Annual Report 2019

This version of the Annual Report is a translation from the original which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original.

However, in all matters of interpretation of information, views or opinions, the Czech version of the Annual Report takes precedence over this translation.

Note:
O2 Czech Republic a.s., further below also as “O2 CZ” or “Company”.
O2 Slovakia, s.r.o., further below also as “O2 Slovakia”.

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01 Financial and operating highlights

Financial and operating highlights

Financial data is based on the Consolidated Financial Statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

	2019	2018
Financials (in CZKm)		
Revenues [1]	38,760	37,996
EBITDA – Earnings before depreciation and amortization	12,619	11,163
Operating profit	7,241	7,108
Profit before taxes	6,885	6,916
Profit for the period	5,460	5,448
Total assets	42,680	36,130
Property, plant and equipment	6,171	6,130
Intangible assets	15,457	17,164
Total equity	14,177	15,225
Financial debts (long-term and short-term) [2]	14,596	10,499
Capital expenditure (fixed assets additions)	2,432	4,417
Retained earnings – consolidated	4,882	4,529
– unconsolidated	7,029	6,804
Operating indicators (as at year-end)		
Fixed voice lines (in thousand)	462	514
Fixed broadband (in thousand) [3]	835	808
Pay TV – O_2 TV (in thousand) [4]	443	335
Mobile customers in the Czech Republic (in thousand) [5]	5,858	5,467
Mobile customers in Slovakia (in thousand) [6]	2,149	2,028
Number of employees in the Group	5,116	5,381
Ratios		
EBITDA margin (EBITDA/Revenues, in %)	32.6	29.4
Profit after taxes / Revenues (in %)	14.1	14.3
Capital expenditure / Revenues (in %)	6.3	11.6
ROA (Profit after taxes / Total assets, in %)	12.8	15.1
ROE (Profit after taxes / Equity, in %)	38.5	35.8
Gross gearing (Financial debts / Total equity, in %)	103.0	69.0
Net debt (Financial debt less Cash and cash equivalents) / EBITDA	0.68	0.72
Profit [7] per share – consolidated	18.1	18.1
– unconsolidated	17.8	17.8
Macroeconomic indicators [8]		
CZK/EUR exchange rate – average	25.67	25.64
CZK/EUR exchange rate – at end of period	25.41	25.73

1 Excluding revenues from non-telecommunications services.
2 Excluding lease liabilities.
3 Fixed (xDSL, fibre), wireless (4G LTE, WTTx). Year 2018 adjusted based on a new methodology.
4 IPTV & OTT, Prepaid (O_2 TV Sport Pack online and O_2 TV HBO and Sport Pack tariffs).
5 Mobile customers who have generated revenue in the past 13 months. Year 2018 adjusted based on a new methodology.
6 Mobile customers who have generated revenue in the past 3 months. Mobile customers and wireless broadband customers.
7 Profit attributable to equity holders of the Company divided by weighted average of shares outstanding.
8 Source: Czech National Bank web page (FX rates of other currencies).

02 Basic information as required by the Capital Markets Undertakings Act

Basic information as required by the Capital Markets Undertakings Act

Company information

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

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

O2 Czech Republic concern and the Group organisation structure

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

with a registered seat in the Czech Republic [1]

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

with a registered seat in Slovakia [2]

- O2 Slovakia, s.r.o.
- O2 Business Services, a.s.[3]

Details of those companies, including the list of associates and joint ventures, as well as any changes which occurred in 2019, are given in Note 24 to the Consolidated Financial Statements.

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

1 The seat of all companies is Praha 4, Michle, Za Brumlovkou 266/2, Postal Code 140 22.
2 The seat of both companies is Bratislava, Einsteinova 24, Postal Code 851 01.
3 Owned through the subsidiary O2 Slovakia, s.r.o.
4 The company was a member of the Group until 7 May 2019, when an agreement on the transfer of a share in a limited liability company was concluded, the subject of which was the transfer of a 100% stake in Bolt Start Up Development a.s. to Livesport Invest s.r.o.

Employees

Total headcount in FTE of the Group by market as at 31 December 2019:

O2 Czech Republic	4,059
O2 Family	87
O2 TV	13
O2 IT Services	161
Other companies [5]	40
EMPLOYEES IN THE CZECH REPUBLIC	**4,360**
O2 Slovakia	715
O2 Business Services	41
EMPLOYEES IN SLOVAKIA	**756**
GROUP EMPLOYEES TOTAL	**5,116**

Rating

As at 31 December 2019, O2 CZ or any member of the Group did not have a corporate rating.

Summary report pursuant to Section 118 of the Capital Markets Undertakings Act

Equity

Structure of unconsolidated capital of the Company as at 31 December 2019:

	(in CZKm)
Share capital	3,102
Share premium	8,264
Treasury shares	-2,348
Funds	8
Cash flow securitization	22
Retained earnings	7,029
TOTAL	**16,077**

5 eKasa, O2 Financial Services, INTENS Corporation, mluvii.com, Emeldi Technologies.

Share capital

The share capital of O2 CZ as of 31 December 2019 in the amount of CZK 3,102,200,670 was fully paid and was formed by the following shares:

Type:	ordinary
Kind:	registered
Form:	booked
Total volume of issue:	310,220,057
Nominal value:	CZK 10
Total volume of issue	CZK 3,102,200,570
ISIN:	CZ0009093209
Type	ordinary
Kind:	registered
Form:	booked
Total volume of issue:	1
Nominal value:	CZK100
Total volume of issue	CZK 100
ISIN	CZ0008467115

Each CZK 10 of the nominal value of shares represents one vote; the total number of votes attached to the Company's shares is 310,220,067. The Company's share capital has not changed in the course of 2019.

Regulated markets

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

Significant direct and indirect shares in the voting rights

Key shareholders of O2 CZ as of 31 December 2019: [6]

	Name	Address	Share of the share capital	Share of the voting rights
1	PPF Telco B.V.	Strawinskylaan 933, Amsterdam, Nizozemské království	65.79%	67.83%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Nizozemské království	10.27%	10.59%
3	PPF CYPRUS MANAGEMENT LIMITED	Themistokli Dervi 48, Nicosia, 1066, Kyperská republika	5.00% [7]	5.16%
PPF Group total			81.06%	83.58%
4	O2 Czech Republic a.s. (vlastní akcie)	Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Česká republika	3.01%	0.00%
5	Investiční fondy a individuální vlastníci	–	15.93%	16.42%

Large shareholders do not have different voting rights than other shareholders.

The Company's major shareholders belong to PPF Group. The Company is controlled by Petr Kellner through its major shareholders. PPF Group has stated on its website (www.ppf.eu) that, from the perspective of PPF Group (and its controlling entities), O2 CZ was a financial investment and PPF Group did not interfere with its operative management.

6 Source: Central Securities Depository.
7 Rounded off.

Rights and obligations related to shares

The rights and obligations related to the registered share which represents a share in O2 CZ are set out in Article 5 of the Articles of Association of the Company:

1. The rights and obligations of the shareholders are determined by legislation and the Articles of Association. A shareholder of the company may be a domestic or foreign legal entity or a natural person.
2. A shareholder is entitled under the law to attend the General Meeting, to vote at it, can request attendance and attend it, or receive at it, or prior to it and during fulfilment of legally determined conditions after it, explanation of matters concerning the company or its controlled persons, if such explanation is necessary for judging matters included in the General Meeting or to exercise his shareholder rights to it, and to make proposals and counterproposals. Providing explanation to the shareholder is governed mainly by the provisions of Section 357 et seq of the Business Corporations Act. Implementing proposals and counterproposals is governed mainly by the provisions of Section 361 et seq of the Business Corporations Act.
3. A shareholder is entitled to a share in the profit of the company (dividend), which the General Meeting approved according to the financial result for division amongst shareholders; this does not affect the possibility for other persons listed in Article 35(2) to obtain a share of the profit. The shareholder's share in the profit is determined by the proportion of the nominal value of his shares to the nominal value of shares of all shareholders.
4. Throughout the duration of the company's existence or in case of its winding down, the shareholder is not entitled to request the return of the subject of his deposit.
5. Upon liquidation of the company, the shareholder is entitled to share in the liquidation balance. This share is determined, and its payment is governed mainly by the provisions of Section 549 to 551 of the Business Corporations Act.
6. The shareholder is obliged to uphold legal regulations, mainly to act honourably, to abide by the internal rules of the company, including these Articles of Association, and to exercise his rights in relation to the company responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the company or the other shareholders who or which could and should be known to the shareholder.
7. The company is obliged to act towards all shareholders honourably and justly, to treat all shareholders equally under the same conditions and to enable all shareholders equal exercise of their own rights. The company is obliged to act towards all shareholders responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the shareholders, who or which could and should be known to the company.

