

# REMUNERATION REPORT FOR THE YEAR 2020

prepared in accordance with the Remuneration Policy  
for members of the Management Board and Supervisory Board of O2 Czech Republic a.s.

## Introduction

The Company presents this report on the remuneration of the members of the Board of Directors and the Supervisory Board of O2 Czech Republic a.s. (hereinafter referred to as the "Remuneration Report"), in accordance with the Remuneration Policy and the provisions of Section 121o of Act No. 256/2004 Coll. on Capital Market Undertakings (hereinafter referred to as the "Remuneration Policy" and the "Capital Market Undertakings Act"). The content of the Remuneration Report is based on the currently applicable Remuneration Policy approved by the General Meeting of O2 Czech Republic a.s. (hereinafter also referred to as the "Company") on 17 June 2020.

The Company considers it important to explain in context all aspects of remuneration for 2020 in light of the Company's economic results and the economy as a whole. The Remuneration Report is therefore divided into individual chapters which deal with all aspects of remuneration in turn.

## I. General premises of the O2 Czech Republic a.s. Remuneration Policy

The Company is one of the most important business corporations in the Czech Republic. The Company's shares are traded on the public capital market. Its economic results, as well as its business policy, service proposition, quality of sales, service and networks, and technology development plans are under close scrutiny by the public and the media.

The number of customers, the variety of services provided and their importance for the operation of the entire Czech economy make the Company one of the key companies in the entire economy. Reliable voice and data services are provided to a wide range of customers and are literally ubiquitous.

The Company's business lies in the sector electronic communications. This sector requires constant investment in network upgrades and continuous adaptation to evolving customer demands and expectations. The business in the sector is characterised by longer-term contractual relationships with customers. As in other network industries, a high number of customers is important for business success. In addition to an extensive portfolio of services for the general public, the Company also offers specialised solutions for highly demanding corporate and government clients.

Long-term customer relationships and customer satisfaction, which is reflected in the use of services, are important to the Company. Critical to the long-term sustainability of the business is the quality of the customer base (in particular, the creditworthiness of the customers), the low percentage of service cancellations ("churn"), both for newly acquired customers ("acquisitions") and for existing customers, the level of customer acquisition and retention costs, the average monthly revenue per customer ("ARPU") and the regularity (continuity) of business revenue. This also implies the need for predictability of cash flow as well as the need for responsible cost management with an emphasis on the long term.

The Company has to deal with both the regulation of the electronic communications sector and consumer protection rules, as well as the rules and restrictions associated with the fact that the Company's shares are listed on the public capital market. These rules, as well as the market environment in which the Company operates, change frequently.

This is compounded by the need to coordinate the significant number of employees working in customer service centres, brand stores, call centres, corporate sales departments, as well as technical staff, network and IT specialists and professionals in other departments needed not only for the impeccable delivery of services, but also for the smooth running of the Company and its sustainable development.

The Company's business leadership and management therefore requires balancing the various performance indicators taking into account the aforementioned changes and seeking practical solutions for the Company's development and growth.

Based on the above economic realities and the distribution of powers and responsibilities within the Company, the Remuneration Policy governs the remuneration of the members of the Company's two key bodies, which are the Management Board and the Supervisory Board. Indeed, the Company has a dualistic internal structure within which the Executive Board and the Supervisory Board are established.

The Board of Directors is responsible for the business management of the Company within the meaning of Section 435(2) of Act No. 90/2012 Coll., on Business Corporations (hereinafter referred to as the "BCA") and the Articles of Association of the Company. Business management does not consist only of participation in meetings of the Board of Directors and formal performance of duties. The members of the Board of Directors are involved in the day-to-day practical management of the areas entrusted to them within the Company and are usually charged with the management of a division within the Company.

The complexity that the Company's Board of Directors deals with on a day-to-day basis in the implementation of the business model, which implies a high level of responsibility and professional requirements, determines the structure and criteria for the evaluation and remuneration of the members of the Board of Directors.

Therefore, the same or very similar remuneration mechanisms are applied to the members of the Board of Directors as to the top executive managers employed by the Company. Recruiting quality executives capable of navigating a complex and changing sector is difficult and usually requires negotiating individual terms with potential candidates.

In accordance with Section 446 of the BCA and Article 20 of the Company's Articles of Association, the Supervisory Board has supervisory authority to oversee the activities of the Board of Directors and the Company. The remuneration of the members of the Supervisory Board is therefore based on the Supervisory Board's position as a controlling body, which by definition must be independent, both of the Company's other bodies and, in principle, of the Company's performance indicators. In view of the different role of the Supervisory Board in the Company, the principles for remuneration of the Supervisory Board members differ from those for the Board of Directors. The remuneration of the Supervisory Board members is not dependent on the level of achievement of the corporate targets or personal targets, where no such targets are set for the Supervisory Board members in the performance of their duties.

Remuneration must be based on the intensity with which the members of the Supervisory Board carry out their supervisory activities. In view of the above, a simple model is applied to the remuneration of Supervisory Board members, where many of the institutes that the law associates with the Remuneration Policy for members of corporate bodies do not appear at all. For this reason, the Remuneration Policy does not explicitly describe all the categories with which the legal regulation deals. The same applies to the Remuneration Report.

The Remuneration Report deals with the remuneration and benefits associated with the performance of the duties of a member of the Supervisory Board as described in the Remuneration Policy, and not with salary or other employment-related benefits as employees. According to Section 121o(1) of the CMUA, the Remuneration Report is to include *"a full summary of remuneration, including all benefits in any form, granted or payable during the last completed financial year to persons referred to in Section 121m(1)"*. Wages and other employment benefits are not considered as remuneration under section 121o (1) of the CMUA.

