Annual Report

2014

O2 Czech Republic a.s.

ANNUAL REPORT 2014

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".

The O2 Czech Republic Group includes O2 Czech Republic a.s. and its subsidiaries, also as "the Group".

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Independent Auditor’s Report

1. Independent Auditor's Report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

This document is an 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.

Non-consolidated Financial Statements

On the basis of our audit, on 10 February 2015 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report in chapter 8.2, and our report is presented at the beginning of this chapter.

Consolidated Financial Statements

On the basis of our audit, on 10 February 2015 we issued an auditor's report on the Company's consolidated statutory financial statements, which are included in this annual report in chapter 8.1, and our report is presented at the beginning of this chapter.

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations between the controlling person and the controlled person and between the controlled person and persons controlled by the same controlling person of O2 Czech Republic a.s. for the year ended 31 December 2014 prepared in accordance with the applicable provisions of Act No. 90/2012 Coll., on Companies and Cooperatives. The report on Relations is included in Appendix to this annual report. 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 between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of O2 Czech Republic a.s. for the year ended 31 December 2014 contains material factual misstatements.

Consolidated Annual Report

We have audited the consistency of the consolidated annual report with the abovementioned sets of financial statements. This consolidated annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the consolidated annual report with the abovementioned sets of financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the consolidated annual report describing matters that are also presented in the abovementioned sets of financial statements is, in all material respects, consistent with the respective financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the consolidated annual report is, in all material respects, consistent with the abovementioned sets of financial statements.

Prague
24 February 2015

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

Petr Škoda
Petr Škoda
Partner
Registration number 1842

Letter of the General Director and Chairman of the Board of Directors

2. Letter of the General Director and Chairman of the Board of Directors

Dear shareholders,

Please allow me to assess in brief the activities of the company O2 Czech Republic in the past year.

The year of 2014 was a turning point for O2. We changed our corporate values, established our new priorities and streamlined operations throughout the company. The changes that we introduced have already begun to bear fruit in concrete numbers and improving trends can be seen across all segments of our business. We delivered our guidance for the year. We can react better and quicker to changes in the external environment, and thus maintain our position as market leader, which is confirmed by the many business successes that the company achieved in the previous year.
I consider the most important of these the reversal in the trend of losing fixed lines, the increase in interest in our fixed internet and our unique digital television service O_2 TV.

We also returned last year to fixed services as a part of our strategy. We introduced new tariffs for calling from a fixed line, and we are investing in expanding availability of VDSL technology. More than 420,000 customers made the switch to VDSL in 2014, and we want to increase this number further in the coming year. Also relating to fixed infrastructure is our digital television O_2 TV. This service is now growing the fastest, and has constant huge potential. We know from our customers that they like unique sports content, such as the Premiere League, and services that other televisions do not have, such as the option of watching something up to 30 hours later or watching on four devices thanks to the mobile application O_2TV Go.

In the area of mobile services, data services are a key growth area. In 2014, we focused on increasing coverage by high-speed internet, by which we reacted to the growing demand of our customers for data services and growth in data operation. By the end of the year, we covered 93% of the Czech population. We provided key expansion of coverage by the LTE network, which brings savings on costs as well as new revenue. At the end of the year, we were the first to provide coverage with the fastest mobile internet of the motorway D1, the general ski resort Špindlerův Mlýn and Prague's O_2 arena. We began sharing the LTE network with the company T-Mobile, thanks to which coverage is more effective. We also are focusing on the offer of devices supporting LTE technology, and we can bring new and attractive brands of mobile devices to the Czech market as the only independent operator - last year we expanded our portfolio to include the brands Meizu, Lenovo and BenQ, we also expanded our co-operation with the company Apple.

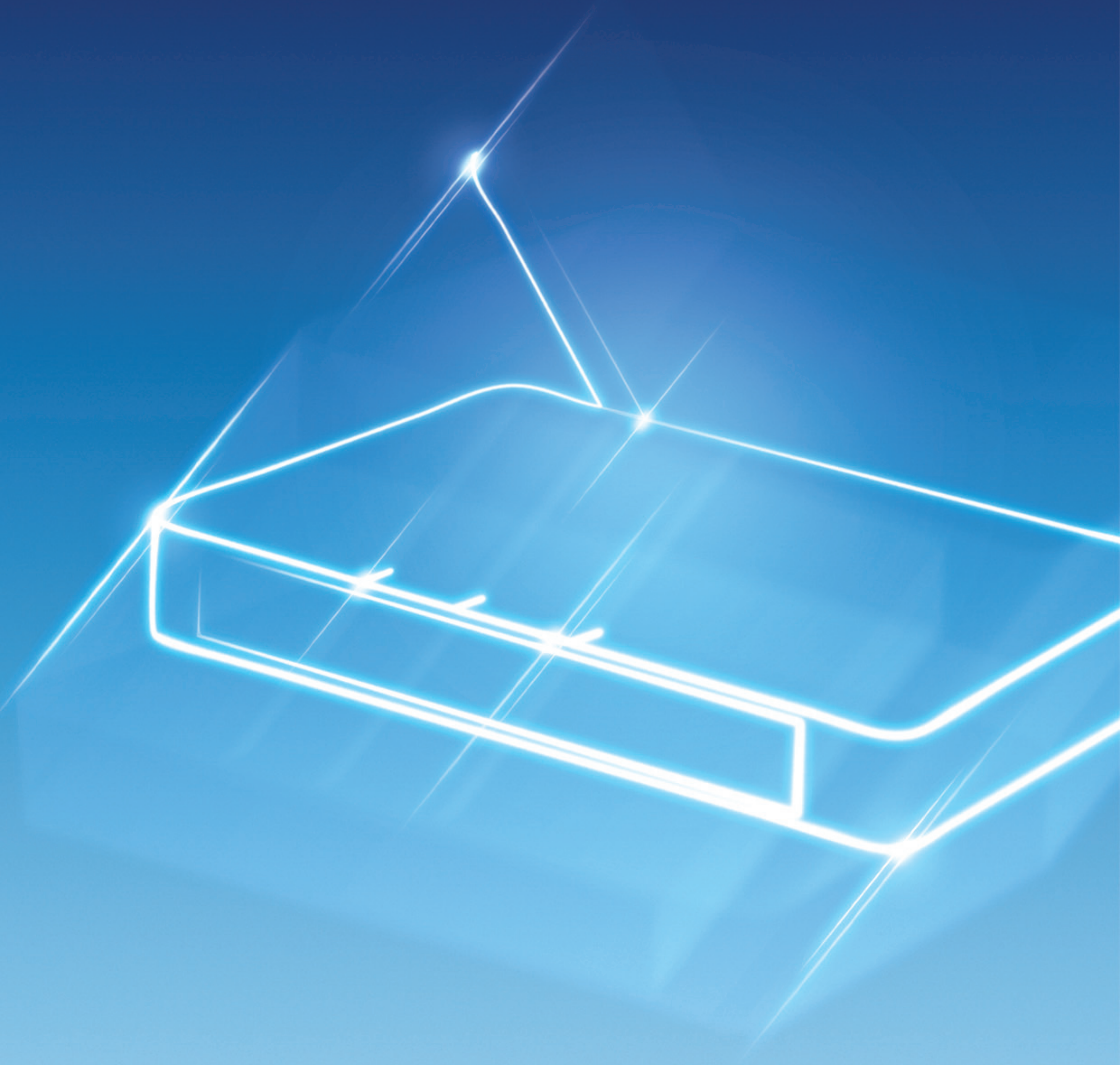
We began last year to build our own LTE network in Slovakia as well, where, by the end of the year, we launched this technology in two of the largest cities – Bratislava and Košice. A priority for us remains further expansion of our own 3G network. The company O2 Slovakia continues to register solid operating and financial results, and is thus increasing its share on the financial results of the Group. Standing behind this growth is an increase in the number of customers, the growing share of customers of contractual services and a growth in the share of revenues from data services.

The market environment in the area of telecommunication remains very complex, as it is the subject of major competition and regulation. In 2015, we will remain focused on the amount of achieved operating profit, and this means decreasing costs and economizing measures, and searching for opportunities to grow revenue. We will continue to invest in growth areas, such as the fourth generation network using LTE technology, and in fixed VDSL infrastructure. Another aim remains transformation to a simpler and more efficient operating model. Vast opportunities are opening up for the company by the continuing incorporation into the PPF Group, which brings

access to a wide base of customers, sharing of know-how, scales of economy and not the least of which, use of market knowledge by fusions and acquisitions to create value for all shareholders.
I believe that these steps appear in the growing satisfaction of our customers and enable us to meet our obligations towards shareholders.

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

Financial and operational highlights



3. Financial and operational highlights

Financial data is based on audited consolidated financial statements prepared in accordance with International Financial Reporting Standards. All figures, unless otherwise stated, are in CZK million and relate to the period ending 31 December 2014.

	2014	2013
Financials		
Revenues[1]	44,689	47,895
OIBDA – Operating income before depreciation and amortization	16,010	18,477
Operating profit	5,274	7,445
Profit before taxes	5,178	7,264
Net profit	3 998	5,695
Total assets	74,290	73,949
Grounds, buildings and facilities	36,200	41,857
Owner's equity	54,153	55,749
Financial obligations	7,004	3,004
Expenditures on investments[2]	11,490	5,673
Operating indicators (at end of period)		
Fixed lines (in thous.)	1,312	1,389
xDSL connections – retail and wholesale (in thous.)	922	919
Paid television – O_2 TV (in thous.)	184	156
Mobile customers in the Czech Republic (in thous.)	5,069	5,102
– of this customers with contractual services	3,294	3,235
prepaid service customers	1,775	1,866
Mobile customers in Slovakia (in thous.)	1,684	1,540
Number of employees in O2 CZ group (to end of year)[3]	4,892	5,607
Ratios (in %)		
OIBDA margin (OIBDA/revenues)	35.8	38.6
Net income/Revenues	9.0	11.9
Capital expenditure/Revenues	25.7	11.8
ROA (Net income/Total assets)	5.4	7.7
ROE (Net income/Equity)	7.4	10.2
Gross gearing (Financial debts/Total equity)	12.9	5.4
Macroeconomic indicators[4]		
Population (in millions)	10.5	10.5
GDP growth (in %)[5]	2.5	-0.9
Inflation (in %)	0.4	1.4
Unemployment (end of period, in %)	6.3	8.2
CZK/USD exchange rate – average	20.7	19.6
CZK/USD exchange rate – at end of period	22.8	19.9
CZK/EUR exchange rate – average	27.5	26.0
CZK/EUR exchange rate – at end of period	27.7	27.4

[1] Excluding revenuts from non-telecommunications services
[2] Including WiFi acquisitions, acquisition cost of the licences to LTE frequencies in the Czech Republic and in Slovakia and capitalised cost of the O2 brand
[3] Including subsidiary Bonerix s.r.o.
[4] Source: Czech Statistical Office, Ministry of Labour and Social Affairs of the Czech Republic, Czech National Banka
[5] At constant 1995 prices, 2014 preliminary figure

Board of Director’s report on the business of the Company

4. Board of Director’s report on the business of the Company

4.1 Group O2 Czech Republic

4.1.1 Overview of the Group and the main changes in 2014

The O2 Czech Republic Group (O2 CZ Group) comprises O2 Czech Republic a.s. and its subsidiaries. In 2014, the majority of the Group’s services were provided within the territory of the Czech Republic. The Group has been offering mobile services to customers in Slovakia since 2007 through a wholly owned subsidiary O2 Slovakia, s.r.o.

The regional breakdown of consolidated revenues (excluding revenues from non telecommunications services) was as follows:

In million CZK	**Year ending 31 December**	
	2014	**2013**
Czech Republic	39,537	43,399
Slovakia	6,173	5,398
Other countries	30	28
Consolidation adjustments	-1,051	-930
Consolidated revenues total	**44,689**	**47,895**

No changes in the structure of the O2 CZ group occurred in 2014. A more detailed summary of subsidiaries and affiliated companies is given in section Subsidiaries, associates and other ownership interests.

O2 CZ is the largest integrated telecommunications operator in the Czech Republic, offering a comprehensive range of both fixed and mobile voice, data and internet services in the Czech Republic. In September 2006 the Company also started offering O2 TV, a digital television service. The company is also one of the largest providers of ICT services in the Czech Republic.

The company also provides wholesale service to other public telecommunications network operators and public telecommunications service providers in the Czech Republic and abroad. Virtual operators also offer their services in the O_2 network. This expanded to include the operators Vinatel and Moraviatel in 2014. Over the course of the year, also the operator Gorila Mobil began operating on the O_2 network. The company however took over this brand later, and now offers services directly under this brand.

In support of communities, the Company continued 2014 through its Foundation O2 in the programme Think Big. Its goal goes to support informal groupings of young people make their ideas and projects to improve or change their communities become a reality.

In 2014, the O2 CZ Group did not invest any costs into research and development in the wording of the standard IAS 38 intangible assets.

In Slovakia, O2 Slovakia continued to grow steadily in all key financial and operating indicators. Growth in the customer base was driven mainly by a growth in contract customers. The offer of successful products *O_2 Fér*, *O_2 Paušál* and *O_2 Moja Firma* underwent a series of changes that brought customers more advantageous conditions and greater attractiveness.

The total number of customers of the O2 CZ Group was as follows:

In thousands	**to 31 December**	
	2014	**2013**
Retail accesses	**2,451**	**2,530**
Fixed accesses	**1,312**	**1,389**
Traditional telephone accesses[1)]	863	978
Accesses without voice tariff ("naked")	360	325
Voice over IP	89	86
Internet and data	**955**	**985**
Dial-up access[2)]	65	75
High-speed access[3)]	794	802
Other[4)]	96	108
Paid television	**184**	**156**
Wholesale accesses	**176**	**170**
Local Loop Unbundling	40	46
Wholesale xDSL accesses	129	117
Other[5)]	7	7
FIXED ACCESSES - CZECH REPUBLIC	**2,627**	**2,700**
Contract customers	3,294	3,235
Prepaid customers	1,775	1,866
MOBILE CUSTOMERS - CZECH REPUBLIC	**5,069**	**5,101**
Contract customers	858	774
Prepaid customers	826	766
MOBILE CUSTOMERS - SLOVAKIA	**1,684**	**1,540**
CUSTOMER TOTAL - GROUP	**9,380**	**9,341**

[1)] PSTN (including payphones) x1; ISDN2 x 1; ISDN30 x 30
[2)] Dial-up and ISDN2 x 1 customers
[3)] xDSL
[4)] Leased lines, Wi-Fi, symmetric digital subscriber lines, IP data lines
[5)] Wholesale leased lines

Restructuring programme

In 2014, the O2 CZ Group continued to implement restructuring and cost optimisation measures aimed at achieving a greater operational efficiency. The Group introduced new projects in many areas of its business. Restructuring projects mainly focused on streamlining the organisational structure and eliminating redundant positions, consolidation and optimisation of call centres, reducing the number of and simplification of applications and systems in use, and on process optimisation. As part of restructuring 715 employees were made redundant, and the number of the Group's employees in 2014 decreased by 12.8% to 4,892. The cost of the restructuring, of which severance formed a large part, reached CZK 457 mil. in 2014.

The total number of employees of the O2 CZ Group based on geographical grouping was as follows:

	to 31 December	
	2014	**2013**
O2 Czech Republic a.s.	4,352	5,100
Bonerix s.r.o.	104	102
Employees in the Czech Republic.	**4,456**	**5,202**
O2 Slovakia, s.r.o.	436	405
Employees in Slovakia	**436**	**405**
Employees total - Group	**4,892**	**5,607**

Share buy-back

On 19 April 2012, the General Meeting of the Company approved the share buyback programme. This programme was stopped by decision of the Board of Directors on 29 October 2013. Therefore, the Company did not acquire any of its own ordinary shares in 2014.

Subsequent events

Between the date of approval of the financial statements and consolidated financial statements and the date of approval of this Annual Report O2 CZ exercised the option for extending maturity of the short-term loan in the amount of CZK 4 bn from three to six months. More information on this loan is provided in the chapters 8. and 9. of this Annual Report. There were no other significant subsequent events.

4.1.2. O2 Slovakia

The revenues of O2 Slovakia reached CZK 6,173 mil. in 2014, up from CZK 5,398 mil. in 2013. At the same time O2 Slovakia reported operating income before depreciation and amortisation (OIBDA) of CZK 2,407 mil. compared to CZK 1,975 mil. in 2013.

As of 31 December 2014, the number of customers in O2 Slovakia reached a total of 1,684 thousand. This represents a year-on-year growth in its customer base of 9.4%, which means nearly 145,000 new SIM cards. There was growth especially in the number of contracted services. In 2014, the mobile average revenue per user (ARPU) was EUR 13.3 for customers of contract services and EUR 6 for prepaid service customers.

The operator continued in the offer of successful products *O_2 Fér*, *O_2 Paušál* and *O_2 Moja Firma*, which underwent a series of changes in 2014. These changes brought more advantageous conditions for customers and increased the attractiveness of these programmes. In the programme *O_2 Moja Firma*, O2 terminated the framework agreement with customers. All customers of O2 Slovakia, including corporate customers, thus use an agreement without obligations. In 2014, the biggest change came to the programme *O_2 Paušál*, within the framework of which bonuses were increased for purchasing mobile telephones, tablets or gaming consoles up to 33%, and there was also an increase in the volume of data in internet packages.

For all programmes, O2 Slovakia introduced a revolutionary novelty last summer - calling, SMS/MMS and mobile data in the Czech Republic for Slovak prices. At the end of the year, O2 Slovakia also introduced plans for building its own 4G network. At the same time, the company also declared it a priority for the next period to complete building its own 3G network. By the end of the year, the O2 Slovakia 2G network covered 96.08% of the population, and the 3G network covered 62.04% of the population. At the end of 2014, operation of the 4G network began in Slovakia's two largest cities - in Bratislava and Košice.

Based on research of the independent agency Ipsos Tambor and the company O2 Slovakia, O2 Slovakia again gained the highest level of customer satisfaction out of all the Slovak mobile operators. For the sixth year running, Slovak customers voted in a survey in the magazine Techbox and named O2 Slovakia Operator of the Year 2014. O2 Slovakia became the best employer in 2014 in the category of large companies based on the evaluation Best（mployer.

4.1.3 Risk management

Risk management is one of the primary management tools for effective governance of the Company. Its purpose is to render support in accomplishing the Company’s vision and strategy. The risk management model which is being applied fully conforms to the best international practice in the field of corporate governance and the COSO II framework (Committee of Sponsoring Organizations of the Treadway Commission). The risk management system continues to be developer as an indispensable instrument of internal control.

Risks are identified based on an assessment of the relevant management levels and suggestions made by the division Internal Audit and Risk Management and other units of the Company, and evaluated in terms of their potential financial impact and likelihood of materialisation. Where the value of a risk exceeds a set limit or is considered meaningful, the risk is included in the risk catalogue of the Company.

In 2014, the Risk Management unit was responsible for the methodology and risk management system on the Company level. The governing bodies – the Board of Directors and the Supervisory Board, or, where appropriate, the Audit Committee – were informed on a monthly basis of all major risks to which the Company was exposed, and of the ways the risks were managed.

The Risk Management unit also handles the risks of O2 Slovakia; the risks were managed according to the approved methodology.

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

Commercial (market) risks

The general economic climate has a major influence over the Company’s business. Any uncertainty regarding future economic prospects may dampen demand from customers. The Company operates in a highly regulated marketplace. Regulatory interventions on the European (European Commission) and the national (CTO) level may have a negative impact on the Company’s business. The proposal for further regulation of roaming services, or removal of roaming fees in comparison with national prices starting in 2016 may lead to a decrease in the Company’s revenues.

The Company’s business can also be adversely affected by the fierce market competition, intensified by the effect of the significant number of virtual mobile operators on the market and by constant technology development. New products and technology may cause existing products and services to become obsolete; they may also have a negative Bering on the take-up and profitability of traditional voice and data services.

Financial and credit risks

The Company is exposed to various types of financial risk, in particular risks of the fluctuation of the exchange rates of currencies or interest rates.

The Company is also faced with the risk of losses stemming from defaults on payment and delivery terms contracted with partners, e.g. receivables from customers or sales agents.

Operating risks

The Company is exposed to risks associated with a sudden disruption of service due to network failure or information system downtime. Such service interruptions may negatively influence customer satisfaction and revenues, and make the Company liable to bear extra maintenance costs or sanctions from government authorities. At the same time, the Company is dependent on a small number of important suppliers of critical products and services.
The Company is also implicated in several litigation cases 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 above risks are regularly monitored and managed by the Company in a way that corresponds to the nature of the risk, with the view of limiting the potential impact on the Company’s results.

4.2 The telecommunications market in the Czech Republic

4.2.1 Trends in the market of mobile services

The year 2014 saw the expansion of the LTE network and its speed increase in real operation. In February, all three operators acquired frequencies for developing the LTE networks in a frequency auction. Speeding up the LTE also projected into propositions of operators. In January, O2 CZ increased FUP for data tariffs. Vodafone followed suit while also introducing a new data tariff *Mobilní připojení Turbo* with the Smart FUP 20 GB enabling unlimited use of the Web, e mail and applications. After drawing FUP, the speed is decreased only towards selected protocols. Also the operator T-Mobile increased limits for data tariffs in March.

Another novelty were the shared data tariffs. T-Mobile was the first to offer in February a second SIM for sharing data to the voice tariff *S námi*. In August, it introduced to its portfolio the new tariff *S námi sdílený*. O2 CZ first offered the service MultiSIM in July. Vodafone, in line with the competition, innovated its RED tariffs in September, to which it also offers MultiSIM, but as the only operator to do so for free.

Like in previous years, roaming prices within the EU decreased in 2014 due to regulation. The price of outgoing calls in the EU is CZK 6.30/min, incoming calls are for CZK 1.66/min. The price of SMS was set at CZK 1.99 and the customer pays CZK 6.63 for 1 MB of data.

In 2014, the number of customers switching to unlimited tariffs continued to increase. In May, O2 CZ declared that 95% of customers have switched to the tariffs FREE. It included into its portfolio the new tariff *FREE O2 60* for CZK 349 and a tariff for students *[:kůl:] data 1 GB* for CZK 399. T-Mobile cancelled the old tariffs and in November, it came out with a new offer of tariffs *S námi*, including a new tariff for students. Vodafone in September introduced the new *RED tariff*s with a second SIM and cloud. Vodafone decided to activate automatically for its customers the service of an extra data purchase after exhausting FUP. The customer can deactivate the service.

In July, Vodafone introduced unlimited calling packages for of prepaid card owners. In the autumn, it also added data to these packages. O2 CZ came out with a new offer of the card *NA!DLOUHO*, which enables unlimited calling after the first minute to all networks.

4.2.2 Trends in the market of fixed services

In the second half of the year, there was growth in mobile televisions from various providers. O2 CZ continued in its digital television offer O_2 TV, now with the option of watching TV on up to four devices thanks to the mobile application *O_2TV Go*. In November, T-Mobile reacted by introducing its own T-Mobile *TV do mobilu*. The service is still only available for the operator's selected customers. Also in November, the virtual operator Netbox introduced its own mobile television *Kuki*.

Another new offer in O2 CZ portfolio was LTE connection at home with smart FUP. This enabled unlimited surfing, sending e-mails or playing online games until exhausting FUP, which in this case is 20 or 25 GB. T-Mobile is offering a new tariff *Pevný internet bez drátu* as an alternative to fixed connection. This is a mobile internet with FUP 30 GB. In September, O2 CZ also introduced new tariffs for the fixed access *Volání Neomezeně* for CZK 549 and *Volání Bez zábran* for CZK 749, within the framework of which it is possible to call all fixed networks and mobile networks of O_2 without limits. *Volání Bez zábran* moreover offers 600 minutes abroad in zone 0.

4.2.3 Regulation

The following meaningful events occurred in 2014 in the regulatory environment, which governs the field of electronic communications in the Czech Republic:

1) changes in the legislation,
2) changes in the areas of markets analysis and product regulation,
3) changes in the Universal Service provision and in the government's policy and support of broadband internet access.

In the area of legislation regulating the area of electronic communications or which significantly influences the activity of O2 CZ, the following meaningful events occurred:

- Taking force were a new Civil Code, on Business Corporations Act and the Act on International Private Law, effective 1 January 2014.

  This concerns new legislation of the entire scope of private law in the Czech Republic, which replaced the existing regulations in this area, especially the Civil Code of 1964 and the Commercial Code of 1991. The Company has made adjustments in regards to the new legislation both internally (change to the Statues) and in terms of procedures (especially rules for signing, rules for representing the Company and rules for its negotiations and entering into obligations) and contracts with customers and business partners. Regular assessment of the development of using the new legislation continued (especially in high court decisions), in relation to the analysis of risks arising for the Company from such development, and their mitigation by further modification of procedures and contractual documentation.

- Implementation of Amendment No. 214/2013 Coll., which inserted new provisions in the Electronic Communications Act with the aim of protecting customers, who concluded an agreement with electronic communications service providers (including the Company) for a definite period for provision of publicly available service of electronic communications or on connecting to the public communications network.

  The amendment gave customers the right to terminate such agreements prematurely under the same conditions as a contract for an indefinite period, and limited the amount of payment paid in such case by the customer, to one-fifth the sum of monthly fees or minimum performance remaining till the end of the negotiated period of duration of the agreement, increased by a payment of costs affiliated with the end device, which was provided to the customer for advantageous conditions. Meanwhile, the amendment introduced the obligation of the service provider to notify the customer of his right to terminate an agreement, which is automatically extended, and of legal matters of the agreement after its conclusion or a change by means of remote communications means, as well as penalties imposed on the service provider upon breach of the aforementioned obligations. To satisfy requirements of the amendment, the Company modified its systems and processes for informing customers and for their contractual documentation. Since practice on the market upon introduction of the amendment is not unified, it is possible to expect further development in the aforementioned areas.

- Adoption of the Amendment No. 258/2014 Coll., which as of 5 December 2014 amended the Electronic Communications Act, especially in relation to relating legislation:

  it conducted technical legislative modifications to remove duplicity and to harmonise the Electronic Communications Act with the new Act No. 255/2012 Coll., on Inspection (Inspection Code), and it added penalties that can be imposed once again on electronic communications service providers for breaching obligations arising from measures of a general nature under the Electronic Communications Act and from EU Regulation No. 531/2012 on roaming on public mobile communications networks within the Union. It furthermore reacted to the aforementioned Amendment No. 214/2013 Coll. by simplifying the formulation of introduced provisions for protecting customers, and limited its effects on consumers. Besides this, it modified the method of changing an electronic communications service agreement by the provider so that its relating obligations were better focused on the customer having been affected by such a change, in relation to the seriousness of specific impacts of the change for the customer: therefore only towards customers who have undertaken to make a payment in the event of terminating the agreement prior to expiration of the negotiated period of its duration, the option is applied of terminating the agreement without making this payment due to a substantial change in the agreement leading to worsening of their position.

- Expected changes in regulation of mobile payments representing an additional service to electronic communications services:

  the Company also engaged in providing premium services with premium based billing, serving customers to pay by means of billing for the telephone (e.g. premium SMS, DMS or m-payment), and which further develop new products for a similar purpose (especially the so-called electronic wallet). For this reason, the Company acts as a provider of paid services and as such, the prepared EU legislation in this area influences it - a bill to amend Directive No 2007/64/EC on payment services in the internal market, prepared by the Commission. The aim of the bill is to unify access to regulation of payment services within the EU, especially for electronic and mobile payments, and for newly offered technology, by which the provider enables the customer to gain information or make payment orders from an account, which a different provider maintains for customers. Approval of the bill in the European Parliament has been delayed due to elections taking place in 2014. Today, the bill is under assessment by a permanent committee of the European Parliament for Economics and Currency, whose report will become a basis for decision-making of the plenum. Through professional associations, the Company is taking part in preparations of the wording of this new European regulation.

- The new Act No. 181/2014 Coll., on Cybernetic Security, which came into force on 1 January 2015 introduces in the Czech Republic entirely new regulation of protection of networks and information in cyberspace.

  Since the Company is one of the electronic communications service providers and communications network operators in the Czech Republic, it is bound to a series of obligations that the new regulation imposes upon information and communication systems managers of critical information infrastructure (thus within the framework of the most meaningful and most strictly regulated area), especially the obligation to detect security risks, to report security incidents to the National Security Authority, to introduce and perform safety measures determined according to the Act and related regulations, to maintain security documentation on them and perform decisions and measures determined by the National Security Authority for preventing incidents and their control. The Company actively takes part in commenting procedures on drafted regulations of implementation laws, and is represented in work groups, which, in cooperation with the National Security Authority and the Ministry of the Interior, deal with introducing this new regulation into practice.

Relevant markets analysis and product regulation

The Company continued to meet its duties with which it was tasked based on the relevant markets analysis undertaken by the Czech Telecommunication Office (CTO) in previous periods.

Within the framework of reviewing relevant markets, CTO issued on 15 May 2014 its new market analysis No. 1 – services of access to a public telephone network at a fixed location, based on which it proposed the return of imposing the obligation to provide service selection and pre-selection of a carrier (CS/CPS). On 21 October 2014, legal force took effect of the decision by which the Company was designated as an enterprise having significant market power on this market, and on 19 November 2014, legal force took effect of the decision by which the Company was imposed the obligation of providing CS/CPS and the obligations of maintaining separate records.

By its Pricing Decision CEN/2/03.2014-33, CTO changed the maximum price that the Company may charge for service of the origin of a call (origination) in a public telephone network in a fixed location. The original prices of origination [1] were changed as of 1 July 2014 to CZK 0.31/min. excluding VAT.

Furthermore, by its Decision CEN/3/05.2014-87, CTO decreased the maximum prices for termination in public fixed networks to CZK 0.03/min based on the cost model called BU-LRIC. The new price was applied on August 1 and will once again relate to termination for non-geographical numbers. The price for termination in public mobile networks does not change by Decision CEN/7/06.2014-97.[2] The regulated price of termination in fixed and mobile networks according to the stated decisions applies only to calls from telephone numbers with codes of countries within the European Economic Area.

In 2014, the CTO continued in the third round of analyses of relevant markets. Analyses of market No. 4 were published on 29 October 2014 – wholesale (physical) access to network infrastructure (including shared or full local loop unbundling) at fixed location and No. 5 - wholesale broadband access in electronic communications networks. The CTO in them designated the Company as an enterprise having significant market power on both markets and proposed corrective actions.

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[1] Local exchange: 0.31 CZK/min (heavy volume) and 0.16 CZK/min (light volume)
First transit exchange: 0.36 CZK/min (heavy volume) and 0.18 CZK/min (light volume)

[2] 0.27 CZK/min excluding VAT

The CTO also submitted for repeat notification at the European Commission market analysis papers for market No. 6 – wholesale terminating segments for leased lines regardless of the technology used for making leased or reserved capacity available.

On 9 October 2014, the European Commission adopted Recommendation 2014/710/EU on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation. The Recommendation repeals the existing relevant market No. 1 – access to a public telephone network at a fixed location and No. 2 – call origination in a public telephone network at fixed location. Termination markets in mobile and fixed networks are retained. A change occurred in definition of the existing relevant markets No. 4, 5 and 6 – new market 3a includes wholesale services with local access provided in a fixed location, new market 3b includes wholesale services with central access provided in a fixed location for products with wide consumption and a new market No. 4 is created by wholesale services with high quality access provided in a fixed location. The new recommendation appears in further proper analyses of relevant markets.

International roaming regulation

A new regulation of international roaming, which defines the regulated roaming services and prices in the EU until 2022, was passed by the European Parliament and the Council of Ministers in the first half of 2012. In accordance with a new roaming regulation, regulated prices are decreasing for roaming voice services, SMS services and data services, and in strengthening protection of the end customer. As required by the roaming regulation, the Company published its mandatory reference offers.

In the course of the 1st half of 2014, valid regulated retail prices were publicized to 1 July 2013. As of 1 July 2014, roaming prices were adjusted to meet the applicable regulatory measures.

Imposition of duties related to the Universal Service

The Company provided the following services during 2014 as part of meeting its duties imposed by the CTO in relation to the Universal Service provision:

(a) the public payphone service,
(b) access to the public telephone service, of the same quality as for other end users, for people with disabilities, namely by means of special terminal equipment,
(c) special price plans for persons with disabilities, which are different from the regular price plans provided under the standard commercial terms and conditions.

For the service under (a), the CTO charged O2 CZ with the duty to provide the service in municipalities under 1,999 residents from 1 January 2013. In municipalities over 2,000 and under 4,999 residents, the Company is bound to operate one public payphone or similar equipment if the location in question is not covered with a GSM signal of sufficient quality. The arrangement under (a) applies until the end of 2014. Starting 1 January 2015, the Company will provide services listed under letter a) based on a new decision of the CTO on imposing the obligation, in similar scope as it was at the end of 2014.

Regarding the services under (b), the CTO decided that the Company had the duty to offer special terminal equipment to the designated categories of people with disabilities as part of the Universal Service for a period of three years from 15 July 2012.

As to the services under (c), the Company continued to meet its duty to offer special pricing to nominated categories of persons with disabilities under the Universal Service obligation imposed by the CTO, for a period of three years commencing on 2 July 2011.

For ensuring availability of services listed under letter c) in the period from 3 July 2014 to 2 July 2017, the CTO issued its decision on 25 June 2014 on imposing this obligation of the Company.

On 12 November 2014, the CTO submitted its intention within the framework of public consultation to impose the obligation to provide access to the public telephone service, of the same quality as for other end users, for people with disabilities, namely by means of special terminal equipment.

Funding of the Universal Service

In mid-2014, O2 CZ submitted claim for compensation for the loss incurred as a result of Universal Service provision, including the loss incurred as a result of offering special price plans for people with disabilities, in 2013. The CTO proceeded to verify the amount of the claim and examine the underlying documents supplied with the claim. Issue of a decision and payment by CTO occurred in November and December 2014, for an amount of CZK 46,969,448 for loss from provided universal service, and for an amount of CZK 91,761,838 for a loss for providing special prices.

State policy and support in the area of broadband internet access

With respect to the objectives stated by the European Commission in the Digital Agenda for Europe (2020) and in the state policy for the area of electronic communications Digital Czech Republic 2.0, the CTO continued in assessing data gained from the survey of penetration of the country with infrastructure for broadband internet access in the Czech Republic. The conclusions of this survey will be used as one of the arguments for decisions on the potential application of state aid to the deployment of new generation networks.

The Czech government continued with the drafting of operational programmes of the EU Structural Funds for the programming period 2014 –2020. The ICT area falls, for the most part, under the Operational Programme Enterprise and Innovation for Competitiveness, whose administrator is the Ministry of Industry and Trade of the Czech Republic, which also contains a subsidy for building a network for high-speed internet access. The expected total amount of the subsidy is roughly CZK 14 billion.

Over the autumn, the Ministry of Industry and Trade of the Czech Republic commenced in relation to the prepared subsidy the creation of the document National Plan for Development of Next Generation Networks.

European Parliament approved the Regulation of the European Parliament and Council on measures for decreasing costs for introducing high-speed electronic communications networks. Implementation of the regulation into Czech legislation should occur in 2016.

The Company is constantly monitoring funding options offered to customers by the Structural Funds, and modifies its products and services so that they are eligible for subsidies.
The Company is a member of prominent industry associations that work to develop the market in electronic communications in the Czech Republic. This concerns APMS (Mobile Network Operators Association), ICTU (Association for Information Technologies and Telecommunications), ČAEK (Czech Association of Electronic Communications) and ČAT (Czech Telecommunications Association).

The Company is also a member of other associations that are important for its activities. This concerns the HK ČR (Chamber of Commerce of the Czech Republic) and others.

4.3 Consumer segment

In 2014, the Company focused on expanding coverage by high-speed internet in both fixed and mobile connections. Thanks to investments in expanding VDSL technology, high-speed fixed internet is available now to over half of all connected households.

In 2014, major growth occurred in 4G network coverage. Thanks to this, at the end of 2014, high-speed mobile internet is available to 93% of the population of the Czech Republic. Based on research by the agency Ipsos on a sample of over a thousand of respondents, the Company offers the best mobile internet. Thirty per cent of those surveyed gave it the highest grade (1) amongst mobile Internet providers.

The Company also focused on customer experience. O_2 Gurus gave free help not only to O_2 customers in stores, but also on the Internet and on social networks. In 2014, the Company ran the TQ test, in which everybody can measure their technology quotient. The aim of this testing inter alias is to increase the digital literacy of Czechs.

The Company offered its customers many benefits via its loyalty programme Extra výhody, thanks to which customers of all O_2 service could make discount purchases at our partners in various areas. In 2014, this programme helped the Company’s customers save over one hundred million Czech Crowns.

4.3.1. Fixed services

Internet

In 2014, the Company continued in investments into high-speed internet. In the course of the year, 104 rDSLams were built, i.e. detached exchanges enabling expansion of availability of VDSL technology. Total number of households, which now have available speed of 30–40 Mbps thus reached 374,000, representing 54% of the total number of connected households. The total number of fixed internet customers is 791,000.

In September, the Company introduced new prices of the tariffs Internet na doma. It thus currently offers the tariff *Start Plus* for CZK 349, *Optimal Plus* for CZK 499 and *Aktiv Plus* for CZK 599. The most advantageous for customers is to acquire service in the package with O_2 TV, fixed access or mobile calling. Most customers chose the tariff *Optimal Plus* with download speeds of up to 20 Mbps. As before, these tariffs maintain an advantageous price with no limits throughout the duration of the obligation.

In the second half of the year, the Company was successful in decreasing the number of departing customers to a historical minimum. The drop in the churn in the households segment is over 32%. Mainly standing behind this success is emphasis on sales quality, care for existing customers and simplification and clarification of marketing offers.

In the last months of 2014, the Company succeeded in changing the trend in the cancellation/acquisition ratio of fixed internet on the market. In September, October and November, the Company recorded a positive difference between incoming and outgoing customers, and the market of fixed internet on DSL technology began to grow. There was also remarkable growth in younger customers, 31% of all newly connected households with Internet from O_2 is in the age category of up to thirty years of age.

Fixed access

In September, the Company also introduced new fixed voice tariffs. The main change was that the new tariffs are not distinguished as to whether the customer calls to a fixed or mobile network. There are three tariffs currently available: *O_2 CZ 50 Kamkoli*, providing 50 free minutes; *O_2 Neomezeně* with free calling to the fixed and mobile O_2 network and *O_2 Neomezené volání*, which copies the FREE revolution from 2013 and offers unlimited calls to all networks including 600 minutes for calling abroad.

Like the fixed internet, also the fixed line registered a decrease in the number of departing customers; even so, of course their number decreased year-on-year by 5.6 %, and at the end of 2014, this number reached 1,312,000.

O_2 TV

In 2014, the digital television service O_2 TV experienced both a revolution and further evolution.

The revolution mainly concerns mobile television *O_2 TV Go*. This enables watching selected channels on up to four devices also to customers not having O_2 TV, or even not having products from the Company. With each mobile television *O_2 TV Go*, four licenses are sold, and the customer decides for him or herself when and where to watch the shows. The customer can also fully utilize the function of watching shows later or recording them. If customers do not also have the service O_2 TV, they can record programmes totalling up to 100 hours, which will stay recorded for 30 days. By the end of 2014 the application *O_2TV Go* has been downloaded by more than 240 thousand users.

O_2 TV registered evolution both in the area of developing functionalities, in this very expansion of recording options up to 100 hours, and in the programming offer, where the Company gained exclusive rights for broadcasting matches of the Premier League, England's prestigious football league.

The number of customers of O_2 TV grew year-on-year by more than 20%, and has reached 180 thousand users. Customer satisfaction with this service is confirmed not only by the numbers of newly arriving customers, but also by the number of customers cancelling the service. These values reached a historical minimum in 2014.

4.3.2 Mobile services

In 2014, the Company continued in covering the Czech Republic with the 4G LTE network. In terms of coverage, the Company mainly concentrated on areas where high-speed internet had not previously been available. At the end of the year, the Company was the first to complete coverage of the D1 Motorway from Prague to Brno, and to also cover the general ski resort Špindlerův Mlýn. The Company also covered the Prague O_2 Arena with 4G technology, where it also strengthened capacity of the existing 3G network. In 2014, the Company also implemented into its network in selected localities the technology LTE Advanced (LTE-A). This enables use of multiple frequency zones simultaneously, which tweaks the maximum speed even more.

At the start of the year, the Company increased the volume of data in the tariffs *FREE O_2 Plus* and *FREE CZ*. In the case of the tariff *FREE O_2 Plus*, the volume of transmitted data increased from 150 MB to 200 MB, in the tariff *FREE CZ* , there is 1.5 GB of data available as opposed to the previous 1 GB. The increase also concerned mobile internet tariffs for notebooks or tablets. All data tariffs sped up to a maximum speed of 110 Mbps for downloads and 55 Mbps for recording data, and customers could take advantage of 4G LTE internet in both their modems and tablets, and in mobile telephones. In August, the Company presented the MultiSIM card, which for a monthly fee of CZK 99 enables sharing the data limit from a mobile telephone with other devices.

The Company also focused on the offer for young customers, introducing the tariff *[:kůl:] data 1 GB*. This tariff offers young people up to age 26 an attractive combination of 120 minutes of calling to all networks, 1 GB of data and SMS to the O_2 network for free. This tariff price is CZK 399 per month including VAT.

In relation to expanding coverage of the 4G network, the Company also focused on its offer of devices supporting this technology. Over the course of 2014, the Company expanded its offer of mobile phones to include the brands Meizu, BenQ and Lenovo. Within its Christmas offer, the Company offered telephones and tablets for advantageous prices, and with them also the option of getting 3 thousand Crowns back through billing. All telephones and tablets from the Christmas offer supported the fastest mobile internet 4G LTE.

In 2014, the Company introduced an important novelty also for prepaid service customers. In August, the Company introduced a new limited edition prepaid card with the tariff *NA!DLOUHO*. Thanks to this card, customers pay only the price of the first minute for the call. The rest of the call will be free, even if it lasts a whole hour. For calling into the O_2 network, this advantage is valid with no limitation. For calls to networks of other mobile operators, this is conditional to purchase of credit up to at least CZK 300, and then it lasts one month.

4.4 Corporations and government

As in other years, in 2014, the Company significantly improved its method of caring for customers. Major changes were forthcoming especially in the medium-sized enterprise segment, for which it increased the number of sales representatives actively making sales calls out to their company headquarters. This was performed without negatively impacting costs, since in relation to this, the number of employees working in sales departments at administrative positions was reduced. In relation to the shift of the customer segment of small entrepreneurs and small companies to the consumer customers division, merging occurred of segments of major corporations and medium-sized enterprises into a single segment of corporate customers.

4.4.1 Telecommunications services

In the area of mobile services, work continued in 2014 on gradual migration of customers to the new portfolio of Vario tariffs. Over 70% of corporate customers were subscribed for new tariffs in 2014, which played no small part in the growth of their satisfaction. Thanks to this, penetration of the Internet in handset more than doubled.

In fixed internet services, the Company concentrated on expanding availability of symmetric internet connection (product Internet Business) using the microwave technology point–point, especially for data transmission speeds over 20 Mbps.

Hand in hand with expanding availability of high-speed internet connection, the Company dedicated serious efforts to simplifying the company portfolio to make it more understandable for sales representatives but especially for customers. Relating benefits have appeared fully in the expected growth in sales in 2015.