Restriction on the transferability of shares

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

Holders of shares with special rights

The Company has not issued any securities with special rights.

Restriction of voting rights

Voting rights are attached to all shares issued by the Company and may be restricted or excluded only in instances set out in the law. The Company is not aware of any such statutory restriction or exclusion of voting rights with the exception of the exclusion of voting rights with respect to treasury shares. Pursuant to Section 309(1) of the Business Corporations Act, the Company does not exercise any voting rights with respect to treasury shares. The Company's Articles of Association do not stipulate any restriction of voting rights; there are no other restrictions for reasons that would be on the part of the Company.

Agreements between shareholders which could restrict the transferability of shares

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

Special rules for the election and recall of members of the statutory body or amendment to the articles of association

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

Special powers of members of the statutory executive body

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

Significant agreements Relating to change in control over the Company as a result of a takeover bid

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

Agreements binding the Company in relation to a takeover bid

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

Employee shares

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

Auditor fees

Total remuneration collected by the audit firm KPMG Česká republika Audit, s.r.o. and entities in the KPMG network broken down by type of service in 2019:

	For O2 CZ (in CZKths)	For the Group (in CZKths)
KPMG Česká republika Audit, s.r.o.		
Statutory audit	6,720	8,290
Other audit services	850	1,090
KPMG Slovensko spol. s r.o.		
Statutory audit	0	1,100
Other companies in the KPMG network		
Other services	4	261
TOTAL	**7,574**	**10,741**

Apart from the annual statutory audit, the audit firm and its related parties provided in 2019 the following services to O2 CZ: agreed upon procedures in the area of payment clearing; test of interim and annual financial data; audit of the opening balance sheet and financial statements of a company involved in a merger; assistance with the completion of a tax return for a subsidiary.

Alternative performance measures

The Annual Report lists some alternative performance measures which are not reported as standard in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. O2 CZ provides more detailed information on these alternative performance measures, which represent supplementary information in respect of financial data, providing report users with additional information for their assessment of the financial position and performance of the Group in accordance with the ESMA Guidelines on Alternative Performance Measures.

For the accounting period starting on 1 January 2019, the Group is required to comply with the new standard IFRS 16 - Leasing, which supersedes all existing international accounting policies for both the lessee and the lessor. The Group adopted the new IFRS 16 using a modified retrospective approach. Comparative figures for 2018 are not adjusted to the new IFRS 16 unless explicitly stated otherwise in the table. For a full comparison with 2018, alternative performance measures that were affected by IFRS 16 in 2019 are stated without the impact of IFRS 16. In 2019, the impact of adoption of IFRS 16 was CZK 787 million on EBITDA and negative CZK 45 million on net consolidated profit.

Measure	**Definition**	**Purpose**	**Reconciliation to financial statements (in CZKm)**
EBITDA	Earnings before tax, depreciation and amortization	Shows operating performance of the company	see the Consolidated statement of total comprehensive income (EBITDA): 2018: 11,163 2019: 12,619 [CZK 11,832m without the impact of IFRS 16 (12,619 - 787)]
EBITDA margin	EBITDA/Revenues	Measures operating profitability of the company	see the Consolidated statement of total comprehensive income (Revenues and EBITDA): 2018: 11,163 / 37,996 = 29.4% 2019: 12,619 / 38,760 = 32.6% [30.5% without the impact of IFRS 16 (11,832 / 38,760)]
ROA	Profit for the period/Total assets	Shows how effectively assets are used for profit generation	see the Consolidated statement of total comprehensive income (Profit for the period) and the Consolidated balance sheet (Total assets): 2018: 5,448 / 36,130 = 15.1% 2019: 5,460 / 42,680 = 12.8% [12.9% without the impact of IFRS 16 (5,505 / 42,680)]
ROE	Profit for the period/Total equity	A ratio of the reported profit to the capital invested by the shareholders in the company	see the Consolidated statement of total comprehensive income (Profit for the period) and the Consolidated balance sheet (Total equity): 2018: 5,448 / 15,225 = 35.8% 2019: 5,460 / 14,177 = 38.5% [38.8% without the impact of IFRS 16 (5,505 / 14,177)]
Gross gearing	Borrowings/Total equity	Shows the share of borrowings the company uses for its operation to total equity	see the Consolidated balance sheet (Total equity, Long/short-term financial debts): 2018: (10,461 + 38) / 15,225 = 69.0% 2019: (7,530 + 7,066) / 14,177 = 103.0%

Measure	Definition	Purpose	Reconciliation to financial statements (in CZKm)
Net debt/ EBITDA	(Borrowings less Cash and cash equivalents)/EBITDA	Expresses the company's ability to pay its debts; roughly reflects the time the company needs to repay all its debts from its standard operating cash flow	see the Consolidated statement of total comprehensive income (EBITDA) and the Consolidated balance sheet (Cash and cash equivalents, Long/short-term financial debts): 2018: (10,461 + 38 - 2,475) / 11,163 = 0.72 2019: (7,530 + 7,066 - 5,989) / 12,619 = 0.68 [0.73 without the impact of IFRS 16 (7,530 + 7,066 - 5,989) / (12,619 - 787)]
Capital expenditures/ Revenues	Capital expenditures (Fixed assets additions)/Revenues	Expresses the amount the company invests in its future development	see the Consolidated statement of total comprehensive income (Revenues) and Note 1 "Segment information" of the Notes to the consolidated financial statements (Fixed assets additions): 2018: 4,417 / 37,996 = 11.6% 2019: 2,432 / 38,760 = 6.3%
Free cash flows	Net free operating cash flow less net free investing cash flow (from 2019, interest paid, including interest expense on lease obligations, is included in cash flows from financing activities, while until 2018 it had been included in net cash flows from operating 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 the Consolidated cash flow statements (Net operating cash flow, Net investing cash flow): 2018: 7,713 - 2,813 = 4,900 2019: 9,980 – 2,989 = 6,991 [6,205 without the impact of IFRS 16 (6,991 - 688 - 98)]

Non-financial information

The Company publishes non-financial information (including information on sustainability and employee relations activities) in a separate report in the scope as required by Section 32(g) of Act No. 563/1991, On accounting. The separate report will be made available on 30 June 2020 at the Company's website www.o2.cz/spolecnost in section Investor Relations. This report will also include a description of any environmental issues that may affect the Company's use of tangible fixed assets.

