HALF-YEAR REPORT 2020

O2 Czech Republic a.s.

Note:

O2 Czech Republic a.s. hereinafter “O2 CZ” or the “Company”.
O2 Slovakia, s.r.o. hereinafter “O2 Slovakia”.

O2 Czech Republic Group (the “Group”) consists of O2 Czech Republic a.s. (the “Company”) and its subsidiaries.

Financial data and information listed in this Half-year Report has not been audited.

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Financial and operating highlights

Financial and operating highlights

Financial data is based on the Interim Consolidated Financial Statements for the six months ended 30 June 2020 prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

	1H 2020[1]	1H 2019[2]
Financials (in CZK million)		
Revenues	19,326	18,989
EBITDA – Earnings before depreciation and amortization	6,325	6,055
Operating profit	3,671	3,479
Profit before taxes	3,389	3,312
Profit for the period	2,675	2,604
Total assets	38,432	42,680
Property, plant and equipment	6,262	6,171
Intangible assets	14,573	15,457
Total equity	10,598	14,177
Financial debts (long-term and short-term)	14,885	14,596
Capital expenditure (additions to fixed assets)	958	1,055

[1] Financial indicators extracted from the Balance Sheet as of 30 June 2020 and from the Statement of Total Comprehensive Income for the six months ended 30 June 2020, operating indicators as of 30 June 2020.
[2] Financial indicators extracted from the Balance Sheet as of 31 December 2019 and from the Statement of Total Comprehensive Income for the six months ended 30 June 2019, operating indicators as of 30 June 2019.

	1H 2020	1H 2019
Operating indicators (at end of period)		
Fixed voice accesses (in thousand)	434	490
Fixed broadband internet (in thousand)[3]	845	822
Pay TV – O2 TV (IPTV and OTT, in thousand)	476	383
Registered mobile customers in the Czech Republic (in thousand)[4]	5,910	5,597
Active customers in Slovakia (in thousand)	2,157	2,081
Number of employees in Group	5,024	5,230
Ratios (at end of period)		
EBITDA margin (EBITDA/revenues, in%)	32.7	31.9
Profit after taxes / Revenues (in%)	13.8	13.7
Capital expenditure / Revenues (in%)	5.0	5.6
ROA (Profit after taxes / Total assets, in%, annualised)	13.9	11.3
ROE (Profit after taxes / Equity, in%, annualised)	50.5	45.5
Gross gearing (Financial debts / Total equity, in%)	140.5	127.2
Net debt / EBITDA (annualised)[6]	0.91	0.48
Earnings[7] per share – consolidated (CZK)	8.9	8.6
– unconsolidated (CZK)	11.8	11.0
Macroeconomic indicators[8]		
CZK/EUR exchange rate – average	26.33	25.68
CZK/EUR exchange rate – at end of period	26.74	25.45

[3] Fixed access (ADSL, VDSL, optical fibre) and wireless access (4G LTE, WTTx).
[4] Customers who generated revenues in the past 13 months.
[5] Customers who generated revenues in the past 3 months.
[6] Net debt = financial obligations minus cash and cash equivalents; 1H 2019: financial obligations minus lease obligations, EBITDA including the effect of IFRS 16 application (0.51 excluding the effect of IFRS 16 application).
[7] Earnings attributable to shareholders/weighted number of ordinary shares outstanding.
[8] Source: Czech National Bank web page (FX rates of other currencies).

Alternative performance measures

In this Half-Year Report, some alternative performance measures which are not reported as standard in the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union are presented. The Company reports on alternative performance indicators, which are additional information to the financial statements and assist in the overall assessment of the economic situation and performance of the Group, in accordance with Guidelines for Alternative Performance Measures published by ESMA.

Metric	Definition	Purpose	Reconciliation to financial statements (in CZK million)
EBITDA	Earnings before tax, depreciation and amortization	Shows operating performance of the Company	see Interim Consolidated Statement of Comprehensive Income (EBITDA): 1H 2019: CZK 6,055m 1H 2020: CZK 6,325m
EBITDA margin	EBITDA / Revenues	Measures operating profitability of the Company	see Interim Consolidated Statement of Comprehensive Income (Revenues and EBITDA): 1H 2019: 6,055/18,989 = 31.9% 1H 2020: 6,325/19,326 = 32.7%
ROA	Profit for the period / Total assets	Shows how effectively assets are used for profit generation	see Interim Consolidated Statement of Comprehensive Income (Profit after tax) and Consolidated Balance Sheet (Total assets): 1H 2019: 2,604*2/45,983 = 11.3% 1H 2020: 2,675*2/38,432 = 13.9%
ROE	Profit for the period / Total equity	A ratio of the reported profit to the capital invested by the shareholders in the Company	see Interim Consolidated Statement of Comprehensive Income (Profit after tax) and Interim Consolidated Balance Sheet (Total equity): 1H 2019: 2,604*2/11,457 = 45.5% 1H 2020: 2,675*2/10,598 = 50.5%
Gross gearing	Borrowings / Total equity	Shows the share of borrowings the Company uses for its operation to total equity	see Interim Consolidated Balance Sheet (Total equity. Long- and short-term financial obligations): 1H 2019: (14,539+39)/11,457 = 127.2% 1H 2020: (14,834+51)/10,598 = 140.5%

Metric	Definition	Purpose	Reconciliation to financial statements (in CZK million)
Net debt / EBITDA	Financial liabilities less cash and cash equivalents / Profit before interest, taxes and depreciation (EBITDA)	Measures the Company's ability to pay its debts; roughly reflects the time the Company needs to repay all its debts from its standard operating cash flow	see Interim Consolidated Statement of Comprehensive Income (EBITDA) and Interim Consolidated Balance Sheet (Cash and cash equivalents. Long- and short-term financial obligations): 1H 2019: (14,539+39-8,813)/(6,055*2),= 0.48 1H 2020: (14,834+51-3,322)/(6,325*2),= 0.91
Capital expenditure / Revenues	Capital expenditure (additions to fixed assets)/ Revenues	Expresses the amount the Company invests in its future development	Additions to fixed assets are presented in Note 8 and 9 to the Interim Consolidated Financial Statements: 1H 2019: (652+403)/18,989 = 5.6% 1H 2020: (498+460)/19,326 = 5.0%
Free cash flows	Net cash flows from operating activities minus net cash flows from investing activities (since 2019, interest paid, including interest expense on lease obligations, is included in cash flows from financing activities)	Measures the volume of cash and cash equivalents which the Company generates after it has paid for all items necessary to continue its operations	see Interim Consolidated Cash Flow Statement (Net cash flows from operating activities. Net cash flows from investing activities): 1H 2019: 4,483 – 1,712 = CZK 2,771m 1H 2020: 5,367 – 1,404 = CZK 3,963m

Board of Directors' report on the results of the Group in the first half of 2020

Board of Directors' report on the results of the Group in the first half of 2020

In this section, the Board of Directors presents information on the Group's business and financial results for the first half of 2020, including important factors affecting its business and results for the period, and a comparison with the corresponding period of the previous year.

Impact of the COVID-19 pandemic on the Group's operating, business and financial results

On 12 March 2020, the government of the Czech Republic declared a state of emergency for the entire territory of the Czech Republic due to a health threat in connection with the occurrence of coronavirus. The government and other public administration bodies subsequently ordered various measures that affected the business environment and O2 CZ. The state of emergency was extended several times and lasted until 17 May 2020.

O2 CZ, as a telecommunications provider, falls within the scope of the Electronic Communications Act and as such is an operator of critical infrastructure. Following from this, it was obliged to continue its business and ensure the availability of its services to customers. As a result, its business was not interrupted; the Company continued to provide a large part of its basic services and remained relatively immune to the impact of the pandemic compared to businesses in other sectors. The direct impact of general restrictions on movement or business was therefore relatively small compared to other sectors.