Major changes also came in terms of fixed voice services. Especially noteworthy is the completely new portfolio of flat tariffs for services HTS, ISDN 2, ISDN 30 and Virtual Exchange or IP Telephone Line. Modernization also came to platforms for VoIP services, which now enable provision of more sophisticated services to customers e.g. call centres or integration of the fixed line with Outlook clients.

In terms of government, the Company continued in its strategy of increasing penetration of basic services (mobile voice, fixed voice and internet) in individual regions, and joined with further subordinate organisations within the framework of several regions.

4.4.2 ICT

The Company is a technology company well positioned for meeting the needs of discerning customers in the area of telecommunications, IT or a combination of these two. In 2014, the Company continued to strengthen its strong position as a provider of telecommunications and IT services. A specific step towards strengthening its competitiveness was detachment of a part of ICT activities from the division of corporate customers and government to a new Professional Services Division, whose goal is to provide highly professional IT services to the segments corporate customers and government. This division was also augmented by hiring recognized market specialists.

In 2014, the Company defended its holding of several key certificates, e.g. VMware Service Provider – Premium; partnership Microsoft GOLD and successfully completed recertification according to the new version ISO 20000.

The Company also remained proud to operate the only commercially provided data centre holding the certification TIER III according to the recognized organisation Uptime Institute. O_2 data centres are founded upon quality and robust international standards; they use cutting-edge technology, they are located outside flood areas, they are secure against fire and other natural catastrophes and enable offering space for locating the most critical applications with the highest availability.
As a data centre operator, the Company also complies with conditions of the security standard PCI DSS (Payment Card Industry Data Security Standard) for handling data of payment card holders.

Investments were also made in the services O_2 Cloud and O_2 Managed Server Hosting. O_2 Cloud services began being provided mid-year on a new HW platform, which was built using principles of modern scalable architecture.

One success story in the Company's offer in 2014 was the service Mobile Device Management – an efficient tool for managing mobility in an organisation and for management and implementation of security policies in relation to mobile devices, throughout the duration of their life cycle in the environment of the organisation. The platform O_2 Mobile Device Management enables the organisation to administer in a systematic and complex way the ever-expanding range of widely varying mobile devices scattered worldwide. The platform is a centralised solution for the management of mobile devices, it gives a global overview of the mobile environment in real time. It supports the implementation of a consistent security policy across the whole IT and mobile device landscape and makes compliance with all security requirements possible. Data transmission is completely secure and, because of content supervision, the platform protects against loss of sensitive data. It has also automated a number of processes connected to implementation of security solutions in organisations and to the integration, management and de-commissioning of mobile devices in the IT environment of an organisation. The O_2 Mobile Device Management platform is a cloud computing solution. This makes for very fast deployment and commissioning.

The Company's O_2 Mobile Device Management was awarded as IT Product of the Year 2013 from Computer World magazine.

The service O_2 Car Control was significantly enhanced with further advanced security functions. The service administration portal was also developed, which simplifies and makes more pleasant control of the functions of the service O_2 Car Control. Also added were new application properties such as more accurate (vector) drawing out of travelled routes onto a map, automated calculation of travel expenses and many others.

4.4.3 Customer care

Customer satisfaction is a key priority for the Company. It constantly strives to improve customer satisfaction through offering the best services in the market hand in hand with the best customer care.

As in other years, in 2014 the Company continued to improve the portal www.firemnitelefony.cz, which it launched in 2012. In addition to functionality that guides the customer through the process of selection and purchase of subsidised and unsubsidised hardware, manage his bills, place orders and lodge complaints, the portal has been expanded to include new features, such as the option of purchasing for employees instead of a specific model of telephone or tablet, a voucher to select hardware. This option is advantageous for both companies (decreasing admin costs for distribution of hardware to employees), and their employees, since they have the option of using the voucher to purchase just precisely the type of telephone or tablet that suits them best.

Also prepared for launch in 2014 was the option of exhausting the company budget on hardware allocated within a framework agreement by alternative means, e.g. use an allocated budget to pay for provided services

An important milestone is termination of the programme O_2 Exclusive in its existing likeness. The level of customer care provided within the programme O_2 Exclusive was so attractive for customers that most of them were already a part of this programme The Company thus decided that nearly all advantages of the programme O_2 Exclusive will be available save a few minor exceptions to all companies in the Segment Corporate Customers.

The Company also registered strong growth in 2014 in the number of companies using the internet self-service point Moje O_2 for corporate customers. At the address www.mojeo2.cz, companies find their electronic billing and internet self-service point, in which they keep an overview of their mobile and fixed services. Within the framework of one company, each user registering/logging into Moje O_2 for corporations may have a selected certain role enabling actions for him or her to take at Moje O_2.

4.5 Wholesale services

National wholesale services

The long-term trend of rising demand for higher quality and faster xDSL service in the wholesale market again led to an increase in the total number of services. The year-on-year increase in the number of xDSL accesses reached nearly 10%. At the same time, the number of VDSL accesses grew; at the end of the year, VDSL accesses accounted for 29% of total accesses.

The continuing market pressure on decreasing prices of symmetric data services is partially compensated by the demand for increasing the speed of individual services. Just like last year, this year saw continuation of the migration from higher quality and provided services of leasing circuits to cheaper services with Ethernet interface, and from low-speed services to asymmetric ones. From the aforementioned facts, it is clear that despite further gaining of new customers and increasing speeds, revenues for leased circuits reported a decrease and stagnation with services with Ethernet interface.

As in previous years, we succeeded in tenders for providing infrastructure mainly for mobile operators and for the academic network CESNET. Also continuing were completion and submittal of partial infrastructure projects based on earlier tenders, which positively projected into revenues for 2014.

International wholesale services

We were successful in maintaining a high level of quality of offered services. We continue to fulfil the role of the leading provider of transit voice and data services in the region of Central Europe for an entire series of mobile and fixed operators from abroad. Interconnection with operators using the Ethernet as their primary interface is becoming a new standard. We are active in providing IPX for voice and data services. Further development of our business is also then built on closer cooperation with operators in Asia or Africa.

4.6 Network interconnection

As of 31 December 2014, the fixed network of O2 CZ in the Czech Republic was interconnected with 13 networks of fixed line operators and 3 networks of mobile network operators. The analogue mobile network of was interconnected with 9 networks of fixed line operators and 3 networks of mobile network operators.

Despite the interconnection of the fixed access networks, the volume of voice traffic went down slightly, especially the volume of outgoing traffic from O2 CZ network, but the volume of operation via interconnection of the mobile network continued to rise in both the incoming and outgoing direction. O2 CZ started working with operators on changes in interconnection of the fixed network caused by reduction of transit exchanges. In 2014, O2 CZ terminated interconnection with operators for the transit exchanges Pilsen and České Budějovice. These interconnections were rerouted to Prague and Brno. Reconfiguration of interconnection will continue in 2015, and completion is planned for terminating transit exchanges by 2016. Termination of these interconnections causes a drop in both revenue and costs from services of interconnected telecommunication circuits.
In the area of Local Loop Unbundling and Co-location services, the previous years' trend continued – in terms of both the number of new orders for services and cancellation requests. In 2014, the company succeeded in negotiating these services with two regional operators. However, major operators will only be able to continue using these services especially for corporate customers. It thus concerns a decrease in use of these services and a move of operators from these services to wholesale services xDSL.

The number of users of services of other operators using our Wholesale Line Rental (WLR) service began to drop slightly in 2014, which is caused by the decreasing trend of use of fixed lines.

The number of CS/CPS clients continued to fall in terms of both their number and the volume of traffic. These services are nowadays used mostly by corporate clients of operators whose networks are interconnected with O2 CZ.

Based on the obligation from the Allocation of Radio Frequencies of 21 February 2014, the Wholesale Offer was elaborated and published for Full MVNO in September 2014. Only one company expressed interest in the offer, which has only led to official negotiations so far.

4.7 Payment and financial services

The Company has been providing payment services to its customers in keeping with Act No. 284/2009 Coll., on the payment system, already since 1 November 2009. The services allow customers raise a payment order and use their mobile device or fixed line to pay for goods or services provided by third parties. In 2014, customers in the O2 network paid for goods and services worth close to CZK 707 mil. The customer has a choice of several methods of payments – sending an SMS, calling on accesses with special tariffs, confirmation of payment in the internet or application. The most widely used method is via Premium SMS, which, in 2014, was opted for on average by 278 thousand customers per month. The most widely used method is via Premium SMS, which, in 2013, was opted for on average. The number of cities where public transport fare can be paid by SMS grew to 12. In the same spirit, the possible to pay for parking by SMS grew to 39 places in the CR.

Ever more popular with customers is the option of paying via the internet using the mobile payment gateway O_2, or directly in a third party application. In December 2014, the option of payment via O_2 in the application store Google Play was launched with significant positive customer feedback.

One special charity project is the service Dárcovská SMS (DMS), by which customers can donate to a charity. The Company fully covers its costs affiliated with this service, providing for its function in the O_2 network free of charge.

In cooperation with the other mobile operators within the Association of Mobile Network Operators, O2 strives to inform customers on payment services, their basic principles and options of use, et alias, via the websitewww.platmobilem.cz.

4.8 Comments on the financial results

In this section we present and comment on the consolidated financial results of the O2 CZ Group prepared in accordance with International Financial Reporting Standards (IFRS).

Consolidated financial results

Revenues, Operating Costs and OIBDA

The total consolidated revenues reached CZK 44.7 bn in 2014, down 6.7% year on year.
The decline was driven by the continued competitive pressures in all segments and by regulatory measures (mobile termination rate/MTR cuts and lower roaming prices). These negative impacts were mitigated in part by the growth of revenues from data services and by the continuing revenue growth in Slovakia (CZK 6.2 bn in 2014 compared with CZK 5.4 bn in 2013).

Other income including capitalized own expenses on fixed assets reached CZK 775 mil. in 2014, down 10.6% year on year. Despite the customer base growth and expansion of business activities, the total consolidated operating costs declined 3.3% year on year, reaching CZK 29.3 bn in 2014, as a result of the Group's continued focus on efficiencies in this area.

The operating income before depreciation and amortization (OIBDA) in 2014 amounted to CZK 16.0 bn, down 13.4% year on year. Fully comparable OIBDA[3] declined 12.7% year on year, reaching CZK 16.5 bn in 2014, while the corresponding OIBDA margin[4] declined 2.6 percentage point year on year, reaching 36%. This comes as a result of focus on cost efficiency and the positive and growing OIBDA in Slovakia (CZK 2.4 bn in 2014, up from CZK 2.0 bn in 2013).

[3] OIBDA excluding restructuring costs (2013: CZK 368 mil., 2014: CZK 457 mil.) and network sharing compensation CK 643 m in 2013
[4] OIBDA excluding royalty fees and management fees over revenues

Operating Income, Income before Tax and Net Income

The consolidated operating income and consolidated income before tax went down 29.2% and 28.7% year on year, respectively and reached CZK 5.3 bn and CZK 5.2 bn, respectively.
The consolidated net income amounted to CZK 4.0 bn in 2014, down 29.6% year on year. The key driver was the declining OIBDA, which was not fully compensated by the lower depreciation and amortization.

Property, plant and equipment

The net book value of property, plant and equipment reached CZK 36.2 bn as at 31 December 2014, compared with CZK 41.9 bn at the end of 2013. The major items included ducts, cables and related plant (CZK 17.1 bn), land, buildings and construction (CZK 9.4 bn), and communication technology and related equipment (CZK 8.8 bn), which includes mainly exchanges and transmission equipment. The Group continuously monitors the effective utilisation of its assets reflecting the development on the telecommunication market and changes in technology. The Group intends to dispose of any obsolete assets or assets, which are not directly employed in connection with its core business activities.

Cash and Debt

As at 31 December 2014, the Group's consolidated financial debts (long-term and short-term) amounted to CZK 7 bn, due to the newly obtained term loan of CZK 4 bn for one-off settlement of liabilities to Telefónica Group. Further details are given in section Other information for shareholders and investors. At the same time, cash and cash equivalents reached after payments for LTE frequencies licences and 2013 dividend payment CZK 3.3 bn at the end of the period.

Capital expenditure

The total consolidated capital expenditure (CapEx) reached CZK 11.5 bn in 2014, growing 103% year on year. This amount includes the cost of acquisition of the licences to LTE frequencies in the Czech Republic and in Slovakia and the capitalised cost of the O2 brand. Excluding these extraordinary expenses the CapEx would be 3.8 bn, 32.3% less than in the previous year. The Company continued to focus on efficient investments in growth areas. These include mainly further capacity expansion and improvement of the quality of the mobile broadband network, in line with the growing demand for mobile data services. In the first half of 2014, the Company commenced the deployment of its LTE network in the newly acquired 800 MHz band spectrum. Additionally, the Company directed its investments into the capacity enhancement in its fixed broadband networks by expanding its VDSL network.

Cash Flow

Net cash flow from operating activities reached CZK 13.0 bn in 2014, showing a 25% decline year on year largely due to the corresponding decline of OIBDA. Net cash used in investing activities increased by CZK 6.3 bn due to the increase in intangible assets. This comprised mainly the strategic purchase of the LTE spectrum in the amount of CZK 3.9 bn, financed using own resources, and a CZK 3.7 bn investment in O2 Brand, financed by the new loan in the amount of CZK 4 bn. This new loan contributed to the CZK 9.3 bn total increase of net cash used in financing activities in 2014. This increase was further supported by payouts to shareholders[5] lower by CZK 5.3 bn in 2014. The total net change in cash position reported in 2014 was slightly negative CZK -0.6 bn; however, adjusted for extraordinary items[6] it reached positive value of CZK 3.3 bn.

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[5] Share buyback program CZK 1.6 bn, share premium decrease CZK 3.1 bn and dividend CZK 20 per share in 2014; dividend CZK 18 per share in 2013

[6] Excluding payment of CZK 3.9 bn for LTE spectrum in 2014

Overview of consolidated revenues

The total consolidated revenues declined in 2014 by 5.4% year on year to CZK 44.7 bn, mainly due to further cuts in the mobile termination rates, lower roaming prices and the continued strong competitive pressures.

Revenues from voice services (voice – outgoing, interconnection and other wholesale services, monthly and one-off charges from voice services) reached CZK 23.7 bn in 2014, down 8.5% year on year. Outgoing voice revenues declined by 20.4% to reach CZK 6.4 bn, as a result of a lower volume of voice traffic generated in the fixed network, more minutes bundled in the monthly subscription charges and the competitive pressure on per-minute rates. Revenues from interconnection and other wholesale services amounted to CZK 7.4 bn in 2014, up 9.7% year on year, on the back of the receding impact from mobile termination rate cuts in the Czech Republic and Slovakia, and higher transit revenues. Revenues from monthly and one-off charges from voice services amounted to CZK 9.9 bn in 2014, down 11.0% year on year, largely due to the lower number of fixed voice lines and competitive pressures on monthly charges pricing. This has not been fully compensated by a growth in the contract customer base in the Czech Republic and Slovakia.

In terms of usage, the total mobile traffic[7] carried in the O_2 network in the Czech Republic reached 11,532 million minutes in 2014, up by 7.0% year on year, supported by the success of the unlimited tariffs proposition. Voice traffic generated in the fixed network declined by 24.1% year on year to 850 million minutes in 2014; this has been driven by the continued decline in the number of fixed voice lines and fixed-to-mobile traffic substitution.

The total mobile customer base reached 5,069 thousand at the end of December 2014, which represents a 0.6% year-on-year decline. Total net loss of mobile customers amounted to 33 thousand, driven by the continued migration of prepaid customers to contract tariffs and to virtual operators, partly offset by the continued growth in the contract segment. The contract customer base grew 1.8% year on year in 2014, reaching 3,294 thousand. Net additions reached 59 thousand during the year. The growth was fostered mainly by solid trading, sustained low churn and customers migrating from the prepaid segment to unlimited contract tariffs. The number of prepaid customers reached 1,775 thousand at the end of December 2014, down 4.9% year on year as a result of the ongoing migration to the contract segment and to virtual operators.

The blended monthly average churn rate reached 2.1% in 2014, while the contract churn was at 1.1%. The prepaid churn stood at 3.8% in 2014.

In 2014, mobile blended average revenue per user (ARPU) was CZK 287, down 11.9% year on year, mainly as a result of the mobile termination rate (MTR) cuts, lower effective prices of the outgoing traffic in unlimited tariffs and the introduction of similar proposition for business customers. Excluding the impact of MTR cuts, total ARPU would have declined 10.4%. Contract ARPU went down 12.7% year on year to reach CZK 378 in 2014. Prepaid ARPU decreased 15.7% year on year to CZK 122.

The total number of fixed accesses declined 7.4% year on year reaching 1,312 thousand at the end of December 2014, with 77 thousand net losses during the twelve-month period. The absolute number of disconnections was decreasing throughout the 2014; with 29 thousand in the first quarter and only 10 thousand in the fourth.

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[7] Inbound and outbound, including roaming abroad, excluding inbound roaming#

In 2014, the total number of customers in Slovakia reached 1,684 thousand, which represents a 9.4% year-on-year growth. Their number increased by more than 145 thousand in 2014 as a result of the maintained solid growth dynamics in the contract and prepaid customer bases. The number of contract customers grew 10.8% year on year to 856 thousand at the end of December 2014 (84 thousand net additions in 2014), while the number of prepaid customers increased 7.9% year on year and closed at 826 thousand. The share of contract customers in Slovakia was at 50.9% of the total customer base at the end of December 2014, up 0.7 percentage point year on year).

The total data revenues grew 0.3% year on year and reached CZK 11.4 bn in 2014. Of that, the revenues from leased lines and fixed data services saw a 9.1% year-on-year decline to CZK 2.0 bn, mainly due to the lower revenues from leased lines, which were not fully compensated by a growth in the IP based data services. Internet revenues declined 5.8% year on year, reaching CZK 5.0 bn, as a result of ARPU dilution driven by competitive pressures. The revenues from mobile data grew 14.5% to CZK 4 bn. This is a result of a successful marketing campaign focused on the promotion of smartphone sales, which accelerated the smartphone penetration to a 40% level at the end of 2014 (up 5 percentage points year on year), and growth in small-screen internet. This has been supported by the migration of the whole residential segment to unlimited tariffs, which bundle voice and data services in the monthly subscription fee. In addition, the growth in the number of mobile broadband customers in Slovakia, to which the expansion of the 3G network had contributed, also positively reflected on the mobile data revenues.

The number of xDSL accesses reached 922 thousand at the end of December 2014, up slightly by 0.4% year on year, yet showing further improvement in xDSL access composition. In respect of VDSL, 420 thousand customers (+16% year on year) have already subscribed for the upgraded service. The total number of O_2 TV customers reached 184 thousand at the end of December 2014, growing 18 % year on year, thanks to the new innovative IPTV platform, unique programme proposition and highly positive customer reception (28 thousand net additions in 2014).

Other consolidated revenues reached CZK 9.6 bn in total in 2014, which is a year-on-year increase of 9.8%. Of this, the revenues from SMS, MMS, PRMS and content services were down 7.1% to CZK 3.9 bn, mainly due to the higher number of SMS/MMS's included in the unlimited tariffs. Revenues from equipment and activation charges reached CZK 2.1 bn in 2014, which translates into a 5% year-on-year growth. The revenues from ICT and business solutions reached CZK 2.3 bn, showing a 8.7% decline year on year. The Group successfully continued marketing its standard ICT services to business customers (Managed Services, Cloud, Security, Virtual Desktop) to mitigate the dependency on one-off projects.

Overview of consolidated operating expenses

Despite the growth in the number of customers and the related higher commercial expenses, and the expansion of business activities, the total consolidated operating expenses of O2 CZ Group went down 3.3% year on year, reaching CZK 29.3 bn in 2014. The Group’s continued focus on strict financial discipline, which is aimed at further optimisation of the structure, processes and management, was the key driver of the performance.

Cost of sales decreased 1.3% year on year, reaching CZK 14.1 bn. The consolidated interconnection and roaming expenses went up 7.1% year on year to CZK 8.9 bn in 2014, in line with higher transit revenues. Cost of goods sold reached CZK 2.2 bn in 2014, which is a 4.3% year-on-year decline, related to change in the sales method of part of products. Other direct costs of sales declined by 16.3% year on year to CZK 3.1 bn.

Staff costs including redundancy payments reached CZK 5.1 bn in 2014, down 6.2% compared with 2013. Excluding redundancy payments (CZK 457 mil. in 2014 and CZK 368 mil. in 2013), the staff costs declined 8.4% year on year, with a positive impact of the restructuring programme. The total Group headcount decreased by 715 during 2014; as at 31 December 2014 it stood at 4,892 employees, showing a 12.8% year-on-year decline.

Other operating expenses reached CZK 10.1 bn in 2013, down 4.5% year on year. This decline was driven mainly by lower network & IT repairs and maintenance costs. This cost category went down 7.4% to CZK 2.5 bn, due to efficiencies from the outsourcing of IT support services. Savings have been recorded also in billing and collection and in the provisions for bad and doubtful debts, which decreased 28% year on year in total, down to CZK 500 mil., as a result of migration to unlimited tariffs. Changes in the operating model, enabled by the adoption of unlimited tariffs, have similarly favourably impacted also the cost of utilities, marketing, call centres and buildings, rentals and vehicles.

Outlook for 2015

In 2015, the Company will closely monitor customers' needs in a challenging macro environment which can impact their consumption patterns. The Company is confident that it will be able to maintain the leading market position in core business areas through continuous focus on its strengths. These include by far the best value and unique fixed and mobile broadband based products and services including bundled proposition, new O2TV, ICT and digital services with a pro-growth opportunity.

The Company will keep focusing on further improvement of the customer relationship area via additional investments into the optimisation and improvement of its systems and processes, building on the benefits enabled by unlimited tariffs. These initiatives shall lead to lower number of customers' complaints, negative and repeated calls, consequently improving their experience and satisfaction, which belongs to the Company's top priorities also in 2015. In line with its strategy to protect its customer base and to mitigate the negative impact of highly competitive market environment on customers' spend, the Company will focus on active execution of the customer value management. In corporate segment, it will aim at increasing the number of exclusive customers to maintain its strong position in this area, also supported by development and promotion of ICT & Digital services (cloud, security, M2M). The Company believes that this strategy will help mitigating dependence on one-off projects, secure sustainable revenue and grow profitable business.

Furthermore, the Company will continue enhancing its fixed broadband proposition with additional expansion of the upgraded VDSL network coverage through selective FTTN investment, to strengthen its market position. The Company will continue deploying its LTE network in the newly acquired spectrum to drive new propositions to customers and maintain its competitiveness in the mobile broadband market, and also implementing the new extended network sharing agreement to drive further internal efficiencies.

O2 Slovakia will continue in its successful fair and transparent commercial proposition targeting higher value customer segments. Own 3G and LTE network will continue to grow also in Slovakia. This should result in solid subscribers' growth, helping to increase the market share. At the same time, O2 Slovakia will stay focused on further improvement of its financial performance through lean operation, to compensate increased competitive pressures.

The Company expects that mobile non-SMS data revenue and revenue in Slovakia will stay the key top line growth drivers in 2015. In this operational environment, the Company will maintain its effort on further OpEx efficiencies in all areas of its operation via realisation of the transformation program to protect its solid profitability. The efficiency agenda in 2015 will include further headcount optimization by means of building leaner and more efficient organisational structure with increasing span of control. In addition, the Company will continue in consolidation and optimization of its call centres, reduction and simplification of its product portfolio aiming at lowering the number of processes. Additional costs savings shall be realised via focus on on-line activities, largely in sales and customer related areas. The Company is confident that the above mentioned measures will help it to maintain best-in-class profitability despite pressures on the revenue performance.

In respect of CapEx, the Company will continue to direct its investments primarily into the upgrade and expansion of its fixed and mobile broadband networks and capabilities' improvement of the mobile broadband networks. Investments will be targeted mainly into the deployment of the new generation 4G network, to sustain competitiveness and deliver future revenue growth.

Calendar of key events

5. Calendar of key events

January

The Company increased the volume of data for mobile data tariffs. The most advantageous conditions are also valid for customers with corporate and business tariffs.

Telefónica, S.A. notified that sale of 65.9% of the share in the Company to PPF Group was approved by the European Commission and completed. Telefónica, S.A. left itself a 4.9% share in the Company

The Supervisory Board approved certain personnel changes in this body and in the Company Board of Directors.

February

Company management decided on significant simplification of the Company organisational structure.

Customers can start using the fasted data network LTE as of February both in their modems and tablets, and in their mobile phones.

O2 CZ and T-Mobile commenced negotiations on sharing fourth generation mobile networks.

The company published its audited consolidated financial results prepared under International Financial Reporting Standards for the fiscal year 2013.

The Czech Telecommunications Office assigned the Company frequencies in the bands 800, 1 800 and 2 600 MHz for the high-speed mobile network LTE, which the Company won in a frequency auction in 2013. The Company began using the new frequencies in the expanded LTE coverage in Prague and in Brno.

March

The Ordinary General Meeting of Shareholders of the Company took place, confirming the co-opted members of the Supervisory Board, and approved the Company Articles of Association.

The Company in co-operation with partners introduced the new services mTicket.

April

Martin Vlček was named Director of the Finance Division.

The Company introduced the new O_2 Video Library, and offered up to a thousand films for legal rent from the internet.

The Company announced that based on an agreement with the majority shareholder, Mr Luis Malvido will serve as general director until the end of June 2014. He will remain in the position of the Company's Chairman of the Board of Directors until the end of 2014.

May

O2 CZ and T-Mobile signed an agreement on sharing fourth generation mobile networks (LTE).

The Company announced its financial and operating results for January to March 2014.

The Company was the first on the Czech market to present a solution that would enable watching television broadcast also on portable devices *O_2TV Go*.

The Ordinary General Meeting of Shareholders of the Company took place. The highest body of the Company approved et alias the change in the business name of the Company to O2 Czech Republic a.s. The Company filed a petition for this change to come into effect on 21 June 2014.

June

The company PPF Arena 2 B.V. published a mandatory takeover offer concerning Company shares. The Company statutory bodies issued a common position regarding the offer.

The company O2 Slovakia announced that it will pay out the share in profit for 2013 and from the undivided profit of previous periods to a single partner, the company O2 Czech Republic a.s.

The majority shareholders announced the intention to make personnel changes in management of the Company. Effective 01 July, Tomáš Budník became the new general director. The existing director of the Finance and Investor Relations Tomáš Kouřil became director of the Financial Division.

O2 CZ, T-Mobile and Vodafone announced that they are discussing possible sharing and consolidation of mobile networks 2G, 3G and LTE.

The Company defended its top spot in the twelfth year of the nationwide contest Sodexo Employer of the Year.

On June 21, a change in the business name to O2 Czech Republic a.s. took effect as approved at the Company General Meeting.

The Ordinary General Meeting of Shareholders of the Company took place. The highest body et alias discussed the report on business activity in 2013 and decided to pay out dividends for 2013.

The Company O2 CZ again included in its mobile phone offer the iPhone from the company Apple.

At the meeting of the Supervisory Board of the Company, certain personnel changes were approved in the Company Board of Directors.

July

The Company Board of Directors chose Tomáš Budník as its Vice-Chairman of the Board. It decided as such based on the resignation of Martin Vlček, who remained a member of the Board of Directors.

The Company implemented the technology LTE Advanced (LTE-A) in certain areas. It enables use of multiple frequency bands simultaneously, which further increases the maximum speed of data transmission.

The Company announced that within the framework of its new sales strategy, it decided to continue offering tariffs of the virtual operator Gorila Mobil as a part of its own offer.

O2 CZ and T-Mobile jointly launched the network 4G LTE in parts of the districts Pelhřimov and Tábor.

All data tariffs from O_2 sped up to a maximum speed of 110 Mbps for downloads and 55 Mbps for uploads.

The Company presented the TQ test, the aim of which et alias is to increase the digital literacy of Czechs.

August

The Company gave its customers within the event entitled Clean Table unique chance to settle their past due obligations. If these were paid respective customers were not charged late payment interest and costs for administrative or court proceedings.

The Company offered customers the MultiSIM card, which enables them for a monthly charge of CZK 99 to share their data limit from a mobile telephone with other devices.

The Company announced that it is considering and analysing the possibilities of separating its fixed telecommunications infrastructure into a separate entity, which would provide wholesale services to further telecommunications companies on the market.

The Company announced its financial and operating results for January to June 2014.

O_2 TV gained the right to broadcast the most watched football league in the world – England's Premier League.

The Company introduced a new edition of prepaid card with tariff *NA!DLOUHO*.

O2 CZ was the first operator in Europe to include in its offer of mobile phones the Chinese premium brand Meizu.

The Company introduced its offer of unlimited calling from a fixed line to fixed and mobile domestic networks with ten hours of free calling to 26 countries in the world on mobile and fixed lines.

September

Companies O2 CZ and T-Mobile began sharing the existing access networks 2G and 3G in parts of the districts Hradec Králové and Pardubice.

October

The Company under the patronage of the Police of the Czech Republic started an awareness campaign, bringing attention to the danger involved with visits and calls from unknown persons, and compelling senior citizens to be vigilant.

The Company offered the new tariff for young people *[:kůl:] data 1 GB*. Tis tariff offers to young people up to the age of 26 an attractive combination of 120 minutes of calling to all networks, 1 GB of data and SMS to O_2 networks for free.

The Company obtained a request of the majority shareholder, the company PPF Arena 2 B.V., for provision of financial assistance in the form of a loan up to an amount of CZK 24.8 billion, due to be paid off in seven years. The Company Board of Directors decided to perform an analysis and to prepare essential steps for approving financial assistance.

The Company, in co-operation with ČSOB and Era, has brought to the market a unique solution called Smart Payment, thanks to which every craftsman, seller or small business can receive cards.

The Company started selling the iPhone new generation phones.

November

The Company presented its Christmas offer, which included telephones and tablets for a very advantageous price, and with it the option in combination with a data tariff to get CZK 3,000 back through billing.

The Company provided access to the service *O_2 TV Go* for customers of all mobile operators.
The Company announced its financial and operating results for January to September 2014.

The Company decided to conclude a term loan up to an amount of CZK 4 billion for paying off obligations directly relating to business relations with the company Telefónica, S.A.

The Company statutory bodies approved the report of the Board of Directors elaborated for the request of PPF Arena 2 B.V., on provision of financial assistance of 13 October 2014 and the report on its review by an independent expert determined by the Company Supervisory Board.

The Company decided to extend the period during which the Company will be entitled to use the trademark O_2 in the Czech Republic and in Slovakia until 27 January 2019. The Company also gained the opportunity to continue extending this right unilaterally for remuneration for another three years, i.e. until 27 January 2022.

December

A proper Ordinary General Meeting of Shareholders of the Company took place, which, based on the report on financial assistance prepared by the Company Board of Directors, approved the fact that the Company may provide the company PPF Arena 2 B.V. with financial assistance. The Ordinary General Meeting also approved a change to the Company Articles of Association.

All customers of the Company gained the option of paying in the online store Google Play by means of mobile payments.

The Company further expanded coverage by the internet LTE. In December, O2 CZ was the first to complete coverage of the motorway D1 from Prague to Brno, the general ski centre of Špindlerův Mlýn and Prague's O_2 arena, where it also strengthened capacity of the existing 3G network.

The planned change occurred in the Company Board of Directors. Luis Malvido ended in the function of Chairman and member of the Board of Directors. The Supervisory Board elected as of 1 January 2015 a new member of the Board of Directors, Tomáš Kouřil.

Corporate Social Responsibility (CSR)

6. Corporate Social Responsibility (CSR)

6.1 Introduction

The Company actively adopts, applies and develops the concept of CSR and ethics in business with the aim of increasing the quality of life of individuals, local communities and society as a whole. The Company contributes to social, technological and economic development, in invests in the telecommunications infrastructure, it creates jobs and develops products and services that improve the quality of life.

Social responsibility is perceived as a way of doing business that takes into account all interested parties. Therefore, the company builds its activities in balancing short-term and long-term aims and the principle of sustainability. It applies that the method by which economic and financial results are achieved is no less important than the results themselves. A responsible approach is an integral part of corporate culture.

The strategy of sustainability and responsible enterprising and aims and activities arising from this strategy project into the introduced integrated management system, by which implementation of these values is secured company-wide. Over the course of 2014, even in regard to the change in the majority shareholder, the Company updated its individual policies of the integrated management system. These are publicly available at the Company's Website.

In 2014, the Company continued as a member of the professional platform Business for Society. In the competition TOP Responsible Company, the Company's responsible business strategy helped it place in the top ten in the category TOP Responsible Large Company. Within the framework of the prize TOP Responsible Company, the company was also awarded for its project Think Big School. The project won first prize in the thematic category Company and School. The Company also took second place in the category Largest Corporate Donor. In the competition Be Seen implemented by the Donors Forum, O2 Foundation won a special prize for systematic communication on social networks.

A more detailed description of activities in the area of social responsibility can be found in the following sub-chapters.

6.2 O2 Czech Republic Group Business Principles

Incorporation of the Company into the PPF Group in 2014 also meant the need to modify the text *Our Business Principles*, the wording of which had been bound to its previous affiliation of the Company in the O2 group.

Another aim was to simplify the wording and the total scope of the text, which should be more understandable for Company employees and easier to remember. The new wording is thus broken down into five sub-chapters, of which each contains five basic principles concerning the given area. When creating the final texts, the Company based its work also on comparing with the texts of other codes of ethics of important companies operating on the Czech market. The document continues to focus on determining the basic rules that should serve when creating more detailed procedures within the Company, and as a guide for resolving practical situations. Amongst the key principles are strict repudiation of corruption in any form, respect for the law and protection of information and personal data.

Employees continue to receive training by means of an electronic course, and they are familiarized with these principles upon initial entry training at the start of their employment relationship.

Employees are obliged to report unethical conduct constituting a breach of the Business Principles which they may come across; the Company guarantees anonymity for the whistle-blower by available whistle-blowing tools.
Employees can report their suspicions of unethical conduct in several ways. They can choose between an online application, e-mail, letter, calling the responsible officer (Compliance Officer) via telephone or visiting in person. Employees may also utilize the option of consultation by means of these channels. The reports are investigated by Security or Internal Audit in collaboration with the Compliance Officer. Our Business Principles forms a fundamental policy of the Company, which is a part of the Work Regulation and employees are required to comply.

The text of our Business Principles is available for download and on the Company's intranet and website.

6.3 Market conduct and customer care

Products and services for people with specific needs

As in the previous years, also in 2014, the Company focused on helping and supporting people with specific needs. Customers had the option of selecting from a portfolio of devices appropriate for persons with auditory, visual or motor disabilities. Persons holding a disability card could use discount offers for these devices. Also available were mobile phones with simplified control and large buttons, especially suitable for senior citizens.

The Company also operated the website www.o2myslimena.cz. Mainly disability card holders could find at this website useful information and by completing a special form, they could find out the price of service after applying the state contribution and O_2 discount.

The O_2 discount is provided to holders of the disability card ZTP/P, holders of the ZTP card due to complete or practical deafness, and other selected individuals. In 2014, a total of 44,951 customers received the O_2 discount.

Line for people with hearing impairment

The Company continued to develop the service Line for hearing impaired people, which helped citizens with hearing impairments communicate with the world around them using modern technology. The service functions nonstop and it can already be utilised for free after simple registration.

In 2014, operators of the Line for people with hearing impairment handled 41,631 requests of customers with hearing impairment. The number of registered clients increased year-on-year by 31%.

The service also provides transcription for customers with hearing impairment who visit one of the O2 shops, it handles normal customer requests of registered clients and provides selected assistance services for persons with visual impairment.

Safe internet

In 2014, the Company developed its information security management system, in order to protect its information assets and to provide its customers and partners the appropriate level of certainty.

The Company respects the right of customers to privacy, and in 2014 it made available on its website the section Privacy, in which customers can find understandable and clear information on the manner their personal data is handled.

The Company also took part in the celebration Personal Data Protection Day and Safe Internet Day.

In the Keep Kids Safe section of its website, the Company provided families with advice, information and tips for how to teach children to surf the internet safely, to move about within social networks, to take part in discussions or how to use the mobile telephone safely. Also available is a button for reporting illegal content linking directly to the Hotline page.

In November 2014, the twelfth conference Cyberspace took place. The Company was once again the general partner of the conference, whose main organizer was the Faculty of Law of Masaryk University in Brno, or rather its Institute of Law and Technology. The conference dealt with topics in the area of cyberspace, eCommerce, privacy protection, copyright, new media and others.

School information channel

Also in 2014, the Company was the general partner of the project ŠIK CZ. On screens at 277 primary and 103 secondary schools, students watched the final episodes of the series Become Responsible – It's Quick and Easy. This series created by the Company explains to students what CSR, corporate social responsibility, actually is. Over the course of the year, a new educational series We Play Fair appeared on the screens of the School Information Channel. The series is dedicated to the problem of corruption. The Company is one of the partners.

Clean Table

Over the course of August and September 2014, the Company gave customers a unique opportunity of how to settle their obligations within the framework of an event entitled Clean Table. If within the period of 1 August and 23 September 2014, customers paid the bills they owe, they were not charged late payment interest or charges for administrative or court proceedings. This one-time event offered a solution to consumer and corporate customers without limits of the amount of debt in the event that a legal decision had not yet been reached.

Campaign for seniors Don't Be Afraid to Say No

At the occasion International Senior Citizens Day which falls each year on the first day in October, a campaign began in co-operation with the Police of the CR with the symbolic title Don't Be Afraid to Say No. The campaign focused foremost on senior citizens and their loved ones. It mainly involved advice and tips for protecting oneself against attacks of swindlers taking advantage of the trust of seniors. Basic recommendations were published at the website www.myslimena.cz/radime-seniorum.

6.4 Caring for employees and the workplace environment

It is the Company's long-term strategy to be a sought-after employer and create a company environment that will make every employee proud and his or her work will be self-fulfilling. To this end, a number of activities are planned each year, which seek to improve the motivation and satisfaction of employees These activities are in accordance with our priorities, which are: economic thinking, simplification, personal responsibility and fair play (equal and open approach).

Fulfilment of aims in this area was even confirmed by the fact that in 2014, the Company defended first place in the survey Employer of the Year.

Number of employees to 31 December 2014
Total number of employees 4,352
of which women 33%
of which men 67%

Key activities in human resources

Restructuring the Company

In terms of employees in 2014, the Company aimed mainly towards restructuring, where objectives included improving efficiency of organisational structures, speeding up decision-making processes and removing duplicity. The number of managerial positions decreased by 20%. Emphasis was placed on care for departing customers, for whom an interesting outplacement programme and premium severance were prepared.

Change in the corporate culture

We supported faster adaptation of employees to a new corporate culture as a result of the change in Company ownership and separation from the international corporation. Four new company values were created, which were communicated in cascading fashion from management to every employee.

Based on its new corporate values, the Company started a new system for managing performance, which much more quickly differentiates between various performance levels, and thus supports constant increases in work efficiency.

Outstanding work results and the right approach were also honoured in the Annual Employee Awards, which took place in June and December 2014.

Internal labour market

In 2014, the Company worked much more with the internal labour market. A total of 37% of open positions were filled by internal resources. Employees were trained for this new work and supported upon their rapid adaptation. For better orientation on the internal labour market, a volunteer service was launched, so-called career advisor.

Educational and personal development

Development of managerial skills and leadership

A priority of the Company in 2014 was development of managerial skills. Individual programs aim to prepare future leaders for their task and support them in maximum possible measure. In 2014, the programmes Loyal Talent Programme and Women in Leadership were completed, which had started in September 2013. Thirty participants took part in each programme, who completed a series of training modules with the aim of motivating them in their further work, developing them in the area of leadership and showing them direction and possibilities for further professional growth.

Also 2014 saw continuation of the long-term development programme for team leaders and supervisors named Manager Academy, which specifically develops skills in managing people.

Improving customer experience

The Company's internal training team focused in 2014 mainly on increasing knowledge and skills of employees caring directly for our customers. In May, the programme SmartLife was initiated, which brings a new way of servicing our customers.

Consultants and team leaders at call centres and brand name stores take part in regular on-the-job training. This is a very effective way to learn, where feedback and development of skills by a trainer takes place directly in practice.

Long-term emphasis of the Company is also placed on quick adaptation of newly hired employed. For new sales representatives in the division Corporate Customers, a plan was prepared for training adaptation in order to give maximum support to product knowledge. Modifications of the adaptation programme took place in other divisions always with the aim of achieving higher performance of the new employee in as short a period possible.

Care for employees

Employee benefits and motivation programmes

Employees of the Company have a choice of a wide range of benefits. In 2014, in the benefit portal, employees could choose e.g. from amongst the Company's services and products, financial products and benefits for their leisure, health and education in a value of CZK 18,000 per year.

Employees with reduced work capacity also received a voucher for restorative physiotherapy holiday in the value of CZK 10,000 per year.

Health care

The Company deals with care of employee health in co-operation with health insurance companies. It offers standard health care packages, and e.g. inoculation against the flu or tick encephalitis. The Company also offers so-called sick-days, wage compensation in an amount of 75% of the full wage due to health problems in a scope of up to three days/shifts in the calendar year.

Support for return from maternity leave

The Company supports mothers working part time if the job activities and description so allow. As in other years, also in 2014 the Company continued with the programme which gives mothers leaving for their maternity leave the option to agree with their manager to return to work immediately after their maternity leave, and claim, after their return, a childcare contribution of up to CZK 8,000 per month for child care.

6.5 Caring for the environment

Environmental protection policy and certification of the Company

The Company realizes the importance of sustaining a healthy and undamaged environment for today's and future generations. It therefore undertakes to see to sustainable development, and permanently strives to decrease the negative environment impacts of its activities. The Company has implemented and certified an environmental management system according to the international standard ISO 14001. In 2002, the Company became the first telecommunications provider in the Czech Republic to receive the certification. During the course of 2014, the Company updated its environmental policy.

Reducing environmental footprint

The long-term commitment of the Company is to decrease negative impacts of our activities on our surroundings, mainly decreasing consumption of energy, fuel, water and limiting waste production.

Activities in the area of environmental protection and employee participation

Also in 2014, O2 brand stores collected old mobile phones for sustainable recycling. For each device turned in, the Company CR made a donation of CZK 25 to the Safety Line.

The Company is still enrolled in the Green Company programme by REMA Systém, and arranges collection at workplaces of old electrical and electronic waste and batteries.

The Company also linked to the trend of internet campaigns, which directly motivate employees towards environmentally friendly behaviour. After the successful event of two years ago leading to limiting consumption of office paper and reducing printing, at the start of April 2014, a new internal campaign was launched entitled Drink smartly without plastic. Its aim was to limit consumption of PET bottles and its related production of waste. A measured area for the second quarter became the Company's Prague headquarters. The aim was to decrease consumption by at least 30%. It was successful - in the monitored period, consumption of packaged water decreased by 60%.

6.6 For the community

Supporting communities

Community-oriented and philanthropic projects were deeply rooted in O2 CR’s CSR policy also in 2014. The Company worked to put its technology and know-how to use in helping to improve the quality of life. O2 Foundation was the umbrella instrument for all activities supporting transparent and systemic corporate donorship. The total sum of all donations, financial or in-kind, including telecommunication services from O2 CZ to community projects in 2014 exceeded CZK 23 mil.

O2 Foundation concentrated on three main pillars of activities: helping the young generation, which includes the programmes Think Big and Think Big School; participation of employees, employees can actively or financially participate in the building of community life, and through internal fundraisers, grants and volunteering, they can help non-profit organisations; providing means of technology to the community, in this respect, O2 Foundation and the Company are long-standing partners to Sdružení Linka bezpečí which operates the Safety Line, and Centrum Elpida which operates the Senior Line.