## **II. Application of the Remuneration Policy in 2020**

The Remuneration Policy pursuant to Section 121k of the CMUA was approved by the Company's General Meeting in accordance with Article III of Act No. 204/2019 Coll., which entered into force on 1 October 2019. The General Meeting that decided to approve the remuneration policy per rollam on 17 June 2020 was, within the meaning of Article III(1) of the above-mentioned Act, *"the first General Meeting to approve the issuer's financial statements held after the expiry of 90 days from the date of entry into force of this Act"* (i.e. the first General Meeting after 29 December 2019).

While certain remuneration paid in 2020 could not formally be governed by the policy approved in June 2020, in substance, the remuneration policy codified the Company's existing practice. Accordingly, the total remuneration of the members of the Board of Directors and the Supervisory Board, including their bonus component, and all processes were therefore fully compliant with the Remuneration Policy within the meaning of section 121p(1)(f) of the CMUA.

All of the performance indicators for the purposes of determining the payment of variable components listed in the remuneration policy are aimed at maintaining the issuer's performance over the long term and the sustainability of its profitability.

The Company's performance for 2020 and its ability to respond to the extraordinary difficult conditions in the year demonstrated that the policy set in place allows for the engagement of experienced professionals and executives within the Board of Directors. Remuneration therefore helps to maintain the quality of the Company's management, which is commensurate with the size and importance of the Company within the overall Czech economy. This is discussed further in the following section of this report.

As regards the scope of the remuneration included, it corresponds to the provisions of Section 121o (1) of the CMUA. The statutory provision requires the remuneration report to include a summary of remuneration *"granted or payable during the last completed financial year"*. The report includes remuneration and any other benefits provided by the Company to members for the months January 2020 to December 2020.

With respect to the payment of remuneration monthly in arrears, the 2020 report includes the fixed remuneration and other benefits for December 2020 paid at the beginning of January 2021. In contrast, the fixed remuneration and other benefits for December 2019 are logically not included in the report.

In view of the backward-looking assessment of targets and the payment of variable remuneration annually in arrears, variable remuneration paid during 2020 relating to the achievement of the 2019 targets is included for individual members. For clarification, the Company notes that the Remuneration Policy captured the Company's current practice, but logically the 2019 targets could not be formally set with reference to the Remuneration Policy (not approved until June 2020). However, this time lag is explicitly provided for by the law in the transitional provisions (Section 121k (1), last sentence, of the CMUA).

The remuneration and any amounts in this report are stated in the "gross amount", i.e. before deduction of all compulsory contributions (i.e. health insurance premiums pursuant to Act No. 48/1997 Coll. in conjunction with Act No. 592/1992 Coll., social security contributions pursuant to Act No. 589/1992 Coll. and personal income tax (or advances on this tax) pursuant to Act No. 586/1992 Coll.).

Pursuant to Article III(2) of Act No. 204/2019 Coll., the Board of Directors is to submit the Remuneration Report pursuant to Section 121o of the CMUA for approval by the General Meeting, which approves the issuer's financial statements for the financial year in which the remuneration policy pursuant to Section 121k of the CMUA was first submitted to the General Meeting. Therefore, the Remuneration Report for the same period is submitted together with the financial statements to the General Meeting approving the 2020 financial statements (i.e. for the year in which the remuneration policy was submitted to the general meeting for approval).

In accordance with section 121p(1)(b) of the CMUA, the Company notes that this is the first Remuneration Report following the relatively short-lived Remuneration Policy. Accordingly, the Remuneration Report does not include retrospective time series of earnings provided in previous financial years (2019 and earlier) or information on the change in annual remuneration. These periods fall before the effectiveness of the Remuneration Policy but also before the amendment to the Act itself. In its Article III (3), the amendment only provides for a gradual inclusion of certain information in the Remuneration Report.

The same applies to the requirements under Article 121p(2) of the CMUA (annual change in the issuer's financial and non-financial key performance indicators and annual change in the average remuneration of the issuer's employees, calculated per employee with a fixed weekly working time, for at least the last five financial years).

In the words of the Act, *"the issuer referred to in Section 118(1)(a) of Act No. 256/2004 Coll., as amended by Act No. 56/2006 Coll., Act No. 57/2006 Coll., Act No. 230/2009 Coll., Act No. 188/2011 Coll. and Act No. 148/2016 Coll., shall include in the remuneration report the information referred to in Section 121p(1)(b) or Section 121p(2) of Act No 256/2004 Coll., as amended from the date of entry into force of this Act, only for the accounting periods following the date of entry into force of this Act."* The first such period is the accounting period of the calendar year 2020, and it is not possible to display the "annual change" for the first and so far only accounting period. However, the Company has included Chapter III in the report to provide shareholders with an objective picture.

In accordance with section 121p (3) of the CMUA, the remuneration report does not contain special categories of personal information or personal data relating to the family situation of persons pursuant to section 121m (1) of the CMUA.

### **III. Remuneration of members of the Board of Directors in the light of the 2020 financial year**

In short, it can be stated that despite the unfavourable development of the Czech and global economy, the Company achieved favourable operational and financial results thanks to its professional business management:

- the Company's consolidated revenue increased by 2.6% year on year
- achieved a 7.9% year-on-year increase in revenues in the fixed sub-segment in the Czech Republic
- consolidated operating profit (EBITDA) increased by 5.6% year on year
- achieved a 7.1% year-on-year increase in consolidated net profit
- improved customer service through digital tools and closer cooperation between distribution channels.