During the state of emergency, the Company recorded a significant increase in voice and data traffic in the mobile and fixed networks. This increase was largely due to the Company's decision to assist customers through its services and products during this difficult period. From 13 March until the end of April 2020, O2 CZ offered an unlimited data allowance free of charge, both for new and existing mobile contract customers. The network and the technology handled the higher volume of voice and data traffic without major problems.

While stores in the Czech Republic remained open, the Company recorded lower customer traffic in its retail network, which led to a slowdown in sales of mobile phones and accessories. The lower number of customer interactions also led to a slowdown in sales of new services and thus to a lower growth in the number of new customers. However, the average churn rate remained low.

While in the first two months the financial performance was positive, largely fuelled by higher investments in growth areas in the previous two years, the negative impact of the COVID-19 pandemic began to show in the Group's financial results from the second half of March onwards. The introduction of travel restrictions has negatively affected roaming revenue, both incoming and abroad. In line with the methodology for calculating provisions under IFRS 9, pessimistic macroeconomic forecasts already reflected in higher costs associated with the impairment of financial assets in the first half of the year.

Despite the difficult market situation caused by the COVID-19 pandemic, the Company successfully refinanced a bank loan. The management considers the Company's current financial situation to be sufficient to ensure unrestricted continuation of the operation.

Overview of commercial and financial results, outlook for the second half of the year

In the first half of the year, the offer of new services and products by the Group companies in the Czech Republic and Slovakia focused mainly on helping the state, customers and the whole economy cope with the difficult situation in connection with the COVID-19 pandemic and massive shift of activities into the digital space.

The stability and quality of the networks in which it invests intensively every year has made it possible for the Company to offer, as the first among mobile operators, unlimited data for all those who needed to be in contact with their loved ones or work remotely during difficult times. This offer was available to all new and existing customers of voice tariffs with data as part of the NEO bundle, which could be activated in the Moje O_2 online self-service or in store.

We wanted to help people relax with quality film and TV content, so the Company has made premium film, children's, sports and documentary channels, such as HBO, National Geographic and many others, available to all who wanted them for a symbolic one crown. Customers could watch all programs on any device, i.e. not only on TV, but also on a PC or in the O_2TV application on a mobile phone and tablet.

For customers who needed to work or learn from home, the Company also offered a discount on Lenovo IdeaPad S130 14 "notebook, including a modem, to go with *Zlatá O2 Data* 10 GB tariff.

O2 CZ offered customers from the ranks of entrepreneurs and small trades an advantageous package of O_2 RE: START services, which is intended to help them digitize their business, address new customers and restart their operation. O_2 RE: START included the use of the Market Locator and O_2 Benefits marketing tools, a mobile tariff and high-speed internet bundle for business, a discount on a new phone or laptop, or an Office 365 license including MS Teams or 1 TB of cloud storage for 6 months free of charge.

Propelled by continued expansion of the availability of O_2 Internet HD in the Czech Republic, the number of its users increased by 23 thousand year on year. At the end of June, a total of 845 thousand customers used broadband from O2 CZ. O_2 TV digital television remained the fastest growing service. The number of customers of one of the tariffs of this service (IPTV and OTT version), which operates on a fixed line from O2 CZ and on an internet connection from any provider, increased by 93 thousand year on year and reached 476 thousand as at 30 June 2020. This number also includes customers using the monthly O_2 TV Sport Pack online and O_2 TV HBO and Sport Pack plans. The number of customers who enjoy watching O_2 TV on multiple devices or on online via a web interface continued to grow. At the end of June, the Company registered almost one and a half million active accesses.

At the end of June 2020, the customer base of mobile contract services in the Czech Republic was 3,262 thousand; the number of customers of prepaid mobile services reached a total of 1,927 thousand, while the number of customers of M2M services was 721 thousand.

O2 Slovakia also decided to help during the emergency situation related to the COVID-19 pandemic. When the schools were closed, O2 Slovakia's corporate foundation (Férová nadace) announced a grant of EUR 60,000 named O2 Digital School. It was intended for projects, online platforms and initiatives that address the issue of digital distance learning in a conceptual and systemic way. Another grant was an employee grant called sKORO NA všechno. It was aimed at supporting projects that helped in the field of education of minority groups, 3D printing of protective shields, support or assistance to the elderly and online activities for the broadest groups of people. Forty-one projects applied for this grant, of which the foundation selected 16 to which it distributed EUR 36,000.

In March, while Slovakia was in a state of emergency in connection with the coronavirus pandemic, O2 Slovakia extended benefits for customers aimed at improving conditions for working from home or enjoying their free time. These included temporary free access to the HBO GO service, speeding up data transmission after the customer's data allowance has been used up in the *Internet na doma* tariff, or adding channels to the *Modrá O_2 TV* and *O_2 TV v mobile* plans.

In mid-April 2020, when the demand for large volumes of data was higher than ever before, O2 Slovakia came up with another revolutionary market proposition and introduced three data-unlimited tariffs *Titanový, Platinový* a *Diamantový O_2 SMART Paušál*.

The number of O2 Slovakia customers increased to 2,157,000 by the end of June 2020. The number of customers of mobile contract services was 1,048 thousand; 718 thousand customers used prepaid services and 391 thousand used M2M services. At the end of June, 4G LTE network service was available to 97.4% of the population of Slovakia. In addition to the WTTx wireless network using LTE TDD technology in the 3.5 / 3.7 GHz spectrum, customers of *Internet na doma* home internet service could also use this network.

Consolidated financial results

This section presents and comments on the Group's consolidated financial results, which were taken from the Interim Consolidated Financial Statements for the six months ended 30 June 2020, prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

Consolidated statement of comprehensive income

The Group's consolidated revenue reached CZK 19.3 billion in the first half of the year, up 1.8% year on year. Revenue from mobile data services and digital television continued to grow. On the other hand, the COVID-19 pandemic negatively affected mobile revenue, especially in the area of roaming and equipment sales.

Operating revenue in the Czech Republic reached a total of CZK 15.9 billion, which represents a year-on-year increase of 2.7%. Operating revenue of the mobile segment decreased by 0.6% year on year to CZK 9.9 billion, while the 15.4% increase in revenue from data services did not fully compensate for the decline in other revenue. Revenue from voice services, SMS and MMS were 8.6% lower; revenue from the sale of equipment declined 8.7% and other mobile revenue were down 17.2%, mainly due to lower revenue from incoming roaming. Operating revenue in the fixed line segment increased by 8.7% year on year to CZK 5.6 billion in the first half of the year. Traditionally, higher revenue from O_2 TV were the main contributor to this growth. Revenue from ICT services were 16.9% higher as a result of several projects, while revenue from the sale of equipment increased by 103% year on year due to a higher demand for the O_2 Smart Box, which improves home internet connection and Wi-Fi reach. The success of Samsung's 4K smart TVs also played a role the increase and helped customers with the seamless transition to DVB-T2. Revenue in Slovakia decreased 3.7% year on year to CZK 3.6 billion, while, as in the Czech Republic, the coronavirus pandemic had a negative impact on equipment sales and roaming revenue.

Total consolidated costs decreased by 0.2% year on year to CZK 13 billion in the first half of the year. Direct costs of sales increased slightly by 0.3% year on year while personnel costs were up 1%. Third party costs decreased by 7.2%, mainly due to lower rental costs. Impairment losses on financial assets totalled CZK 246 million in the first half of 2020, up almost 100% year on year. In accordance with the requirements of IFRS 9, the creation of provisions for receivables as at 30 June 2020 reflected expectations of worsened macroeconomic indicators and forecasts of future developments as a result of restrictive measures related to the outbreak of the COVID-19 pandemic.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to CZK 6.3 billion in the first half of the year, 4.5% more than in the same period in 2019. In the Czech Republic, EBITDA increased by 4.7% to CZK 4.8 billion, while in Slovakia it was up 4.1% to CZK 1.5 billion. Consolidated EBITDA margin thus reached 32.7% in the first half of the year (30.3%[1] in the Czech Republic, 42.3% in Slovakia).