Legal norms which the company observes in the course of its business

As an issuer of listed securities, O2 CZ was governed in 2019 by its activities in particular by the following legal regulations:

- Act No. 89/2012 Coll., the Civil Code,
- Act No. 90/2012 Coll., the Business Corporations Act,
- Act No. 256/2004 Coll., On capital market undertakings,

- Act No. 127/2005 Coll., On electronic communications,
- Act No. 231/2001 Coll., On radio and television broadcasting,
- Act No. 134/2016 Coll., On public procurement,
- Act No. 257/2016 Coll., On consumer credit,
- Act No. 170/2018 Coll., On the distribution of insurance and reinsurance,
- Act No. 121/2000 Coll., On copyright,
- Act No. 480/2004 Coll., On certain information society services,
- Act No. 132/2010 Coll., On on-demand audiovisual media services,
- Act No. 496/2012 Coll., On audio-visual works and support of cinematography,
- Act No. 40/1995 Coll., On the regulation of advertising,
- Act No. 441/2003 Coll., On trademarks,
- Act No. 563/1991 Coll., On accounting,
- Act No. 110/2019 Coll., On the processing of personal data,
- Act No. 143/2001 Coll., On the protection of competition,
- Act No. 634/1992 Coll., On consumer protection,
- Act No. 181/2014 Sb., On cyber security,
- Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data,
- Regulation (EU) 531/2012 of the European Parliament and of the Council on roaming on public mobile communications networks in the Union,
- Regulation (EU) 2015/2120 of the European Parliament and of the Council laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union.

Activities in research and development

The Group incurs internal costs associated with research and development activities pursuant to Section 2 (1) of the Act No. 130/2002 Coll., On support of research and development. In 2020, O2 CZ, as a major technology company, will be involved in the research and development of artificial intelligence, the application of which is expected not only in telecommunications, but also in banking, healthcare and pharmaceutical industry. The activities that will be carried out at internal artificial intelligence centre Dataclair.ai will be focused on advanced big data processing, machine learning and neural networks.

Foreign branches

O2 CZ owns 100% shares in O2 Slovakia, s.r.o., and O2 Business Services, a.s., and does not have a branch or any part of the business establishment in another country.

03 Board of Directors' review of business

Board of Directors' review of business

About Group and summary of the main events in 2019

O2 CZ is the largest integrated telecommunications operator on the Czech market. It provides voice, internet and data services to customers ranging from households to small and medium-sized businesses to large corporations. The Company is also the largest Internet provider for households and businesses, which is available in 99% of the inhabited territory of the Czech Republic. With its O_2 TV service, O2 CZ is the largest provider of Internet TV service in the Czech Republic. O2 CZ has acquired many exclusive rights to sports content for its customers, and as a result, it has the most attractive sports proposition on the Czech television market. The Company is also one of the largest players in hosting and cloud services as well as in managed services and ICT. As trends in the telecommunications sector are changing significantly, O2 CZ also focuses on the development and offering of unconventional telecommunications services. These include, in particular, cybersecurity services, financial services such as device insurance, mobile travel insurance or the technical fiscalization solution called O_2 eKasa.

Virtual operators also use the O2 CZ mobile network to operate their services. The most important MVNOs in terms of the size of the customer base are O2 Family, BLESKmobil, Tesco Mobile and MOBIL OD ČEZ.

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

Through the O2 Foundation, O2 CZ focuses on helping children and young people. The O2 Smart School programme helps teachers and parents teach children how to use the Internet safely and smartly. The Foundation traditionally supports assistance and accessibility services for the deaf and blind and the Safety Line for children and Seniors Line for elderly citizens. As part of a long-term social responsibility campaign, Freedom Must Not Be Taken for Granted, it recalls historic moments of the second half of the 20th century.

The Board of Directors considers 2019 a successful year for the Group. In 2019, O2 CZ's new mobile, television and internet tariffs led to a record increase in the number of customers. In addition to mobile tariffs with unlimited data allowances, the Company introduced new tariffs for home internet and O_2 TV. The increasing number of customers for all services confirmed that the decision of the Company's management to invest more resources in the previous two years in the acquisition of exclusive sports content rights, further strengthening of the mobile network in Slovakia and transformation of information systems had been the right move. O_2 Spolu bundles continue to be a factor in the recent growth of the customer base. The increase in customer numbers and record investments in 2017 and 2018 have contributed to a higher EBITDA. At the same time, these investments increased the accounting depreciation and, as a result, negatively influenced the net profit, but even this indicator showed a positive trend in 2019.

As a result of the new tariff proposition, the number of O_2 TV customers increased by more than 100 thousand in 2019 and the number of broadband Internet HD customers by 26 thousand. In 2019, O2 Slovakia focused on further expanding its 4G LTE mobile data network. This was available to 97.4% of the Slovak population at the end of the year. Thanks to the attractive product proposition, the customer base in Slovakia grew by more than 120 thousand year on year.

Factors influencing the business

Czech and Slovak telecommunications market

In line with developments in the Czech telecommunications market in the previous period, operators continued to modify and improve service bundles that combine fixed and mobile services. All mobile operators have begun to offer tariffs with unlimited data allowances.

As part of the completion of the acquisition of part of Liberty Global in some European countries by the Vodafone Group, with effect from 1 August 2019, UPC Czech Republic was acquired by Vodafone Czech Republic.

The development on the Slovak telecommunications market in 2019 was also marked by the strengthening of fixed mobile convergence and the first ever integration of digital services into O2 Slovakia's flat rates. Major operators also focused on motivating customers towards the use of mobile self-service tools.

Based on publicly available information, O2 CZ and O2 Slovakia slightly strengthened their position on the Czech and Slovak markets in terms of the number of customers.

Regulation

In November 2019, an amendment to the Electronic Communications Act was approved. The amendment reduces the number portability time, allowing it to be implemented by the receiving provider, and regulating the operator's claim and its amount to be paid in the event of early termination of a contract. The amendment also requires the regulator, the Czech Telecommunication Office (CTO), to publish a comparative service tool. Most of the amended points will come into effect on 1 April 2020.

On 15 May 2019, the provisions of Regulation (EU) No 2018/1971 of the European Parliament and of the Council entered into force, setting maximum retail prices for consumers for international calls and SMS to EU Member States at CZK 5.89 per minute of call and CZK 1.86 per SMS.

Throughout 2019, the CTO continued in public consultations on the form of the tendering procedure for the 700 MHz and 3500 MHz frequency spectrum. In November, following the settlement of the comments of the Office for the Protection of Economic Competition, the public consultation was closed, and the anticipated timetable for conducting the tender (auction) in 2020 was published. By the date of approval of this Annual Report the tender was not announced.

In connection with the process of voluntary regrouping of the 900 MHz frequency spectrum into coherent blocks by all holders (the so-called refarming), in December the Company has been issued a new allocation of spectrum frequencies in which the Company has long operated its 2G (GSM) service. The new allocation to the now consolidated frequency spectrum block will allow for more efficient use of the spectrum with new technologies.

During the second half of 2019, the European Commission recommended to the CTO, following the evaluation of the three-criteria test, not to proceed with the analysis of the wholesale market for mobile services. However, the CTO decided not to follow this recommendation and in December included this market in the list of relevant markets.

Comments on the consolidated financial and operating results

In this section the Board of Directors presents and comments on the consolidated financial results of the Group based on the consolidated financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Consolidated financial results

Consolidated statement of comprehensive income

The Group posted total consolidated revenues of CZK 38.8 billion in 2019, up 2% year on year, with revenues growing in both countries. Mobile data, financial services, O_2 TV and equipment sales were the main drivers of the growth. In the Czech Republic, revenues grew 2.3% to CZK 31.6 billion, as a result of a 2.6% increase in fixed line revenues to CZK 10.7 billion and a 2.1% year-on-year increase in the mobile segment to CZK 20.9 billion. In Slovakia, total revenues increased 2.2% in 2019 to CZK 7.6 billion.