Section 121o (1) of the CMUA requires the Company to prepare a clear and comprehensible remuneration report. The purpose is therefore not simply to provide a few figures, but also to summarise the context, both in terms of the Company's

performance in the context of previous years and the Company's performance in the context of the Czech economy as a whole.

The Remuneration Policy (and the rules contained therein) was prepared at a time of unprecedented economic growth throughout the Czech Republic and most developed economies and favourable conditions for profit generation, although in the case of the electronic communications sector, the possibility of being this fundamental force and the purpose of private enterprise have long been undermined by a number of regulatory interventions and protectionist measures. This long-term trend was interrupted in the Czech Republic suddenly and unexpectedly in a matter of days - between February and March 2020. The rest of the year was already more or less overshadowed by the impact of the COVID-19 pandemic not only on all areas of business but also on all areas of human life. The speed of the changes, the depth of their impact and the extent of the various restrictions, regulations and conditions to which all inhabitants of the Czech Republic and other countries have been forced to adapt are unprecedented in the history of the independent Czech Republic. The Czech economy has fallen the most in the history of the independent Czech Republic, with gross domestic product falling by 5.6% in 2020.<sup>1</sup>

The company responded to the situation with a series of immediate operational measures aimed at savings and increased efficiency. At the same time, it adapted very quickly to the new situation and, thanks to efficient use and flexible changes in the way it sells and serves customers and an attractive range of services, achieved favourable economic results for 2020 both in the context of the entire Czech economy and in comparison with previous years. The organisational measures and investments made in previous years have been put to good use, enabling the Company to mobilise its potential quickly and adapt to new conditions with agility.

The favourable operating and financial results are mainly due to the shift of a number of human and social activities to the digital environment, be it the massive transition to remote work, the introduction of distance learning, or the need to fulfil orders online or by telephone remotely. The need for stable and quality services but also for quality end devices has proven to be crucial and the Company has been able to respond positively to this trend.

While the Company's mobile network saw, in the period of increased telecommuting and distance learning, a significant increase in traffic, revenues in the mobile sub-segment in the Czech Republic remained flat year over year due to significantly weaker roaming and lower handset sales. In addition to O2TV, areas of lower profitability such as ICT and equipment sales helped to drive the 7.9% year-on-year revenue growth in the fixed sub-segment in the Czech Republic. Overall, consolidated revenues then saw a 2.6% year-on-year increase in 2020.

To compensate for the negative impact of the coronavirus pandemic on mobile revenues in particular, the Company's Board of Directors proceeded to reduce both operating and ongoing capital expenditure. These resulted in a 5.6% year-on-year increase in consolidated operating EBITDA and a 7.1% increase in consolidated net income.

At a time of reduced customer mobility, digitalization of customer care and more efficient cooperation between the various distribution channels have also become a key priority for the Company's Board of Management. This contributed to a very high rate of customer loyalty. At the same time, the Company was actively involved in helping the state and the population during a difficult period. It supported the state in coping with the impact of the pandemic and helped pupils from socially disadvantaged families to connect to distance learning.

It should also be noted at this point that the Company is not and cannot be completely immune to the overall economic situation. As is now evident, the end of 2020 unfortunately did not mean the end of the across-the-board measures that are restricting a wide range of the Czech economy and are likely to cause deeper economic difficulties, a wave of bankruptcies and higher unemployment in the medium term, and therefore a decline in demand or purchasing power.

However, this does not change the fact that the Company's business management was very professional in the context of extremely unfavourable objective conditions in 2020. The members of the Board of Directors (and despite the impact of the COVID-19 pandemic on the economy in general) and the Supervisory Board have complied with and fulfilled the conditions of the Board of Directors and Supervisory Board Remuneration Policy for the vesting of remuneration, and no reason has arisen in 2020 for the non-payment of any of the items set out in this Remuneration Report.

At the same time, the total amount of remuneration for all directors within the meaning of section 121p(1)(a) of the CMUA is in line with the remuneration policy, as the amount of remuneration did not deviate in any way from the limits set by the remuneration policy, the amount of remuneration is in line with the company's financial results, as well as the fulfilment of the performance criteria set for each director. The achievement of the targets for individual members supported and – together with the exceptional commitment of the Company's employees – produced positive financial results both during 2020 (for the purposes of assessing the fixed remuneration components) and during 2019 (for the purposes of assessing the variable remuneration components paid annually in arrears). In general, this is a reward for superior performance at an exceptional time.

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<sup>1</sup> [GDP 2021, GDP trend in the Czech Republic - maximum, GDP trend year on year in % | Kurzy.cz](#)

#### IV. Policy for the remuneration of members of the Board of Directors

The Remuneration Policy provides for the following types of remuneration components for members of the Board of Directors. Membership of the Board of Directors is not compatible with a position on the Supervisory Board or the Audit Committee, nor are the members of the Board of Directors in an employment relationship with the Company. Their service to the Company is governed exclusively by the Act No. 90/2012 Coll.