Program Think Big

In 2014, O2 Foundation continued with the community programme Think Big. The goal of the long-term programme is to support informal groups of young people between 15 and 26 years of age in making their ideas and projects, through which they want to change, improve or create something of value in their own community, into reality. Grant applications are reviewed by nine regional committees, each comprising two employees of the Company, one expert in non-profit and youth leisure activities, one media representative and one young person already with some experience with implementation of such projects. The project teams receive, in addition to financial support ranging from CZK 1 to 70,000 and a slot in a one or three day course teaching them key competences relevant to their project (self-confidence, project management, communication, creativity, innovation and digital literacy), a package of several O2 services and mentoring from employees of the Company.

O2 Foundation announced the sixth call for the programme Think Big in the autumns of 2013, and it received a record 655 applications. This Think Big call introduced an innovation: project applications are now made at two levels. Level 1 is for newcomers to the programme and less experienced young people (their projects could qualify for funding up to CZK 10,000), Level 2 and Level 2 is for those who had already qualified for a grant in the past, and now have a new project or want to build on their original idea (grants of up to CZK 70,000) . Another change came in that Level 1 was open also to individual applicants. In the sixth call, 141 projects were selected for supporting in Level 1 and 44 projects in Level 2. The implementation period for Level 1 was three months, and six months for Level 2.

Only those projects supported in Level 1 could apply for the programme's seventh call. From a registered 79 projects, 36 projects were selected for support. These projects were implemented from July to November 2014.
For communication of the programme Think Big, O2 Foundation won the special prize of the Donors Forum in the contest Be Seen for systematic communication on social networks.

Think Big Ambassador

The project Think Big Ambassador also ran in 2014. Ten successful graduates of the Think Big programme became ambassadors, and continued to take part in developing the programme strategy and its public presentation. They had the opportunity to present the programme at several events and in the media, e.g. on the show Óčko TV – Mixxxer. O2 Foundation also offered them continuing education mainly in the area of soft skills. Training took place in co-operation with the Holiday School Lipnice.

Program Think Big School

Think Big School was a programme for second and third grade secondary school students; it aims to foster their enterprising spirit and cultivate their digital skills. It taught them project management, teamwork and communication. Under guidance of volunteers from the ranks of the Company employees, teams of students work on an idea, design a website in the online web design tool Thimble, shoot a video and present their final project to a committee of the Company's employees. During implementation, which ended in February 2014, 1,600 secondary school students from around the Czech Republic completed the programme. For more on this programme, visit www.thinkbigschool.cz. For this programme, the Company won a prize in the category Company and School in the competition Top Responsible Company, implemented by the organization Business for Society.

The programme Think Big ended in the Czech Republic in 2014. Since 2011, when projects in this programme were first supported, a total of 2,600 young people obtained support in an amount exceeding CZK 40 mil. for their 941 projects from across the Czech Republic. The program was implemented in the Czech Republic by O2 Foundation in co-operation with the Civil Society Development Foundation and the Holiday School Lipnice.

Volunteer programmes for employees

In 2014, the Company altered its strategy of engaging employees, where the Company decided to motivate its employees more for their own engagement in their free time. Work time of employees was dedicated to community organisations only within the framework of projects Teambuilding for a Good Thing. Company employees remained motivated to donate money.

A total of 1 068 employees engaged in community activities in 2014.

In 2014, a total of 545 employees engaged in successful fundraising campaigns donating a total of CZK 574,205. Thanks to their solidarity, employees also helped make life a little easier for 32 people. A donation of TCZK 436 as part of an internal collection Help People with Disabilities helped people buy essential health aids and services. They also supported the Safety Line and the Senior Line.

The Company further supported Teambuilding for a Good Thing, during which managers with their entire teams worked in non-profit organisations. In 2014, a total of 433 employees (11 teams) dedicated in this way over 3,464 hours of work to non-profit organisations.

In regard to the change in strategy, 9 weekend voluntary activities took place over the course of the year for employees and their families. Over these weekends, they helped e.g. in the Vlašim Rescue Station, in ZOO Chleby or in the protected workshop Kopeček in the Orlické Mountains. In total, they donated over 1,000 hours of work.
They also engaged as mentors or evaluators of applications in the programme Think Big or as consultants or members of evaluation committee for entering the programme Think Big School.

On Easter and Christmas markets, which were organised by O2 Foundation in 11 (during spring) and in 7 (during Christmas) of the Company's buildings in the Czech Republic, products hand-made by people with disabilities in sheltered workshops were sold to employees. Altogether, over fifty workshops gained thanks to purchases of Company employees in 2014 over CZK 330 thousand.

Give blood with O2 Foundation

The traditional volunteer blood donation campaign was held in the Company's premises in 2014. During four days of donation, a total of 133 employees took part (some repeatedly), who ended up donating 96.3 litters of blood. The project Give Blood with O2 Foundation has a partner in the Military University Hospital Prague.

Help your Community

As in previous years, in 2014, O2 Foundation implemented the programme Help your Community, for which Company employees could sign up a non-profit organisation, in which they are active volunteers. Now also employees who only know the organisation but do not help in it actively by their time or money can register a non-profit organisation. From a record number of 96 applications, the evaluation committee selected 40 organisations to support, and CZK 600 thousand were dispersed among them.

Safety Line 116 111

O2 Foundation was still the General Partner to the only free and anonymous helpline for children who are faced with a difficult life situation. The funding helps to keep the emergency hotline free of charge.

In 2014, the Company celebrated 20 years of co-operation with the association Sdružení Linka bezpečí. During this occasion, the Company implemented a joint campaign supporting individual donorship to the benefit of the Safety Line. The Company furthermore arranged the project Adopt a Phonebooth. Here those interested from the general public could select one telephone booth from a hundred possible ones, and place a message on this phone booth for their close ones or the Line in a length of max. 60 characters. To take part, it was necessary to pay CZK 500 to the fundraising account of Sdružení Linka bezpečí Proceeds were used to pay for operating costs of the Safety Line.

Seniors Line

O2 Foundation continued in its support to Senior Line operated by Elpida o.p.s. Senior citizens could dial the number 800 200 007 and share their concerns and joys, consult on various issues – health, legislation, psychology and welfare – with the operators. The funding from O2 Foundation helped to keep the service free. In the programme Think Big, the project KupBook was supported in 2014 with the aim of creating a simple option for sharing books, and thanks to a small money box inside the booth, they gained financial support for payment of operating costs of the Seniors Line. As part of the series of Christmas philanthropy events employees of the Company, Elpida presented its project 10 deka Bulgakova (10 decagrams of Bulgakov) to sell second-hand books by the kilo.

O2 Foundation plans in 2015 to create and present a new programme in support of the young generation, and their original and smart projects, to continue in organising volunteer activities in free time of employees, to implement organisation of fundraising connections and grants for O2 CZ employees and in partnership with the Seniors Line and the Safety Line.

Corporate governance

7. Corporate governance

7.1 Corporate governance of the O2 Czech Republic Group

The year 2014 was important in terms of corporate governance of the Company mainly due to sale of the majority of shares in the Company to the financial group PPF Group. PPF Group gained a majority of shares in the amount of 65.9% on 28 January 2014 by purchasing them from Telefónica, S.A. Then over the course of 2014, PPF Group gained a total of 83.2% of shares in the share capital of the Company.

The Company's ownership rights in its subsidiaries are exercised by the Board of Directors. Personnel changes in the statutory and supervisory bodies of subsidiary companies and in companies in which O2 CZ holds an ownership interest (in positions occupied by the Company's representatives) are approved by the Board of Directors of the Company.

7.2 Subsidiaries, associates and other ownership interests

SUBSIDIARIES				
Commercial name	**Area of business**	**Corporate number**	**Share capital**	**Share of O2 CZ in share capital**
CZECH TELECOM Austria GmbH	Public service of leased lines over a fixed telecommunication network	FN 229578s	EUR 35,000	100.00%
CZECH TELECOM Germany GmbH	Leased lines	HRB 51503	EUR 25,000	100.00%
O2 Slovakia, s.r.o.	Operation of a public telecommunication network; public telecommunication service of leased lines	35848863	EUR 103,203,437	100.00%
Internethome, s.r.o.	Provision of Wi-Fi internet access	24161357	CZK 67,765,000	100.00%
Bonerix s.r.o.	Operation of a public mobile communications network; public telephony; data transmission; internet access	24215554	CZK 200,000	100.00%

OWNERSHIP INTERESTS IN OTHER COMPANIES				
Commercial name	**Area of business**	**Corporate number**	**Share capital**	**Share of O2 CZ in share capital**
AUGUSTUS spol. s r.o.*	Consultancy and agency in the non-telecommunications area	49356160	CZK 166,000	39.76%
První certifikační autorita, a.s.	Certification services in the field of electronic signature	26439395	CZK 20,000,000	23.25%
Tesco Mobile ČR s.r.o.	Manufacturing, trade and services not included in Annexes 1-3 of the Trade	29147506	CZK 200,000	50.00%
Tesco Mobile Slovakia, s.r.o.**	Trade agency; services agency; business, organisation and economic consultancy	36863521	EUR 5,000	50.00%

* O2 CZ does not control the company.
** Owned through the subsidiary O2 Slovakia, s.r.o.

The following changes came in 2014 in the companies belonging to the O2 CZ Group:

O2 Slovakia, s.r.o.

By decision of the sole shareholder within the context of the General Meeting, the following decisions were adopted:

- Effective 31 January 2014, David Melcon, Martin Bek and Jakub Chytil resigned from the office as members of the Supervisory Board, and Martin Štefunko, Jan Tomaník and Martin Vlček were appointed effective 1 February 2014.
- Effective 4 June 2014 a change occurred in the commercial name to O2 Slovakia, s.r.o. (from the original Telefónica Slovakia, s.r.o.), and changes in the founder's deed of the company were approved.
- Effective 4 June 2014 Mr Dávid Durbák ended as authorized signatory and was appointed statutory representative of the company effective that same day.
- Effective 18 June 2014 Supervisory Board member Martin Vlček resigned his post. Ramiro Lafarga Brollo resigned his post as statutory representative, Tomáš Budník was appointed to the Supervisory Board, and Martin Vlček was appointed statutory representative of the company.

You can find detailed information in the chapter O2 Slovakia.

Bonerix s.r.o.

By decision of the sole shareholder within the context of the General Meeting, the following decisions were adopted:

- On 11 April 2014 the resignation of Luboš Bojanovský from his post as statutory representative was accepted, and on that day the number of statutory representatives was reduced to two by an amendment to the Articles of Association.
- On 31 May 2014 the resignation of Luboš Lukasík from his post as statutory representative was accepted, and effective 1 June 2014 Luboš Vaněk was appointed statutory representative of the company.

Internethome, s.r.o.

In January 2014 Pavel Jiroušek resigned from his post as statutory representative, and effective 16 January 2014 Tomáš Elbl was appointed a new statutory representative by decision of the sole partner.

CZECH TELECOM Austria GmbH

Effective 28 March 2014 Luděk Jaroš was dismissed from his post as statutory representative by decision of the sole partner, and Martin Oravec was appointed new statutory representative.

CZECH TELECOM Germany GmbH

Effective 28 March 2014 Luděk Jaroš was dismissed from his post as statutory representative by decision of the sole partner, and Martin Oravec was appointed new statutory representative.

Tesco Mobile ČR s.r.o. (O2 CZ owns 50% share)

On 14 April 2014 the General Meeting of Tesco Mobile ČR s.r.o. adopted the following resolutions:

- It dismissed David Melcon and Felix Geyr from their posts as statutory representatives.
- Tomáš Kouřil and Tomáš Budník were appointed new statutory representatives of the company.
- It adopted the corresponding changes to the articles of association in the part concerning representation of the company and method of decision-making in business management matters.

On 26 June 2014 the General Meeting of Tesco Mobile ČR s.r.o. adopted the following resolutions:

- It dismissed Wojciech Henryk Wieronski from his post as statutory representative.
- Kamal Chauhan was appointed new statutory representative of the company.
- It adopted the corresponding changes to the articles of association in the part concerning representation of the company and method of decision-making in business management matters.

On 10 November 2014 the General Meeting of Tesco Mobile ČR s.r.o. dismissed Tomáš Budník from his post as company statutory representative and appointed Gustav Grundin new statutory representative.

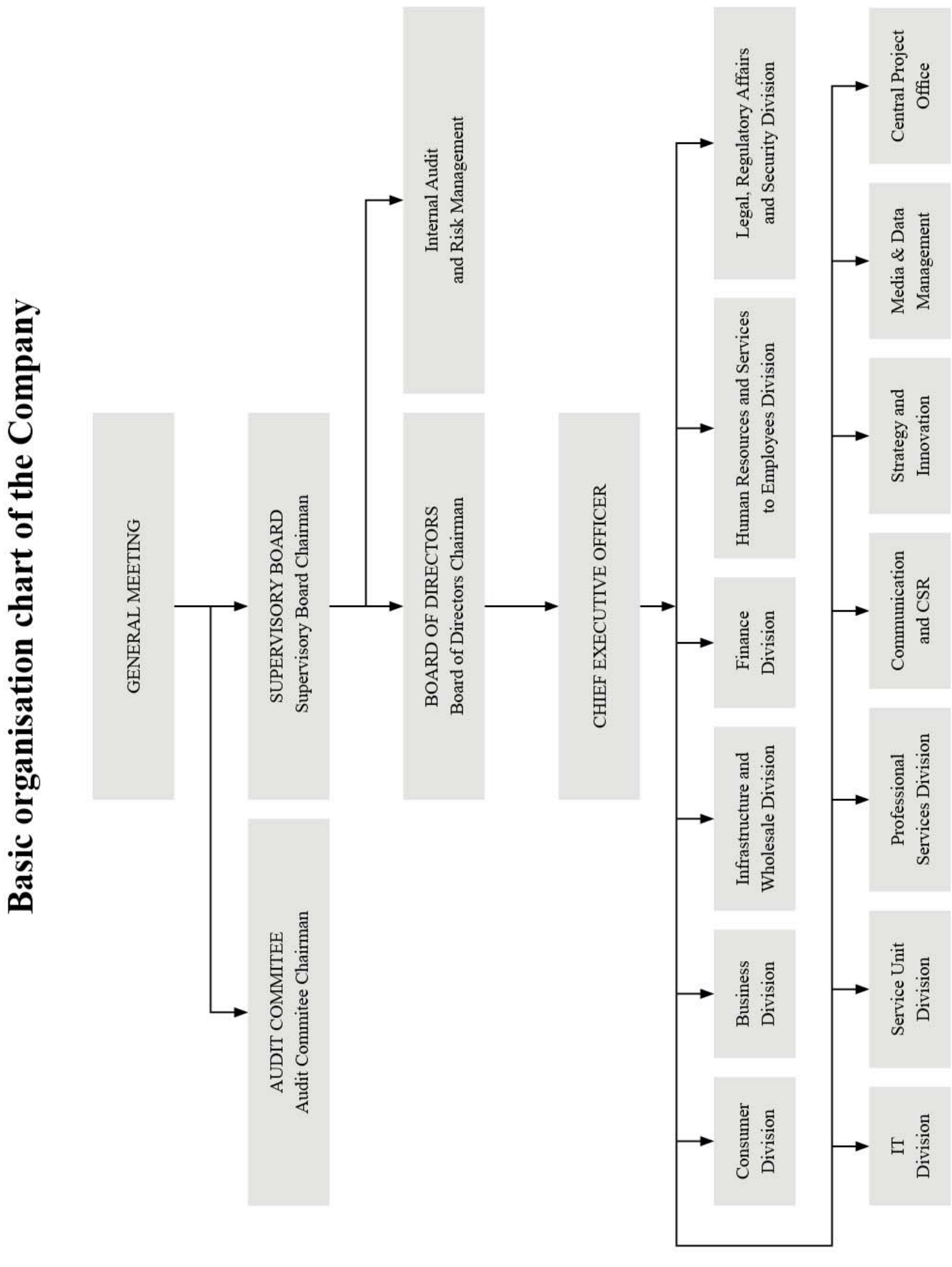
První certifikační autorita, a.s. (O2 CZ owns 23.25% share)

On 18 April 2014 the General Meeting appointed Tomáš Kouřil to the Supervisory Board, and effective 12 September 2014 appointed him a Vice-chairman of the Supervisory Board.

7.3 Organisational structure of O2 Czech Republic a.s.

The first executive line of the organisational structure of the Company is divided into divisions and specialised units. Over the course of 2014, several changes came to the organisation structure. Besides the changes mentioned in the Mid-year Report 2014, new divisions were created – the Infrastructure and Wholesale Division and the Professional Services Division.

Basic organisation chart of O2 Czech Republic a.s. (as at 31 January 2015):



7.4 Governing bodies and executive management of the Company

O2 CZ has the following governing bodies:

- General Meeting,
- Board of Directors,
- Supervisory Board,
- Audit Committee.

7.4.1 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 by correspondence voting. The General Meeting decides by over half of votes by present shareholders, at least a two-thirds majority of votes of present shareholders is needed to change the Company Statutes.

The General Meeting has the exclusive authority to:

- approve the Rules of Procedure of the General Meeting,
- decide on amendments to the Articles of Association, unless any change which occurred under any other legal circumstances is involved,
- decide on an increase of the share capital or on the authorisation of the Board of Directors pursuant to Art. 511 et seq. of the Business Corporations Act (i.e. on the authorisation of the Board of Directors to decide on an increase of the share capital) or on the option to offset a pecuniary receivable due from the Company against receivable of payment of the subscription price of shares,
- decide on the reduction of the share capital,
- decide on issue of bonds, where the decision by the General Meeting is required by the Business Corporations Act,
- decide to wind up the Company with liquidation, appoint and dismiss the liquidator, approve proposed distribution of the liquidation balance,
- decide on transformation of the Company, unless the law stipulates that the Board of Directors is authorized to make such decision,
- decide on a change in class of shares and any change in the rights attached to individual classes of shares,
- decide to transform the shares as securities into booked shares, or booked shares into securities, or decide on the change of the form of shares,
- elect and dismiss the members of the Supervisory Board,
- approve regular and extraordinary financial statements and consolidated financial statements and, in cases set forth by law, also interim financial statements; decide upon the distribution of profits or other own resources or cover of losses,

- discuss a Board of Directors' annual report on the Company's business, and on the situation of the Company's assets as part of the annual report according to the Act No. 563/1991 Coll. on Accounting, as amended,
- approve contracts for transfer or pledging or mortgaging of a business establishment or any such part thereof that would result in a material change in the structure of the establishment or a material change in the subject of the business or operations of the Company,
- decide on approval of the rules of remuneration to members of the Supervisory Board and the Audit Committee and stipulation of remuneration to members of the Supervisory Board and the Audit Committee,
- decide on approval of silent partnership, any changes thereto or termination thereof, if the Company concludes such agreements,
- decide on approval of executive service agreements for members of the Supervisory Board and the rules for provision of perquisites to members of the Supervisory Board of the Company, to which there is no right arising from the law, executive service agreement as approved by the General Meeting, or from an internal regulation approved by the General Meeting,
- decide on determination of an auditor to carry out mandatory audits or to audit other documents where the determination is required by law,
- elect and dismiss of the members and substitute members of Audit Committee,
- decide on approval of executive service agreements for members of the Audit Committee and the rules for provision of perquisites to members of the Audit Committee, to which there is no right arising from the law, agreement on the performance of the office as approved by the General Meeting, or from an internal regulation approved by the General Meeting,
- decide on approval of financial assistance if such approval is required by law, and
- decide on instructions for members of the Board of Directors, or any other body of the Company, in accordance with the law and these Articles of Association.

General Meetings

Four regular General Meetings of the Company took place in 2014.

12 March 2014

A General Meeting of the Company was held on 12 March 2014 and approved the following:

- Recall of three members of the Supervisory Board; confirmation by election the membership of the co-opted Supervisory Board members and election of new Audit Committee members (for details see below).
- Approval of executive service agreements with newly elected Supervisory Board and Audit Committee members.
- Amendment to the Articles of Association of the Company, with the main changes being: a reduction in the number of members of the Company's statutory bodies, and a more flexible procedure for termination of their service; abolishment of the rule that one third of seats in the Supervisory Board would be filled with deputies elected by employees of the Company; abolishment of the mandatory allocations from the profit to the reserve fund; greater involvement of the Supervisory Board in the approval of major decisions; and removal of the position of Company Secretary from the Articles of Association. Other changes were introduced mainly to comply with the Business Corporations Act.

19 May 2014

A General Meeting of the Company was held on 19 May 2014 and approved the following:

An amendment to the Articles of Association of the Company. The most meaningful change was a change in the commercial name of the Company to O2 Czech Republic a.s., effective 21 June 2014. Further changes to the Articles of Association concerned mainly determination of a decisive day for exercising the right to a dividend and modification of certain control powers of the Supervisory Board in relation to the Board of Directors.

25 June 2014

A General Meeting of the Company was held on 25 June 2014 and approved the following:

- The Company's financial statements and the consolidated financial statements for the year 2013 prepared under the International Financial Reporting Standards (IFRS). Both sets of statements were recommended by the Board of Directors of the Company for approval, and audited by the auditor Ernst & Young, which gave both sets of statements an unqualified opinion.
- Distribution of unconsolidated profit for the year 2013 in total amount of CZK 5,682 mil. for payment of dividends. This represents a dividend of CZK 18 before tax per each share in nominal value of CZK 87. A dividend of CZK 870 before tax will be due on the share in the nominal value of CZK 180.
- Determination of the auditing firm KPMG Česká republika Audit, s.r.o., based on recommendation of the Audit Committee, to perform the required audit of the Company for 2014.

17 December 2014

A General Meeting of the Company was held on 17 December 2014 and approved the following:

- Amendment to the Articles of Association of the Company, with the main changes being: expanding the possible methods for shareholders to vote to include voting by correspondence, relaxation of control powers of the Supervisory Board towards the Board of Directors of the Company, a change in the method of negotiating on behalf of the Company and expanding the method of convening the General Meeting.
- Provision of financial assistance in the form of a loan up to a total amount of principle CZK 24,800,000,000 to PPF Arena 2 B.V.

A detailed overview of the conclusions of General Meetings is given on the Company's website (www.o2.cz/spolecnost).

7.4.2 Board of Directors

The Board of Directors is a statutory body that manages the business of the Company and acts on its behalf. The Board of Directors decides on all corporate affairs which, by law or the Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As a rule, the Board of Directors meets once every calendar month, but at least 12 times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is five years. The Board of Directors has a quorum if a simple majority of its members is present at the meeting. The number of members of the Board of Directors was decreased by resolution of the General Meeting on amendment to on amendment of the Articles of Association of the Company from seven to five members effective 12 March 2014.

The Board of Director has the particular authority to:

- operate the business and ensure the operational management of the Company,
- approve the Rules of Procedure of the Board of Directors,
- execute the rights of employer through its authorised member,
- convene the General Meeting,
- prepare and submit to the General Meeting for discussion the matters coming under the authority of the General Meeting,
- implement the General Meeting resolutions in accordance with law and these Articles of Association,
- ensure due and proper keeping of accounts and Company documents, in line with applicable legal regulations,
- submit to the Supervisory Board for review the Company's regular, extraordinary or, as the case may be, interim financial statement, always in its consolidated as well as unconsolidated form, and the proposal for distribution of profit or the other Company’s resources or for coverage of losses and the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act,
- use retained earnings in line with the decision of the General Meeting,
- decide in accordance with the law on the use of the Funds of the Company,
- prepare the report of the Board of Directors on the business of the Company and on its property in accordance with the provisions of Art. 436(2) of the Business Corporations Act, the Annual Report according to the provisions of Art. 21 of the Act on Accounting, the provisions of Art. 118 of the Capital Markets Undertakings Act, including the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act, Half-year Report pursuant to the provisions of Art. 119 of the Capital Markets Undertakings Act, interim report or equivalent quarterly information in accordance with the provisions of Art. 119a of the Capital Market Undertakings Act and a summary explanatory report pursuant to the provisions of Art. 118(8) of the Capital Markets Undertakings Act,
- set the Company’s business policy,
- stipulate principles for the collective agreement,
- decide on the use of the Reserve Fund,
- grant and withdraw proxy,
- stipulate the rules for the creation and use of the Social Fund on the basis of collective bargaining,
- enter into an agreement on mandatory audit or, if applicable, on other services to be rendered with the auditor,
- discuss the audit report with the auditor.

Meetings of the Board of Directors in 2014

The Board of Directors of the Company had 49 meetings in 2014.

Members of the Board of Directors

Tomáš Budník (*1969)
Chairman of the Board of Directors as of 7 January 2015
Vice-chairman of the Board of Directors as of 1 July 2014 until 6 January 2015
Member of the Board of Directors as of 23 June 2014

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

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

He has worked in the Company in various executive positions since 2003. In 2006, he was responsible for preparing an offer to obtain a mobile licence and consequently for commencing activities of the mobile operator O2 in Slovakia. He then assumed responsibility for corporate finance, and served as Commercial Finance Director starting in 2009. In 2012, he became Director for Finance and Investor Relations. Prior to his arrival to our company, he worked in 1999–2003 for the consultancy company Deloitte. He started his working career as marketing director in Kapucín. As of April 2014, he has served as statutory representative in Tesco Mobile ČR s.r.o. and since September as 2014 Vice-chairman of the Supervisory Board of První certifikační autorita, a.s. Since 1 July 2014 till the end of the year he had been director of Finance Division in O2 Czech Republic a.s. and after he was elected a member of the Board of Directors in January 2015 he was appointed to head the Finance Division. He has also been a member of bodies in other corporations over the last five years[3].

Petr Slováček (*1959)
Member of the Board of Directors since 13 June 2003, re-elected on 15 June 2013
2nd Vice-chairman of the Board of Directors since 14 June 2008 until 12 March 2014

Graduated from the Technical University, Prague, with a degree in telecommunications from the Faculty of Electro-technical Engineering. Also holds a postgraduate Master of Business Telecommunications (M.B.T.) Master of Business Telecommunications (MBT) degree from the Technical University of Delft in the Netherlands. After graduation he joined the Telecommunications Research Institute, Prague. He joined SPT TELECOM (the previous commercial name of O2 CZ) in 1989, working in switching, technical development, network management projects and OSS. In O2 CZ, he is in charge of the Infrastructure and Wholesale Division. In the past five years, he has not been a member of administrative, control or supervisory bodies outside of O2 CZ.

[1] Ecoclimate energo, s.r.o,,MAJER LABORATORY, s.r.o.
[2] Buda Investment, s.r.o., Baila Communication, s.r.o., New Revolution a.s., Com-Pakt Energy, a.s., Revolution Mobile a.s., GTS Czech s.r.o., GTS NOVERA a.s., ULTRANET s.r.o., MobilKom, a.s., Tesco Mobile ČR s.r.o.
[3] Internethome, s.r.o.

Martin Vlček (*1977)
Member of the Board of Directors since 31 January 2014
Vice-chairman of the Board of Directors from 31 January 2014 until 1 July 2014
He worked as investment director of PPF a.s., where he was responsible for investment in O2 Czech Republic a.s. In the past he has also worked as an external consultant to PPF a.s. and PMU CZ a.s. In 2002–2011 he worked at Penta Investments as investment manager and later as Director of the retail chain Pet Center. From February to June 2014 he was a member of the Supervisory Board of O2 Slovakia, s.r.o. and since June 2014 he serves as its statutory representative and from 1 July 2014 as CEO. He is a member of bodies in other companies[4] and in the past five years he was also a member of bodies in other corporations[5].

Michal Frankl (*1963)
Member of the Board of Directors since 31 January 2014

Graduated from College of Banking (BICB) in Prague and Janek Jesenský Law School. After 1989 he had his own finance software development company. In 1996 he was elected member of the Czech Parliament. Later he was appointed Deputy Minister of Finance for Taxes, Duties and IT. He was also Deputy Minister of Informatics responsible in particular for the field of electronic communications and postal services. He is one of the principal authors of the Electronic Communications Act No. 127/2005 Coll. From 2005 to 2009, he was a member of the Council of the Czech Telecommunication Office. Until appointed as Member of the Board of Directors, he worked for himself as an economic and tax advisor. Since 2014, he has held the post of Chairman of the Supervisory Board of the O2 Foundation. As of June 2014, he has served as Director of Public Relations and Sponsoring of O2 CZ. He is a member of bodies in other companies[6] and in the past five years he was also a member of bodies in other corporations[7].

Changes in the personnel composition of the Board of Directors

During 2014 and at the beginning of 2015 until the closing date of the Annual Report, the following changes occurred in the personnel composition of the Board of Directors.

- On 30 January 2014 David Melcon Sanchez-Friera, Jakub Chytil and Ramiro Lafarga Brollo resigned as members of the Board of Directors.
- Effective 31 January 2014, the Supervisory Board appointed Martin Vlček and Michal Frankl to be members of the Board of Directors. Martin Vlček was then appointed Vice-chairman of the Board of Directors.
- By decision of the General Meeting (on amendment the Articles of Association of the Company), the office of 2nd Vice-chairman of the Board of Directors was terminated effective 12 March 2014, and the number of members of the Board of Directors was decreased from seven to five.
- On 23 June 2014 Martin Bek resigned his post as member of the Board of Directors, and effective that same day, the Supervisory Board appointed Tomáš Budník to serve as member of the Board of Directors.
- On 1 July 2014 Martin Vlček resigned his post as Vice-chairman of the Board of Directors, and that same day, the Board of Directors appointed Tomáš Budník as its Vice-chairman.

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[4] MVM Invest a.s., Jiná sauna s.r.o., Tesco Mobile Slovakia, s.r.o.
[5] Lekia a.s., PetCenter CZ s.r.o., REAL AB a.s., PHARMAGEON, a.s., RIVERHILL a.s., ALICELA a.s., OAKFIELD a.s., Lékárna u Polikliniky a.s., REAL 1 a.s., SIMPSONS a.s., Česká lékárna, a.s., Retail Value Stores, a.s.
[6] MAIN Apartment House, s.r.o., MAIN management, s.r.o.
[7] Evropské školicí centrum, o.p.s., Evropská konsolidační, a.s.

- Effective 31 December 2014 Luis Antonio Malvido resigned as Chairman and member of the Board of Directors, and effective 1 January 2015 the Supervisory Board appointed Tomáš Kouřil to serve as member of the Board of Directors.
- Effective 7 January 2015 the Board of Directors appointed Tomáš Budník as its Chairman and Tomáš Kouřil as its Vice-chairman.

7.4.3 Supervisory Board

The Supervisory Board is a supervisory body of the Company and it supervises the discharge of the powers by the Board of Directors in managing the business of the Company. The Supervisory Board meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. Supervisory Board members shall be elected and dismissed by the General Meeting of the Company. Members of the Supervisory Board are elected for tenure of five years.
The Supervisory Board has a quorum if a simple majority of its members is present at the meeting. In 2013, the Supervisory Board had nine members; as part of the amendment to the Articles of Association, the number of members of the Supervisory Board of the Company has been reduced to three by decision of the General Meeting as of 12 March 2014.

The Supervisory Board has the particular authority to:

- review the regular, extraordinary and consolidated or, as the case may be, interim financial statements and proposals for distribution of profits or the other Company's resources or for coverage of losses, and to submit its standpoint to the General Meeting,
- elect and recall members of the Board of Directors,
- approve executive service agreements for members of the Board of Directors in compliance with the provisions of Art. 438(2) of the Business Corporations Act,
- decide on approval of remuneration to members of the Board of Directors according to the provisions of Art. 61(1) of the Business Corporations Act,
- convene a General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting,
- submit to the General Meeting and to the Board of Directors its standpoints, recommendations, proposals and results of its inspection activities,
- review the exercise of the powers of the Board of Directors, based on the request of the shareholders who have shares which nominal value amounts to at least 1% of the share capital, in respect of the matters determined in the application, and review the relevant shareholders of the outcome of the review in accordance with the law,
- based on the request of the shareholders who have shares which nominal value amounts to at least 1% of the share capital, claim the right for compensation for damages incurred by the Company vis-à-vis a member of the Board of Directors or the Supervisory Board, or the meeting of any duties arising from a settlement agreement pursuant to the provisions of Art. 53(3) of the Business Corporations Act, or the final payment of the subscription price, against a shareholder who is in delay with the payment,
- discuss and give the Board of Directors consent with legal acts or other acts stated in Article 14(4) or (5); the Supervisory Board may give its consent also generally for a certain group of cases,
- be regularly informed by the Board of Directors mainly on matters listed in Article 14(6) or (7),
- decide on issues concerning benefits for the Supervisory Board members or the members of the Audit Committee insofar as it is in accordance with law,

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

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

To 29 January 2014 the Supervisory Board had two committees, the Nomination and Remuneration Committee and the Ethics and Social Responsibility Committee. By decision of the General Meeting of 12 March 2014 amendments regarding the Nomination and Remuneration Committee and the Ethics and Social Responsibility Committee were deleted from the Articles of Association, and based on a decision of the Supervisory Board of 24 March 2014 the committees were dissolved. The same day by decision of the Supervisory Board the Council for Social Dialogue was created as a new platform for dialogue with employees, which is comprised of representatives of bodies of the Company and employee representatives. Topics falling within the competency of the Nomination and Remuneration Committee are discussed directly by the Supervisory Board.

Meetings of the Supervisory Board in 2014

The Supervisory Board of the Company had eighteen meetings in 2014.

Members of the Supervisory Board

Martin Štefunko (*1977)
Member and Vice-chairman of the Supervisory Board since 29 January 2014

He earned a Ph.D. in economic theory and the history of economic thinking from the University of Economics in Bratislava, where he also earned a Master's Degree in finance, banking and investment. He took up further studies in Austria at Johannes Kepler University (banking and finance) and in the Mises Institute of Auburn University in the USA (economic theory). As of 2001, Martin Štefunko worked in Penta Investments, and starting in 2004 in the function of director of investments, he was responsible for managing investment projects. At this post, he managed an entire series of important acquisitions and business projects for the Penta Group in the area of retail, healthcare, power generation and machine-building. Since 2009, he has worked in the PPF Group as a member of top management. He is a member of the Board of Directors of PPF a.s., the main consulting company of the PPF Group, and chairman of the Supervisory Board of PPF Bank. Since February 2014 he has been a member and Chairman of the Supervisory Board of O2 Slovakia, s.r.o. He has also been a member of bodies in other corporations over the last five years[8].

[8] EP Energy, a.s., Energetický a průmyslový holding, a.s., HELATIA a.s., TES VSETÍN, a.s., FORTUNA sázky a.s., FORTUNA GAME a.s., FORTUNA Loterie a.s., Česká lékárna, a.s., CLANTON a.s., REAL AB a.s., PPF Group N.V.

Ladislav Bartoníček (*1964)
Member and Vice-chairman of the Supervisory Board since 29 January 2014

Graduated from the Faculty of Electrical Engineering, Czech Technical University in Prague. In 1991 he joined PPF investiční společnost, a.s., as Executive Director; in 1993 he graduated from the Rochester Institute of Technology in New York. From 1996 until September 2006 he was Chief Executive Officer of Česká pojišťovna a.s. and later Chairman of the Board of Directors. In 2007 he was appointed CEO and member of the Board of Directors of Generali PPF Holding B.V. (GPH), one of the largest insurance groups in Central and Eastern Europe and a joint-venture of PPF and Assicurazioni Generali. He was CEO of GPH until March 2013 and member of the Board of Directors until January 2015. Since 2014 he acts as CEO of SOTIO a.s., a biotechnology company of PPF Group. Since 2007, he has also been a shareholder in the PPF Group. He has also been a member of bodies in other corporations over the last five years[9].

Vladimír Mlynář (*1966)
Member of the Supervisory Board since 29 January 2014

He has been in a high executive position in the PPF group, where he is responsible for Public Relations and the group's activities vis-à-vis the public sector, since August 2010. After a successful career as journalist, he went into politics in 1998, where he was until 2005, holding several ministerial appointments and also as member of the Czech Parliament; in 2010 he was also chief advisor to the Prime Minister. In 2008–2009 he worked for Telefónica Czech Republic a.s. (previous commercial name of O2 CZ). He is a member of the Supervisory Board PPF a.s. Since February 2014 he has been member and since June 2014 the Vice-chairman of the Supervisory Board of the O2 Foundation. He has also been a member of bodies in other corporations over the last five years[10].

Changes in the personnel composition of the Supervisory Board

Over the course of 2014, several changes came to the composition of the Supervisory Board.

- On 28 January 2014, María Pilar López Álvarez, Antonio Manuel Ledesma Santiago and Ivan Varela Sanchez resigned their membership in the Supervisory Board. Furthermore alternate members of the Supervisory Board Martin Štefunko, Vladimír Mlynář and Ladislav Bartoníček were co-opted.
- One day later, on 29 January 2014, María Eva Castillo Sanz, Francisco de Borja de Nicolás Benito and Jesús Pérez de Uriguen resigned their membership in the Supervisory Board, and that same day, the Supervisory Board chose its Chairman – Martin Štefunko – and Vice-Chairman – Ladislav Bartoníček.
- At its meeting on 12 March 2014 the General Meeting confirmed the co-opted members of the Supervisory Board, it recalled members of the Supervisory Board Lubomír Vinduška, Jiří Trupl and Antonín Botlík, and by amending the Articles of Association of the Company, it resolved to decrease the number of members of the Supervisory Board from nine to three.

7.4.4 Audit Committee

The Audit Committee is an autonomous body of the Company. Members of the Audit Committee are elected and recalled by the Company's General Meeting. They may be elected from the members of the Supervisory Board or from persons external to the Company. The Audit Committee

[9] Energetický a průmyslový holding, a.s., Slovenský plynárenský priemysel, a.s., organizační složka, SOTIO a.s., Nadační fond pro podporu vzdělávání v pojišťovnictví, B.I.G., a.s., B.I.G. Public Relations, a.s., B.I.G. Prague /Business Information Group/ s.r.o., GOPAS, a.s., PPF Group N.V.
[10] Bestsport Services, a.s. , Bestsport Arena, a.s., SAZKA a.s., eustream, a.s.

members are elected for a period of five years. The General Meeting may also elect up to three substitute members of the Audit Committee, designating the order of their succession. The Audit Committee meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. The Audit Committee has a quorum if a simple majority of its members is present at the meeting. The Audit Committee has three members. Prior to resolution of the General Meeting 12 March 2014 on amendment to the Articles of Association of the Company, the committee had five members.

The Audit Committee has the particular authority to:

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

Meetings of the Audit Committee in 2014

The Audit Committee had four meetings in 2014.

Members of the Audit Committee

Effective 12 March 2014, the Audit Committee works in the following composition:

Martin Štefunko (*1977)
Chairman of Audit Committee since 24 March 2014
member of Audit Committee since 12 March 2014
(resume listed in the part Supervisory Board)

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

He earned the title LL.M. at the Faculty of Law of Masaryk University in Brno and the title of Ing. (MSc) at the Faculty of Mechanical Engineering, Economics and Management of Mechanical Engineering at the Brno Technical University. He is an expert in the area of freelance employment regulation. Since 1993, he has acted as Secretary of the Chamber of Tax Advisors of the Czech Republic, which et alias he represents in Confédération Fiscale Européenne (CFE). Since 1995, he has been a partner in Paski club, v.o.s. Since 2009, he has been a member of the presidium of the Council for Public Audit Oversight and Chairman of the Audit Cooperation and Coordination Committee, which he represents in the advisory body of the European Commission - European Group of Auditors' Oversight Bodies. In 2011 – 2013 he was a member of the Commission of the Ministry of Finance for Conception and Development of Accounting and Audit, Section for Audit and Tax Consultancy. Starting this year, he has also been a member of the Supervisory Board of Charles University in Prague. In 2013, he became a member of the Audit Committee in ČEZ a.s. He is a member of bodies in other companies[11] and he has also been a member of bodies in other corporations over the last five years[12].

Ondřej Chaloupecký (*1972)
member of Audit Committee since 12 March 2014

Graduated in Information Technology from the University of Economics in Prague, Faculty of Informatics and Statistics in 1997. In 2010 he completed an EMBA programme at the University of Pittsburgh. Before joining PPF group he worked in the tax department of PricewaterhouseCoopers. He is member of the Chamber of Tax Advisors of the Czech Republic. He joined PPF group in 2002 and he is presently responsible for the area of taxes; he is member of the Supervisory Board of PPF a.s. and chairs the Supervisory Board in PPF reality a.s. and Moranda, a.s. He has also been a member of bodies in other corporations over the last five years[13].

Changes in personnel composition of the Audit Committee

Over the course of 2014, the following changes came to the composition of the Audit Committee.

- Effective 28 January 2014 Mrs Maria Pilar López Álvarez (also resigned as Chairperson), Mr Jesús Pérez de Uriguen (also resigned as Vice-chairman), Mr Pavel Herštík, Mr Antonio Manuel Ledesma Santiago and Mr Francisco de Borja de Nicolás Benito all resigned their membership. Alternate members Mr Lubomír Vinduška and Mr Ivan Varela Sanchez also resigned to that date.
- At the General Meeting of 12 March 2014, the General Meeting appointed Mr Martin Štefunko, Ondřej Chaloupecký and Radek Neužil members of the Audit Committee.

7.4.5 Executive Management

The executive management of the Company as of 31 December 2014 had the following members:

Tomáš Budník (*1969)
Chief Executive Officer
(resume listed in the part Board of Directors)

Tomáš Kouřil (*1974)
Director of Finance Division
(resume listed in the part Board of Directors)

Petr Slováček (*1959)
Director of Infrastructure and Wholesale Division
(resume listed in the part Board of Directors)

Jindřich Fremuth (*1975)
Director of Consumer Division

Appointed Director, Consumer Division in March 2013. He joined O2 CZ in 2009 as Director, Online Channels, where he was responsible for the planning and execution of the Company’s online strategy, management of online tools and application development. In 2011 he took over the responsibility for the consumer distribution channel strategy, which plays a major role in the development of customer care. Before joining O2 CZ, he worked for 10 years in various marketing

[11] KDP – DATEV, družstvo, PASKI CLUB, v.o.s.
[12] Daňová akademie s.r.o., Eláán, Paski club
[13] PPF Healthcare a.s., Retail Value Stores, a.s.

and sales positions. As consultant at McKinsey&Company, he specialised in telecommunications and technology projects, and worked for leading corporations in Europe and in the Middle East in particular. Previously he was Managing Director Euro RSCG 4D (Havas Group) whose business is digital marketing, direct marketing and sales support. Jindřich Fremuth graduated from the University of Economics in Prague. In the past five years, he has not been a member of administrative, control or supervisory bodies outside of O2 CZ.

Vít Šubert (*1970)
Director of Business Division

Joined O2 CZ in 2011 as Director, ICT & Presales. In this capacity he was responsible for the planning and execution of the Company's ICT strategy. Before joining O2 CZ, he worked for several years in marketing and sales; first as Regional Marketing Director at Dell, later as Executive Director for the Czech Republic and Slovakia at LG Electronics. For over two years he was also Executive Director for the Czech Republic and Slovakia at Nextra. Since 2007 he has been member of the Board of Trustees of Srdce na dlani foundation, and since 2014 he has chaired the Administrative Board of the foundation fund HC Sparta Praha. He started his career in ČESKÝ TELECOM, a.s. (previous commercial name of O2 CZ), in 1997. As the head of the Internet OnLine division he was directly involved in the launch of the first commercial internet service in the Czech Republic. In the past five years, he has not been a member of administrative, control or supervisory bodies outside of O2 CZ.

