectivity, data and TV and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are recognised, invoiced and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months.

***Sale of equipment***
Revenues from the sale of equipment and other goods are recognised at the time of the sale, i.e. at the time the goods were handed over to the distributor or the final customer, which usually occurs when the contract is signed. Where equipment is subsidised and sold together with the services as a bundle, revenue from the subsidised equipment is recognised at the point of sale at a value determined using the stand-alone selling prices of services and products within the bundle.

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment may also be sold on an instalment basis, with the contracts usually being signed for 12 or 24 months. The financing component is not significant in these contracts.

***Mobile termination***

Interconnection revenues arise from calls and SMSs initiated in the networks of other domestic or foreign operators but terminated or transiting through the Group's network. These revenues are recognised in profit or loss at the time when the call or SMS is received in the Group's network. Interconnection revenues are invoiced and paid on a monthly basis. The Group pays a part of the proceeds from its customers to domestic and foreign operators whose network is used for calls initiated in the Group's network and which use the networks of other domestic or foreign operators. Receivables and payables in respect of other domestic and foreign operators are regularly offset and settled.

***Other mobile revenues***

Other mobile revenues include, in particular, revenues from virtual operators (MVNOs) for the use of the Group's mobile network services, roaming revenues and insurance revenues.

Revenues from virtual operators for usage of the Group's mobile network and related services are recognised on a monthly basis; the price is usually set at a flat monthly rate with a variable component charged according to the actual usage of individual MVNOs. The services are invoiced to and paid by MVNOs on a monthly basis.

Roaming revenues are revenues from foreign partner operators for their customers' usage of the Group's mobile network. The services are invoiced and paid on a monthly basis according to the actual usage. As a rule, agreed volume discounts are calculated annually, for which estimates are created by the Group on a monthly basis. Revenues are recognised on a monthly basis.

Revenues from insurance include the revenues from insurance of mobile devices and travel insurance sold to the Group's customers. The service is invoiced and paid by customers on a monthly basis, which is in line with the recognition of relevant revenues. Customers have the option to terminate this service at any time without penalty.

***Information and communication technology and construction contracts (ICT)***

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 service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period of at least of 24 months.

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

***Other fix revenues***
Other fix revenues represent various supporting services provided together with telecommunication services. Generally, these services are recognised, invoiced and paid by customers on a monthly basis and customers have the option of cancelling these supporting services without penalty at any time.

***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).

## S Dividend distribution

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

## T Changes in accounting policies

The Group implemented new standards IFRS 9 - Financial instruments, classification and measurement, and IFRS 15 - Revenue from contracts with customers as at 1 January 2018. The impact of their implementation is described in Note A - Basis for preparation, sections IFRS 9 and IFRS 15. No other significant changes in accounting policies were applied in 2018 and 2017.

## U 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. Any consideration received from the sale of treasury shares is presented in the financial statements as an addition to equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1 Segment information

Segments recognised by the Group are as follows:

- The Czech Republic:
  - mobile segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o.
  - 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.
- 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 2018 and 2017 were determined on the same basis as rates applicable for other mobile operators.

| For the year ended 31 December 2018 | Czech Republic | | Slovak Republic | Elimination CR vs SR | Group |
|---|---|---|---|---|---|
| **In CZK million** | | | | | |
| | **Fix** | **Mobil** | | | |
| Revenues | 10,402 | 20,472 | | | |
| Cost of Sales (CoS) | (6,635) | (9,629) | | | |
| Gross margin | 3,767 | 10,843 | | | |
| Other income from non-telecommunication services | 202 | | | | |
| Capitalisation of fixed assets | 251 | | | | |
| Other costs excluding CoS | (6,489) | | | | |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **8,574** | | | | |

| For the year ended 31 December 2018 | Czech Republic | Slovak Republic | Elimination CR vs SR | Group |
|---|---|---|---|---|
| Revenue | 30,874 | 7,486 | (364) | 37,996 |
| Other income from non-telecommunication services | 202 | 7 | (2) | 207 |
| Capitalisation of fixed assets | 251 | 76 | 8 | 335 |
| Total consolidated cost | (22,753) | (4,980) | 358 | (27,375) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **8,574** | **2,589** | **-** | **11,163** |
| Depreciation and amortisation | (2,866) | (707) | - | (3,573) |
| Amortisation of costs to obtain contracts | (349) | (106) | - | (455) |
| Impairment loss on non-current assets | (26) | (1) | - | (27) |
| **Operating profit** | **5,333** | **1,775** | **-** | **7,108** |
| Interest expense | (186) | (25) | 24 | (187) |
| Interest income | 36 | - | (24) | 12 |
| Other financial income/(expense) | 1,184 | (4) | (1,199) | (19) |
| **Net financial loss** | **1,034** | **(29)** | **(1,199)** | **(194)** |
| Share of profit/(loss) of investments accounted for using the equity method | 2 | - | - | 2 |
| **Profit before tax** | **6,369** | **1,746** | **(1,199)** | **6,916** |
| Corporate income tax | (1,000) | (468) | - | (1,468) |
| **Profit for the period** | **5,369** | **1,278** | **(1,199)** | **5,448** |
| Assets (excl. Goodwill) | 31,249 | 8,420 | (8,003) | 31,666 |
| Goodwill | 4,464 | - | - | 4,464 |
| **Total Assets** | **35,713** | **8,420** | **(8,003)** | **36,130** |
| Trade and other payables | (5,931) | (2,197) | 153 | (7,975) |
| Other liabilities | (12,571) | (2,095) | 1,736 | (12,930) |
| **Total liabilities** | **(18,502)** | **(4,292)** | **1,889** | **(20,905)** |
| **Fixed assets additions*** | **3,312** | **1,112** | **(7)** | **4,417** |

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

| 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 | | | | |
| Capitalisation 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 |
| Capitalisation 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.

As at 31 December 2018, the net book value of non-current assets deployed in the Slovak Republic amounted to CZK 4,975 million (2017: CZK 4,537 million).

## 2 Revenues from contracts with customers

The impact of the initial application of the new standard IFRS 15 is described in Note A – Basis of preparation. Due to the choice of IFRS 15 adoption method, the Group did not restate comparable data for the prior period.

### A. Classification of revenues from customer contracts

In the table below, revenues from customer contracts are broken down according to the main operating segments and products provided. The degree of classification of revenues from contracts with customers reflects the specific sector of the Group, the way in which the Group reports and monitors revenues for internal purposes as well as for disclosing information to investors. The table also includes summary rows that allow the reconciliation of revenues with the data reported in the segment analysis under IFRS 8 (see Note 1).

| **For the year ended 31 December 2018** | **Czech Republic** | **Slovak Republic** | **Intragroup eliminations** | **Group** |
|---|---|---|---|---|
| **In CZK million** | | | | |
| Mobile origination: | | | | |
| - Voice services and SMS & MMS | 8,670 | 2,992 | - | 11,662 |
| - Internet and data | 5,930 | 1,523 | - | 7,453 |
| Mobile terminations | 2,273 | 909 | - | 3,182 |
| Revenue from sale of equipment | 1,990 | 1,479 | (50) | 3,419 |
| Other mobile revenues | 1,609 | 455 | (289) | 1,775 |
| **Total mobile revenues** | **20,472** | **7,358** | **(339)** | **27,491** |
| Voice services | 2,114 | 63 | - | 2,177 |
| Data services | 950 | 35 | (1) | 984 |
| Internet and television | 5,012 | 18 | (4) | 5,026 |
| ICT | 1,642 | 6 | (17) | 1,631 |
| Revenue from sale of equipment | 340 | 4 | (3) | 341 |
| Other fixed revenues | 344 | 2 | - | 346 |
| **Total fixed revenues** | **10,402** | **128** | **(25)** | **10,505** |
| **Total revenues** | **30,874** | **7,486** | **(364)** | **37,996** |

| **For the year ended 31 December 2017** | **Czech Republic** | **Slovak Republic** | **Intragroup eliminations** | **Group** |
|---|---|---|---|---|
| **In CZK millions** | | | | |
| Mobile services: | | | | |
| - Voice services and SMS & MMS | 9,252 | 3,031 | - | 12,283 |
| - Internet and data | 5,461 | 1,449 | - | 6,910 |
| Mobile terminations | 2,251 | 895 | - | 3,146 |
| Revenue from sale of hardware | 1,662 | 1,231 | (32) | 2,861 |
| Other mobile revenues | 1,547 | 422 | (324) | 1,645 |
| **Total mobile revenues** | **20 173** | **7 028** | **-356** | **26 845** |
| | | | | |
| Voice services | 2,449 | 58 | - | 2,507 |
| Data services | 996 | 21 | (1) | 1,016 |
| Internet and television | 5,029 | 12 | (2) | 5,039 |
| ICT | 1,685 | 3 | (20) | 1,668 |
| Revenue from sale of hardware | 264 | 2 | (1) | 265 |
| Other fixed revenues | 365 | 4 | - | 369 |
| **Total fixed revenues** | **10,788** | **100** | **(24)** | **10,864** |
| | | | | |
| **Total revenues** | **30,961** | **7,128** | **(380)** | **37,709** |

## B. Contract assets and contract liabilities

Contract assets are the Group's rights to a consideration in exchange for goods or services that the Group has already transferred to customers and which it has not yet invoiced. These include, in particular, those contracts with customers where the supply of telecommunication services is supplemented by the sale of subsidised telecommunication equipment. A contract asset arises from the reallocation of revenues under a customer contract from telecommunication services provided and recognised during the life of the contract to the revenues from the sale of such subsidised equipment, which is recognised at the time of sale.

An allowance of CZK 5 million (1 January 2018: CZK 5 million), determined in accordance with the methodology described in Note A of the Basis of preparation, part of IFRS 9, was created for the impairment of contract assets.

In the business models used by the Group, the financing component is not significant.

A contract liability is the Group's obligation to deliver goods or to provide services for which the Group has received the consideration from the customer. Contract liabilities include mostly prepaid telecommunication services by customers on prepaid cards. These revenues are recognised when the voice or data traffic takes place, or when other services are provided, or when the card associated with the prepaid credit expires. Contract liabilities also arise when activation fees are invoiced on conclusion of a new contract, which is not a stand-alone performance obligation, and are thus accrued over the term of the contract with the customer.

The amount of CZK 449 million recognised as contract liabilities as at 1 January 2018 was recognised as revenues in 2018.

Receivables arising from contracts with customers represent the trade receivables described in Note 11.

The table below analyses contract assets and liabilities:

| **Contract assets**<br>**In CZK million** | **31 December 2018** | **1 January 2018** |
|---|---|---|
| - short-term (less than 1 year) | 411 | 303 |
| - long-term (over 1 year) | 134 | 145 |
| **Total contract assets** | **545** | **448** |

| **Contract liabilities**<br>**In CZK million** | **31 December 2018** | **1 January 2018** |
|---|---|---|
| - short-term (within 1 year) | 610 | 503 |
| - long-term (over 1 year) | 81 | 43 |
| **Total contract liabilities** | **691** | **546** |

In 2018, the Group did not recognise any revenue from contract liabilities which were met (or partially met) in prior periods.

The Group expects to recognise revenues of CZK 14,946 million from current contracts with customers related to performance obligations that are yet to be fulfilled (or are only partially fulfilled) as at 31 December 2018, assuming that these obligations will be fulfilled in the next five years. These contractual revenues mainly include revenues from the sale of telecommunication services, which were determined by the Group on the basis of the average monthly spend of contractual customers with commitment, the number of contractual customers with commitment as at 31 December 2018 and the average remaining duration of these customers' contracts, while all the parameters are broken down into the main operating segments. The expected revenues also contain revenues from other contracts with complex delivery of goods and services for which, in line with IFRS 15, the Group allocates a total transaction price to separate performance obligations on a pro-rata basis according to the individual stand-alone selling prices. These revenues are recognised on the basis of the fulfilment of separate performance obligations and not according to the invoicing of customers. The Group applied the practical expedients allowed for in the standard and the balance of contractual revenues does not include revenues from contracts which originally had an expected duration of one year or less, nor the revenues from contracts which are recognised in an amount that corresponds directly to the services provided (in line with principles described in Note R - Revenues and expenses).

### C. Incremental costs to obtain contracts

Capitalised incremental costs to obtain contracts include commissions for external and internal business channels that are directly attributable to obtaining customer contracts and are incremental. Amortisation of these costs is recognised in a separate line (Amortisation of cost to obtain contracts) in the profit or loss; the amortisation period is determined by the expected average duration of contracts separately for business customers and for consumers and separately for certain product types (ranging from 16 to 48 months).

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

| **Capitalised costs to obtain contracts** | |
|---|---|
| **In CZK million** | |
| **As at 1 January 2018** | **539** |
| Capitalised costs to obtain contracts | 594 |
| Amortisation of capitalised costs to obtain contracts | (455) |
| **As at 31 December 2018** | **678** |

The Group regularly evaluates capitalised incremental costs to obtain contracts and assesses whether there is any indication of impairment. The assessment is based on the monitoring of two parameters - statistical evolution of clawbacks, i.e. deductions for the additional change of contracted services or contractual penalties for non-observance of the performance indicators and, simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use individual segments of the Group. Based on an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 31 December 2018.

## 3 Expenses

| **Expenses**<br>**In CZK million** | **Year ended**<br>**31 December 2018** | **Year ended**<br>**31 December 2017** |
|---|---|---|
| Cost of sales | 19,129 | 19,423 |
| Staff costs | 4,386 | 4,282 |
| External services | 3,225 | 3,432 |
| Other expenses | 400 | 359 |
| **Total expenses** | **27,140** | **27,496** |

The cost of sales mainly includes the following types of costs: interconnection and roaming expenses, cost of goods sold, sub-deliveries, commissions and other cost of sales.

The Group does not participate in any pension plans.

## 4 Finance income and costs

| In CZK million | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Finance income** | | |
| Interest income | 12 | 1 |
| Foreign exchange gain (net) | 10 | 54 |
| Other finance income | 8 | 65 |
| **Total finance income** | **30** | **120** |
| | | |
| **Finance costs** | | |
| Interest expenses | 187 | 118 |
| Other finance costs | 29 | 30 |
| Loss on fair value adjustments and settlement of financial derivatives (net) | 8 | 31 |
| **Total finance costs** | **224** | **179** |

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

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

In 2018, an interest expense in the amount of CZK 15 million (2017: CZK 10 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 1.4% (2017: 1.2%).

## 5 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 21).

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Weighted number of ordinary shares outstanding (in thousands) | 301,525 | 303,567 |
| Net profit attributable to shareholders (in CZK million) | 5,450 | 5,592 |
| Basic earnings per share (in CZK) | 18 | 18 |

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

## 6 Income tax

| In CZK million | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Total income tax expense consists of: | | |
| Current income tax charge | 1,355 | 1,402 |
| Deferred income tax (Note 16) | 113 | 109 |
| **Income tax** | **1,468** | **1,511** |

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

| In CZK million | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Profit before tax | 6,916 | 7,098 |
| Income tax charge calculated at the weighted average statutory rate (Note 16) | 1,355 | 1,386 |
| Tax effects of: | | |
| - income not taxable | (9) | (18) |
| - expenses not deductible for tax purposes | 37 | 61 |
| - loss for the period not included in the deferred tax calculation | 2 | 7 |
| Special tax for regulated business for O2 Slovakia, s.r.o. | 107 | 87 |
| Tax related to prior periods | (24) | (12) |
| **Income tax** | **1,468** | **1,511** |
| Effective tax rate | 21% | 21% |

As at 31 December 2018, the total amount of current income tax liability was CZK 1,386 million (2017: CZK 1,332 million), advances paid for corporate income tax were CZK 1,351 million (2017: CZK 1,193 million) and the net deferred tax liability was CZK 316 million (2017: net deferred tax liability CZK 54 million).

## 7 Dividends and other distribution

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Dividends declared (including withholding tax) | 5,274 | 5,274 |
| Other distribution | 1,206 | 1,218 |
| **Total declared distribution** | **6,480** | **6,492** |

Dividends include a withholding tax on dividends paid by the Company to its shareholders. No interim dividend has been paid in respect of 2018 and 2017. The approval of the 2017 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 4 June 2018 (2016: 10 May 2017). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 from the 2017 profit were payable on 4 July 2018 (from 2016 profit: CZK 17 and CZK 170 respectively). Dividends on treasury shares in the amount of CZK 148 million (2017: CZK 98 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 an amount of CZK 1,241 million (2017: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for the share with a nominal value of CZK 100, CZK 40 before tax was allocated). The right to receive the amount related to the payment of the share premium for the treasury shares was not applied. This part of the share premium in the amount of CZK 35 million (2017: 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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Dividend per share (nominal value of CZK 10) | 17 | 17 |
| Other distribution | 4 | 4 |
| **Total distribution per share** | **21** | **21** |

## 8 Property, plant and equipment

| In CZK million | Land, buildings and constructions | Communication technology and related equipment | Other long-term fixed assets | Total |
|---|---|---|---|---|
| **As at 31 December 2018** | | | | |
| Opening net book amount | 1,001 | 3,102 | 1,533 | 5,636 |
| Additions | 278 | 908 | 364 | 1,550 |
| Disposals | (3) | (1) | (1) | (5) |
| Reclassifications and currency differences | 26 | 291 | (220) | 97 |
| Depreciation | (119) | (751) | (277) | (1,147) |
| Impairment | - | - | (1) | (1) |
| **Closing net book amount** | **1,183** | **3,549** | **1,398** | **6,130** |
| | | | | |
| **As at 31 December 2018** | | | | |
| Purchase price | 2,389 | 11,433 | 4,465 | 18,287 |
| Accumulated depreciation and impairment | (1,206) | (7,884) | (3,067) | (12,157) |
| **Net book amount** | **1,183** | **3,549** | **1,398** | **6,130** |

| In CZK million | | | | |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| Opening net book amount | 1,021 | 3,084 | 970 | 5,075 |
| Additions | 92 | 816 | 937 | 1,845 |
| Disposals | (2) | (6) | (9) | (17) |
| Reclassifications and currency differences | 3 | (68) | (73) | (138) |
| Depreciation | (113) | (724) | (285) | (1,122) |
| Impairment | - | - | (7) | (7) |
| **Closing net book amount** | **1,001** | **3,102** | **1,533** | **5,636** |
| | | | | |
| **As at 31 December 2017** | | | | |
| Purchase price | 2,172 | 11,291 | 5,116 | 18,579 |
| Accumulated depreciation and impairment | (1,171) | (8,189) | (3,583) | (12,943) |
| **Net book amount** | **1,001** | **3,102** | **1,533** | **5,636** |

Compared to last year, the Group included fixed assets previously presented in the category Ducts, cables and related plant to the category Other long-term fixed assets. The total value of the assets remains unchanged. The Group restated the comparable data for 2017 according to the new approach.

The net book amount of Property, plant and equipment as at 31 December 2018 includes CZK 1,201 million of construction in progress (2017: CZK 1,586 million). The assets under construction are spread over all disclosed categories of property, land and equipment according to their characteristics.

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

The main investments for the accounting period, divided between domestic (Czech Republic) and foreign (Slovak Republic), are quoted in Note 1. The investments were financed by a combination of our own and external resources.

No property, plant and equipment were pledged as at 31 December 2018 and 31 December 2017.

In 2018, the Group achieved a total gain from the sale of fixed assets amounting to CZK 5 million (2017: CZK 9 million) and total losses of CZK 5 million (2017: CZK 12 million).

## 9 Intangible assets

| In CZK million | Goodwill | Licences | Software and other intangible assets | Valuable rights | Customer portfolio | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | |
| Opening net book amount | 4,477 | 6,321 | 3,986 | 1,863 | 168 | 16,815 |
| Additions | - | 10 | 2,857 | - | - | 2,867 |
| Disposals | - | - | (16) | - | - | (16) |
| Reclassifications and currency differences | - | - | (58) | - | 8 | (50) |
| Amortisation | - | (634) | (1,162) | (545) | (85) | (2,426) |
| Impairment | (13) | - | (13) | - | - | (26) |
| **Closing net book amount** | **4,464** | **5,697** | **5,594** | **1,318** | **91** | **17,164** |
| | | | | | | |
| **As at 31 December 2018** | | | | | | |
| Purchase price | 4,464 | 10,431 | 24,915 | 4,484 | 526 | 44,820 |
| Accumulated amortisation and impairment | - | (4,734) | (19,321) | (3,166) | (435) | (27,656) |
| **Net book amount** | **4,464** | **5,697** | **5,594** | **1,318** | **91** | **17,164** |
| | | | | | | |
| **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** |
| | | | | | | |
| **As 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** |

The main investments for the accounting period, divided between domestic (Czech Republic) and foreign (Slovak Republic), are quoted in Note 1. The investments were financed by a combination of our own and external resources.

In 2018, the Group obtained the exclusive broadcasting rights of the UEFA Champions League for the 2018/2019, 2019/2020 and 2020/2021 seasons, the broadcasting rights of Czech Republic's top hockey league for the 2018/2019, 2019/2020, 2020/2021, 2021/2022 and 2022/2023 seasons and broadcasting rights of the Czech Republic's top football league for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 seasons. Broadcasting rights are presented as additions in category Software and other intangible assets.

In October 2018, the Company launched a new complex transformation program, called Simple Online Company. Related intangible assets were put-in-use and amortisation started to be recognised.

## Goodwill

Goodwill from individual companies as at 31 December:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| O2 Czech Republic a.s. | 4,443 | 4,443 |
| O2 IT Services s.r.o. | 13 | 13 |
| Tapito s.r.o.* (Note 23) | 0 | 13 |
| INTENS Corporation s.r.o. (Note 23) | 6 | 6 |
| mluvii.com s.r.o. | 1 | 1 |
| Bolt Start Up Development a.s. | 1 | 1 |
| **Total** | **4,464** | **4,477** |

*The original name of the company was TapMedia s.r.o., the company was renamed on May 18, 2018.

As at 31 December 2018 and 31 December 2017, 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 merging Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, with the Company from 2012.

The Group performed impairment tests, which did not result in any impairment losses of goodwill, in 2018 and 2017. 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 five 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. In addition, 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 the 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 – the basis for the 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 a growth rate of between -1% and 0% (2017: -1% and 0%).

Discount rate – the discount rate reflects the management's estimate of the risk specific to a cash generating unit. The 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 the recoverable amount 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 tests of goodwill in other companies. The calculation methodology is the same as for O2 Czech Republic a.s. Tests indicated a decrease in the value of goodwill for the company Tapito s.r.o., where the full amount of CZK 13 million was written off. Tests did not indicate any impairment loss as of 31 December 2017.

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

Intangible assets in progress are tested annually for impairment losses. The tests performed as at 31 December 2018 and 31 December 2017 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 20.

Carrying value of licences:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| GSM licence | 291 | 341 |
| CDMA licence | 198 | 211 |
| UMTS licence | 770 | 1,020 |
| LTE licence | 3,599 | 3,836 |
| GSM and UMTS licence – the Slovak Republic | 57 | 64 |
| LTE licence – the Slovak Republic | 782 | 849 |
| **Total** | **5,697** | **6,321** |

### Valuable rights

In 2014, the Group decided to exercise the option under the licence agreement, based on which the Group is using the O2 brand in the Czech Republic and Slovakia until 27 January 2019. In 2017, the Company extended the O2 brand license period by another three years beyond the current period, i.e. until 27 January 2022. Furthermore, the Company is 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 2018 in the net book amount of CZK 1,318 million (2017: CZK 1,863 million).

## 10 Inventories

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Telecommunication material | 12 | 10 |
| Goods | 894 | 814 |
| **Total** | **906** | **824** |

The inventories stated above are net of an allowance of CZK 86 million (2017: CZK 96 million), reducing the value of the inventories to their net realisable value. The value of inventories recognised as an expense for sale of goods and utilisation of material is CZK 3,538 million (2017: CZK 3,272 million).

## 11 Receivables and other assets

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables from third parties (net) | 6,548 | 6,074 |
| Trade receivables from related parties | 143 | 153 |
| Prepayments | 241 | 199 |
| Other debtors (net) | 118 | 90 |
| Financial instruments at fair value through profit or loss | 14 | - |
| Indirect taxes | 3 | 3 |
| **Total current receivables** | **7,067** | **6,519** |

Trade receivables and other debtors are stated net of a bad debt provision of CZK 2,325 million (2017: CZK 2,378 million).

In 2018, expenses for impairment of receivables were CZK 235 million (2017: CZK 192 million).

Analyses of the credit risk, the ageing structure of trade receivables and the loss allowance for trade receivables is described in Note 15.

| **In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Trade and other receivables – non-current | 599 | 544 |
| Prepayments | 256 | 119 |
| Loans provided | - | 13 |
| Financial derivatives | 43 | 26 |
| Financial instruments at fair value through other comprehensive income | 2 | - |
| Available-for-sale equity investments | - | 24 |
| **Total other non-current assets** | **900** | **726** |

Trade and other non-current receivables contained restricted cash of CZK 30 million (2017: CZK 30 million) resulting from the legal requirements of the Czech National Bank as a financial regulator for the Company as a small-scale payment services provider.

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

| **In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Gross amounts of trade receivables from third parties | 211 | 398 |
| Amounts that are set off | (178) | (214) |
| **Net amounts of trade receivables from third parties** | **33** | **184** |

## 12 Cash and cash equivalents

| **In CZK million** | **31 December 2018** | **31 December 2017** | **Interest rate** |
|---|---|---|---|
| Cash at current bank accounts and other cash equivalents | 2,104 | 1,804 | Floating |
| Cash at current bank accounts and other cash equivalents (inter-company) (see Note 22) | 371 | 2,284 | Floating |
| **Total cash and cash equivalents** | **2,475** | **4,088** | |

As at 31 December 2018 and 2017, cash and cash equivalents of the Group comprised deposits with a maximum maturity of one month.