##### 1. 1. Types of fixed and variable remuneration components:

- a) Each member of the Board of Directors is entitled to a basic remuneration for their executive service. The basic remuneration is a fixed component. The amount is approved by the Supervisory Board and is the subject of the executive service agreement
- b) In order to motivate members of the Board of Directors to actively serve in pursuit of maximizing the Company's growth and to manage resources as efficiently as possible, the Supervisory Board may also grant them a bonus remuneration component (variable component). This component is derived from 50% of the annual basic remuneration of a member of the Board of Directors. The above calculation base is the same for the calculation of performance bonuses of the Company's executive management. The application of this methodology means that if the performance targets set by the Supervisory Board are 100% fulfilled, a member of the Board of Directors may additionally achieve a bonus component equal to 50% of the annual basic remuneration. The bonus component is reduced accordingly if the targets are not achieved fully, while the bonus component of the member of the Board of Directors may exceed the calculation base if the performance exceeds the targets. However, the bonus component of remuneration is limited to 200% of the annual basic remuneration.
- c) In justified cases, the Supervisory Board may grant to members of the Board of Directors, in addition to the basic remuneration and bonus component of remuneration, a right to stabilization remuneration (variable component); in this case, the evaluation period is longer than one year. The purpose of the stabilization remuneration is to support the achievement of the Company's long-term goals and its sustainable development, and to declare to the member of the Board of Directors that the Company is interested in his/her service in the long term. The stabilization remuneration is capped at 200% of the annual basic remuneration multiplied by the number of years for which the stabilization remuneration is paid.
- d) In addition to these pecuniary benefits, the Company may also provide the members of the Board of Directors with the following benefits as fixed remuneration components:
  - other (in-kind) benefits which are primarily intended for the purpose of fulfilling the duties arising from the performance of their duties and in part may also be used for personal use. Typically, these are voice and data services as well as communication and computer technology. The specific scope is set out in the Rules for the Remuneration and Provision of Other Benefits to Members of the Board of Directors<sup>2</sup>, which are approved by the Supervisory Board.
  - liability insurance for damage caused by breach of duties in the course of serving on the Board of Directors (directors and officers liability insurance). The specific scope is set forth in the Rules for the Remuneration and Provision of Other Benefits to Members of the Board of Directors, which are approved by the Supervisory Board. In this context, members of the Board of Directors may be entitled to a compensatory remuneration equal to the amount of mandatory (statutory) payments (e.g. taxes, public health insurance, etc.) that the member of the Board of Directors is obliged to pay or bear on due to the fact that the Company covers insurance of his/her liability for damage caused by a breach of duty in the performance of the office of a member of the Board of Directors;
  - benefits and perquisites of a similar scope and amount to the Company's employees arising from the executive service agreement. The composition of the benefits and perquisites, as well as the rules for their allocation, are internally determined by work regulations and the Company's collective agreement. Typically, these include a meal allowance, benefit points for purchases of goods or services from selected retailers, healthcare services, etc. The up-to-date list of employee benefits can be found here: <https://kariera.o2.cz/benefity>.
- e) Pursuant to Article 33 of the Articles of Association, members of the Board of Directors may, on the basis of a decision of the General Meeting of the Company, be entitled to royalties as a variable remuneration component, provided that the Company generates profit for the accounting period and that other prerequisites set forth in the law and the Company's Articles of Association are met.

##### 2. Criteria for awarding variable remuneration components to members of the Board of Directors:

- a) The specific criteria, including the target values to be achieved and the weights between them, are always determined by the Supervisory Board on the basis of this Remuneration Policy.

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<sup>2</sup> [https://www.o2.cz/pub/cc/14/3/378801\\_1210187\\_Pavidla\\_pro\\_odmenovani\\_clenu\\_PR.pdf](https://www.o2.cz/pub/cc/14/3/378801_1210187_Pavidla_pro_odmenovani_clenu_PR.pdf)

- b) When determining the criteria for awarding variable remuneration components, the Supervisory Board takes into account the complexity of the Company's activities, the need to balance various external influences and often conflicting expectations of different stakeholders (customers, shareholders, employees, regulators, the public, etc.) that can change substantially over time.

This ensures that the target values correspond to the current needs of the Company. The criteria set by the Supervisory Board for individual members of the Board of Directors are based on the following key areas for the Company:

- Financial criteria: in particular operating profitability, cash flow management, cost management;
- Business and customer experience criteria: especially customer additions (gross adds), percentage of outgoing customers (churn), number and quality of customer interactions.

- c) When setting individual criteria, the Supervisory Board takes into account the fact that the members of the Board of Directors are entrusted with the management of a specific division of the Company in addition to the function of a member of the Board of Directors. In the case of the Chairman of the Board of Directors, this involves influencing the internal operations of the Company as a whole. For this reason, the criteria for awarding variable remuneration components to each member of the Board of Directors must be set individually.

3. Remuneration of members of the Board of Directors and the business strategy: The Remuneration Policy for members of the Board of Directors supports the Company's business strategy, its long-term interests and sustainability in the following ways:

- a) The Supervisory Board sets the criteria for the members of the Board of Directors to be in balance with each other, that is, when setting the objectives of the members of the Board of Directors, it takes into account the more diverse priorities of the Company to ensure that the Board of Directors contributes to the Company's stable, long-term and balanced business strategy.

- b) The Company's targets are always set by the Chief Executive Officer at the beginning of the accounting period. The Board of Directors of the Company acknowledges the targets by way of a resolution. The remuneration of members of the Board of Directors (as well as the Company's employees) is related to the degree of achievements of the Company's targets, which is determined as a weighted sum of achievements of individual objectives of the Company. The specific targets are based on the targets listed in point 2 above. The Board of Directors approves the extent to which the Company's targets have been met for the past financial year. This value also affects the granting of bonus components to the Company's employees and is the same for both employees and members of the Board of Directors.