Consolidated revenues shown in regional segmentation:

	year ended 31 December (in CZKm)	
	2019	**2018**
Czech Republic	**31,578**	**30,874**
Mobile segment [1]	20,908	20,472
Fixed segment	10,670	10,402
Slovakia	**7,647**	**7,486**
Consolidation adjustments	-465	-364
Consolidated revenues total	**38,760**	**37,996**

Total consolidated costs fell 2.6% year on year to CZK 26.7 billion in 2019. While costs in the Czech Republic declined by 1.6% year on year to CZK 22.4 billion, in Slovakia they fell at the rate of 5.8% to CZK 4.7 billion. This decline was mainly due to the application of the new IFRS 16 – Leases as of 1 January 2019 (see Note Accounting Policies to the consolidated financial statements). Without the application of IFRS 16, consolidated costs would be the same year on year. Direct sales costs declined by 1.2% year on year (by 0.3% excluding the effect of IFRS 16 application), as lower fixed cost sales and lower mobile commissions more than compensated for the increase in fixed equipment and accessories costs associated with higher revenue and higher costs of sales of mobile services due to the expansion of broadband wireless technology coverage in the Czech Republic. Personnel costs increased 0.8% in 2019 but fell in the second half of the year due to a lower employee headcount. Third-party service costs were down 17.5% year on year as a result of IFRS 16 application. Without IFRS 16, they would be up 1.5%, mainly due to higher rental and energy costs.

Earnings before interest, tax and depreciation and amortization (EBITDA) reached CZK 12.6 billion in 2019, up 13% compared to 2018. Excluding the effect of IFRS 16 application (CZK 787 million), it would increase 6% year on year to CZK 11.8 billion. In the Czech Republic, EBITDA grew 12% to CZK 9.6 billion (5.7% excluding the effect of IFRS 16), while in Slovakia it rose 18% to CZK 3.1 billion (8.5% excluding the effect of IFRS 16). As a result, the consolidated EBITDA margin reached 32.6% in 2019, an increase of 3.2 percentage points compared with 2018 and 1.1 percentage points excluding the effect of IFRS 16 application.

Consolidated operating income increased 1.9% year on year to CZK 7.2 billion in 2019, while consolidated income before tax fell 0.4% to CZK 6.9 billion. Depreciation of tangible and intangible assets and assets from rights of use increased 34.3%, depreciation of tangible and intangible assets (i.e. excluding the effect of IFRS 16 application) increased 13.4% due to higher investments in 2018. Net financial expenses increased 84.5% year on year; 33.8% without the effect of IFRS 16 application, mainly due to higher financial debt. Consolidated profit after tax reached CZK 5.5 billion in 2019, up 0.2% year on year. Excluding the impact of IFRS 16 application (CZK -45m), it would be higher by 1.1%.

Consolidated balance sheet

The net book value of property, plant and equipment amounted to CZK 6.2 billion as at 31 December 2019, which represents a 0.7% increase compared to the end of 2018. Telecommunications technologies and equipment, including, in particular, exchanges and transmission technologies for telecommunications networks, accounted for the largest part of the net book value of property plant and equipment as at 31 December 2019.

The net book value of intangible assets decreased 9.9% year on year to CZK 15.5 billion

1 Including revenues from wireless (4G LTE and WTTx) broadband HD internet.

as at 31 December 2019, mainly due to lower investments in 2019 compared to the previous year. The higher investments in 2018 went mainly into the acquisition of broadcasting rights for the UEFA Champions League, and the first Czech football and ice hockey competitions. Software related to the transformation of information systems represented another significant item.

The total amount of consolidated financial debt (short-term and long-term) amounted to CZK 14.6 billion as at 31 December 2019, compared with CZK 10.5 billion at the end of 2018. The increase of CZK 4.1 billion was mainly due to new subscriptions in the form of Schuldschein debt instruments totalling EUR 160 million in four tranches in April 2019. More information on financial debts is given in Note 15 to the Consolidated Financial Statements of this Annual Report. As at 31 December 2019, the volume of cash and cash equivalents reached CZK 6 billion, bringing the ratio of net debt to EBITDA to 0.68 as at 31 December 2019.

Consolidated capital expenditure

Total consolidated capital expenditures (additions to fixed assets) amounted to CZK 2,432 million in 2019, down by 45.0% year on year; the ration of consolidated capital expenditure to consolidated revenues was 6.3%.

Capital expenditure in Slovakia dropped 10.7% year on year down to CZK 987 million; the ratio to revenues declined 2.4 percentage points to 12.9%. Almost 80% of capital expenditure in Slovakia in 2019 were network-related investments. Capital expenditure in Slovakia was mainly directed at increasing the coverage of the proprietary 2G network in order to reduce dependence on national roaming. O2 Slovakia also continued to expand its 4G LTE and WTTx network service and increase backbone and transmission network capacity to meet the growing demand for mobile data.

In the Czech Republic, capital expenditure reached CZK 1,445 million in 2019, down 56.4% year on year. The ratio of capital expenditure to revenues declined by six percentage points year on year, down to only 4.6% in 2019. The main areas of investment were the transformation of information systems and investments in networks related to the development of new services. In addition, investments were also channelled into the acquisition of new sports content rights.

All investments in 2019 were made in the Czech Republic and in Slovakia and have been financed from own and external resources.

Consolidated cash flow statement

Consolidated free cash flows amounted to CZK 6,991 million in 2019, up 42.7% year on year. This was mainly due to a 29.4% increase in operating cash flow due to a positive year-on-year change in working capital and the impact of the new IFRS 16, which more than compensated for the 6.3% increase in net cash used in investing activities. These were higher due to higher cash outflows for the acquisition of fixed assets, which are related to higher capital expenditures in the second half of 2018, paid mainly in the first half of 2019. In the second half, net cash flows from investing activities decreased 11% year on year. Since 2019, interest paid (including interest on lease obligations) is included in net cash flows from financing activities, while until 2018 it was included in net cash flows from operating activities. The results for 2018 have been adjusted for this change.

Under the new IFRS 16, lease liabilities are included in net cash flows from financing activities, while up to 2018 they were included in net cash flows from operating activities. Without the effect of IFRS 16 applications, free cash flows would increase by 26.6% year on year.

Results in the Czech Republic

Revenues in the Czech Republic increased 2.3% year on year to CZK 31.6 billion in 2019. In the fixed access segment, they increased 2.6% to CZK 10.7 billion; O_2 TV revenues and ICT service revenues recorded a 20.9% and 3.2% increase, respectively, and almost 80% higher revenues from equipment sales more than compensated lower revenues from traditional voice services. Mobile segment revenues grew 2.1% to CZK 20.9 billion. A 5% drop in voice and SMS / MMS revenues as a result of an increase in customers using the unlimited and SMS / MMS tariffs have been more than compensated by the 14.4% increase in mobile data revenues and an 11.2% increase in revenues from other mobile services. This increase is positively reflected in revenues from financial services, in particular from device and travel insurance.

On 16 September, O2 CZ started offering *NEO* unlimited data mobile tariffs, which give every customer the flexibility to choose the connection speed according to their needs. As of the same date, the Company also significantly increased data allowances of the improved *FREE+* tariffs which come with unlimited calls. The data allowance of the *FREE+ Zlatý* tariff quintupled to 60 gigabytes; as a result, O2 CZ now offers the lowest price per gigabyte. O2 CZ's new tariffs, including unlimited ones, can be subscribed at the best terms in *O_2 Spolu* bundles. These allow individuals, families and larger groups to flexibly combine different services.

As a result of the continuing popularity of tariffs with higher data allowances and new *O_2 NEO* tariffs and the market demand for combining mobile tariffs with other services in *O_2 Spolu* bundles, the number of registered mobile customers reached a total of 5,858 thousand at the end of 2019. As at 31 December 2019, the customer base of mobile contract services reached the mark of 3,249 thousand, while the number of customers of mobile prepaid services was 1,965 thousand and the number of M2M SIM cards reached 644 thousand.