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

## 13 Trade and other payables

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 6,792 | 6,270 |
| Tax and social security liabilities | 626 | 782 |
| Other deferred revenue | - | 70 |
| Prepaid cards | - | 433 |
| Employee wages and benefits | 489 | 566 |
| Other payables | 68 | 88 |
| **Total current trade and other payables** | **7,975** | **8,209** |

As at 31 December 2018, deferred revenues and prepaid cards liabilities are included in contractual obligations (Note 2). Due to having chosen the IFRS 15 adoption method, the Group did not restate comparable data for the prior period.

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 943 | 41 |
| Other payables | 48 | 32 |
| Other long-term deferred revenue | - | 43 |
| **Total other non-current liabilities** | **991** | **116** |

As at 31 December 2018, other non-current liabilities consisted primarily of liabilities related to the purchase of non-current assets with a maturity exceeding 12 months. As at 31 December 2017, other non-current liabilities included, in particular, the principal from business partners for recharging prepaid cards and other payables with a maturity of more than 12 months.

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

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Gross amounts of trade payables | 183 | 274 |
| Amounts that are set off | (178) | (214) |
| **Net amounts of trade payables** | **5** | **60** |

## 14 Financial debts

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debt in local currency | 10,461 | 10,448 |
| Accrued interest | 38 | 37 |
| Financial derivative instruments | - | 1 |
| **Total financial debt** | **10,499** | **10,486** |
| | | |
| Repayable: | | |
| Within one year | 38 | 38 |
| In more than one year | 10,461 | 10,448 |
| **Total financial debt** | **10,499** | **10,486** |

On 16 December 2015, the Company entered into a long-term facility agreement with maturity in five years and a credit limit of CZK 12,000 million. 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.

On 30 May 2018, the Company drew a facility of CZK 1,200 million in line with the facility agreement. This facility was repaid in two repayments, the first on 30 July 2018 in an amount of CZK 500 million and the second on 30 August 2018 in an amount of CZK 700 million. The Company drew a facility in the amount of CZK 1,000 million on 24 January 2017 and subsequently on 31 March 2017 a facility in the amount of CZK 1,000 million. These facilities were repaid on 24 April 2017 and 28 April 2017. As at 31 December 2018, the Company had utilised a total of CZK 7,000 million (2017: CZK 7,000 million) from the long-term facility agreement.

On 4 April 2017, the Company successfully completed a subscription of six tranches of Schuldschein financing in the total amount of CZK 3,500 million (CZK 3,000 million and EUR 20 million) with a maturity of 5 to 7 years.

As at 31 December 2018 and 2017, 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 |

None of the Group’s assets serve as a collateral in connection with the drawing down of existing loans.

### Changes in liabilities arising from financial activities

| | | Cash flows | | Non-cash flows | | |
|---|---|---|---|---|---|---|
| **In CZK million** | **31 December 2017** | **Drawing** | **Repayment** | **Exchange rate revaluation** | **Other** | **31 December 2018** |
| Long-term loans | 10,448 | 1,200 | (1,200) | 4 | 9 | 10,461 |
| **Total** | **10,448** | **1,200** | **(1,200)** | **4** | **9** | **10,461** |

| | | Cash flows | | Non-cash flows | | |
|---|---|---|---|---|---|---|
| **In CZK million** | **31 December 2017** | **Drawing** | **Repayment** | **Exchange rate revaluation** | **Other** | **31 December 2018** |
| Long-term loans | 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.

## 15 Financial instruments and financial risk management

### A) Classification of financial instruments

The following table shows the carrying amounts of classes of financial assets and liabilities split into the respective financial instrument categories. The impact of the initial application of the new standard IFRS 9 on financial assets and liabilities is described in Note A - Basis for preparation. Due to the selected method of transition to IFRS 9, the Company did not adjust comparative information for previous period.

**As at 31 December 2018**

| In CZK million | Financial instruments at amortised cost | Financial instruments at fair value through profit or loss | Financial instruments at fair value through other comprehensive income | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables (excluding prepayments and indirect taxes) | 7,408 | - | - | 7,408 |
| Financial instruments at fair value through profit or loss | - | 14 | - | 14 |
| Financial instruments at fair value through other comprehensive income | - | - | 2 | 2 |
| Financial derivatives – interest (hedge accounting) | - | - | 43 | 43 |
| Cash and cash equivalents | 2,475 | - | - | 2,475 |
| **Total** | **9,883** | **14** | **45** | **9,942** |
| **Financial liabilities** | | | | |
| Financial debts | 10,499 | - | - | 10,499 |
| Trade and other payables* | 7,852 | - | - | 7,852 |
| **Total** | **18,351** | **-** | **-** | **18,351** |

*The payables do not include employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

Financial instruments at fair value through profit or loss as at 31 December 2018 represent a loan provided, which includes an embedded derivative in the form of an option to convert the debt into equity.

Financial instruments measured at fair value through other comprehensive income as at 31 December 2018 represent a stake in IP FABRIC, INC., which the Group owns through its subsidiary Bolt Start Up Development a.s.

**As at 31 December 2017**

| In CZK million | Loans and receivables | Financial liabilities at amortised cost | Financial instruments at fair value through profit or loss | Financial instruments at fair value through other comprehensive income | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade and other receivables (excluding prepayments and indirect taxes) | 6,861 | - | - | - | 6,861 |
| Provided loans and other receivables | 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** |
| **Financial liabilities** | | | | | |
| Financial debts | - | 10,485 | - | - | 10,485 |
| Financial derivatives – foreign currency (trading) | - | - | 1 | - | 1 |
| Trade and other payables* | - | 6,431 | - | - | 6,431 |
| **Total** | **-** | **16,916** | **1** | **-** | **16,917** |

*The payables do not include deferred income, prepaid cards, employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

As at 31 December 2017, investments in CROSS NETWORK INTELLIGENCE s.r.o. and IP FABRIC, INC., acquired by the Group through the subsidiary Bolt Start Up Development a.s., were disclosed as available-for-sale equity securities. The share in CROSS NETWORK INTELLIGENCE s.r.o. was sold in 2018.

### B) 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 exposures, 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 foreign exchange risks arising from various currency exposures, primarily with respect to items denominated in EUR, XDR and partially in the USD:

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

The Group's objective in managing its exposure to foreign currency fluctuations is to minimise the earnings and cash flow volatility associated with foreign exchange rate changes. The Group manages currency risk at 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 to hedge 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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Exchange rate contracts | 772 | 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 2018 | as at 31 December 2017 |
|---|---|---|
| **FX risk** | | |
| Value at Risk* | (44) | (39) |
| Stress testing** | (53) | (13) |

* 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. To conduct 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 the Group's financial assets and financial liabilities in individual foreign currencies, the Group models the 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 Group's exposure to currency risk. Other currencies mainly represent Special Drawing Rights (XDR), which are used in certain transactions within international roaming.

| | 31 December 2018 | | | |
|---|---|---|---|---|
| **In CZK million** | **CZK** | **EUR** | **USD** | **Other** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 2,089 | 359 | 27 | - |
| Financial instruments at fair value through profit or loss | - | 14 | - | - |
| Financial instruments at fair value through other comprehensive income | 2 | - | - | - |
| Financial derivatives – interest (hedge accounting)* | 43 | - | - | - |
| Trade and other receivables (excluding prepayments and indirect taxes) | 3,926 | 3,286 | 65 | 131 |
| **Total financial assets** | **6,060** | **3,659** | **92** | **131** |
| **Financial liabilities** | | | | |
| Financial debts | 9,983 | 516 | - | - |
| Financial derivatives – foreign currency (trading)* | - | 772 | - | - |
| Trade and other payables* | 3,762 | 3,840 | 193 | 57 |
| **Total financial liabilities** | **13,745** | **5,128** | **193** | **57** |

* Foreign currency financial derivatives are disclosed in the nominal amount of the contract (translated to CZK using the exchange rate as at 31 December 2018). For interest financial derivatives, the fair value as at 31 December 2018 is disclosed.
** The payables do not include employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

| 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 | - | - | - |
| Provided loans | - | 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** | 2,988 | 3,128 | 216 | 99 |
| **Total financial liabilities** | **12,960** | **3,692** | **237** | **99** |

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

** The payables do not include deferred income, prepaid cards, employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

(ii) Interest rate risk

The Group is exposed to interest rate risks arising from floating interest rates on financial instruments (Note 12) and borrowings (Note 14).

The Group'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 can be maintained on both floating and fixed rates. The Group uses interest rate swaps to manage the ratio of debts with fixed and variable interest rates (Note 15(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 2018 | 31 December 2017 |
|---|---|---|
| **Interest rate risk** | | |
| Stress testing* | (29) | (12) |

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

## (b) Liquidity risk

The Group's essential objective of liquidity risk management is to have sufficient access to 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 Group's financial liabilities as at 31 December 2018 and as at 31 December 2017 based on contractual undiscounted payments. Values include projections of future interests.

| **As at 31 December 2018 In CZK million** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5years** |
|---|---|---|---|---|
| Interest bearing borrowings | 40 | 174 | 8,244 | 2,690 |
| Trade and other payables* | 5,827 | 1,043 | 1,006 | - |
| **Total** | **5,867** | **1,217** | **9,250** | **2,690** |

*The payables do not include employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

| **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 |
| Trade and other payables* | 5,257 | 1,101 | 73 | - |
| Financial derivatives – foreign currency (trading)** | 1 | - | - | - |
| **Total** | **5,286** | **1,253** | **8,437** | **2,740** |

* The payables do not include deferred income, prepaid cards, employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.
** For foreign currency financial derivatives, the fair value as at 31 December 2017 is disclosed.

As at 31 December 2018, banks had provided third parties with payment guarantees or other guarantees for liabilities of the Group amounting to CZK 778 million (31 December 2017: CZK 505 million).

## (c) Credit risk

(i) Trade receivables, contract assets and other receivables

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, the major part of trade receivables is concentrated within the Czech 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 the national economy.

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 in order to minimise the Group'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 the creditworthiness of existing customers and monitoring and analysis of the receivables ageing 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 the implementation of a reasonable, effective and continual collection process. Collection process responsibilities are divided. The collection from active customers is in the responsibility of the Customer Care unit; collection after the contract is cancelled falls within the responsibility of Credit Management.

The ageing structure of receivables is the main instrument for monitoring the development of the credit risk. However, the Group also considers the payment history, payment method, type of service and the significance of individual customers. Based on these key parameters, the Credit Management department analyses the development of the credit risk on a weekly basis.

The amount of the loss allowance is determined by the ageing structure of the receivables. The percentage of loss allowance for each ageing category is derived from a combination of historical data for a period of up to ten years and expected future developments. Historical information is based primarily on the actual evolution of past debt repayments. Macroeconomic forecasts of the economy, the expected mix of products and a combination of service types are assessed by the management when considering future developments. The rate of loss allowance reflects the expected percentage of receivables of a particular ageing category that will not be repaid.

The Group calculates the loss allowance for trade receivables and contract assets as the expected lifetime credit losses.

The loss allowance for contract assets is created in the same way as the loss allowance for trade receivables.

Other receivables include, in particular, receivables from the Czech Telecommunication Office due to discounts granted to customers with ZTP card and claims for damages. The credit risk assessment of these receivables is prepared together with the business receivables and contract assets.

**Overview of the credit risk for trade receivables, contract assets and other receivables as at 31 December 2018**

| In CZK million | Weighted-average loss rate | Gross carrying amount | Loss allowance | Residual value | Receivables credit-impaired |
|---|---|---|---|---|---|
| Due | 1% | 7,325 | 75 | 7,249 | No |
| 1 – 30 days overdue | 3% | 433 | 12 | 421 | No |
| 31 – 90 days overdue | 18% | 166 | 30 | 136 | No |
| More than 91 overdue | 94% | 2,359 | 2,213 | 147 | Yes |
| **Total** | **23%** | **10,283** | **2,330** | **7,953** | |

**Loss allowance for trade receivables, contract assets and other receivables**
**In CZK million**

| | |
|---|---|
| **As at 1 January 2017** | **2,631** |
| Additions | 1,078 |
| Write-off of receivables | (457) |
| Retirements/amount paid | (863) |
| Foreign currency differences | (11) |
| **As at 31 December 2017** | **2,378** |
| Effect of implementation of IFRS 9 | 11 |
| **As at 1 January 2018** | **2,389** |
| Additions | 1,029 |
| Write-off of receivables | (768) |
| Retirements/amount paid | (322) |
| Foreign currency differences | 2 |
| **As at 31 December 2018** | **2,330** |

The Group uses the following methods of hedging against the credit risk of receivables: insurance of receivables, receiving deposits from customers, bank guarantees and bills of exchange. Insurance of the receivables and deposits received from customers for goods and services provided were the most significant means of hedging in 2018.

As at 31 December 2018, the Group held no trade receivables or contract assets for which no loss allowance would be created due to collateral received.

(ii) Cash and cash equivalents

As at 31 December 2018, the Group reported cash and cash equivalents of CZK 2,475 million (2017: CZK 4,088 million). Bank receivables are held by institutions rated A1–Baa3 by Moody's;

in 2018 and 2017 none of the credit ratings of the institutions deteriorated in a way which, in the Group's view, would cause the credit risk to increase significantly.

Cash and cash equivalents were analysed for impairment in accordance with the methodology described in Note A - Basis of preparation, part of IFRS 9. As at 1 January 2018 and 31 December 2018, the loss allowance was evaluated as immaterial and the Group decided not to recognise it.

(iii) Comparable data for the previous period

Due to the choice of the IFRS 9 adoption method, the Group did not restate the comparable data for the previous period. Comparable data in accordance with IAS 39 show the ageing structure and analysis of trade receivables due for which no loss allowance was made.

| | | | **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 | 6,771 | 5,398 | 115 | 6 | 2 | 5 |

| **In CZK million** | **31 December 2017** |
|---|---|
| **Trade receivables** | |
| Group 1 | 2,629 |
| Group 2 | 1,896 |
| Group 3 | 873 |
| **Total unimpaired trade receivables** | **5,398** |

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

The loss allowance created reflects the Group's experience with debt recovery. The management believes that there are no other risks that would reduce the value of receivables beyond the amount of the loss allowance already created.

### (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 2018, the Group reported financial assets at fair value through profit or loss, and investments in equity instruments measured at fair value through other comprehensive income (2017: available-for-sale financial assets) classified as Level 3. As at 31 December 2018 and as at 31 December 2017, the Group 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 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The fair values of the derivative financial instruments is calculated on the basis of the discounted cash flow model (using market rates).

The 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 rates. An exception are two tranches of Schuldschein financing with fixed interest rates (Note 14) with a total carrying amount of CZK 2,784 million (2017: CZK 2,750 million) and fair value of CZK 2,628 million (2017: CZK 2,626 million) as at 31 December 2018.

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

### (e) Hedge accounting

In 2017, the Group began to hedge cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. The 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 2018, the total nominal value of hedging instruments was CZK 2,500 million (2017: CZK 2,500 million) and their fair value was in total CZK 43 million (2017: CZK 26 million). The hedge was assessed as effective as at 31 December 2018 and the net unrealised gain of CZK 17 million (2017: CZK 26 million), net of deferred tax of CZK 3 million (2017: CZK 5 million), was recognised in other comprehensive income. As at 31 December 2018, the weighted average of the fixed interest rate determined by the hedging instruments was 1.02% (2017: 1.02%).

In 2018 and 2017, the cash flow hedge was effective and no ineffectiveness was recognised in profit or loss. Interest expenses include the net interest income from realised hedge derivatives in amount of CZK 2 million (2017: net loss CZK 3 million).

## 16 Deferred income taxes

Deferred tax was calculated for 2018 at statutory rate 19% for the Czech Republic (2017: 19%) and 21% for the Slovak Republic (2017: 21%).

| **In CZK million** | **2018** | **2017** |
|---|---|---|
| **As at 1 January** | **(54)** | **80** |
| Charged/(credited) to Profit or loss (Note 6) | (113) | (109) |
| Charged/(credited) to Other comprehensive income | (2) | 6 |
| Deferred tax from acquisitions of subsidiaries (Note 23) | - | (9) |
| Foreign exchange translation reserve | - | (10) |
| Impact for initial application of IFRS 9 and IFRS 15 | (147) | - |
| **As at 31 December** | **(316)** | **(54)** |

No deferred tax asset is recognised on the following tax losses:

| **In CZK million** | **31 December 2018** | **Expiration** | **31 December 2017** | **Expiration** |
|---|---|---|---|---|
| 4Local, s.r.o. | 208 | 2021-2022 | 208 | 2021-2022 |
| eKasa s.r.o. | 80 | 2021-2023 | - | |
| O2 Business Services, a. s. | 70 | 2020-2022 | 62 | 2018-2021 |
| TapMedia s.r.o. | 12 | 2021-2022 | 18 | 2020-2022 |
| Bolt Start Up Development a.s. | 5 | 2023 | - | |
| Smart home security s.r.o. | 4 | 2023 | - | |
| Misterine s.r.o.* | - | | 4 | 2022 |
| **Total** | **379** | | **292** | |

* The company Misterine s.r.o. was sold in 2018 (Note 23).

As at 31 December 2018, no deferred tax asset was recognised in respect of tax losses carried forward amounting to CZK 379 million (2017: CZK 292 million) as the companies' managements 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 2018** | **31 December 2017** |
|---|---|---|
| Deferred tax assets | 590 | 492 |
| Deferred tax liabilities | (906) | (546) |
| **Total** | **(316)** | **(54)** |

The deferred tax comprises the following components:

| **In CZK million** | **Balance sheet** | | | **Profit or loss** | | **Equity** | **Other comprehensive income** | |
|---|---|---|---|---|---|---|---|---|
| | **31. 12. 2018** | **1.1. 2018** | **31.12. 2017** | **2018** | **2017** | **1.1. 2018** | **2018** | **2017** |
| Temporary differences relating to: | | | | | | | | |
| Tax losses | 27 | 37 | 37 | (10) | 11 | - | - | - |
| Property, plant and equipment and intangible assets | (440) | (395) | (395) | (45) | (150) | - | - | - |
| Costs to obtain contracts | (95) | (104) | - | 9 | - | (104) | - | - |
| Contract assets | (104) | (85) | - | (19) | - | (85) | - | - |
| Trade receivables, inventories and other differences | 304 | 352 | 310 | (48) | 30 | 42 | - | - |
| Financial derivatives – hedge accounting | (8) | (5) | (5) | - | - | - | (3) | (5) |
| Revaluation of available-for-sale equity securities | - | (1) | (1) | - | - | - | 1 | (1) |
| **Total** | **(316)** | **(201)** | **(54)** | **(113)** | **(109)** | **(147)** | **(2)** | **(6)** |

## 17 Provisions for liabilities and charges

| In CZK million | Asset retirement obligation | Regulatory and court decisions | Other provisions | Total |
|---|---|---|---|---|
| **As at 1 January 2017** | **42** | **117** | **54** | **213** |
| Additions during the year | 11 | 2 | 0 | 13 |
| Utilised during the year | - | (45) | (31) | (76) |
| Foreign currency differences | (3) | - | - | (3) |
| **As at 31 December 2017** | **50** | **74** | **23** | **147** |
| Additions during the year | 14 | 8 | - | 22 |
| Utilised during the year | - | (11) | (9) | (20) |
| **As at 31 December 2018** | **64** | **71** | **14** | **149** |
| | | | | |
| 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 2018 | 1 | 68 | 14 | 83 |
| Long-term provisions 2018 | 63 | 3 | - | 66 |
| **As at 31 December 2018** | **64** | **71** | **14** | **149** |

As at 31 December 2018, the Group recognised the provision for the estimated costs of dismantling, removing assets and restoring sites amounting to CZK 64 million (2017: CZK 50 million). The reason for recognition of the provision was an estimate of the present value of the future costs of dismantling, removing assets and restoring sites in connection with the network construction in Slovakia. Scenarios of future costs based on management estimates, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of the future dismantling and removal of assets.

Other provisions for which the expected timing of payments is not certain are expected to be utilised within twelve months of the balance sheet date. Other provisions consist mainly of restructuring costs. Provisions for regulatory and court decisions are made in respect of legal proceedings involving the Group (see Note 18).

## 18 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2018 some major proceeding were successfully closed and, in some other cases, success was at least achieved in the first instance. This confirmed the successful trend in proceedings in which the Company is involved. The majority of cases last for more than five years without any decision in merit. In proceedings with the Office for Protection of Economic Competition, repeated cancelations of decisions and reassessments are frequent.

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

In November 2008, the Office for the Protection of Economic Competition (ÚOHS) initiated a so-called "preliminary investigation" 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 the information and documents required by the Office, during the more than 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 being interpreted by the Office. In the light of the above, the Company requested court protection through legal action filed with 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 had to be stopped immediately. This verdict was later confirmed by the Supreme Administrative Court in September 2011. The Office reacted by initiating official administrative proceedings relating to ADSL technology's dominant position in the fixed broadband market in March 2011. The Company filed a statement proving that the Office had incorrectly defined the relevant market in which the Company allegedly held a dominant position and, moreover, abused this position. The Company's statement referring to 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 the steps taken by the Company were correct.

At the end of 2016, the Company filed an extensive statement rejecting the lack of transparency in the Office's approach and the Company asked for a hearing where it could defend its position and could also ask for an explanation of the proceedings and methods employed by the Office.

In October 2017, the Regional Court in Brno ruled that the administrative file and documentation had not been administered by the Office in compliance with the law, and the court also articulated its legal opinion on the way the proceedings failed to comply with the law.

The Company cooperated with renowned European experts to show methodological errors in the basic approach of the Office and also to document that no delict had been, nor could have been, committed by the Company.

The Office appointed an independent expert institute, which reviewed the methodology and documents of the Office. On 23 January 2019, following the detailed examination by the Office and the expert opinion, the Office issued a decision stating that it had not been proved that the Company had committed any margin squeeze. Consequently, the Office did not see any reason to take action against the Company. This decision confirmed the initial position of the Company.

These legal proceedings have, therefore, been successfully closed and will no longer be reported.

**ii. Proceedings concerning 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 was the conclusion of an interconnection contract with Vodafone (then Czech Mobil), in which the parties had agreed that their networks would connect directly.

In the proceedings, the Office considered such an agreement to be a cartel agreement but without specifying who and how the agreement enabled the companies to exclude parties from a market; and without specifying from which market these parties were being excluded. Each operator is logically the only entity which can offer the termination of call services in its own network. Thus, competition in this market cannot exist. Regulation of the Czech Telecommunication Office and other European regulators 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 itself – because in the case of indirect connection, an 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 initiated an administrative action. After a number of proceedings with judicial reviews in various administrative courts, the courts finally overturned the decision. In the meantime, however, Eurotel ceased to exist, without the possibility of transferring the liability for administrative delicts.

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

**II. VOLNÝ, a.s. – dispute concerning 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 in the market of Internet broadband connection provided to households via ADSL. VOLNÝ, a.s. filed the legal action to coincide directly with the opening of the ÚOHS proceedings, which were closed by a decision in favour of O2 on 23 January 2019.

The amount is meant to represent the lost profit for the years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share of the dial-up Internet market in 2003 and, in its legal action, it implies that it should automatically have the same result in the broadband market, which it did not. Allegedly, it was due to the margin squeeze applied by the Company in the fix broadband market. The Company replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing out 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.

At the hearing held on 30 March 2016, where the court considered the possibility of a revised expert opinion, which would review the opinions filed by VOLNÝ as well as by the Company.

VOLNÝ proposed an expert who eventually turned out to be biased and thus the Company filed a protest. Subsequently, the court appointed another expert and defined a set of questions. The revised expert opinion confirmed the Company's statement. The expert opinion stated that no anti-competition practice had been proved against the Company and also pointed out that the Company did not have a dominant position in the market of Internet broadband connection.

After the hearing of the independent expert appointed, the Municipal Court in Prague dismissed the legal action by VOLNÝ in full. The court concluded that the Company had not breached competition rules and thus could not cause any damage. The decision was delivered in June 2018. The plaintiff filed an appeal and currently the court fee relief question is being examined. The Company is convinced that the ÚOHS decision dated 23 January 2019 confirms the Company's consistent position in this dispute and also the correctness of the dismissal of the legal action.

**III. TELECONSULT INTERNATIONAL – dispute on CZK 55 million**

The Supreme Court cancelled the previous decisions in the dispute, in which the Company had already succeeded. Although the reasons were mainly of a procedural and formal character, 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 damages (lost profit) between May and October 1998. The court issued a decision on the basis of the hearing held on 14 January 2016, when the vast majority of the claim was dismissed and the Company should receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was awarded CZK 1.7 million in damages, 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 dated 29 March 2017, the High Court in Prague confirmed the dismissal of the legal action against the Company and also changed the original verdict regarding the amount of CZK 1.7 million. Ultimately, the Company was completely successful in this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court and the Company filed its response to it.

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

The legal action brought by 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 an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a two-page notice claiming this amount was delivered to the Company. According to the Company, the whole claim is a purely artificial case, the sole purpose of which was to damage the Company by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. The Company provided the court with its statement that there are no grounds for the claim. The Company is convinced that the decision of ÚOHS dated 23 January 2019 confirms the consistent position of the Company in this dispute as well.

**V. BELL TRADE s.r.o. – legal action for CZK 5.2 billion**

Although the Constitutional Court of the Slovak Republic had already decided that the jurisdiction of Slovak courts is not given in the matter and the proceedings were terminated, the Company registered yet another attempt to start another lawsuit against the Company using different reasoning.

On 14 March 2016, a proposal by the BELL TRADE company was delivered to the County Court in Malacky; in this proposal BELL TRADE proposed to re-enter the Company as the defendant in the proceedings which, after the Constitution Court's decision, had been solely between Slovak subjects - BELL TRADE and PET-PACK SK s.r.o. for an amount of CZK 31 million.

BELL TRADE, whose current sole director, shareholder and legal representative is the attorney JUDr. Milan Fulec, tried to base the new claim and the latest attempt to establish the jurisdiction of the County Court in Malacky on the letter dated 8 June 2015, in which he stated that it "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. The new claim raised against the Company is for an amount of CZK 5.2 billion with interest from 14 March 2016.