Jiří Hrabovský (*1977)
Director of Legal, Regulatory Affairs and Security Division

Before entering the Company, he had worked closely with it by providing commercial law services. He had previously worked as legal consultant in the PPF Group and as head of the legal department in Generali PPF Holding B.V. He also spent many years in the legal profession, where he worked with various ICT companies on the Czech and Slovak markets. In the past, he has also been a member of the dissolving committees of ČNB and ČTÚ. He has also been a member of bodies in other corporations over the last five years[14].

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

Graduated from the Palacký University in Olomouc, where he studied sociology and adult education with a specialisation in HR management. After graduation he worked in several positions in human resources for multinational companies such as Kapa Karton Morava and EPCOS. In 2001 he was appointed HR director for The Timken Company, where he oversaw the start-up of a new plant in the Czech Republic; later he managed HR activities in Central and Eastern Europe. In 2008 he joined ArcelorMittal Ostrava as HR Director – he was responsible for HR strategy and management, served on the Board of Directors and, after two and half years started as HR Director of the Luxembourg-based division ArcelorMittal Long Carbon Europe. He joined O2 CZ in 2011 as Director, Human Resources Division. In this position he is responsible for the management of human resources in the Czech Republic and in Slovakia. Ctirad Lolek has extensive experience in HR management; he is an expert in personnel management, especially in HR strategy planning, including performance and talent management, leadership development, employee relations and internal communication. He has also been a member of bodies in other corporations over the last five years[15].

[14] ČP INVEST Realitní uzavřený investiční fond a.s.
[15] O2 Foundation

Michal Dvořák (*1971)
Director of IT Division

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

Václav Hanousek (*1962)
Director of Service Unit Division

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

Changes in Executive Management

At the start of 2015 – or by the close of the Annual Report a change occurred in the name of the ICT Division to the Professional Services Division, and after departure of Martin Koníček, Václav Provazník became director of Professional Services Division.

7.5 Rules for the remuneration of persons with executive powers

The group of persons with executive powers in the Company includes members of the Board of Directors and the Supervisory Board, members of the executive management of the Company and members of the Audit Committee. The given names and surnames of these persons, a description of their activity and affiliated powers and decision-making powers are stated in previous chapters Board of Directors, the Supervisory Board, Audit Committee and Executive Management.

Remuneration of members of the Board of Directors

Remuneration is governed by rights and obligations negotiated in individual executive service agreements and rules for remuneration and provision of other benefits to members of the Board of Directors. The Supervisory Board approves rules for remuneration and regulates the method and certain conditions for provision of remuneration and other benefits. In mid-2014, the Supervisory Board resolved to modify these rules in relation to the need to react to new legislation and conclusion of new executive service agreement for members of the Board of Directors. Then in September 2014 the rules were simplified and harmonised into a single document that also modifies non-claim benefits. The full text of the new rules for remuneration is published on the Company's website.

The following text lists basic information on remuneration and other benefits provided to members of the Board of Directors based on the new remuneration rules. Before amendment of the remuneration rules in mid-2014, members of the Board of Directors had been remunerated in a manner explained in detail in the Annual Report for 2013.

Since mid-2014 in relation to conclusion of new executive service agreements, members of the Board of Directors are entitled to the following remuneration:

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

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

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

Remuneration of members of the Supervisory Board

Remuneration and provision of further benefits to members of the Supervisory Board are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its provision. Members of the Supervisory Board are entitled to remuneration on the condition that he/she makes a claim for it.
Members of the Supervisory Board are entitled to monthly remuneration for performance of their function, formed by:

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

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

Members of the Supervisory Board serving since 29 January 2014, who in 2014 exercised their entitlement to remuneration in the minimum amount, which is for a member CZK 4,000, Vice-chairman CZK 5,000 and Chairman CZK 6,000 .

Members of the Supervisory Board of the Company are also provided further benefits. This concerns voice and data services and computer technology and providing health care. Members of the Supervisory Board serving since 29 January 2014 did not claim such benefits over the course of 2014. The Company furthermore provides liability insurance to members of the Supervisory Board covering damage caused by breach of an obligation while serving as member of the Supervisory Board.

Remuneration of members of Executive Management

Members of executive management are entitled to remuneration comprised of a basic wage and a performance-related bonus. The performance-related bonus is paid in relation to fulfilment of specific annual targets. The performance-related bonus may, in aggregate for the calendar year, reach 50% of the total annual income if the targets are achieved to a standard level. The targets represent the key performance indicators of both financial and non-financial nature. A part of the overall assessment is assessment performed by the CEO.

Remuneration of members of the Audit Committee

Remuneration and provision of further benefits to members of the Audit Committee are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its provision. Members of the Audit Committee are entitled to remuneration on the condition that he/she makes a claim for it. In 2014, Audit Committee members received from the Company pecuniary income for an amount of CZK 335,313 and in-kind incomes for an amount of CZK 0. Audit Committee members did not receive any pecuniary or in-kind incomes from entities controlled by O2 CZ in 2014.
In 2014, all Audit Committee members had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires.

The complete wording of rules for remuneration and for providing further benefits relating to all bodies of the Company are published on the Company website.

7.6 Other information related to persons with executive powers

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

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

(in CZK)	Pecuniary incomes	of which royalties	In-kind incomes
Board of Directors	71,423,457	0	4,795,556
Supervisory Board	2,857,975	0	44,699
Executive management[1]	54,522,747	0	1,468,802

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

In 2014, members of the Supervisory Board received no pecuniary or in-kind income from entities controlled by O2 CZ.

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

Information on the number of shares issued by O2 CZ and held by statutory bodies or their members, persons with executive powers:

	Number of shares
Board of Directors	253
Supervisory Board	100,000
Audit Committee	100,000
Executive management	253

Conflict of interest of persons with executive powers

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

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

In the first half of 2014, members of the Board of Directors had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires. The commitment to a non-competition covenant was taken for six months and involved prohibition of acting independently or in the benefit of another person within the territory of the Czech Republic in the area of telecommunications (not even e.g. the area of thereto related advisory or consultancy service), unless it concerned his working within the Group The Company is obliged to provide to the member of the Board of Directors in question, for committing to the non-competition covenant, compensation as consideration amounting to six times the average flat remuneration as laid down in the Rules for the Remuneration of Members of the Board of Directors, in an amount attributable to one member of the Board of Directors, in the month preceding the month in which the member of the Board of Directors terminated their position in the Board of Directors. In the second half of 2014, regarding the new legislation, new executive service agreements were concluded with members of the Board of Directors, from which members of the Board of Directors are banned from competition throughout the duration of their function. The Supervisory Board approves executive service agreements concluded with members of the Board of Directors.

In 2014, members of the Supervisory Board had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires. Members of the Supervisory Board accept in the executive service agreement the commitment to a non-competition covenant after termination of their function independently or in the benefit of another person within the territory of the Czech Republic in the area of telecommunications (not even e.g. the area of thereto related advisory or consultancy service), unless it concerned his working within the Group The commitment to a non-competition covenant is accepted for a period of six months from the date of termination of performing the function. The Company is obliged to provide to the member of the Supervisory Board in question, for committing to the non-competition covenant, compensation as consideration amounting to six times the average flat remuneration as laid down in the Rules for the Remuneration of Members of the Supervisory Board, in an amount attributable to one member of the Supervisory Board, in the month preceding the month in which the member of the Supervisory Board terminated his position in the Supervisory Board. The General Meeting approves executive service agreements concluded with members of the Supervisory Board.

7.7 Information on corporate governance codes of the Company

The Company has been meeting for a long time all the main criteria and observing the principles and recommendations of the Czech Code of Good Corporate Governance based on OECD Principles, which was published in 2004 (the Code). This Code is available at the website of the Ministry of Finance of the Czech Republic (www.mfcr.cz). An exception to this rule are the principles of Good Corporate Governance that are not in direct control of the Company's governing bodies and are dependent on the decisions of its owners (in 2014 it was in particular the criterion concerning the number of independent members of the Supervisory Board). The Board of Directors regularly oversees the good practice of Corporate Governance in subsidiaries controlled by O2 CZ.

7.8 Information on internal control principles and procedures

As a part of changes in the Company organizational structure at the start of 2014 the unit Internal Audit and Risk Management was moved under the direct powers of the Supervisory Board. Internal Audit represents an important instrument of Corporate Governance and 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 2014, Internal Audit and Risk Management carried out 41 audits and controls as per the annual plan of Internal Audit or as mandated by the governing bodies and the Chief Executive Officer of the Company. In addition to performing audits and controls in the Company, the Internal Audit unit also acts as internal auditor of the subsidiaries in the group O2 Slovakia s.r.o., Internethome, s.r.o. and Bonerix s.r.o. 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 Czech Republic a.s., 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 reporting presented by Internal Audit. The Internal Audit Charter stipulates the Audit Committee's participation in the preparation and approval of the annual plan of internal audits. The Director of Internal Audit & Risk Management has full access to the Audit Committee and 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.

The Internal Audit & Risk Management unit of O2 Czech Republic a.s., has been certified in quality by the Institute of Internal Auditors (IIA) since 2007. This certification assesses Internal Audit activity's conformity to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).

7.9 Information required by the Capital Markets Undertakings Act

Information relating to matters according to Section 118(5) of the Act No. 256/2004 Coll., the Capital Market Undertakings Act (CMUA), and information which is a part of a summary report compiled according to the requirement of Section 118(8) of the CMUA:

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

The equity structure of standalone O2 CZ as of 31 December 2014 was as follows:

	(in CZK mil.)
Share capital	27,461
Treasury shares	-1,596
Share premium	19,349
Funds	6,450
Retained earnings	4,706
Total	56,370

The share capital of O2 CZ as of 31 December 2014 in the amount of CZK 27,461,384,874 was entirely paid and was formed by the following shares:

A.	Type:	ordinary
	Kind:	registered
	Form:	booked
	Total volume of issue:	315,648,092
	Nominal value:	87
	Total volume of issue	27,461,384,004
	ISIN:	CZ0009093209
B.	Type	ordinary
	Kind:	registered
	Form:	booked
	Total volume of issue:	1
	Nominal value:	870
	Total volume of issue	870
	ISIN	CZ0008467115

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 Sec 357 et seq of the Business Corporations Act. Implementing proposals and counterproposals is governed mainly by the provisions of Sec 357 et seq of the Business Corporations Act.
3. The 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 people 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 return of the subject of his deposit.

5. Upon liquidation of the company, the shareholder is entitled to share in the liquidation balance. This share is determined and his payment is governed mainly by the provisions Sec. 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.

The Company owns 5,428,035 of its own shares with a nominal value of CZK 87, taken over in 2013 as a part of the share buyback programme.

Registered shares at a nominal value of CZK 87 were listed for trading on the following markets:

Name of market	**Note**
Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	
RM-SYSTÉM, česká burza cenných papírů a.s.	
The London Stock Exchange	In the form of Global Depository Receipts (GDR). The depository for the GDR is The Bank of New York Mellon, ADR Division, 101 Barclay Street, West New York, NY 10286, USA; the custodian is Komerční banka, a.s., Na Příkopě 33/906, 114 07 Prague 1 The Board of Directors of O2 CZ decided on 23 January 2015 to terminate the trading of the Company's global depository receipts on London Stock Exchange as of 28 February 2015 and consequently to discontinue the receipts.

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

The registered share in the nominal value of CZK 870 was not listed for trading on any regulated market in Europe.

b) Information about transferability of securities

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

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

Key shareholders of O2 CZ as of 31 December 2013:

	Name	**Address**	**% of share capital**
1	Telefónica, S.A.	Gran Vía 28, 28013 Madrid, Kingdom of Spain	70.83%
2	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Prague 4 – Michle, 140 22, Czech Republic	1.72%
3	Investment funds and individual shareholders	–	27.45%

To 31 December 2013, the share of Telefónica, S.A., in the voting rights of O2 CZ, according to the provision of Section 122 of the Capital Market Undertakings Act, was 72.07%.

In November 2013, an agreement was announced on sale of the majority stake in the Company between Telefónica, S.A., and the financial group PPF. In mid-January 2014, the transaction received permission of the European Commission and it was settled effective 28 January 2014.

Effective 28 January 2014 the structure of key shareholders of the Company O2 CZ was as follows:

	Name	**Address**	**% of share capital**
1	PPF Arena 2 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	65.93%
2	Telefónica, S.A.	Gran Vía 28, 28013 Madrid, Kingdom of Spain	4.90%
3	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Prague 4 – Michle, 140 22, Czech Republic	1.72%
4	Investment funds and individual shareholders	–	27.45%

To 28 January 2014, the share of PPF Arena 2 B.V., in the voting rights of O2 CZ, according to the provision of Section 122 of the Capital Market Undertakings Act, was 67.09%.

Over the course of the year, PPF Group increased its stake in O2 CZ, first part of the mandatory tender offer in August 2014, and later by purchasing further shares in October 2014.

Structure of key shareholders of O2 CZ as of 31 December 2014:

	Name	**Address**	**% of share capital**
1	PPF Arena 2 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	73.06%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10.09%
PPF Group total			83.16%
3	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Prague 4 – Michle, 140 22, Czech Republic	1.72%
4	Investment funds and individual shareholders	–	15.12%

To 31 December 2014, the share of PPF Group, in the voting rights of O2 CZ, according to the provision of Section 122 of the Capital Market Undertakings Act, was 84.61%.

On 1 December 2014, PPF Arena 2 B.V. announced a new and voluntary offer for purchase of shares of O2 CZ, valid until 16 January 2015. The offer was addressing minor shareholders of O2 CZ in possession of shares on 15 August 2014, and was limited by the maximum amount of two hundred shares per shareholder at a price of CZK 277.15 per share. Notification of the final result and settlement of this offer is expected on 27 February 2015. A purchase of less than 1% of Company shares was achieved, which was set as the maximum total volume for purchase.

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

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

e) Information about restrictions of voting rights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company has no business in the mining sector.

Financial part

8. Financial part

8.1 Consolidated financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards

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GENERAL INFORMATION

O2 Czech Republic a.s. Group (Group) consists of O2 Czech Republic a.s. (Company) and its subsidiaries: O2 Slovakia, s.r.o., Bonerix s.r.o., Internethome, s.r.o., CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH. The Group operates a joint venture Tesco Mobile ČR s.r.o. with Tesco Stores ČR 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.

The Group is a member of the PPF Group of companies (PPF Group) and the major shareholder is PPF Arena 2 B.V. (PPF).

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

The number of employees employed by the Group amounted in average to 4,859 in 2014 (2013: 5,876).

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

The consolidated financial statements were approved for issue by the Company’s Board of Directors on 10 February 2015.

Sale to PPF Group

The agreement between Telefónica S.A. (Telefónica) and PPF Group to sell 65.9% of the Company’s shares was approved by the European Commission in mid-January 2014 and was closed on 28 January 2014.

The transaction involved all the Company’s interests including O2 Slovakia, s.r.o. (former Telefónica Slovakia, s.r.o.). Both companies are allowed to trade under the O2 brand for a period of up to January 2019. Both joined Telefónica's Partners Programme, an initiative offering partner operators the opportunity to benefit from Telefónica's scale and cooperate on key business areas.

PPF Group increased its share in the Company to 83.2% at 31 December 2014.

Change of name

Based on the decision of the Annual General Meeting of 19 May 2014 the Company changed its name to O2 Czech Republic a.s. with effect from 21 June 2014.

Telefónica Slovakia s.r.o. changed its name to O2 Slovakia, s.r.o, with effect from 4 June 2014.

The financial assistance

The Company made a decision to provide the financial assistance in accordance with the Company's Articles of Association and the Corporations Act following the request of its majority shareholder dated 13 October 2014. The financial assistance was approved by General Meeting on 17 December 2014. The financial assistance shall be provided as a loan with the principal of up to CZK 24.8 billion, with the maturity of no later than 7 years after the date of first loan utilization and with the interest paid on a regular basis that will be higher than the interest on the loan that the Company must obtain within the six months following the approval of financial assistance by the Company's general meeting.

LTE broadband mobile data network

In 2014, both O2 Czech Republic a.s. and O2 Slovakia, s.r.o. received new spectrum assignments arising from the auction results issued by the regulatory authorities. This spectrum is necessary for the development of a new generation LTE network.

This spectrum combination will allow the Company to build the highest speed and quality network in the Czech Republic. The Company has already covered a significant part of Prague and Brno with the LTE network. The Company started rolling out the LTE network in new locations in the first half of year 2014.

Frequency allotments auctioned by O2 Slovakia, s.r.o will simplify the deployment of LTE networks in the country and enable the high-speed mobile internet will also be available in remote areas where broadband access is currently limited.

Restructuring

Over the course of 2014, the Group continued to implement its restructuring and cost-optimization activities aimed at further improving its operating efficiency. The Group launched new projects in various areas of its operations. These projects focused on the streamlining of the organisation structure including the reduction of duplicate positions; call centres consolidation and optimization; reduction of the number of applications and systems in use including optimisation of the related processes. More than 740 employees were made redundant during the restructuring process, and the Group incurred restructuring costs of CZK 457 million (see Note 2).

INDEPENDENT AUDITORS‘ REPORT TO THE SHAREHOLDERS OF O2 Czech Republic a.s.

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

This document is an 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.

We have audited the accompanying consolidated financial statements of O2 Czech Republic a.s., which comprise the consolidated balance sheet as of 31 December 2014, 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 the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about O2 Czech Republic a.s. is set out in the Note General Information to these consolidated financial statements.

Statutory Body's Responsibility for the Consolidated Financial Statements

The statutory body of O2 Czech Republic a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of O2 Czech Republic a.s. as of 31 December 2014, 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.

Prague
10 February 2015

KPMG Česká republika Audit

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

Petr Škoda

Petr Škoda
Partner
Registration number 1842

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2014

In CZK million	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenues	2	44,689	47,895
Other income	2	775	867
Expenses	2	(29,274)	(30,274)
Impairment loss		(180)	(11)
Operating income before depreciation and amortization (OIBDA)		**16,010**	**18,477**
Depreciation and amortisation	7, 8	(10,736)	(11,032)
Operating profit		5,274	7,445
Finance income	3	17	148
Finance costs	3	(121)	(323)
Results attributed to joint venture		8	(6)
Profit before tax		5,178	7,264
Corporate income tax	4	(1,180)	(1,569)
Profit for the year		**3,998**	**5,695**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		40	373
Other comprehensive income, net of tax		40	373
Total comprehensive income, net of tax		**4,038**	**6,068**
Profit attributable to:			
Equity holders of the Company	5	3,998	5,695
Total comprehensive income attributable to:			
Equity holders of the Company		4,038	6,068
Earnings per share (CZK) – basic*	5	13	18

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

In CZK million	Notes	31 December 2014	31 December 2013
ASSETS			
Property, plant and equipment	7	36,200	41,857
Intangible assets	8	26,276	20,008
Investment in associate	21	17	9
Other financial assets	10	564	169
Deferred tax asset	14	313	417
Non-current assets		**63,370**	**62,460**
Inventories	9	470	536
Receivables	10	7,194	7,062
Income tax receivable	4	-	1
Cash and cash equivalents	11	3,256	3,890
Current assets		**10,920**	**11,489**
Total assets		**74,290**	**73,949**
EQUITY AND LIABILITIES			
Ordinary shares	19	27,461	27,461
Treasury shares	19	(1,596)	(1,596)
Share premium		19,349	19,349
Retained earnings, funds and reserves		8,939	10,535
Total equity		**54,153**	**55,749**
Long-term financial debts	13	3,000	3,000
Deferred tax liability	14	2,151	2,735
Non-current provisions for liabilities and charges	15	251	26
Non-current other liabilities	12	155	64
Non-current liabilities		**5,557**	**5,825**
Short-term financial debts	13	4,004	4
Trade and other payables	12	10,135	12,199
Income tax liability	4	299	155
Provisions for liabilities and charges	15	142	17
Current liabilities		**14,580**	**12,375**
Total liabilities		**20,137**	**18,200**
Total equity and liabilities		**74,290**	**73,949**

The consolidated financial statements were approved by the Board of Directors on 10 February 2015 and were signed on its behalf by:

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

IDENTIFIKACE AUDITORA
KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a, 186 00 Praha 8
IČ: 49619187, auditorské oprávnění č. 71

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In CZK million	Notes	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2013		**28,022**	**24,374**	**(2,483)**	**(117)**	**31**	**6,499**	**4,248**	**60,574**
Currency translation differences – amount arising in period		-	-	-	373	-	-	-	373
Profit for the year		-	-	-	-	-	-	5,695	5,695
Total comprehensive income		**-**	**-**	**-**	**373**	**-**	**-**	**5,695**	**6,068**
Capital contribution and other transfers		-	-	-	-	7	43	(36)	14
Distribution declared in 2013	6	-	(3,221)	-	-	-	-	(6,442)	(9,663)
Treasury share transactions	19	-	118	(1,596)	-	-	-	234	(1,244)
Cancellation of treasury shares	19	(561)	(1,922)	2,483	-	-	-	-	-
At 31 December 2013		**27,461**	**19,349**	**(1,596)**	**256**	**38**	**6,542**	**3,699**	**55,749**
At 1 January 2014		**27,461**	**19,349**	**(1,596)**	**256**	**38**	**6,542**	**3,699**	**55,749**
Currency translation differences – amount arising in period		-	-	-	40	-	-	-	40
Profit for the year		-	-	-	-	-	-	3,998	3,998
Total comprehensive income		**-**	**-**	**-**	**40**	**-**	**-**	**3,998**	**4,038**
Capital contribution and other transfers		-	-	-	-	(38)	45	(56)	(49)
Distribution declared in 2014	6	-	-	-	-	-	-	(5,682)	(5,682)
Treasury share transactions	19	-	-	-	-	-	-	97	97
At 31 December 2014		**27,461**	**19,349**	**(1,596)**	**296**	**-**	**6,587**	**2,056**	**54,153**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax		5,178	7,264
Non-cash adjustments for:			
Results attributed to Joint Venture		(8)	6
Dividends received		(5)	(5)
Depreciation	7	8,324	8,545
Amortisation	8	2 412	2,487
Impairment loss		180	11
Profit on sale of property, plant and equipment	7	(13)	(51)
Net interest and other income (charges)		80	111
Foreign exchange losses/(gains) (net)		21	201
Fair value changes		(3)	(126)
Change in provisions and allowances		353	388
Other non-cash operations		(32)	20
Operating cash flow before working capital changes		**16,487**	**18,851**
Working capital adjustments:			
Increase/(decrease) in trade and other receivables		(751)	147
Decrease/(increase) in inventories		58	(33)
Increase/(decrease) in trade and other payables		(1,217)	(133)
Cash flows from operating activities		**14,577**	**18,832**
Interest paid	11	(64)	(79)
Interest received	11	1	12
Income tax paid		(1,538)	(1,463)
Net cash flow from operating activities		**12,976**	**17,302**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,727)	(3,617)
Purchase of intangible assets		(9,330)	(2,097)
Proceeds from sales of property, plant and equipment and intangible assets		27	72
Cash purchase of financial investments		-	(63)
Dividends received		5	5
Grant of loan		-	(30)
Repayment of loan		-	12
Net cash used in investing activities		**(12,025)**	**(5,718)**
Cash flows from financing activities			
Proceeds / repayments of loans		4,000	-
Cash payments to owners for acquisition of treasury shares		-	(1,596)
Capital decrease		-	(3,104)
Dividends paid		(5,585)	(6,191)
Net cash used in financing activities		**(1,585)**	**(10,891)**
Net increase/(decrease) in cash and cash equivalents		**(634)**	**693**
Cash and cash equivalents at beginning of year	11	3,890	3,044
Effect of foreign exchange rate movements on cash and cash equivalents		0	153
Cash and cash equivalents at the year end	11	3,256	3,890

ACCOUNTING POLICIES

Content Page

A Basis of preparation

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

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

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

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

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

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

In connection with the change of shareholders at the beginning of 2014, the Group decided to change the method of the cash flow statement for the year ended 31 December 2014 (and comparable period) from direct to indirect method. The Group applied the change to align with rules of the PPF group reporting.

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

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

In 2014, the Group adopted the below stated standards, interpretations and amendments, which are relevant to its operations. Adoption of the interpretations and amendments has no material impact on the consolidated financial statements of the Group.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)

The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

– Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.

– Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)

The amendment provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

IASB issued the amendments which will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained.

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached.

The changes in following standards are effective for the period ending 31 December 2014 but are not relevant for the Group – IAS 19 Defined benefit plans and IFRS 3 Business combinations.

New IFRS not effective as at 31 December 2014 (includes standards applicable for the Group)

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 11	Joint arrangements	1 January 2016
IAS 16 and IAS 38	Property, plant and equipment and Intangible assets	1 January 2016
IAS 1	Presentation of financial statements	1 January 2016
IFRS 10 and IAS 28	Consolidation financial statements and Investments in Associates and joint ventures	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Consolidation financial statements, Disclosure if interests in other entities and Investments in Associates and joint ventures	1 January 2017
IFRS 15	Revenues from contracts with customers	1 January 2017
IFRS 9	Financial instruments - classification and measurement	1 January 2017

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

B Group accounting

Consolidation

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

A business combination is accounted for using the acquisition method. The consideration transferred for the acquisition of the business combination is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed when incurred. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. The excess of the fair value of the Group´s share of the identifiable net assets acquired over the considerations transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree is recorded as gain in profit or loss on the acquisition date. For detail refer to Note F Intangible assets and also to Note 8.

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

C Investment in joint ventures and associates

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

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

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

Associates are accounted for using the equity method.

D 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 consolidated financial statements are presented in Czech crowns (CZK), which is the Group's presentation currency.

(ii) Transactions and balances

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

(iii) Group companies

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

E Property, plant and equipment

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

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

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

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

Repairs and maintenance costs are expensed as incurred.

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

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

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

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

	Years
Freehold buildings	up to 40
Cable and other related plant	10 to 25
Exchanges and related equipment	up to 25
Other fixed assets	up to 20

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

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

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

F 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 useful lives, generally from one to five years. Valuable rights are amortised according to period for which the Group is allowed to utilize the rights.

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment reviews (see Note 8).

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

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

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

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

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

G Non-current assets classified as held for sale

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

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

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

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

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

H Impairment of assets

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

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

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

I Investments and other financial assets

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2014 and 2013, the Group did not hold any financial assets in this category.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. During 2014 and 2013, the Group did not hold any investments in this category.

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

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

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

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

(2) Available- for-sale financial assets

If this asset is impaired, the cumulative loss that had been previously recognised (due to fair value revaluation) in other comprehensive income shall be removed from other comprehensive income and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

De-recognition of financial assets

A financial asset is de-recognised when:

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

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

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

J Leases

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

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

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

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

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

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 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 Trade receivables

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

M Cash and cash equivalents

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

N Financial debt

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

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

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

O Current and deferred income taxes

Taxation expense represents both current and deferred taxation, where appropriate.

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

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

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

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

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

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

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

P Employee benefits

(1) Pension insurance and supplementary pension insurance

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

(2) Redundancy and severance payments

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

(3) Bonus plans

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

Q Share-based compensation

In 2006, the Group introduced performance compensation systems linked to the market value of shares of the former parent company Telefónica. Some compensation plans are settled in cash, while others are settled via the delivery of shares. All plans were fully settled during 2014 and there are currently no plans available to management or employees as at 31 December 2014.

IFRS 2 is applied to compensation schemes linked to the share price with the following accounting treatment:

Option plans that can be either cash-settled or equity-settled at the option of the employee are recognized at the fair value on the grant date of the liability and equity components of the compound instrument granted.

In the cash-settled share option plan, the total cost of the rights to granted shares are expensed over the period during which the beneficiary earns the full right to exercise the options (vesting period). The total cost of the options is initially measured based on their fair value at the grant date calculated by the Black-Scholes option pricing model, taking into account the terms and conditions established in each share option plan. At each subsequent reporting date, the Group revises its estimate of fair value and the number of options it expects to vest, booking any change in the liability through profit or loss for the period, if appropriate.

For the equity-settled share option plan, fair value at the grant date is measured using the binominal methodology. These plans are expensed during the vesting period with a credit to equity. At each subsequent reporting date, the Group revises its estimate of the number of options it expects to be exercised, with a corresponding adjustment to equity. As the plan will be settled by a physical delivery of equity instruments of the parent, Telefónica, to the employees, the personnel expense accrued is recognised against equity.

R Provisions

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

S Revenue and expenses

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

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

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

Free minutes
The Group offers customers free minutes with their choice of price plan. Free unused minutes at the end of the month can be rolled over to the following month. The Group is not obliged to

reimburse the customer for unused minutes and the option of rolling over any unused minutes is valid for only one month.

The Group recognises revenue for free minutes in the period when the related services are provided and consumed, if material. Any rollover minutes are deferred and recognised when the minutes are used or the option expires.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services. Revenue from prepaid cards is recognised at the time of usage of airtime and other services.

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

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

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

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

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

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

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

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

Instalment sales
Revenue attributable to the sale price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest method.

T Dividend distribution

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

U Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, borrowings and derivatives. Detailed figures are described in Note 13.

Financial risk management

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

The Group does not conduct any speculative trading activities.

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

(i) Foreign currency risk

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

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

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

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

(ii) Interest rate risk

The Group is exposed to interest rate risk arising from floating interest rate bearing cash investments and debt instruments.

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

(iii) Liquidity risk

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

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

(iv) Credit risk

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

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting into the non significant Group's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note10. There is no significant concentration of credit risk within the Group.

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

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

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

Accounting for derivative financial instruments and hedging activities

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

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

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

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

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

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

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

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

Fair value estimation

Except for currency options, the fair values of the derivative financial instruments reflect estimates based on calculations performed using the Group's own discounted cash flow models (using market rates). The fair value of currency options is based on information obtained from external parties, including the Group's bankers.

V Use of estimates, assumptions and judgements

The Group makes forward-looking estimates and assumptions. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(1) Income taxes and deferred taxes

The Group creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 4 and Note 14).

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

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

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

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

The Group evaluates the performance of its cash-generating units regularly to identify potential impairments. Determining the recoverable amount of the cash-generating units also entails the use of assumptions and estimates and requires a significant element of judgment. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount where an impairment loss recognised in prior periods shall be subject to the reversal (See Note 8).

The Group tests goodwill for impairment at each reporting date. However, goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation to which the goodwill relates. In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (See Note 8).

(3) Provisions, and contingent liabilities

As set out in Note 16 the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (See Note 15). Contingent liabilities are not recognised, because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

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

W Change in accounting policy

No significant changes in accounting policies were applied in 2014 and 2013.

X Operating profit

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1 Segment information

Operating segments recognised by the Group are as follows:

- fixed – network communication services using own fix network and WiFi infrastructure and ICT services provided by the Company and other consolidated subsidiaries without Bonerix s.r.o.
- mobile – mobile communication services provided by the Company and Bonerix s.r.o.
- O2 Slovakia – mobile communication services provided by O2 Slovakia, s.r.o.

Year ended 31 December 2014 In CZK million	**Czech Republic Fixed**	**Czech Republic Mobile**	**Slovak Republic O2 Slovakia**	**Group**
Revenues	19,965	19,771	6,173	45,909
Other income	507	243	17	767
Inter-segment sales	(550)	(576)	(86)	(1,212)
Total consolidated income	19,922	19,438	6,104	45,464
Total consolidated costs	(12,964)	(12,613)	(3,697)	(29,274)
Impairment charge	(179)	(1)	-	(180)
Depreciation and amortization	(6,597)	(3,500)	(639)	(10,736)
Operating income	182	3,324	1,768	5,274
Net financial loss				(104)
Results attributed to joint venture				8
Profit before tax				5,178
Corporate income tax				(1,180)
Profit for the period				**3,998**
Assets (excluding goodwill)	30,555	24,971	5,316	60,842
Goodwill	128	13,320	-	13,448
Total assets	**30,683**	**38,291**	**5,316**	**74,290**
Trade and other payables	(4,451)	(4,284)	(1,400)	(10,135)
Other liabilities	(5,094)	(4,744)	(164)	(10,002)
Total liabilities	**(9,545)**	**(9,028)**	**(1,564)**	**(20,137)**
Fixed assets additions	**3,475**	**6,645**	**1,370**	**11,490**

Year ended 31 December 2013 In CZK million	Czech Republic Fixed	 Mobile	Slovak Republic O2 Slovakia	 Group
Revenues	20,605	22,856	5,398	48,859
Other income	540	302	18	860
Inter-segment sales	(484)	(340)	(133)	(957)
Total consolidated income	20,661	22,818	5,283	48,762
Total consolidated costs	(13,279)	(13,687)	(3,308)	(30,274)
Impairment charge	(8)	(3)	-	(11)
Depreciation and amortization	(7,015)	(3,533)	(484)	(11,032)
Operating income	359	5,595	1,491	7,445
Net financial loss				(175)
Results attributed to joint venture				(6)
Profit before tax				7,264
Corporate income tax				(1,569)
Profit for the period				**5,695**
Assets (excluding goodwill)	34,915	21,560	3,975	60,450
Goodwill	179	13,320	-	13,499
Total assets	**35,094**	**34,880**	**3,975**	**73,949**
Trade and other payables	(5,352)	(5,377)	(1,470)	(12,199)
Other liabilities	(3,901)	(2,095)	(5)	(6,001)
Total liabilities	**(9,253)**	**(7,472)**	**(1,475)**	**(18,200)**
Fixed assets additions	**3,080**	**2,135**	**458**	**5,673**

The inter-segment pricing rates applied in 2014 and 2013 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

Capital expenditures comprise additions to property, plant and equipment and intangible assets.

As at 31 December 2014, the net book value of non-current assets deployed in the Slovak Republic amounted to CZK 4,105 million (2013: CZK 2,791 million).

2 Revenue and costs

Revenues **In CZK million**	**Year ended** **31 December 2014**	**Year ended** **31 December 2013**
Revenues from voice services	23,704	25,903
Revenues from data services	11,410	11,371
Other telecommunication revenues	9,575	10,621
Total revenues	44,689	47,895
Other income	775	867

Other income contains own work capitalized.

Revenues from related parties are disclosed in Note 20.

Expenses **In CZK million**	**Year ended** **31 December 2014**	**Year ended** **31 December 2013**
Supplies	(14,123)	(14,307)
Staff costs	(5,099)	(5,436)
External services	(9,150)	(9,631)
Provisions for bad debts and inventories	(262)	(456)
Other expenses	(640)	(444)
Total expenses	(29,274)	(30,274)

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

The Group does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Group during 2014 and 2013. As a result of the restructuring process the Group incurred restructuring costs of CZK 457 million during the year ended 31 December 2014 (2013: CZK 368 million), including redundancy payments of CZK 432 million (2013: CZK 336 million) and related consultancy costs of CZK 25 million (2013: CZK 32 million).

Restructuring costs are included in staff costs.

Statutory auditor's fees during the year ended 31 December 2014 reached CZK 12 million (2013: CZK 20 million).

Purchases from related parties are disclosed in Note 20.

3 Finance income and costs

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income	4	12
Gain on fair value adjustments of financial instruments (net)	3	126
Other finance income	10	10
Total finance income	17	148
Finance costs		
Interest expenses	(63)	(67)
Foreign exchange loss (net)	(21)	(201)
Other finance costs	(37)	(55)
Total finance costs	(121)	(323)

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

4 Income tax

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Total income tax expense is made up of:		
Current income tax charge	1,664	1,732
Deferred income tax credit (Note 14)	(484)	(163)
Income tax	1,180	1,569

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

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax	5,178	7,264
Income tax charge calculated at the weighted average statutory rate (Note 14)	1,020	1,431
Not taxable income	(1)	(3)
Expenses not deductible for tax purposes	87	73
Tax related to prior periods	-	(1)
Tax losses not included in deferred tax	27	2
Special tax for regulated business for O2 Slovakia, s.r.o.	47	50
Effect of tax rate change on deferred tax asset by O2 Slovakia, s.r.o.	-	17
Taxes on income	1,180	1,569
Effective tax rate	23%	22%

As at 31 December 2014 the total amount of provisions for current income taxes is CZK 1,621 million (2013: CZK 1,716 million), advances paid for income taxes is CZK 1,322 million (2013: CZK 1,562 million), the net deferred tax liability is CZK 2,151 million (2013: CZK 2,735 million), the net deferred tax asset is CZK 313 million (2013: CZK 417 million).

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.

	31 December 2014	31 December 2013
Weighted number of ordinary shares outstanding	310,220,067	312,834,249
Net profit attributable to shareholders (in CZK million)	3,998	5,695
Basic earnings per share (CZK)	13	18

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

The Annual General Meeting on 19 April 2012 approved the ordinary share acquisition programme for the next 5 years, up to a maximum of 10% of the total number of 322,089,890 ordinary shares. The Board of Directors adopted the decision to stop the acquisition of its own shares as of 29 October 2013.

6 Dividends and other distribution

In CZK million	31 December 2014	31 December 2013
Dividends declared (including withholding tax)	5,682	6,442
Other distribution	-	3,221
Total declared distribution	5,682	9,663

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2014. Approval of the 2014 profit and the decision regarding the amount of any dividend payment for the 2014 financial year will take place at the Annual General Meeting.

Approval of the profit for the year 2013 and the decision on dividend payment was held at the General Meeting on 25 June 2014 (2012: April 22, 2013). Dividends for the financial year 2013 were payable on 26 November 2014.

The Annual General Meeting, held on 22 April 2013, approved also the distribution of part of the Company's share premium to the shareholders of CZK 10 before tax per share (CZK 3,221 million in total). Own shares are not eligible for the share premium distribution.

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

In CZK	Year ended 31 December 2014	Year ended 31 December 2013
Dividend per share (nominal value of CZK 87)	18	20
Other distribution	-	10
Total distribution per share	18	30

7 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2014					
Opening net book amount	9,893	21,557	9,532	875	41,857
Additions	183	459	1,527	468	2,637
Disposals	(4)	-	(9)	-	(13)
Reclassifications and currency differences	32	(4)	33	(11)	50
Depreciation charge	(732)	(4,865)	(2,279)	(448)	(8,324)
Impairment charge	-	-	(7)	-	(7)
Closing net book amount	9,372	17,147	8,797	884	36,200
At 31 December 2014					
Cost	20,638	104,538	79,437	6,827	211,440
Accumulated depreciation and impairment allowance	(11,266)	(87,391)	(70,640)	(5,943)	(175,240)
Net book amount	9,372	17,147	8,797	884	36,200
At 31 December 2013					
Opening net book amount	10,295	25,577	9,609	1,210	46,691
Additions	316	848	2,162	211	3,537
Disposals	(12)	(5)	(45)	-	(62)
Reclassifications and currency differences	87	21	153	(14)	247
Depreciation charge	(793)	(4,884)	(2,336)	(532)	(8,545)
Impairment charge	-	-	(11)	-	(11)
Closing net book amount	9,893	21,557	9,532	875	41,857
At 31 December 2013					
Cost	20,457	104,321	84,993	7,380	217,151
Accumulated depreciation and impairment allowance	(10,564)	(82,764)	(75,461)	(6,505)	(175,294)
Net book amount	9,893	21,557	9,532	875	41,857

The net book amount of Property, plant and equipment as at 31 December 2014 includes CZK 1,152 million of construction in progress (2013: CZK 1,655 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

As at 31 December 2014, the carrying value of non-depreciated assets amounted to CZK 181 million (2013: CZK 178 million).

No property, plant and equipment were pledged as at 31 December 2014 and 31 December 2013.

No borrowing costs were capitalized during the years 2014 and 2013.

The Group did not recognise any assets held for sale as at 31 December 2014 and 31 December 2013.

In 2014, the Group achieved a total gain from the sale of the fixed assets amounting to CZK 24 million (2013: CZK 62 million) and total losses of CZK 11 million (2013: CZK 11 million).

8 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2014						
Opening net book amount	13,499	2,473	3,518	-	518	20,008
Additions	-	3,925	1,173	3,742	12	8,852
Reclassifications and currency differences	-	7	(5)	1	(2)	1
Amortisation charge	-	(514)	(1,641)	(147)	(110)	(2,412)
Impairment charge	(51)	-	(73)	-	(49)	(173)
Closing net book amount	13,448	5,891	2,972	3,596	369	26,276
At 31 December 2014						
Cost	13,495	9,870	26,340	3,743	692	54,140
Accumulated amortisation and impairment allowance	(47)	(3,979)	(23,368)	(147)	(323)	(27,864)
Net book amount	13,448	5,891	2,972	3,596	369	26,276
At 31 December 2013						
Opening net book amount	13,497	2,856	3,347	-	630	20,330
Additions	-	-	2,136	-	-	2,136
Reclassifications and currency differences	2	9	19	-	(1)	29
Amortisation charge	-	(392)	(1,984)	-	(111)	(2,487)
Closing net book amount	13,499	2,473	3,518	-	518	20,008
At 31 December 2013						
Cost	13,499	5,936	29,557	-	685	49,677
Accumulated amortisation and impairment allowance	-	(3,463)	(26,039)	-	(167)	(29,669)
Net book amount	13,499	2,473	3,518	-	518	20,008

The net book amount of intangible assets as at 31 December 2014 includes CZK 1,080 million of construction in progress (2013: CZK 779 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Goodwill

Goodwill of CZK 13,320 million resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill initially recognized at CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million, and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

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

As at 31 December 2014 and 31 December 2013 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company.

The Group performed impairment tests, which did not result in any impairment losses of goodwill, in 2014 and 2013. The impairment test involves a determination of the recoverable amount for the mobile and fix cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Group internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 3 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the three-year period are extrapolated using appropriate growth rates. Key assumptions, on which the management has based its business plan and growth rates, include the trend of the gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

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

The calculations of value in use for all cash-generating units are the most sensitive to the following assumptions:

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

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

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

Goodwill on WiFi acquisitions

In accordance with the principles of IFRS 3, the acquirer measures the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. Identifiable assets and liabilities assumed are recognised separately from goodwill. For this purpose, a Purchase Price Allocation of all acquired assets and assumed liabilities at their fair values was carried out in all acquired businesses.

Goodwill in the amount of CZK 51 million was recognised following acquisition of network infrastructure, customer base and the related assets and liabilities from local providers of WiFi Internet access. Goodwill arised on acquisitions performed till the year 2012. There were no acquisitions in the year 2013. Goodwill is presented separately on the balance sheet and is tested annually for impairment. The goodwill resulted from a comparison of the present value of the purchase price in the amount of CZK 299 million and the fair value of net assets acquired of CZK 248 million.

As at 31 December 2014, the management of Internethome, s.r.o. reviewed the triggers which would indicate the impairment of cash generating unit. Upon the review, a recoverable amount was estimated. Based on this, an impairment charge of CZK 100 million was booked.

Licences

Acquired licences represent the rights to operate cellular networks in the Czech Republic, UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), GSM (Global System for Mobile Communication, the second generation technology), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution). On the territory of the Slovak Republic, the Group has rights to operate services within a standard GSM, UMTS and LTE.

In 2014, the Group acquired the rights to operate in the LTE standard in the Czech Republic and in the Slovak Republic. Details of individual licences are described in Note 18.

Carrying value of licences:

In CZK million	31 December 2014	31 December 2013
GSM 900 licence	114	186
GSM 1800 licence	92	150
CDMA 450 licence	14	18
UMTS licence	1,769	2,019
LTE licence	2,724	-
GSM and UMTS licence – the Slovak Republic	93	100
LTE licence – the Slovak Republic	1,085	-
Total	5,891	2,473

No borrowing costs were capitalized during the years 2014 and 2013.

All of the Group's intangible assets with finite lives are amortised and are subject to an annual review of impairment indicators and a review of their useful lives.