Almost 77% of handsets in the O2 network are smart devices; more than two thirds of all phones support 4G LTE technology. In 2019, higher data allowances included with the *FREE +*, *O_2 NEO* and *O_2 Data* tariffs, together with an increase in the number of customers with a 4G LTE-enabled smart devices, contributed to a 30% year-on-year increase in small-screen mobile data consumption.

On 1 November, the Company began offering improved O_2 TV and Internet na doma in the form of simple tariffs without a commitment. *O_2 TV Modrá*, which includes 34 channels (22 HD), has been included with home internet tariffs – for the same monthly flat fee and for an open-ended period, which, among other things, saves customers the trouble of switching to DVB-T2.

O_2 TV digital television has further improved its sports content proposition. In addition to the complete FORTUNA:LIGA, UEFA Champions League or the ice hockey Extraliga calendar, the service now includes a new Premier Sport channel with hundreds of live broadcasts from the world's most prestigious football league - the English Premier League. Sports fans will also see two other competitions from the British isle at Premier Sport: the second highest competition, the English Championship, and the Scottish Premiership.

For tennis fans, O2 CZ has acquired extended television rights for the complete WTA tennis tour calendar for another three seasons, i.e. until 2022. Thanks to the unique multidimension functionality, O_2 TV Tennis, the only "tennis only" channel in the Czech Republic, will screen all tournaments and concurrent matches.

The Company also changed the channel mix of O_2 TV tariffs. The entry-level *O_2 TV Bronzová* option brings a cross-sectional mix of 63 channels (27 HD) including O_2 TV Sport. The *O_2 TV Stříbrná* tariff option comes with 101 channels (45 HD) including O_2 TV Tennis, O_2 TV Football, Premier Sport and other film, serial, documentary, children's and sports channels. The highest *O_2 TV Zlatá* tariff option is tailor-made for the most demanding viewers. All HBO channels including HBO OD / GO, other premium film channels, the Svět bundle with foreign language programmes and a wide range of adult channels are all included in the price.

The number of customers of O_2 TV (IPTV and OTT versions), which works over an internet connection from O2 CZ or any other provider, reached a total of 443 thousand as at 31 December 2019. This number also includes customers who hold the monthly subscription to the *O_2 TV Sport Pack online* and *O_2 TV HBO* and *Sport Pack*. These can be activated by credit card and can be cancelled at any time after 30 days. During the course of 2019, the number of O_2 TV customers increased by 106 thousand.

As of 31 December 2019, the number of broadband Internet and cable customers reached 835 thousand. In 2019 their number increased by 26 thousand.

Results in Slovakia

Due to continued investment in expanding the portfolio of services, enhancing their quality and investing in the most modern and affordable mobile network in Slovakia, Group companies in Slovakia showed a growth in the customer base in 2019 and an increase in the proportion of higher-spending contract customers, which produced a year-on-year 3% increase in the average revenue per customer.

As part of its strategy to become a comprehensive operator, O2 Slovakia launched the new O_2 eKasa product after launching Internet na doma and O_2 TV over wireless technology. O_2 eKasa is a comprehensive fiscalization system, and in addition to an end-to-end cash register solution, POS terminal and printer tested by O2 CZ on the Czech market, O2 Slovakia also provides automatic connection to the data network. Similarly to O2 CZ in 2018, O2 Slovakia completed the update of its IT systems in the first half of 2019. The result was the launch of a new Customer Relationship Management (CRM) system, which accelerated customer service at stores. There has also been a complete transition to a new innovative assisted self-service system.

At the beginning of November, O2 Slovakia introduced a new tariff family *O_2 Smart Paušál*. These already include unlimited calling, SMS and MMS as a matter of course. In addition, customers received a generous data allowance for selected applications, as well as subscriptions to premium applications such as HBO GO, Tidal, or news coverage from selected newspapers. *O_2 Smart Paušál* is available in five variants starting at EUR 15. Along with the new *O_2 Paušály*, O2 Slovakia also came out with a special offer of phones. This offer could be taken advantage of by new and existing customers subscribed to any *O_2 Smart Paušál*, *O_2 Paušál* or *O_2 Data*. O_2 Volnost also introduced new data bundles for customers. Customers using data services could get up to twice the amount of data for the same price or choose a weekly data plan.

O2 Slovakia also started selling O_2 Smart Box devices developed by O2 CZ to new customers at home with an external antenna. O_2 Smart Box is not only a modem, but also the hub of a smart home and a solution for better home Wi-Fi network and smart home functions.

O2 Slovakia continues to register a growing interest in its portfolio of smartphones. As a result, the number of customers using smartphones continues to grow, as does the share of customers with LTE phones. Due to the increase in coverage of the 4G LTE network, which was available to 97.4% of the Slovak population at the end of 2019, the growth of LTE phone penetration and the growing market interest in tariffs with higher data allowances, the total number of customers increased 6% to 2,149 thousand. At the end of 2019, the share of mobile contract customers in the total customer reached 64.7%, up 2.1 percentage points year on year.

Outlook for 2020

The objective of the Board of Directors of O2 CZ will be to build on the business and commercial strategy and activities of 2019, as described in this section. Accordingly, in 2020, Group companies will continue to offer and promote their existing ones and develop new, innovative and in many ways unique services and products that will give customers an enhanced experience and meet their requirements.

The Board of Directors of O2 CZ expects that the withdrawal of Great Britain from the European Union will not have a significant effect on the Company's business operations or financial results.

Acquisition of treasury shares of the Company

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

a) the maximum number of shares that the Company may acquire: 31,022,005 book-entered ordinary shares of the Company, the nominal value of each share being 10 CZK on the date of adoption of this resolution;
b) the period for which the Company may acquire shares: 5 years from the date of adoption of this resolution;
c) the lowest price at which the Company may acquire individual shares: CZK 10;
d) the highest price for which the Company may acquire individual shares: CZK 297;
e) the highest aggregate price of all shares that the Company may acquire under this resolution: CZK 8 billion.

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

On 13 December 2017, the Company's Board of Directors decided to implement a new share buyback program on the regulated market, within the framework of the General Meeting resolution and under the following conditions:

a) the aim of the New Programme is to optimize the capital structure of the Company;
b) the maximum purchase price of shares acquired under the New Programme shall not exceed the lower of the following amounts: the maximum purchase price established in accordance with Article 3 (2) of Commission Regulation (EU) No 2016/1052 and the highest purchase price for which the Company may the acquire individual shares according to the resolution of the General Meeting (CZK 297);
c) the lowest purchase price of shares acquired under the new programme will not exceed the lowest purchase price for which the Company may acquire individual shares according to the resolution of the General Meeting (CZK 10);
d) the volume of shares purchased under the new programme in one day will not exceed one quarter of the average daily volume of shares of the Company traded on a regulated market in November 2017, i.e. in the month preceding the month of the Board of Directors' decision;
e) under the new programme, the Company will acquire a maximum number of shares so that the total number of shares acquired by the Company cumulatively for both the previous programme and the new programme does not exceed 4% of all the Company's shares;
f) the duration of the New Programme is no more than two years, or until the volume of shares referred to in point (e) is reached.

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

The acquisition of the Company's own shares in 2018 and 2019 was based on and as per decision by the General Meeting of 8 December 2015 and the second programme approved by the Board of Directors on 13 December 2017.

During 2019, the Company acquired 642,583 of treasury shares for a total acquisition price of CZK 143.8 million. In 2019, no treasury shares were alienated or cancelled. As of 1 January 2019, O2 CZ held a total of 8,695,327 treasury shares with a nominal value of CZK 10 per share (i.e. a total value of CZK 86,953,270), which represented a 2.8% share in the subscribed share capital and a 2.8% share in all voting rights of the Company. The total acquisition cost of these shares was CZK 2,204 million. As at 31 December 2019, the Company held a total of 9,337,910 treasury shares with a nominal value of CZK 10 per share (i.e. a total value of CZK 93,379,100), which represented a 3.01% share in the subscribed share capital and a 3.01% share in all voting rights of the Company. The total acquisition cost of these shares was CZK 2,348 million. Pursuant to Section 309 (1) of the Business Corporations Act, the Company does not exercise voting rights attached to its own shares.