The entire claim is again completely artificial. No contracts have ever been signed and the company has never received any delivery for which anybody could claim such payments. BELL TRADE has never claimed that it became a contractual party (to contracts which have never been concluded). So far, BELL TRADE has always acted only as a "creditor", thus the holder of (supposedly existing and payable) claims against the Company. Moreover, BELL TRADE has always maintained that contracts were allegedly concluded for 10-year periods and would have therefore come to an end on 31 December 2013 at the latest. Nevertheless, the current claim of BELL TRADE is based on a withdrawal which was sent a year and a half after this date. Thus, BELL TRADE could never have incurred any damages. Such alleged damages could hardly be connected to contractual relations between PET-PACK SK s.r.o. and BELL TRADE and to the Slovak courts in any way. In a decision dated 16 May 2016, the County Court in Malacky rejected BELL TRADE's proposal to re-enter the Company as the defendant. BELL TRADE filed an appeal to the Regional Court in Bratislava. No decision has been issued yet.

The Company filed a legal action with the Municipal court in Prague in response to the repeated attempts organised 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, therefore, has no obligations under these "never-concluded" contracts. The Municipal Court in Prague confirmed the Company's arguments and upheld the legal action at a hearing on 26 June 2017.

In the first half of 2018, breakthrough decisions in favour of the Company in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the Municipal Court in Prague's previous decision against PET PACK and BELL TRADE, which determined that no receivables nor contracts had ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. It has therefore definitely been determined that no contracts nor claims have ever existed in relation to any of these companies.

In May 2018, a resolution of the Regional Court in Bratislava confirmed the decision of the District Court in Malacky. The court confirmed that the Company should not be the defendant in the proceedings which still had to be held between BELL TRADE and PET PACK and from which the Company had already been exempt by the Constitutional Court of the Slovak Republic. This means that the attempt to draw the Company into the proceedings before the Slovak courts on the basis of artificially created claims failed.

**VI. 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 67 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 said litigations inadvisable, as it could endanger the strategy of the Company in these cases.

The Company is convinced that all the litigation risks of the Group are appropriately reflected in the financial statements.

## 19 Commitments

The aggregate future minimum lease payments (the Group as a lessee) originating from operating leases which cannot be cancelled are as follows:

| | 31 December 2018 | | |
|---|---|---|---|
| **In CZK million** | **Less than 1 year** | **1 to 5 years** | **Over 5 years** |
| Operating leases - lessee | 708 | 1,918 | 734 |
| - *Of which contractual obligations with CETIN* | *282* | *581* | *135* |

| | 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* | - |

The total minimum lease payments relating to the operational leasing of property, plant and equipment recognised as an expense in 2018 were CZK 784 million (2017: CZK 679 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2018 amounted to CZK 503 million (2017: CZK 465 million). The majority of contracted amounts relates to the telecommunication networks and service contracts. The capital expenditures will be financed by both internal and external sources.

The Group had 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 was obliged to increase its share for the agreed amount of CZK 19 million. In 2018, the conditions were not met and the Group did not have any other related contractual obligations as at 31 December 2018.

## 20 Service concession arrangements

The Company performs communication activities as defined in the Act on Electronic Communications on the basis of a notification and a certificate from the Czech Telecommunications Office no. 516 and, as amended by later changes, nos. 516/1, 516/2, 516/3, 516/4, 516/5,516/6, 516/7 and 516/8.

The communication activities (within the territory of the Czech Republic) include:

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 electronic communications services in the 900 and 1800 MHz frequency bands under the GSM (Global System for Mobile Communication, 2G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024. The Company provides services in the 2100 MHz frequency band under the UMTS (Universal Mobile Telecommunications System) standard using radio frequencies assigned by the CTO and valid until 1 January 2022. Services are further provided in the 800, 1800 and 2600 MHz frequency bands under an LTE (Long Term Evolution, 4G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024 for a part of the 1800 MHz frequency band, and until 30 June 2029 for the 800, the remaining part of the 1800 MHz and the 2600 MHz frequency bands. The Company provides broadband mobile access to Internet in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access, 3G) and radio frequency assigned by the CTO and valid until 7 February 2033. The Company also holds the radio frequency assigned in the 3.7 GHz frequency band and valid until 30 June 2032, which was used for experimental broadcasting in 2018.

The radio frequency license can be extended by another license based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, given the current regulatory and business environment in the Czech Republic, 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 as defined in the Act on Electronic Communications no. 351/2011 by means of a public mobile electronic communication network in the 800 MHz and 1,800 MHz frequency bands under the LTE standard on the basis of individual authorisation from the Regulation Office of the Slovak Republic (RO) and valid until 31 December 2028 for 800MHz frequency band and 7 September 2026 for the 1800MHz frequency band, in the 900MHz frequency band under GSM and UMTS standards on the basis of individual authorisation from the RO and valid until 7 September 2026, in the 2,100 MHz frequency bands under UMTS and LTE standards on the basis of individual authorisation from the RO and valid until 7 September 2026, and also provides services of electronic communications by means of MFCN (Mobile Fixed Communications Networks) in the 3,500 MHz and 3,700 MHz frequency bands on the basis of individual authorisations from the RO and valid until 31 December 2024 and 31 August 2025 for 3,500 MHz frequency bands.

**Imposition of obligations related to the provision of the Universal Service**

During 2018, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services (VTA),

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 primarily takes 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 disabilities.

Universal Service is reimbursed by the CTO that receives funds from the state budget, which are remitted without delay to the Company's account.

## 21 Share capital and reserves

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| 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 2018 | 31 December 2017 |
|---|---|---|
| PPF Telco B.V. | 65.79% | 70.79% |
| PPF A3 B.V. | 10.27% | 10.27% |
| PPF CYPRUS MANAGEMENT Ltd.* | 5.00% | 0% |
| O2 Czech Republic a.s. (treasury shares) | 2.80% | 2.80% |
| Other shareholders | 16.14% | 16.14% |

* On 28 November 2018, ANTHIAROSE LIMITED's business name was changed to PPF CYPRUS MANAGEMENT LIMITED. This change was not recorded in the Company's stock records kept by the Central Securities Depository as at 31 December 2018.

### 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.

In the following periods, the Board of Directors will continue to make in-depth analyses of and assess 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.

The Company does not record any limitations on the use of sources of equity that have materially affected or substantially affected the issuer's operations, even indirectly.

Stand-alone equity structure as at 31 December 2018 and 2017:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Share capital | 3,102 | 3,102 |
| Treasury shares | (2,204) | (2,204) |
| Share premium | 9,470 | 10,676 |
| Funds and reserves | 8 | 8 |
| Cash flow hedging | 35 | 21 |
| Retained earnings from previous years | 1,438 | 614 |
| Net income for current year | 5,366 | 5,396 |
| **Total** | **17,215** | **17,613** |

On 8 December 2015, the General Meeting decided to acquire its own treasury shares up to 10% of the total number of shares issued over a period of five subsequent years. In 2018, the Company did not acquire any treasury shares. As at 31 December 2018 the Company held 8,695,327 treasury shares for a total purchase price of CZK 2,204 million (2017: 8,695,327 treasury shares for a total purchase price of CZK 2,204 million).

## 22 Related party transactions

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

The PPF Group invests in 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, interest-free (excl. financial assets and liabilities used for financing), unsecured and the settlement occurs either in cash or by offsetting. The financial assets are tested for impairment at the balance sheet date, and neither allowances nor write-offs 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 2018 to shareholders from the PPF Group was CZK 5,281 million (2017: CZK 5,281 million). Payables from the dividend and other distributions to shareholders from the PPF Group were fully settled as of 31 December 2018 and 31 December 2017 respectively.

**II. Other related parties – PPF Group:**

| **Balance sheet**<br>**In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| a) Receivables and other assets | 265 | 102 |
| b) Payables | 1,070 | 1,016 |
| c) Financial derivatives – assets | 14 | 9 |
| d) Financial derivatives – liabilities | - | 1 |
| e) Cash equivalents (Note 12) | 371 | 2,284 |

| **Statement of comprehensive income**<br>**In CZK million** | **Year ended**<br>**31 December 2018** | **Year ended**<br>**31 December 2017** |
|---|---|---|
| a) Sales of services and goods | 489 | 441 |
| b) Purchases of services and goods | 10,229 | 10,482 |
| c) Interest expense | - | 1 |
| d) Loss on fair value adjustments of financial instruments | (9) | (17) |
| e) Other financial expenses | 1 | 1 |
| f) Interest income | 9 | - |

The Company sold assets in the amount of CZK 1 million to CETIN (2017: CZK 9 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 on the basis of 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 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 the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Group is obliged to use the services for a period of seven years, two

years before the expiration of this term, negotiations on the price for the next period will begin. In 2018, the total payment was approximately CZK 4.6 billion (2017: CZK 4.5 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, the provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement has been concluded for an indefinite period, during which the Company will pay monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of seven years after signing the agreement (which represents only part of the total payment). In 2018, the total cost was approximately CZK 3,766 million (2017: CZK 3,993 million).

**c) agreement on the access to end points (so-called RADO)**
CETIN enables the Group to access end points, which includes the provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for the establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. In 2018, the total cost was approximately CZK 848 million (2017: CZK 897 million).

### III. Associates and joint ventures

| Balance sheet<br>In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| a) Receivables | 47 | 51 |
| b) Payables | 56 | 68 |

| Statement of comprehensive income<br>In CZK million | Year ended<br>31 December 2018 | Year ended<br>31 December 2017 |
|---|---|---|
| a) Sales of services and goods | 165 | 160 |
| b) Dividend income | 8 | 9 |
| c) Purchases of services and goods | 189 | 195 |

### IV. Remuneration and loans to members of the Board of Directors, 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<br>31 December 2018 | Year ended<br>31 December 2017 |
|---|---|---|
| Board of Directors | 45 | 39 |
| Supervisory Board | 1 | 1 |
| Executive management | 23 | 37 |
| **Total** | **69** | **77** |

No loans were provided to any members of the Board of Directors, Supervisory Board or executive management in 2018 and 2017.

## 23 Associates and joint ventures

Investments in equity accounted investees can be analysed as follows:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Associates | 12 | 15 |
| Joint ventures | 4 | 3 |
| **Investments in total** | **16** | **18** |

Financial information for the 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 and adjusted for any differences in accounting policies and reported accounting periods.

### Financial results of the company Tesco Mobile ČR s.r.o. (unaudited*)

| In CZK million | For the period 01-12/2018 | For the period 01-12/2017 |
|---|---|---|
| Revenue | 289 | 277 |
| Profit/(loss) before tax | 10 | 6 |
| Profit/(loss) after tax | 8 | 5 |
| **In CZK million** | **31 December 2018** | **31 December 2017** |
| Current assets | 111 | 101 |
| Non-current assets | 7 | 5 |
| Current liabilities | 112 | 101 |
| Equity | 6 | 5 |

* 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 | 2018 | 2017 |
|---|---|---|
| Net assets as at 1 January | 5 | 17 |
| Group share of net assets as at 1 January | 3 | 10 |
| Group share of profit/(loss) after tax | 5 | 3 |
| Dividend income | (4) | (10) |
| **Total investment in joint venture** | **4** | **3** |

The Group also has 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** | **2018** | **2017** |
|---|---|---|
| Investments in associates as at 31 December | 12 | 15 |
| Group share of: | | |
| - profit/(loss) after tax | (3) | (2) |
| - impairment of equity accounted investments | - | (2) |

The Group held interests in the following entities as at 31 December 2018:

| | | **Group's interest as at 31 December** | | | | |
|---|---|---|---|---|---|---|
| **Subsidiaries** | | **2018** | **2017** | **Country of incorporation** | **Activity** | **Method of consolidation** |
| 1. | O2 Slovakia, s.r.o. | 100% | 100% | Slovak Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 2. | 4Local, s.r.o. | 100% | 100% | Czech Republic | Provision of internet access | Consolidated (full consolidation) |
| 3. | O2 Family, s.r.o. | 100% | 100% | Czech Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 4. | O2 TV s.r.o. | 100% | 100% | Czech Republic | Digital television | Consolidated (full consolidation) |
| 5. | O2 IT Services s.r.o. | 100% | 100% | Czech Republic | Information technology services | Consolidated (full consolidation) |
| 6. | Bolt Start Up Development a.s. | 100% | 100% | Czech Republic | Start-up fund | Consolidated (full consolidation) |
| 7. | O2 Business Services, a.s. | 100% | 100% | Slovak Republic | Mobile telephony, internet and data transmission services | Consolidated (full consolidation) |
| 8. | eKasa s.r.o. | 100% | 100% | Czech Republic | Electronic sales reporting ("EET") solution provider | Consolidated (full consolidation) |
| 9. | O2 Financial Services s.r.o. | 100% | 100% | Czech Republic | Financial Services intermediary | Consolidated (full consolidation) |
| 10. | mluvii.com s.r.o. (former iCORD International s.r.o.) | 100% | 90% | Czech Republic | On-line communication platform | Consolidated (full consolidation) |
| 11. | Misterine s.r.o. | 0% | 80% | Czech Republic | Virtual and augmented reality | Consolidated (full consolidation) |
| 12. | Smart home security s.r.o. | 100% | 100% | Czech Republic | Provider of home security equipment and services | Consolidated (full consolidation) |

| | | | | | | |
|---|---|---|---|---|---|---|
| 13. | INTENS Corporation s.r.o. | 100% | 100% | Czech Republic | Provider of transport telematics services | Consolidated (full consolidation) |
| 14. | Tapito s.r.o. (former TapMedia s.r.o.) | 100% | 100% | Czech Republic | Mobile applications development | Consolidated (full consolidation) |
| **Associates** | | | | | | |
| 15. | První certifikační autorita, a.s. | 23% | 23% | Czech Republic | Certification services | Not consolidated (immaterial) |
| 16. | AUGUSTUS, spol. s.r.o. | 40% | 40% | Czech Republic | Auction sales and advisory services | Not consolidated (in bankruptcy) |
| 17. | Dateio s.r.o. | 21% | 21% | Czech Republic | Direct marketing platform development | Consolidated (equity method) |
| **Joint ventures** | | | | | | |
| 18. | Tesco Mobile ČR s.r.o. | 50% | 50% | Czech Republic | Mobile virtual network operator for prepaid services | Consolidated (equity method) |
| 19. | Tesco Mobile Slovakia, s.r.o. | 50% | 50% | Slovak Republic | Mobile virtual network operator for prepaid services | Not consolidated (immaterial) |

### Sales of subsidiaries in 2018

On 17 September 2018, the Group sold an 80% stake in Misterine s.r.o. through the subsidiary Bolt Start Up Development a.s. for the sale price of CZK 25 million. As a result of the transaction, the non-controlling interest in the amount of CZK 3 million was reduced. The Group's total profit is CZK 36 million.

### Acquisition of non-controlling interest during 2018

On 17 August 2018, the Group increased its share in the company mluvii.com from 90% to 100% through the subsidiary Bolt Start Up Development a.s. The impact of the transaction is shown in the table below.

| **In CZK million** | **2018** |
|---|---|
| Value of non-controlling share at acquisition date | 0 |
| Purchase price of non-controlling interest | 1 |
| **Impact on equity** | **(1)** |

### Acquisitions of subsidiaries during 2017

On 1 January 2017, the Group acquired 100% of the shares, and therefore gained control, of the company INTENS Corporation s.r.o; it acquired the shares through the subsidiary Bolt Start Up Development a.s.

On 28 February 2017, and also through the subsidiary Bolt Start Up Development a.s., the Group increased its share in the company TapMedia s.r.o. to 51%, thereby gaining a controlling interest. 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 losses 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.

The reported goodwill of the aforementioned 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 in the company TapMedia s.r.o. from 51% to 100%, through the subsidiary Bolt Start Up Development a.s. 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)** |

## 24 Post balance sheet events

### Administrative proceedings on alleged abuse of dominant position in the fix broadband market

On 23 January 2019, the Office for the Protection of Economic Competition decided that it had not been proven that the Company had committed a margin squeeze and it found no reason to interfere with the Company. The decision thus confirmed the Company's initial position and the proceedings were successfully concluded (see Note 18).

### 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 2018.

25 February 2019

| | |
|---|---|
| **Jindřich Fremuth** | **Tomáš Kouřil** |
| Chief Executive Officer | Chief Financial Officer |
| Chairman of the Board of Directors | Vice-chairman of the Board of Directors |

# 5.2 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

**Content** **Pages**

## 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 2018, 81.06% of the Company's voting rights were held indirectly by Mr. Petr Kellner through PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

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

The average number of employees employed by the Company was 4,354 (2017: 4,286) as at 31 December 2018.

The Company's shares are traded on the Prague Stock Exchange and on RM-SYSTÉM, česká burza cenných papírů a.s.

The financial statements were approved and authorised for issue by the Board of Directors on 25 February 2019 and are subject to review by the Supervisory Board.

## STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2018

| In CZK million | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Revenues | 1, 2 | 29,795 | 29,918 |
| Other income from non-telecommunication services | 1 | 227 | 215 |
| Capitalisation of fixed assets | 1 | 224 | 238 |
| Expenses | 1, 3 | (22,084) | (22,448) |
| Impairment loss on financial assets | 11, 15 | (151) | (118) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **8,011** | **7,805** |
| Depreciation and amortisation | 8, 9 | (2,579) | (2,383) |
| Amortisation of costs to obtain contracts | 2 | (349) | - |
| Impairment loss on non-current assets | 8, 9 | (5) | (7) |
| **Operating profit** | | **5,078** | **5,415** |
| Finance income | 4 | 1,440 | 1,196 |
| Finance expenses | 4 | (215) | (172) |
| **Profit before tax** | | **6,303** | **6,439** |
| Corporate income tax | 5 | (937) | (1,043) |
| **Net profit** | | **5,366** | **5,396** |
| **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 | 15 | 14 | 21 |
| **Other comprehensive income, net of tax** | | **14** | **21** |
| **Total comprehensive income, net of tax** | | **5,380** | **5,417** |
| Earnings per share (in CZK) – basic* | 6 | 18 | 18 |

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

## BALANCE SHEET
As at 31 December 2018

| In CZK million | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 8 | 2,385 | 2,402 |
| Intangible assets | 9 | 14,926 | 15,000 |
| Costs to obtain contracts | 2 | 527 | - |
| Investment in subsidiaries and equity accounted investees | 23 | 6,687 | 6,885 |
| Contract assets | 2 | 132 | - |
| Other assets | 11 | 275 | 215 |
| **Non-current assets** | | **24,932** | **24,502** |
| Inventories | 10 | 682 | 625 |
| Receivables | 11 | 6,891 | 5,773 |
| Income tax receivable | 5 | 79 | - |
| Contract assets | 2 | 409 | - |
| Cash and cash equivalents | 12 | 1,736 | 3,434 |
| **Current assets** | | **9,797** | **9,832** |
| **Total assets** | | **34,729** | **34,334** |
| **EQUITY AND LIABILITIES** | | | |
| Ordinary shares | 21 | 3,102 | 3,102 |
| Treasury shares | 21 | (2,204) | (2,204) |
| Share premium | 21 | 9,470 | 10,676 |
| Retained earnings, funds and reserves | | 6,847 | 6,039 |
| **Total equity** | | **17,215** | **17,613** |
| Financial debts | 14 | 10,461 | 10,448 |
| Deferred tax liability | 16 | 472 | 258 |
| Provisions for liabilities and charges | 17 | 4 | 4 |
| Contract liabilities | | 16 | - |
| Other liabilities | 13 | 499 | 60 |
| **Non-current liabilities** | | **11,452** | **10,770** |
| Financial debts | 14 | 38 | 153 |
| Trade and other payables | 13 | 5,579 | 5,685 |
| Income tax liability | 5 | - | 21 |
| Contract liabilities | 2 | 372 | - |
| Provisions for liabilities and charges | 17 | 73 | 92 |
| **Current liabilities** | | **6,062** | **5,951** |
| **Total liabilities** | | **17,514** | **16,721** |
| **Total equity and liabilities** | | **34,729** | **34,334** |

## STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

| In CZK million | Notes | Share capital | Share premium | Treasury shares | Funds | Cash flow hedging | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | | **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 | 7 | - | (1,218) | - | - | - | (5,274) | (6,492) |
| Distribution on treasury shares | 7 | - | - | - | - | - | 98 | 98 |
| Acquisition of parts of the subsidiary, O2 IT Services s.r.o. | 22 | - | - | - | - | - | (18) | (18) |
| Acquisition of treasury shares | 21 | - | - | (1,052) | - | - | - | (1,052) |
| **As at 31 December 2017** | | **3,102** | **10,676** | **(2,204)** | **8** | **21** | **6,010** | **17,613** |
| Adjustment for initial application of IFRS 9 (net of tax) | A | - | - | - | - | - | (9) | (9) |
| Adjustment for initial application of IFRS 15 (net of tax) | A | - | - | - | - | - | 563 | 563 |
| **Adjusted balance as at 1 January 2018** | | **3,102** | **10,676** | **(2,204)** | **8** | **21** | **6,564** | **18,167** |
| Profit for the year | | - | - | - | - | - | 5,366 | 5,366 |
| Other comprehensive income | | - | - | - | - | 14 | - | 14 |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **14** | **5,366** | **5,380** |
| Distribution declared in 2018 | 7 | - | (1,206) | - | - | - | (5,274) | (6,480) |
| Distribution on treasury shares | 7 | - | - | - | - | - | 148 | 148 |
| **As at 31 December 2018** | | **3,102** | **9,470** | **(2,204)** | **8** | **35** | **6,804** | **17,215** |

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Profit before tax** | | **6,303** | **6,439** |
| Non-cash adjustments for: | | | |
| Dividend income | 4 | (1,394) | (1,142) |
| Depreciation | 8 | 722 | 656 |
| Amortisation | 9 | 1,857 | 1,727 |
| Amortisation of costs to obtain contracts | 2 | 349 | - |
| Impairment loss | | 5 | 7 |
| (Profit)/loss on sale of property, plant and equipment and intangible assets | | 3 | (7) |
| (Profit)/loss on sale of part of business | | - | (24) |
| Net interest cost | | 150 | 107 |
| Unrealised foreign exchange losses/(gains) (net) | | (16) | 23 |
| Fair value changes | | (1) | 1 |
| Change in provisions, allowances and write-off of receivables | | 138 | 106 |
| Other non-cash operations | | (4) | (26) |
| **Operating cash flow before working capital changes** | | **8,112** | **7,867** |
| **Working capital changes:** | | | |
| (Increase)/decrease in trade and other receivables | | (324) | 283 |
| (Increase)/decrease in inventories | | (60) | (127) |
| Increase/(decrease) of financial assets and liabilities at fair value through profit or loss | | - | (1) |
| (Increase) of costs to obtain contracts | 2 | (413) | - |
| (Increase)/decrease of contract assets | | (92) | - |
| Increase/(decrease) in trade and other payables | | (11) | (294) |
| **Cash flows from operating activities** | | **7,212** | **7,728** |
| Interest paid | | (187) | (99) |
| Interest received | | 34 | 10 |
| Income tax paid | | (956) | (935) |
| **Net cash flow from operating activities** | | **6,103** | **6,704** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (696) | (711) |
| Purchase of intangible assets | | (1,133) | (2,336) |
| Proceeds from sales of property, plant and equipment and intangible assets | | 25 | 20 |
| Cash purchase of financial investments and part of business | | - | (148) |
| Proceeds from sales of part of business | | - | 35 |
| Dividends received | | 394 | 1,148 |
| Provision of loans | 22 | (157) | (677) |
| Repayment of loans | 22 | 211 | - |
| **Net cash used in investing activities** | | **(1,356)** | **(2,669)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 14 | 1,200 | 5,511 |
| Repayment of borrowings | 14 | (1,315) | (2,000) |
| Proceeds/(repayments) of intragroup borrowings | | - | - |
| Acquisition of treasury shares | | - | (1,052) |
| Dividends and other distributions paid | | (6,332) | (6,394) |
| **Net cash used in financing activities** | | **(6,447)** | **(3,935)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,700)** | **100** |
| Cash and cash equivalents – beginning of year | 12 | 3,434 | 3,356 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | 2 | (22) |
| Cash and cash equivalents – end of year | 12 | 1,736 | 3,434 |

## ACCOUNTING POLICIES

**Content** **Page**

## A Basis of preparation

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

The financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

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 a 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 judgment or complexity, or areas where assumptions and estimates are significant for the financial statements are disclosed in Note B - Use of estimates, assumptions and judgments.

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

The Company is an 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 two main areas of services, i.e. the fixed segment and the mobile segment. For further details refer to Note 1.

### Adoption of new or revised IFRS standards and interpretations

For financial statements for the year ended 31 December 2018, the Company adopted new or revised standards and interpretations as mentioned below.

- New standard IFRS 15 - Revenue from Contracts with Customers (issued in May 2014)
- New standard IFRS 9 - Financial Instruments (issued in July 2014)
- Revision of IAS 40 - Investment Property: Transfers of investment property
- Revision of IFRS 2 - Share-based Payments: Classification and measurement of share-based payment transactions
- Revision of IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial instruments with IFRS 4 - Insurance contracts
- Annual improvements to IFRSs 2014-2016 cycle:
    - Revision to IFRS 1 - First-time adoption of International Financial Reporting Standards
    - Revision to IAS 28 - Investments in associates and joint ventures
- New interpretation of IFRIC 22 - Foreign currency transactions and advance consideration

Standards IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers have significant impact on the Company and their implementation is described below.

**IFRS 9 – Financial Instruments**

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

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

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

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

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

### a) *Classification and measurement of financial assets and liabilities*

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

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

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

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

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

The Company evaluates the objectives of business models in which financial assets are held at the portfolio level, as they are composed of financial assets with the same characteristics of the contractual terms and the expected cash flows. To determine the business model, the Company considers the different types of risks affecting the assets, their management, the measurement of profitability and performance of individually significant financial assets and entire portfolios, as well as the decision to hold or sell comparable assets in the past.