The Group incurs internal research and development costs on activities pursuant to § 2 paragraph 1 of Act on Research and Development Support No. 130/2002 Coll.; however, these costs do not meet the criteria for capitalization under IAS 38 Intangible Assets standard for both years 2014 and 2013.

Valuable rights

The Group decided on exercising the option under the license agreement, based on which the Group is using the O2 brand in the Czech Republic and Slovakia. By exercising the option, the Group purchased O2 brand recognized within intangible assets.

9 Inventories

In CZK million	31 December 2014	31 December 2013
Telecommunication material	73	79
Goods	397	457
Total	470	536

The inventories stated above are net of an allowance of CZK 51 million (2013: CZK 44 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 2,864 million (2013: CZK 2,746 million).

In 2014 and 2013, the Group had no inventories pledged as a security for liabilities.

10 Receivables

In CZK million	31 December 2014	31 December 2013
Trade receivables from third parties (net)	6,512	5,629
Group trade receivables	36	469
Prepayments	490	774
Other debtors (net)	156	190
Total	7,194	7,062

Trade receivables and other debtors are stated net of bad debt provision of CZK 3,736 million (2013: CZK 3,946 million).

Prepayments as at 31 December 2013 contain the deposit paid for spectrum auction participation of CZK 375 million (LTE).

Receivables from related parties are disclosed in Note 20.

			Not impaired but overdue			
Trade receivables In CZK million	**Carrying amount**	**Neither Impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2014	6,548	3,829	364	10	4	5
At 31 December 2013	6,098	2,869	392	49	6	65

Bad debt provisions In CZK million	
At 1 January 2013	3,819
Additions	1,889
Retirements/amount paid	(1,762)
At 31 December 2013	3,946
Additions	1,669
Retirements	(1,879)
At 31 December 2014	3,736

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

As at 31 December 2014, the Group presented non-current financial assets of CZK 564 million (2013: CZK 169 million) consisting of other long-term credits, advance payments for long-term expenses, prepayments and other holdings, which are classified as other financial assets. As at 31 December 2014 non-current financial assets contained restricted cash of CZK 29 million (2013: CZK 26 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

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

In CZK million	31 December 2014	31 December 2013
Gross amounts of trade receivables from third parties	1,237	935
Amounts that are set off	(527)	(426)
Net amounts of trade receivables from third parties	710	509

11 Cash and cash equivalents

In CZK million	31 December 2014	31 December 2013	Interest rate
Cash at current bank accounts and other cash equivalents	237	352	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	3,019	3,538	Floating
Total cash and cash equivalents	3,256	3,890	

As at 31 December 2014 and 2013, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2014, cash and cash equivalents of the Group amounted to CZK 3,256 million (2013: CZK 3,890 million) of which CZK 474 million (2013: CZK 3,890 million) were due wihtin 1 month and CZK 2,782 million (2013: CZK 0 million) were due for more than 1 month.

In 2014, the Group did not use cash-pooling. In 2013, the Group has been taking part in Telefónica Group cash-pooling.

At 31 December 2014, the Group had available equivalent of CZK 961 million (2013: CZK 1,454 million) of undrawn committed facilities and from 1 January 2015 Group has available equivalent of CZK 661 million.

As at 31 December 2014 and 2013 no cash and cash equivalents were pledged.

Net interest and other financial income/expenses paid are as follows:

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Interest paid	(64)	(79)
Interest received	1	12
Bank commissions	(24)	(26)
Other financial incomes	43	70
Total	(44)	(23)

12 Trade and other payables

In CZK million	31 December 2014	31 December 2013
Trade creditors	7,852	10,075
Tax and social security liability	730	609
Other deferred revenue	582	488
Prepaid cards	322	414
Employee wages and benefits	484	486
Other creditors	165	127
Total payables	10,135	12,199
Other non-current liabilities	155	64

Payables to related parties are disclosed in Note 20.

As at 31 December 2014 and 2013, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

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

In CZK million	31 December 2014	31 December 2013
Gross amounts of trade creditors	1,594	996
Amounts that are set off	(527)	(426)
Net amounts of trade creditors	1,067	570

13 Financial liabilities and financial assets

	31 December 2014	31 December 2013
In CZK million		
Debt in local currency	7,000	3,000
Interest obligation and derivatives	4	4
Total financial debt	7,004	3,004
Repayable:		
Within one year	4,004	4
Between one and five years	3,000	3,000
Total financial debt	7,004	3,004

Term loan facility - CZK 4 billion

On 28 November 2014, the Company entered into term facility agreement up to CZK 4 billion between the Company as the borrower and Komerční banka, a.s. as the lender. The Company utilised a loan up to CZK 4 billion with repayment term of 3 months and with optional further extension to 6 months or 12 months. The Company used this short term credit facility to pay off the liabilities directly related to commercial relations with the previous majority owner. Interest rate is PRIBOR plus margin 0.50%.

Term loan facility - CZK 3 billion

The loan facility is due in 2016. The loan facility is priced at 1M PRIBOR plus margin 1.75% p.a. (2013: 1M PRIBOR plus margin 1.75% p.a.).

The fair values of borrowings are based on discounted cash flows using a discount rate based upon the borrowing rate estimated by the management of the Group as reachable at the balance sheet date. The carrying amounts of short-term debts approximate their fair value.

Loans are not secured over any assets of the Group.

The table below summarizes the maturity profile of the Group's financial and trade liabilities at 31 December 2014 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2014 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	4,026	46	3,047	-
Trade and other payables (excluding Other deferred revenue and Prepaid cards)	6,982	2,249	-	-
Total	11,008	2,295	3,047	-
Non-current other liabilities	-	-	149	6

At 31 December 2013 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	16	47	3,112	-
Trade and other payables (excluding Other deferred revenue and Prepaid cards)	9,854	1,443	-	-
Total	9,870	1,490	3,112	-
Non-current other liabilities	-	-	58	6

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

In CZK million	Carrying amount		Fair value	
	2014	2013	2014	2013
Financial assets				
Cash and cash equivalents	3,256	3,890	3,256	3,890
Short-term loans (incl. accrued interest)	-	18	-	18
Derivatives	1	44	1	44
Other financial assets	564	169	564	169

	Carrying amount		Fair value	
	2014	2013	2014	2013
Financial liabilities				
Interest bearing loans and borrowings (incl. accrued interest)	7,004	3,004	7,004	3,004

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Fair value hierarchy

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 2014 and 31 December 2013, the Group held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2014 and 31 December 2013, 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.

Financial risk analysis

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

In CZK million	Effect on profit before tax	
	2014	2013
FX risk		
Value at Risk*	(48)	(171)
Stress testing*	(41)	(58)
IR risk		
Stress testing*	(7)	(17)

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

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 1% in an unfavourable direction.

IR risk used stress scenario represents immediate one-off change of interest rates along the whole yield curve by 1% in an unfavourable direction. The calculation of unfavorable impact on Group cash flows (due to an increase in interest expense or drop in interest received relating to financial assets and financial liabilities) is made each month on a floating basis within a 12 month time frame.

Financial derivatives

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

In CZK million	Nominal value		Fair value	
	2014	2013	2014	2013
Foreign exchange contracts	333	1,037	-	44

14 Deferred income taxes

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled.

Short-term and long-term deferred taxes were calculated for the year 2014 at statutory rate 19% for the Czech Republic (2013: 19%) and 22% for the Slovak Republic (2013: 22%).

In CZK million	2014	2013
At 1 January	2,318	2,533
Profit or loss tax charge (Note 4)	(484)	(163)
Foreign exchange translation reserve	(4)	(44)
Other changes	8	(8)
At 31 December	1,838	2,318

In 2014 a deferred tax asset in O2 Slovakia, s.r.o. amounting to CZK 302 million (2013: CZK 403 million) was recognized resulting mainly from the difference between the accounting net book value and the tax net book value of fixed assets.

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

In CZK million	31 December 2014	31 December 2013
Deferred tax assets	(745)	(812)
Deferred tax liabilities	2,583	3,130
Total	1,838	2,318

The deferred tax asset includes CZK 511 million (2013: CZK 447 million) recoverable in less than twelve months and CZK 234 million (2013: CZK 365 million) recoverable after more than twelve months. The deferred tax liability includes CZK 678 million (2013: CZK 705 million) to be settled in less than twelve months and CZK 1,905 million (2013: CZK 2,425 million) to be settled in more than twelve months.

The deferred tax is determined by these components:

In CZK million	Consolidated balance sheet		Consolidated profit or loss	
	2014	2013	2014	2013
Temporary differences relating to:				
Tax losses	-	(33)	33	365
Property, plant and equipment and intangible assets	2,104	2,547	(452)	(532)
Trade receivables, inventories and other differences	(266)	(196)	(65)	4
Total	1,838	2,318	(484)	(163)

As at 31 December 2014, the company O2 Slovakia, s.r.o. recorded no amount of unused tax losses from previous years (2013: CZK 165 million). The rest balance of unused tax losses from previous years was applied in 2014.

15 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
At 1 January 2014	-	21	22	43
Additions during the year	267	40	64	371
Utilised during the year	-	-11	-10	-21
At 31 December 2014	**267**	**50**	**76**	**393**
Short-term provisions 2014	31	35	76	142
Long-term provisions 2014	236	15	0	251
	267	**50**	**76**	**393**
Short-term provisions 2013	-	7	10	17
Long-term provisions 2013	-	14	12	26
	-	**21**	**22**	**43**

The Group recognized provision for estimated cost of dismantling and removing assets and restoring sites amounting to CZK 267 million. The reason for recognition of a provision is a substantial increase in the estimate of the present value of future costs of dismantling and removing assets and restoring sites in connection with the network sharing project. Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future dismantling and removing of assets.

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

Regulatory and court decisions

A provision for regulatory and court decisions is made for legal proceedings involving the Group (see Note 16).

16 Contingencies and litigations

The Company is involved in a number of legal disputes arising from the usual course of business. Throughout 2014 the Company successfully litigated against lawsuits filed by the third parties in the past. The main litigation cases involving the Company are shown below.

I. ÚOHS (Office for the Protection of Economic Competition)

i. Administrative proceedings regarding the alleged abuse of dominant position in the fixed broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting the so-called 'preliminary investigation' since November 2008, to determine whether the Company had abused its dominant position in the broadband market. The Company provided the Office with the requested cooperation 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 demands for information and documents from the Office to the Company during more than two years of the investigation have grown immeasurably, during all this time the Company was never allowed to inspect the file to check its content and see how the information was interpreted by the Office. In the light of the above, the Company requested court protection by a legal action filed with the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from continuing the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation had to be ceased immediately. The verdict was later confirmed by the Supreme Administrative Court in September 2011. The Office reacted in March 2011 by opening an official administrative procedure regarding the dominant position on the fixed broadband ADSL market. The Company filed its statement with the authority, proving that the Office incorrectly defined the relevant market in which Company allegedly held the dominant position and was alleged to abuse it. The Company's statement citing the fierce competition between technology platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly corroborated by the Czech Telecommunications Office and the European Commission. The Company also provided the Office with numerous documents proving that all steps taken by the Company had been correct. More records are continuously added to the file. With regard to the extreme length and volume of information, the Company cannot estimate when the procedure against it would be closed. The Office did not promulgate a decision in 2014, despite the fact that the Company has provided the Office with all the necessary evidence and information. As was the case with the 2013 financial statements, it was not possible to make a reliable estimate of the financial impact of this administrative procedure at the closing of the 2014 financial statements.

ii. Proceeding for a penalty of CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over a penalty of CZK 81.7 million imposed on the Company in December 2003 by administrative procedure for the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office to return the penalty plus accessories. Although the principal was returned by the Office, before it was decided on the returning of the accessories, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. Ultimately, in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty, and returned the case back to the Office for it to provide a legal justification for the penalty in relation to the adjudicated period. Despite the objections of the Company citing insufficient background, the Office issued a new decision imposing a fine CZK 91.9 million on the Company. The Company regards the decision as an impermissible reprisal on the part of the Office, and started a legal action including a proposal to stay the penalty for the duration of the proceedings. The Regional court in Prague decided on suspension of the payment but by its decision from 23 October 2014 dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But still the Company filed the cassation complaint to the Supreme Administrative Court as an extraordinary measure.

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

The Company clearly turned around in its favour the dispute with AUGUSTUS spol. s r.o. and presently concentrates on recovering the amount of unjust enrichment from AUGUSTUS spol. s r.o. Originally, AUGUSTUS spol. s r.o. had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK 183 million with accessories. AUGUSTUS spol. s r.o. claimed that the Company had unjustifiably terminated the contract for the issue and distribution of phone cards signed for an indefinite period. Based on the decision of the High Court in Prague from August 2006, the Company paid a sum of CZK 83 million plus relevant accessories (total of CZK 139 million). Subsequently, there was a positive turn in the proceedings in the favour of the Company when the Supreme Court based on the Company's appeal cancelled the previous verdicts in June 2009 and the Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed the dismissal in August 2011. Consequently, the Company filed a lawsuit against AUGUSTUS spol. s r.o. to claim CZK 139 million back. The Municipal Court in Prague decided favourably for the Company in September 2011. AUGUSTUS spol. s r.o. filed an unsuccessful appeal. In the interim it turned out that an amount of at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company takes all legal steps to secure the property and to avoid additional losses. The High Court in Prague confirmed the bankruptcy of AUGUSTUS spol. s r.o. in May 2013. The Company is the major creditor with the highest filed and confirmed claim.

III. CNS a.s. – a claim for CZK 19.8 million

In 2009, employees of CNS a.s., dealing with the development and updates of IT applications, and employees of Telefónica O2 Business Solutions, spol. s r.o. were in negotiations over potential collaboration relating to the operation of data boxes. Ultimately, no agreement had been signed between the parties and, due to commercial reasons, the project had never gone ahead. In August 2010, CNS a.s. mounted a legal action against the Company for damages and lost profit totalling CZK 137.2 million, citing the failure to sign a contract. The Company regards this claim as fabricated and the amount as patently inflated, which can be demonstrated by the fact that, in accordance with the annual profit and loss statement for the year 2009, CNS a.s. generated a yearly profit of less than CZK 5.5 million. The Municipal court in Prague dismissed the legal action in full in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. The High Court in Prague later confirmed that there had not been any contract concluded between CNS a.s. and the Company, and as such there is no claim of CNS a.s. from the contractual relationship. The High Court only ordered the Municipal Court in Prague to decide on possible claims of CNS a.s. arising from the precontractual liability, however no evidence of any such claim has been filed. Just before the last oral hearing CNS announced to the court in October 2014 that they allegedly transfer all their “claims” to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement. The Company protested against this obvious attempt of CNS a.s. to avoid to cover the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – a claim for 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, regarding alleged abuse of the dominant position in the market of broadband Internet access for households via ADSL technology. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had a 30% share of the dial-up Internet market in 2003 and implies in its legal action that it ought to have automatically the same share of the broadband market, which it does not. Allegedly it is due to a margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the claimant were unsubstantiated and by pointing at discrepancies in the petition claims. The court started hearings of this case and the hearings continued in 2013, including hearings of experts and witnesses. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court. But neither its framework neither the exact wording of the question to the expert is yet not known.

V. BELL TRADE s.r.o. – a claim for CZK 3.2 billion

A legal action for CZK 3.2 billion filed by company BELL TRADE s.r.o. was delivered to the Company in February 2012. The legal action was filed at the District Court in Malacky (the Slovak Republic); it alleges that the Company had signed contracts with a company called RVI, a.s. for the delivery of several IT projects back in 2002. BELL TRADE s.r.o., based in Bratislava, allegedly acquired the claims as an agreed fee for services, through a chain of intermediaries. The Company filed a statement with the District Court in Malacky, refuting the existence of any contract and any services from the performance of which any fees would have arisen to any party. The Company also challenged the jurisdiction of Slovak courts since the dispute has no relation to the Slovak territory. The lack of jurisdiction has finally led to the termination of the proceedings in June 2012 but BELL TRADE s.r.o. filed an appeal. The Regional Court in Bratislava subsequently cancelled the decision and the case stayed with the District Court in Malacky. The Company filed a constitutional complaint against the decisions on the jurisdiction of Slovak courts. Meanwhile the plaintiff filed the motion on extension of the legal action for the amount CZK 9.7 billion but the Slovak court hasn´t decided on extension of the legal action. The Slovak Constitutional Court by its decision from 18 March 2014 suspended the decision of the Regional Court in Bratislava and subsequently published information on its website that our constitutional complaint was successful. The decision of Regional Court in Bratislava which originally left the case in the jurisdiction of the Slovak courts (namely County Court in Malacky), was canceled as unconstitutional. Regional Court in Bratislava was obliged to issue decision in accordance with the binding legal opinion of the Slovak Constitutional Court and thus the proceeding at Slovak courts was finally terminated by the decision from 28 November 2014.

VI. ČESKÉ RADIOKOMUNIKACE a.s. – a claim for CZK 3.1 billion

A legal action for CZK 3.1 billion filed by České Radiokomunikace a.s. (ČRa) was served to the Company in October 2012. The claimant states that the Company allegedly caused him damage by abusing of the dominant position on the xDSL market, which had impacted ČRa's ability to reach "equitable position on the retail xDSL market". The claimed sum is calculated as a difference between the hypothetical price of the part of the business and the sale price for which the part of the business was actually sold to T-Mobile Czech Republic a.s. in 2009. The Company considers the claim as fabricated and this was also communicated to the court in the statement. On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. CRa filed an extraordinary appeal but it was declined by the Supreme Court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, all evidence on paper was proceeded and further hearing was postponed to March 2015.

VII. TELECONSULT INTERNATIONAL - a claim for CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal Court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. New evidence did not bring any finding in favor of the plaintiff. The next hearings in the case will take place during 2015, when the decision of the court of first instance could be expected.

The Company is involved in other legal disputes. The aggregate value of all ongoing disputes over CZK 5 million with a verdict expected in 2014 represents nearly CZK 15 million. The financial statements also reflect some minor disputes with a less material risk.

The Company considers disclosing other information regarding the litigations as not advisable, since it could jeopardize the Company's litigation strategy.

The Group is convinced that all litigation risk has been appropriately reflected in the financial statements.

17 Commitments

The aggregate future minimum lease payments under operating leases (Group is a lessee) and aggregate future minimum lease payments under non-cancellable operating leases (Group is a lessor):

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	1,307	2,669	2,839
Operating leases - lessor	123	45	2

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2014 were CZK 1,586 million (2013: CZK 1,603 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2014 amounted to CZK 734 million. The majority of contracted amounts relates to the telecommunication networks and service contracts.

18 Service concession arrangements

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

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

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone service,
d) other voice services - service is defined as of public access,
e) leased lines - service is defined as of public access,
f) radio and TV signal broadcasting - service is defined as of public access,
g) data transmission - service is defined as of public access,
h) internet access services - service is defined as of public access,
i) other voice services - service is not defined as of public access,
j) leased lines - service is not defined as of public access,
k) radio and TV signal broadcasting - service is not defined as of public access,
l) data transmission - service is not defined as of public access,
m) internet access services - service is not defined as of public access.

The Company provides mobile services of electronic communications in the 900 and 1,800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 7 February 2016, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignment from the CTO and valid until 30 June 2029, in the 2,100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

The radio frequency licence can be extended by another licence period based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, the current regulatory and business environment in the Czech Republic, the prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Provision of electronic communications services in the Slovak Republic

O2 Slovakia, s.r.o. provides services of electronic communications by the means of a public mobile electronic communications network in the 900, 1,800 and 2,100 MHz frequency bands under GSM, LTE and UMTS standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 7 September 2026 and in the 800 and 1,800 MHz frequency bands under GSM and LTE standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 31 December 2028 (for 800 MHz frequency band) and until 7 September 2026 (for 1,800 MHz frequency band).

Imposition of obligations related to the provision of the Universal Service

During 2014, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services,
b) access for persons with disability to the public telephone service, which must be equal to access enjoyed by other end users; such special access takes namely the form of specially adapted telecommunication equipment,
c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disability.

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

19 Share capital and reserves

	31 December 2014	31 December 2013
Nominal value per ordinary registered share (CZK)	87	87
Number of shares	315,648,092	315,648,092
Nominal value per ordinary registered share (CZK)	870	870
Number of shares	1	1
Ordinary shares (in CZK million)	27,461	27,461

Shareholdings in the Company were as follows:

	31 December 2014	31 December 2013
PPF Arena 2 B.V.	73.1%	-
PPF A3 B.V.	10.1%	-
Telefónica S.A.	-	70.8%
O2 Czech Republic a.s. (treasury shares)	1.7%	1.7%
Other shareholders	15.1%	27.5%

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing its capital are:

a) to safeguard the Company's ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

In the following periods, the Board of Directors will continue to make in-depth analysis and assessment of the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation, and will optimize the capital structure to serve the purpose of achieving these plans.

There are no other specific objectives.

Standalone equity structure as at 31 December 2014:

In CZK million	**31 December 2014**
Share capital	27,461
Treasury shares	(1,596)
Share premium	19,349
Funds and reserves	6,450
Retained earnings from previous years	743
Net income for current year	3,963
Total	**56,370**

The funds include a reserve fund of CZK 6,442 million (2013: CZK 6,535 million). The Board of Directors shall decide on the creation of, contribution to, use of or the dissolution of the Reserve Fund, unless the law or Articles of Association provide that such decision in the specific context comes under the authority of the General Meeting.

Treasury share transactions consist of transfer of unpaid dividends related to treasury shares to retained earnings of CZK 97 million (2013: CZK 234 million) and share premium of CZK 0 million (2013: CZK 118 million).

20 Related party transactions

The Group is part of PPF Group since 28 January 2014.

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF's reach spans from Europe to Russia, the USA and across Asia.

As the settlement of the sale of the Company was held at the end of January 2014 related parties transactions were identified for the period of January 2014 with a group of former owner Telefónica and from February to June 2014 with the PPF Group.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are unsecured, interest-free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial assets balances are tested for the impairment at the balance sheet date., and neither allowance nor write-off were incurred.

The following transactions were carried out with related parties:

I. Parent company:

Balance sheet In CZK million	31 December 2014	31 December 2013
Payables	-	685

Statement of total comprehensive income In CZK million	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014	Year ended 31 December 2013
a) Sales of services and goods	27	-	-
b) Purchases of services and goods	-	3	37
c) Royalty fees	-	51	660

The total amount of dividend paid as at 31 December 2014 to parent company was CZK 4,723 million (2013: CZK 4,471 million). The amount paid due to the other distribution as at 31 December 2014 amounted to CZK 0 million (2013: CZK 2,236 million).

II. Other related parties – PPF Group, Telefónica Group and joint ventures:

Balance sheet In CZK million	31 December 2014	31 December 2013
a) Receivables	36	469
b) Payables	103	2,088
c) Short-term receivables - interest (Note 13)	-	18
d) Cash equivalents (Note 11)	3,019	3,538

Statement of total comprehensive income In CZK million	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014	Year ended 31 December 2013
a) Sales of services and goods	161	70	990
b) Purchases of services and goods	576	109	1,446
c) Management fees	95	35	451
d) Interest income	2	1	13

For the period ended 31 December 2014, capital expenditures with related parties amounted to CZK 29 million (2013: CZK 16 million).

The list of the PPF Group companies with which the Group had any transaction from February 2014 includes the following entities: PPF Arena 2 B.V., PPF A3 B.V., PPF a.s., Česká pojišťovna a.s., Home Credit a.s., Air Bank a.s., Home Credit International a.s., PPF banka a.s., Bestsport Arena, a.s., Penzijní společnost České pojišťovny, a.s., SOTIO a.s, Elektrárny Opatovice, a.s., ČP INVEST investiční společnost, a.s., Pražská teplárenská a.s., PRVNÍ MOSTECKÁ a.s., Generali Development s.r.o., PPF Real Estate s.r.o., Česká pojišťovna ZDRAVÍ a.s., Generali PPF Asset Management a.s., PPF Art a.s., Generali PPF

Services a.s., Společnost pro informační databáze, ČP DIRECT, a.s., Public Picture & Marketing a.s., PPF GATE a.s., Mystery Services s.r.o., Solitaire Real Estate, a.s., EOP & HOKA s.r.o., ČP ASISTENCE s.r.o., PPF Partners a.s., AISE, s.r.o., Plzeňská energetika a.s., Teplo Neratovice, spol. s r.o., Click Credit s.r.o., REFICOR s.r.o., CITY EMPIRIA a.s., TERMONTA PRAHA a.s., PPF Financial Consulting s.r.o., United Energy , a.s., SPP Storage, s.r.o., Art Office Gallery a.s., Gen Office Gallery a.s., Retail Star 3, spol. s r. o., Retail Star 22, spol. s r. o., HC Insurance Services s.r.o.

The list of the Telefónica companies with which the Group had any transaction during January 2014 and in 2013 includes the following entities: Telefónica S.A., Telefónica de Espaňa, S.A.U., Telefónica Germany GmbH& Co. OHG, Telefónica UK Ltd., Telefónica Ireland Ltd., Telefónica Móviles España, S.A.U., Telefónica Móviles Argentina, S.A., O2 Holdings Ltd., Telefónica Germany Customer Services GmbH, Telefónica Insurance S.A., Telefónica Móviles Guatemala, S.A., Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Panamá, S.A., Telefónica Móviles Colombia, S.A., Telefónica Móviles Chile, S.A., Otecel, S.A., Telefónica Móviles Nicaragua, S.A., Telefónica Investigación y Desarrollo, S.A., Telecom Italia S.p.A., Telfisa Global BV, Telfisa, Telefónica International Wholesale Services, SL, Telefónica International Wholesale Services II, SL, Telefónica Compras Electrónica, S.L., Telefónica Móviles Mexico, S.A., Telefónica Móviles del Uruguay, S.A., Telefónica Móviles Perú, S.A.C., Telefónica Venezuela, S.A., China Unicom (Hong Kong) Limited, Telefónica Global Roaming GmbH, Vivo, S.A., Telefónica Europe People Services Limited, Jajah Ltd., Telefónica USA, Telefonica Global Technology, S.A., Czech Republic branch, Telefonica Global Technology, S.A., Telefonica Global Services GmbH, Tesco Mobile ČR s.r.o., Telefónica Factoring, E.F.C., S.A., Telefónica Costa Rica S.A., Telefónica Digital Espaňa SL., Wayra Czech Republic, s.r.o.

III. Other related parties

a) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

In CZK million	31 December 2014	31 December 2013
Salaries and other short-term benefits	78	89
Personal indemnification insurance	1	2
Total	79	91

b) Loans to related parties

No loans were provided to members of Board of Directors and Supervisory Board in 2014 and 2013.

No loans were provided by the Group to related parties.

21 Subsidiaries, associates and joint ventures

As at 31 December 2014

Subsidiaries		**Group's interest**	**Cost of investment in CZK million**	**Country of incorporation**	**Activity**	**Method of consolidation**
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Full consolidation
4.	Internethome, s.r.o.	100%	72	Czech Republic	Provision of WiFi internet access	Full consolidation
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
Associates						
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services	Not consolidated
7.	AUGUSTUS, spol. s r.o. (in bancrupcy)	40%	-	Czech Republic	Auction sales and advisory services	Not consolidated
Joint ventures						
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Equity method

As at 31 December 2013

Subsidiaries		Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Full consolidation
4.	Internethome, s.r.o.	100%	72	Czech Republic	Provision of WiFi internet access	Full consolidation
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
Associates						
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services	Not consolidated
7.	AUGUSTUS, spol. s r.o.	40%	-	Czech Republic	Auction sales and advisory services	Not consolidated
Joint ventures						
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Equity method

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

In CZK million	Period 01-12/2014	Period 05-12/2013**
Total revenue	195	26
Operating income before depreciation and amortization (OIBDA)	69	(50)
Profit for the year	64	(50)

In CZK million	31 December 2014	31 December 2013
Total assets	76	36
Equity	24	(40)

* Fiscal year of Tesco Mobile ČR s.r.o. is from March to February

** Tesco Mobile was incorporated in May 2013

22 Post balance sheet events

Feasibility Study of the Separation of Infrastructure

O2 Czech Republic proceeded to completion of a feasibility study of the separation of fixed and mobile telecommunications infrastructure into a separate entity, which would provide wholesale services to other telecommunications companies in the market, in the form of spin-off into a new company, and also decided on preparation of formal steps leading to such separation.

This event has no impact on consolidated financial statements for the year ended 31 December 2014.

Cancellation of listing of Global Depositary Receipts on London Stock Exchange

O2 Czech Republic decided to cancel the listing of global depository receipts O2 Czech Republic a.s. registered under ISIN US15713M1071 and US8793931069 on London Stock Exchange with requested date of cancellation February 28, 2015, due to inefficiency of maintaining the listing. The receipts, representing shares of companies from emerging markets, were introduced to the market in 1998 and as an outdated instrument have seen practically no trading in the recent years.

The Company also decided to terminate the agreement with the depositary of the receipts, The Bank Of New York Mellon. As per the termination clause of the agreement, the owners of the receipts will see their receipts exchanged for regular shares of the Company, regularly traded on the Prague Stock Exchange.

These steps taken by the Company have no impact on the shareholders of the Company and on the trading of Company's shares on Prague Stock Exchange.

This event has no impact on consolidated financial statements for the year ended 31 December 2014.

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 2014.

8.2 Financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards

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GENERAL INFORMATION

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

The Company is a member of the PPF Group of companies (PPF Group) and the major shareholder is PPF Arena 2 B.V. (PPF).

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

The number of employees employed by the Company amounted in average to 4,352 in 2014 (2013: 5,376).

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

The financial statements were approved for issue by the Company's Board of Directors on 10 February 2015.

Sale to PPF Group

The agreement between Telefónica S.A. (Telefónica) and PPF Group to sell 65.9% of the Company's shares was approved by the European Commission on mid-January 2014 and was closed on 28 January 2014.

The transaction involved all the Company's interests including O2 Slovakia, s.r.o. (former Telefónica Slovakia, s.r.o.). Both companies are allowed to trade under the O2 brand for a period of up to January 2019. Both joined Telefónica's Partners Programme, an initiative offering partner operators the opportunity to benefit from Telefónica's scale and cooperate on key business areas.

PPF Group increased its share in the Company to 83.2% at 31 December 2014.

Change of name

Based on the decision of the Annual General Meeting of 19 May 2014 the Company changed its name to O2 Czech Republic a.s. with effect from 21 June 2014.

Telefónica Slovakia, s.r.o. changed its name to O2 Slovakia, s.r.o, with effect from 4 June 2014.

The financial assistance

The Company made a decision to provide the financial assistance in accordance with the Company's Articles of Association and the Corporations Act following the request of its majority shareholder dated 13 October 2014. The financial assistance was approved by General Meeting on 17 December 2014.

The financial assistance shall be provided as a loan with the principal of up to CZK 24.8 billion, with the maturity of no later than 7 years after the date of first loan utilization and with the interest paid on a regular basis that will be higher than the interest on the loan that the Company must obtain within the six months following the approval of financial assistance by the Company's general meeting.

LTE broadband mobile data network

In 2014 the Company received new spectrum assignments arising from the auction results issued by the Czech Telecommunication office. This spectrum is necessary for the development of a new generation LTE network.

This spectrum combination will allow the Company to build the highest speed and quality network in the Czech Republic. The Company has already covered a significant part of Prague and Brno with the LTE network. The Company started rolling out the LTE network in new locations in the first half of year 2014.

Restructuring

Over the course of 2014, the Company continued to implement its restructuring and cost-optimization activities aimed at further improving its operating efficiency. The Company launched new projects in various areas of its operations. These projects focused on streamlining of the organisation structure including the reduction of duplicate positions; call centres consolidation and optimization; reduction of the number of applications and systems in use including optimisation of the related processes. More than 740 employees were made redundant during the restructuring process, and the Company incurred restructuring costs of CZK 457 million (see Note 2).

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

This document is an 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.

We have audited the accompanying financial statements of O2 Czech Republic a.s., which comprise the balance sheet as of 31 December 2014, 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 the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about O2 Czech Republic a.s. is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of O2 Czech Republic a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of O2 Czech Republic a.s. as of 31 December 2014, 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.

Prague
10 February 2015

KPMG Česká republika Audit

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

Petr Škoda

Petr Škoda
Partner
Registration number 1842

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2014

In CZK million	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenues	2	38,857	42,609
Other income	2	842	840
Expenses	2	(25,477)	(26,809)
Impairment loss		(152)	(11)
Operating income before depreciation and amortization (OIBDA)		**14,070**	**16,629**
Depreciation and amortisation	7, 8	(9,964)	(10,413)
Operating profit		4,106	6,216
Finance income	3	937	1,058
Finance costs	3	(219)	(316)
Profit before tax		4,824	6,958
Corporate income tax	4	(861)	(1,215)
Profit for the year		**3,963**	**5,743**
Other comprehensive income			
Other comprehensive income, net of tax		-	-
Total comprehensive income, net of tax		**3,963**	**5,743**
Profit attributable to:			
Equity holders of the Company	5	3,963	5,743
Total comprehensive income attributable to:			
Equity holders of the Company		3,963	5,743
Earnings per share (CZK) – basic*	5	13	18

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

BALANCE SHEET

As at 31 December 2014

In CZK million	Notes	31 December 2014	31 December 2013
ASSETS			
Property, plant and equipment	7	34,052	39,563
Intangible assets	8	23,894	18,870
Investment in subsidiaries and associates	21	6,347	6,419
Other financial assets	10	509	166
Non-current assets		**64,802**	**65,018**
Inventories	9	377	472
Receivables	10	6,836	7,730
Cash and cash equivalents	11	3,209	3,844
Current assets		**10,422**	**12,046**
Total assets		**75,224**	**77,064**
EQUITY AND LIABILITIES			
Ordinary shares	19	27,461	27,461
Treasury shares	19	(1,596)	(1,596)
Share premium		19,349	19,349
Retained earnings, funds and reserves		11,156	12,816
Total equity		**56,370**	**58,030**
Long-term financial debts	13	3,000	3,000
Deferred tax liability	14	2,149	2,733
Non-current provisions for liabilities and charges	15	251	22
Non-current other liabilities	12	155	64
Non-current liabilities		**5,555**	**5,819**
Short-term financial debts	13	4,242	2,044
Trade and other payables	12	8,792	11,003
Income tax liability	4	127	152
Provisions for liabilities and charges	15	138	16
Current liabilities		**13,299**	**13,215**
Total liabilities		**18,854**	**19,034**
Total equity and liabilities		**75,224**	**77,064**

The financial statements were approved by the Board of Directors on 10 February 2015 and were signed on its behalf by:

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

IDENTIFIKACE AUDITORA
KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a, 186 00 Praha 8
IČ: 49619187, auditorské oprávnění č. 71

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In CZK million	Notes	Share capital	Share premium	Treasury shares	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2013		**28,022**	**24,374**	**(2,483)**	**31**	**6,450**	**6,793**	**63,187**
Profit for the year		-	-	-	-	-	5,743	5,743
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**5,743**	**5,743**
Capital contribution and other transfers		-	-	-	7	-	-	7
Distribution declared in 2013	6	-	(3,221)	-	-	-	(6,442)	(9,663)
Treasury share transactions	19	-	118	(1,596)	-	-	234	(1,244)
Cancellation of treasury shares	19	(561)	(1,922)	2,483	-	-	-	-
At 31 December 2013		**27,461**	**19,349**	**(1,596)**	**38**	**6,450**	**6,328**	**58,030**
At 1 January 2014		**27,461**	**19,349**	**(1,596)**	**38**	**6,450**	**6,328**	**58,030**
Profit for the year		-	-	-	-	-	3,963	3,963
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**3,963**	**3,963**
Capital contribution and other transfers		**-**	**-**	**-**	(38)	-	-	(38)
Distribution declared in 2014	6	-	-	-	-	-	(5,682)	(5,682)
Treasury share transactions	19	-	-	-	-	-	97	97
At 31 December 2014		**27,461**	**19,349**	**(1,596)**	**-**	**6,450**	**4, 706**	**56,370**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax		4,824	6,958
Non-cash adjustments for:			
Dividends received		(925)	(913)
Depreciation	7	7,951	8,194
Amortisation	8	2,013	2,219
Impairment loss		152	11
Profit on sale of property, plant and equipment	7	(11)	(56)
Net interest and other income (charges)		75	79
Foreign exchange losses/(gains) (net)		18	200
Fair value changes		(3)	(126)
Change in provisions and allowances		299	334
Other non-cash operations		45	32
Operating cash flow before working capital changes		**14,438**	**16,931**
Working capital adjustments:			
Increase/(decrease) in trade and other receivables		(716)	210
Decrease/(increase) in inventories		94	(29)
Increase/(decrease) in trade and other payables		(1,512)	(125)
Cash flows from operating activities		**12,304**	**16,987**
Interest paid	11	(64)	(79)
Interest received	11	4	15
Income tax paid		(1,460)	(1,425)
Net cash flow from operating activities		**10,784**	**15,498**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,388)	(3,246)
Purchase of intangible assets		(8,121)	(1,873)
Proceeds from sales of property, plant and equipment and intangible assets		572	72
Cash purchase of financial investments		-	(10)
Dividends received		1,826	13
Grant of loan		-	(187)
Repayment of loan		83	67
Net cash used in investing activities		**(8,028)**	**(5,164)**
Cash flows from financing activities			
Proceeds / repayments of loans		4,000	0
Proceeds / repayment of borrowings		(1,802)	1,362
Cash payments to owners for acquisition of treasury shares		-	(1,596)
Capital decrease		-	(3,104)
Dividends paid		(5,585)	(6,191)
Net cash used in financing activities		**(3,387)**	**(9,529)**
Net increase/(decrease) in cash and cash equivalents		**(631)**	**805**
Cash and cash equivalents at beginning of year	11	3,844	3,017
Effect of foreign exchange rate movements on cash and cash equivalents		(4)	22
Cash and cash equivalents at the year end	11	3,209	3,844

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 (IFRS) and all applicable IFRSs adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

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

The financial statements are the separate financial statements of the Company and meet requirements of IFRS with respect to the preparation of parent's separate financial statements. The Company also issued consolidated financial statements prepared for the same period in accordance with IFRS, which were approved for issue by the Board of Directors.

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

The preparation of financial statements in conformity with IFRS required the Company to use certain critical accounting estimates. It also required estimates be used in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note T Use of estimates, assumptions and judgements.

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

In connection with the change of shareholders at the beginning of 2014, the Company decided to change the method of the cash flow statement for the year ended 31 December 2014 (and comparable period) from direct to indirect method. The Company applied the change to align with rules of the PPF group reporting.

The Company is integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Company reports its operating segments according to these two main areas of services, i.e. fixed and mobile segment.

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

In 2014, the Company adopted the below stated standards, interpretations and amendments, which are relevant to its operations. Adoption of the interpretations and amendments has no material impact on the financial statements of the Company:

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)

The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:
– Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
– Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)

The amendment provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

IASB issued the amendments which will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained.

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached.

The changes in following standards are effective for the period ending 31 December 2014 but are not relevant for the Company – IAS 19 Defined benefit plans and IFRS 3 Business combinations.

New IFRS not effective as at 31 December 2014 (includes standards applicable for the Company)

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 11	Joint arrangements	1 January 2016
IAS 16 and IAS 38	Property, plant and equipment and Intangible assets	1 January 2016
IAS 1	Presentation of financial statements	1 January 2016
IFRS 10 and IAS 28	Consolidation financial statements and Investments in Associates and joint ventures	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Consolidation financial statements, Disclosure if interests in other entities and Investments in Associates and joint ventures	1 January 2017
IFRS 15	Revenues from contracts with customers	1 January 2017
IFRS 9	Financial instruments - classification and measurement	1 January 2017

The Company is currently assessing the impact of the application of these standards and amendments. With respect to IFRS 15 the Company estimates significant impact on the financial statements in the initial period of application. Based on the analyses made to date, the Company estimates that adoption of other standards and amendments will not have a significant impact on the financial statements in the initial period of application.

B Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

C Property, plant and equipment

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

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

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises every expenditure up to the customers' premises, including the cost of contractors, materials, direct labour costs and interest cost 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 Company and the cost can be measured reliably.

Repairs and maintenance costs are expensed as incurred.

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

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

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

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

	Years
Freehold buildings	up to 40
Cable and other related plant	10 to 25
Exchanges and related equipment	up to 25
Other fixed assets	up to 20

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

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

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

D Intangible assets

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

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment reviews (see Note 8).

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

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

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

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

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

E Non-current assets classified as held for sale

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

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

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

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

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

F Impairment of assets

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

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

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

G Investments and other financial assets

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2014 and 2013, the Company did not hold any financial assets in this category.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. During 2014 and 2013, the Company did not hold any investments in this category.

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

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

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

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

(2) Available-for-sale financial assets

If this asset is impaired, the cumulative loss that had been previously recognised (due to fair value revaluation) in other comprehensive income shall be removed from other comprehensive income and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

De-recognition of financial assets

A financial asset is de-recognised when:

a) the rights to receive cash flow from the asset have expired,
b) the Company retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
c) the Company has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

H Leases

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

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

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

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

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

I Inventories

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

J Trade receivables

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

K Cash and cash equivalents

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

L Financial debt

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

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

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

M Current and deferred income taxes

Taxation expense represents both current and deferred taxation, where appropriate.

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

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

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

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

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

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

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

N Employee benefits

(1) Pension insurance and supplementary pension insurance

The Company remits contributions to the state pension insurance scheme at the statutory rates applicable during the period which are based on gross salaries. The contributions to the state budget for the funding of the state pension insurance correspond to the defined contribution plans. 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.

(2) Redundancy and severance payments

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

(3) Bonus plans

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

O Share-based compensation

In 2006, the Company introduced performance compensation systems linked to the market value of shares of the former parent company Telefónica. Some compensation plans are settled in cash, while others are settled via the delivery of shares. All plans were fully settled during 2014 and there are currently no plans available to management or employees as at 31 December 2014.

IFRS 2 is applied to compensation schemes linked to the share price with the following accounting treatment:

Option plans that can be either cash-settled or equity-settled at the option of the employee are recognized at the fair value on the grant date of the liability and equity components of the compound instrument granted.

In the cash-settled share option plan, the total cost of the rights to granted shares are expensed over the period during which the beneficiary earns the full right to exercise the options (vesting period). The total cost of the options is initially measured based on their fair value at the grant date calculated by the Black-Scholes option pricing model, taking into account the terms and conditions established in each share option plan. At each subsequent reporting date, the Company revises its estimate of fair value and the number of options it expects to vest, booking any change in the liability through profit or loss for the period, if appropriate.

For the equity-settled share option plan, fair value at the grant date is measured using the binominal methodology. These plans are expensed during the vesting period with a credit to equity. At each subsequent reporting date, the Company revises its estimate of the number of options it expects to be exercised, with a corresponding adjustment to equity. As the plan will be settled by a physical delivery of equity instruments of the parent, Telefónica, to the employees, the personnel expense accrued is recognised against equity.

P Provisions

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

Q Revenue and expenses

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

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

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

Free minutes
The Company offers customers free minutes with their choice of price plan. Free unused minutes at the end of the month can be rolled over to the following month. The Company is not obliged to reimburse the customer for unused minutes and the option of rolling over any unused minutes is valid for only one month.

The Company recognises revenue for free minutes in the period when the related services are provided and consumed, if material. Any rollover minutes are deferred and recognised when the minutes are used or the option expires.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services. Revenue from prepaid cards is recognised at the time of usage of airtime and other services.

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

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

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

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

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

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

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

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

Instalment sales
Revenue attributable to the sale price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest method.