In the first half of the year, the consolidated operating profit and consolidated profit before tax increased by 5.5% and by 2.3% year on year to CZK 3.7 billion and CZK 3.4 billion, respectively. Net financial expenses were up 70% due to slightly higher interest expenses and unrealized foreign exchange losses. Consolidated net profit reached a total of CZK 2.7 billion in the first half of the year, which represents a year-on-year increase of 2.8%.

Consolidated balance sheet

The net book value of property, plant and equipment amounted to CZK 6.3 billion as at 30 June 2020, almost the same as at 31 December 2019. The most significant part of the net book value of property, plant and equipment was telecommunications technology and equipment, including exchanges and transmission telecommunication network technology. As at 30 June 2020, the net book value of intangible assets fell by 5.7% to CZK 14.6 billion.

Total amount of consolidated financial liabilities (short-term and long-term)[2] reached CZK 14.9 billion as at June 30, 2020, compared to CZK 14.6 billion as at 31 December 2019. O2 CZ successfully refinanced a bank loan when, on 20 May 2020, it entered into a loan agreement of up to CZK 9.24 billion with a maturity of 5 years. More information on financial liabilities is provided in Note 12 to the condensed Interim Consolidated Financial Statements for the six months ended 30 June 2020. Cash and cash equivalents amounted to CZK 3.3 billion at the end of June 2020, compared to CZK 6 billion at 31 December 2020. The decrease is attributed mainly to the payment of an advance on the dividend for 2019 and part of the share premium; the payment was made in the first half of 2020. The net debt to EBITDA ratio[3] was 0.9 as at the end of June.

Consolidated capital expenditure

In the first half of 2020, total consolidated capital expenditures (additions to assets) reached CZK 958 million, down 9.1% year on year; the share of consolidated capital expenditure to consolidated revenue was 5%. All investments in the first half of the year were made in the Czech Republic and Slovakia and were financed from own resources and loans.

[1] Operating profitability in the Czech Republic is lower compared to Slovakia due to the inclusion of the cost of access to CETIN fixed and mobile telecommunications networks in the costs of sales of services.
[2] Excluding lease liabilities
[3] Financial debt (excluding lease liabilities) minus cash / EBITDA for the first half 2020 multiplied by two.

Investments in Slovakia decreased by 13.3% year on year to CZK 415 million and their share to revenue decreased by 1.3 percentage points to 11.5%. Investments continued to focus mainly on increasing the coverage, capacity and quality of networks, which accounted for two thirds of all investments in Slovakia in the first half of 2020.

In the Czech Republic, investments in the first half of the year reached a total of CZK 543 million, which represents a year-on-year drop of 5.6%, and their share to revenue was only 3.4%. The main areas of investment were information system upgrades and investments related to the development and marketing of new services.

Consolidated cash flow statement

Consolidated free cash flows[4] reached a total of CZK 4 billion in the first half of 2020, compared to CZK 2.8 billion in the first half of 2019. This increase is due, among other things, to the positive change in working capital in connection with the securitization of O2 Slovakia's receivables. More information is provided in Note 15 to the condensed Interim Consolidated Financial Statements for the six months ended 30 June 2020. Another positive effect of the year-on-year increase in free cash flows was 19.1% lower cash flows for the acquisition of fixed assets.

Since 2019, the Group has reported interest paid (including interest on a lease liability) in net cash flows from financing activities. Paid lease liabilities are also reported in net cash flows from financing activities in accordance with IFRS 16. Without the impact of IFRS 16, free cash flows would have reached CZK 3.6 billion in the first half of 2020.

Outlook for the second half of 2020

The aim of the Board of Directors of the Company is to build on the business strategy and activities of the previous year and the first half of 2020. Accordingly, in the second half of 2020, the Group companies will continue to offer and promote their existing and develop new, innovative and in many ways unique services and products.

The Company's management remains cautious regarding the further development of the COVID-19 pandemic and regularly monitors the situation. However, it is not able to predict the duration of the pandemic and all its possible consequences for the Group's financial performance. Furthermore, it is not able to predict the consequences of all current or future actions and measures taken by the Czech and Slovak governments or at the level of the European Union, which will have an impact on macroeconomic developments in both countries.

Developments in the market and in the area of regulation

There were no significant changes or launches of new services on the Czech or Slovak telecommunications market in the first half of the year.

On 1 April 2020, an amendment to the Electronic Communications Act entered into force, which shortened the maximum time allowed to port a number, adjusted the amount and eligibility to payment of a contractual penalty in the event of early termination of the contract, and introduced other partial changes.

The Czech Telecommunication Office (CTO) continued to review analysis for relevant markets 1 and 2 (call termination in fixed and mobile networks) and proposed to the existing termination rates until uniform termination rates are set throughout the European Union, which are expected to take effect from 1 January 2021.

[4] Free cash flows = net cash flows from operating activities plus net cash flows from investing activities; from 2019, interest paid (including interest expense on lease liabilities) is included in cash flows from financing activities.

In the first half of 2020, the CTO launched two public consultations on the draft terms of a for radio spectrum in the 700 MHz and 3500 MHz frequencies. On 7 August 2020, the CTO announced the tender. Registration is open until 30 September 2020.

On 31 March 2020, the Office for Regulation of Electronic Communications and Postal Services of the Slovak Republic (market regulator) published a call for tenders for individual permits for the use of 700 MHz, 900 MHz and 1,800 MHz frequencies. The competition took the form of an electronic auction. The publication of the call marked the commencement of the tender procedure. The bidding will take place in the form of an electronic auction in the SMRA format (simultaneous multi-round auction). On 18 June 2020, the market regulator announced it receive information which could potentially jeopardize the tender and decided to change the date of the tender. No relevant information on the progress of the procedure was available as at the date of this Half-Year Report.

Impacts of the COVID-19 pandemic on the decisions of the Company's supreme governing body

General Meeting called for 16 April 2020

The Company's Board of Directors originally convened the General Meeting for 16 April 2020. With regard to the necessary technical and organizational deadlines, the documents and the invitation to the General Meeting had to be approved and submitted for distribution to shareholders by 6 March 2020, so that the publishing deadline of 30 days before the General Meeting is met. However, during printing and distribution, the Government of the Czech Republic declared a state of emergency for the entire territory of the Czech Republic, originally for a period of 30 days with the possibility of extension with the consent of the Chamber of Deputies of the Parliament of the Czech Republic (PSP CR). In view of the sudden and unpredictable development of the epidemic and the effects of government measures, the Board of Directors decided on 30 March 2020, in the event that the General Meeting cannot be physically held as planned on 16 April 2020, to pay an advance on the 2019 dividend. The conditions for the payment of the advance were the same as in the original proposal submitted for approval to the General Meeting. On 9 April 2020, based on a resolution of the Chamber of Deputies of the Parliament of the Czech Republic, the Government of the Czech Republic extended the state of emergency until 30 April 2020. Measures of public authorities against the spread of the disease therefore finally prevented the General Meeting convened for 16 April 2020 from taking place.

Payment of dividend advances

On 9 April 2020, the Board of Directors of the Company concluded that objective reasons prevented the General Meeting convened for 16 April 2020 from taking place. The Board of Directors informed the shareholders on its website on the same day. This fulfilled the conditions for the application of the decision of the Board of Directors of 30 April 2020 on the payment of dividend advance. From 6 May 2020, the Company started paying an advance payment of CZK 17 before tax on shares with a nominal value of CZK 10 and an advance of CZK 170 per share with a nominal value of CZK 100. Those persons who were listed as shareholders on 6 April 2020 were entitled to payment.