On 4 December 2019, the Company's Board of Directors approved a third share buy-back programme on the regulated market as part of the resolution of the General Meeting, subject to the following conditions:

a) the objective of the third programme is to optimize the capital structure of the Company;
b) the maximum purchase price of the shares acquired under the third programme shall not exceed the lower of the following: the highest purchase price determined in accordance with Article 3 (2) of Commission Delegated Regulation No 2016/1052 and the maximum purchase price at which the Company may to acquire the shares as decided by the General Meeting (CZK 297);
c) the lowest purchase price of the shares

acquired under the third programme shall not exceed the lowest purchase price at which the Company may acquire the individual shares as decided by the General Meeting (CZK 10);

d) the volume of shares purchased under the third programme within one day shall not exceed a quarter of the Company's average daily volume of shares traded on the regulated market in November 2019, i.e. in the month preceding the month of the Board of Directors' decision;

e) under the third programme, the Company will acquire a maximum number of shares so that the total number of shares acquired by the Company cumulatively for the first, second and third programmes does not exceed 4% of all the Company's shares;

f) the maximum monetary amount allocated to the third programme is a multiple of the maximum possible number of shares acquired under the third programme and the highest purchase price at which the Company may acquire the individual shares as decided by the General Meeting (CZK 297);

g) the duration of the third programme shall be from 1 January 2020 until 8 December 2020, or until the volume of shares referred to in point (e) or the amount of money referred to in point (f) has been reached.

For the third programme, the Company intends to again retain the services of the investment firm WOOD & Company Financial Services, a.s.

Dividend policy and dividend paid out in 2019

In 2015, the Company's Board of Directors published a medium-term dividend policy to pay dividends of between 90% and 110% of the net unconsolidated profit to shareholders. In 2016, the Company also announced that, in addition to the payment of ordinary dividends (from the profit of the past year and retained earnings from previous years), the Company's Board of Directors intended to pay distribute a part of the share premium to shareholders. In 2019 there was no change in this dividend policy.

With view to the above, in 2019 the Company's Board of Directors proposed to shareholders a dividend of 2018 earnings per share of CZK 17 before tax for each share in the nominal value of CZK 10, and CZK 170 for the share in the nominal value of CZK 100, and distribution (reduction) of a part of the share premium, of CZK 4 before tax, and CZK 40 for the share in the nominal value of CZK 100, to the shareholders. The shareholders approved both proposals at the General Meeting held on 4 June 2019. Those who were shareholders on 4 June 2019 were entitled to the payment of both amounts. The pay-out was made by Česká spořitelna and commenced on 4 July 2019.

As treasury shares were also included in the business assets of O2 CZ as of 4 June 2019, the Company's share of the profits associated with those shares expired on the day of maturity. At the same time, the Company did not have any right to payment of the amount related to the distribution of a part of the share premium. The total amount (before tax) of the dividends for 2018 and the amount resulting from the distribution of a part of the share premium amounted to CZK 6.332 billion (dividends for the year 2018: CZK 5.126 billion, distribution of a part of the share premium: CZK 1.206 billion). A dividend of CZK 148 million and the amount of CZK 35 million related to the distribution (reduction) of a part of the share premium attributable to the Company's own shares have not been paid out. The dividend was transferred to the retained earnings from previous periods, and the relevant part of the share premium remained on the share premium account.

Risk management

Risk management is one of the primary management tools for the effective governance of the Company. Its purpose is to render support in accomplishing the Company's vision and strategy. The risk management model which is being applied fully conforms to the best international practice in the field of corporate governance and the COSO II framework. The risk management system continues to be developed as an integral tool for internal control of the Company. Risks are identified based on a regular assessment of the relevant management levels and suggestions made by the Internal Audit Risk and Management unit and other units of the Company. Risks are evaluated in terms of their potential financial effect and likelihood of materialisation. The governing bodies of the Company – the Board of Directors, Supervisory Board and the Audit Committee – are regularly briefed on the major risks to the Company and on the ways of their management. In the course of its operations, the Company may be exposed to the below mentioned risks.

Commercial (market) risks

The general economic climate and the competitive situation in the market are a major influence over the Company's business. Any uncertainty regarding future economic prospects or further intensifying of competition in the electronic communications marketplace may adversely affect market demand. The Company operates in a regulated marketplace. Regulatory interventions on the European (European Commission) and the national (CTO) level may have a negative effect on the Company's results. New products and technologies may cause existing products and services to become obsolete; they may have also a negative bearing on the profitability of conventional voice and data services.

Financial risks

The Company is exposed to various types of financial risk, in particular the risk of losses stemming from defaults on the part of contractual partners with respect to contractual payment and delivery terms, e.g. receivables from customers or sales agents.

Operating risks

The Company is exposed to risks associated with a sudden disruption of service due to network failure, information system downtime or attacks compromising cyber security. Such service interruptions may negatively influence the Company' reputation, and consequently of customer satisfaction and revenues, and make the Company liable to bear extra maintenance costs or financial sanctions. The Company is also dependent on a small number of key suppliers of essential products, services and network technology whose default could lead to restrictions of service to customers. The Company is also implicated in several significant litigation cases and is a party to several administrative proceedings with regulators whose outcome cannot be predicted. If the decision is negative to the Company, its costs may increase significantly, which would in turn have a negative effect on its bottom line. The Company may be sanctioned by regulatory authorities in the event of non-compliance of the Company's activities with regulatory rules and legislative requirements.

The management of the Company regularly monitors and addresses the risks in a way that corresponds to the nature of the risk, with the view to limiting the potential effect on the Company's results.

Details of patents or licenses, industrial, commercial or financial contracts

The Company is not aware of any dependence of its business on the rights to use patents of specific persons. The use of technology is always subject to a contract relationship with the vendor which provides for the vendor's liability for any violations of industrial or intellectual property rights. O2 CZ has entered into software license agreements with Microsoft, Oracle, Hewlett-Packard, IBM, SAP, Ericsson, Teradata, RedHat, Emeldi Technologies and others. Group companies also use the O_2 trademark for their business in the Czech Republic and Slovakia under a license agreement from O2 Worldwide (see paragraph Valuable rights in Note 9 Intangible Assets in the Notes to Consolidated Financial Statements). O2 CZ operates under licences granted by the CTO, which represent the right to operate mobile networks. O2 Slovakia has licenses to operate mobile networks in the GSM, UMTS, and LTE standard (see Note 21 Service Concession Arrangements to the Consolidated Financial Statements).

O2 CZ and O2 Slovakia maintain a diverse supplier portfolio; supplier diversity is the fundamental pre-requisite of maintaining a competitive situation on the supply side. All supply contracts are awarded by tender; all procurement is organised via the PROebiz electronic system. In June 2015 that is after the separation of the Company, Česká telekomunikační infrastruktura a.s. (name changed to CETIN a.s. as of 1 January 2020), see Note 23 Affiliated Party Transactions to the Consolidated Financial Statements, became the principal supplier to the Company. Other major suppliers of network technology and IT were O2 IT Services s.r.o., ALEF NULA, a.s., Emeldi Technologies, s.r.o. a Nokia Solutions and Networks Czech

Republic, s.r.o.; major suppliers in the area of services were MÉDEA, a.s., COPY GENERAL ONSITE SERVICES s.r.o. a MORIS design s.r.o. The main equipment suppliers (mobile phones, tablets, modems and accessories) were Samsung Electronics Czech and Slovak, s.r.o., Apple Distribution International Ltd. and Huawei Technologies (Czech) s.r.o.