The Company determines whether the contractual cash flows are solely payments of principal and interest on the unpaid part of the principal based on the contractual terms of the financial instrument. The company considers events that may affect the amount or timing of cash flows, the amount of prepayment received and the conditions for determining variable interest income, as well as extension of the duration of financial instruments or the limitation of the Company's claim to expected cash flows.

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

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

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

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

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

<u>Financial assets at amortised cost</u>
These financial assets are subsequently measured at amortised cost using the effective interest method and are included in current and non-current assets based on the period when they are

settled. The amortised cost is reduced by impairment losses (see section B below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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

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

| **In CZK million** | **Initial category under IAS 39** | **New category under IFRS 9** | **Initial carrying amount under IAS 39** | **New carrying amount under IFRS 9** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 3,434 | 3,434 |
| Financial derivatives – interest (hedge accounting) | Fair value - hedge accounting | Fair value - hedge accounting | 26 | 26 |
| Trade receivables | Loans and receivables | Amortised cost | 4,932 | 4,927 |
| Provided loans and other receivables (excl. prepaid expenses and indirect taxes) | Loans and receivables | Amortised cost | 851 | 850 |
| **Total** | | | **9,243** | **9,237** |

The table of classification of financial assets does not contain contract assets recorded in relation to the implementation of the new standard IFRS 15, for which impairment of CZK 5 million was recognised.

### *b) Impairment of financial assets*

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

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the default risk of a financial instrument at the balance sheet date with the risk at the date of initial recognition and considers reasonable and supportable information that is relevant and available without undue cost or effort and that indicates a significant increase in the credit risk. The assessment is mainly based on the Company's historical experience, available information and market analyses, including actual macroeconomic indicators and future forecasts.

Regardless of these analyses, the Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days overdue. In the case of cash and cash equivalents, it includes the situation where Moody's external credit rating falls from the investment grade (Aaa-Baa3 rating) to the speculative (non-investment) grade (Ba1-B3 rating). The Company categorises these assets into the 2$^{nd}$ stage of the IFRS 9 impairment model and calculates a loss allowance equal to expected lifetime credit losses. Credit-impaired financial assets are included in the 3$^{rd}$ stage of the IFRS 9 impairment model. The Company assesses a financial asset as credit-impaired when one or more of the following events occurs: the debtor is facing significant financial difficulty; it is probable that the debtor will enter bankruptcy or other financial reorganisation; the financial asset is more than 90 days overdue. Loss allowance for assets in the 3$^{rd}$ stage is equal to the expected lifetime credit losses and the interest is calculated from the net value of the asset.

A financial asset is considered to be in default when it is more than 90 days overdue. And in the case of cash and cash equivalents, it includes the situation, where according to Moody's, the external credit rating of the counterparty decreases to risk grade (Caa1-C rating) or below.

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

Impairment losses on financial assets, including contract assets, are newly recognised in the income statement within a separate line Impairment loss on financial assets. Therefore, the Company reclassified the impairment loss of CZK 118 million recognised in accordance with IAS 39 from the line Expenses to the line Impairment losses on financial assets in the income statement for the comparative period, i.e. the year ended 31 December 2017.

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

| **In CZK million** | |
|---|---|
| **Loss allowance for trade receivables and contract asset** | |
| **Total under IAS 39 as at 31 December 2017** | **2,114** |
| Additional loss allowance recognised as at 1 January 2018 related to: | |
| Trade receivables | 5 |
| Contract assets | 5 |
| **Total under IFRS 9 as at 1 January 2018** | **2,124** |
| | |
| **Loss allowance for provided loans and other receivables** | |
| **Total under IAS 39 as at 31 December 2017** | **48** |
| Additional loss allowance recognised as at 1 January 2018 related to: | |
| Provided loans | 1 |
| **Total under IFRS 9 as at 1 January 2018** | **49** |

The implementation of IFRS 9 had no material impact on earnings per share as at 31 December 2017 and 31 December 2018. The calculation of earnings per share is described in Note 6.

### *c) Hedge accounting*

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

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

### IFRS 15 – Revenue from Contracts with Customers

The new IFRS 15 standard establishes a comprehensive framework for recording revenues from contracts with customers. Since the effective date of 1 January 2018, it has replaced the following standards and interpretations for revenue recognition:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC 31 Revenue – Barter Transactions Involving Advertising Services

IFRS 15 only relates to revenue from customer contracts. According to IFRS 15, a customer of an accounting unit is an entity that has entered into a for-consideration contract with the accounting unit for the supply of goods or services that are the output of the accounting unit's standard business. The new revenue recognition standard introduces a unified model for the treatment of revenues from customer contracts. This model is based on the underlying principle that an entity recognises revenues to capture the transfer of the promised goods or services to customers in an amount that reflects the consideration the accounting unit is, as per its expectation, entitled to in exchange for those goods or services.

### The impact of implementing IFRS 15

The adoption of the new standard as of 1 January 2018 resulted in significant changes in the Company's financial statements, in particular as regards the timing of revenue recognition and in relation to the capitalisation of costs to obtain contracts.

The timing of revenue recognition and the classification of the Company's revenue as a service provided or the sale of equipment are affected due to the allocation of the price to more performance obligations. According to current business models, a larger part of the revenues would be allocated and recognised earlier, as revenue from the sale of equipment, based on this standard.

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

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

| **In CZK million** | **Note** | **Impact of adopting IFRS 15** |
|---|---|---|
| Retained earnings: | | |
| Capitalisation of costs to obtain contracts | c | 463 |
| Bundles of telecommunication service and equipment | a | 232 |
| Deferred tax | | (132) |
| **Impact as at 1 January 2018** | | **563** |

The following tables illustrate the impact of adopting IFRS 15 on the consolidated balance sheet as at 31 December 2018 and on the consolidated income statement for the year ended 31 December 2018.

Impact on the balance sheet as at 31 December 2018:

| **In CZK million** | **Note** | **Amounts recognised under IFRS 15** | **Adjustment** | **Amounts without adoption of IFRS 15** |
|---|---|---|---|---|
| **Assets** | | | | |
| Costs to obtain contracts | c | 527 | (527) | - |
| Contract assets | a | 132 | (132) | - |
| Other assets | | 275 | 50 | 325 |
| **Non-current assets** | | **24,932** | **(609)** | **24,323** |
| Receivables | a | 6,891 | 240 | 7,131 |
| Contract assets | a | 409 | (409) | - |
| **Current assets** | | **9,797** | **(169)** | **9,628** |
| **Total assets** | | **34,729** | **(778)** | **33,951** |
| | | | | |
| **Equity** | | | | |
| Retained earnings | | 6,847 | (657) | 6,190 |
| **Total equity** | | **17,215** | **(657)** | **16,558** |
| | | | | |
| **Liabilities** | | | | |
| Deferred tax liability | | 472 | (154) | 318 |
| Contract liabilities | | 16 | (16) | - |
| Other liabilities | | 499 | 16 | 515 |
| **Non-current liabilities** | | **11,452** | **(154)** | **11,298** |
| Trade and other payables | a, d | 5,579 | 405 | 5,984 |
| Contract liabilities | a, d | 372 | (372) | 0 |
| **Current liabilities** | | **6,062** | **33** | **6,095** |
| **Total equity and liabilities** | | **34,729** | **(778)** | **33,951** |

Impact on the consolidated statement of total comprehensive income for the year ended 31 December 2018:

| In CZK million | Note | Amounts recognised under IFRS 15 | Adjustment | Amounts without adoption of IFRS 15 |
|---|---|---|---|---|
| Revenue | a | 29,795 | (52) | 29,743 |
| Expenses | c | (22,084) | (413) | (22,497) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **(8,011)** | **(465)** | **7,546** |
| Amortisation of costs to obtain contracts | c | (349) | 349 | - |
| **Operating profit** | | **5,078** | **(116)** | **4,962** |
| **Profit before tax** | | **6,303** | **(116)** | **6,187** |
| Corporate income tax | | (937) | 22 | (915) |
| **Profit for the period** | | **5,366** | **(94)** | **5,272** |

The implementation of IFRS 15 had no material impact on earnings per share as at 31 December 2017 and 31 December 2018. Calculation of earnings per share is described in Note 6.

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

### *a. Bundles of telecommunication service and equipment*

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

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

Other types of contracts that are newly subject to adjustments under IFRS 15 are contracts with corporate customers where the supply of telecommunication services is complemented by the sale of telecommunication equipment on preferential terms. The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed by that date is an increase of CZK 95 million. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the utilisation of the preferential terms for the purchase of telecommunication equipment during the whole duration of the contract.

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

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

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

The financing component is not material within the business models used by the Company.

### *b. Portfolio approach*

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

### *c. Commissions: incremental cost to obtain contracts*

Capitalised incremental costs to obtain contracts mainly represent external sales commissions which are directly attributable to the acquisition of the contract with customers and are incremental. These expenditures are recognised in the balance sheet within the line Costs to obtain contracts and are linearly amortised. The amortisation of those costs is presented within the line Amortisation of costs to obtain contracts in the income statement, the amortisation period is determined on the basis of the estimated average contract duration period for business and residential customers (within an interval from 16 to 48 months).

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

### d. Change in classification of deferred revenue

In line with the requirements of IFRS 15, the Company changed the classification of deferred revenue and revenue from prepaid services from customers. These items are newly presented as contract liabilities.

**New IFRS not yet effective as at 31 December 2018 (includes standards applicable for the Company)**

At the date of preparation of the financial statements, the following IFRS standards 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 16 | Leases | 1 January 2019 |
| IFRIC 23 | Uncertainty over Income Tax Treatment | 1 January 2019 |
| Revision IFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 |
| Revision IAS 28 | Long-term Interests in Associates and Joint Ventures | 1 January 2019* |
| | Annual improvements to IFRS 2015-2017 Cycle (issued on 12 December 2017) | 1 January 2019* |
| | Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020* |
| Revision IFRS 3 | Business Combinations | 1 January 2020* |
| Revision IAS 1 and IAS 8 | Definition of Material | 1 January 2020* |
| Revision IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred indefinitely |

* These revisions/interpretations have not yet passed the EU endorsement 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 the adoption of the standards and amendments will not have a significant impact on the financial statements in the initial period of application, with the exception of IFRS 16.

**Expected impact of the new standard IFRS 16 – Leases**

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

IFRS 16 provides a single balance sheet accounting model for leases. The lessee accounts for the right to use the asset, that represents his/her right to use the underlying asset, and for his/her liability under the lease, which expresses the obligation to pay the lease payments. The standard provides for exceptions from this recognition that apply to short-term leases and leases where the asset has a low value. The lessor’s accounting remains similar to the current standard – i.e. the lessor continues to classify leases either as financial or as operating.

**(i) Leases where the Company is the lessee**
The Company will newly recognise assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of related costs has now changed; the depreciation of right of use assets and interest expense of lease liabilities will be recognised instead of operating costs as before.

Based on currently available information, the Company estimates, that, as at 1 January 2019, it will recognise lease liabilities in the range from CZK 2,700 million to CZK 3,300 million. The difference between the expected lease liability under IFRS 16 and the total of future minimal lease payments from non-cancellable operating lease contracts (see Note 19) arises mainly from the different approach to the contract length determination in case of contracts with indefinite lease period and future payments discounting. The actual impact of the application of the standard as at 1 January 2019 may be different mainly due to ongoing analyses of the determination of lease periods for contracts that do not have specifically agreed lease terms.

**(ii) Leases where the Company is the lessor**
The Company does not expect a material impact from leases where it functions as the lessor.

**(iii) Adoption of the standard**
The Company plans to initially adopt the standard as of 1 January 2019 using a modified retrospective method. Comparable data for the previous period will not be adjusted.

The Company will use the exception to the standard for contracts where the lease term is less than 12 months at the date of adoption of the standard and for leases with a low-value underlying asset. These exemptions will be accounted for by the Company as before.

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

## B Use of estimates, assumptions and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management 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, as well as 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 a 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:

(i) Income taxes and deferred taxes

The Company creates an estimate for current income tax and, considering 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 5 and Note 16).

(ii) 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.

Due to future technological developments and alternative uses for assets, it is necessary to make estimates for the purpose of determining the useful life of software and telecommunication technologies and equipment (see Note 8 and Note 9). 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 useful life of an asset is reviewed and revised at each balance sheet date and it is adjusted as a change in accounting estimate if needed.

(iii) Provisions and contingent liabilities

As set out in Note 18, the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. For all 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 fully within the control of the Company.

(iv) Receivables

Trade receivables are carried at face value less a bad debt allowance. The loss allowance is equal to the expected credit losses in the lifetime of the contract. Details regarding the determination of receivables impairment are stated in Note K – Financial instruments and Note 15 - Financial instruments and financial risk management.

(v) Commission as costs to obtain contracts with customers

For the capitalised incremental costs to obtain contracts, the amortisation period was determined as the expected average period over which the customer will use the Company’s services. This amortisation period was further specified by Company’s customer segments, which include resident customers, entrepreneurs and medium and large corporate clients.

Throughout the amortisation period, the actual values are subject to periodic review and reassessment against the developments of business activities, trends in the telecommunications sector and the structure of business channels.

(vi) Stand-alone selling prices

In accordance with the requirements of the new IFRS 15, transaction price is allocated to separate performance obligations based on the proportional stand-alone selling prices of the products and services provided. A stand-alone selling price is the price at which the Company sells a promised product or service to its customers in a stand-alone transaction. In most cases, the Company considers the prices shown in its price list as the stand-alone selling prices.

## C 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 the 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. 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.

Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, with the exception of transactions related to qualifying cash flow hedges recognised in other comprehensive income.

## D 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 charges. 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 as 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, are not expected to create any future economic benefits and/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. the 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** |
|---|---|
| Buildings | up to 56 |
| 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 immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note G - Impairment of non-current non-financial assets)

## E 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 of 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 as at the date of acquisition) less the accumulated amortisation and accumulated impairment charges and are amortised on a straight-line basis over their estimated useful lives. Customer bases are amortised over the period of the remaining average terms of the binding contracts or the period over which they can be used to generate economic benefit for the entity.

Acquired licences are recorded at cost and amortised on a straight-line basis from the start of the 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 9).

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.

On the balance sheet day, the Company reviews 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. the 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 an indefinite useful life or the date the asset is classified as held for sale.

## F Non-current assets held for sale

In the balance sheet, the Company classifies an asset (or disposal group) held for sale separately 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 an impact on the 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 a 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 accounted for in profit or loss.

## G Impairment of non-current non-financial 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, 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 profit or loss when incurred, in line Impairment loss on non-current 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.

## H Financial instruments

Trade receivables and debt securities issued are initially recognised when they originate. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

The Company has applied standard IFRS 9 - Financial instruments – classification and measurement for initial recognition and subsequent measurement of financial instruments since 1 January 2018. Its impact on the classification and measurement of financial liabilities is not significant for the Company. Classification and measurement of financial assets and related accounting policies are included in Note A Basis of preparation, section IFRS 9.

**Accounting policies valid from 1 January 2018**

(i) Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial liability is classified as FVTPL if it is classified as held-for-sale, it is a derivative financial instrument or it is designated as such at initial recognition. These financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, except for changes in fair value due to changes in the credit risk of the Company, which are recognised in other comprehensive income.

Other financial liabilities are recognised initially at the amount of proceeds received, net of transaction costs incurred. In subsequent periods, other financial liabilities are measured at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as incurred.

Financial liabilities 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 time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(ii) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost with subsequent measurement at amortised cost decreased by a loss allowance according to the IFRS 9 impairment model. 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 the financial liabilities section of the balance sheet.

(iii) 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.

A financial asset is written-off, if the Company is certain, that either a part or total balance of the asset will not be recovered, that means when the Company has used all available options to recover the asset. The accounting write-off does not represent loss of legal right and it does not impede the possible repayment of the financial asset in the future. Expenses related to written-off amounts are included in profit or loss in the line Impairment loss on financial assets.

Financial liabilities are de-recognised when the Company's contractual obligations are discharged, cancelled or expired. The difference between the carrying amount and the consideration paid for the liability is recognised in profit or loss in the relevant period.

(iv) 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.

**Accounting policies valid until 31 December 2017**

The following section describes only accounting policies only valid until 31 December 2017, which were changed as of 1 January 2018.

The Company classified its financial assets into the following categories: financial assets carried at fair value through profit or loss, held-to-maturity investments and loans and receivables.

Investments with fixed maturity date, for which the Company's management had the intent and ability to hold them to maturity, have been classified as held-to-maturity investments and are included in current or non-current assets depending on the period when they are settled. Investments held-to-maturity were carried at amortised cost using the effective interest method.

Assets with fixed or determinable payments that were not quoted in an active market were classified as loans and receivables. Such assets were carried at amortised cost using the effective interest method and were disclosed as current or non-current assets depending on the period when they were settled.

If the events indicated impairment losses on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss was determined as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the initial effective interest rate of the asset.

The Company first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If it was determined that no objective evidence of impairment existed for individually assessed financial assets, whether significant or not, it was included in a group of financial assets with similar credit risk characteristics and that group of financial assets was collectively assessed for impairment.

Regarding trade receivables, their carrying amount was reduced by an allowance when there was objective evidence (e.g. probability of default) and the Company was unable to recover all the amounts due under the original terms of the contract.

## I Accounting for financial derivatives 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.

At the inception of the transaction, the Company documents 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.

The Company has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018, the Company has no new hedging relations, for which IFRS 9 should be applied, and all current hedging relations are accounted for in line with IAS 39. For a detailed description of initial implementation of IFRS 9 refer to Note A - Basis of preparation, section IFRS 9 Financial Instruments.

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 is ultimately 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 previously included in IAS 39 and currently in IFRS 9 or the Company has elected not to apply the specific 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 in line with IFRS 9.

## J Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement as at the inception date or whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/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 all the substantial risks and rewards of ownership are classified as finance leases. At the inception of lease, finance leases are capitalised 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.

## K 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 the 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.

## L 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 main 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, contract asset and cost to obtain contracts according to IFRS 15, non-deductible tax 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 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 the offsetting of current tax assets and liabilities.

## M Employee benefits

(i) Pension insurance and supplementary pension insurance

The Company remits contributions to the state pension insurance scheme at the statutory rates applicable during the period; these contributions 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.

(ii) Redundancy and severance payments

Employees whose employment was terminated before term citing statutory reasons are entitled to redundancy and severance payments. 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 and formal plan without the possibility of opt-outs. Severance payments falling due more than 12 months after the balance sheet date are discounted to present value. Presently, the Company has no redundancy and severance obligations falling due more than 12 months after the balance sheet date.

(iii) Bonus plans

The Company recognises employee bonuses related to the relevant 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 a constructive obligation.

## N Provisions

Provisions are recognised when the Company will be obliged to pay a present liability in the future 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.

## O Revenue and expenses

The Company generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, Internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. Products and services may be sold separately or in bundles. The standard length of contracts with customers that includes a bundle is 24 months.

In the case of contracts containing bundles, the Company accounts separately for specific products or services if these products or services can be separated into stand-alone parts and have added value for the customer in that stand-alone form. The price invoiced to customer is allocated to contract on a pro-rata basis using the price list for the stand-alone performance obligations.

In determining whether the revenues are recognised as gross (i.e., with costs recognised separately) or net, the Company assesses whether it is in an agency relationship. If it is, the Company recognises revenues in net amounts, i.e. only the amount corresponding to the margin or commission is recognised the Company assesses whether it is in a relationship. The Company may enter into a relationship with an agency character in the provision of premium SMS, premium numbers or other services.

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. Capitalized incremental costs to obtain contracts are amortized over the expected average period that the customer uses services of the Company.

***Mobile origination – Internet and data, voice services, MMS and SMS***
Revenues from mobile services include revenues from both contract and prepaid cards for the provision of telecommunication services (internet and data, voice, MMS and SMS services).

Contract service comprises a flat rate and a variable part invoiced according to the actual usage. Revenues are recognized, invoiced and paid by customers monthly according to the actual utilization of services with the exception of contracts containing multiple services and products, for which total price is allocated based on standalone selling prices of individual performance obligation. A typical contract is for 24 months.

Revenues from prepaid cards are recognised when voice or data traffic is made, other services are provided or the card expires and the associated prepaid credit expires. Prepaid cards are paid by customers purchasing a coupon or recharging an already purchased SIM card.

***Fixed access services – voice, internet, data and television***
Revenues from fixed telecommunication services include revenues from Internet connectivity, data and TV and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are invoiced and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months.

***Sale of equipment***
Revenues from the sale of equipment and other goods are recognised at the time of the sale, i.e. at the time the goods were handed over to the distributor or the final customer, which usually occurs when the contract is signed. Where equipment is subsidised and sold together with the service as a bundle, revenue from the subsidised equipment is recognised at the point of sale at a value determined using the stand-alone selling prices of services and products within the bundle.

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment may also be sold on an instalment basis, with the contracts usually being signed usually for 12 or 24 months. The financing component is not significant in these contracts.

***Mobile termination***
Interconnection revenues arise from calls and SMSs initiated in the networks of other domestic or foreign operators but terminated or transiting through the Company's network. These revenues are recognised in profit or loss at the time when the call or SMS is received in the Company's network. Interconnection revenues are invoiced and paid by customers on a monthly basis. The Company pays a part of the proceeds from its customers to domestic and foreign operators whose network is used for calls initiated in the Company's network and which use the networks of other

domestic or foreign operators. Receivables and payables in respect of other domestic and foreign operators are regularly offset and settled.

***Other mobile revenues***
Other mobile revenues include, in particular, revenues from virtual operators (MVNOs) for the use of the Company's mobile network services, roaming revenues and insurance revenues.

Revenues from virtual operators for usage of the Company's mobile network and related services are recognised on a monthly basis; the price is usually set at a monthly flat rate with a variable component charged according to the actual usage of individual MVNOs. The services are invoiced to and paid by MVNOs on a monthly basis.

Roaming revenues are revenues from foreign partner operators for their customers' usage of the Company's mobile network. The services are invoiced and paid on a monthly basis according to the actual usage. As a rule, agreed volume discounts are calculated annually, for which estimates are created by the Company on a monthly basis. Revenues are recognised on a monthly basis.

Revenues from insurance include the revenues from insurance of mobile devices and travel insurance sold to the Company's customers. The service is invoiced and paid by customers on a monthly basis, which is in line with the recognition of relevant revenues. Customers have the option to terminate this service at any time without penalty.

***Information and communication technology and construction contracts (ICT)***
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 service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period at least of 24 months.

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

***Other fix revenues***
Other fix revenues represent various supporting services provided together with telecommunication services. Generally, these services are invoiced and paid by customers on a monthly basis and customers have the option of cancelling these supporting services without penalty at any time.

***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).

## P Dividend distribution

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

## Q 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 investments in joint ventures, which are recorded at cost less an impairment charge.

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 impairment charge.

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.

## R 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.

## S Changes in accounting policies

The Company implemented new standards IFRS 9 - Financial instruments – classification and measurement and IFRS 15 - Revenue from contracts with customers as of 1 January 2018. The impact of their implementation is described in Note A - Basis of preparation, sections IFRS 9 and IFRS 15. No other significant changes in accounting policies were applied in 2018 and 2017.

## T 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. Any consideration received from the sale of treasury shares is presented in the financial statements as an addition to equity.

## NOTES TO THE FINANCIAL STATEMENT

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## 1 Segment information

Segments recognised by the Company are as follows:

- The Czech Republic:
  - mobile segment – mobile telecommunication and data services provided by the Company
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, and ICT 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 2018 and 2017 were determined on the same basis as rates applicable for other mobile operators.

**Year ended**
**31 December 2018**

| In CZK million | Fix | Mobil | Total |
|---|---|---|---|
| Revenues | 9,585 | 20,210 | 29,795 |
| Cost of Sales (CoS) | (6,414) | (9,653) | (16,067) |
| Gross margin | 3,171 | 10,557 | 13,728 |
| Other income from non-telecommunication services | | | 227 |
| Capitalisation of fixed assets | | | 224 |
| Other costs excluding CoS | | | (6,168) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | | **8,011** |
| Depreciation and amortisation | | | (2,579) |
| Amortisation of costs to obtain contracts | | | (349) |
| Impairment loss | | | (5) |
| **Operating profit** | | | **5,078** |
| Interest expense | | | (185) |
| Interest income | | | 34 |
| Other finance income/(expense) | | | 1,376 |
| **Net finance income** | | | **1,225** |
| **Profit before tax** | | | **6,303** |
| Corporate income tax | | | (937) |
| **Profit for the period** | | | **5,366** |
| Assets (excl. Goodwill) | | | 30,286 |
| Goodwill | | | 4,443 |
| **Total Assets** | | | **34,729** |
| Trade and other payables | | | (5,579) |
| Other liabilities | | | (11,935) |
| **Total liabilities** | | | **(17,514)** |
| **Fixed assets additions*** | | | **2,504** |

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

**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.

## 2 Revenues from contracts with customers

The impact of the initial application of the new standard IFRS 15 is described in Note A Basis of preparation. Due to the choice of IFRS 15 adoption method, the Company did not restate comparable data for the prior period.