R Dividend distribution

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

S Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, borrowings and derivatives. Detailed figures are described in Note 13.

Financial risk management

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

The Company does not conduct any speculative trading activities.

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

(i) Foreign currency risk

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

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

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

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

(ii) Interest rate risk

The Company is exposed to interest rate risk arising from floating interest rate bearing cash investments and debt instruments.

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

(iii) Liquidity risk

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

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

(iv) Credit risk

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

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting into the non significant Company's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 10. There is no significant concentration of credit risk within the Company.

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

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

a) monitoring of accounts receivables: regular monitoring of payment moral of existing customers and monitoring and analyzing of the receivable aging structure (internal and external indicators of any potential bad debts). Those activities are processed in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.

b) prevention: scoring of new customers – checking procedures (integrated Black Lists, Solus Debtors Register, other information), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.),

c) collection process: Credit Management cooperates with Customer Care on the setting up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care unit; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

Accounting for derivative financial instruments and hedging activities

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

a) hedge of the fair value of a recognised asset or liability (fair value hedge), or

b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

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

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

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

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

The Company documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value estimation

Except for currency options, the fair values of the derivative financial instruments reflect estimates based on calculations performed using the Company's own discounted cash flows models (using market rates). The fair value of currency options is based on information obtained from external parties, including the Company's bankers.

T Use of estimates, assumptions and judgements

The Company makes forward-looking estimates and assumptions. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(1) Income taxes and deferred taxes

The Company creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 4 and Note 14).

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

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

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

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

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

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount where an impairment loss recognised in prior periods shall be subject to the reversal (see Note 8).

The Company tests goodwill for an impairment at each reporting date. However goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management’s assessment of the performance and expected future performance of the operation to which the goodwill relates. In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (see Note 8).

(3) Provisions and contingent liabilities

As set out in Note 16 the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Company’s treatment of obligations with uncertain timing and amount depends on the management’s estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (see Note 15). Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

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

U Investments in subsidiaries, joint ventures and associated undertakings

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

In relation to its interest in a joint arrangement, the Company recognises joint ventures that are recorded at cost less an allowance for diminution in value.

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

Equity investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

No consolidation of subsidiaries or associates has been performed as these financial statements are presented on a stand-alone basis. In accordance with the requirements of the Act on Accounting, the Company prepares consolidated financial statements in accordance with IFRS.

V Change in accounting policy

No significant changes in accounting policies were applied in 2014 and 2013.

W Operating profit

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

X Merger accounting

Merger of a subsidiary into the Company represents a business combination under common control which is excluded from the scope of IFRS 3 Business Combinations. According to IFRS, the merger becomes effective upon filing and registration in the Commercial register. As soon as the merger becomes effective, assets and liabilities of the subsidiary will become part of the financial statements of the Company.

As at the date of the merger, the assets and liabilities of subsidiary are recognised in the standalone balance sheet of the Company measured at their previous carrying amounts recognized in the consolidated balance sheet of the Company. Intercompany balances are eliminated. Any remaining difference between the equity of a subsidiary and carrying values of acquired assets is adjusted directly against equity.

The financial statements of the merged companies are prepared using the same accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

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1 Segment information

Operating segments recognised by the Company are as follows:

- fixed - network communication services using own fix network and ICT services
- mobile - mobile communication services

Year ended 31 December 2014 **In CZK million**	**Fixed**	**Mobile**	**Company**
Revenues	19,766	19,577	39,343
Other income	599	243	842
Inter-segment sales	(368)	(118)	(486)
Total income	19,997	19,702	39,699
Total costs	(12,883)	(12,594)	(25,477)
Impairment charge	(151)	(1)	(152)
Total depreciation and amortization	(6,527)	(3,437)	(9,964)
Operating income	436	3,670	4,106
Net financial income			718
Profit before tax			4,824
Corporate income tax			(861)
Profit for the year			**3,963**
Assets (excluding goodwill)	30, 591	31,185	61,776
Goodwill	128	13,320	13,448
Total assets	**30,719**	**44,505**	**75,224**
Trade and other payables	(4,445)	(4,347)	(8,792)
Other liabilities	(5,088)	(4,974)	(10,062)
Total liabilities	**(9,533)**	**(9,321)**	**(18,854)**
Capital expenditure	**3,469**	**6,630**	**10,099**

Year ended 31 December 2013 **In CZK million**	**Fixed**	**Mobile**	**Company**
Revenues	20,376	22,705	43,081
Other income	546	294	840
Inter-segment sales	(324)	(148)	(472)
Total income	20,598	22,851	43,449
Total costs	(13,013)	(13,796)	(26,809)
Impairment charge	(8)	(3)	(11)
Total depreciation and amortization	(6,940)	(3,473)	(10,413)
Operating income	637	5,579	6,216
Net financial income			742
Profit before tax			6,958
Corporate income tax			(1,215)
Profit for the year			**5,743**
Assets (excluding goodwill)	35,006	28,610	63,616
Goodwill	128	13,320	13,448
Total assets	**35,134**	**41,930**	**77,064**
Trade and other payables	(5,341)	(5,662)	(11,003)
Other liabilities	(3,899)	(4,132)	(8,031)
Total liabilities	**(9,240)**	**(9,794)**	**(19,034)**
Capital expenditure	**3,074**	**2,134**	**5,208**

The inter-segment pricing rates applied in 2014 and 2013 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

Capital expenditures comprise additions to property, plant and equipment and intangible assets.

2 Revenues and costs

Revenues **In CZK million**	**Year ended** **31 December 2014**	**Year ended** **31 December 2013**
Revenues from voice services	19,871	22,498
Revenues from data services	10,956	10,990
Other telecommunication revenues	8,030	9,121
Total revenues	38,857	42,609
Other income	842	840

Other income contains own work capitalized.

Revenues from related parties are disclosed in Note 20.

Expenses **In CZK million**	**Year ended** **31 December 2014**	**Year ended** **31 December 2013**
Supplies	(11,976)	(12,492)
Staff costs	(4,623)	(5,027)
External services	(8,079)	(8,506)
Provisions for bad debts and inventories	(214)	(397)
Other expenses	(585)	(387)
Total expenses	(25,477)	(26,809)

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

The Company does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Company during 2014 and 2013. As a result of the restructuring process, the Company incurred restructuring costs of CZK 457 million during the year ended 31 December 2014 (2013: CZK 368 million) including redundancy payments of CZK 432 million (2013: CZK 336 million) and related consultancy costs of CZK 25 million (2013: CZK 32 million).

Restructuring costs are included in staff costs.

Statutory auditor's fees during the year ended 31 December 2014 reached CZK 10 million (2013: CZK 17 million).

Purchases from related parties are disclosed in Note 20.

3 Finance income and costs

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income	6	15
Gain on fair value adjustments of financial instruments (net)	2	126
Other finance income	929	917
Total finance income	937	1,058
Finance costs		
Interest expenses	(64)	(65)
Foreign exchange loss (net)	(18)	(200)
Other finance costs	(137)	(51)
Total finance costs	(219)	(316)

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

Other finance income contains dividend from the subsidiaries O2 Slovakia, s.r.o. of CZK 912 milion (2013: CZK 900 million), CZECH TELECOM Germany GmbH of CZK 5 million (2013: CZK 0 million), CZECH TELECOM Austria GmbH of CZK 3 million (2013: CZK 0 million) and Bonerix s.r.o. of CZK 0 million (2013: CZK 8 million).

4 Income tax

In CZK million	Year ended 31 December 2014	Year ended 31 December 2013
Total income tax expense is made up of:		
Current income tax charge	1,445	1,678
Deferred income tax credit (Note 14)	(584)	(463)
Income tax	861	1,215

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

In CZK million	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Profit before tax	4,824	6,958
Income tax charge calculated at the statutory rate of 19%	917	1,322
Not taxable income	(176)	(175)
Expenses not deductible for tax purposes	120	69
Tax related to prior periods	-	(1)
Taxes on income	861	1,215
Effective tax rate	18%	17%

As at 31 December 2014 the total amount of provisions for current income taxes is CZK 1,449 million (2013: CZK 1,714 million), advances paid for income taxes is CZK 1,322 million (2013: CZK 1,562 million), the net deferred tax liability is CZK 2,149 million (2013: CZK 2,733 million).

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.

	31 December 2013	**31 December 2012**
Weighted number of ordinary shares outstanding	310,220,067	312,834,249
Net profit attributable to shareholders (in CZK million)	3,963	5,743
Basic earnings per share (CZK)	13	18

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

The Annual General Meeting on 19 April 2012 approved the ordinary share acquisition programme for the next 5 years, up to a maximum of 10% of the total number of 322,089,890 ordinary shares. The Board of Directors adopted the decision to stop the acquisition of its own shares as of 29 October 2013.

6 Dividends and other distribution

In CZK million	31 December 2014	31 December 2013
Dividends declared (including withholding tax)	5,682	6,442
Other distribution	-	3,221
Total declared distribution	5,682	9,663

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2014. Approval of the 2014 profit and the decision regarding the amount of any dividend payment for the 2014 financial year will take place at the Annual General Meeting.

Approval of the profit for the year 2013 and the decision on dividend payment was held at the General Meeting on 25 June 2014 (2012: April 22, 2013). Dividends for the financial year 2013 were payable on 26 November 2014.

The Annual General Meeting, held on 22 April 2013, approved also the distribution of part of the Company's share premium to the shareholders of CZK 10 before tax per share (CZK 3,221 million in total). Own shares are not eligible for the share premium distribution.

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

In CZK	Year ended 31 December 2014	Year ended 31 December 2013
Dividend per share (nominal value of CZK 87)	18	20
Other distribution	-	10
Total distribution per share	18	30

7 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2014					
Opening net book amount	8,970	21,519	8,241	833	39,563
Additions	152	459	1,366	454	2,431
Disposals	(4)	-	(5)	-	(9)
Reclassifications	24	(5)	16	(10)	25
Depreciation charge	(663)	(4,862)	(1,997)	(429)	(7,951)
Impairment charge	-	-	(7)	-	(7)
Closing net book amount	8,479	17,111	7,614	848	34,052
At 31 December 2014					
Cost	19,354	104,497	76,783	6,618	207,252
Accumulated depreciation and impairment allowance	(10,875)	(87,386)	(69,169)	(5,770)	(173,200)
Net book amount	8,479	17,111	7,614	848	34,052
At 31 December 2013					
Opening net book amount	9,444	25,562	8,289	1,182	44,477
Additions	248	827	2,038	189	3,302
Disposals	(12)	(5)	(43)	-	(60)
Reclassifications	14	17	37	(19)	49
Depreciation charge	(724)	(4,882)	(2,069)	(519)	(8,194)
Impairment charge	-	-	(11)	-	(11)
Closing net book amount	8,970	21,519	8,241	833	39,563
At 31 December 2013					
Cost	19,216	104,280	82,474	7,178	213,148
Accumulated depreciation and impairment allowance	(10,246)	(82,761)	(74,233)	(6,345)	(173,585)
Net book amount	8,970	21,519	8,241	833	39,563

The net book amount of Property, plant and equipment as at 31 December 2014 includes CZK 910 million of construction in progress (2013: CZK 1,469 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

As at 31 December 2014, the carrying value of non-depreciated assets amounted to CZK 181 million (2013: CZK 178 million).

No property, plant and equipment were pledged as at 31 December 2014 and 31 December 2013.

No borrowing costs were capitalized during the years 2014 and 2013.

The Company did not recognise any assets held for sale as at 31 December 2014 and 31 December 2013.

In 2014, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 21 million (2013: CZK 62 million) and total losses of CZK 10 million (2013: CZK 5 million).

8 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2014						
Opening net book amount	13,448	2,373	3,038	-	11	18,870
Additions	-	2,808	1,111	3,742	7	7,668
Disposals	-	-	-	(545)	-	(545)
Reclassification and currency differences	-	-	(13)	-	-	(13)
Amortisation charge	-	(468)	(1,406)	(136)	(3)	(2,013)
Impairment charge	-	-	(73)	-	-	(73)
Closing net book amount	13,448	4,713	2,657	3,061	15	23,894
At 31 December 2014						
Cost	13,448	8,591	25,022	3,197	18	50,276
Accumulated amortisation and impairment allowance	-	(3,878)	(22,365)	(136)	(3)	(26,382)
Net book amount	13,448	4,713	2,657	3,061	15	23,894
At 31 December 2013						
Opening net book amount	13,448	2,758	2,977	-	-	19,183
Additions	-	-	1,895	-	11	1,906
Amortisation charge	-	(385)	(1,834)	-	-	(2,219)
Closing net book amount	13,448	2,373	3,038	-	11	18,870
At 31 December 2013						
Cost	13,448	5,782	28,318	-	11	47,559
Accumulated amortisation and impairment allowance	-	(3,409)	(25,280)	-	-	(28,689)
Net book amount	13,448	2,373	3,038	-	11	18,870

The net book amount of intangible assets as at 31 December 2014 includes CZK 994 million of construction in progress (2013: CZK 696 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Goodwill

Goodwill of CZK 13,320 million resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill is presented in the standalone financial statements of the Company since the effective date of merger with Český Telecom, a.s. The goodwill initially recognized of CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

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

As at 31 December 2014 and 31 December 2013 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company.

The Company performed impairment tests, which did not result in impairment losses of goodwill in 2014 and 2013. The impairment test involves a determination of the recoverable amount for the mobile and fix cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Company internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 3 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the three-year period are extrapolated using appropriate growth rates. Key assumptions, on which the management has based its business plan and growth rates, include the trend of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

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

The calculations of value in use for all cash-generating units are the most sensitive to the following assumptions:

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

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

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

Licences

Acquired licences represent the rights to operate cellular networks in the Czech Republic, UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), GSM (Global System for Mobile Communication, the second generation technology), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

In 2014, the Company acquired the rights to operate in the LTE standard in the Czech Republic. Details of individual licences are described in Note 18.

Carrying value of licences:

In CZK million	31 December 2014	31 December 2013
GSM 900 licence	114	186
GSM 1800 licence	92	150
CDMA 450 licence	14	18
UMTS licence	1,769	2,019
LTE licence	2,724	-
Total	4,713	2,373

No borrowing costs were capitalized during the years 2014 and 2013.

All of the Company's intangible assets with finite lives are amortised and are subject to an annual review of impairment indicators and review of their useful lives.

The Company incurs internal research and development costs on activities pursuant to § 2 paragraph 1 of Act on Research and Development Support No. 130/2002 Coll.; however, these costs do not meet the criteria for capitalization under IAS 38 Intangible Assets standard for both years 2014 and 2013.

Valuable rights

The Company decided on exercising the option under the license agreement, based on which the Company is using the O2 brand in the Czech Republic. By exercising the option, the Company purchased O2 brand recognized within intangible assets.

9 Inventories

In CZK million	31 December 2014	31 December 2013
Telecommunication material	63	64
Goods	314	408
Total	377	472

The inventories stated above are net of an allowance of CZK 44 million (2013: CZK 42 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 2,140 million (2013: CZK 2,409 million).

In 2014 and 2013, the Company had no inventories pledged as a security for liabilities.

10 Receivables

In CZK million	31 December 2014	31 December 2013
Trade receivables from third parties (net)	5,688	4,889
Group trade receivables	414	718
Prepayments	441	737
Other debtors (net)	293	1,386
Total	6,836	7,730

Trade receivables and other debtors are stated net of a bad debt provision of CZK 3,534 million (2013: CZK 3,755 million).

Prepayments as at 31 December 2013 contain the deposit paid for spectrum auction participation of CZK 375 million (LTE).

Other debtors as at 31 December 2013 contain the dividend receivable from the subsidiary O2 Slovakia, s.r.o., of CZK 898 million.

Receivables from related parties are disclosed in Note 20.

Trade receivables In CZK million	Carrying amount	Neither impaired nor overdue	Not impaired but overdue Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2014	6,102	3,820	247	3	-	-
At 31 December 2013	5,607	2,840	287	43	4	35

Bad debt provisions In CZK million	
At 1 January 2013	3,672
Additions	1,830
Retirements/amount paid	(1,747)
At 31 December 2013	3,755
Additions	1,615
Retirements	(1,836)
At 31 December 2014	3,534

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

As at 31 December 2014, the Company presented non-current financial assets of CZK 509 million (2013: CZK 166 million) consisting of other long-term credits, advance payments for long-term expenses, prepayments and other holdings, which are classified as other financial assets. As at 31 December 2014, non-current financial assets contained restricted cash of CZK 29 million (2013: CZK 26 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

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

In CZK million	31 December 2014	31 December 2013
Gross amounts of trade receivables from third parties	1,244	835
Amounts that are set off	(512)	(375)
Net amounts of trade receivables from third parties	732	460

11 Cash and cash equivalents

In CZK million	31 December 2014	31 December 2013	Interest rate
Cash at current bank accounts and other cash equivalents	190	312	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	3,019	3,532	Floating
Total cash and cash equivalents	3,209	3,844	

As at 31 December 2014 and 2013, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2014, cash and cash equivalents of the Company amounted to CZK 3,209 million (2013: CZK 3,844 million) of which CZK 427 million (2013: CZK 3,844 million) were due within 1 month and CZK 2,782 million (2013: CZK 0 million) were due for more than 1 month.

In 2014, the Company was using cash-pooling with only a subsidiary O2 Slovakia, s.r.o. (see Note 13). In 2013, the Company has been also taking part in Telefónica Group cash-pooling.

At 31 December 2014, the Company had available equivalent of CZK 897 million (2013: CZK 1,346 million) of undrawn committed facilities and from 1 January 2015 Company has available equivalent of CZK 597 million.

As at 31 December 2014 and 2013 no cash and cash equivalents were pledged.

Net interest and other financial income/expenses paid are as follows:

In CZK million	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Interest paid	(64)	(79)
Interest received	4	15
Bank commissions	(20)	(26)
Other financial incomes	43	70
Total	(37)	(20)

12 Trade and other payables

In CZK million	**31 December 2014**	**31 December 2013**
Trade creditors	6,871	9,191
Tax and social security liability	655	538
Other deferred revenue	565	470
Prepaid cards	151	261
Employee wages and benefits	414	441
Other creditors	136	102
Total payables	8,792	11,003
Other non-current liabilities	155	64

Payables to related parties are disclosed in Note 20.

As at 31 December 2014 and 31 December 2013, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

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

In CZK million	31 December 2014	31 December 2013
Gross amounts of trade creditors	1,588	941
Amounts that are set off	(512)	(375)
Net amounts of trade creditors	1,076	566

13 Financial liabilities and financial assets

In CZK million	31 December 2014	31 December 2013
Debt in local currency	7,000	3,000
Intercompany cash-pooling (Note 20)	238	2,040
Interest obligation and derivatives	4	4
Total financial debt	7,242	5,044
Repayable:		
Within one year	4,242	2,044
Between one and five years	3,000	3,000
Total financial debt	7,242	5,044

Term loan facility – CZK 4 billion

On 28 November 2014, the Company entered into term facility agreement up to CZK 4 billion between the Company as the borrower and Komerční banka, a.s. as the lender. The Company utilised a loan up to CZK 4 billion with repayment term of 3 months and with optional further extension to 6 months or 12 months. The Company used this short term credit facility to pay off the liabilities directly related to commercial relations with the previous majority owner. Interest rate is PRIBOR plus margin 0.50%.

Term loan facility – CZK 3 billion

The loan is due in 2016. The loan facility is priced at 1M PRIBOR plus margin 1.75% p.a. (2013: 1M PRIBOR plus margin 1.75% p.a.)

In May 2012, the Company and O2 Slovakia, s.r.o., a subsidiary company, entered to mutual cash-pooling, which is having a positive effect on Company's cash flow management.

The fair values of borrowings are based on discounted cash flows using a discount rate based upon the borrowing rate estimated by the management of the Company as reachable at the balance sheet date. The carrying amounts of short-term debts approximate their fair value.

Loans are not secured over any assets of the Company.

The table below summarizes the maturity profile of the Company's financial and trade liabilities at 31 December 2014 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2014 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	4,026	284	3,047	-
Trade and other payables (excluding Other deferred revenue and Prepaid cards)	6,108	1,968	-	-
Total	10,134	2,252	3,047	-
Non-current other liabilities	-	-	149	6

At 31 December 2013 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	16	2,087	3,112	-
Trade and other payables (excluding Other deferred revenue and Prepaid cards)	8,993	1,279	-	-
Total	9,009	3,366	3,112	-
Non-current other liabilities	-	-	58	6

In 2014 and 2013, the Company did not have any guarantees to third.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements.

In CZK million	**Carrying amount**		**Fair value**	
Financial assets	**2014**	**2013**	**2014**	**2013**
Cash and cash equivalents	3,209	3,844	3,209	3,844
Short-term loans (incl. accrued interest)	143	331	143	331
Derivatives	1	44	1	44
Other financial assets	509	166	509	166

In CZK million	**Carrying amount**		**Fair value**	
Financial liabilities	**2014**	**2013**	**2014**	**2013**
Interest bearing loans and borrowings (incl. accrued interest)	7,242	5,044	7,242	5,044

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Fair value hierarchy

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

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

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

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

As at 31 December 2014 and 31 December 2013, the Company held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2014 and 31 December 2013, 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.

Financial risk analysis

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

In CZK million	**Effect on profit before tax**	
	2014	**2013**
FX risk		
Value at Risk*	(48)	(171)
Stress testing*	(41)	(58)
IR risk		
Stress testing*	(1)	(4)

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

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 1% in an unfavourable direction

IR risk used stress scenario represents immediate one-off change of interest rates along the whole yield curve by 1% in an unfavorable direction. The calculation of unfavourable impact on Company cash flows (due to an increase in interest expense or drop in interest received relating to financial assets and financial liabilities) is made each month on a floating basis within a 12 month time frame.

Financial derivatives

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

In CZK million	Nominal value		Fair value	
	2014	2013	2014	2013
Foreign exchange contracts	333	1,037	-	44

14 Deferred income taxes

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled.

Short-term and long-term deferred taxes were calculated at 19% for both years 2014 and 2013.

In CZK million	2014	2013
At 1 January	2,733	3,196
Profit or loss tax charge (Note 4)	(584)	(463)
At 31 December	2,149	2,733

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

In CZK million	31 December 2014	31 December 2013
Deferred tax assets	(432)	(386)
Deferred tax liabilities	2,581	3,119
Total	2,149	2,733

The deferred tax asset includes CZK 403 million (2013: CZK 353 million) recoverable in less than twelve months and CZK 29 million (2013: CZK 33 million) recoverable after more than twelve months. The deferred tax liability includes CZK 678 million (2013: CZK 695 million) to be settled in less than twelve months and CZK 1,903 million (2013: CZK 2,424 million) to be settled in more than twelve months.

The deferred tax is determined by these components:

In CZK million	Balance sheet		Profit or loss	
	2014	2013	2014	2013
Temporary differences relating to:				
Property, plant and equipment and intangible assets	2,367	2,893	(526)	(460)
Trade receivables, inventories and other differences	(218)	(160)	(58)	(3)
Total	2,149	2,733	(584)	(463)

15 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
At 1 January 2014	-	21	17	38
Additions during the year	267	40	64	371
Utilised during the year	-	(11)	(9)	(20)
At 31 December 2014	**267**	**50**	**72**	**389**
Short-term provisions 2014	31	35	72	138
Long-term provisions 2014	236	15	0	251
	267	**50**	**72**	**389**
Short-term provisions 2013	-	7	9	16
Long-term provisions 2013	-	14	8	22
	-	**21**	**17**	**38**

The Company recognized provision for estimated cost of dismantling and removing assets and restoring sites amounting to CZK 267 million. The reason for recognition of a provision is a substantial increase in the estimate of the present value of future costs of dismantling and removing assets and restoring sites in connection with the network sharing project. Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future dismantling and removing of assets.

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

Regulatory and court decisions

A provision for regulatory and court decisions is made for legal proceedings involving the Company (see Note 16).

16 Contingencies and litigations

The Company is involved in a number of legal disputes arising from the usual course of business. Throughout 2014 the Company successfully litigated against lawsuits filed by the third parties in the past. The main litigation cases involving the Company are shown below.

I. ÚOHS (Office for the Protection of Economic Competition)

i. Administrative proceedings regarding the alleged abuse of dominant position in the fixed broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting the so-called ‘preliminary investigation’ since November 2008, to determine whether the Company had abused its dominant position in the broadband market. The Company provided the Office with the requested cooperation 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 demands for information and documents from the Office to the Company during more than two years of the investigation have grown immeasurably, during all this time the Company was never allowed to inspect the file to check its content and see how the information was interpreted by the Office. In the light of the above, the Company requested court protection by a legal action filed with the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from continuing the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation had to be ceased immediately. The verdict was later confirmed by the Supreme Administrative Court in September 2011. The Office reacted in March 2011 by opening an official administrative procedure regarding the dominant position on the fixed broadband ADSL market. The Company filed its statement with the authority, proving that the Office incorrectly defined the relevant market in which Company allegedly held the dominant position and was alleged to abuse it. The Company’s statement citing the fierce competition between technology platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly corroborated by the Czech Telecommunications Office and the European Commission. The Company also provided the Office with numerous documents proving that all steps taken by the Company had been correct. More records are continuously added to the file. With regard to the extreme length and volume of information, the Company cannot estimate when the procedure against it would be closed. The Office did not promulgate a decision in 2014, despite the fact that the Company has provided the Office with all the necessary evidence and information. As was the case with the 2013 financial statements, it was not possible to make a reliable estimate of the financial impact of this administrative procedure at the closing of the 2014 financial statements.

ii. Proceeding for a penalty of CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over a penalty of CZK 81.7 million imposed on the Company in December 2003 by administrative procedure for the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office to return the penalty plus accessories. Although the principal was returned by the Office, before it was decided on the returning of the accessories, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. Ultimately, in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty, and returned the case back to the Office for it to provide a legal justification for the penalty in relation to the adjudicated period. Despite the objections of the Company citing insufficient background, the Office issued a new decision imposing a fine CZK 91.9 million on the Company. The Company regards the decision as an impermissible reprisal on the part of the Office, and started a legal action including a proposal to stay the penalty for the duration of the proceedings. The Regional court in Prague decided on suspension of the payment but by its decision from 23 October 2014 dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But still the Company filed the cassation complaint to the Supreme Administrative Court as an extraordinary measure.

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

The Company clearly turned around in its favour the dispute with AUGUSTUS spol. s r.o. and presently concentrates on recovering the amount of unjust enrichment from AUGUSTUS spol. s r.o. Originally, AUGUSTUS spol. s r.o. had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK 183 million with accessories. AUGUSTUS spol. s r.o. claimed that the Company had unjustifiably terminated the contract for the issue and distribution of phone cards signed for an indefinite period. Based on the decision of the High Court in Prague from August 2006, the Company paid a sum of CZK 83 million plus relevant accessories (total of CZK 139 million). Subsequently, there was a positive turn in the proceedings in the favour of the Company when the Supreme Court based on the Company's appeal cancelled the previous verdicts in June 2009 and the Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed the dismissal in August 2011. Consequently, the Company filed a lawsuit against AUGUSTUS spol. s r.o. to claim CZK 139 million back. The Municipal Court in Prague decided favourably for the Company in September 2011. AUGUSTUS spol. s r.o. filed an unsuccessful appeal. In the interim it turned out that an amount of at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company takes all legal steps to secure the property and to avoid additional losses. The High Court in Prague confirmed the bankruptcy of AUGUSTUS spol. s r.o. in May 2013. The Company is the major creditor with the highest filed and confirmed claim.

III. CNS a.s. – a claim for CZK 19.8 million

In 2009, employees of CNS a.s., dealing with the development and updates of IT applications, and employees of Telefónica O2 Business Solutions, spol. s r.o. were in negotiations over potential collaboration relating to the operation of data boxes. Ultimately, no agreement had been signed between the parties and, due to commercial reasons, the project had never gone ahead. In August 2010, CNS a.s. mounted a legal action against the Company for damages and lost profit totalling CZK 137.2 million, citing the failure to sign a contract. The Company regards this claim as fabricated and the amount as patently inflated, which can be demonstrated by the fact that, in accordance with the annual profit and loss statement for the year 2009, CNS a.s. generated a yearly profit of less than CZK 5.5 million. The Municipal court in Prague dismissed the legal action in full in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. The High Court in Prague later confirmed that there had not been any contract concluded between CNS a.s. and the Company, and as such there is no claim of CNS a.s. from the contractual relationship. The High Court only ordered the Municipal Court in Prague to decide on possible claims of CNS a.s. arising from the precontractual liability, however no evidence of any such claim has been filed. Just before the last oral hearing CNS announced to the court in October 2014 that they allegedly transfer all their “claims” to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement. The Company protested against this obvious attempt of CNS a.s. to avoid to cover the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – a claim for 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, regarding alleged abuse of the dominant position in the market of broadband Internet access for households via ADSL technology. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had a 30% share of the dial-up Internet market in 2003 and implies in its legal action that it ought to have automatically the same share of the broadband market, which it does not. Allegedly it is due to a margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the claimant were unsubstantiated and by pointing at discrepancies in the petition claims. The court started hearings of this case and the hearings continued in 2013, including hearings of experts and witnesses. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court. But neither its framework neither the exact wording of the question to the expert is yet not known.

V. BELL TRADE s.r.o. – a claim for CZK 3.2 billion

A legal action for CZK 3.2 billion filed by company BELL TRADE s.r.o. was delivered to the Company in February 2012. The legal action was filed at the District Court in Malacky (the Slovak Republic); it alleges that the Company had signed contracts with a company called RVI, a.s. for the delivery of several IT projects back in 2002. BELL TRADE s.r.o., based in Bratislava, allegedly acquired the claims as an agreed fee for services, through a chain of intermediaries. The Company filed a statement with the District Court in Malacky, refuting the existence of any contract and any services from the performance of which any fees would have arisen to any party. The Company also challenged the jurisdiction of Slovak courts since the dispute has no relation to the Slovak territory. The lack of jurisdiction has finally led to the termination of the proceedings in June 2012 but BELL TRADE s.r.o. filed an appeal. The Regional Court in Bratislava subsequently cancelled the decision and the case stayed with the District Court in Malacky. The Company filed a constitutional complaint against the decisions on the jurisdiction of Slovak courts. Meanwhile the plaintiff filed the motion on extension of the legal action for the amount CZK 9.7 billion but the Slovak court hasn´t decided on extension of the legal action. The Slovak Constitutional Court by its decision from 18 March 2014 suspended the decision of the Regional Court in Bratislava and subsequently published information on its website that our constitutional complaint was successful. The decision of Regional Court in Bratislava which originally left the case in the jurisdiction of the Slovak courts (namely County Court in Malacky), was canceled as unconstitutional. Regional Court in Bratislava was obliged to issue decision in accordance with the binding legal opinion of the Slovak Constitutional Court and thus the proceeding at Slovak courts was finally terminated by the decision from 28 November 2014.

VI. ČESKÉ RADIOKOMUNIKACE a.s. – a claim for CZK 3.1 billion

A legal action for CZK 3.1 billion filed by České Radiokomunikace a.s. (ČRa) was served to the Company in October 2012. The claimant states that the Company allegedly caused him damage by abusing of the dominant position on the xDSL market, which had impacted ČRa's ability to reach "equitable position on the retail xDSL market". The claimed sum is calculated as a difference between the hypothetical price of the part of the business and the sale price for which the part of the business was actually sold to T-Mobile Czech Republic a.s. in 2009. The Company considers the claim as fabricated and this was also communicated to the court in the statement. On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. CRa filed an extraordinary appeal but it was declined by the Supreme Court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, all evidence on paper was proceeded and further hearing was postponed to March 2015.

VII. TELECONSULT INTERNATIONAL - a claim for CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal Court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. New evidence did not bring any finding in favor of the plaintiff. The next hearings in the case will take place during 2015, when the decision of the court of first instance could be expected.

The Company is involved in other legal disputes. The aggregate value of all ongoing disputes over CZK 5 million with a verdict expected in 2014 represents nearly CZK 15 million. The financial statements also reflect some minor disputes with a less material risk.

The Company considers disclosing other information regarding the litigations as not advisable, since it could jeopardize the Company's litigation strategy.

The Company is convinced that all litigation risk has been appropriately reflected in the financial statements.

17 Commitments

The aggregate future minimum lease payments under operating leases (Company is a lessee) and aggregate future minimum lease payments under non-cancellable operating leases (Company is a lessor):

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	1,087	2,341	2,611
Operating leases - lessor	122	39	0

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2014 were CZK 1,353 million (2013: CZK 1,341 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2014 amounted to CZK 674 million. The majority of contracted amounts relates to the telecommunication networks and service contracts.

18 Service concession arrangements

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

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

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone services,
d) other voice services - service is defined as of public access,
e) leased lines - service is defined as of public access,
f) radio and TV signal broadcasting - service is defined as of public access,
g) data transmission - service is defined as of public access,
h) internet access services - service is defined as of public access,
i) other voice services - service is not defined as of public access,
j) leased lines - service is not defined as of public access,
k) radio and TV signal broadcasting - service is not defined as of public access,
l) data transmission - service is not defined as of public access,
m) internet access services - service is not defined as of public access.

The Company provides mobile services of electronic communications in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 7 February 2016, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignment from the CTO valid until 30 June 2029, in the 2100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

The radio frequency licence can be extended by another licence based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, the current regulatory and business environment in the Czech Republic, the prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Imposition of obligations related to the provision of the Universal Service

During 2014, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services,
b) access for persons with disability to the public telephone service, which must be equal to access enjoyed by other end users; such special access takes namely the form of specially adapted telecommunication equipment,
c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disability.

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

19 Share capital and reserves

	31 December 2014	31 December 2013
Nominal value per ordinary registered share (CZK)	87	87
Number of shares	315,648,092	315,648,092
Nominal value per ordinary registered share (CZK)	870	870
Number of shares	1	1
Ordinary shares (in CZK million)	27,461	27,461

Shareholdings in the Company were as follows:

	31 December 2014	31 December 2013
PPF Arena 2 B.V.	73.1%	-
PPF A3 B.V.	10.1%	-
Telefónica S.A.	-	70.8%
O2 Czech Republic a.s. (treasury shares)	1.7%	1.7%
Other shareholders	15.1%	27.5%

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing its capital are:

a) to safeguard the Company's ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

In the following periods, the Board of Directors will continue to make in-depth analysis and assessment of the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation and will optimize the capital structure to serve the purpose of achieving these plans.

There are no other specific objectives.

Standalone equity structure as at 31 December 2014:

In CZK million	**31 December 2014**
Share capital	27,461
Treasury shares	(1,596)
Share premium	19,349
Funds and reserves	6,450
Retained earnings from previous years	743
Net income for current year	3,963
Total	**56,370**

The funds include a reserve fund of CZK 6,442 million (2013: CZK 6,442 million). The Board of Directors shall decide on the creation of, contribution to, use of or the dissolution of the Reserve Fund, unless the law or Articles of Association provide that such decision in the specific context comes under the authority of the General Meeting.

Treasury share transactions consist of transfer of unpaid dividends related to treasury shares to retained earnings of CZK 97 million (2013: CZK 234 million) and share premium of CZK 0 million (2013: CZK 118 million).

20 Related party transactions

The Company is part of PPF Group since 28 January 2014.

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF's reach spans from Europe to Russia, the USA and across Asia.

As the settlement of the sale of the Company was held at the end of January 2014 related parties transactions were identified for the period of January 2014 with a group of former owner Telefónica and from February to June 2014 with the PPF Group.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are unsecured, interest-free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial assets balances are tested for the impairment at the balance sheet date.

The following transactions were carried out with related parties:

I. Parent company:

Balance sheet **In CZK million**	**31 December 2014**	**31 December 2013**
Payables	-	685

Statement of total comprehensive income **In CZK million**	**For the period from 1 February to 31 December 2014**	**For the period from 1 January to 31 January 2014**	**Year ended 31 December 2013**
a) Sales of services and goods	27	-	-
b) Purchases of services and goods	-	3	35
c) Royalty fees	-	51	660

The total amount of dividend paid as at 31 December 2014 to parent company was CZK 4,723 million (2013: CZK 4,471 million). The amount paid due to the other distribution as at 31 December 2014 amounted to CZK 0 million (2013: CZK 2,236 million).

II. Other related parties – Company´s subsidiaries and associates:

Balance sheet **In CZK million**	**31 December 2014**	**31 December 2013**
a) Receivables	378	256
b) Dividend receivable	-	898
c) Payables	92	173
d) Short-term loans provided (Note 13)	143	313
e) Short term intercompany cash - pooling liability	238	2,040

Profit or loss **In CZK million**	**Year ended 31 December 2014**	**Year ended 31 December 2013**
a) Sales of services and goods	1,409	781
b) Dividend income	920	908
c) Purchases of services and goods	114	149
d) Interest income	3	3
e) Interest costs	1	2

As at 31 December 2014 the Company provided a short-term loan of CZK 248 million (2013: CZK 278 million) to Internethome, s.r.o. The loan bears a floating interest based on 1M PRIBOR. The loan conditions are based on the arm´s length principle.

The Company performed the impairment test of its investment and loan in subsidiary Internethome, s.r.o. as of 31 December 2014. The test involves a determination of the recoverable amount as the present value of future cash flows which are expected to be derived from Internethome, s.r.o. operations. Based on the result of the test the investment and loan in subsidiary was impaired by CZK 177 million in total, of which CZK 72 million was recorded against investment and CZK 105 million against loan.

There were no other impairment allowances to related party in 2014 or 2013.

As at 31 December 2013 the Company provided a short-term loan of CZK 35 million to Bonerix s.r.o. (Note 13) fully paid in 2014.

Except for above mentioned transactions, the Company sold valuable right to O2 brand in Slovakia to O2 Slovakia, s.r.o.

III. Other related parties – PPF Group, Telefónica Group and joint ventures:

Balance sheet **In CZK million**	**31 December 2014**	**31 December 2013**
a) Receivables	36	462
b) Payables	103	1,884
c) Short-term receivables - interest (Note 13)	-	18
d) Cash equivalents (Note 11)	3,019	3,532

Statement of total comprehensive income **In CZK million**	**For the period from 1 February to 31 December 2014**	**For the period from 1 January to 31 January 2014**	**Year ended 31 December 2013**
a) Sales of services and goods	161	70	978
b) Purchases of services and goods	559	109	1,410
c) Management fees	95	35	435
d) Interest income	2	1	12

There were capital expenditures of CZK 37 million carried out with related parties for the period ended 31 December 2014 (2013: CZK 17 million).

The list of the PPF Group companies with which the Group had any transaction from February 2014 includes the following entities: PPF Arena 2 B.V., PPF A3 B.V., PPF a.s., Česká pojišťovna a.s., Home Credit a.s., Air Bank a.s., Home Credit International a.s., PPF banka a.s., Bestsport Arena, a.s., Penzijní společnost České pojišťovny, a.s., SOTIO a.s, Elektrárny Opatovice, a.s., ČP INVEST investiční společnost, a.s., Pražská teplárenská a.s., PRVNÍ MOSTECKÁ a.s., Generali Development s.r.o., PPF Real Estate s.r.o., Česká pojišťovna ZDRAVÍ a.s., Generali PPF Asset Management a.s., PPF Art a.s., Generali PPF Services a.s., Společnost pro informační databáze, ČP DIRECT, a.s., Public Picture & Marketing a.s., PPF GATE a.s., Mystery Services s.r.o., Solitaire Real Estate, a.s., EOP & HOKA s.r.o., ČP ASISTENCE s.r.o., PPF Partners a.s., AISE, s.r.o., Plzeňská energetika a.s., Teplo Neratovice, spol. s r.o., Click Credit s.r.o., REFICOR s.r.o., CITY EMPIRIA a.s., TERMONTA PRAHA a.s., PPF Financial Consulting s.r.o., United Energy , a.s., SPP Storage, s.r.o., Art Office Gallery a.s., Gen Office Gallery a.s., Retail Star 3, spol. s r. o., Retail Star 22, spol. s r. o., HC Insurance Services s.r.o., Internethome, s.r.o., CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, O2 Slovakia, s.r.o., Bonerix s.r.o.

The list of the Telefónica companies with which the Group had any transaction during January 2014 and in 2013 includes the following entities: Telefónica S.A., Telefónica de Espaňa, S.A.U., Telefónica Germany GmbH& Co. OHG, Telefónica UK Ltd., Telefónica Ireland Ltd., Telefónica Móviles España, S.A.U., Telefónica Móviles Argentina, S.A., O2 Holdings Ltd., Telefónica Germany Customer Services GmbH, Telefónica Insurance S.A., Telefónica Móviles Guatemala, S.A., Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Panamá, S.A., Telefónica Móviles Colombia, S.A., Telefónica Móviles Chile, S.A., Otecel, S.A., Telefónica Móviles Nicaragua, S.A., Telefónica Investigación y Desarrollo, S.A., Telecom Italia S.p.A., Telfisa Global BV, Telfisa, Telefónica International Wholesale Services, SL, Telefónica International Wholesale Services II, SL, Telefónica Compras Electrónica, S.L., Telefónica Móviles Mexico, S.A., Telefónica Móviles del Uruguay, S.A., Telefónica Móviles Perú, S.A.C., Telefónica Venezuela, S.A., China Unicom (Hong Kong) Limited, Telefónica Global Roaming GmbH, Vivo, S.A., Telefónica Europe People Services Limited, Jajah Ltd., Telefónica USA, Telefonica Global Technology, S.A., Czech Republic branch, Telefonica Global Technology, S.A., Telefonica Global Services GmbH, Tesco Mobile ČR s.r.o., Telefónica Factoring, E.F.C., S.A., Telefónica Costa Rica S.A., Telefónica Digital Espaňa SL., Wayra Czech Republic, s.r.o., Internethome, s.r.o., CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, O2 Slovakia, s.r.o., Bonerix s.r.o.

IV. Other related parties

a) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

In CZK million	**31 December 2014**	**31 December 2013**
Salaries and other short-term benefits	78	89
Personal indemnification insurance	1	2
Total	79	91

b) Loans to related parties

No loans were provided to members of Board of Directors and Supervisory Board in 2014 and 2013.

No loans were provided by the Company to related parties.

21 Subsidiaries, associates and joint ventures

As at 31 December 2014

	Subsidiaries	**Company's interest**	**Cost of investment in CZK million**	**Country of incorporation**	**Activity**
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services
3.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
4.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
	Associates				
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
7.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services
	Joint ventures				
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

* The Company recognised provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

As at 31 December 2013

Subsidiaries		Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services
3.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
4.	Internethome, s.r.o.	100%	72	Czech Republic	Provision of WiFi internet access
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
Associates					
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
7.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services
Joint ventures					
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

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

In CZK million	Period 01-12/2014	Period 05-12/2013**
Total revenue	195	26
Operating income before depreciation and amortization (OIBDA)	69	(50)
Profit for the year	64	(50)

In CZK million	31 December 2014	31 December 2013
Total assets	76	36
Equity	24	(40)

* Fiscal year of Tesco Mobile ČR s.r.o. is from March to February

** Tesco Mobile was incorporated in May 2013

22 Post balance sheet events

Feasibility Study of the Separation of Infrastructure

O2 Czech Republic proceeded to completion of a feasibility study of the separation of fixed and mobile telecommunications infrastructure into a separate entity, which would provide wholesale services to other telecommunications companies in the market, in the form of spin-off into a new company, and also decided on preparation of formal steps leading to such separation.

This event has no impact on financial statements for the year ended 31 December 2014.