General Meeting procedure per rollam

On 28 April 2020, following another resolution of the Chamber of Deputies of the Parliament of the Czech Republic, the government extended the state of emergency until 17 May 2020. As the Board of Directors was once forced to announced that the General Meeting could not be held for objective reasons and after careful consideration of all the circumstances, that it will use the statutory procedure to mitigate the effects of the coronavirus epidemic.[5] This law, which entered into force on 24 April 2020, allowed, among other things, the bodies of legal entities to make decisions per rollam. The Board of Directors therefore resolved that the decisions of the General Meeting would be made per rollam, and on 29 April 2020 published an announcement to this effect on the Company's website. Subsequently, on 11 May 2020, it published and distributed to shareholders draft resolutions of the General Meeting, which were the same as for the General Meeting convened for 16 April 2020. The proposals were divided into two areas; voting ended on 17 June and 2 July 2020, respectively. Persons who were listed in the register of shareholders as of 5 May 2020 were eligible to vote.

Per rollam decisions of the General Meeting

The Board of Directors of the Company announced on 18 June 2020 that the General Meeting would pass decisions outside the meeting (per rollam) on the proposals of the first round of voting and adopted all proposed resolutions in the first round by the required majority of votes. The same Board of Directors announced on 3 July 2020 the results of the second round of voting.

Acting in writing outside the meeting, the General Meeting:

- Approved the Company's unconsolidated and consolidated financial statements for 2019 prepared in accordance with International Financial Reporting Standards. The statutory auditor of KPMG Česká republika Audit, s.r.o. gave an unqualified opinion on both sets of financial statements.
- Approved the distribution of the Company's unconsolidated profit for 2019 as follows: CZK 5,274 million is payable in dividends (CZK 17 before tax per share with a nominal value of CZK 10, or CZK 170 before tax per share with a nominal value of CZK 100) and the amount CZK 69 million will be transferred to the account of retained earnings of previous years. At the same time, the General Meeting stated that the amount of dividends per share fully corresponded to the amount of advances, the payment of which was decided by the Company's Board of Directors on 30 March 2020 (see above section Payment of Dividend Advances), and that based on the resolution of the General Meeting, on 19 June 2020 the advance on dividends will be settled by deducting the advance per share (CZK 17 and CZK 170, respectively) from the dividend on the same share (CZK 17 and CZK 170, respectively), which means the settlement will result in a zero balance, and there will be no outstanding balance to pay above the scope of advances already paid.
- Approved the distribution of part of the share premium up to CZK 1,241 million, which will be paid to shareholders (CZK 4 before tax for each share with a nominal value of CZK 10 and CZK 40 before tax per share with a nominal value of CZK 100).
- In connection with measures related to the optimization of the capital structure, the General Meeting decided to acquire own shares. The Company can thus acquire shares to the limit of 30,088,214 shares for a period of five years from 9 December 2020 for the highest total price of CZK 5.5 billion. At the same time, the General Meeting decided to reduce the

[5] Act No. 191/2020 Coll., On certain measures to mitigate the effects of the SARS CoV-2 coronavirus epidemic on persons participating in court proceedings, victims, victims of crime and legal persons, and on amendments to the Insolvency Act and the Enforcement Code.

share capital by cancelling own shares, which were acquired between 2015 and 2020. The share capital will be reduced by CZK 93,379,100 by cancelling own shares to CZK 3,008,821,570. The reduction will be effected only in the Company's account and will not affect the Company's liabilities.

- Approved the remuneration policy for members of the Board of Directors and the Supervisory Board of the Company, thus fulfilling the obligation newly imposed on issuers of securities by an amendment to the Capital Market Undertakings Act. It also approved a new version of the Articles of Association effective from 1 January 2021. The changes to the Articles of Association followed from legislative changes, in particular on the scope of powers of the General Meeting and the Supervisory Board in relation to remuneration policy and significant agreements with related parties, invitation to General Meetings, (counter)proposals of shareholders and matters related to employee representatives in the Supervisory Board.

Other information

On 5 August 2020, after the bankruptcy and settlement had been concluded, the subsidiary AUGUSTUS, spol. s r.o., in which the Company held a 39.76% non-controlling share in the registered capital, was deleted from the Commercial Register.

A list of significant related party transactions that occurred in the six months ended 30 June 2020, as well as changes in transactions, which were disclosed in the Group's last Annual Report, is set out in Note 15 to the condensed interim consolidated financial statements for the six months ended 30 June 2020.

Interim condensed unaudited consolidated financial statements for the six months ended 30 June 2020

O2 Czech Republic a.s.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARD IAS 34 INTERIM FINANCIAL REPORTING AS ADOPTED BY THE EUROPEAN UNION

Translation note

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

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GENERAL INFORMATION

O2 Czech Republic Group (the "Group") consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries. The Group is a leading integrated telecommunication provider in the Czech market providing fully convergent services.

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

As at 30 June 2020, the majority share (81.06 %) of the Company's share capital was held indirectly by Mr. Petr Kellner through companies PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the six months ended 30 June 2020

In CZK million	Notes	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Revenues	3, 4	19,326	18,989
Other income from non-telecommunication services		96	84
Capitalisation of fixed assets		181	169
Expenses		(13,032)	(13,063)
Net impairment losses on financial assets	6	(246)	(124)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	3	**6,325**	**6,055**
Depreciation and amortisation		(2,361)	(2,299)
Amortisation of cost to obtain contracts		(292)	(266)
Impairment loss on non-current assets		(1)	(11)
Operating profit	3	**3,671**	**3,479**
Finance income		22	33
Finance costs		(306)	(200)
Share of profit/(loss) of investments accounted for using the equity method		2	-
Profit before tax	3	**3,389**	**3,312**
Corporate income tax	5	(714)	(708)
Profit for the period		**2,675**	**2,604**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of financial instruments hedging cash flows, net of tax		(91)	(18)
Translation differences		156	(39)
Other comprehensive income, net of tax		**65**	**(57)**
Total comprehensive income, net of tax		**2,740**	**2,547**
Profit attributable to:			
Equity holders of the Company		2,683	2,604
Non-controlling interests		(8)	-
Total comprehensive income attributable to:			
Equity holders of the Company		2,748	2,547
Non-controlling interests		(8)	-
Earnings per share for continuing operations (CZK) - basic*	7	9	9

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

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2020

In CZK million	Notes	30 June 2020	31 December 2019
ASSETS			
Property, plant and equipment	8	6,262	6,171
Intangible assets	9	14,573	15,457
Right-of-use assets		3,507	4 ,094
Costs to obtain contracts		786	766
Investments in equity accounted investees	16	15	13
Other assets		1,175	1,213
Contract assets		118	129
Deferred tax assets		151	163
Non-current assets		**26,587**	**28,006**
Inventories	11	1,026	987
Receivables		7,142	7,247
Contract assets		329	354
Current tax receivable		26	81
Cash and cash equivalents	10	3,322	5,989
Asset held-for-sale		-	16
Current assets		**11,845**	**14,674**
Total assets		**38,432**	**42,680**
EQUITY AND LIABILITIES			
Ordinary shares		3,102	3,102
Treasury shares		(2,348)	(2,348)
Share premium	7	7,060	8,264
Retained earnings, funds and reserves	7	2,778	5,145
Equity attributable to owners of the company		**10,592**	**14,163**
Non-controlling interests		6	14
Total equity		**10,598**	**14,177**
Borrowings	12	14,834	7,530
Lease liabilities		3,054	3,475
Other liabilities		280	546
Contract liabilities		48	56
Provisions for liabilities and charges		78	74
Deferred tax liability		437	511
Non-current liabilities		**18,731**	**12,192**
Borrowings	12	51	7,066
Lease liabilities		701	693
Trade and other payables		7,436	7,853
Contract liabilities		544	514
Provisions for liabilities and charges		70	119
Income tax liability		301	66
Current liabilities		**9,103**	**16,311**
Total liabilities		**27,834**	**28,503**
Total equity and liabilities		**38,432**	**42,680**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