### A. Classification of revenues from customer contracts

In the table below, revenues from customer contracts are broken down according to the main operating segments and products provided. The degree of classification of revenues from contracts with customers reflects the specific sector of the Company, the way in which the

Company reports and monitors revenues for internal purposes as well as for disclosing information to investors. The table also includes summary rows that allow the reconciliation of revenues with the data reported in the segment analysis under IFRS 8 (see Note 1).

| **In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Mobile origination: | | |
| - Voice services and SMS & MMS | 7,445 | 8,129 |
| - Internet and data | 5,930 | 5,462 |
| Mobile termination | 2,273 | 2,250 |
| Revenue from sale of equipment | 1,988 | 1,660 |
| Other mobile revenues | 2,574 | 2,452 |
| **Total mobile revenues** | **20,210** | **19,953** |
| | | |
| Voice services | 2,115 | 2,450 |
| Data services | 973 | 1,021 |
| Internet and television | 4,915 | 5,008 |
| ICT | 716 | 794 |
| Revenue from sale of equipment | 340 | 264 |
| Other fixed revenues | 526 | 428 |
| **Total fixed revenues** | **9,585** | **9,965** |
| | | |
| **Total revenues** | **29,795** | **29,918** |

**B. Contract assets and contract liabilities**

Contract asset is the Company's right to a consideration in exchange for goods or services that the Company has already transferred to customers and which it has not yet invoiced. These include, in particular, those contracts with customers where the supply of telecommunication services is supplemented by the sale of subsidised telecommunication equipment. A contract asset arises from the reallocation of revenues under a customer contract from telecommunication services provided and recognised during the life of the contract to the revenues from the sale of such subsidised equipment, which is recognised at the time of sale.

An allowance of CZK 5 million (1 January 2018: CZK 5 million), determined in accordance with the methodology described in Note A Basis of preparation, part of IFRS 9, was created for the impairment of contract assets.

In the business models used by the Company, the financing component is not significant.

A contract liability is the Company's obligation to deliver goods or to provide services for which the Company has received the consideration from the customer. Contract liabilities include mostly prepaid telecommunication services by customers on prepaid cards. These revenues are recognised when the voice or data traffic takes place or when other services are provided or when the card associated with the prepaid credit expires. Contract liabilities also arise when activation fees are invoiced on conclusion of a new contract, which is not a stand-alone performance obligation and are thus accrued over the term of the contract with the customer.

The amount of CZK 243 million recognised as contract liabilities at 1 January 2018 was recognised as revenues in 2018.

Receivables arising from contracts with customers represent the trade receivables described in Note 11.

The table below analyses contract assets and liabilities:

| **Contract assets**<br>**In CZK million** | **31 December 2018** | **1 January 2018** |
|---|---|---|
| - short-term (less than 1 year) | 409 | 301 |
| - long-term (over 1 year) | 132 | 143 |
| **Total contract assets** | **541** | **444** |

| **Contract liabilities**<br>**In CZK million** | **31 December 2018** | **1 January 2018** |
|---|---|---|
| - short-term (within 1 year) | 372 | 301 |
| - long-term (over 1 year) | 16 | 12 |
| **Total contract liabilities** | **388** | **313** |

In 2018, the Company did not recognise any revenue from contract liabilities which were met (or partially met) in prior periods.

The Company expects to recognise revenues of CZK 11,354 million from current contracts with customers related to performance obligations that are yet to be fulfilled (or are only partially fulfilled) as at 31 December 2018, assuming that these obligations will be fulfilled in the next five years. These contractual revenues mainly include revenues from the sale of telecommunication services, which were determined by the Company on the basis of the average monthly spend of contractual customers with commitment, the number of contractual customers with commitment as at 31 December 2018 and average remaining time of contract for these customers, while all the parameters are broken down into the main operating segments. The expected revenues also contain revenues from other contracts with complex delivery of goods and services for which the Company allocates a total transaction price to separate performance obligations on a pro-rata basis according to the individual stand-alone selling prices. These revenues are recognised on the basis of the fulfilment of separate performance obligations and not according to invoicing of customers. The Company applied the practical expedients allowed for in the standard and the balance of contractual revenues does not include revenues from contracts which originally had an expected duration of one year or less, nor the revenues from contracts which are recognised in an amount that corresponds directly to the services provided (in line with principles described in Note O - Revenues and expenses).

## C. Incremental costs to obtain contracts

Capitalised incremental costs to obtain contracts include commissions for external and internal business channels that are directly attributable to obtaining customer contracts and are incremental. Amortisation of these costs is recognized in a separate line (Amortisation of costs to obtain contracts) in the profit or loss; the amortisation period is determined by the expected average duration of contracts separately for business customers and for consumers and separately for certain product types (ranging from 16 to 48 months).

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

| **Capitalised costs to obtain contracts** | |
|---|---|
| **In CZK million** | |
| **As at 1 January 2018** | **463** |
| Capitalised costs to obtain contracts | 413 |
| Amortisation of capitalised costs to obtain contracts | (349) |
| **As at 31 December 2018** | **527** |

The Company regularly evaluates capitalised incremental costs to obtain contracts and assesses whether there is any indication of impairment. The assessment is based on the monitoring of two parameters – statistical evolution of clawbacks, i.e. deductions for the additional change of contracted services or contractual penalties for non-observance of the performance indicators, and simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use the services of the Company in individual segments. Based on an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 31 December 2018.

## 3 Expenses

| **Expenses**<br>**In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Cost of sales | 16,068 | 16,260 |
| Staff costs | 3,413 | 3,285 |
| External services | 2,322 | 2,638 |
| Other expenses | 281 | 265 |
| **Total expenses** | **22,084** | **22,448** |

The cost of sales mainly includes the following 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.

## 4 Finance income and expenses

| **In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| **Finance income** | | |
| Interest income | 34 | 9 |
| Foreign exchange gain (net) | 12 | 45 |
| Other finance income | 1,394 | 1,142 |
| **Total finance income** | **1,440** | **1,196** |
| | | |
| **Finance costs** | | |
| Interest expenses | 185 | 116 |
| Loss on fair value adjustments and settlement of financial derivatives (net) | 8 | 31 |
| Other finance costs | 22 | 25 |
| **Total finance costs** | **215** | **172** |

The Company recognises foreign exchange gains and losses on a net basis. The same applies to fair value adjustments of foreign currency derivatives.

Other finance income contains dividend and other distributions from the subsidiaries O2 Slovakia, s.r.o. of CZK 1,199 million (2017: CZK 1,099 million), O2 Family, s.r.o. of CZK 36 million (2017: CZK 33 million), O2 IT Services s.r.o. of CZK 150 million (2017: CZK 1 million), from the associate První certifikační autorita, a.s. of CZK 5 million (2017: CZK 5 million) and from Tesco Mobile ČR s.r.o. of CZK 4 million (2017: CZK 4 million). In 2018, dividend from the subsidiary O2 Slovakia, s.r.o. was settled with right to draw the loan provided by the Company (see Note 22).

In 2018, an interest expense in the amount of CZK 15 million (2017: CZK 10 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 1.4%.

## 5 Income tax

| **In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Total income tax expense consists of: | | |
| Current income tax charge | 856 | 958 |
| Deferred income tax charge (Note 16) | 81 | 85 |
| **Income tax** | **937** | **1,043** |

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

| **In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Profit before tax | 6,303 | 6,439 |
| Income tax charge calculated at the statutory rate of 19% | 1,198 | 1,223 |
| Tax effects of: | | |
| - income not taxable | (265) | (217) |
| - expenses not deductible for tax purposes | 20 | 45 |
| Tax related to prior periods | (16) | (8) |
| **Income tax - expense** | **937** | **1,043** |
| Effective tax rate | 15% | 16% |

As at 31 December 2018 the total amount of current income tax liability was CZK 872 million (2017: CZK 967 million), advances paid for corporate income tax were CZK 951 million (2017: CZK 946 million) and the net deferred tax liability was CZK 472 million (2017: CZK 258 million).

## 6 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 21).

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Weighted number of ordinary shares outstanding (in thousands) | 301,525 | 303,567 |
| Net profit attributable to shareholders (in CZK million) | 5,366 | 5,396 |
| Basic earnings per share (in CZK) | 18 | 18 |

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

## 7 Dividends and other distribution

| **In CZK million** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Dividends declared (including withholding tax) | 5,274 | 5,274 |
| Other distribution | 1,206 | 1,218 |
| **Total declared distributions** | **6,480** | **6,492** |

Dividends include withholding tax on dividends paid by the Company to its shareholders. No interim dividend has been paid in respect of 2018 and 2017. The approval of the 2017 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 4 June 2018 (2016: 10 May 2017). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 from the 2017 profit were payable on 4 July 2018 (from 2016 profit: CZK 17 and CZK 170 respectively). Dividends on treasury shares in the amount of CZK 148 million (2017: CZK 98 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 an amount of CZK 1,241 million (2017: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for the share with a nominal value of CZK 100, CZK 40 before tax was allocated). The right to receive the amount related to the payment of the share premium for the treasury shares did not arise. This part of the share premium in the amount of CZK 35 million (2017: CZK 23 million) remained in the share premium account.

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

| **In CZK** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Dividend per share (nominal value of CZK 10) | 17 | 17 |
| Other distribution | 4 | 4 |
| **Total distribution per share** | **21** | **21** |

## 8 Property, plant and equipment

| In CZK million | Land, buildings and constructions | Communication technology and related equipment | Other fixed assets | Total |
|---|---|---|---|---|
| **As at 31 December 2018** | | | | |
| Opening net book amount | 157 | 1,675 | 570 | 2,402 |
| Additions | 70 | 280 | 287 | 637 |
| Disposals | (1) | - | (1) | (2) |
| Reclassifications | - | 79 | (8) | 71 |
| Depreciation | (46) | (475) | (201) | (722) |
| Impairment | - | - | (1) | (1) |
| **Closing net book amount** | **180** | **1,559** | **646** | **2,385** |
| | | | | |
| **As at 31 December 2018** | | | | |
| Purchase price | 761 | 7,670 | 3,246 | 11,677 |
| Accumulated depreciation and impairments | (581) | (6,111) | (2,600) | (9,292) |
| **Net book amount** | **180** | **1,559** | **646** | **2,385** |
| | | | | |
| **As at 31 December 2017** | | | | |
| Opening net book amount | 200 | 1,662 | 518 | 2,380 |
| Transfers within the Group | - | - | 1 | 1 |
| Additions | 1 | 473 | 222 | 696 |
| Disposals | (1) | (4) | (9) | (14) |
| Reclassifications | - | (50) | 52 | 2 |
| Depreciation | (43) | (406) | (207) | (656) |
| Impairment | - | - | (7) | (7) |
| **Closing net book amount** | **157** | **1,675** | **570** | **2,402** |
| | | | | |
| **As at 31 December 2017** | | | | |
| Purchase price | 777 | 8,065 | 3,630 | 12,472 |
| Accumulated depreciation and impairments | (620) | (6,390) | (3,060) | (10,070) |
| **Net book amount** | **157** | **1,675** | **570** | **2,402** |

Compared to last year, the Company included fixed assets previously presented in category Ducts, cables and related outdoor equipment to the category Other tangible fixed assets. The total value of the assets remains unchanged and the Company restated the comparable data for 2017 according to the new approach.

The net book value of assets under construction and advances on fixed assets was CZK 359 million (2017: CZK 242 million) as at 31 December 2018 and is spread across each category of property, plant and equipment by their nature.

No property, plant and equipment were pledged as at 31 December 2018 and 31 December 2017.

In 2018, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 5 million (2017: CZK 9 million) and total losses of CZK 8 million (2017: CZK 3 million).

## 9 Intangible assets

| In CZK million | Goodwill | Licences | Software and other intangible assets | Valuable rights | Customer portfolio | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | |
| Opening net book amount | 4,443 | 5,408 | 3,317 | 1,732 | 100 | 15,000 |
| Additions | - | - | 1,867 | - | - | 1,867 |
| Disposals | - | - | (10) | - | - | (10) |
| Reclassifications | - | - | (70) | - | - | (70) |
| Amortisation | - | (550) | (856) | (424) | (27) | (1,857) |
| Impairment | - | - | (4) | - | - | (4) |
| **Closing net book amount** | **4,443** | **4,858** | **4,244** | **1,308** | **73** | **14,926** |
| **As at 31 December 2018** | | | | | | |
| Cost | 4,443 | 9,169 | 21,801 | 3,978 | 165 | 39,556 |
| Accumulated amortisation and impairments | - | (4,311) | (17,557) | (2,670) | (92) | (24,630) |
| **Net book amount** | **4,443** | **4,858** | **4,244** | **1,308** | **73** | **14,926** |
| **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) |
| Reclassifications | - | - | (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 impairments | - | (3,773) | (17,571) | (2,246) | (76) | (23,666) |
| **Net book amount** | **4,443** | **5,408** | **3,317** | **1,732** | **100** | **15,000** |

In 2018, the Company obtained the exclusive broadcasting rights of the UEFA Champions League for the 2018/2019, 2019/2020 and 2020/2021 seasons. Broadcasting rights are presented as additions in category Software and other intangible assets.

In October 2018, the Company launched a new complex transformation program, called Simple Online Company. Related intangible assets were put into use and amortisation started to be recognised.

**Goodwill**

As at 31 December 2018 and 2017, 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 2018 and 2017. 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 negative 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 – the basis for the 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 a growth rate of between -1% and 0% (2017: -1% and 0%).

Discount rate – the discount rate reflects the management's estimate of the risk specific to a cash-generating unit. The 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 the recoverable amount it to fall below book value 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 2018 and 2017 did not indicate any impairment losses.

**Licences**

Acquired licences represent the rights to operate cellular networks and 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 20.

Carrying value of licences:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| GSM licences | 291 | 341 |
| CDMA licences | 198 | 211 |
| UMTS licences | 770 | 1,020 |
| LTE licences | 599 | 3,836 |
| **Total** | **4,858** | **5,408** |

**Valuable rights**

In 2014, the Company decided to exercise the option under the licence agreement, based on which the Company is using the O2 brand in the Czech Republic and Slovakia until 27 January 2019. In 2017, the Company extended the O2 brand license period by another three years beyond the current period, i.e. until 27 January 2022. Furthermore, the Company is 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 2018 in the net book amount of CZK 1,308 million (2017: CZK 1,732 million).

## 10 Inventories

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Telecommunication material | 7 | 6 |
| Goods | 675 | 619 |
| **Total** | **682** | **625** |

The inventories stated above are net of an allowance of CZK 85 million (2017: CZK 95 million), reducing the value of the inventories to their net realisable value. The value of inventories recognised as an expense for sale of goods and utilisation of material is CZK 2,262 million (2017: CZK 2,182 million).

## 11 Receivables and other assets

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables from third parties (net) | 4,154 | 4,264 |
| Trade receivables from related parties | 674 | 626 |
| Prepayments | 122 | 111 |
| Other receivables (net) | 1,941 | 772 |
| **Total current receivables** | **6,891** | **5,773** |

Trade receivables and other receivables are stated net of a bad debt provision of CZK 2,098 million (2017: CZK 2,162 million).

Other receivables (net) include short-term loans provided to O2 TV s.r.o. of CZK 130 million (2017: CZK 50 million) and to O2 Slovakia, s.r.o. of CZK 1,724 million (2017: CZK 639 million).

In 2018, expenses for impairment of receivables were CZK 151 million (2017: CZK 118 million).

Analyses of the credit risk, the ageing structure of trade receivables and the loss allowance for trade receivables is described in Note 15.

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables | 30 | 79 |
| Other receivables | 40 | 42 |
| Prepayments | 162 | 68 |
| Financial derivatives | 43 | 26 |
| **Total other non-current assets** | **275** | **215** |

Other non-current receivables contained restricted cash of CZK 30 million (2017: 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, in particular, roaming and interconnection services. The financial instruments are as follows:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Gross amounts of trade receivables | 211 | 259 |
| Amounts that are set off | (178) | (199) |
| **Net amounts of trade receivables** | **33** | **60** |

## 12 Cash and cash equivalents

| In CZK million | 31 December 2018 | 31 December 2017 | Interest rate |
|---|---|---|---|
| Cash at current bank accounts and other cash equivalents | 1,645 | 1,379 | Floating |
| Cash at current bank accounts and other cash equivalents (inter-company) (see Note 22) | 91 | 2,055 | Floating |
| **Total cash and cash equivalents** | **1,736** | **3,434** | |

As at 31 December 2018 and 2017, cash and cash equivalents of the Company comprised interest-bearing deposits with a maximum maturity of one month.

In 2018 and 2017, the Company was using cash-pooling with its subsidiary, O2 Family, s.r.o., with interest rate based on 1M PRIBOR (see Note 14).

The committed and undrawn facilities available to the Company amounted to CZK 5,600 million as at 31 December 2018 (2017: CZK 5,600 million).

## 13 Trade and other payables

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 4,703 | 4,224 |
| Tax and social security liabilities | 475 | 637 |
| Other deferred revenue | - | 30 |
| Prepaid cards | - | 270 |
| Employee wages and benefits | 366 | 454 |
| Other payables | 35 | 70 |
| **Total current trade and other payables** | **5,579** | **5,685** |

As at 31 December 2018, deferred revenues and liabilities from prepaid services are included in contract liabilities (Note 2). Due to having chosen the IFRS 15 adoption method, the Company did not restate comparable data for the prior period.

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 475 | 29 |
| Other payables | 24 | 20 |
| Other long-term deferred revenue | - | 11 |
| **Other non-current liabilities** | **499** | **60** |

As at 31 December 2018, other non-current liabilities consisted primarily of liabilities related to purchase of non-current assets with a maturity exceeding 12 months. As at 31 December 2017, other non-current liabilities were made up primarily of deposits placed by partners for recharging 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, in particular, roaming and interconnection services. The financial instruments are as follows:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Gross amounts of trade payables | 183 | 204 |
| Set off amounts | (178) | (199) |
| **Net amounts of trade payables** | **5** | **5** |

## 14 Financial debts

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debt in local currency | 10,461 | 10,448 |
| Intragroup cash-pooling (Note 22) | - | 115 |
| Accrued interest | 38 | 37 |
| Financial derivatives | - | 1 |
| **Total financial debt** | **10,499** | **10,601** |
| | | |
| Repayable: | | |
| Within one year | 38 | 153 |
| In more than one year | 10,461 | 10,448 |
| **Total financial debt** | **10,499** | **10,601** |

On 16 December 2015 the Company entered into term facility agreement with maturity in five years and a credit limit up to CZK 12,000 million. 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.

On 30 May 2018, the Company drew a facility of CZK 1,200 million in line with the facility agreement. This facility was repaid by the Company in two payments, the first on 30 July 2018 in an amount of CZK 500 million and the second on 30 August 2018 in an amount of CZK 700 million. In line with the facility agreement, the Company drew a facility in the amount of CZK 1,000 million on 24 January 2017 and subsequently a facility in the amount of CZK 1,000 million on 31 March 2017. These facilities were repaid on 24 April 2017 and 28 April 2017. As at 31 December 2018, the Company had utilised a total of CZK 7,000 million (2017: CZK 7,000 million) from the long-term facility agreement.

On 4 April 2017, the Company successfully completed a subscription of six tranches of Schuldschein financing in the total amount of CZK 3,500 million (CZK 3,000 million and EUR 20 million) with a maturity of 5 to 7 years.

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

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

None of the assets of the Company serve as a collateral in connection with the drawing down of existing loans.

**Changes in liabilities from financing activities**

| In CZK million | 31 December 2017 | Cash flows Drawing | Cash flows Repayment | Other non-cash movements Foreign exchange differences | Other non-cash movements Other | 31 December 2018 |
|---|---|---|---|---|---|---|
| Long-term debts | 10,448 | 1,200 | (1,200) | 4 | 9 | 10,461 |
| Short-term debts | 115 | - | (115) | - | - | - |
| **Total** | **10,563** | **1,200** | **(1,315)** | **4** | **9** | **10,461** |

| In CZK million | 31 December 2016 | Cash flows Drawing | Cash flows Repayment | Other non-cash movements Foreign exchange differences | Other non-cash movements Other | 31 December 2017 |
|---|---|---|---|---|---|---|
| Long-term debts | 6,976 | 5,511 | (2,000) | (30) | (9) | 10,448 |
| Short-term debts | 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.

## 15 Financial instruments and financial risks management

### A) Classification of financial instruments

The following table shows the carrying amounts of classes of financial assets and liabilities split into the respective financial instruments categories. The impact of initial application of the new standard IFRS 9 on financial assets and liabilities is described in Note A - Basis of preparation. Due to the selected method of transition to IFRS 9, the Company did not adjust comparative information for previous period.

**As at 31 December 2018**

| In CZK million | Financial instruments at amortised cost | Financial instruments at fair value through profit or loss | Financial instruments at fair value through other comprehensive income | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables | 4,858 | - | - | 4,858 |
| Provided loans and other receivables (excluding prepaid expenses and indirect taxes) | 1,981 | - | - | 1,981 |
| Financial derivatives – interest (hedge accounting) | - | - | 43 | 43 |
| Cash and cash equivalents | 1,736 | - | - | 1,736 |
| **Total** | **8,575** | **-** | **43** | **8,618** |
| **Financial liabilities** | | | | |
| Financial debts | 10,499 | - | - | 10,499 |
| Trade and other payables* | 5,237 | - | - | 5,237 |
| **Total** | **15,736** | **-** | **-** | **15,736** |

* The payables do not include employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

**As at 31 December 2017**

| In CZK million | Loans and receivables | Other financial liabilities at amortised cost | Financial instruments at fair value through profit or loss | Financial instruments 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 – interest (hedge accounting) | - | - | - | 26 | 26 |
| Cash and cash equivalents | 3,434 | - | - | - | 3,434 |
| **Total** | **9,217** | **-** | **-** | **26** | **9,243** |
| **Financial liabilities** | | | | | |
| Financial debts | - | 10,600 | - | - | 10,600 |
| Financial derivatives – foreign currency (trading) | - | - | 1 | - | 1 |
| Trade and other payables* | - | 4,343 | - | - | 4,343 |
| **Total** | **-** | **14,934** | **1** | **-** | **14,944** |

* The payables do not include deferred income, prepaid cards, employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

## B) 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 risks arising from various currency exposures, primarily with respect to items denominated in the EUR, XDR and partially to the USD:

a) balance sheet items (such as debt, bonds, receivables, payables) denominated in a foreign currency,

b) probable/forecasted transactions or commitments (such as purchases or sales) denominated in a 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 the 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 to hedge 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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Exchange rate contracts | 772 | 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 2018** | **as at 31 December 2017** |
| **FX risk** | | |
| Value at Risk* | (44) | (39) |
| Stress testing* | (53) | (13) |

* The Value at Risk (VaR) Model enables the Company 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. To conduct 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 Company's financial assets and financial liabilities 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. Other currencies mainly represent Special Drawing Rights (XDR), which are used in certain transactions within international roaming.

| In CZK million | 31 December 2018 CZK | EUR | USD | Other |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 1,628 | 82 | 26 | - |
| Trade receivables | 3,829 | 858 | 64 | 107 |
| Provided loans and other receivables (excluding prepayments and indirect taxes) | 257 | 1,724 | - | - |
| Financial derivatives – interest (hedge accounting)* | 43 | - | - | - |
| **Total financial assets** | **5,757** | **2,664** | **90** | **107** |
| **Financial liabilities** | | | | |
| Financial debts | 9,984 | 516 | - | - |
| Financial derivatives – foreign currency (trading)* | - | 772 | - | - |
| Trade and other payables** | 3,000 | 2,046 | 190 | 1 |
| **Total financial liabilities** | **12,984** | **3,334** | **190** | **1** |

* Foreign currency financial derivatives are disclosed in the nominal amount of the contract (translated to CZK using the exchange rate as at 31 December 2018). For interest financial derivatives, the fair value as at 31 December 2018 is disclosed.
** The payables do not include employee liabilities and benefits, liabilities from VAT, other taxes and social security liabilities.

| 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** | 2,784 | 1,348 | 149 | 62 |
| **Total financial liabilities** | **12,871** | **1,912** | **170** | **62** |

* Foreign currency financial derivatives are disclosed in the nominal amount of the contract (translated to CZK using the exchange rate as at 31 December 2017). For interest financial derivatives, the fair value as at 31 December 2017 is disclosed.
** The payables do not include deferred income, prepaid services, employee liabilities and benefits, liabilities from VAT, other taxes and social security liabilities.

(ii) Interest rate risk

The Company is exposed to interest rate risks arising from floating interest rates on financial instruments (Note 12) and borrowings (Note 14).

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 can be maintained on both floating and fixed rates. The Company uses interest rate swaps to manage the ratio of debts with fixed and variable interest rates (Note 15(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 2018** | **31 December 2017** |
| **Interest rate risk** | | |
| Stress testing* | (18) | (13) |

* To quantify the potential impact of the interest rate risk, the Company assesses the sensitivity of interest income and expense to the parallel shift of the relevant yield curves by one percentage point. The sensitivity of the relevant section of profit or loss 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 to have sufficient access to 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 2018 and as at 31 December 2017 based on contractual undiscounted payments. Values include projections of future interests.

| **As at 31 December 2018**<br>**In CZK million** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** |
|---|---|---|---|---|
| Interest bearing borrowings | 40 | 174 | 8,244 | 2,690 |
| Trade and other payables* | 4,256 | 486 | 506 | - |
| **Total** | **4,296** | **660** | **8,750** | **2,690** |

| **As at 31 December 2017 In CZK million** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** |
|---|---|---|---|---|
| Interest bearing borrowings | 28 | 152 | 8,364 | 2,740 |
| Cash-pooling and other intragroup borrowings | 115 | - | - | - |
| Trade and other payables** | 3,674 | 620 | 49 | - |
| Financial derivatives – foreign currency (trading)*** | 1 | - | - | - |
| **Total** | **3,818** | **772** | **8,413** | **2,740** |

* As at 31 December 2018, the payables do not include employee liabilities and benefits, liabilities for VAT, other taxes and social security liabilities.
** As at 31 December 2017, the payables do not include deferred income, prepaid cards, employee liabilities and benefits, liabilities for VAT, other taxes and social security liabilities.
*** For foreign currency financial derivatives, the fair value as at 31 December 2018 and 31 December 2017 are disclosed.

As at 31 December 2018, banks had provided third parties with payment guarantees or other guarantees for liabilities of the Company amounting to CZK 761 million (31 December 2017: CZK 194 million).

### (c) Credit risk

(i) Trade receivables and contract assets

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, the major part of trade receivables is 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 external databases), limits and/or deposits applied based on the customer segments or the products. 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 the creditworthiness of existing customers and analysis of the receivables ageing 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 trade receivables.

c) collection process: Credit Management cooperates with Customer Care on the implementation of a reasonable, effective and continual collection process. Collection process responsibilities are divided. The collection from active customers is in the responsibility of the Customer Care unit; collection after the contract is cancelled falls within the responsibility of Credit Management.