Cancellation of listing of Global Depositary Receipts on London Stock Exchange

O2 Czech Republic decided to cancel the listing of global depository receipts O2 Czech Republic a.s. registered under ISIN US15713M1071 and US8793931069 on London Stock Exchange with requested date of cancellation February 28, 2015, due to inefficiency of maintaining the listing. The receipts, representing shares of companies from emerging markets, were introduced to the market in 1998 and as an outdated instrument have seen practically no trading in the recent years.

The Company also decided to terminate the agreement with the depositary of the receipts, The Bank Of New York Mellon. As per the termination clause of the agreement, the owners of the receipts will see their receipts exchanged for regular shares of the Company, regularly traded on the Prague Stock Exchange.

These steps taken by the Company have no impact on the shareholders of the Company and on the trading of Company's shares on Prague Stock Exchange.

This event has no impact on financial statements for the year ended 31 December 2014.

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 2014.

Other information for shareholders and investors

9. Other information for shareholders and investors

Basic information

Corporate name:	O2 Czech Republic a.s.
Registered seat:	Prague 4-Michle, Za Brumlovkou 266/2, postal code 140 22
Corporate ID:	60193336
Tax ID:	CZ60193336
Date of incorporation:	16 December 1993
Legally existing from:	1 January 1994
Duration of the Company:	the Company was founded for an indefinite period of time
Legal form:	joint-stock Company
Statute of law under which the issuer was incorporated:	provisions of Sec 171(1) and Sec 172(2) and (3) of the Commercial Code
Commercial court:	Prague Municipal Court
Commercial court record number:	Section B, File 2322

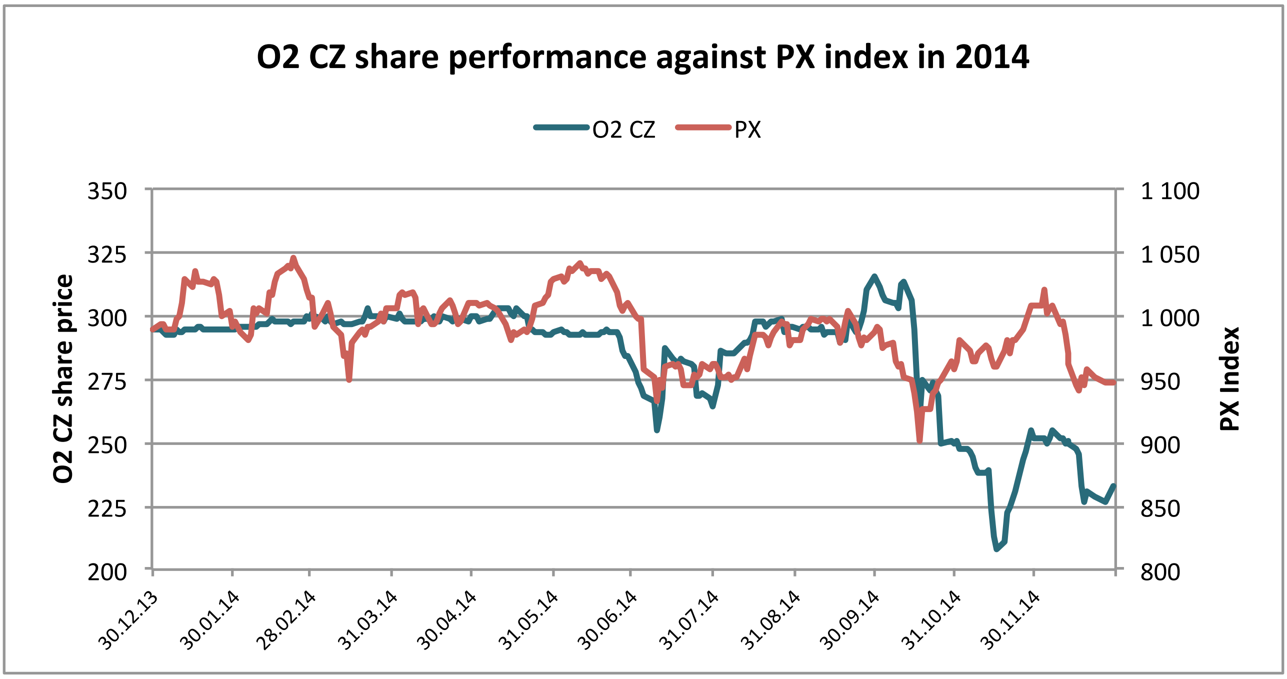
Trading in O2 CZ shares in 2014

	2014	2013
Number of shares (in millions) 1)	310.2	312.8
Net profit/(loss) per share (in CZK) 2)	12.8	18.4
Highest share price (in CZK) 3)	315.9	333.9
Lowest share price (in CZK) 3)	208.0	255.5
Share price at the end of period (in CZK) 3)	233.0	295.0
Market capitalisation (in billion CZK) 3)	73.5	93.1

1) Weighted average number of ordinary shares in circulation over the period
2) Unconsolidated net profit under IFRS
3) Source: Prague Stock Exchange

In 2014, the Company once again ranked among the most important companies on the Czech capital markets in terms of market capitalization and trading volumes. The total volume of trades in company shares on the Prague Stock Exchange (PSE) in 2014 was CZK 15.5 bn compared to CZK 23.5 bn in 2013. Trading in Company shares measured by the total volume of shares traded, made up 10.0% of all trades on the PSE stock market. In 2014 the Company shares confirmed the position of the fourth most traded issue on the PSE, same as in previous years.

Market capitalisation as at 30 December 2014 (the last trading day on the PSE in 2014) was CZK 73.5 bn, placing O2 CZ again in the fifth place on the PSE stock market. The share price at the end of the last trading day of year 2014 reached CZK 233.0 down 21% year-on-year, while the PX Index (the main index of the PSE) closed at 946.7 points, with a year-on-year decline of 4.3%.
The share price of O2 CZ reached its maximum of CZK 315.9 on 29 September 2014, and its minimum of CZK 208.0 on 14 October 2014. The average share price in 2014 was CZK 284.0 compared to CZK 299.6 in 2013.



Dividends

At the General Meeting held on 19 April 2012 in Prague, the shareholders approved a dividend payment from a part of the profit for 2011 and a part of the retained earnings from previous years in the total amount of CZK 8,7 bn i.e. CZK 27 before taxation per share of nominal value CZK 100 (CZK 87 as of 14 November 2012) and CZK 270 before taxation per share of nominal value of CZK 1,000 (CZK 870 as of 14 November 2012). The record day for the payment of dividends was 12 September 2012, and the disbursement date 10 October 2012.

At the General Meeting held on 22 April 2013 in Prague, the shareholders approved a dividend payment from a part of the profit for 2012 and a part of the retained earnings from previous years in the total amount of CZK 6,41 bn i.e. CZK 20 before taxation per share of nominal value CZK 87 and CZK 200 before taxation per share of nominal value of CZK 870. The record day for the payment of dividends was 14 October 2013, and the disbursement date 10 November 2013.

At the General Meeting held on 25 June 2014 in Prague, the shareholders approved a dividend payment from a part of the profit for 2013 and a part of the retained earnings from previous years in the total amount of CZK 5,7 bn i.e. CZK 18 before taxation per share of nominal value CZK 87 and CZK 180 before taxation per share of nominal value of CZK 870. The record day for the payment of dividends was 27 October 2014, and the disbursement date 26 November 2014.

Dividend policy

The Company does not have an official long-term dividend policy at present. In the future, the Board of Directors will be making annual proposals for the payment of dividend, based on a diligent analysis of the current and future performance of the Company, including the planned and potential investments and acquisition, and generation of cash flows. This approach is in line with the investment strategy of directing investment into pro-growth areas, such as improvements to the fixed and mobile broadband service, mobile services, ICT solutions for business and the government, and the development of the mobile operation (including data services) in Slovakia. Other investment plans include the modernisation and upgrade of IT systems with the view to simplify processes and make them more efficient, with the ultimate goal of greater operating efficiency.

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

1) Patents and licences

O2 CZ has licence agreements for the following software products: application middleware and database environment (Oracle), operating systems (Hewlett-Packard, Oracle and Microsoft), workstation software (Microsoft), CRM based on SW (Oracle), customer care and billing software with detailed billing functionality (Amdocs and LHS) and enterprise resource planning software ERP (SAP). The Group also uses in its business dealings in the Czech Republic and Slovakia the trademark O_2 based on a licence agreement (from O2 Holdings Ltd.).

2) Industrial and commercial contracts

O2 CZ maintained a diverse portfolio of technology suppliers. The main objective of the Company with respect to the contracted suppliers was to have competition on the supply side. All principal technology supply contracts are awarded by tender.

In 2014, the main suppliers of technology and related services to the Company were IBM Česká republika, Alcatel-Lucent Czech, Nokia Siemens Networks, Accenture Central Europe B.V., Indra, NextiraOne Czech, Amdocs Development Limited, LHS, Cisco, Ericsson, Hewlett-Packard and Huawei Technologies.

3) Financing contracts

Financial obligations as of 31 December 2014 divided into short-term and long-term (in CZK mil.):

Short-term (maturing within 1 year)	4,004
Long-term	3,000
Total	**7,004**

Loans, bonds issued and other financial obligations:

	Currency	Balance in CZK mil. as of 31 December 2014	Maturity
Bank loan	CZK	3,000	2016
Bank loan	CZK	4,000	2015

On 27 September 2012 O2 CZ signed a loan contract for CZK 3 bn underwritten jointly by UniCredit Bank Czech Republic, a.s. (also in the position of agent), Česká spořitelna, a.s., Komerční banka, a.s., Citibank Europe plc and Československá obchodní banka, a.s. The Company used the four year loan to refinance the above debt redeemable in July 2012 and for general purposes of the Company.

On 28 November 2014 O2 CZ signed a loan contract for CZK 4 bn with Komerční banka, a.s. (also in the position of agent), with maturity of 3 months along with the option for extending maturity to 6 or 12 months. The Company used this utilized for this operating loan for one-off settlement of liabilities directly related to commercial relations with the original majority shareholder, Telefónica, S.A.

As at 31 December 2014, O2 CZ had no overdue loan obligations.

Request of the majority shareholder for provision of financial assistance

On 13 October 2014, O2 Czech Republic a.s. received a request from the majority shareholder, the company PPF Arena 2 B.V. for provision of financial assistance in the form of a loan with the primary purpose of partial repayment of the acquisition bank loan, which PPF Arena 2 B.V. used to for the acquisition of the majority stake in O2 Czech Republic a.s.

The General Meeting of O2 CZ held on 17 December 2014 approved that O2 CZ may provide financial assistance to PPF Arena 2 B.V. in the form of a loan up to a total amount of principal CZK 24.8 bn for the purpose of settling part of the acquisition loan provided to PPF Arena 2 B.V. by a syndicate of banks, and potential funding of purchases of additional shares of O2 CZ, under conditions set in the Report of the Board of Directors approved on 18 November 2014. The Report of the Board of Directors specifies assumptions and conditions under which the financial assistance may be provided, especially the form of loan up to the amount of CZK 24.8 bn due in 7 years and with regularly paid interest. Since O2 CZ does not have available sufficient resources to provide the financial assistance, the provision will be subject to O2 CZ obtaining a loan in the necessary amount from a syndicate of banks.

To the date of publishing this Report of the Board of Directors, the loan was not obtained and the financial assistance was not provided.

Investments

Principal investments made by O2 Czech Republic a.s. in the last two accounting periods (in CZK mil.):

	2014	**2013**
LTE spectrum	2,803	0
Networks, operation, trademarks	5,590	2,817
IT and products	1,059	953
Subsidiary companies and other investments	323	601
Business solutions	232	598
Property and security	31	186
Investments related to O2 Slovakia made in the Czech Republic	82	60
O2 Slovakia, including LTE spectrum	1,370	458
Total	**11,490**	**5,673**

All main investments were implemented within the Czech Republic and Slovakia.

In 2014, O2 Czech Republic a.s. continued to apply its investment policy which follows the main goal of developing and investing in technologies with a high potential of growth; expanding the mobile data network with the deployment of new technology, and increasing the Company’s operating efficiency.

In 2014, contracts from 2013 were signed and sharing began of networks of the second and third generation with the company T-Mobile Czech Republic a.s., in parts of the districts Pardubice and Hradec Králové. In May, both companies also announced expansion of this agreement to include sharing the fourth generation (4G) network.

The Company will co-operate in the deployment of the networks in order to improve the coverage and, in particular, increase the efficiency of network operation. The agreement explicitly excluded the two largest Czech cities – Prague and Brno. Besides the sharing project, independent development also continued of the 4G network in Prague and Brno. The end of 2014 saw completion of coverage of motorway D1 from Prague to Brno by the 4G network. Coverage of the population with high-speed internet reached 93% by year's end. In selected localities, the LTE Advanced technology was also implemented, enabling data transfer speeds of up to 185 Mbps using the right devices.

In the fixed access business, investments went mainly into strengthening of capacities carrying the VDSL service. In 2014, the number of VDSL users went up more than 16% from the previous year, which put the transmission network under a greater strain. There was also significant growth in IPTV users, year-on-year by 18%.

As for business solutions, the volume of investments followed the trend in business solutions, with projects related to data connectivity and ICT solutions still ruled strong.

Built out of the proprietary network continued in Slovakia. By year's end, O2 Slovakia operated 1,048 2G base transceiver stations; its 2G network covered 96.08% of the population by the end of 2014. Also by the end of the year, it operated 853 3G base transceiver stations, and its 3G service covered 62.04% of the population. At the end of the summer, O2 Slovakia also presented plans for buildings its own 4G LTE network, which started at the end of the year in two of the largest Slovak cities - Bratislava and Košice.

Key investments in the future years

In the period 2015-2016, a key investment area in the Czech Republic will continue to be fixed and mobile broadband area, which is seen as a vehicle for future improvements, greater efficiency and broader uptake of telecommunications and data services. The year 2015 will be key especially thanks to on-going building of the 4G network and its related investments for the overall implementation of this technology which is driven by the mandatory criteria of the licence. In the area of fixed data services, the Company will focus on developing its xDSL service. The Company will also invest in innovative ICT technologies and solutions, which will help broaden the scope of service options for customers. At the same time, it will continue to invest in improving the operating efficiency and in the modernisation of the existing technology infrastructure.

The Slovak operation will continue to pursue a standard investment policy in the telecommunications sector, with an emphasis on efficiency improvements in the area of implementation of progressive technologies and customer policies, in order to deliver on the overall strategy and grow the share of the Slovak telecommunications market. O2 Slovakia will continue in further coverage of Slovakia by the 4G network, while at the same time it will continue strengthening of its 3G network.

Fees paid to auditors in the accounting period

Costs related to activities of the external auditor KPMG Česká republika Audit, s.r.o. for O2 CZ Group in 2014 were as follows:

- consolidated whole (Group O2 CZ)

Type of service	**Fee in CZK mil.**
Audit	10
Other audit-related consultancy	2
Other services	0
Total	**12**

- Parent company (Company O2 CZ)

Type of service	**Fee in CZK mil.**
Audit	9
Other audit-related consultancy	1
Other services	0
Total	**10**

Rating

O2 CZ Group was given a corporate rating by the rating agency Standard & Poor's Financial Services LLC (Standard & Poor's). The company terminated its agreement with Standard & Poor's on 28 October 2014. Standard & Poor's confirmed the long-term corporate rating of the O2 CZ Group as at the date of termination at BBB- with negative outlook.

Financial calendar

Dates of announcement of running financial results

For the first quarter of 2015	13 May 2015 *
For the first half of 2015	31 July 2015 *
For the three quarters of 2015	11 November 2015 *
For 2015	no later than 28 February 2016

* tentative date

Contacts for institutional investors and shareholders

Investor Relations
Tel.: +420 271 462 076, +420 271 462 169
Fax: +420 271 463 566
E-mail: investor_relations@o2.cz
Internet: https://www.o2.cz/spolecnost/en/investor-relations/
Address: O2 Czech Republic a.s.
Za Brumlovkou 266/2
140 22 Prague 4

Information on persons responsible for the Annual Report

10. Information on persons responsible for the Annual Report

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

and

Tomáš Kouřil, Vice-chairman of the Board of Directors and director of Finance Division of O2 Czech Republic a.s.

hereby declare that, to their best knowledge, the consolidated Annual Report gives a true and faithful reflection of the financial situation, business and the results of the Company and its consolidated whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

Tomáš Budník
Chairman of the Board of Directors
and Chief Executive Officer

Tomáš Kouřil
Vice-chairman of the Board of
Directors and director of Finance Division

In Prague on 24 February 2015

Report on Relations

between the controlling person and controlled person and between the controlled person and persons controlled by the same controlling person for the accounting period of 2014

The Company: O2 Czech Republic, a.s., having its registered seat at Prague 4, Michle, Za Brumlovkou 266/2, ZIP 140 22, Corporate no.: 601 93 336, registered in the Commercial Register held at the Municipal Court in Prague, File no. B, 2322 (the Company), is obliged for the accounting period of 2014 to elaborate a so-called report on relations between controlling person and the Company and between the Company and persons controlled by the same controlling person according to Sec 82 et seq of Act No 90/2012 Coll., Act on Commercial Companies and Cooperatives, as amended (Report on Relations).

During the accounting period of 2014, a change in the controlling person occurred the Company. In the accounting period of 2014, the Company had two different controlling persons – the controlling person in the period from 1 January 2014 to 28 January 2014 was the company Telefónica, S.A. and the controlling person in the period from 28 January 2014 to 31 December 2014 was Mr. Petr Kellner. For this reason, the Report on Relations is divided into two parts describing relations always relevant to given period, in which the Company was controlled by the relevant controlling person.

A) Report on Relations for the period from 1 January 2014 to 28 January 2014

Controlling person: Telefónica, S.A.
Registered seat: Gran Vía 28, 28013, Madrid, Spain
(Corporate number) Identification no.: A 28015865
In the relevant period, the controlling person owned shares of the controlled Company corresponding to a proportion of 70.83% in the voting rights of the Company.

1. Structure of relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person

According to information provided by Telefónica, S.A., an overview of entities belonging to Telefónica Group, including other data on their structure, was compiled, and it is attached in Appendix No. 1 of this Report on Relations.

2. Role of the Company

The Company was an autonomous component of the multinational telecommunications group, Telefónica Group. Telefónica Group does business in 26 countries, where it provides telecommunications services in fixed and mobile networks. The Company had the position within the framework of Telefónica Group of an independent telecommunications operator providing electronic communications services within the Czech Republic, and by means of a one-hundred percent owned subsidiary, also within the Slovak Republic.

During the period from 1 January 2014 to 28 January 2014, within the framework of the accounting period of 2014, the Company neither adopted nor implemented any measures or other legal arrangements providing the Company with special advantages or determining special obligations for it in the interest or at the initiative of the controlling person or persons controlled by the same controlling person. In relation to control, the Company does not draw any special advantages nor does it incur any special obligations towards the controlling person and/or persons controlled by the same controlling person above the framework of those negotiated in agreements listed in part A, point 5 of this Report.

3. Method and means of control

Telefónica, S.A. controlled the Company in a way in which it held the majority of shares, thus also the majority share in the voting rights. No special agreements existed between the Company and the controlling person in relation to methods and means of controlling the Company.

4. Overview of negotiations according to Sec 82(2)(d) of Act No 90/2012 Coll., on Commercial Companies and Cooperatives

During the period from 1 January 2014 to 28 January 2014 within the framework of the accounting period of 2014, the Company held no negotiations that would have been made at the initiative or in the interest of the controlling person or its controlled persons concerning assets exceeding 10% of the share capital of the Company determined from the last financial statements.

5. Overview of mutual agreements

During the period from 1 January 2014 to 28 Jaunary 2014 within the framework of the accounting period of 2014, the following agreements existed between the Company and controlling person or with persons controlled by the same controlling person:

- Global SAP Integrated Service Agreement, *contracting party*: Telefónica Global Technology, S.A. Unipersonal, *description of performance*: the contracting party provides the Company with licences for the software SAP, management service, access service, correct service use and other IT services.
- Agreement for the Provision of Integrated Workplace Services, *contracting party*: Telefónica Global Technology, S.A.U., *description of performance*: the contracting party provides the Company workplace services, including devices, software, network connectivity and IP communications.
- Production Services Agreement, *contracting party*: Telefónica Global Technology S.A.U., *description of performance*: the contracting party provides the Company operational and maintenance services in information product system areas of Telefónica.
- Frame Work Agreement for the Supply of Mobile Network Management, *contracting party*: Telefónica Germany GmbH & Co. OHG, *description of performance*: the company provides the contracting party with services of monitoring fixed networks of the other contracting party.
- Frame Work Agreement for the Supply of Fix Network Management, *contracting party*: Telefónica Germany GmbH & Co. OHG, *description of performance*: Service of monitoring the mobile network which the contracting party provides to the Company.
- Services Agreement, *contracting parties*: O2 Holdings Limited, Telefónica Slovakia, s.r.o., *description of performance*: the contracting party provides the Company and its subsidiary with management services.
- Service Agreement Wholesale Roaming Services, *contracting party*: Telefónica Global Roaming GmbH, description of performance: the contracting party provides the Company wholesale roaming services involving negotiating wholesale agreements on prices for roaming services with roaming partners which the contracting party negotiates on behalf of and at the cost of the Company, and monitors operation in networks and manages performance of obligations towards roaming partners.
- Nucleus Service Agreement, *contracting party*: O2 Holdings Limited, *description of performance*: the company provides the contracting party the services housing and hosting for hardware located within the Company.

- Amended and Restated Trade Mark Sub-Licence, *contracting party*: O2 Holdings Limited, *description of performance*: the contracting party provides the Company a licence for use of the O_2 trademark and a sub-licence for use of the Telefónica trademark.

In terms of the controlled person, performance based on the aforementioned agreements was always in an amount corresponding in regards to price and quality with services provided on the market by third persons, and in a number of cases, the Company could, on the contrary, draw advantages from synergy and the opportunity to take part in globally negotiated conditions in various areas. With regard to necessity safeguarding the business secret and agreed confidentiality obligation no further data from aforementioned agreements can be published.

6. Assessment of whether the Company incurred damage and assessment of the damage settlement according to Sec 71 and 72 of Act No 90/2012 Coll., on Commercial Companies and Cooperatives

All agreements described in part A, point 5 of this Report on Relations were concluded under conditions standard for business relations, and likewise, all provided and adopted performances were provided based on these agreements under conditions standard for business relations, and the Company has incurred no damage from these agreements.

B) Report on Relations for the period from 28 January 2014 to 31 December 2014

Controlling person: Petr Kellner
Date of birth: 20 May 1964
Residence: Vrané nad Vltavou, Březovská 509, district Praha-západ, Postal code 252 45

Mr Petr Kellner became the controlling person from 28 January 2014. In the period from 28 January 2014 to 24 October 2014, he dealt indirectly with a share in the amount of 65.93% in the voting rights of the Company, and in period starting 24 October 2014, he dealt indirectly with a share in the amount of 83.2% in the voting rights of the Company. Mr. Petr Kellner controls the Company by means of the companies PPF Arena 2 B.V. and PPF A3 B.V. , acting in concert with respect to the Company.

1. Structure of relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person

PPF Group, part of which is the Company and that is controlled by Mr. Petr Kellner, is an international investment group consisting, as of the date of this Report, of several hundreds of entities.

PPF Group has its corporate ownership and controlling structure located in the Netherlands: PPF Group N.V. with registered seat at Amsterdam. PPF Group N.V. is main holding company of the PPF Group, where all strategic decisions are adopted, which has influence on the exercise of the control over the whole Group. In each of the business area, where the PPF Group is active and perceives them as strategic (consumer financing, real estate, biotechnology, agriculture, etc.), usually specific subholding structures are established, which deal with specific particular matters relating to relevant business area and interested entities. Inside of these structures specifically established entities (SPV) are used that reflect specificities of particular entities wihitn the PPF Group, in particular from the perspective of the financing of its acquisition and transaction history.

According to information provided by PPF Arena 2 B.V., an overview of entities belonging to PPF Group, including other data on their structure, was compiled, and it is attached in Appendix no. 2 of this Report on Relations.

2. Role of the Company

The PPF Group controlled by Mr Petr Kellner is the most important Czech and one of the most important Central European investment groups controlling sector-diversified companies which are internationally active on over ten markets from the Czech Republic, to countries of Central and Eastern Europe, all the way to the main markets of Southeast Asia and the United States of America. These companies are active mainly on the markets of consumer financing (Home Credit Group), banking (Air Bank), corporate banking (PPF Banka) and real estate (PPF Real Estate).

Within the framework of the PPF Group, the Company stands in the position of an independent telecommunications operator primarily providing electronic communications services in fixed and mobile networks within the Czech Republic, and by means of a one-hundred percent owned subsidiary, also within the Slovak Republic, where it provides electronic communications services in mobile networks. In negotiated cases, the Company provides its electronic communications services to persons in the PPF Group. With regard to the vast portfolio of companies in the PPF Group having various lines of business, the Company has the option of using services and commercial activities of these companies according to agreed conditions.

3. Method and means of control

The PPF Group (which for the purposes of this Report also includes a person controlling the entire group as stated in Appendix no. 2 of this Report on Relations) controls the Company in a manner by which it holds the majority of shares in it by means of the company PPF Arena 2 B.V. and the company PPF A3 B.V., and thus the majority share in the voting rights.

The very performance of the majority share in the voting rights is the basic means of control of the Company. Other means applied by PPF Group within the framework of controlling are various requests or initiative which PPF Arena 2 B.V. applied towards the Company Board of Directors *ad hoc* by virtue of the position of so-called qualified shareholder, either in the form of procedures explicitly predicted by the Act (in the accounting period of 2014 this concerned request for the convocation of the General Meeting of the Company relating to proposals that were discussed and adopted at relevant General Meetings), or in a different formalized form not explicitly regulated by the Act. Falling into the second group was the request of 13 October 2014 for the Company to look into the option of providing financial assistance to the company PPF Arena 2 B.V. (see also point 4 of this Report below).

4. Overview of negotiations according to Sec 82(2)(d) of Act No 90/2012 Coll., on Commercial Companies and Cooperatives

Within the framework of the accounting period of 2014 in the period of 28 January 2014 to 31 December 2014, the Company held no negotiations that would have been made at the initiative or in the interest of the controlling person or its controlled persons concerning assets exceeding 10% of the share capital of the Company determined from the last financial statements.

In the accounting period of 2014, at the request of the company PPF Arena 2 B.V., the Company held negotiations relating to assessment and approval of financial assistance in the form of a loan from the Company, whose principal may amount to up to CZK 24.8 billion. The relevant loan agreement, based on which financial assistance was provided, was not concluded to the date of elaborating this Report. The mentioned negotiations mainly involved a feasibility study of the financial assistance and elaboration of a report on financial assistance (of 18 November 2014 which was duly made available to shareholders), involvement of external advisors (as also stated in the report on financial assistance) and convocation and organization of the General Meeting the Company which took place on 17 December 2014 and at which provision of financial assistance was approved. In relation to preparation of approval financial assistance, the Company incurred costs in the accounting period of 2014 in total amount of CZK 8.816 mil. These costs are to be paid by PPF Group to the Company in the course of the first half of 2015 based on legal obligations assumed in writing, regardless of the fact that if provision of financial assistance occurs (payment of costs is defined in the report on financial assistance as one of the conditions under which financial assistance is to be provided), or does not occur. The Company therefore suffers no damage in this relation, because even in the event that financial assistance was not implemented, and thus advantages affiliated with it were not achieved, the Company will not be burdened by these costs.

5. Overview of mutual agreements

During relevant period 28 January 2014 to 31 December 2014 within the framework of the accounting period of 2014 existed or the Company concluded the following agreements with the controlling person and with persons controlled by the same controlling person:

- Framework agreement on conditions of providing mobile electronic communications services, *contracting party*: PPF a.s., *description of performance*: the Company provides the contracting party and further entities electronic communications services by means of mobile networks and supplies mobile telephones and accessories under agreed conditions.
- Agreement on providing a voice solution, *contracting party*: PPF a.s., *description of performance*: the Company provides the contracting party and further entities with electronic communications services by means of fixed networks under agreed conditions.
- Framework agreement on providing telecommunications, managed services and other services, *contracting party*: Air Bank a.s., *description of performance*: the Company provides the contracting party with services of electronic communications, managed services and other related services under agreed conditions.
- Performance agreement on providing services of a WAN network, *contracting party*: Air Bank a.s., *description of service*: the Company provides the contracting party with telecommunications services of connection and interconnection into the WAN data network under agreed conditions.
- Performance agreements on providing hosting services, *contracting party*: Air Bank a.s., description of service: the Company provides the contracting party with hosting services including connection and interconnection into the WAN data network under agreed conditions.
- Agreement on providing services Bulk SMS Connector, *contracting party*: Air Bank a.s., *description of service*: the Company provides the contracting party the service of mass sending of SMS messages from customer applications to networks of mobile and fixed operators, including foreign ones, and provides functionality relating to processing SMS messages.
- Agreement on providing publicly available electronic communications services, *contracting party*: Home Credit International, a.s., *description of performance*: the Company provides the contracting party with voice and data services under agreed conditions.
- Framework agreement on conditions of providing mobile electronic communications services, *contracting party*: Bestsport Arena a.s., *description of performance*: the Company provides the contracting party with electronic communications services by means of mobile networks and supplies mobile telephones and accessories under agreed conditions.
- Agreement on providing publicly available electronic communications services, *contracting party*: Bestsport Arena a.s., *description of performance*: the Company provides the contracting party with voice and data services under agreed conditions.

- Agreement on providing services (SPA), *contracting party*: PPF a.s., *description of performance:* the subject of the agreement is provision of support, especially in the area of corporate governance and internal audit.
- Agreement on services Operation of Information Technologies, *contracting party*: PPF IT Services s.r.o., *description of performance*: the Company purchases services comprised of providing IT operation, providing support of the IT infrastructure and application support.
- Framework agreement on payment and banking services, *contracting party*: PPF banka a.s., *description of performance*: the subject of the agreement is establishment of a credit limit for the Company and creation of accounts in CZK, EUR and USD.
- Framework agreement on providing services of an event agency, *contracting party*: Public Picture & Marketing a.s., *description of performance*: the contracting party provides the Company services involving preparation and implementation of events, advertising services for various target groups in varying scope according to needs and submission of the Company, so-called Below the Line services, programs for building loyalty of involved entities, organization of conferences, training and lectures, organizing one-time events.
- Framework agreement on providing or procuring of Travel Desk services: *contracting party*: Public Picture & Marketing a.s., *description of performance*: the contracting party provides a set of services consisting in booking air tickets, accommodation, ticketing, obtaining visas, booking of car rentals, reporting.
- Contract on cooperation on financing purchase of goods from O2, *contracting party*: Home Credit a.s., *description of performance*: the subject involves rules for providing interest-free loans to natural persons who have concluded an agreement with O2 on providing electronic communications services, for procurement of mobile hardware from the company O2 or its franchisees, as well as cooperation in offering and providing such loans.
- Agreement on use of the name of the arena and on further cooperation, *contracting party*: Bestsport Arena a.s., description of performance: the subject involves the right of the Company to name the arena and use it for commercial and marketing purposes as its general and titular partner, and promotion of the company name, its logo, goods and services of the Company inside and out and in relation with the arena, and providing entrance tickets to events taking place in the arena.
- Agreement on payment of costs, *contracting party*: PPF Group N.V., *description of performance*: it contains the obligation of the contracting party to pay the Company costs which the Company will pay in relation to providing financial assistance for PPF Arena 2 B.V. or with a syndicated loan.
- Settlement agreement, *contracting party*: PPF Arena 2 B.V., *description of performance*: includes a commitment of the contracting party to settle to the Company performance for the execution of administrative acts related to the licence for O2 Info channel.

In terms of the controlled person, performance based on the aforementioned agreements was always in an amount corresponding in regards to price and quality with services provided on the market by third persons, and in a number of cases, the Company could, on the contrary, draw advantages from synergy and the opportunity to take part in globally negotiated conditions in various areas. With regard to necessity safeguarding the business secret and agreed confidentiality obligation no further data from aforementioned agreements can be published.

6. Assessment of whether the Company incurred damage and assessment of the damage settlement according to Sec 71 and 72 of Act No 90/2012 Coll., on Commercial Companies and Cooperatives

All negotiations (acts) described in part B, point 4 of this Report were made and all agreements described in part B, point 5 of this Report on Relations were concluded under conditions standard for business relations, and likewise, all provided and adopted performances were provided based on these agreements provided under conditions standard for business relations, and the Company has incurred no damage from these agreements. Payment of costs relating to assessment and approval of financial assistance was described in point 4 of this Report.

C) Conclusion

Regarding the period of the first month of 2014, i.e. 1 January 2014 – 28 January 2014, when the Company was still controlled by the company Telefónica, S.A., the Company 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, it states that the Company experienced no special advantages and/or disadvantages arising from relations between the Company and the person controlling it and/or persons controlled by the same controlling person. The Company incurred no damage that should be settled according to Sec 71 and 72 of Act No 90/2012 Coll., on Commercial Companies and Cooperatives.

Starting 28 January 2014, a change occurred in the controlling person, and the Company is a part of PPF Group. In this regard, the Company Board of Directors may state that amongst the most important advantages of the fact that the Company became a part of PPF Group, and that it maintained relations with other members of this group as described above in this Report, are mainly the following:

- In light of the fact that PPF Group is the most important Czech and one of the most important Central European investment groups, whereas it owns sector-diversified companies active on over ten markets from the Czech Republic, to countries of Central and Eastern Europe, the Company has gained and may continue gaining access to a wide customer base, to which it can provide its services and products.
- By its deeper ties with PPF Group, the Company has gained and can continue gaining the option of using the Group's innovate approach to developing business, aided by international transfer of know-how within the framework of the Group, inter alias know-how in the area of commercial activities, customer care, IT, property management and real estate, access to financial and capital markets, insurance and receivables management;
- The Company has provided and will continue providing access to further instruments of an effective management approach arising from economies of scale, because PPF Group as an important economic entity and the Company as its important part enjoy a strong negotiating position in business negotiations with suppliers, appearing in the decrease in costs - from costs for acquiring technology to costs on renting space, in which the Company and companies of the PPF Group perform their activities.

The following can be designated in a certain sense as relating disadvantages, or potential risks:

- the ability of the company PPF Arena 2 B.V. to implement new activities and processes in the Company, including business transactions that have not yet been applied in the Company, and can therefore relate to increased costs or economic risks.

In the opinion of the Company Board of Directors, the aforementioned advantages are realistic and reasonably expectable, meanwhile disadvantages and risks are either only theoretical, or the Company has duly identified them and if needed, it has secured itself against them in a standard manner. The Company Board of Directors is convinced that aforementioned advantages far outweigh the disadvantages or potential risks.

The Company Board of Directors declares that, in the process of gaining and verifying information for the purpose of this Report on Relations, made a corresponding effort, and conclusions, to which came, were formulated with a profound consideration, and that all data contained herein considers for accurate and complete.

In Prague on 20 February 2015

O2 Czech Republic a.s.

Appendix no. 1 – Structure of relations in the Telefónica Group

List of companies directly or indirectly controlled by the company Telefónica, S.A.

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telefónica España					
Telefónica de España, S.A.U. Telecommunications service provider	Spain	EUR	1,024	100%	Telefónica, S.A.
Telefónica Móviles España, S.A.U. Wireless communiations services provider	Spain	EUR	423	100%	Telefónica, S.A.
Acens Technologies, S.L. Holding housing and telecommunications solutions Service provider	Spain	EUR	23	100%	Telefónica de España, S.A.U.
Teleinformática y Comunicaciones, S.A.U. (Telyco) Promotion, marketing and distribution of telephone and telematic equipment and services	Spain	EUR	8	100%	Telefónica de España, S.A.U.
Telefónica Soluciones de Informática y Com. de España S.A.U. Telecommunications systems, networks and infrastructure engineering	Spain	EUR	2	100%	Telefónica de España, S.A.U.
Iberbanda, S.A. Broadband telecommnications operator	Spain	EUR	2	100%	Telefónica de España, S.A.U.
Telefónica Telecomunicaciones Públicas, S.A.U. Installation of public telephones	Spain	EUR	1	100%	Telefónica de España, S.A.U.
Telefónica Soluciones de Outsourcing, S.A. Promotion and networks management	Spain	EUR	1	100%	Telefónica Soluc. De informática y Com. de España, S.A.U
Telefónica Servicios Integrales de Distribución S.A.U. Logistic Service provider	Spain	EUR	2	100%	Telefónica de España, S.A.U.
Tuenti Technologies, S.L. Telecommunications Service provider	Spain	EUR	-	100%	Telefónica Móviles España, S.A.U.
Telefónica UK					
Telefónica UK Ltd. Wireless commnications	UK	GBP	10	100%	O2 Networks Ltd. (80.00%) O2 Cedar Ltd. (20.00%)
Giffgaff Ltd Wireless communications services provider	UK	GBP	-	100%	Telefónica UK Ltd.
O2 Networks Ltd. Holding company	UK	GBP	10	100%	O2 Holdings Ltd.
Cornerstone Telecomunications Network sharing	UK	GBP	-	50.00%	O2 Cedar Ltd
Telefónica Deutschland					
Telefónica Deutschland Holding A.G Holding company	Germany	EUR	2,975	62.37%	Telefónica Germany Holdings Limited
Telefónica Germany GmbH & Co. OHG Wireless communiations services operator	Germany	EUR	51	62.37%	Telefónica Deutschland Holding A.G (62.36%) Telefónica Germany Management GmbH (0.01%)
E-Plus Mobilfunk GmbH &Co. KG, GmbG Operadora de servicios de comunicaciones móviles	Germany	EUR	1	62.37%	Telefónica Germany GmbH & Co. OHG

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telefónica Brasil					
Telefónica Brasil, S.A. Wireline telephony operator	Brazil	BRL	37,798	73.96%	Telefónica Internacional, S.A.U. (29.43%) Telefónica, S.A. (24,74%) Sao Paulo Telecomunicaçoes Participaçoes, Ltda. (19.73%) Telefónica Chile, S.A. (0.06%)
Telefónica Hispanoamérica					
Compañía Internacional de Telecomunicaciones, S.A. Holding company	Argentina	ARS	562	100%	Telefónica Holding de Argentina, S.A. (47.22%) Telefónica Móviles Argentina Holding, S.A. (42.77%) Telefónica International Holding, B.V. (10.01%)
Telefónica de Argentina, S.A. Telecommunications service provider	Argentina	ARS	624	100%	Compañía Internacional de Telecomunicaciones, S.A. (51.49%) Telefónica Móviles Argentina, S.A. (29.56%) Telefónica Internacional, S.A. (16.20%) Telefónica, S.A. (1.80%) Telefónica International Holding, B.V. (0.95%)
Telefónica Móviles Argentina Holding, S.A. Holding company	Argentina	ARS	1,198	100%	Telefónica, S.A. (75%) Telefónica Internacional, S.A.U. (25%)
Telefónica Venezolana, C.A. Wireless communications operator	Venezuela	VEF	4,515	100%	Latin America Cellular Holdings, B.V. (97.04%) Comtel Comunicaciones Telefónicas, S.A. (2.87%) Telefónica, S.A. (0.09%)
Telefónica Móviles Chile, S.A. Wireless communications services operator	Chile	CLP	589,403	99.99%	Inversiones Telefónica Móviles Holding Limitada.
Telefónica Chile, S.A. Local and international long distance telephony services provider	Chile	CLP	578,078	97.90%	Inversiones Telefónica Móviles Holding Limitada
Telefónica del Perú, S.A.A. Local, domestic and international long distance telephone service provider	Peru	PEN	2,954	98.57%	Telefónica Latinoamérica Holding, S.L. (50,22%) Latin American Cellular Holdings, S.L. (48.35%)
Colombia Telecomunicaciones, S.A. ESP Communications services operator	Colombia	COP	1,454,871	70%	Telefónica Internacional, S.A.U. (32.54%) Olympic, Ltda. (18.95%) Telefónica, S.A. (18.51%)
Telefónica Móviles México, S.A. de C.V. (MÉXICO) Holding company	Mexico	MXN	72,425	100%	Telefónica, S.A.
Pegaso Comunicaciones y Sistemas, S.A. de C.V. Wireless telephone and communications services	Mexico	MXN	28,686	100%	Telefónica Móviles México, S.A. de C.V.
Telefónica Móviles del Uruguay, S.A. Wireless communications and services operator	Uruguay	UYU	1,107	100%	Telefónica Latinoamérica Holding, S.L.

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telefónica Móviles Panamá, S.A. |Wireless telephony services	Panama	USD	45	60%	Telefónica Centroamérica Inversiones S.L.
Telefónica Móviles El Salvador, S.A. de C.V. Provision of wireless and international long distance communications services	El Salvador	USD	187	60%	TES Holding, S.A. de C.V.
Telefónica Móviles Guatemala, S.A. Wireless, wireline and radio paging communications services provider	Guatemala	GTQ	2,701	60%	TCG Holdings, S.A. (39.59%) Guatemala Cellular Holdings, B.V. (20.41%)
Telefonía Celular de Nicaragua, S.A. Wireless telephony services	Nicaragua	NIO	247	60%	Telefónica Centroamérica Inversiones S.L.
Otecel, S.A. Wireless communications services provider	Ecuador	USD	183	100%	Ecuador Cellular Holdings, B.V.
Telefónica de Costa Rica TC, S.A. Wireless communications	Costa Rica	CRC	183,407	100%	Telefónica, S.A.
Telefónica Holding Atticus, B.V. Holding company	Netherlands	EUR	-	100%	Telefónica Internacional, S.A.U
Other Companies					
Telefónica Europe plc Holding company	UK	GBP	9	100%	Telefónica, S.A.
MmO2 plc Holding company	UK	GBP	20	99.99%	Telefónica Europe plc
O2 Holding Ltd Holding company	UK	GBP	12	100%	MmO2 plc
O2 International Holdings Ltd. Holding company	UK	GBP	-	100%	O2 Holdings Ltd.
Telefónica Germany Holdings Ltd. Holding company	UK	EUR	-	100%	O2 Europe Ltd.
O2 (Europe) Ltd. Holding company	UK	EUR	1,239	100%	Telefónica, S.A.
Telefónica Internacional, S.A.U. Telco Investment abroad	Spain	EUR	2,839	100%	Telefónica, S.A.
Telefónica International Holding, B.V Holding company	Netherlands	EUR	-	100%	Telefónica Internacional, S.A.U
					Telefónica, S.A. (94.96%)
Telefónica Latinoamérica Holding, S.L. Holding company	Spain	EUR	198	100%	Telefónica Internacional, S.A.U. (5.04%)
					Telefónica, S.A. (50.00%)
Telefónica América, S.A. Holding Company	Spain	EUR	-	100%	Telefónica Internacional, S.A.U. (50.00%)
Latin American Cellular Holdings, S.L. Holding Company	Spain	EUR	-	100%	Telefónica Latinoamérica Holding, S.L.
Telefónica Datacorp, S.A.U Holding Company	Spain	EUR	700	100%	Telefónica, S.A.
					Telefónica, S.A. (92.51%)
Telefónica International Wholesale Services S.L. International services provider	Spain	EUR	230	100%	Telefónica Datacorp, S.A.U. (7.49%)
Telefónica International Wholesale Services America, S.A. Provision of high bandwidth communications services	Uruguay	USD	591	100%	Telefónica, S.A. (73.36%) Telefónica International Wholesale Services, S.L. (25.64%)

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telefónica International Wholesale Services USA, Inc. Provision of high bandwidth communications services	USA	USD	58	100%	T. International Wholesale Services America, S.A.
Telefónica Digital España, S.L. Developer Telco Services Holding Compan	Spain	EUR	13	100%	Telefónica Digital Holdings, S.L.
Wayra Investigación y Desarrollo S.L Talent identification and development in ICT.	Spain	EUR	2	100%	Telefónica Digital Holdings, S.L.
Telefónica Digital Inc. IP telephony platform	USA	USD	-	100%	Telefónica Europe plc
Wayra Chile Tecnología e Innovación Limitada Technological innovation based business project development	Chile	CLP	20,976	100%	Wayra Investigacion y Desarrollo, S.L.
Wayra Brasil Aceleradora de Projetos Ltda. Technological innovation based business project development	Brazil	BRL	18	100%	Wayra Investigación y Desarrollo S.A.U.
WY Telecom, S.A. de C.V. Talent identification and development in ICT	Mexico	MXN	71	100%	Wayra Investigacion y Desarrollo, S.L.
Wayra Argentina, S.A. Talent identification and development in ICT	Argentina	ARS	30	100%	Telefónica Móviles Argentina, S.A. (90%) Telefónica Móviles Argentina Holding, B.V. (10%)
Wayra Colombia, S.A.S. Technological innovation based business project development	Colombia	COP	800	100%	Wayra Investigacion y Desarrollo, S.L.
Proyecto Wayra, C.A. Commercial, industrial and mercantile activities	Venezuela	VEF	28	100%	Telefónica Venezolana, C.A.
Wayra Perú Aceleradora de Proyectos, S.A.C. Technological innovation based business project development	Peru	PEN	11	99.99%	Wayra Investigacion y Desarrollo, S.L.
Wayra UK Ltd Technological innovation based business project development	UK	GBP	7	100%	Wayra Investigacion y Desarrollo, S.L
Wayra Ireland Ltd Technological innovation based business project development	Ireland	EUR	4	100%	Wayra Investigacion y Desarrollo, S.L
Terra Networks Brasil, S.A. ISP, portal and real-time financial information services	Brazil	BRL	1,046	100%	Telecomunicaçoes Participaçoes, Ltda.
Terra Networks México, S.A. de C.V. ISP, portal and real-time financial information services	Mexico	MXN	305	99.99%	Terra Networks Mexico Holding, S.A. de C.V.
Terra Networks Perú, S.A. ISP and portal	Peru	PEN	10	99.99%	Telefónica Internacional, S.A.U.
Terra Networks Argentina, S.A. ISP and portal	Argentina	ARS	7	100%	Telefónica Internacional, S.A.U.
Axonix Ltd Digital and mobile advertising	UK	USD	-	30%	Telefónica Digital Ltd
Eyeos, S.L Cloud Computing	Spain	EUR	-	100%	Telefónica Digital España, S.L.