		Equity attributable to owners of the Company										
In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Revaluation reserve	Cash flow hedging	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2020		**3,102**	**8,264**	**(2,348)**	**(35)**	**278**	**(2)**	**22**	**4,882**	**14,163**	**14**	**14,177**
Other comprehensive income		-	-	-	156	-	-	(91)	-	65	-	65
Profit for the period		-	-	-	-	-	-	-	2,683	2,683	(8)	2,675
Total comprehensive income		**-**	**-**	**-**	**156**	**-**	**-**	**(91)**	**2,683**	**2,748**	**(8)**	**2,740**
Distribution declared in 2020	7	-	(1,204)	-	-	-	-	-	(5,274)	(6,478)	-	(6,478)
Distribution on treasury shares	7	-	-	-	-	-	-	-	159	159	-	159
As at 30 June 2020		**3,102**	**7,060**	**(2,348)**	**121**	**278**	**(2)**	**(69)**	**2,450**	**10,592**	**6**	**10,598**

		Equity attributable to owners of the Company										
In CZK million	Notes	Share capital	Share premium	Treasury shares	Currency translation reserve	Funds	Revaluation reserve	Cash flow hedging	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2019		**3,102**	**9,470**	**(2,204)**	**17**	**278**	**(2)**	**35**	**4,529**	**15,225**	**-**	**15,225**
Other comprehensive income		-	-	-	(39)	-	-	(18)	-	(57)	-	(57)
Profit for the period		-	-	-	-	-	-	-	2,604	2,604	-	2,604
Total comprehensive income		**-**	**-**	**-**	**(39)**	**-**	**-**	**(18)**	**2,604**	**2,547**	**-**	**2,547**
Distribution declared in 2019	7	-	(1,206)	-	-	-	-	-	(5,274)	(6,480)	-	(6,480)
Distribution on treasury shares	7	-	-	-	-	-	-	-	148	148	-	1148
Acquisition of subsidiary with non-controlling interest		-	-	-	-	-	-	-	-	-	17	17
As at 30 June 2019		**3,102**	**8,264**	**(2,204)**	**(22)**	**278**	**(2)**	**17**	**2,007**	**11,440**	**17**	**11,457**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

In CZK million	Notes	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Profit before tax		3,389	3,312
Non-cash adjustments for:			
Share of profit (-)/loss (+) from equity accounted investments		(2)	-
Dividend income		(9)	(7)
Depreciation and amortisation		2,361	2,299
Amortisation of costs to obtain contracts		292	266
Impairment loss		1	11
Profit (-)/loss (+) on sale of tangible and intangible fixed assets		4	-
Profit (-)/loss (+) on sale of part of business and other investments		-	(38)
Profit (-)/loss (+) from lease modifications and sublease		(36)	(2)
Net interest costs		179	160
Unrealised foreign exchange losses (+)/gains (-) (net)		10	(2)
Fair value changes		6	-
Change in provisions and allowances and profit(-)/loss(+) on sale and write-off of receivables		238	128
Operating cash flows before working capital changes		6,433	6,127
Working capital adjustments:			
Increase (-)/decrease (+) in receivables and other assets		147	(356)
Increase (-)/decrease (+) in inventories		(25)	(56)
Increase (-) of cost to obtain contract		(303)	(299)
Increase (-)/decrease (+) in contract assets		36	53
Increase (+)/decrease (-) in contract liabilities		22	(65)
Increase (+)/decrease (-) in trade and other payables		(494)	(197)
Cash flows from operating activities		5,816	5,207
Interest received		13	17
Income tax paid		(462)	(741)
Net cash flows from operating activities		5,367	4,483
Cash flows from investing activities			
Purchase of property, plant and equipment		(697)	(982)
Purchase of intangible assets		(730)	(778)
Proceeds from sales of fixed assets		1	1
Proceeds from sales of assets held-for-sale		8	-
Proceeds from sales of part of business and other investments		-	40
Dividends and other distrbutions received		9	7
Repayment of loans		5	-
Net cash used in investing activities		(1,404)	(1,712)
Cash flows from financing activities			
Proceeds from borrowings	12	-	4,106
Interest paid		(231)	(191)
Repayment of borrowings		-	-
Dividends paid		(6,192)	-
Repayment of lease liabilities		(343)	(314)
Net cash used in financing activities		(6,766)	3,601
Net increase/(decrease) in cash and cash equivalents		(2,803)	6,372
Cash and cash equivalents at beginning of the period	10	5,989	2,475
Effect of foreign exchange rate movements on cash and cash equivalents		136	(34)
Cash and cash equivalents at the end of the period	10	3,322	8,813

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

1.1 Basis of preparation

The interim consolidated financial statements were prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

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

1.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2019.

As at the same date, the Group first applied other new and revised standards. However, the adoption of these standards did not have a significant impact on these interim consolidated financial statements.

1.3 Seasonal nature of operations

There is no significant seasonal nature either in the fixed line segment or the mobile telecommunication segment. The Group's telecommunication business is not regarded as seasonal.

2 COVID-19 pandemic

At the beginning of 2020, a new type of coronavirus that causes an illness – referred to as COVID-19 – spread throughout the world. In this context, the governments of the Czech Republic and Slovak Republic declared a state of emergency in March 2020 and, subsequently, adopted a number of restrictive measures in order to prevent the rapid spread of the disease. In particular, these measures restricted the free movement of persons, the functioning of retail businesses, transportation and foreign travel.

The Group, as a provider of critical infrastructure, provided its services continuously throughout the period of ongoing restrictions. Nevertheless, the COVID-19 pandemic affected the Group's business and operations.

In connection with the restrictions on the movement of the population and foreign travel, there was a significant slowdown in the activity of sales channels and a shortfall in roaming revenues. The deteriorating macroeconomic forecasts have already been reflected in the higher impairment loss of financial assets in accordance with the methodology for calculating expected credit losses in accordance with IFRS 9 (see Note 6).

The Group assessed indicators of possible impairment of assets in accordance with the requirements of IAS 36. The Group has not identified any significant impairment of assets and does not record any significant subsidies or other contributions in connection with the COVID-19 pandemic. The Group regularly monitors the impact of the COVID-19 pandemic on the Group's financial risks and does not consider additional disclosures to be necessary in accordance with the requirements of IFRS 7 Financial Instruments: Disclosures.

The Group also introduced a number of operational measures (in particular, it enabled home-offices for employees and increased protective and hygienic measures at the workplace), which were necessary to ensure the provision of all services even during the longer duration of the measures announced.

Despite the difficult market situation caused by the COVID-19 pandemic, the Company successfully refinanced a bank loan. The Group considers its current financial resources to be sufficient to ensure the unrestricted continuance of its operations.

3 Segment information

Segments recognised by the Group are as follows:

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

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

Inter-segment pricing rates in 2020 and 2019 were determined on the same basis as rates used for other mobile operators.