- c) In assessing the extent to which the members of the Board of Directors meet their targets, the Supervisory Board of the Company examines both the contribution of the given member to the overall achievement of the Company's targets and the degree of achievement of the member's personal performance targets.

4. Key performance indicators of an issuer: The key performance indicators of the Company (and, where applicable, the criteria relating to corporate social responsibility) and the manner and extent of their performance are as follows:

- Revenues;
- Earnings before interest, tax and depreciation and amortization (EBITDA);
- Net profit;
- Capital expenditures (CAPEX);
- Free cash flow generation;
- CAPEX to revenues ratio;
- Net debt to EBITDA ratio.

The Company considers these indicators to be key as they contribute to its business strategy, long-term interests and sustainability. The reasons why the Company considers them to be key can be briefly summarized as follows:

- EBITDA shows the operating performance of the Company and is a criterion whose level of compliance indicates how the Company has succeeded in establishing or maintaining long-term customer relationships, satisfying customer requirements, and how customer-driven it is. The Company is able to effectively recover its receivables.
- Free cash flow indicator measures the amount of cash and cash equivalents the Company generates after paying all the items necessary to ensure its operation.
- CAPEX to revenues ratio is an indicator of how much the Company invests in its future development and reflects the Company's future sustainability and the extent to which the Company invests in its long-term interests.
- Net debt to EBITDA measures the Company's ability to pay its debts; it approximately reflects how long the Company is able to repay all of its debts using its normal operating cash flow. This criterion shows how well the Company has managed to balance the Company's interest in generating profits and the need to invest in upgrading networks and improving customer service.

The achievement of the key performance indicators of the Company is determined by comparing the values set as the Company's targets at the beginning of the accounting period with the values actually achieved in the accounting period taken from the Company's accounts.

The Company considers the selection of the key criteria for a given year, the target values of these criteria, as well as the determination of their weighting, to be the subject of its business secrecy, as this data could reveal some of the Company's strategic priorities, including forward-looking priorities.

Moreover, for the 2020 Remuneration Report, the bonus component of the remuneration paid in 2020 was related to the achievement of the 2019 targets.

5. Remuneration in the form of shares and pension benefits. The Company does not provide share options to members of its bodies, nor does it offer any pension benefits to members.
6. Relation of the Remuneration Policy to employee remuneration: In developing the Remuneration Policy, the Company considered the pay and working conditions of the Company's employees as follows:
  - To members of the Board of Directors, the Company grants the same benefits and perquisites as to its employees. In the determination of the basic component of remuneration, the rules generally in place that are used to determine the salaries of employees are taken into account.
  - The amount of remuneration of the members of the Board of Directors follows the remuneration of the Company's executive management and reflects the level of accountability of the Company's statutory body, which significantly exceeds that of the Company's employees.
  - The rate of achievement of the Company's targets for the past accounting period is approved by the Board of Directors. This value then determines both the payment of the variable remuneration component to the members of the Board of Directors and the payment of bonus components of the Company's employees. This ensures that the Board of Directors behaves responsibly when approving the extent to which targets are met. These steps of the Board of Directors are subject to the supervisory powers of the Supervisory Board.

## **V. Policy for the remuneration of members of the Supervisory Board**

The Remuneration Policy provides the following types of remuneration components for members of the Supervisory Board. It should be noted that membership of the Supervisory Board is not compatible with a position on the Board of Directors, however membership in the Supervisory Board is compatible with an employment relationship with the Company. Nevertheless, the Remuneration Policy regulates only remuneration and benefits resulting from the performance of the function of a member of the Supervisory Board.

1. Remuneration of members of the Supervisory Board and the business strategy: The Remuneration Policy for members the Supervisory Board supports the Company's business strategy, its long-term interests and sustainability in the following ways:
  - a) The Rules for the Remuneration of Members of the Supervisory Board are approved by the General Meeting of the Company. The current version of the Rules for Members of the Supervisory Board was approved by the Annual General Meeting in 2018, following a proposal from a qualified shareholder of the Company.
  - b) The remuneration payable to the members of the Supervisory Board is fixed and consists of two components: a component depending on the membership of the Supervisory Board itself and functions held within the Supervisory Board (member, vice-chairman, chairman), which reflects the independence of Supervisory Board members, and the number of meetings attended by a member of the Supervisory Board, which should motivate them to participate in meetings and thereby actively control the implementation of the Company's business strategy.
  - c) One of the members of the Supervisory Board is directly elected by employees; consequently, their incentive to meet the Company's targets is also linked to the remuneration rules of the Company's employees, i.e. as part of their pay.
2. Types of fixed and variable remuneration components: Members of the Supervisory Board may receive the following types of fixed and variable remuneration components under the terms of this Remuneration Policy, including all bonuses and other benefits:
  - a) Members of the Supervisory Board are remunerated for their service in the form of a monthly lump sum. The amount of the lump sum depends on whether they are a member of the Supervisory Board or the Chairman of the Supervisory Board.
  - b) Furthermore, each member shall be remunerated for each Supervisory Board meeting attended.
  - c) Other in-kind benefits are provided to the members of the Supervisory Board upon request. These are voice and data services, communication, and computer technology, as well as liability insurance for damage caused by breach of duties in the course of serving on the Supervisory Board (directors and officers liability insurance). In this context, members of the Supervisory Board may be entitled to a compensatory remuneration equal to the amount of mandatory (statutory) payments (e.g. taxes, public health insurance, etc.) that the member of the

Supervisory Board is obliged to pay or bear on due to the fact that the Company covers insurance of his/her liability for damage caused by a breach of duty in the performance of the office of a member of the Supervisory Board.