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telfisa Global, B.V. Integrated cash management, consulting and financial support for Group companies	Netherlands	EUR	-	100%	Telefónica, S.A.
Telefónica Global Activities Holding, B.V. Holding Company	Netherlands	EUR	-	100%	Telfisa Global, B.V.
Telefónica Global Services, GmbH Purchasing services	Germany	EUR	-	100%	Group 3G UMTS Holding GmbH, B.V
Telefónica Global Roaming, GmbH Optimization of network traffic	Germany	EUR	-	100%	Telefónica Global Services, GmbH
Group 3G UMTS Holding GmbH Holding Company	Germany	EUR	250	100%	Telefónica Global Activities Holdings B.V
Telefónica Compras Electrónicas, S.L. Development and provision of information society services	Spain	EUR	-	100%	Telefónica Global Services, GmbH
Telefónica de Contenidos, S.A.U. Organization and operation of multimedia service-related business	Spain	EUR	226	100%	Telefónica, S.A.
Telefónica Studios S.L. Audiovisual Productions	Spain	EUR	6	100%	Telefónica de Contenidos S.A.U.
Televisión Federal S.A.- TELEFE Provision and operation TV and radio broadcasting-services	Argentina	ARS	135	100%	Atlántida Comunicaciones S.A. (79.02%) Enfisur S.A. (20.98%)
Atlántida Comunicaciones, S.A. Participation in public media	Argentina	ARS	33	100%	Telefónica Media Argentina S.A. (95.39%) Telefónica Holding de Argentina, S.A. (4.61%)
Telefónica Servicios Audiovisuales, S.A.U. Provision of all type of audiovisual telecommunications services	Spain	EUR	-	100%	Telefónica de Contenidos, S.A.U.
Telefónica On The Spot Services, S.A.U. Provision of telemarketing services	Spain	EUR	-	100%	Telefónica de Contenidos, S.A.U.
Telefónica Broadcast Services, S.L.U. DSNG-based transmission and operation services	Spain	EUR	-	100%	Telefónica Servicios Audiovisuales, S.A.U.
Telefónica Learning Services, S.L. Vertical e learning portal	Spain	EUR	1	100%	Telefónica Digital España, S.L.
Compañía Inversiones y Teleservicios, S.A.U. Holding company	Spain	EUR	24	100%	Telefónica, S.A.
Vocem 2013 Teleservicios, S.A. Call center services	Venezuela	VEF	188	100%	Compañía Inversiones y Teleservicios, S.A.U.
Telfin Ireland Ltd. Intragroup financing	Ireland	EUR	-	100%	Telefónica, S.A.
Telefónica Ingeniería de Seguridad, S.A.U. Security services and systems	Spain	EUR	12	100%	Telefónica, S.A.
Telefónica Engenharia de Segurança do Brasil Ltda Security services and systems	Brazil	BRL	88	99.99%	Telefónica Ingeniería de Seguridad, S.A.
Telefónica Capital, S.A.U. Finance company	Spain	EUR	7	100%	Telefónica, S.A.
Lotca Servicios Integrales, S.L. Aircraft ownership and operation	Spain	EUR	17	100%	Telefónica, S.A.
Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A Administration of pension funds	Spain	EUR	16	70.00%	Telefónica Capital, S.A.

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Fonditel Gestión, Soc. Gestora de Instituciones de Inversión Colectiva, S.A. Administration and representation of collective investment schemes	Spain	EUR	2	100%	Telefónica Capital, S.A.
Telefónica Investigación y Desarrollo, S.A.U. Telecommunications research activities and projects	Spain	EUR	6	100%	Telefónica, S.A.
Media Networks Latin America S.A.C Telecommunications research activities and proyects	Peru	PEN	111	100%	Telefónica Internacional S.A
Media Networks México Soluciones Digitales S.A. Telecommunications research activities and proyects	Mexico	MXN	3	100%	Media Networks Latin America S.A.C.
Telefónica Luxembourg Holding, S.à.r.L. Holding company	Luxemburg	EUR	3	100%	Telefónica, S.A.
Casiopea Reaseguradora, S.A. Reinsurance	Luxemburg	EUR	4	100%	Telefónica Luxembourg Holding, S.à.r.L.
Telefónica Insurance, S.A. Direct insurance transactions	Luxemburg	EUR	8	100%	Telefónica Luxembourg Holding, S.à.r.L.
Seguros de Vida y Pensiones Antares, S.A. Life insurance, pensions and health insurance	Spain	EUR	51	100%	Telefónica, S.A.
Telefónica Finanzas, S.A.U. (TELFISA) Integrated cash management, consulting and financial support for Group companies	Spain	EUR	3	100%	Telefónica, S.A.
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. Distribution, promotion or preparation of insurance contracts	Spain	EUR	-	100%	Telefónica Finanzas, S.A.U. (TELFISA) (83.33%) Telefónica, S.A. (16.67%)
Fisatel Mexico, S.A. de C.V. Integrated cash mangement, consulting and financial support for Group companies	Mexico	MXN	3,505	100%	Telefónica, S.A.
Telefónica Europe, B.V. Fund raising in capital markets	Netherlands	EUR	-	100%	Telefónica, S.A.
Telefónica Emisiones, S.A.U. Financial debt instrument issuer	Spain	EUR	-	100%	Telefónica, S.A.
Telefónica Global Technology, S.A.U. Global management and operation of IT systems	Spain	EUR	16	100%	Telefónica, S.A.
Aliança Atlântica Holding B.V. Holding company	Netherlands	EUR	40	100%	Telefónica S.A.(50%) Telefónica Brasil, S.A. (50%)
Telefónica Gestión de Servicios Compartidos España, S.A. Management and administrative services rendered	Spain	EUR	8	100%	Telefónica, S.A.
Telefónica Gestión de Servicios Compartidos Argentina, S.A. Management and administrative services rendered	Argentina	ARS	-	99.99%	Telefónica Gestión de Servicios Compartidos España, S.A. (95%) Telefónica, S.A. (4.99%)
Telefónica Gestión de Servicios Compartidos de Chile, S.A. Management and administrative services rendered	Chile	CLP	1,019	99.99%	Telefónica Chile, S.A

Name and corporate purpose	Country	Currency	Capital	%Telefónica Group	Holding Company
Telefónica Gestión de Servicios Compartidos Perú, S.A.C. Management and administrative services rendered	Peru	PEN	1	100%	T. Gestión de Servicios Compartidos España, S.A. (99.48%) Telefónica del Perú, S.A.A.(0.52%)
Telefónica Transportes e Logística Ltda. Logistics services rendered	Brazil	BRL	26	99.33%	Telefónica Gestión de Servicios Compartidos España, S.A.
Telefónica Serviços Empresariais do BRASIL, Ltda. Management and administrative services rendered	Brazil	BRL	12	99.99%	Telefónica Gestión de Servicios Compartidos España, S.A.
Telefónica Gestión de Servicios Compartidos México, S.A. de C.V. Management and administrative services rendered	Mexico	MXN	50	100%	Telefónica Gestión de Servicios Compartidos España, S.A.
TGestiona Logística, S.A.C Logistics	Peru	PEN	15	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.48%) Telefónica del Perú, S.A.A. (0.52%)
Telefónica Gestión Integral de Edificios y Servicios S.L. Management and administrative services rendered	Spain	EUR	-	100%	Telefónica Gestión de Servicios Compartidos España, S.A
Tempotel, Empresa de Trabajo Temporal, S.A. Temporary employment agency	Spain	EUR	-	100%	Telefónica Gestión de Servicios Compartidos España, S.A
Companies held for sale					
Yourfone GmbH Services Provider	Germany	EUR	-	100%	E-Plus Mobilfunk GmbH &Co. KG
Companies accounted for using the equity method					
Tesco Mobile Ltd. Wireless telephony services	UK	GBP	-	50.00%	O2 Communication Ltd.
Telefónica Factoring España, S.A. Factoring services provider	Spain	EUR	5	50.00%	Telefónica, S.A. Telefónica, S.A. (40.00%)
Telefónica Factoring Do Brasil, Ltd. Factoring services provider	Brazil	BRL	5	50.00%	Telefónica Factoring España, S.A. (10%)
Telefónica Factoring Mexico, S.A. de C.V. SOFOM ENR Factoring services provider	Mexico	MXN	33	50.00%	Telefónica, S.A. (40.5%) Telefónica Factoring España, S.A. (9.5%)
Telefónica Factoring Perú, S.A.C. Factoring services provider	Peru	PEN	6	50.00%	Telefónica, S.A. (40.5%) Telefónica Factoring España, S.A. (9.5%) Telefónica, S.A. (40.5%)
Telefónica Factoring Colombia, S.A. Factoring services provider	Colombia	COP	4,000	50.00%	Telefónica Factoring España, S.A. (9.50)%
DTS Distribuidora de Televisión Digital, S.A. Broacasting satellite TV signal transmission and linkage services	Spain	EUR	126	44.00%	Telefónica de Contenidos, S.A.U.
Telefónica Consumer Finance, Establecimiento Financiero de Crédito, S.A Specialised credit institution	Spain	EUR	5	50%	Telefónica, S.A
Healthcomunity, S.L Supplier of medical goods and services	Spain	EUR	-	49%	Telefónica Digital España, S.L.

Appendix no. 2 – Structure of relations in PPF Group

List of companies directly or indirectly controlled by the same controlling person
Controlling person: Petr Kellner

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
AB 1 B.V.	56007043	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 2 B.V.	57279667	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 3 B.V.	58435425	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 4 B.V.	34186049	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 5 B.V.	34192873	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 6 B.V.	58435956	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
AB 7 B.V.	57279241	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Air Bank a.s.
Accord Research, s.r.o.	290 48 974	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since June 2014	PPF Capital Partners Fund B.V.
Air Bank a.s.	29045371	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
Airline Gate 1 s.r.o.	02973081	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since May 2014	PPF banka a.s.
AISE, s.r.o.	63472651	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy a.s.
ALCAMORA LIMITED	HE 290 379	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Alfa South LLC	1077760158618	Russian Federation	A person controlled by the same controlling person by means of ownership interest		GRACESPRING LIMITED
ALMONDSEY LIMITED	HE 291 856	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		ALCAMORA LIMITED

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Alrik Ventures Limited	HE 318 488	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Tolesto Limited
Alternative Energy, s.r.o.	26822604	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Claymore Equity, s. r. o.
ANTHEMONA LIMITED	HE 289 677	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		ALCAMORA LIMITED
ANTHIAROSE LIMITED	HE 224463	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V
ARANCIATA a.s.	27621707	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Waipa Enterprises Limited
ARISUN, s.r.o.	45441171	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
Art Office Gallery a.s.	24209627	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Office Star Eight a.s.
ASTAVEDO LIMITED	HE 316 792	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V
Autotým, s.r.o.	030 40 863	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since August 2014	Home Credit Lab N.V
Bavella B.V.	52522911	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V
BESTSPORT akciová společnost	19013825	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Lindus Services Limited
Bestsport Arena, a.s.	24214795	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Lindus Services Limited
Bestsport Services, a.s.	24215171	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Lindus Services Limited
Bohr & Brunnenbau GmbH	HRB 201433	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Mitteldeutsche Braunkohlengesellschaft mbH
BORACORA LIMITED	HE 251 936	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		GLANCUS INVESTMENTS INC. Figera Limited
Boryspil Project Management Ltd.	34999054	The Ukraine	A person controlled by the same controlling person by means of ownership interest		Pharma Consulting Group Ltd.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Bucca Properties Ltd.	1377468	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		BORACORA LIMITED
Capellalaan (Hoofddorp) B.V.	58391312	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V
Caperton Holdings Limited	HE 173 977	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Corvus Services Limited
CE Energy a.s.	2413507	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
Celestial Holdings Group Limited	1471389	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
CF Commercial Consulting (Beijing) Limited	78860280-7	People's Republic of China	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
CITY TOWER Holding a.s.	02650665	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
CITY TOWER, a.s.	271 03 251	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since May 2014	CITY TOWER Holding a.s.
CJSC "Intrust NN"	1065259035896	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group since October 2014	Stinctum Holdings Limited
CJSC "Investments trust"	1037739865052	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group since October 2014	Feliston Enterprices Ltd.
Claymore Equity, s.r.o.	44707371	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	CHIFFON ENTERPRISES LIMITED
Click Credit s.r.o.	29378401	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Codar Invest B.V.	27278985	The Netherlands	A person controlled by the same controlling person by means of ownership interest		ANTHIAROSE LIMITED
Corvus Services Limited	1061050	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		Velthemia Limited
Credis Invest (Hong Kong) Ltd.	1495404	People's Republic of China	A person controlled by the same controlling person by means of ownership interest	part of the group till February 2014	Home Credit Asia Limited
Crestfallen Limited	HE 188 088	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group till April 2014	PPF Real Estate Holding B.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Czech Equestrian Team a.s.	019 52 684	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Sundown Farms Limited
Czech Gas Holding Investment B.V.	852451726	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding a.s.
Czech Gas Holding N.V.	56542909	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Czech Gas Holding Investment B.V.
Česká telekomunikační infrastruktura, s.r.o.	03495663	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since October 2014	PPF a.s.
ČKD Blansko Wind, a.s.	27689701	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
Dadrin Limited	HE 321 173	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Tolesto Limited
De Reling (Droten) B.V.	58164235	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
DELIFLEX LIMITED	HE 221 768	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
DELTA LLC	5077746981637	Russian Federation	A person controlled by the same controlling person by means of ownership interest		STEPHOLD LIMITED
Different Money s.r.o.	035 70 967	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since November 2014	Home Credit Lab N.V.
Donmera Limited	HE 204 966	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
DOUSAVI Limited	HE 331 420	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group since December 2014	Bavella B.V.
DZAGHIG LIMITED	1575248	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest	part of the group till November 2014	Celestial Holdings Group Limited
East Point Holding B.V.	34284762	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till September 2014	PPF Real Estate Holding B.V.
Eastern Properties B.V.	58756566	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
EASTERN PROPERTIES RUSSIA LLC.	1137746929836	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group since December 2014	DOUSAVI Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Easy Dreams Company Limited	304583265	Vietnam	A person controlled by the same controlling person by means of ownership interest		Home Credit International a.s
EBEH Opatovice, a.s. v likvidaci	45534292	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
EKY III, a.s.	27320430	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy, a.s.
Eldorado Licensing Limited	HE 144 889	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		LLC Eldorado
Elektrárny Opatovice, a.s.	28800621	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
Elektroenergetické montáže, a.s.	36412767	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenska energetika, a. s.
Ellin LLC	1021601767395	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Invest Realty
ELTHYSIA LIMITED	HE 290 356	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
ENADOCO LIMITED	HE 316 486	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Energetický a průmyslový holding a.s.	28356250	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Timeworth Holdings Ltd.
Energotrans Servis, a.s.	29352797	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Pražská teplárenská a.s.
ENERGZET, a.s.	63483823	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	ROLLEON a.s.
EOP & HOKA, s.r.o.	49815172	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Elektrarny Opatovice, a.s.
EP Energy a.s.	29259428	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	CE Energy, a.s.
EP Energy HR d.o.o.	060301976	Croatia	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
EP ENERGY TRADING, a.s.	27386643	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
EP Germany, GmbH	HRB 19272	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
EP Investments Advisors, s.r.o.	26687259	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding, a.s.
EP Renewebles a.s.	27567320	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
EPH Financing I, a.s.	24788040	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energeticky a prumyslovy holding, a. s.
EPH Financing II, a.s.	24788376	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
EPH Gas Holding B.V.	56513364	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding a.s.
ETO Licensing Limited	HE 179 386	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Facipero Investments Limited
EusebiusBS (Amhem) B.V.	58169778	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
eustream, a.s.	35910712	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
Evo - Komořany, a.s.	28735161	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy a.s.
Facipero Investments Limited	HE 232 483	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Tromson Enterprises Limited
Favour Ocean Limited	1065678	Hong Kong	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		KARMION HOLDINGS LIMITED Figera Limited
Feliston Enterprices Ltd.	HE 152674	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group since October 2014	Salemonto Limited
Ferrymat Holdings Limited	HE 313289	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		KARMION HOLDINGS LIMITED Figera Limited
FIGERA LIMITED	HE 251 908	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Fodina B.V.	59400676	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
Foreign Insurance Closed Joint Stock Company "PPF Insurance"	806000245	Belarus	A person controlled by the same controlling person by means of ownership interest		SEPTUS HOLDING LIMITED, TALPA ESTERO LIMITED, RHASKOS FINANCE LIMITED, SYLANDER CAPITAL LIMITED, ENADOCO LIMITED, ASTAVEDO LIMITED
GABELLI CONSULANCY LIMITED	HE 160 589	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Velthemia Limited
GALA - MIBRAG - Service GmbH	HRB 210208	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Mitteldeutsche Braunkohlengese llschaft mbH
GALIO INVESTMENTS LIMITED	HE 310 260	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		KARMION HOLDINGS LIMITED Figera Limited
Garco Group B.V.	34245884	The Netherlands	A person controlled by the same controlling person by means of ownership interest		GLANCUS INVESTMENTS INC.
Gen Office Gallery a.s.	24209881	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Office Star Eight a.s.
GEOTERM KOŠICE , a.s.	36210137	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovensky plynárenský priemysel, a.s.
German Properties B.V.	61008664	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group since July 2014	PPF Real Estate Holding B.V.
GIM Invest Co Limited	109594	Jersey	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
GRACESPRING LIMITED	HE 208 337	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
Grandview Resources Corp.	1664098	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		Bavella B.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Guangdong Home Credit Financing Guarantee Co., Ltd	76732894-1	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
HC Asia N.V.	34253829	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
HC Broker, s.r.o.	29196540	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit a.s.
HC Consumer Finance Philippines, Inc	CS 201301354	Republic of the Philippines	A person controlled by the same controlling person by means of ownership interest		HC Philippines Holding B.V
HC Insurance Services s.r.o.	1487779	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
HC Philippines Holding B.V	35024270	The Netherlands	A person controlled by the same controlling person by means of ownership interest		HC Asia N.V.
Helmstedter Revier GmbH	HRB 21008	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Mitteldeutsche Braunkohlengesellschaft mbH
Home Credit a.s.	26978636	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Home Credit Advisory Asia, spol. s r.o. v likvidaci	24133400	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	HC Asia N.V
Home Credit Asia Limited	890063	Hong Kong	A person controlled by the same controlling person by means of ownership interest		HC Asia N.V.
Home Credit B.V.	34126597	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
Home Credit Business Management (Tianjin) Co., Ltd. , v likvidaci	67596220-8	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
Home Credit Consumer Finance (China) Co., Ltd	63606746-2	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Home Credit Egypt Trade S.A.E., v likvidaci	50614	Egypt	A person controlled by the same controlling person by means of ownership interest		HC Philippines Holding B.V
HOME CREDIT EUROPE PLC	7744459	United Kingdom of Great Britain and Northern Ireland	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V
Home Credit Express LLC	1027700280640	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Home Credit India B.V.	52695255	The Netherlands	A person controlled by the same controlling person by means of ownership interest		HC Asia N.V.
HOME CREDIT INDIA FINANCE PRIVATE LIMITED	U65910HR1997PTC047448	Republic of India	A person controlled by the same controlling person by means of ownership interest		Home Credit India B.V.
Home Credit Indonesia B.V.	52695557	The Netherlands	A person controlled by the same controlling person by means of ownership interest		HC Asia N.V.
Home Credit International a.s.	60192666	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Home Credit Lab N.V.	52695689	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Home Credit Slovakia a.s.	36234176	Slovak Republic	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Home Credit US Holding, LLC	5467913	The United States of America	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Home Credit B.V.
Home Credit US, LLC	5482663	The United States of America	A person controlled by the same controlling person by means of ownership interest	part of the group since February 2014	Home Credit US Holding
Home Credit Vietnam Finance Company Limited	0307672788	Vietnam	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
HOMER SOFTWARE HOUSE LLC	35364346	The Ukraine	A person controlled by the same controlling person by means of ownership interest		REDLIONE Limited Home Credit B.V.
Hopar Limited	HE 188 923	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Property Limited
Chelton Properties Limited	1441835	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		Ing. Petr Kellner
CHIFFON ENTERPRISES LIMITED	HE 264 947	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
IN VINO HOLDING LLC	7734565173	Russian Federation	A person controlled by the same controlling person by means of ownership interest		UNDERTREA HOLDINGS LIMITED
In Vino LLC	1052309138628	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Alfa South
In Vino Natukhaevskoe LLC	1052309081880	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC IN VINO HOLDING

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Invest Realty LLC	1057746212666	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Eldorado Facipero Investments Limited
JARVAN HOLDINGS LIMITED	HE 310 140	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V. Figera Limited
Joint Stoct Company "Sibzavod Centre" Joint Stoct Company	1035501017221	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Trust - Invest
Joint Stock Company "Gorod Molodogo Pokolenija" Joint Stock Company	1027700473756	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
Johan H (Amsterdam) B.V.	58163239	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
Jonsa Limited	HE 275 110	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited Figera Limited
JSC Home Credit Kazakhstan	70-700-1910-AO	Kazakhstan	A person controlled by the same controlling person by means of ownership interest		HC Asia N.V.
JSTD Braunkohlebergbau GmbH	HRB 9374	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energie, a.s.
KARMION HOLDINGS LIMITED	HE 312 004	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Karotáž a cementace, s.r.o.	49974475	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	NAFTA a.s.
Karperstraat (Amsterdam) B.V	58163883	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
Karta Realty Limited	MC 167710	Cayman Islands	A person controlled by the same controlling person by means of ownership interest		Velthemia Limited
Langen Property B.V.	61012777	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group since July 2014	German Properties B.V.
LINDUS Real s.r.o.	29139309	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Lindus Services Limited
Lindus Services Limited	HE 281 891	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
LLC "BRAMA"	1107746950431	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
LLC "Collect Credit"	36726094	The Ukraine	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
LLC "ERKO"	1044702180863	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Joint Stock Company "Gorod Molodogo Pokolenija"
LLC "KEPS"	1127746190604	Russian Federation	A person controlled by the same controlling person by means of ownership interest		GALIO INVESTMENTS LIMITED
LLC "PPF Life Insurance (RUS)	1027739031099	Russian Federation	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
LLC "Region TekhStroy"	1071690056536	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till August 2014	Celestial Holdings Group Limited
LLC "ROKO"	5107746049329	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Jonsa Limited
LLC "Torgovij complex Lipetskiy"	1074823001593	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
LLC "Uhrozhay"	1063627011910	Russian Federation	A person controlled by the same controlling person by means of ownership interest	it was not a part of the group from June to December 2014	LLC "Yug"
LLC "Yug"	1083627001567	Russian Federation	A person controlled by the same controlling person by means of ownership interest	it was not a part of the group from June to December 2014	LLC LB Voronezh
LLC Agava	1053900089209	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till March 2014	JARVAN HOLDINGS LIMITED
LLC Alians R	1086627000635	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Jonsa Limited
LLC Almondsey	1127747228190	Russian Federation	A person controlled by the same controlling person by means of ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC Bonus Center Operations	1127746491861	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Home Credit & Finance Bank
LLC Bryanskii Torgovij Centr-Invest	1063250034385	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
LLC Delta Com	1137746330358	Russian Federation	A person controlled by the same controlling person by means of ownership interest		ALMONDSEY LIMITED LLC Charlie Com

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
LLC TK Donskoe	1056102003715	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Trust - Invest
LLC Eldomarket	1045002950354	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Eldorado
LLC Eldorado	5077746354450	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Facipero Investments Limited Tromson Enterprises Limited
LLC Fantom	1053001163302	Russian Federation	A person controlled by the same controlling person by means of ownership interest		FAYDE INVESTMENTS LIMITED
LLC Financial Innovations	1047796566223	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Home Credit & Finance Bank
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V. Home Credit International a.s.
LLC Home Credit Insurance	1027739236018	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V
LLC Charlie Com	1135749001684	Russian Federation	A person controlled by the same controlling person by means of ownership interest		ALMONDSEY LIMITED LLC Almondsey
LLC ICC Klokovo	1127746186501	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Ruskij Val
LLC K-Development	1077760004629	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	JARVAN HOLDINGS LIMITED
LLC Kvartal Togliatti	1056320172567	Russian Federation	A person controlled by the same controlling person by means of ownership interest		PPF Property Limited
LLC LB Orel	1135749000793	Russian Federation	A person controlled by the same controlling person by means of ownership interest	it was not a part of the group from June to December 2014	EASTERN PROPERTIES RUSSIA LLC. LLC LB Voronezh
LLC LB Voronezh	1133668033872	Russian Federation	A person controlled by the same controlling person by means of ownership interest	it was not a part of the group from June to December 2014	EASTERN PROPERTIES RUSSIA LLC. LLC LB Orel
LLC Logistics - A	1115048002156	Russian Federation	A person controlled by the same controlling person by means of ownership interest		ELTHYSIA LIMITED Figera Limited
LLC PPF Real Estate Russia	1057749557568	Russian Federation	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
LLC RAV Agro	1073667022879	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Bavella B.V. Grandview Resources Corp.
LLC RAV Agro Orel	1115741001496	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro
LLC RAV Agro Penza	1115802001765	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro
LLC RAV Agro Pro	1033600135557	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro LLC RAV Molokoprodukt
LLC RAV Agro Rossosh	1053664548815	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till April 2014	LLC RAV Agro
LLC RAV Molokoprodukt	1083627001567	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Bavella B.V LLC RAV Agro Grandview Resources Corp.
LLC RAV Myasoproduct	111366805110	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Bavella B.V. Grandview Resources Corp.
LLC RAV Myasoproduct - Orel	1,13575E+12	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Myasoproduct
LLC RAV Niva	1023601232522	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro
LLC RAV Niva Orel	1113668051090	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro
LLC RAV Technica	1103627000036	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till April 2014	LLC RAV Agro
LLC Regional Real Estate	1137746217950	Russian Federation	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Limited
LLC ROST Agro	1103601000030	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC RAV Agro
LLC Skladi 104	5009049271	Russian Federation	A person controlled by the same controlling person by means of ownership interest		GABELLI CONSULANCY LIMITED
LLC Spectrum	1097746356806	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group since March 2014	NIDALEE HOLDING LIMITED
LLC Stabilnost	5087746280200	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Velthemia Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
LLC Strata	7702765300	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Velthemia Limited
LLC Stroyinvest v likvidaci	1056320172611	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Kvartal Togliatti
LLC Tower	1117746550020	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
LLC Trade center "Permskiy"	1087746243694	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Eldorado
LLC Trust - Invest	1057746391306	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
LONGORIA a.s.	27630188	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Waipa Enterprises Limited
LvZH (Rijswijk) B.V.	58163999	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V
Mapleridge Development Limited	1668985	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		ANTHIAROSE LIMITED
Maraflex Limited	HE 203 470	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Maraflex s.r.o.
Maraflex s.r.o.	2415852	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
MIBRAG Consulting International mbH	HRB 212202	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Mitteldeutsche Braunkohlengesellschaft mbH
MIBRAG Neue Energie GmbH	HRB 258878	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Mitteldeutsche Braunkohlengesellschaft mbH
Microlight Trading Limited	HE 224 515	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
MIDATANER a.s.	29055768	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Waipa Enterprises Limited
Millennium Tower (Rotterdam) B.V.	56261330	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
MINIFLEX LIMITED	HE 221 915	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Mining Services and Engineering Sp. Z.o.o.	306503	Republic of Poland	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding, a.s.
Mitino Sport City LLC	1107746473383	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Microlight Trading Limited
Mitteldeutsche Braunkohlengesellschaft GmbH	HRB 207574	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	JTSD Braunkohlebergbau GmbH
MOETON a.s.	27864561	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF FO Management B.V.
Monheim Property B.V.	61012521	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till July 2014	German Properties B.V.
Monchyplein (Den Haag) B.V	58163603	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
Montería, spol. s r.o.	27904423	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF FO Management B.V.
Moranda, a.s.	28171934	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
MR TRUST s.r.o.	25619098	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s. Triskata s.r.o.
Mystery Services s.r.o.	24768103	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF a.s.
NACUDU LIMITED	HE 254 166	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
NAFTA a.s.	36286192	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovensky plynárenský priemysel, a.s. Czech Gas Holding Investment B.V.
Nafta Exploration s.r.o.	36679020	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	NAFTA a.s.
Navis Investments Limited	009387V	Isle of Man	A person controlled by the same controlling person by means of ownership interest	part of the group till April 2014	Mapleridge Development Limited
Net gate s.r.o.	247 65 651	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF banka a.s.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		KARMION HOLDINGS LIMITED Figera Limited
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH	HRB 100748	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Helmstedter Revier GmbH
NPTH, a.s.	28800648	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
O2 Czech Republic a.s.	60193336	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Arena 2 B.V. PPF A3 B.V.
Office Star Eight a.s.	27639177	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Property Limited
Office Star Five, spol. s r.o.	27639185	Czech Republic	A person controlled by the same controlling person by means of ownership interest		TENACITY LIMITED
Office Star Nine, spol. s r. o.	27904385	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Property Limited
Office Star Two, spol. s r.o.	27639169	Czech Republic	A person controlled by the same controlling person by means of ownership interest		TENACITY LIMITED
OJSC Home Credit Bank	807000056	Belarus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
OJSC“ Yugo - Vostochnaya promyshlennaya companiya "KARTONTARA"	1037700008895	Russian Federation	A person controlled by the same controlling person by means of ownership interest		JARVAN HOLDINGS LIMITED
ORIBASE Pharma SAS	499 824 670	France	A person controlled by the same controlling person by means of ownership interest	part of the group since September 2014	PPF Capital Partners Fund B.V.
Pachata Limited	HE 188 914	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		ANTHIAROSE LIMITED
Pearlmoon Limited	222690	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group till December 2014	PPF Group N.V.
Pharma Consulting Group Ltd.	34529634	The Ukraine	A person controlled by the same controlling person by means of ownership interest		Hopar Limited Figera Limited
Plynárenská metrológia, s.r.o.	47463007	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	SPP- distribúcia, a.s.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Plzeňská energetika a.s.	27411991	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
Pompenburg (Rotterdam) B.V.	58163506	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
POWERSUN a.s.	27606554	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
Pozagas a.s.	31435688	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s. NAFTA a.s.
PPF a.s.	25099345	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF A3 B.V.	61684201	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group since October 2014	PPF Group N.V.
PPF Advisory (CR) a.s.	25792385	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Advisory (Russia) Limited	HE 276 979	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Advisory (UK) Limited	5539859	United Kingdom of Great Britain and Northern Ireland	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Advisory (Ukraine) Limited	HE 162 172	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Arena 1 B.V.	59009187	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Arena 2 B.V.	59029765	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Arena 1 B.V.
PPF Art a.s.	63080672	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF a.s.
PPF banka a.s.	47116129	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Capital Partners Fund B.V.	55003982	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF CO 1 B.V.	34275402	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
PPF CO 2 B.V.	34275486	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF CO 3 B.V.	34360935	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF banka a.s.
PPF Financial Holdings B.V.	61880353	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group since November 2014	PPF Group N.V.
PPF FO Management B.V.	34186296	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Holdings S.á r.l.
PPF GATE a.s.	27654524	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
PPF Group N.V.	33264887	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Ing. Petr Kellner PPF Holdings B.V.
PPF Healthcare N.V.	34308251	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Holdings B.V	34186294	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Holdings S.á r.l.
PPF Holdings S.á r.l.	B 186335	Luxembourg	A person controlled by the same controlling person by means of ownership interest		Ing. Petr Kellner
PPF HOME CREDIT IFN S.A.	23668948	Romania	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
PPF IT Services s.r.o.	028 19 678	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group since May 2014	PPF a.s.
PPF Partners 1 GP Limited	49291	Guernsey	A person controlled by the same controlling person by means of ownership interest		PPF Partners Limited
PPF Partners a.s.	28515064	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF a.s
PPF Partners Limited	49292	Guernsey	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Property Limited	HE 189 164	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		GLANCUS INVESTMENTS INC. Figera Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
PPF Property Limited (Jersey)	955580	Jersey	A person controlled by the same controlling person by means of ownership interest	part of the group till February 2014	PPF Group N.V.
PPF Real Estate Holding B.V.	34276162	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Real Estate Limited	HE 188 089	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
PPF Real Estate s.r.o.	27638987	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
PPF reality a.s.	29030072	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
PPF RUSSIA LIMITED	HE 172 467	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
PPF Services Limited	HE 92432	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
Pražská teplárenská a.s.	45273600	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	NPTH a.s.
PRVNÍ MOSTECKÁ a.s.	60281057	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Severočeská teplárenská, a.s. United Energy, a.s.
PRVNÍ MOSTECKÁ SERVIS a.s.	22797904	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	PRVNI MOSTECKA a.s.
Przedsiebiorstwo Gornicze "SILESIA" Spólka z organiczona odpowiedzialnośocia	241371652	Republic of Poland	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding, a.s.
PSC "PPF Insurance"	1027809242120	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till May 2014	Home Credit B.V.
PT - Holding Investment B.V.	50220403	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
PT Home Credit Indonesia	03.193.870.7-021.000	Republic of Indonesia	A person controlled by the same controlling person by means of ownership interest		Home Credit Indonesia B.V.
Public Picture & Marketing a.s.	25667254	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF a.s.
RAV Agro Rost, LLC	1086149000046	Russian Federation	A person controlled by the same controlling person by means of ownership interest	part of the group till May 2014	LLC RAV Agro

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Ravensbourne Limited	HE 188 284	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
REATEX a.s. v likvidaci	60917865	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Elektrárny Opatovice, a.s.
REDLIONE Limited	HE 178 059	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Rentol LLC	1027700403500	Russian Federation	A person controlled by the same controlling person by means of ownership interest		LLC Eldorado Facipero Investments Limited
Repieno Limited	HE 282 866	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V. GLANCUS INVESTMENTS INC.
Retail Star 22, spol. s r.o.	24132161	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
Retail Star 3, spol. s r.o.	24120031	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
RHASKOS FINANCE LIMITED	HE 316 591	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
RobbyNet s.r.o.	014 08 437	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till October 2014	PPF Real Estate Holding B.V.
ROLLEON a.s.	27867412	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy a.s.
Ruconfin B.V.	55391176	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF banka a.s.
Ruskij Val LLC	1057749715759	Russian Federation	A person controlled by the same controlling person by means of ownership interest		DELTA LLC
Russia Finance Corporation B.V.	33180424	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till September 2014	PPF Group N.V.
Ryazan Investors Company Limited	HE 180 968	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		GLANCUS INVESTMENTS INC.
Ryazan Shopping Mall Limited	HE 180 951	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Ryazan Investors Company Limited
Saale Energie GmbH	HRB 208791	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Germany GmbH

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Saint World Limited	1065677	Hong Kong	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
Salemonto Limited	HE 161 006	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		BORACORA LIMITED
SB JSC Bank Home Credit	513-1900-AO (UI)	Kazakhstan	A person controlled by the same controlling person by means of ownership interest		LLC Home Credit & Finance Bank
Seattle Holding B.V.	852066302	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EPH Gas Holding B.V.
SEDILAS ENTERPRISES LIMITED	HE 251 771	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Energetický a průmyslový holding a.s.
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Settembre Holdings Limited	1449898	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		ANTHIAROSE LIMITED
Seven Assets Holding B.V.	58163050	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Severočeská teplárenská, a.s.	28733118	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy, a. s.
Shenzhen Home Credit Financial Service Co., Ltd.	79663852-7	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Favour Ocean Limited
Shenzhen Home Credit Number One Consulting Co., Ltd.	66417425-7	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
Sichuan Home Credit Financing Guarantee Co., Ltd.	66046758-9	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Home Credit Asia Limited
Siline Consulting Limited	HE 281 961	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
SILLERUD LIMITED	HE 224 392	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group since January 2014	Celestial Holdings Group Limited
Slovak Gas Holding B.V.	811683102	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Seattle Holding B.V.
Slovak Trade Company, s.r.o.	26659061	Slovak Republic	A person controlled by the same controlling person by means of ownership interest		Siline Consulting Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Slovenský plynárenský priemysel, a.s.	35815256	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovak Gas Holding B.V.
SOTIO a.s.	24662623	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Sotio N.V.
Sotio LLC (RUS)	1117746901502	Russian Federation	A person controlled by the same controlling person by means of ownership interest		Sotio N.V.
Sotio LLC (USA)	EIN 35-2424961	The United States of America	A person controlled by the same controlling person by means of ownership interest		Sotio N.V.
Sotio Medical Research (Beijing) Co. Ltd	110000410283022	People’s Republic of China	A person controlled by the same controlling person by means of ownership interest		Sotio N.V.
Sotio N.V.	34302290	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
SPP - distribúcia Servis, s.r.o.	46816097	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	SPP - distribúcia, a.s.
SPP - distribúcia, a.s.	35910739	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SPP Bohemia, a.s.	25336169	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SPP CNG s.r.o.	47552549	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a. s.
SPP CZ, a.s.	28488016	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SPP Infrastructure Financing B.V.	57993610	The Netherlands	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SPP Infrastructure, a.s.	47228707	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SPP Servis a.s.	34135774	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	SPP Bohemia a.s.
SPP Storage, s.r.o.	24822191	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Slovenský plynárenský priemysel, a.s.
SSE - Metrologia, s.r.o.	36411141	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenská energetika, a. s.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
SSE - Solar, s.r.o.	45506418	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenská energetika, a. s.
SSE CZ, s.r.o.	27404986	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenská energetika, a. s.
STEPHOLD LIMITED	HE 221 908	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
Stinctum Holdings Limited	HE 177 110	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Salemonto Limited
Stredoslovenská energetika - Distribúcia, a.s.	36442451	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenská energetika, a. s.
Stredoslovenská energetika - Project Development, s.r.o.	44225733	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Stredoslovenská energetika, a. s.
Stredoslovenská energetika, a.s.	36403008	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EPH Financing II., a. s.
Sundown Farms Limited	HE 310 721	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Vixon Resources Limited Chelton Properties Limited
Sundown s.r.o.	242 60 479	Czech Republic	A person controlled by the same controlling person by means of ownership interest		Sundown Farms Limited
SYLANDER CAPITAL LIMITED	HE 316 597	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
TALPA ESTERO LIMITED	HE 316 502	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Home Credit B.V.
Tanaina Holdings Limited	HE 318 484	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Tolesto Limited
TANFORD Limited	HE 167 324	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Ing. Petr Kellner
TENACITY LIMITED	HE 180 866	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V. Figera Limited
Teplo Neratovice, spol. s r.o.	49827316	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Pražská teplárenská a. s.
TERMONTA PRAHA a.s.	47116234	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Pražská teplárenská a. s.

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Terrakomp GmbH	HRB 100905	Federal Republic of Germany	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Helmstedter Revier GmbH
Timeworth Holdings Ltd.	HE 187 475	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
Tolesto Limited	HE 322 834	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V. Figera Limited
Trigon Berlin B.V.	55440916	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Trigon II B.V.	56068948	The Netherlands	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Triskata s.r.o.	36776416	Slovak Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
Tromson Enterprises Limited	233665	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Group N.V.
UNDERTREA HOLDINGS LIMITED	HE 221 285	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited
Unileave Limited	HE 179 204	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	ANTHIAROSE LIMITED
United Energy a.s.	27309959	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
United Energy Coal Trading POLSKA S.A.	411384	Republic of Poland	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy Coal Trading a.s.
United Energy Coal Trading, a.s.	28680391	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Energy, a.s.
United Energy Invest, a.s.	27320413	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy, a.s.
United Energy Moldova, s.r.o.	64650201	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	United Energy, a.s.
VAHO s.r.o.	64792030	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Elektrárny Opatovice, a.s.
Valmarie Holdings Limited	HE 300 697	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Corvus Services Limited

Business name	Identification/ registration number	State of registration	Method and means of control	Note	By means of
Velthemia Limited	HE 282 891	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Repieno Limited
Vítězné náměstí a.s.	28511441	Czech Republic	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Vixon Resources Limited	144 18 84	British Virgin Islands	A person controlled by the same controlling person by means of ownership interest		Ing. Petr Kellner (jednáním ve shodě)
VTE Moldava a.s.	27922910	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	Renewables a.s.
VTE Pastviny s.r.o.	27390039	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	VTE Moldava, a.s.
VTE Pchery, s.r.o.	27365433	Czech Republic	A person controlled by the same controlling person by means of ownership interest	part of the group till June 2014	EP Renewables a.s.
Waipa Enterprises Limited	HE 213 047	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		PPF Real Estate Holding B.V.
Wilhelminaplein (Rotterdam) B.V.	59494034	The Netherlands	A person controlled by the same controlling person by means of ownership interest		Seven Assets Holding B.V.
WOODBERRY LIMITED	HE 181 999	Republic of Cyprus	A person controlled by the same controlling person by means of ownership interest		Celestial Holdings Group Limited