For the six months ended 30 June 2020	Czech Republic	
In CZK million	Mobile	Fix
Revenues	9,933	5,958
Cost of sales (CoS)	(4,469)	(3,734)
Gross margin	**5,464**	**2,224**
Other income from non-telecommunication services	91	
Capitalisation of fixed assets	136	
Other costs excluding CoS	(3,096)	
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**4,819**	

	Czech Republic	Slovak Republic	Elimination CR vs SR	Group
Revenues	15,891	3,617	(182)	19,326
Other income from non-telecommunication services	91	5	-	96
Capitalisation of fixed assets	136	41	4	181
Total consolidated costs	(11,299)	(2,135)	156	(13,278)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**4,819**	**1,528**	**(22)**	**6,325**
Depreciation and amortisation	(1,868)	(518)	25	(2,361)
Amortisation of costs to obtain contracts	(206)	(86)	-	(292)
Impairment loss on non-current assets	(1)	-	-	(1)
Operating profit	**2,744**	**924**	**3**	**3,671**
Interest expense	(175)	(52)	35	(192)
Interest income	48	-	(35)	13
Other financial income/(expense)	1,288	(39)	(1,354)	(105)
Net financial loss	**1,161**	**(91)**	**(1,354)**	**(284)**
Share of profit/(loss) of investments accounted for using the equity method	2	-	-	2
Profit before tax	**3,907**	**833**	**(1,351)**	**3,389**
Corporate income tax	(510)	(204)	-	(714)
Profit for the period	**3,397**	**629**	**(1,351)**	**2,675**
Total assets	37,730	11,570	(10,868)	38,432
Total liabilities	(24,546)	(8,043)	4,755	(27,834)

For the six months ended 30 June 2019	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million	Mobile	Fix			
Revenues*	9,988	5,483			
Cost of sales (CoS)*	(4,604)	(3,389)			
Gross margin	**5,384**	**2,094**			
Other income from non-telecommunication services	79				
Capitalisation of fixed assets	125				
Other costs excluding CoS	(3,077)				
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**4,605**				
Revenues	15,471		3,756	(238)	18,989
Other income from non-telecommunication services	79		12	(7)	84
Capitalisation of fixed assets	125		40	4	169
Total consolidated costs	(11,070)		(2,340)	223	(13,187)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**4,605**		**1,468**	**(18)**	**6,055**
Depreciation and amortisation	(1,890)		(429)	20	(2,299)
Amortisation of costs to obtain contracts	(197)		(69)	-	(266)
Impairment loss on non-current assets	(4)		(7)	-	(11)
Operating profit	**2,514**		**963**	**2**	**3,479**
Interest expense	(166)		(35)	23	(178)
Interest income	41		-	(23)	18
Other financial income/(expense)	1,364		(4)	(1,367)	(7)
Net financial loss	**1,239**		**(39)**	**(1,367)**	**(167)**
Share of profit/(loss) of investments accounted for using the equity method	-		-	-	-
Profit before tax	**3,753**		**924**	**(1,365)**	**3,312**
Corporate income tax	(473)		(235)	-	(708)
Profit for the period	**3,280**		**689**	**(1,365)**	**2,604**
Total assets	45,487		9,873	(9,377)	45,983
Total liabilities	(31,329)		(6,463)	3,266	(34,526)

* In 2020, the Group changed the presentation of revenues and cost of sales from Air Fix and WTTx services and equipment, which were previously included in the mobile segment. Currently, the Group presents them in the fixed segment, which better reflects the business nature of these products and services. Information for the comparable period was adjusted.

4 Revenues

In the following table, revenues from contracts with customers are disaggregated into primary geographic segments, operating segments and products provided. The table also includes totals which enable the reconciliation of revenues to those disclosed within segment analysis under IFRS 8 (see Note 3).

For the six months ended 30 June 2020

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	3,592	1,404	-	4,996
- Internet and data	3,712	934	-	4,646
Mobile termination	1,101	418	-	1,519
Revenues from sale of equipment	769	475	(6)	1,238
Financial services	136	23	(6)	153
Other mobile revenues	623	204	(151)	676
Total mobile revenues	**9,933**	**3,458**	**(163)**	**13,228**
Voice sevices	859	11	-	870
Data sevices	476	33	(3)	506
Internet and television	3,005	53	(4)	3,054
ICT	997	12	(8)	1,001
Revenues from sale of equipment	479	48	(4)	523
Other fixed revenues	142	2	-	144
Total fixed revenues	**5,958**	**159**	**(19)**	**6,098**
Total revenues	**15,891**	**3,617**	**(182)**	**19,326**

For the six months ended 30 June 2019*

In CZK million	Czech Republic	Slovak Republic	Intragroup elimination	Total in Group
Mobile origination:				
- Voice services and SMS & MMS	3,928	1,409	-	5,337
- Internet and data	3,217	872	-	4,089
Mobile termination	1,113	464	-	1,577
Revenues from sale of equipment	842	701	(74)	1,469
Financial services	136	18	-	154
Other mobile revenues	752	205	(152)	805
Total mobile revenues	**9,988**	**3,669**	**(226)**	**13,431**
Voice sevices	954	26	-	980
Data sevices	477	24	(2)	499
Internet and television	2,798	29	(3)	2,824
ICT	853	5	(6)	852
Revenues from sale of equipment	236	2	(1)	237
Other fixed revenues	165	1	-	166
Total fixed revenues	**5,483**	**87**	**(12)**	**5,558**
Total revenues	**15,471**	**3,756**	**(238)**	**18,989**

* In 2020, the Group newly disclosed a separate category of revenues from Financial Services, mainly including revenues from insurance and products for electronic registration of sales, which were previously included in Other mobile revenues. Furthermore, the Group adjusted the allocation of mobile revenues of the subsidiary O2 Family, s.r.o. within the segment of the Czech Republic, where part of the revenues was moved from the category Voice services and SMS & MMS to the category Internet and data (CZK 213 million) and to Other mobile revenues (CZK 13 million). The Group also changed the presentation of revenue from the sale of Air Fix and WTTx services and equipment (see Note 3). Information for the comparable period was adjusted.

5 Income tax

In CZK million	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Total income tax expense consists of:		
Current income tax charge	750	697
Deferred income tax charge	(36)	11
Income tax	**714**	**708**

Deferred income taxes are calculated using the prevailing tax rates, 19% in the Czech Republic (2019: 19%) and 21% in Slovakia (2019: 21%).

6 Net impairment losses on financial assets

Net impairment losses on financial assets for the first half of the year ended 30 June 2020 increased to CZK 246 million (for the period of six months ended 30 June 2019: CZK 124 million). In the calculation of expected credit losses for receivables as at 30 June 2020, and in accordance with the requirements of IFRS 9, the Group reflected the deteriorating expectations of macroeconomic indicators and forecasts of future development as a result of restrictive measures related to the outbreak of the COVID-19 pandemic. The Group stratified corporate customers into several segments according to the expected impact of the COVID-19 pandemic on the given segment and subsequently modelled expected credit losses for each segment, taking into account various scenarios of future development. The Group also modelled the impact of legislative changes to mitigate the effects of the COVID-19 pandemic in respect of the assistance offered to debtors.

There was no significant increase in credit risk for other financial assets due to COVID-19 pandemic.

7 Dividends, other distribution and earnings per share

In CZK million	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Dividends declared	5,274	5,274
Other distributions	1,241	1,241
Total distributions declared	**6,515**	**6,515**

Dividends and other distributions include a withholding tax on dividends paid by the Company to its shareholders. On 30 March 2020, the Board of Directors declared an advance for dividends in the amount of 100% of the proposed dividends, i.e. CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 (no advance for dividends was paid in 2019). The advance for dividends was payable on 6 May 2020. The approval of the 2019 profit and the confirmation of the amount of the final dividend for the purposes of settlement with the paid advances was agreed at the Annual General Meeting which took place per rollam (that is by letter) from 11 May to 17 June 2020.

On 19 June 2020, pursuant to the decision of the Annual General Meeting, dividends in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 (from 2018 profit: CZK 17, or CZK 170) from the 2019 profit were offset against the advance for dividends by deducting the advance per share (CZK 17 or CZK 170) from the dividends per share (CZK 17 or CZK 170). The result of the settlement was a zero balance and, in addition to the advance, CZK 0 per share was paid out. Dividends on treasury shares in the amount of CZK 159 million (2019: CZK 148 million) remained in the retained earnings.