A detailed report of the O2 Group's financial obligations as at 31 December 2019, and information about financing contracts, can be found in Note 15 Loans and other financial debts to the Consolidated Financial Statements.

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

04 Corporate governance

Corporate governance

Organisation structure of O2 Czech Republic a.s.

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

Persons charged with governance

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

General Meeting

The General Meeting is the supreme governing body of the Company in matters related to its business, organisation and operations. The General Meeting is convoked by the Board of Directors at least once a year, to take place within six months from the last day of the accounting period. It is convened by way of a written invitation sent to all shareholders no later than 30 days prior to the date of the General Meeting. The General Meeting constitutes a quorum if shareholders holding shares or equivalent securities with the nominal value exceeding a half of the share capital of the Company are present. Voting is by ballot signed by the voter. Voting may also take place per rollam. The General Meeting passes resolutions by a simple majority of votes present, unless the law or the Company's Articles of Association require otherwise.

The General Meeting has the following key powers to:

- decide on amendments to the Articles of Association;
- decide on an increase of the share capital or on the authorisation of the Board of Directors (pursuant to Art. 511 et seq. of the Business Corporations Act) or on the option to offset a pecuniary receivable due from the Company against receivable of payment of the subscription price of shares;
- decide on the reduction of the share capital; decide on the issue of bonds where a decision of a general meeting is required by the Business Corporations Act; decide to wind up the Company with liquidation, and on the appointment and recall of the liquidator and approve the proposal for the distribution of the liquidation balance; decide on the transformation of the Company unless the law does not clearly imply that such a decision falls to the authority of the board of directors; decide to change the class of shares and the rights attached to specific classes of shares; decide to transform shares as securities to booked shares, or to transform booked shares to securities, or decide on the change of the form of the shares;
- elect and recall members of the Supervisory Board;
- elect and recall members and substitute members of Audit Committee;
- approve regular and extraordinary financial statements and consolidated financial statements and, in cases set forth by law, also interim financial statements; decide upon the distribution of profits or other own resources or cover of losses;
- discuss a Board of Directors' annual report on the Company's business, and on the situation of the Company's assets as part of the Annual Report [2];
- approve contracts for transfer or pledging or mortgaging of a business establishment or any such part thereof that would result in a material

1 The Supervisory Board oversees the discharge of executive powers by the Board of Directors (see point Board of Directors further in this section.
2 According to the Act No. 563/1991 Coll. on Accounting, as amended (Accounting Act).

change in the structure of the establishment or a material change in the subject of the business or operations of the Company;
- approve of executive service agreements for members of the Supervisory Board and members of the Audit Committee, resolve on remuneration to be paid to these members and approve the rules for the remuneration and awarding any additional of perquisites to these members;
- decide on approval of silent partnership (as well as any changes thereto or termination thereof);
- decide on determination of an auditor to carry out mandatory audits or to audit other documents if necessary;
- decide to approve financial assistance, if such approval is required by the law;
- decide on instructions for members of the Board of Directors, or any other body of the Company, in accordance with the law.

General Meeting held on 4 June 2019

The General Meeting passed the following key decisions:

- Approved the ordinary and consolidated financial statements for 2018.
- Approved the distribution of profit for the year 2018 of CZK 5,366 million; a dividend is CZK 17 for each share with a nominal value of CZK 10, and CZK 170 for the share with a nominal value of CZK 100.
- Approved the distribution of a part of the share premium up to the limit of CZK 1,241 million; the amount of CZK 4 for each share with a nominal value of CZK 10, and CZK 40 for the share with a nominal value of CZK 100.
- Appointed KPMG Česká republika, s.r.o. to carry out the statutory audit for 2019, thereby extending the current audit contract.
- Elected Radek Neužil as a member of the Audit Committee for the next term of office and elected Ondřej Chaloupecký as a substitute member.

Supervisory Board

The Supervisory Board is a supervisory body of the Company and it oversees the discharge of the executive powers by the Board of Directors. Two thirds of members are elected and recalled by the General Meeting; one third is elected and recalled by employees of the Company. The tenure of Supervisory Board members is five years. The Supervisory Board has three members and constitutes a quorum if a simple majority of its members is present at the meeting. The Supervisory Board meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year.

The Supervisory Board serves the following principal functions:

- review the regular, extraordinary and consolidated or, as the case may be, interim financial statements and proposals for distribution of profits or the other Company's resources or for coverage of losses;
- elect and recall members of the Board of Directors; approve executive service agreements for members of the Board of Directors and approve benefits granted to members of the Board of Directors;
- convene a General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting;
- present its positions, recommendations and conclusion of its supervisory activities to the General Meeting;
- acting upon request of qualified shareholders, the Supervisory Board will review the discharge of executive powers by the Board of Directors and, on behalf of the Company, enforce a claim to compensation visavis a member of the Board of Directors or the Supervisory Board;
- decide on issues concerning benefits for the Supervisory Board members or the members of the Audit Committee insofar as it is in accordance with law;
- review Board of Directors report under Art. 82 of the Business Corporations Act, and inform the General Meeting of the review of this report and to submit its standpoint to the General Meeting;
- propose the statutory auditor to the General Meeting.

Members of the Supervisory Board

Ladislav Bartoníček
Chairman of the Supervisory Board

A graduate of the Czech Technical University in Prague, Faculty of Electrical Engineering. He joined PPF investiční společnost a.s. in 1991 as Executive Director and was awarded an MBA by the Rochester Institute of Technology, New York, in 1993. From 1996 until September 2006 he served as Chief Executive Officer of the insurance company Česká pojišťovna a.s. In 2007 he was appointed the CEO and a member of the Board of Directors of Generali PPF Holding N.V. (GPH), one of the largest insurance groups in Central and Eastern Europe which was established as a joint venture of PPF Group and Assicurazioni Generali. He held his CEO position at GPH until March 2013. In 2014–2018, he was CEO of SOTIO a.s., PPF Group' biotechnology business. He is presently a member of the supervisory board of SOTIO a.s. He has been a shareholder of the PPF Group since 2007. He acts, and in the last five years he has been acting, in other corporations [3].

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

Pavel Milec
Vice-chairman of the Supervisory Board (member elected by employees)

Graduated from the Czech Technical University in Prague, Faculty of Transport, in Automation in Transport and Telecommunications. In 2007 he joined Telefónica O2 Czech Republic, a.s., where he went through several positions. From 2010 until 2013, he served as Director of Customer Experience at Telefónica O2 Slovakia, s.r.o. After returning to the Czech Republic, he joined Telefónica O2 Czech Republic, a.s. as Director for Call Centres. His responsibilities included, among other things, the consolidation and automation of call centre operations. Since January 2019 he has been Director of Human Resources at O2 Czech Republic a.s. and is also a member of the O2 Foundation's Board of Trustees. He also acts in other corporations [4].

Member of the Supervisory Board since 14 January 2019, Vice-chairman since 25 February 2019.

Kateřina Pospíšilová
Member of the Supervisory Board

Graduated from the Faculty of Law at the Masaryk University in Brno. In 2009–2012 she worked as a lawyer at the Office for the Protection of Economic Competition. She joined O2 Czech Republic a.s. in 2012. In 2013 and 2014 she was involved in the negotiation and drafting of network sharing agreements in the Czech Republic. In 2015, she worked on the project to de-merge the Company and took part in the drafting of the contract documentation. From 2015, she was the head of the regulation and competitive law team and in 2017 she was appointed Director for Strategy and Innovation. In the past five years she acted in other corporations [5].

Member of the Supervisory Board since 4 June 2018.