- d) Pursuant to Article 33 of the Articles of Association, members of the Supervisory Board may, on the basis of a decision of the General Meeting of the Company, be entitled to royalties as a variable remuneration component, provided that the Company generates profit for the accounting period and that other prerequisites set forth in the law and the Company's Articles of Association are met. However, such conditions for 2020 were not met.
3. Remuneration in the form of shares and pension benefits: The Company does not provide share options to members of its bodies, nor does it offer pension benefits to members.

Finally, it should be noted that while the Company has the option under the law and the remuneration policy itself to deviate from the remuneration policy in extraordinary situations, this was not necessary in 2020, neither for members of the Board of Directors nor for members of the Supervisory Board.

## **VI. Amount of remuneration granted to individual members of the Board of Directors**

### **Ing. Jindřich Fremuth Chairman of the Board of Directors and Chief Executive Officer**

He graduated from the University of Economics in Prague and worked for 10 years in marketing and sales before joining O2 Czech Republic a.s. He worked as CEO of Euro RSCG 4D (Havas Group), a company in the field of digital marketing, direct marketing, and sales support. As a consultant at McKinsey & Company, he focused on telecommunications and technology projects for major companies in Europe and the Middle East. He joined O2 Czech Republic a.s. in 2009 as Director of Online, and in 2011 he took responsibility for the strategy of residential distribution channels. In 2013, he held the position of Director of the Residential Customers Division and in 2017 the position of Director of the Commercial Division. Over the past five years, he has held positions with other companies and from the point of the Company, he does not perform any significant activities outside the Company.

As of January 1, 2018, he has been designated to serve as Chief Executive Officer. He became a member of the Board of Directors with effect from 1 January 2018 and Chairman of the Board of Directors with effect from 10 January 2018.

The Chairman of the Board of Directors was granted a base remuneration (including other fixed remuneration components) of gross amount of CZK 12,964,649. The bonus component of the remuneration granted to the Chairman of the Board of Directors amounted to a gross amount of CZK 6,878,400, which was awarded for 2019. No other components were granted. Ratio of fixed to variable remuneration in percentage terms: 65 to 35.

The total amount of remuneration within the meaning of Section 121p(1)(a) of the CMUA is in line with the Remuneration Policy (Article II(1)(a) and (b) of the Remuneration Policy) and its underlying rationale (Article I of the Remuneration Policy). The Remuneration Policy focuses on the long-term, stable and sustainable performance of the Company and not on short-term results with extreme year-on-year fluctuations, as is evident from the Company's long-term results.

The Chairman's role is key for the coordination and management of activities across the Company's structure. The Remuneration Policy distinguishes between two types of criteria for the award of variable remuneration (Section 121I(2)(b)(1) of the CMUA in conjunction with Article II(2)(b) of the Remuneration Policy) - Financial Criteria and Business and Customer Experience Criteria. These criteria are linked to the key financial performance indicators of the issuer of the remuneration (Article 121I (2) (b) (2) of the CMUA in conjunction with Article II (4) of the Remuneration Policy). In assessing the variable remuneration component, the Supervisory Board evaluated the performance criteria set for the Chairman of the Board of Directors with regard to the Company as a whole (i.e. financial as well as commercial and customer experience criteria) and concluded that they had been met, as evidenced by the Company's results.

According to the Company's findings (in accordance with sections 121p(1)(c) and 121o(2) of the CMUA), no remuneration other than those set out in this report has been granted to the Chairman of the Board of Directors from any person belonging to the same group as the Company.

The Company has not granted or offered shares or options to the Chairman of the Board of Directors. The Company does not have any stock option plan.

In 2020, the Company did not require the Chairman of the Board of Directors to repay any component of remuneration (Section 121p(1)(e) of the CMUA).

In 2020, there was no deviation from the procedure for implementing the remuneration policy set out in the remuneration policy pursuant to Section 121I(2)(g) of the CMUA, nor was there any deviation from the remuneration policy pursuant to Section 121n of the CMUA (Section 121p(1)(f) of the CMUA).



**Ing. Tomáš Kouřil**  
**Vice-Chairman of the Board of Directors and Chief Financial Officer**

Before joining O2 Czech Republic a.s., he worked for the consulting firm Deloitte. He has been with the Company in various management positions since 2003. In 2006, he was responsible for the launch of the activities of the mobile operator O2 in Slovakia. He then took over responsibility for corporate and commercial finance. Tomáš Kouřil is a member of the board of the CFO Club. In the last five years, he has been and is active in other companies, and from the point of the Company, he does not perform any significant activities outside the Company.

He became a member of the Board of Directors on 1 January 2015 and was re-elected on 1 January 2020 and re-elected as Vice-Chairman on 8 January 2020.

The Vice-Chairman of the Board of Directors was granted a base remuneration (including other fixed remuneration components) in the gross amount of CZK 6,006,308. The bonus component of the remuneration granted to the Vice-Chairman of the Board of Directors amounted to a gross amount of CZK 3,095,280, which was awarded for 2019. No other components were granted. Ratio of fixed to variable remuneration in percentage terms: 66 to 34.