The Annual General Meeting of the Company also approved distribution of part of the share premium among the shareholders, in the total amount of CZK 1,241 million (2019: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for share with a nominal value of CZK 100, CZK 40 before tax was allocated). The part of the share premium was payable on 22 June 2020. The Company does not have the right to receive the amount related to the payment of the share premium for the treasury shares. This part of the share premium in the amount of CZK 37 million (2019: CZK 35 million) remained in the share premium.

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 shares during the year.

	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Weighted number of ordinary shares outstanding (thousands)	301,409	301,525
Net profit attributable to shareholders (in CZK million)	2,683	2,778
Basic earnings per share (CZK)	9	9

8 Property, plant and equipment

During the six months ended 30 June 2020, the Group acquired assets at a cost of CZK 498 million (for the period of six months ended 30 June 2019: CZK 652 million). Assets with a net book value of CZK 1 million were disposed of by the Group during the six months ended 30 June 2020 (for the period of six months ended 30 June 2019: CZK 3 million).

9 Intangible assets

During the six months ended 30 June 2020, the Group acquired intangible assets at a cost of CZK 460 million (for the period of six months ended 30 June 2019: CZK 403 million). Assets with a net book value of CZK 5 million were disposed of by the Group during the six months ended 30 June 2020 (for the period of six months ended 30 June 2019: CZK 11 million).

10 Cash and cash equivalents

In CZK million	30 June 2020	31 December 2019
Cash in current bank accounts and other cash equivalents	2,626	4,673
Cash in current bank accounts and other cash equivalents with related parties	696	1,316
Total cash and cash equivalents	**3,322**	**5,989**

The committed undrawn facilities available to the Group amounted to CZK 2,580 million as at 30 June 2020 (as at 31 December 2019: CZK 5,338 million).

11 Inventories

As at 30 June 2020, the inventories are stated net of an allowance of CZK 64 million (as at 31 December 2019: CZK 68 million), reducing the value of the inventories to their net realisable value.

12 Financial liabilities

On 20 May 2020, the Group entered into a loan agreement to refinance a loan, which was due this year, with a new long-term loan having a credit limit of CZK 9,240 million and with a maturity of 5 years (there was no cash flow in relation to the transaction). The interest rate of the loan is based on the reference rate PRIBOR increased by a 0.60% margin with an embedded zero-floor clause. It stipulates that the reference interest rate cannot be lower than zero. As at 30 June 2020, the Company had used a total of CZK 7,000 million (as at 31 December 2019: CZK 7,000 million) of the available credit from the long-term facility agreement.

On 18 April 2019, the Group successfully completed a placement of four tranches of promissory loan notes (Schuldschein), in total amount of CZK 4,106 million (EUR 160 million) with maturity of 5 to 7 years. The interest rates and maturities of each tranche are as follows:

Tranche	Currency	Amount in currency unit	Interest rate	Maturity day
Schuldschein - EUR 5Y float	EUR	94,000,000	6M EURIBOR + 1.20%	17 April 2024
Schuldschein - EUR 7Y float	EUR	26,000,000	6M EURIBOR + 1.40%	17 April 2026
Schuldschein - EUR 5Y fix	EUR	30,000,000	1.203%	17 April 2024
Schuldschein - EUR 7Y fix	EUR	10,000,000	1.595%	17 April 2026

On 4 April 2017, the Group completed a placement of six tranches of promissory loan notes (Schuldschein), in total amount of CZK 3,511 million (CZK 2,970 million and EUR 20 million) with maturity of 5 to 7 years. The interest rates and maturities of each tranche are as follows:

Tranche	Currency	Amount in currency unit	Interest rate	Maturity day
Schuldschein - CZK 5Y float	CZK	90,000,000	3M PRIBOR + 0.75%	5 April 2022
Schuldschein - CZK 7Y float	CZK	130,000,000	3M PRIBOR + 1.05%	5 April 2024
Schuldschein - EUR 5Y float	EUR	11,000,000	6M EURIBOR + 1.30%	5 April 2022
Schuldschein - EUR 7Y float	EUR	9,000,000	6M EURIBOR + 1.50%	5 April 2024
Schuldschein - CZK 5Y fix	CZK	470,000,000	1.316%	5 April 2022
Schuldschein - CZK 7Y fix	CZK	2,280,000,00	1.734%	5 April 2024

No Group's assets serve as a collateral in connection with the drawing down of current loans.

The Group continues to hedge part of the cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. In the first half of the year ended 30 June 2020, the Group concluded new interest rate swaps designed to hedge part of the cash flows from the new loan agreement in period from May 2020 to May 2023 or to May 2025. The Group's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept. The hedge was assessed as effective as at 30 June 2020.

13 Contingencies and litigations

The Group is involved in a number of legal disputes arising from standard business interactions. Significant developments which occurred throughout the first half of the year 2020 are described below.

I. VOLNÝ, a.s. – dispute concerning CZK 4 billion

The High Court in Prague ordered a hearing to be held in September 2020.

II. European Commission – proceedings about network sharing with T-Mobile

The Company continues to communicate with the European Commission. Within the deadline of 31 January 2020, the Company sent the European Commission a response to the statement of objections, including an analysis of the benefits of network sharing and quality of coverage in the Czech Republic. In the opinion of the Company, the proceedings are currently at such a stage that it is reasonable to assume that the European Commission will not adopt a substantive decision on the matter before the spring of 2021. The European Commission may also stop the proceedings altogether even sooner. The European Commission has ordered a hearing to be held in September 2020.

III. Other

No developments occurred in other significant legal disputes disclosed in the Group's consolidated financial statements as at 31 December 2019 that are part of the Annual Report. The Company is involved in other legal disputes where the amount disputed reaches over CZK 5 milion. The aggregate value of all these pending disputes totals to CZK 36 million. Risks associated with individual disputes are not significant.

The Company considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Company in these cases. The Company is convinced that all litigation risk has been appropriately reflected in the financial statements.

14 Commitments

Capital expenditure contracted but not yet included in the consolidated financial statements as at 30 June 2020 amounted to CZK 329 million (as at 31 December 2019: CZK 385 million). The majority of contracted amounts relates to the construction of telecommunications networks and upgrades and development of internal IT systems.

15 Related party transactions

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

The PPF Group invests in a variety of industries, ranging from banking and financial services, to telecommunications, real estate and biotechnology. The PPF Group operates in Europe, Russia, Asia and the USA.

The Group provides services to all related parties on common commercial terms and at market prices. Outstanding balances of receivables 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 asset balances are tested for impairment as at the balance sheet date. As at 30 June 2020 and as at 31 December 2019, no specific allowance or write-off was incurred.

The following significant transactions were carried out with related parties:

I. Parent company:

The dividend and other distributions declared during the six months period ended 30 June 2020 to the shareholders from the PPF Group amounted to CZK 5,281 million (for the period of six months ended 30 June 2019: CZK 5,281 million). As at 30 June 2020 and 31 December 2019, the liability from dividends and other distributions to shareholders from PPF Group was fully paid.

II. CETIN a.s.:

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

Amongst the most important new relationships are the following wholesale agreements:

a) mobile network services agreement
The subject of the agreement is the provision of mobile network services offering coverage by CDMA, 2G, 3G and LTE within the Czech Republic. The agreement also contains arrangements about the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Group is obliged to use the services for a period of seven years, that is until 31 May 2022. The total cost during the six months period ended 30 June 2020 was CZK 2,336 million (for the six months ended 30 June 2019: CZK 2,335 million).

b) agreement on access to the public fixed communications network (so-called MMO)
The subject of the MMO agreement is access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement has been concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to take up at least 640,000 xDSL lines for a period of seven years after signing the agreement, that is until 31 May 2022 (which represents only part of the

total payment). The total cost for the six months ended 30 June 2020 was CZK 1,744 million (for the six months ended 30 June 2019: CZK 1,827 million).

c) agreement on access to end points (so-called RADO)
CETIN enables the Group access to end points, which include the provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for the sections provided based on transfer speed. The total cost for the six months ended 30 June 2020 was CZK 406 million (for the six months ended 30 June 2019: CZK 410 million).