The ageing structure of receivables is the main instrument for monitoring the development of the credit risk. However, the Company also considers the payment history, payment method, type of service and the significance of individual customers. Based on these key parameters, the Credit Management department analyses the development of the credit risk on a weekly basis.

The amount of the loss allowance is determined by the ageing structure of the receivables. The percentage of provisioning for each age category is derived from a combination of historical data for a period of up to ten years and expected future developments. Historical information is based primarily on the actual evolution of past debt repayments. Macroeconomic forecasts of the economy, the expected mix of products and a combination of service types are assessed by the management when considering of future developments. The rate of loss allowance reflects the expected percentage of receivables of a particular ageing category that will not be repaid.

The Company calculates the loss allowance for trade receivables and contract asset as the expected lifetime credit losses.

The loss allowance for contract assets is created in the same way as the loss allowance for trade receivables.

**Overview of the credit risk for trade receivables and contract assets as at 31 December 2018**

| In CZK million | Weighted-average loss rate | Gross carrying amount | Loss allowance | Residual value | Receivables credit-impaired |
|---|---|---|---|---|---|
| Due | 1% | 4,948 | 29 | 4,919 | No |
| 1 – 30 days overdue | 3% | 300 | 8 | 292 | No |
| 31 – 90 days overdue | 20% | 118 | 24 | 94 | No |
| More than 91 overdue | 96% | 2,089 | 1,995 | 94 | Yes |
| **Total** | **28%** | **7,455** | **2,056** | **5,399** | |

Comparable data for the credit risk analysis for trade receivables as at 31 December 2017 are described in section iv. Comparable data for the previous period.

| **Loss allowance for trade receivables and contract assets**<br>**In CZK million** | |
|---|---|
| **As at 1 January 2017** | **2,350** |
| Additions | 1,006 |
| Write-off of receivables | (381) |
| Retirements/amount paid | (861) |
| **As at 31 December 2017** | **2,144** |
| Effect of implementation of IFRS 9 | 10 |
| **As at 1 January 2018** | **2,124** |
| Additions | 926 |
| Write-off of receivables | (233) |
| Retirements/amount paid | (761) |
| **As at 31 December 2018** | **2,056** |

The company uses the following methods of hedging against the credit risk of receivables: insurance of receivables, receiving deposits from customers, bank guarantees and bills of exchange. Insurance of the receivables and deposits received from customers for goods and services provided were the most significant means of hedging in 2018.

As at 31 December 2018, the Company held no trade receivables or contract assets for which no loss allowance would be created due to collateral received.

(ii) Loans provided and other receivables

Other receivables include mainly loans provided to subsidiaries (see Note 11), receivables from the Czech Telecommunication Office in respect of discounts granted to customers with disabilities and claims for damages. These financial assets are assessed individually by the Company in accordance with the methodology described in Note A Basis of preparation, part IFRS 9.

**Overview of credit risk for other receivables**

| | **31 December 2018** | | | |
|---|---|---|---|---|
| **In CZK million** | **12-month expected credit losses** | **Lifetime expected credit losses – not credit impaired** | **Lifetime expected credit losses – credit impaired** | **Total** |
| Provided loans | 1,856 | - | - | 1,856 |
| Other receivables | 126 | - | 48 | 174 |
| Loss allowance | (3) | - | (46) | (49) |
| **Carrying amount** | **1,979** | **-** | **2** | **1,981** |

(iii) Cash and cash equivalents

As at 31 December 2018, the Company reported cash and cash equivalents of CZK 1,736 million (2017: CZK 3,434 million). Bank receivables are held by institutions rated A1 - Baa3 by Moody’s; in 2018 and 2017 none of the credit ratings of the institutions deteriorated in a way which, in the Company’s view, would cause the credit risk to increase significantly.

Cash and cash equivalents were analysed for impairment in accordance with the methodology described in Note A - Basis of preparation, part of IFRS 9. As at 1 January 2018 and 31 December

2018, the loss allowance was evaluated as immaterial and the Company decided not to recognise it.

(iv) Comparable data for the previous period

Due to the choice of the IFRS 9 adoption method, the Company did not restate the comparable data for the previous period. Comparable data in accordance with IAS 39 show the ageing structure and analysis of trade receivables due for which no loss allowance was made.

| | | | 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 |

| **In CZK million** | **31 December 2017** |
|---|---|
| **Trade receivables** | |
| Group 1 | 2,853 |
| Group 2 | 941 |
| Group 3 | 711 |
| **Total unimpaired trade receivables** | **4,505** |

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

The loss allowance created reflects the Company's experience with debt recovery. The management believes that there are no other risks that would reduce the value of receivables beyond the amount of the loss allowance already created.

### (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 based on data from active market.

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 2018 and as at 31 December 2017, 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 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The fair values of the derivative financial instruments is calculated on the basis of the discounted cash flow model (using market rates).

The 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 rates. An exception are two tranches of Schuldschein financing with fixed interest rates (Note 14) with a total carrying amount of CZK 2,784 million (2017: CZK 2,750 million) and fair value of CZK 2,628 million (2017: CZK 2,626 million) as at 31 December 2018.

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

### (e) Hedge accounting

In 2017, the Company began to hedge cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. The hedged cash flows are the expected monthly payments from September 2017 to November 2020. The Company'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 2018, the total nominal value of hedging instruments was CZK 2,500 million (2017: CZK 2,500 million) and their fair value was in total CZK 43 million (2017: CZK 26 million). The hedge was assessed as effective at 31 December 2018 and the net unrealised gain of CZK 17 million (2017: CZK 26 million), net of deferred tax of CZK 3 million (2017: CZK 5 million), was recognised in other comprehensive income. As at 31 December 2018, the weighted average of the fixed interest rate determined by the hedging instruments was 1.02% (2017: 1.02%).

In 2018 and 2017, the cash flow hedge was effective and no ineffectiveness was recognised in profit or loss. Interest expenses include the net interest income from realised hedge derivatives in amount of CZK 2 million (2017: net loss of CZK 3 million).

## 16 Deferred income taxes

Deferred tax was calculated at 19% for both years 2018 and 2017.

| **In CZK million** | **2018** | **2017** |
|---|---|---|
| **As at 1 January** | **(258)** | **(168)** |
| Charged/(credited) to Profit or loss (Note 5) | (81) | (85) |
| Charged/(credited) to Other comprehensive income (Note 15(e)) | (3) | (5) |
| Effect of initial application of standards IFRS 9 a IFRS 15 | (130) | - |
| **As at 31 December** | **(472)** | **(258)** |

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

| **In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Deferred tax assets | 362 | 258 |
| Deferred tax liabilities | (834) | (516) |
| **Total** | **(472)** | **(258)** |

The deferred tax comprises the following components:

| **In CZK million** | **Balance sheet** | | | **Profit or loss** | | **Equity** | **Other comprehensive income** | |
|---|---|---|---|---|---|---|---|---|
| | **31. 12. 2018** | **1.1. 2018** | **31.12. 2017** | **2018** | **2017** | **1.1.2018** | **2018** | **2017** |
| Temporary differences relating to: | | | | | | | | |
| Property, plant and equipment and intangible assets | (412) | (396) | (396) | (16) | (75) | - | - | - |
| Costs to obtain contracts | (100) | (88) | - | (12) | - | (88) | - | - |
| Contract assets | (104) | (84) | - | (20) | - | (84) | - | - |
| Trade receivables, inventories and other differences | 152 | 185 | 143 | (33) | (10) | 42 | - | - |
| Financial derivatives – cash flow hedge | (8) | (5) | (5) | - | - | - | (3) | (5) |
| **Total** | **(472)** | **(388)** | **(258)** | **(81)** | **(85)** | **(130)** | **(3)** | **(5)** |

## 17 Provisions for liabilities and charges

| In CZK million | Regulatory and court decisions | Other provisions | Total |
|---|---|---|---|
| **As at 1 January 2017** | **114** | **48** | **162** |
| Additions during the year | 2 | - | 2 |
| Utilised during the year | (43) | (25) | (68) |
| **As at 31 December 2017** | **73** | **23** | **96** |
| Additions during the year | - | - | - |
| Utilised during the year | (10) | (9) | (19) |
| **As at 31 December 2018** | **63** | **14** | **77** |
| | | | |
| Short-term provisions 2018 | 59 | 14 | 73 |
| Long-term provisions 2018 | 4 | - | 4 |
| **Total as at 31 December 2018** | **63** | **14** | **77** |
| | | | |
| Short-term provisions 2017 | 69 | 23 | 92 |
| Long-term provisions 2017 | 4 | - | 4 |
| **Total as at 31 December 2017** | **73** | **23** | **96** |

Other provisions for which the expected timing of payments is not certain are expected to be utilised within the twelve months of the balance sheet date. Provision for regulatory and court decisions is made in respect of legal proceedings involving the Company (see Note 18).

## 18 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2018 some major proceeding were successfully closed and in some other cases, success was at least achieved in the first instance. This confirmed the successful trend in proceedings in which the Company is involved. 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, repeated cancellations of decisions and reassessments are frequent.

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

In November 2008, the Office for the Protection of Economic Competition (ÚOHS) initiated a so-called “preliminary investigation” 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 the 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 being interpreted by the Office. In the light of the above, the Company requested court protection through legal action filed with 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 had to be stopped immediately. This verdict was later confirmed by the Supreme Administrative Court in September 2011. The Office reacted by initiating official administrative proceedings relating to ADSL technology's dominant position in the fix broadband market in March 2011. The Company filed a statement proving that the Office had incorrectly defined the relevant market in which the Company allegedly held a dominant position and, moreover, abused this position. The Company's statement referring to 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 taken by the Company were correct.

At the end of 2016, the Company filed an extensive statement rejecting the lack of transparency in the Office's approach and the Company asked for a hearing where it could defend its position and could also ask for an explanation of the proceedings and methods employed by the Office.
In October 2017, the Regional Court in Brno ruled that the administrative file and documentation had not been administered by the Office in compliance with the law, and the court also articulated its legal opinion on the way the proceedings failed to comply with the law.

The Company cooperated with renowned European experts to show methodological errors in the basic approach of the Office and also to document that no delict had been, nor could have been, committed by the Company.

The Office appointed an independent expert institute, which reviewed the methodology and documents of the Office. On 23 January 2019, following the detailed examination by the Office and the expert opinion, the Office issued a decision stating that it had not been proved that the Company had committed any margin squeeze. Consequently, the Office did not see any reason to take action against the Company. This decision confirmed the initial position of the Company.

The legal proceedings have, therefore, been successfully closed and will no longer be reported.

**ii. Proceedings concerning 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 was the conclusion of an interconnection contract with Vodafone (then Czech Mobil), in which the parties had agreed that their networks would connect directly.

In the proceedings, the Office considered such an agreement to be a cartel agreement but without specifying who and how the agreement enabled the companies to exclude parties from a market; and without specifying from which market these parties were being excluded. Each operator is logically the only entity which can offer the termination of call services in its own network. Thus, competition in this market cannot exist. Regulation of the Czech Telecommunication Office and other European regulators 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 itself – because in the case of indirect connection, an 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 initiated an administrative action. After a number of proceedings with judicial reviews in various administrative courts, the courts finally overturned the decision. In the meantime, however, Eurotel ceased to exist, without the possibility of transferring the liability for administrative delicts.

However, in the second half of 2016, the Office suddenly completely ignored this fact and issued a "clarification of the subject of the administrative proceedings", in which it accused the Company (which had not concluded the interconnection contract) of the action, and in December 2016, it issued a decision imposing fine of CZK 49.5 million. The company filed an appeal. Based on this appeal, the decision was cancelled in January 2019 and the case returned to the first instance for further proceedings.

**II. VOLNÝ, a.s. – dispute concerning CZK 4 bilion**

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 in the market of Internet broadband connection provided to households via ADSL. VOLNÝ, a.s. filed the legal action to coincide directly with the opening of the ÚOHS proceedings, which were closed by a decision in favour of O2 on 23 January 2019.

The amount is meant to represent the lost profit for the years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share of the dial-up Internet market in 2003 and, in its legal action, it implies that it should automatically have the same result in the broadband market, which it did not. Allegedly, it was due to the margin squeeze applied by the Company in the fix broadband market. The Company replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing out 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.

At the hearing held on 30 March 2016, where the court considered the possibility of a revised expert opinion, which would review the opinions filed by VOLNÝ as well as by the Company. VOLNÝ proposed an expert who eventually turned out to be biased and thus the Company filed a protest. Subsequently, the court appointed another expert and defined a set of questions. The revised expert opinion confirmed the Company's statement. The expert opinion stated that no anti-competition practice had been proved against the Company and also pointed out that the Company did not have a dominant position in the market of Internet broadband connection.

After the hearing of the independent expert appointed, the Municipal Court in Prague dismissed the legal action by VOLNÝ in full. The court concluded that the Company had not breached competition rules and thus could not cause any damage. The decision was delivered in June 2018. The plaintiff filed an appeal and currently the court fee relief question is being examined. The Company is convinced that the decision of ÚOHS from 23 January 2019 confirms the Company's consistent position in this dispute and also correctness of the dismissal of the legal action.

**III. TELECONSULT INTERNATIONAL – dispute on CZK 55 million**

The Supreme Court cancelled the previous decisions in the dispute, in which the Company had already succeeded. Although the reasons were mainly of a procedural and formal character, 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 damages (lost profit) between May and October 1998. The court issued a decision on the basis of the hearing held on 14 January 2016, when the vast majority of the claim was dismissed and the Company should receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was awarded CZK 1.7 million in damages, which represents the difference between the volumes of the minutes measured by both parties in May 1998. The Company filed an appeal against this part of the decision.

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

### IV. 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 an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a two-page notice claiming this amount was delivered to the Company. According to the Company, the whole claim is a purely artificial case, the sole purpose of which was to damage the Company by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. The Company provided the court with its statement that there are no grounds for the claim. The Company is convinced that the decision of ÚOHS from 23 January 2019 confirms the consistent position of the Company in this dispute as well.

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

Although the Constitutional Court of the Slovak Republic had already decided that the jurisdiction of Slovak courts is not given in the matter and the proceedings were terminated, the Company registered yet another attempt to start another lawsuit against the Company with different reasoning.

On 14 March 2016, a proposal by the BELL TRADE company was delivered to the County Court in Malacky, in this proposal BELL TRADE proposed to re-enter the Company as the defendant in the proceedings which, after the Constitution Court’s decision, had been solely between Slovak subjects - BELL TRADE and PET-PACK SK s.r.o. for an amount of CZK 31 million.

BELL TRADE, whose current sole director, shareholder and legal representative is the attorney JUDr. Milan Fulec, tried to base the new claim and the latest attempt to establish the jurisdiction of the County Court in Malacky on the letter dated 8 June 2015, in which he stated that it “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. The new claim raised against the Company is for an amount of CZK 5.2 billion with interest from 14 March 2016.

The entire claim is again completely artificial. No contracts have ever been signed and the company has never received any delivery for which anybody could claim such payments. BELL TRADE has never claimed that it became a contractual party (to contracts which have never been concluded). So far, BELL TRADE has always acted only as a “creditor”, thus the 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 of BELL TRADE is based on a withdrawal which was sent a year and a half after this date. Thus, BELL TRADE could never have incurred any damages. Such alleged damages could hardly be connected to contractual relations between PET-PACK SK s.r.o. and BELL TRADE and to the Slovak courts in any way. In a decision dated 16 May 2016, the County Court in Malacky rejected BELL TRADE's proposal to re-enter the Company as the defendant. BELL TRADE filed an appeal to the Regional Court in Bratislava. No decision has been issued yet.

The Company filed a legal action to the Municipal court in Prague in response to the repeated attempts organised 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, therefore, has no obligations under these "never-concluded" contracts. The Municipal Court in Prague confirmed the Company's arguments and upheld the legal action at a hearing on 26 June 2017.

In the first half of 2018, breakthrough decisions in favour of the Company in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the Municipal court in Prague's previous decision against PET PACK and BELL TRADE, which determined that no receivables nor contracts had ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. It has therefore definitely been determined that no contracts nor claims have ever existed in relation to any of these companies.

In May 2018, a resolution of the Regional Court in Bratislava confirmed the decision of the District Court in Malacky. The court confirmed that the Company should not be the defendant in the proceedings which still had to be held between BELL TRADE and PET PACK and from which the Company had already been exempt by the Constitutional Court of the Slovak Republic. This means that the attempt to draw the Company into the proceedings before the Slovak courts on the basis of artificially created claims failed.

**VI. 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 67 million. The possible impact of these disputes is reflected in the financial statements. However, risks associated with these disputes are not significant.

The Company considers disclosing other information regarding the said litigations inadvisable, as it could endanger the strategy of the Company in these cases.

The Company is convinced that all the litigation risks of the Company are appropriately reflected in the financial statements.

## 19 Commitments

The aggregate future minimum lease payments (the Company as a lessee) originating from operating leases which cannot be cancelled are as follows:

| | 31 December 2018 | | |
|---|---|---|---|
| **In CZK million** | **Less than 1 year** | **1 to 5 years** | **Over 5 years** |
| Operating leases - lessee | 527 | 1,362 | 337 |
| - *Of which contractual obligations with CETIN* | *281* | *581* | *135* |

| | 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* | - |

The total minimum lease payments relating to the operational leasing of property, plant and equipment recognised as an expense in 2018 were CZK 574 million (2017: CZK 441 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2018 amounted to CZK 295 million (2017: CZK 169 million). The majority of contracted amounts relates to the telecommunication networks and service contracts. The capital expenditures will be financed by both internal and external sources.

## 20 Service concession arrangements

The Company performs communication activities as defined in the Act on Electronic Communications on the basis of a notification and a certificate from the Czech Telecommunications Office no. 516 and, 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.

The Company provides electronic communications services in the 900 and 1800 MHz frequency bands under the GSM (Global System for Mobile Communication, 2G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024. The Company provides services in the 2100 MHz frequency band under the UMTS (Universal Mobile Telecommunications System) standard using radio frequencies assigned by the CTO and valid until 1 January 2022. Services are further provided in the 800, 1800 and 2600 MHz frequency bands under an LTE (Long Term Evolution, 4G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024 for a part of the 1800 MHz frequency band, and until 30 June 2029 for the 800, the remaining part of the 1800 MHz and the 2600 MHz frequency bands. The Company provides broadband mobile access to Internet in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access, 3G) and radio frequency assigned by the CTO and valid until 7 February 2033. The Company also holds the radio frequency assigned in the 3.7 GHz frequency band and valid until 30 June 2032, which was used for experimental broadcasting in 2018.

The radio frequency licence can be extended by another licence based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, given 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 2018, the Company provided the following selective services under CTO-imposed obligations to provide Universal Service:

a) public pay telephone services (VTA),
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 primarily takes 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 disabilities.

Universal Service is reimbursed by the CTO, which receives funds from the state budget, which are remitted without delay to the Company's account.

## 21 Share capital and reserves

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| 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 2018 | 31 December 2017 |
|---|---|---|
| PPF Telco B.V. | 65.79% | 70.79% |
| PPF A3 B.V. | 10.27% | 10.27% |
| PPF CYPRUS MANAGEMENT Ltd.* | 5.00% | 0% |
| O2 Czech Republic a.s. (treasury shares) | 2.80% | 2.80% |
| Other shareholders | 16.14% | 16.14% |

* On 28 November 2018, ANTHIAROSE LIMITED's business name was changed to PPF CYPRUS MANAGEMENT LIMITED. This change was not recorded in the Company's stock records kept by the Central Securities Depository as at 31 December 2018.

**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.

In the following periods, the Board of Directors will continue doing in-depth analyses of and assess 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.

The Company does not record any limitations on the use of sources of equity that have materially affected or substantially affected the issuer's operations, even indirectly.

Equity structure as at 31 December 2018 and 2017:

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Share capital | 3,102 | 3,102 |
| Treasury shares | (2,204) | (2,204) |
| Share premium | 9,470 | 10,676 |
| Funds and reserves | 8 | 8 |
| Cash flow hedges | 35 | 21 |
| Retained earnings from previous years | 1,438 | 614 |
| Net income for the current year | 5,366 | 5,396 |
| **Total** | **17,215** | **17,613** |

On 8 December 2015, the General Meeting decided to acquire its own treasury shares up to 10% of the total number of shares issued over a period of five subsequent years. In 2018, the Company did not acquire any treasury shares. As at 31 December 2018 the Company held 8,695,327 treasury shares for a total purchase price of CZK 2,204 million (2017: 8,695,327 treasury shares for a total purchase price of CZK 2,204 million).

## 22 Related party transactions

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

The PPF Group invests in various industries such as banking and financial services, telecommunications, 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 interest-free (excl. financial assets and liabilities used for financing), unsecured and the settlement occurs either in cash or by offseting. The financial assets are tested for 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 2018 to shareholders from the PPF Group was CZK 5,281 million (2017: CZK 5,281 million). Payables from the dividend and other distributions to shareholders from the PPF Group were fully settled as at 31 December 2018 and 31 December 2017, respectively.

**II. Company's subsidiaries:**

| **Balance sheet**<br>**In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| a) Receivables and other assets | 549 | 476 |
| b) Short-term loans provided | 1,853 | 689 |
| c) Trade and other payables | 183 | 90 |
| d) Short term intragroup cash-pooling liability (Note 14) | - | 115 |

| **Statement of comprehensive income**<br>**In CZK million** | **Year ended**<br>**31 December 2018** | **Year ended**<br>**31 December 2017** |
|---|---|---|
| a) Sales of services and goods | 1,588 | 1,480 |
| b) Dividend income (Note 4) | 1,385 | 1,133 |
| c) Purchases of services and goods | 773 | 674 |
| d) Interest income | 24 | 8 |

In 2018, the Company provided a short-term loan of CZK 80 million (2017: CZK 0 million) to subsidiary O2 TV s.r.o. and CZK 77 million (2017: CZK 677 million) to subsidiary O2 Slovakia, s.r.o. In 2018 loan provided to subsidiary O2 Slovakia, s.r.o. was further increased by CZK 1 199 million as a result of settlement with dividend (see Note 5) and foreign exchange differences and decreased by the payment in the amount of CZK 211 million (2017: CZK 0 million). As at 31 December 2018, the Company provided a short-term loan of CZK 130 million (2017: CZK 50 million) to O2 TV s.r.o. and CZK 1,724 million to O2 Slovakia, s.r.o. (2017: CZK 639 million). The loan conditions are based on the arm's length principle.

As at 31 December 2018, the allowances to intragroup loans amounted to CZK 1 million (2017: CZK 0 million). The Company did not account any other allowances towards related parties in 2018 and 2017.

In 2018, the Company acquired fixed assets from O2 IT Services s.r.o. in the amount of CZK 14 million (2017: CZK 24 million).

In 2018, the Company sold property, plant and equipment in the amount of CZK 7 million (2017: CZK 7 million) to O2 Slovakia, s.r.o and in the amount of CZK 6 million to O2 IT Services s.r.o. (2017: CZK 0 million).

**III. Associates and Joint ventures:**

| **Balance sheet**<br>**In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| a) Receivables | 46 | 51 |
| b) Payables | 34 | 57 |

| **Statement of comprehensive income**<br>**In CZK million** | **Year ended**<br>**31 December 2018** | **Year ended**<br>**31 December 2017** |
|---|---|---|
| a) Sales of services and goods | 159 | 158 |
| b) Dividend income | 9 | 9 |
| c) Purchases of services and goods | 68 | 69 |

**IV. Other related parties – PPF Group:**

| **Balance sheet**<br>**In CZK million** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| a) Receivables and other assets | 248 | 99 |
| b) Trade and other payables | 1,026 | 957 |
| c) Financial derivative instruments - assets | 14 | 9 |
| d) Financial derivative instruments - liabilities | - | 1 |
| e) Cash equivalents (Note 12) | 91 | 2,055 |

| **Statement of comprehensive income**<br>**In CZK million** | **Year ended**<br>**31 December 2018** | **Year ended**<br>**31 December 2017** |
|---|---|---|
| a) Sales of services and goods | 394 | 345 |
| b) Purchases of services and goods | 10,051 | 10,287 |
| c) Loss on fair value adjustments of financial instruments (net) | (9) | (17) |
| d) Interest expenses | (1) | 1 |
| e) Interest income | 9 | - |

In 2018, the Company sold property, plant and equipment in the amount of CZK 1 million to CETIN (2017: CZK 9 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 on the basis of concluded wholesale agreements and represent an important item of interconnection costs for the Company.

Amongst the most important 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 the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Company is obliged to use the services for a period of seven years, two years before the expiration of this term, negotiations on the price for the next period begin. In 2018, the total payment was approximately CZK 4.6 billion (2017: CZK 4.5 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, the provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement has been concluded for an indefinite period, during which the Company will pay monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of seven years after signing the agreement (which represents only part of the total payment). In 2018, the total cost was approximately CZK 3,766 million (2017: CZK 3,993 million).

**c) agreement on the access to end points (so-called RADO)**
CETIN enables the Company access to end points, which includes the provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for the establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. In 2018, the total cost was approximately CZK 848 million (2017: CZK 897 million).

### V. Remuneration and loans to members of Board of Directors, 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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Board of Directors | 45 | 39 |
| Supervisory Board | 1 | 1 |
| Executive management | 23 | 37 |
| **Total** | **69** | **77** |

No loans were provided to members of the Board of Directors, Supervisory Board or executive management in 2018 and 2017.