The total amount of remuneration within the meaning of Section 121p(1)(a) of the CMUA is in line with the Remuneration Policy (Article II(1)(a) and (b) of the Remuneration Policy) and its underlying rationale (Article I of the Remuneration Policy). The Remuneration Policy focuses on the long-term, stable and sustainable performance of the Company and not on short-term results with extreme year-on-year fluctuations, as is evident from the Company's long-term results.

The role of Vice-Chairman of the Board, who is responsible for financial management of the Company, is critical for the management of the Company's financial indicators. The Remuneration Policy distinguishes between two types of criteria for the award of variable remuneration (Article 121I(2)(b)(1) of the CMUA, read in conjunction with Article II(2)(b) of the Remuneration Policy) - Financial criteria and Commercial and customer experience criteria. These criteria are linked to the key financial performance indicators of the issuer of the remuneration (Article 121I(2)(b)(2) of the CMUA in conjunction with Article II (4) of the Remuneration Policy). In assessing the variable remuneration component, the Supervisory Board evaluated the performance criteria set for the Vice-Chairman of the Board of Directors with respect to the financial criteria and concluded that they had been met, as evidenced by the Company's results.

According to the Company's findings (in accordance with Sections 121p(1)(c) and 121o(2) of the CMUA), no remuneration other than those set out in this report was granted to the Deputy Chairman of the Board of Directors from any person belonging to the same group as the Company.

The Company has not granted or offered shares or options to the Deputy Chairman of the Board of Directors. The Company does not have any stock option plan.

In 2020, the Company did not require the Vice-Chairman of the Board of Directors to reimburse any component of remuneration (Section 121p(1)(e) of the CMUA).

In 2020, there was no deviation from the procedure for implementing the remuneration policy set out in the remuneration policy pursuant to Section 121I(2)(g) of the CMUA, nor was there any deviation from the remuneration policy pursuant to Section 121n of the CMUA (Section 121p(1)(f) of the CMUA)

**Mgr. Václav Zakouřil**  
**Member of the Board of Directors and Director of the Legal and Regulatory Affairs Division**

He graduated from the Faculty of Law of Charles University and subsequently worked at Ericsson spol. s r.o. as a lawyer on a network construction project for a third mobile operator and then for five years at Freshfields Bruckhaus Deringer. Since 2005 he has been working for O2 Czech Republic a.s. in legal and regulatory affairs positions. In 2014 he has also taken overall responsibility for the regulatory and competition law area and since 2016 he has been Directors of Legal and Regulatory Affairs. He has not worked in other companies in the last five years. From the point of the Company, he does not perform any significant activities outside the Company.

He became a member of the Board of Directors with effect from 16 March 2018.

The Board member was granted a base remuneration (including other fixed remuneration components) of gross amount of CZK 3,390,921. The bonus component of the remuneration granted to the member of the Board of Directors amounted to a gross amount of CZK 1,707,264, which was awarded for the year 2019. No other components were granted. Ratio of fixed to variable remuneration in percentage terms: 67 to 33.

The total amount of remuneration within the meaning of Section 121p(1)(a) of the CMUA is in line with the Remuneration Policy (Article II(1)(a) and (b) of the Remuneration Policy) and its underlying rationale (Article I of the Remuneration Policy).

The Remuneration Policy focuses on the long-term, stable and sustainable performance of the Company and not on short-term results with extreme year-on-year fluctuations, as is evident from the Company's long-term results.

For the Board member charged with managing the legal and regulatory affairs area, the key role is to manage legal and regulatory matters, which, however, have a direct impact on financial criteria as well as on the fulfilment of business and customer criteria. The Remuneration Policy distinguishes between two types of criteria for the award of variable remuneration (Article 121l(2)(b)(1) of the CMUA in conjunction with Article II (2) (b) of the Remuneration Policy) - Financial Criteria and Business and Customer Criteria. These criteria are linked to the key financial performance indicators of the issuer of the remuneration (Article 121l(2)(b)(2) of the CMUA in conjunction with Article II (4) of the Remuneration Policy). In assessing the variable remuneration component, the Supervisory Board evaluated the performance criteria set for a member of the Board of Directors with respect to both types of criteria and concluded that they had been met, as evidenced by the Company's results.

According to the Company's findings (in accordance with sections 121p(1)(c) and 121o(2) of the CMUA), no remuneration other than those set out in this report has been granted to a member of the Board of Directors from any person belonging to the same group as the Company.

The Company has not granted or offered any shares or options to the member of the Board of Directors. The Company does not have any stock option plan.

In 2020, the Company did not require the reimbursement of any component of remuneration to a member of the Board of Directors (Section 121p(1)(e) of the CMUA).

In 2020, there was no deviation from the procedure for implementing the remuneration policy set out in the remuneration policy pursuant to Section 121l(2)(g) of the CMUA, nor was there any deviation from the remuneration policy pursuant to Section 121n of the CMUA (Section 121p(1)(f) of the CMUA).

## **VII. Amount of remuneration granted to individual members of the Supervisory Board**

### **Ing. Ladislav Bartoniček Chairman of the Supervisory Board**

Ladislav Bartoniček graduated from the Czech Technical University in Prague, Faculty of Electrical Engineering. In 1991, he joined PPF investiční společnost, a.s. as Executive Director and in 1993 graduated from Rochester Institute of Technology, Rochester, N.Y. In 1996-2006, he served as CEO and Chairman of the Board of Directors of Česká pojišťovna a.s. In 2007, he was appointed CEO and member of the Board of Directors of Generali PPF Holding N.V. (GPH), one of the largest insurance groups in Central and Eastern Europe, which was established as a joint venture between PPF Group and Assicurazioni Generali; he held the position of CEO until 2013. From 2014 to 2018, he served as CEO of SOTIO a.s., a biotechnology company of PPF Group. In terms of the activities relevant to O2 Czech Republic a.s. as an issuer on the regulated market, it should be noted that Mr Bartoniček has been a minority shareholder of PPF Group (since 2007) and (since 2018) the CEO of PPF Telecom Group B.V.3, a company that represents PPF Group's activities in the telecommunications sector. He is active and has been active in other companies in the last five years (see the list in the 2020 Annual Report).