III. AB 4 B.V.:

In accordance with capital optimisation and risk management the subsidiary O2 Slovakia, s.r.o. entered in June 2020 into an agreement for the issue and purchase of certificates, for which the portfolio of receivables from the instalment sale of mobile hardware serves as the underlying asset. The issue enabled O2 Slovakia, s.r.o. to immediately obtain financial resources in the amount of CZK 1,003 million, which otherwise would be collected from the instalment sales on an ongoing basis. The company O2 Slovakia, s.r.o. transferred all the benefits and risks arising from transferred receivables with a book value of CZK 1,014 million to the certificate holder throught the issue of the certificate („economic transfer of receivables without recourse“). This fulfilled the conditions for derecognition of financial assets in accordance with IFRS 9 Financial Instruments and the Group derecognised the transferred receivables at the date of sale. Despite the transfer of risk, the company O2 Slovakia, s.r.o. remained the legal owner of the receivables and, in accordance with the contract, continues to manage and collect these receivables. The sale has no impact on the relationship between O2 Slovakia, s.r.o. and its customers. As at the date of sale, the Group recognised one-off cost related to the sale of receivables of CZK 34 million in Finance cost and a liability for management and collection of receivables of CZK 23 million, which the Group will accrue to revenues for the period of administration of transferred receivables.

16 Subsidiaries, associates and joint ventures

The Group held interests in the following entities as at 30 June 2020 and 31 December 2019:

Subsidiaries		Group's interest as at 30 June 2020	31 December 2019	Country of incorporation	Activity	Method of consolidation
1.	O2 Slovakia, s.r.o.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)

2.	O2 Family, s.r.o.	100 %	100 %	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
3.	O2 TV s.r.o.	100 %	100 %	Czech Republic	Digital television	Consolidated (full consolidation)
4.	O2 IT Services s.r.o.	100 %	100 %	Czech Republic	Information technology services	Consolidated (full consolidation)
5.	Bolt Start Up Development a.s.	100 %	100 %	Czech Republic	Start-up fund	Consolidated (full consolidation)
6.	O2 Business Services, a.s.	100 %	100 %	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
7.	eKasa s.r.o.	100 %	100 %	Czech Republic	Electronic sales reporting (“EET”) solution provider	Consolidated (full consolidation)
8.	O2 Financial Services s.r.o.	100 %	100 %	Czech Republic	Financial Services intermediary	Consolidated (full consolidation)
9.	mluvii.com s.r.o.	100 %	100 %	Czech Republic	On-line communication platform	Consolidated (full consolidation)
10.	Smart home security s.r.o.	100 %	100 %	Czech Republic	Provider of home security equipment and services	Consolidated (full consolidation)
11.	INTENS Corporation s.r.o.	100 %	100 %	Czech Republic	Provider of transport telematics services	Consolidated (full consolidation)
12.	Emeldi Technologies, s.r.o.	51%	51%	Czech Republic	Software development and sales	Consolidated (full consolidation)
Associates						
13.	První certifikační autorita, a.s.	23 %	23 %	Czech Republic	Certification services	Not consolidated (immaterial)
14.	AUGUSTUS, spol. s.r.o.	40 %	40 %	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)

Joint ventures						
15.	Tesco Mobile ČR s.r.o.	50 %	50 %	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
16.	Tesco Mobile Slovakia, s.r.o.	50 %	50 %	Slovak Republic	Mobile virtual network operator for prepaid services	Not consolidated (immaterial)

17 Financial instruments measured at fair value

The Group has the following financial instruments measured at fair value:

In CZK million	30 June 2020	31 December 2019
Financial assets		
Financial derivatives - interest (hedge accounting)	-	28
Financial derivatives - foreign currency (trading)	3	-
Financial instruments at fair value through profit or loss	7	6
Financial instruments at fair value through other comprehensive income	40	40
Total financial assets measured at fair value	**50**	**74**
Financial liabilities		
Financial derivatives – foreign currency (trading)	7	6
Financial derivatives – interest (trading)	8	-
Financial derivatives - interest (hedge accounting)	85	-
Total financial liabilities measured at fair value	**100**	**6**

As at 30 June 2020 and as at 31 December 2019, the Group held equity securities and loans provided classified as Level 3 fair value in the fair value hierarchy and financial derivatives classified as Level 2.

The Group calculates the fair value of the derivative financial instruments on the basis of discounted cash flow models (using market rates).

Financial instruments at fair value through profit or loss represent the loan provided, which includes an embedded derivative in the form of an option to convert the debt into equity. In accordance with IFRS 9, the hybrid contract has been assessed for measurement as a whole. The fair value was determined by the income approach using the discounted cash flow method, taking into account the intrinsic value of the conversion option. Cash flows were discounted at the discount rate reflecting their risk. The intrinsic value of the conversion option was determined with respect to the Company's estimated value and the probability of option activation.

Financial instruments at fair value through other comprehensive income represent equity securities. Their fair value was determined by the income approach using the discounted cash flow method. Cash flows were discounted at the discount rate reflecting their risk.

During the reporting period ending 30 June 2020 and 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3.

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of their fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rates. An exception are the tranches of Schuldschein financing with fixed interest rates (Note 12) with a total carrying amount of CZK 3,833 million as at 30 June 2020 (as at 31 December 2019: CZK 3,810 million) and a fair value of CZK 3,871 million at the same date (as at 31 December 2019: CZK 3,663 million).

The fair value was calculated on the basis of contractual cash flows discounted using a current yield rate. It is classified as Level 3 fair value in the fair value hierarchy due to the inclusion of unobservable inputs, which cannot be directly derived from data obtained in active markets, such as its own credit risk.

18 Post balance sheet events

Cancellation of treasury shares

On 2 July 2020, the General Meeting adopted a resolution on the optimisation of the capital structure, on the basis of which treasury shares with a total nominal value of CZK 93 million will be cancelled. The Company's share capital will be reduced from CZK 3,102 million to CZK 3,009 million. The total acquisition price of the cancelled shares amounts to CZK 2,348 million. The Company's share premium will be reduced by the difference between the acquisition price and the nominal value of the shares in the amount of CZK 2,254 million. The Annual General Meeting took place per rollam (by letter) from 11 May to 2 July 2020.

The agreement for the issue and sale of a certificate

In accordance with capital optimisation and risk management the Company concluded on 13 August 2020 with AB 4 B.V. an agreement for the issue and sale of a certificate, for which the portfolio of receivables from the instalment sale of fixed hardware serves as the underlying asset. The issue enabled the Company to immediately obtain financial resources in the amount of CZK 463 million, which otherwise would be collected from the instalment sales on an ongoing basis. The Company transferred all the benefits and risks arising from transferred receivables with a book value of CZK 470 million to the certificate holder throught the issue of the certificate. Despite the transfer of risk, the Company remained the legal owner of the receivables and, in accordance with the contract, continues to manage and collect these receivables. The economic transfer has no impact on the relationship between the Company and its customers.

Other

No events occurred subsequent to the balance sheet date which could have a material impact on the condensed consolidated financial statements for the six months ended 30 June 2020.

17 August 2020

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

Declaration of persons responsible for the Half-Year Report

Declaration of persons responsible for the Half-Year Report

Jindřich Fremuth, Chairman of the Board of Directors of O2 Czech Republic a.s.

and

Tomáš Kouřil, Vice-chairman of the Board of Directors of O2 Czech Republic a.s.

hereby declare that, to their best knowledge, the consolidated Half-Year 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 projection on the future development of the financial situation, business and results.

17 August 2020

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

O2 Czech Republic a. s.

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