## 23 Subsidiaries, associates and joint ventures

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

| In CZK million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Subsidiaries | 6,678 | 6,876 |
| Associates | 9 | 9 |
| **Investments in subsidiaries and securities in total** | **6,687** | **6,885** |

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.

| | | Company's interest as at 31 December | | Carrying amount as at 31 December | | | |
|---|---|---|---|---|---|---|---|
| **Subsidiaries** | | **2018** | **2017** | **2018** | **2017** | **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 |
| 2. | 4Local, s.r.o. | 100% | 100% | 20 | 20 | Czech Republic | Provision of internet access |
| 3. | O2 Family, s.r.o. | 100% | 100% | - | 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% | 244 | 242 | Czech Republic | Information technology services |
| 6. | Bolt Start Up Development a.s. | 100% | 100% | 177 | 177 | Czech Republic | Startup fund |
| 7. | eKasa s.r.o. | 100% | 100% | 120 | 120 | 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% | - | - | 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 2018 and 2017, the Company recognised impairment relating to investment in its subsidiary, 4Local, s.r.o., amounting to CZK 252 million.

**Transactions in 2018**
On 13 June 2018, the General Meeting of O2 IT Services s.r.o. decided to distribute a reserve fund of CZK 93 million. The full amount was paid to the Company and is disclosed in profit or loss within Finance income.

On 13 June 2018, the subsidiary, O2 Family, s.r.o., decided to pay back a contribution of CZK 200 million to equity to the Company. As at 31 December 2018, the amount was fully paid to the Company.

**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.

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.

## 24 Post balance sheet events

### Administrative proceedings on alleged abuse of dominant position on fix broadband market

On 23 January 2019, the Office for the Protection of Economic Competition decided that it had not been proven that the Company had committed a margin squeeze and it found no reason to interfere with the Company. The decision thus confirmed the Company's initial position and the proceedings were successfully concluded (see Note 18).

### 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 2018.

25 February 2019

**Jindřich Fremuth**
Chief Executive Officer
Chairman of the Board of Directors

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

# 6

# DECLARATION OF PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

# 6. 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 25 February 2019

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

KPMG

**KPMG Česká republika Audit, s.r.o.**
Pobřežní 648/1a
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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 2018, 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 2018, 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.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative („KPMG International"), a Swiss entity.

Obchodní rejstřík vedený Městským soudem v Praze oddíl C, vložka 24185.

IČO 49619187
DIČ CZ699001996
ID datové schránky: 8h3gtra

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***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.

**Recognition of revenue from contracts with customers (CZK 37,996 million)**
See paragraph A of "Accounting policies", and Note 2.

*Description of the key audit matter*
The accuracy and completeness of recognised revenues from contracts with customers were a key area of this year's audit of the Company for the following reasons:

- The revenue recognition process depends on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). Among other things, the complexity of those systems is caused by the Company's 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 of certain products.
- In 2018, the Company replaced selected billing and support IT systems by a new unified solution as part of the Simple Online Company (SOC) project.
- As of 1 January 2018, the new IFRS 15 – Revenue from Contracts with Customers – was implemented; a significant milestone in the recognition of revenues and related expenses. Its implementation required the Company to make a number of key judgements (e.g. setting the period for amortising the incremental costs of obtaining a contract or setting the process for determining stand-alone selling prices) and to implement new IT solutions.

*Auditor's approach to the key audit matter*
Our audit procedures included, in particular:

- Tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists and included the testing of the original systems used before the implementation of the new SOC platform, the migration to this new platform, the newly implemented systems and new IT solutions for recognition of revenues in compliance with the new IFRS 15;
- Tests of the Company's control environment, focusing on the Company's Controlling and Revenue Assurance departments' controls relating to the accuracy and completeness of revenues recognised;
- Tests of the transaction process (walkthroughs) for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms, both for original systems and new systems in the SOC platform;
- Tests of the Company's internal controls over the accuracy of invoicing and the accuracy and completeness of recorded revenues, including controls over the handling of customer complaints;
- Substantive analytical tests relating to significant revenue accounts, including analytical procedures involving a comparison of revenues recognised with other

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financial and non-financial information. In these procedures, we paid special attention to the period after the implementation of SOC, where we focused in particular on the comparability of revenues recognised with the period before the implementation of the new systems;

- A recalculation of the most significant accounting adjustments performed in compliance with the requirements of the IFRS 15 standard, impacting on revenues. Further, we critically evaluated the key judgements made by the Company in connection with the standard and assessed the appropriateness of their disclosure.

**Intangible assets put in use**
See paragraph H of "Accounting policies", and Note 9.

*Description of the key audit matter*
Throughout 2018, the Company put in use significant investments in intangible assets, in particular, systems were completed and put in use as part of the SOC project, and significant sports rights were acquired and subsequently put in use. In our audit, we paid special attention to these transactions as the total amount of the put in use assets is material from the Company's point of view. Should the Company fail to comply with the criteria for capitalisation of expenses in the fixed assets or inaccurately specify useful life or capitalise the new assets late, a material misrepresentation of the Company's financial position and performance may occur.

*Auditor's approach to the key audit matter*
Our audit procedures included, in particular:

- Tests of internal controls implemented by the Company as part of the process of distinguishing expenses that meet the criteria for capitalisation and current year expenses; tests of controls over the area of internal costs capitalisation, including own work capitalisation and controls over the timeliness of the put in use of fixed assets;
- Substantive tests of a statistical sample of additions to fixed assets, focusing on compliance with the criteria for capitalisation supported by interviewing responsible project managers and checking supporting documentation;
- Substantive analytical tests focusing on timeliness of capitalisation of fixed assets, including a detailed examination whether the assets recorded as under construction as at the balance sheet day have not already been in use and should not thus be put in use;
- Critical assessment of the estimate of the economic lives of newly capitalised intangible fixed assets, focusing on systems in the SOC project in the context of license agreements and historical experience for similar or replaced assets;
- Analytical recalculation of fixed assets depreciation and amortisation, including a detailed recalculation for selected groups of fixed assets. Further, we assessed whether the assets replaced in the SOC project were fully amortised as at the balance sheet date.

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***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.

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***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.

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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 2018, 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 2018, 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.

**Recognition of revenue from contracts with customers (CZK 29,795 million)**
See paragraph A of "Accounting policies", and Note 2.

*Description of the key audit matter*
The accuracy and completeness of recognised revenues from contracts with customers were a key area of this year's audit of the Company for the following reasons:

- The revenue recognition process depends on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). Among other things, the complexity of those systems is caused by the Company's 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 of certain products.

- In 2018, the Company replaced selected billing and support IT systems by a new unified solution as part of the Simple Online Company (SOC) project.
- As of 1 January 2018, the new IFRS 15 – Revenue from Contracts with Customers – was implemented; a significant milestone in the recognition of revenues and related expenses. Its implementation required the Company to make a number of key judgements (e.g. setting the period for amortising the incremental costs of obtaining a contract or setting the process for determining stand-alone selling prices) and to implement new IT solutions.

*Auditor's approach to the key audit matter*

Our audit procedures included, in particular:

- Tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists and included the testing of the original systems used before the implementation of the new SOC platform, the migration to this new platform, the newly implemented systems and new IT solutions for recognition of revenues in compliance with the new IFRS 15;
- Tests of the Company's control environment, focusing on the Company's Controlling and Revenue Assurance departments' controls relating to the accuracy and completeness of revenues recognised;
- Tests of the transaction process (walkthroughs) for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms, both for original systems and new systems in the SOC platform;
- Tests of the Company's internal controls over the accuracy of invoicing and the accuracy and completeness of recorded revenues, including controls over the handling of customer complaints;
- Substantive analytical tests relating to significant revenue accounts, including analytical procedures involving a comparison of revenues recognised with other financial and non-financial information. In these procedures, we paid special attention to the period after the implementation of SOC, where we focused in particular on the comparability of revenues recognised with the period before the implementation of the new systems;
- A recalculation of the most significant accounting adjustments performed in compliance with the requirements of the IFRS 15 standard, impacting on revenues. Further, we critically evaluated the key judgements made by the Company in connection with the standard and assessed the appropriateness of their disclosure.

**Intangible fixed assets put into use**

See paragraph E of "Accounting policies", and Note 9.

*Description of the key audit matter*

Throughout 2018, the Company put in use significant investments in intangible assets, in particular, systems were completed and put in use as part of the SOC project, and significant sports rights were acquired and subsequently put in use. In our audit, we paid special attention to these transactions as the total amount of the put in use assets is material from the Company's point of view. Should the Company fail to comply with the criteria for capitalisation of expenses in the fixed assets or inaccurately specify useful

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life or capitalise the new assets late, a material misrepresentation of the Company's financial position and performance may occur.

*Auditor's approach to the key audit matter*

Our audit procedures included, in particular:

- Tests of internal controls implemented by the Company as part of the process of distinguishing expenses that meet the criteria for capitalisation and current year expenses; tests of controls over the area of internal costs capitalisation, including own work capitalisation and controls over the timeliness of the put in use of fixed assets;
- Substantive tests of a statistical sample of additions to fixed assets, focusing on compliance with the criteria for capitalisation supported by interviewing responsible project managers and checking supporting documentation;
- Substantive analytical tests focusing on timeliness of capitalisation of fixed assets, including a detailed examination whether the assets recorded as under construction as at the balance sheet day have not already been in use and should not thus be put in use;
- Critical assessment of the estimate of the economic lives of newly capitalised intangible fixed assets, focusing on systems in the SOC project in the context of license agreements and historical experience for similar or replaced assets;
- Analytical recalculation of fixed assets depreciation and amortisation, including a detailed recalculation for selected groups of fixed assets. Further, we assessed whether the assets replaced in the SOC project were fully amortised as at the balance sheet date.

***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.

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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.

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## 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 4 June 2018 and our uninterrupted engagement has lasted for 5 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 25 February 2019 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 2018. 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 2018 contains material factual misstatements.

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***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 2018, based on which this independent auditor's report has been prepared.

Prague
25 February 2019

| | |
|---|---|
| *Signed by* | *Signed by* |
| | Petr Škoda |
| KPMG Česká republika Audit, s.r.o. | Partner |
| Registration number 71 | 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 2018

# 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 2018

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.: 60193336, 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 2018 (1 January 2018–31 December 2018) pursuant to Sec 82 et seq. of the Business Corporations Act ("Report on Relations").

## 1. CONTROLLING PERSON

Controlling person: Ing. Petr Kellner
Born: 20 May 1964
Resident: Vrané nad Vltavou, Březovská 509, Praha-západ, Postal code 252 45

In the period from 1 January 2018 until 31 December 2018, Mr. Petr Kellner held a controlling share in the Company. In the period from 1 January 2018 until 21 December 2018, he indirectly controlled an 83.40% share in the voting rights of the Company (equivalent to a 81.06% share in the share capital 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 CYPRUS MANAGEMENT LIMITED

On 20 March 2018, 15,510,380 shares representing a direct 4.99% share in the Company in voting rights of PPF Telco B.V. had been transferred for consideration from PPF Telco B.V. to ANTHIAROSE LIMITED. On 28 November 2018, ANTHIAROSE LIMITED was renamed to PPF CYPRUS MANAGEMENT LIMITED. As at 31 December 2018, the change was not recorded in the Company's records kept by the Central Securities Depository.

These companies, through which Mr. Petr Kellner was the controlling person of O2 CZ in 2018, are members of the PPF Group.

## 2. STRUCTURE OF RELATIONS BETWEEN THE CONTROLLING PERSON AND THE COMPANY AND BETWEEN THE COMPANY AND PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON

PPF Group controlled by Petr Kellner is an international investment group. It operates in Europe, Russia, Asia and North America. PPF Group controls sector-diversified companies, which are active especially in the markets of consumer finance (Home Credit Group), banking (PPF banka, Air Bank), insurance (PPF Life Insurance), biotechnology (SOTIO and other companies), real estate (PPF Real Estate Holding), engineering (Škoda Transportation), agriculture (RAV Agro) or telecommunications (Česká telekomunikační infrastruktura a.s., Telenor CEE Group and the 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 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 sector in question.

According to information provided by PPF a.s., an overview of entities controlled directly or indirectly by the same controlling person, Petr Kellner, was compiled, including additional information about 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's (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

In 2018, the Company (as a managing person) applied 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 (within the meaning of the Business Corporations Act) through companies listed in point 1 above; through them he holds the majority of the Company's shares and, as a result, the majority in the voting rights. The voting rights are exercised at the Company's General Meetings.

Beyond the scope of this means of control, PPF Telco B.V. ("qualified shareholder"), as the qualified shareholder, exercised its statutory right and made a request to the Company prior to the publication and distribution of the invitation to the General Meeting held on 4 June 2018, to include an item on the agenda of the General Meeting involving a proposal to amend the Articles of Association of the Company, and another item which would lead to changes in the rules for the remuneration of members of the Supervisory Board. The proposal to amend the Articles of Association of the Company consists in modification of powers of the Supervisory Board to accommodate for the increasingly more dynamic processes of the Company. The proposed change in the rules for the remuneration of members of the Supervisory Board was intended to go, according to the qualified shareholder, hand in hand with changes in the powers of the Supervisory Board. The Board of Directors reviewed the two proposals and the reasons given and concluded that the proposals were in compliance with the law and included them on the agenda of the General Meeting which later adopted both proposals.

PPF Group (which, in this Report, includes also the person controlling the 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 conclusion of point 2 above), and thus PPF Group is not a managing person with respect to the Company within the meaning of Section 79 of the Business Corporations Act.

## 5. OVERVIEW OF NEGOTIATIONS PURSUANT TO SEC 82(2)(D) OF THE BUSINESS CORPORATIONS ACT

In the 2018 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 2018 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: 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.
- Agreement on the provision of the service O2 Záznam hovorů, *description of contractual performance*: provision of monitoring and call recording services for the purpose of compliance with the requirements of the MiFID directive (on financial market instruments).

Agreements with Bestsport, a.s.

- Agreement to use the arena name and other cooperation, *description of contractual performance*: the agreement is to grant a right to the Company to name the arena (a multifunctional arena in Prague 9: $O_2$ arena) and use it for its commercial and marketing purposes as the general and titular partner of the arena, and for the promotion of the brand, logo, products and services of the Company on the outside and inside of the arena, and ticket sales for events in the arena.
- Agreement to provide documentation, information protection and prevent its misuse, *description of contractual performance*: terms and conditions under which documentation is provided to O2 CZ, including an undertaking to protect protected information in this documentation.
- Lease agreement, *description of contractual performance*: lease of advertising space from Bestsport, a.s.
- 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 contractual performance*: provision of services of electronic communications.

Agreements with Česká telekomunikační infrastruktura a.s. (CETIN)

- Mobile Network Services Agreement, *description of contractual performance*: 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 contractual performance*: data services according to the new reference offer with termination in regional capitals.
- Agreement on access to the public fixed telecommunications network; *description of contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: entering into discount agreements with roaming partners on behalf of O2 CZ.

- Agreement on the provision of services of data centres, *description of contractual performance*: 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 contractual performance*: granting of co-location space and services of physical co-location in specific locations.
- Agreement on the provision of Carrier-type services, *description of contractual performance*: wholesale Carrier data services.
- Agreement on the provision of billing for wholesale services, *description of contractual performance*: billing for wholesale services of O2 CZ.
- Lease and sub-lease agreements; *description of contractual performance*: lease or sub-lease of office, warehouse and other space, as well as movable things.
- Agreement on termination of international voice traffic, *description of contractual performance*: 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.
- Lease agreement for optical fibres, *description of contractual performance*: lease of optical fibres.
- Agreement on the provision of technology housing services, *description of contractual performance*: 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 contractual performance*: the sale/purchase of movable assets to/from CETIN.
- Master Services Agreement on Signalling and GRX / IPX, *description of contractual performance*: 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 contractual performance*: 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.
- Agreement on the provision of archiving services, principles of a possible separation of the archive and related cooperation, *description of contractual performance*: 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 contractual performance*: provision of security services by CETIN.
- Service migration agreement, *description of contractual performance*: migration of selected services from the existing technology to a new technical solution.
- Agreement on termination and change of contractual relations in connection with the sale of the ÚTB, *description of contractual performance*: 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 contractual performance*: settlement of mutual obligations and receivables in connection with the end of a dispute with a third party.
- Settlement agreement, *description of contractual performance*: settlement of mutual obligations and receivables from the separation project or related thereto.
- Settlement agreement and agreement to recognize some items from the separation project dated 13 March 2015, *description of contractual performance*: settlement of mutual obligations and receivables from the separation project or related thereto.
- Agreement on the provision of a technology housing services at the address Prague – Hvězdova; *description of contractual performance*: 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 contractual performance*: non-disclosure of information learned in the process of commercial negotiations between the parties.
- Agreement on the provision of a voice solution, *description of contractual performance*: provision of the VOLUME 1 + 1 voice solution.
- Agreement on the provision of address space, *description of contractual performance*: mutual provision of address spaces for use (IP address spaces).
- Service agreement, *description of contractual performance*: maintenance of optical communication infrastructure elements.
- Agreement on the provision of service and maintenance services, *description of contractual performance*: regular maintenance, inspections andrepairs of infrastructure at the Prague – Hvězdova locations by CETIN.
- Agreement on the use of a test site – SELFLAB, *description of contractual performance*: use of a CETIN test site.

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. No supply was provided under this contract in 2018.
- Agreement on cooperation in the provision Extra karta, *description of contractual performance*: rules for the design, promotion and sale of Extra karta, a joint product of the two contractual partners.

- Cooperation agreements, *description of contractual performance*: 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 contractual performance*: 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 contractual performance*: the Company provides to the contractual partner, voice and data services under contracted terms and conditions.

Agreements with PPF a.s.

- Framework agreement on the conditions for the provision of mobile electronic communications services, *description of contractual performance*: 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.
- Agreement on the conditions for the provision of selected electronic communications services provided through a fixed network, *description of contractual performance*: the Company provides electronic communications services through a fixed network to the contractual partner and other companies from the PPF Group under negotiated conditions.
- Contract for the provision of a voice solution, *description of contractual performance*: the Company provides, to the contractual partners and other entities, services of electronic communications through fixed networks under negotiated conditions.
- $O_2$ Mobile Device Management Service Agreement, *description of contractual performance*: The Company provides the $O_2$ Mobile Device Management service to the contractual partner.
- Agreements for Etternet, IP Connect, O2 AntiDDos services, *description of contractual performance*: technical specifications of services provided by the Company.
- Agreement to interconnect exchanges, *description of contractual performance*: interconnection of Conex24 exchanges.

Agreements with PPF banka a.s.

- Framework agreement on payment and bank services, *description of contractual performance*: 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 contractual performance*: trading transactions to hedge against financial risks.
- Subscriber agreement on the provision of publicly available services of electronic communications, *description of contractual performance*: provision of services of electronic communications.
- Agreement on the provision of cloud, housing and related services, *description of contractual performance*: 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 contractual performance*: provision of call monitoring and recording services for the purposes of meeting MiFID (Markets in Financial Instruments Directive) requirements.

Agreements with Telenor Bulgaria EAD

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor d.o. o. Beograd

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor d.o. o. Podgorica

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor Magyarorzág Zrt

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Zonky s.r.o.

- Agreement on cooperation, *description of contractual performance*: 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.
- Framework agreement on the conditions for the provision of selected electronic communication services over a fixed network, *description of contractual performance*: the Company provides electronic communication services over a fixed network to its contractual partner at negotiated terms.

- Agreeement on the provision of a DIGITY UCS communication system for call centres, *description of contractual performance*: call centre services.
- Personal data processing agreement, *description of contractual performance*: terms of personal and other data processing between parties as required by the personal data protection laws.

## AGREEMENTS WITH SUBSIDIARIES IN THE O2 CZECH REPUBLIC CONCERN

Agreements with eKasa s.r.o.

- Subscriber agreements, *description of contractual performance*: 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 contractual performance*: O2 CZ 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 cooperation in service delivery, *description of contractual performance*: delivery of an application and services with respect to the O2 CZ product O2 eKasa by eKasa.
- Agreement on the assignment of a Memorandum of Understanding, *description of contractual performance*: assignment of the rights and obligations to eKasa s.r.o.
- Memorandum of Understanding, *description of contractual performance*: terms of mutual relations between the parties.
- Agreement to assign EET Application Contract, *description of contractual performance*: assignment of rights and obligations to eKasa s.r.o.
- Agreement on the provision of support services, *description of contractual performance*: provision of support services by O2 CZ to eKasa s.r.o.
- Personal data processing agreements, *description of contractual performance*: terms of personal and other data processing between parties as required by the personal data protection laws.

Agreements with 4Local, s.r.o.

- Agreement on the provision of support services, *description of contractual performance*: provision of support services by O2 CZ to 4Local, s.r.o.
- Credit Facility Agreement, *description of contractual performance*: provision of a credit line to 4Local, s.r.o. No supply was provided under this contract in 2018.
- Framework cooperation agreement concerning the supply of prepaid services from O2, *description of contractual performance*: cooperation between the parties in the sale and distribution of O2 prepaid services.

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 contractual performance*: 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 contractual performance*: 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 contractual performance*: agreement to provide a credit facility to O2 Family, s.r.o. No supply was provided under this contract in 2018.
- 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 contractual performance*: O2 CZ provides, to the contractual partner, electronic communications services in mobile networks, provides mobile hardware and accessories and other products.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.
- Deposit Agreement, *description of contractual performance*: cash pooling rules and related terms and conditions.
- Agreement on cooperation in the broadcasting of $O_2$ Info, *description of contractual performance*: 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 contractual performance*: O2 CZ procured services of IT operations, IT infrastructure support and application support.
- Agreement on the provision of ICT operations; *description of contractual performance*: 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 contractual performance*: O2 IT Services s.r.o. undertakes to act as subcontractor for selected public contracts of O2 CZ.

- Sub-lease agreements, *description of contractual performance*: sub-lease of commercial space from O2 CZ.
- Non-disclosure and confidentiality agreements, *description of contractual performance*: 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 contractual performance*: provision of support services to O2 IT Services s.r.o.
- Data processing agreements, *description of contractual performance*: terms and conditions for the processing of personal and other information between the parties according to Personal Data Protection Act.
- Purchase agreements, *description of contractual performance*: purchase of movable things.
- Framework loan agreement, *description of contractual performance*: terms and conditions for loans provided to O2 IT Services s.r.o.
- Sub-supply agreement for the Emergency Number Call Centre, *description of contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: O2 CZ provides electronic communications services in mobile networks.
- Agreements on provision of IP Connect, Hosting or cloud services, *description of contractual performance*: Technical specifications of services provided to 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 ben-

eficiaries, and O2 IT Services s.r.o. as the so-called affiliated entity O2 Czech Republic a.s.); *description of contractual performance*: 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 on the amount of consideration for the assignment of usage rights, *description of contractual performance*: agreements setting the amount of consideration for the assignment of usage rights.
- Settlement agreement in connection with the use of commercial space, *description of contractual performance*: settlement agreement in connection with the use of commercial space by O2 CZ as the tenant.

Agreements with O2 Slovakia, s.r.o.

- Trade Mark Sub-Licence Agreement, *description of contractual performance*: 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 contractual performance*: provision of support services to O2 Slovakia, s.r.o.
- Revolving Credit Facility Agreement, *description of contractual performance*: agreement to provide a revolving credit facility to O2 Slovakia, s.r.o.
- Deposit Agreement, *description of contractual performance*: a cash-pooling arrangement and the related terms and conditions. No supply was provided under this contract in 2018.
- Bilateral International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.
- Framework agreement on terms and conditions of supply of mobile electronic communications services, *description of contractual performance*: 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 contractual performance*: 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 contractual performance*: 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 contractual performance*: provision of telecommunication equipment to O2 CZ.
- Cooperation agreement, *description of contractual performance*: 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 contractual performance*: 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.
- Agreement of undisclosed mandate, *description of contractual performance*: representation of interests of O2 Slovakia, s.r.o. in relation to suppliers.
- Agreement on the amount of consideration for the assignment of usage rights, description of the performance: determination of the amount of consideration for the assignment of license rights.
- Agreement on netting of mutual receivables, *description of contractual performance*: offsetting of mutual claims of the parties.
- Deed of Guarantee, *description of contractual performance*: a deed of guarantee in which O2 CZ provides a guarantee for obligations of O2 Slovakia, s.r.o. under a contract concluded with a supplier of goods.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with O2 TV s.r.o.

- Agreements on the provision of support services, *description of contractual performance*: provision of support services by O2 CZ to O2 TV s.r.o.
- Agreement to include content in the service $O_2$ TV, *description of contractual performance*: O2 TV s.r.o. grants an exclusive licence to the Company to broadcast sports content 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 selected sports channels.
- Rights agreements, *description of contractual performance*: granting of mutual rights to broadcast selected sports matches.
- Framework agreement on the terms and conditions of the provision of mobile electronic communications services, *description of contractual performance*: 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, *description of contractual performance*: installation and provision of data services for O2 TV s.r.o.
- Agreement related to sports event broadcasting, *description of contractual performance*: co-operation in broadcasting sports events, including the use of live transmission vehicles.
- Framework loan agreement, *description of contractual performance*: the terms and rules for the provision of loans to O2 TV s.r.o.
- Data processing agreements, *description of contractual performance*: terms and conditions for the processing of personal and other information between the parties according to Personal Data Protection Act.

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 contractual performance*: 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 contractual performance*: O2 Financial Services s.r.o. provides specialized financial services to O2 CZ.
- Service agreement, *description of contractual performance*: provision of support services to O2 Financial Services s.r.o.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with Bolt Start Up Development a.s.

- Service agreements, *description of contractual performance*: providing support services to Bolt Start Up Development a.s.
- Framework loan agreement, *description of contractual performance*: terms and conditions for the provision of loans to Bolt Start Up Development a.s. No supply was provided under this contract in 2018.
- Agreement on the use of the Esperia e-commerce site, *description of contractual performance*: temporary use and leasehold of the Esperia e-commerce site by O2 CZ.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

## 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 contractual performance*: the reciprocal non-disclosure of trade secrets.
- Agreement on consultancy services, *description of contractual performance*: 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 contractual performance*: 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.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with Misterine s.r.o.