He has been a member of the Supervisory Board since 10 May 2017 and its Chairman since 5 June 2018.

The Chairman of the Supervisory Board expressly waived his remuneration for his membership and attendance at the meetings by declaration and no remuneration was granted. The Chairman of the Supervisory Board received a gross remuneration in kind of CZK 18,872. No other components were provided. The ratio of fixed to variable remuneration as a percentage: 100 to 0.

According to the Company's findings (in accordance with Sections 121p(1)(c) and 121o(2) of the CMUA), the Chairman of the Supervisory Board has not received any remuneration from any other person belonging to the same group as the Company other than those disclosed in this report.

The Company has not granted or offered shares or options to the Chairman of the Supervisory Board. The Company does not have any stock option plan.

In 2020, the Company did not require the Chairman of the Supervisory Board to return any component of remuneration (Section 121p(1)(e) of the CMUA).

In 2020, there was no deviation from the procedure for the application of the Remuneration Policy set out in the Remuneration Policy pursuant to Section 121l(2)(g) of the CMUA, nor was there any deviation from the Remuneration Policy pursuant to Section 121n of the CMUA (Section 121p(1)(f) of the CMUA).

**Ing. Pavel Milec**  
**Vice-Chairman of the Supervisory Board**

Graduated from the Czech Technical University in Prague, Faculty of Transport, in Automation in Transport and Telecommunications. In 2007, he joined O2 Czech Republic a.s., where he worked in several positions. From 2010 to 2013, he worked as Director of Customer Experience in the subsidiary O2 Slovakia, s.r.o. After returning to the Czech Republic, he joined the Company as Director of Customer Experience. His responsibilities included, among others, consolidation and automation of activities. Since January 2019, he has held the role of Human Resources Director at the Company and is also a member of the Board of Directors of the O2 Foundation. He is also active in other companies and from the point of the Company, he does not perform any significant activities outside the Company.

He was elected as a member of the Supervisory Board with effect from 14 January 2019 and as Vice-Chairman with effect from 25 February 2019.

The Vice-Chairman of the Supervisory Board expressly waived the remuneration for his membership and attendance at the meeting by his declaration and no remuneration was granted. The Vice-Chairman of the Supervisory Board received a gross remuneration in kind of CZK 18,029. No other components were granted. The ratio of fixed to variable remuneration as a percentage: 100 to 0.

According to the Company's findings (in accordance with Sections 121p(1)(c) and 121o(2) of the CMUA), the Vice-Chairman of the Supervisory Board has not received any remuneration from any other person belonging to the same group as the Company other than as disclosed in this report.

The Company has not granted or offered shares or options to the Vice-Chairman of the Supervisory Board. The Company does not have any stock option plan.

In 2020, the Company did not require the Vice-Chairman of the Supervisory Board to repay any component of remuneration (Section 121p(1)(e) of the German Companies Act).

In 2020, there was no deviation from the procedure for implementing the remuneration policy set out in the remuneration policy pursuant to section 121l(2)(g) of the CMUA, nor was there any deviation from the remuneration policy pursuant to section 121n of the CMUA (section 121p(1)(f) of the CMUA).

**Mgr. Kateřina Márová**  
**Member of the Supervisory Board**

She graduated from the Faculty of Law at Masaryk University in Brno. In 2009-2012 she worked as a lawyer at the Office for the Protection of Economic Competition. She joined O2 Czech Republic a.s. in 2012. In 2013-2014 she participated in the negotiation and preparation of mobile network sharing agreements in the Czech Republic. In 2015, she participated in the preparation of the division of the Company, including the preparation of contractual documentation. Since 2015, she has led the regulatory and competition law team. From 2017 to 2020, she held the position of Director of Strategy and Innovation. In the last five years, she has worked in other companies and from the point of the Company, she does not perform any significant activities outside the Company.

She was elected as a member of the Supervisory Board with effect from 4 June 2018.

The Supervisory Board member expressly waived the remuneration for her membership and attendance at meetings by her declaration and no remuneration was granted. The Supervisory Board member received a gross remuneration in kind of CZK 18,853. No other components were granted. The ratio of fixed to variable remuneration as a percentage: 100 to 0.

According to the Company's findings (in accordance with Sections 121p(1)(c) and 121o(2) of the CMUA), no remuneration other than those set out in this report was granted to the Supervisory Board member by any person belonging to the same group as the Company.

The Company has neither granted nor offered shares or options to the member of the Supervisory Board. The Company does not have any stock option plan.

In 2020, the Company did not require the Supervisory Board member to repay any component of remuneration (Section 121p(1)(e) of the CMUA).

In 2020, there was no deviation from the procedure for implementing the remuneration policy set out in the remuneration policy pursuant to section 121l(2)(g) of the CMUA, nor was there any deviation from the remuneration policy pursuant to section 121n of the CMUA (section 121p(1)(f) of the CMUA).

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