- Framework agreement laying down the terms and conditions of provision of mobile electronic communications services, *description of contractual performance*: 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 contractual performance*: provision of mobile electronic communications services to mluvii.com s.r.o.
- Agreement on cooperation in the implementation of the pilot project, *description of contractual performance*: Licensing conditions and consultancy for the software of Mluvii for O2 CZ.
- Framework agreement on the provision of services, *description of contractual performance*: conditions of licensing, consultancy and maintenance services by O2 CZ for the software Mluvii.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with Tapito s.r.o.

- Framework cooperation agreement; *description of contractual performance*: provision of a native application Tapito for smartphones and tablets.
- Cooperation agreement; *description of contractual performance*: use of advertising space in $O_2$ TV by Tapito.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.
- Cooperation agreement, *description of contractual performance*: Tapito leasing advertising space to O2 CZ.

Agreements with Tesco Mobile ČR s.r.o. (joint venture 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 contractual performance*: agreement regulates the relations between the shareholders of Tesco Mobile ČR s.r.o.
- Mobile Services Agreement, *description of contractual performance*: setting forth the rights and obligations of the parties in relation to the use of the public mobile communication network operated by O2 CZ.
- Framework Loans Agreement, *description of contractual performance*: 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 2018.
- Secondment Agreement, *description of contractual performance*: 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 contractual performance*: cooperation in the marketing and sales of goods and SIM cards through the e-commerce platform of Tesco Mobile ČR s.r.o.

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 above contract 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 nor suffered any disadvantage or exposed itself to any risk as a result of 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 Board of Directors declares that, in the process of collecting and verifying information for the purpose of this Report, it applied due diligence, and its conclusions have been formulated after a careful consideration. The Board of Directors considers all information presented in this Report on Relations to be correct and complete.

In Prague, 20 February 2019

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 |
|---|---|---|---|---|---|
| 4Local, s.r.o. | 24161357 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | O2 Czech Republic a.s |
| 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. |
| AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY | 619700 | Ireland | Person controlled by the same controlling person through an ownership interest | from 29 January 2018 | Air Bank a.s. |
| ABDE Holding s.r.o. (formerly Airline Gate 1 s.r.o.) | 02973081 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Home Credit Group B.V |
| 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. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| AF Airfueling s.r.o. | 02223953 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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. |
| ALMONDSEY LIMITED | HE 291 856 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| ALRIK VENTURES LIMITED | HE 318 488 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | until 13 August 2018 | 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. |
| 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. |
| Autobusová doprava-Miroslav Hrouda s.r.o. | 25166522 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 until 24 October 2018 | ŠKODA TRANSPORTATION a.s. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Autotým, s.r.o., v likvidaci | 03040836 | 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 | | PPF CYPRUS MANAGEMENT LIMITED |
| Bammer trade a.s. | 28522761 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |
| Bavella B.V. | 52522911 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| Bestsport holding a.s. | 06613161 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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 |
| Bolt Start Up Development a.s. | 04071336 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | O2 Czech Republic a.s. |
| BONAK a.s. | 05098815 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF a.s. |
| BORACORA LIMITED | HE 251 936 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | GLANCUS INVESTMENTS INC. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Boryspil Project Management Ltd. | 34999054 | Ukraine | Person controlled by the same controlling person through an ownership interest | | Pharma Consulting Group Ltd. |
| Bucca Properties Ltd. | 1377468 | British Virgin Islands | Person controlled by the same controlling person through an ownership interest | | BORACORA LIMITED |
| C & R Office Center Two s.r.o. | 28227913 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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. |
| Carolia Westminster Hotel Limited | 9331282 | United Kingdom of Great Britain and Northern Ireland | Person controlled by the same controlling person through an ownership interest | | CW 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. | 06095577 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Česká telekomunikační infrastruktura a.s. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| CF Commercial Consulting (Beijing) Limited | 78860280-7 | People's Republic of China | Person controlled by the same controlling person through an ownership interest | until 8 February 2018 | Home Credit B.V. |
| CIAS HOLDING a.s. | 273 99 052 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |
| CIAS Split 1 a.s. | 076 63 986 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 22 November 2018 until 31 December 2018 | PPF Beer Topholdco 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. |
| «Closed Joint Stock Insurance Company «Asnova Insurance» | 806000245 | Belarus | Person controlled by the same controlling person through an ownership interest | until 8 February 2018 | Septus Holding Limited, Talpa Estero Limited, Rhaskos Finance Limited, Sylander Capital Limited, Enadoco Limited, Astavedo Limited |
| COLANDS s.r.o. | 03883663 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| CW Investor S.á.r.l. | B211446 | Luxembourg | Person controlled by the same controlling person through an ownership interest | | Westminster JV a.s. |
| Cytune Pharma SAS | 500998703 | France | Person controlled by the same controlling person through an ownership interest | from 22 August 2018 | PPF Capital Partners Fund B.V. |
| Czech Equestrian Team a.s. | 019 52 684 | 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 | German Federal Republic | 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 | | PPF a.s. |
| Česká telekomunikační infrastruktura a.s. | 040 84 063 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Infrastructure B.V., PPF A3 B.V. |
| D - Toll Holding GmbH | HRB 191929 | Germany | Person controlled by the same controlling person through an ownership interest | from 24 January 2018 | PPF a.s. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| DADRIN LIMITED | HE 321 173 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | TOLESTO LIMITED |
| De Reling (Dronten) B.V. | 58164235 | Netherlands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| DEVEDIACO ENTERPRISES LIMITED | HE 372136 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | TELISTAN LIMITED |
| DRAK INVESTMENT HOLDING LTD | 324472 | Cayman Islands | Person controlled by the same controlling person through an ownership interest | | GONDRA HOLDINGS LTD |
| Duoland s.r.o. | 06179410 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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. |
| eKasa s.r.o. | 050 89 131 | 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. |
| ENADOCO LIMITED | HE 316 486 | 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 |
|---|---|---|---|---|---|
| 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, PPF CYPRUS RE MANAGEMENT LIMITED |
| FELISTON ENTERPRISES LIMITED | HE 152674 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | SALEMONTO LIMITED |
| FERRYMAT HOLDINGS LIMITED | HE 313289 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Filcommerce Holdings, Inc | CS 201 310 129 | Philippine Republic | Person controlled by the same controlling person through an ownership interest | | HC Philippines Holding B.V- |
| FLOGESCO LIMITED | HE 172588 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | Gilbey Holdings Limited |
| FO Management s.r.o. | 06754295 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 10 January 2018 | PPF FO Management B.V. |
| Fodina B.V. | 59400676 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| FOSOL ENTERPRISES LIMITED | HE 372077 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | DEVEDIACO ENTERPRISES 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, PPF CYPRUS RE MANAGEMENT LIMITED |
| Ganz-Skoda Eletric Ltd. | 110045500 | Hungary | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Garco Group B.V. | 34245884 | Nether-lands | 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 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V |
| GILBEY HOLDINGS LIMITED | HE182860 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | 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. |
| GONDRA HOLDINGS LTD | 324452 | Cayman Islands | Person controlled by the same controlling person through an ownership interest | | Salonica Holding 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. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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 Advisory Services s.r.o. | 01487779 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| HC Asia B.V. | 34253829 | Netherlands | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| HC Broker, s.r.o. | 29196540 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Home Credit a.s. |
| HC Consumer Finance Philippines, Inc | CS 201301354 | Philippine Republic | Person controlled by the same controlling person through an ownership interest | | HC Philippines Holding B.V. |
| HC Philippines Holding B.V. | 35024270 | Netherlands | Person controlled by the same controlling person through an ownership interest | | HC Asia B.V. |
| HCPH 2 FINANCING, INC. | CS201812176 | Philippine Republic | Person controlled by the same controlling person through an ownership interest | from 14 September 2018 | HC Philippines Holding B.V. |
| HCPH Financing I. Inc | CS 201 727 565 | Philippine Republic | Person controlled by the same controlling person through an ownership interest | | HC Philippines Holding B.V |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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 B.V. |
| Home Credit B.V. | 34126597 | Netherlands | Person controlled by the same controlling person through an ownership interest | | Home Credit Group B.V. |
| Home Credit Consumer Finance Co., Ltd | 91120116636067462H | People's Republic of China | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| Home Credit Egypt Trade S.A.E. | 50614 | Egypt | Person controlled by the same controlling person through an ownership interest | | HC Philippines Holding B.V |
| HOME CREDIT EUROPE PLC | 7744459 | United Kingdom of Great Britain and Northern Ireland | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| Home Credit Group B.V. | 69638284 | Netherlands | Person controlled by the same controlling person through an ownership interest | | PPF Financial Holdings 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 B.V. |
| HOME CREDIT INDIA FINANCE PRIVATE LIMITED | U65910HR1997PTC047448 | Republic of India | Person controlled by the same controlling person through an ownership interest | | Home Credit India B.V., Home Credit International a.s. |
| HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED | U7499HR2017FTC070364 | 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 Indonesia B.V. | 52695557 | Netherlands | Person controlled by the same controlling person through an ownership interest | | HC Asia B.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. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Home Credit US Holding, LLC | 5467913 | United States of America | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| Home Credit US, LLC | 5482663 | United States of America | Person controlled by the same controlling person through an ownership interest | | Home Credit US Holding |
| Home Credit Vietnam Finance Company Limited | 307672788 | Vietnam | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| HOPAR LIMITED | HE 188 923 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF PROPERTY LIMITED |
| Horse Arena s.r.o. | 044 79 823 | Czech Republic | Person controlled by the same controlling person 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 |
| Innoble GmbH | HRB 239796 | Germany | Person controlled by the same controlling person through an ownership interest | from 25 July 2018 | ABDE Holding s.r.o. |
| INTENS Corporation s.r.o. | 28435575 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Bolt Start Up Development a.s. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Izotrem Investments Limited | HE 192753 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | 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., PPF CYPRUS RE MANAGEMENT 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 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| Joint Stoct Company "Sibzavod Centre" | 1035501017221 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | LLC Trust - Invest |
| Joint-Stock Company " Investments trust" (for-merly CJSC "Investments trust") | 1037739865052 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Trilogy Park Holding B.V. |
| Joint-Stock Company "Intrust NN" (formerly CJSC "Intrust NN") | 1065259035896 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Stinctum Holdings Limited |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Jokiaura Kakkonen Oy | 2401050-2 | Finland | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |
| JONSA LIMITED | HE 275 110 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | CELESTIAL HOLDINGS GROUP LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |
| JSC Yugo - Vostochnaya promys-hlennaya companiya "KARTON-TARA" | 1037700008895 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | JARVAN HOLDINGS LIMITED |
| KARMION HOLDINGS LIMITED | HE 312 004 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| Karperstraat (Amsterdam) B.V. | 58163883 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| Kateřinská Office Building s.r.o. | 03495663 | 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 | | West Logistics Park LLC (WLP) |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Langen Property B.V. | 61012777 | Nether-lands | 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 | | 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 | | 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 | | Prague Entertainment Group B.V. |
| Letňany eGate s.r.o. | 06137628 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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 | | Prague Entertainment Group B.V. |
| 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 | | Prague Entertainment Group B.V. |
| LLC Alians R | 1086627000635 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | JONSA LIMITED |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| LLC Almondsey | 1127747228190 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | ALMONDSEY LIMITED, LLC Charlie Com. |
| 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 EASTERN PROPERTIES RUSSIA | 1137746929836 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Bavella B.V., GRANDVIEW RESOURCES CORP. |
| LLC ERKO | 1044702180863 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | LLC 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 For-ward leasing (formerly LLC Home Credit Online ) | 1157746587943 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Home Credit Lab N.V. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| LLC Gorod Molodogo Pokolenija (formerly Joint Stock Company "Gorod Molodogo Pokolenija) | 1027700473756 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | JARVAN HOLDINGSLIMITED |
| LLC Home Credit & Finance Bank | 1027700280937 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| LLC Home Credit Insurance | 1027739236018 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| LLC HOMER SOFTWARE HOUSE | 35364346 | Ukraine | Person controlled by the same controlling person through an ownership interest | until 12 May 2018 | REDLIONE LTD, 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 |
| LLC In Vino | 1052309138628 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | GRACESPRING LIMITED |
| LLC ISK (ICC) Klokovo | 1127746186501 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | STEPHOLD LIMITED |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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, PPF CYPRUS RE MANAGEMENT LIMITED |
| LLC Logistika - Rostov | 1167746090236 | Russian Federation | Person controlled by the same controlling person through an ownership interest | until 21 November 2018 | 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. | Incorpo-rated 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 | | PPF Real Estate Holding B.V., Paleos Industries B.V. |
| LLC PPF Life Insurance | 1027739031099 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| LLC PPF Real Estate Russia | 1057749557568 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| LLC RAV Agro | 1073667022879 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Bavella B.V., Grandview Resources Corp. |
| LLC RAV Agro Orel | 1115741001496 | Russian Federation | Person controlled by the same controlling person through an ownership interest | until 3 December 2018 | 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 |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| LLC RAV Molokopro-dukt | 1083627001567 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | LLC RAV Agro, Grandview Resources Corp., Bavella B.V. |
| 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 Skladi 104 | 5009049271 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | GABELLI CONSULTANCY LIMITED |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| LLC Skolkovo Gate | 1137746214979 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Trigon II B.V. |
| LLC Sotio | 1117746901502 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Sotio N.V. |
| LLC Sotio | EIN 35-2424961 | United States of America | Person controlled by the same controlling person through an ownership interest | | Sotio N.V. |
| LLC Spectrum | 1097746356806 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | NIDALEE HOLDING LIMITED |
| LLC Spetsi-alizirovanniy zastroyschik " Delta Com" (formerly LLC Delta Com) | 1137746330358 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | Comcity Office Holding B.V., ANTHEMONA 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 Torgovij complex Lipetskiy | 1074823001593 | Russian Federation | Person controlled by the same controlling person through an ownership interest | | JARVAN HOLDINGS LIMITED |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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 |
| 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 |
| LOKEL s.r.o. | 01731530 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| LOSITANTO Ltd. | HE157131 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | SATACOTO Ltd. |
| LvZH (Rijswijk) B.V. | 58163999 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| Maraflex s.r.o. | 02415852 | 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. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Millennium Tower (Rotterdam) B.V. | 56261330 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| Misterine s.r.o. | 05249899 | Czech Republic | Person controlled by the same controlling person through an ownership interest | until 17 Sep-tember 2018 | 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. |
| MOETON a.s. v likvidaci | 27864561 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF FO Management B.V. |
| Monheim Property B.V. | 61012521 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | German Properties B.V. |
| Monchyplein (Den Haag) B.V. | 58163603 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| Montería, spol. s r.o. | 27901998 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF FO Management B.V. |
| Moranda, a.s. | 28171934 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| MOVO spol. s r. o. | 46887989 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| MP Holding 2 B.V. | 69457018 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | DEVEDIACO ENTERPRISES LIMITED |
| My Air a.s. | 05479070 | 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 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| Net Gate s.r.o. | 247 65 651 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF a.s. |
| NIDALEE HOLDING LIMITED | HE 310 150 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT 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., PPF CYPRUS MANAGEMENT LIMITED |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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. | 05423716 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | O2 Czech Republic a.s. |
| O2 IT Services s.r.o. | 02819678 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | O2 Czech Republic a.s. |
| O2 Slovakia, s.r.o. | 35848863 | Slovak Republic | Person controlled by the same controlling person through an ownership interest | | O2 Czech Republic a.s. |
| O2 TV s.r.o. | 03998380 | 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 | until 19 June 2018 | Home Credit B.V. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| One Westferry Circus S.a.r.l. | B175495 | Luxem-bourg | Person controlled by the same controlling person through an ownership interest | from 12 April 2018 | PPR Real Estate s.r.o. |
| OOO Sibelec-troprivod | 1045400530922 | Russia | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | LOSITANTO Ldt. |
| OOO Skoda-R | 7725682339 | Russian Federation | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| OOO Vagonmash | 1117847029695 | Russian Federation | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION 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 | | PPF CYPRUS MANAGEMENT LIMITED |
| Paleos Industries B.V. | 66846919 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| Pars nova a.s. | 25860038 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| Pharma Consulting Group Ltd. | 34529634 | Ukraine | Person controlled by the same controlling person through an ownership interest | | HOPAR LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Plaza Development SRL | 22718444 | Romania | Person controlled by the same controlling person through an ownership interest | from 20 Novem-ber 2018 | PPF Real Estate s.r.o., PPF CYPRUS MANAGEMENT LIMITED |
| POLL, s.r.o. | 62967754 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| Pompenburg (Rotterdam) B.V. | 58163506 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | Seven Assets Holding B.V. |
| PPF a.s. | 25099345 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF A3 B.V. | 61684201 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF A4 B.V. | 63365391 | Nether-lands | 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. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| PPF Advisory (UK) Limited | 5539859 | United Kingdom of Great Britain and Northern Ireland | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF ADVISORY (UKRAINE) LIMITED | HE 162 172 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF Arena 1 B.V. | 59009187 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF TMT Holdco 2 B.V. |
| PPF Art a.s. | 63080672 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF a.s. |
| PPF banka a.s. | 47116129 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Financial Holdings B.V. |
| PPF Beer Holdco 1 B.V. | 67330495 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF Beer IM Holdco B.V. | 67331378 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Beer Holdco 1 B.V. |
| PPF Beer Topholdco B.V. | 67420427 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Industrial Holding B.V. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| PPF Capital Partners Fund B.V. | 55003982 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF CO 3 B.V. | 34360935 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF banka a.s. |
| PPF CYPRUS MANAGE-MENT LIMIT-ED (formerly ANTHIAROSE LIMITED) | HE 224463 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF CYPRUS RE MAN-AGEMENT LIMITED (for-merly 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. |
| PPF Financial Consulting s.r.o. | 24225657 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF a.s. |
| PPF Financial Holdings B.V. | 61880353 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF FO Management B.V. | 34186296 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Holdings S.á r.l. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| PPF GATE a.s. | 27654524 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| PPF Group N.V. | 33264887 | Netherlands | Person controlled by the same controlling person through an ownership interest | | Ing. Petr Kellner, PPF Holdings B.V. |
| PPF Healthcare N.V. | 34308251 | Netherlands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF Holdings B.V. | 34186294 | Netherlands | Person controlled by the same controlling person through an ownership interest | | PPF Holdings S.á r.l. |
| PPF Holdings S.á r.l. | B 186335 | Luxembourg | Person controlled by the same controlling person through an ownership interest | | Ing. Petr Kellner |
| PPF Industrial Holding B.V. | 71500219 | Netherlands | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Group N.V. |
| 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., PPF CYPRUS RE MANAGEMENT LIMITED |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| 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., PPF CYPRUS RE MANAGEMENT LIMITED |
| PPF reality a.s. | 29030072 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate s.r.o. |
| PPF SECRETARIAL LTD | HE 340708 | 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. |
| PPF TMT Bidco 1 B.V. | 70498288 | Netherlands | Person controlled by the same controlling person through an ownership interest | from 3 January 2018 | PPF Arena 1 B.V. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| PPF TMT Bidco 2 B.V (formerly PPF Beer Bidco B.V.) | 67332722 | Netherlands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| PPF TMT Holdco 1 B.V. | 70498261 | Netherlands | Person controlled by the same controlling person through an ownership interest | from 3 January 2018 | PPF Group N.V. |
| PPF TMT Holdco 2 B.V. | 70526214 | Netherlands | Person controlled by the same controlling person through an ownership interest | from 4 January 2018 | PPF TMT Holdco 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. |
| 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. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| REDLIONE LTD | HE 178 059 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V., Home Credit International a.s. |
| 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. |
| 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., PPF CYPRUS RE MANAGEMENT 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. |
| 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 | until 21 December 2018 | GLANCUS INVESTMENTS INC |
| RYAZAN SHOPPING MALL LIMITED | HE 180 951 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | until 21 December 2018 | 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 |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| SALEMONTO LIMITED | HE 161 006 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | BORACORA LIMITED |
| Salonica Holding Limited | 1949492 | British Virgin Islands | Person controlled by the same controlling person through an ownership interest | | Ing. Petr Kellner |
| SATACOTO Ltd. | HE 155018 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |
| 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 | | Ing. 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 Number One Consulting Co., Ltd. | 91440300664174257K | People's Republic of China | Person controlled by the same controlling person through an ownership interest | | Home Credit Asia Limited |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Shenzhen Home Credit Xinchi Consulting Co., Ltd. | 91440300796638527A | People's Republic of China | Person controlled by the same controlling person through an ownership interest | | Favour Ocean Limited |
| SIGURNO LIMITED | HE 172539 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | Gilbey Holdings Limited |
| Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd. | 901510100660467589T | People's Republic of China | Person controlled by the same controlling person through an ownership interest | | Home Credit Asia Limited |
| SILINE CONSULTING LIMITED | HE 281961 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | Celestial Holdings Group Limited |
| SKODA Transportation Deutschland GmbH | HRD 208 725 | Germany | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| Smart home security s.r.o. | 063 21 399 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | 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. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Sotio Medical Research (Beijing) Co. Ltd | 110000410283022 | People's Republic of China | Person controlled by the same controlling person through an ownership interest | | Sotio N.V. |
| Sotio N.V. | 34302290 | Nether-lands | 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 |
| 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 |
| SYLANDER CAPITAL LIMITED | HE 316 597 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | Home Credit B.V. |
| ŠKODA CITY SERVICE s.r.o. | 29119057 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| ŠKODA ELECTRIC a.s. | 477 18 579 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| ŠKODA ICT s.r.o. | 279 94 902 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA INVESTMENT a.s. |
| ŠKODA INVESTMENT a.s. | 265 02 399 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 3 May 2018 | PPF Beer Topholdco B.V. |
| ŠKODA RAIL s.r.o. | 058 22 149 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| ŠKODA REAL ESTATE DEVELOPMENT a.s. v likvidaci | 264 11 521 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 until 8 November 2018 | ŠKODA INVESTMENT a.s. |
| ŠKODA SERVIS s.r.o. | 263 51 277 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA INVESTMENT a.s. |
| ŠKODA TRANSPORTATION a.s. | 626 23 753 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |
| Škoda Transportation USA, LLC | 81-257769 | USA | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| ŠKODA TVC s.r.o. | 25247964 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| ŠKODA VAGONKA a.s. | 258 70 637 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| 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, PPF CYPRUS RE MANAGEMENT LIMITED |
| Tapito s.r.o. (formerly TapMedia s.r.o.) | 03853365 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Bolt Start Up Development a.s. |
| Telematika a.s. | 054 18 046 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 18 May 2018 | PPF a.s. |
| Telenor Bulgaria EAD | 130460283 | Bulgaria | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Telenor Common Operation Ztr. | 13-10-041370 | Hungary | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Beograd | 20147229 | Serbia | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |
| Telenor d.o.o. Podgorica | 50017124 | Montene-gro | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |
| Telenor Direct d.o.o. Beograd | 20426306 | Serbia | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | Telenor d.o.o. Beograd |
| Telenor Direct MNE d.o.o. Podgorica | 50537063 | Serbia | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | Telenor d.o.o. Beograd |
| Telenor Magyarorzág Zrt. | 13-10-040409 | Hungary | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |
| Telenor Real Estate Hungary Ztr. | 13-10-041060 | Hungary | Person controlled by the same controlling person through an ownership interest | from 31 July 2018 | PPF TMT Bidco 1 B.V. |
| 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. |

| Company | ID/Reg.no. | Incorporated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Tesco Mobile Slovakia, s.r.o. | 36863521 | Slovak Republic | Person controlled by the same controlling person through an ownership interest | | O2 Slovakia, s. r. o. |
| TIMEWORTH HOLDINGS LTD. | HE 187 475 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| TOLESTO LIMITED | HE 322 834 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED |
| TRADING RS Sp. z o.o. | NIP 7010213385 | Poland | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| TRANSTECH OY | 1098257-0 | Finland | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | ŠKODA TRANSPORTATION a.s. |
| 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. |
| Trilogy Park Holding B.V. | 60006609 | 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 |
|---|---|---|---|---|---|
| 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. |
| TROMSON ENTERPRISES LIMITED | 233665 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | until 19 April 2018 | PPF Group N.V. |
| UNILEAVE LIMITED v likvidaci | HE 179 204 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | PPF CYPRUS MANAGEMENT LIMITED |
| Usconfin 1 DAC | 619282 | Ireland | Person controlled by the same controlling person through an ownership interest | from 23 January 2018 | PPF banka a.s. |
| VELTHEMIA LIMITED | HE 282 891 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | | REPIENO LIMITED |
| Vixon Resources Limited | 144 18 84 | British Virgin Islands | Person controlled by the same controlling person acting in concert through an ownership interest | | Renáta Kellnerová |
| Vox Ventures B.V. | 65879554 | Netherlands | Person controlled by the same controlling person through an ownership interest | | PPF Group N.V. |
| VÚKV a.s. | 452 74 100 | Czech Republic | Person controlled by the same controlling person through an ownership interest | from 24 April 2018 | PPF Beer Topholdco B.V. |

| Company | ID/Reg.no. | Incorpo-rated in | Method and means of control | Note | Interest through |
|---|---|---|---|---|---|
| Wagnerford Holdings Limited | HE 210154 | Republic of Cyprus | Person controlled by the same controlling person through an ownership interest | from 18 April 2018 | MP Holding 2 B.V. |
| Wagnerford LLC | 5087746372819 | Russian Federation | Person controlled by the same controlling person through an ownership interest | from 18 April 2018 | Wagnerford Holdings Limited |
| West Logistics Park LLC (WLP) | 35093235 | Ukraine | Person controlled by the same controlling person through an ownership interest | | Izotrem Investments Limited |
| Westminster JV a.s. | 05714354 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | PPF a.s. |
| Wilhelmi-naplein (Rotterdam) B.V. | 59494034 | Nether-lands | Person controlled by the same controlling person through an ownership interest | | PPF Real Estate Holding B.V. |
| Zonky s.r.o. | 035 70 967 | Czech Republic | Person controlled by the same controlling person through an ownership interest | | Home Credit International a.s. |

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