Audit Committee

The Audit Committee is an autonomous body of the Company. Members of the Audit Committee, as well as any substitute members, are elected and recalled by the Company's General Meeting. They may be elected from the members of the Supervisory Board or they may be persons external to the Company. The Audit Committee members are elected for a period of five years. The Audit Committee has three members and constitutes a quorum if a simple majority of its members is present at the meeting. The Audit Committee meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year.

The Audit Committee serves the following principal functions:

- monitor the process of compilation of the annual financial statements and the consolidated financial statements;
- evaluate the effectiveness of the Company's internal controls, risk management, internal audit and risk management systems functional independence;
- monitor the process of the statutory audit of the annual financial statements and the consolidated financial statements, and inform the Supervisory Board of the conclusions of the statutory audit;
- review the independence of the statutory auditor and the audit firm, and the provision of non-audit services to the Company by the statutory auditor and the audit firm;
- approve the supply of non-audit services in

3 Accord Research, s.r.o., B.I.G., a.s., B.I.G. Public Relations, a.s., B.I.G. Prague / Business Information Group / s.r.o., Slovenský plynárenský priemysel, akciová spoločnosť, GOPAS, a.s., O2 Czech Republic a.s., Mall Group a.s.
4 JANTEPA GROUP s.r.o.
5 CROSS NETWORK INTELLIGENCE s.r.o.

cases required by law;
- recommend an auditor to the Company's Supervisory Board;
- receive from and discuss with the auditor all and any information, declarations and communications as per the applicable laws;
- make a report of the Audit Committee's work for the Public Audit Oversight Board.

Members of the Audit Committee

Radek Neužil
Chairman of the Audit Committee

He earned the title LL.M. at the Faculty of Law of Masaryk University in Brno and the title of Ing. (MSc) in Economics and Management of Mechanical Engineering at the Faculty of Mechanical Engineering, at the Brno Technical University. He is an expert in the area of freelance employment regulation. Since 1993, he has acted as Secretary of the Chamber of Tax Advisors of the Czech Republic, which et alias he represents in Confédération Fiscale Européenne (CFE). In 2002, he became chartered accountant. From 2009 until May 2015, he was member of the presidium of the Public Audit Oversight Board and Chairman of the Audit Cooperation and Coordination Committee. Since November 2015, he has been member of the Disciplinary Committee of the same body; in April 2016 he was elected chairman. From 2010 until 2015 he was member of the Ministry of Finance Steering Section for Accounting and Statutory Audit. In 2011–2013 he was a member of the Commission of the Ministry of Finance for Policy Planning and Development of Accounting and Audit, Section for Audit and Tax Consultancy. In 2011–2017, he was a member of the Executive Board of the Charles University, and from 2015 he has been a member of the Academic Council of Akademie Sting. In 2013, he became a member of the Audit Committee in ČEZ a.s. and in 2017 he became member of the audit committee of Brněnské vodárny a kanalizace, a.s. He acts, and in the last five years he has been acting, in other corporations [6].

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

Michal Brandejs
Vice-chairman of the Audit Committee

Graduated from the University of Economics in Prague in automated management information systems. He was statutory auditor of the Chamber of Auditors of the Czech Republic and is a certified internal auditor. In 1991–2013 he worked in the audit department of Deloitte and in 2001–2013 as partner. He had managed a number of audits and due diligence projects both in the Czech Republic and the Central and Eastern European region. In 2014–2016, he was Vice-chairman of the Supervisory Committee of the Chamber of Auditors of the Czech Republic. Since 2016, he has been officer of the controlling department of the Public Audit Oversight Board. Since 2016, he is member of the Audit Committee of OTE, a.s. In the past five years he was not a member of other governing, executive or supervisory bodies.

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

Michal Krejčík
Member of the Audit Committee

He graduated from the Faculty of Law of Charles University with the title JUDr. in 2003. As a judicial candidate, he was preparing for the position of a judge and in 2005 he passed the judicial examinations. In 2005, he joined Eurotel Praha, where he worked in the Legal and Regulatory Affairs Division as a specialist in the area of conflict prevention and resolution. At O2 Czech Republic a.s. he has been Director of Litigation since 2010, and was appointed Compliance Officer in 2011. He is a member of expert working groups and bodies within the Czech Association for Electronic Communications (ČAEK) and the Association of Mobile Network Operators (APMS). In the past five years he acted in other corporations [7].

Member of the Audit Committee since 4 June 2018.

Effective from 4 June 2019, the General Meeting elected Ondřej Chaloupecký as the first substitute member of the Audit Committee.

Board of Directors

The Board of Directors is a statutory body that manages the business of the Company and acts

6 DATEV, družstvo, PASKI CLUB, v.o.s., Eláán, Paski club.
7 4Local s.r.o.

on its behalf. The Board of Directors decides on all corporate affairs which, by law or the Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As per the Articles of Association, the Board of Directors meets once every calendar month, but at least 12 times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is five years. The Board of Directors has three members and constitutes a quorum if a simple majority of its members is present at the meeting.

The Board of Directors serves the following principal functions:

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

Memberes of the Board of Directors

Jindřich Fremuth
Chairman of the Board of Directors

Graduated from the University of Economics in Prague and before joining O2 Czech Republic a.s. he worked for 10 years in marketing and sales. He served as CEO of Euro RSCG 4D (Havas Group) in digital marketing, direct marketing and sales promotion. As a consultant at McKinsey & Company, he focused on telecom and technology projects for major companies in Europe and the Middle East. He joined O2 Czech Republic a.s. in 2009 as Director for Online Channels; in 2011 he took over responsibility for the strategy of consumer distribution channels. From 2013, he held the position of Director, Consumer Division, and in 2017 he was appointed Director, Commercial Division. He has also been a member of the governing bodies in other corporations over the last five years. In the past five years he acted in other corporations [8].

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

Tomáš Kouřil
Vice-chairman of the Board of Directors

Before joining the Company, he worked for the professional services consultancy Deloitte. He has held various executive positions in the Company since 2003. In 2006, he was responsible for the start-up of the operations of the O2 mobile operator in Slovakia. Later he took over responsibility for corporate finance. Tomáš Kouřil is also the Chairman of the Supervisory Board of První certifikační autorita, a.s., member of the Supervisory Board of Bolt Start Up Development a.s., statutory executive of Tesco Mobile ČR s.r.o. and a member of the executive board of the CFO Club. In the last five years he was not a member in other governing, executive or supervisory bodies.

Member of the Board of Directors since 1 January 2015, re-elected on 1 January 2020; Vice-Chairman since 8 January 2020.

8 O2 TV s.r.o.

Václav Zakouřil
Member of the Board of Directors

He graduated from the Faculty of Law of the Charles University and subsequently worked at Ericsson spol. s r.o. as a lawyer for a networking project of the third mobile operator, and then five years at the law firm Freshfields Bruckhaus Deringer. He joined O2 Czech Republic a.s. in 2009 and has been working in legal and regulatory positions. In 2014, he assumed overall responsibility for matters related to regulation and competition, and since 2016 he has been the Director of Legal and Regulatory Affairs. In the past five years he acted in other corporations [9].

Member of the Board of Directors since 16 March 2018.

Personnel changes in the Board of Directors: Effective from 1 January 2020, the Supervisory Board elected Tomáš Kouřil as member of the Board of Directors for the next term of office. On 8 January 2020, the Board of Directors elected him into the position of Vice-Chairman.

Information on the application of diversity policy to corporate bodies

The Company does not apply any specific diversity policy to the Board of Directors, the Supervisory Board and the Audit Committee; the main reason lies in how these corporate bodies are elected. Members of the Supervisory Board and the Audit Committee are elected by the General Meeting of the Company, and members of the Board of Directors are elected by the Supervisory Board. Also, grounded in practical experience, the Company fundamentally advocates and complies with the principles of non-discrimination and equal treatment. Consequently, to the extent the Company can influence the personnel composition of the governing bodies of the Company (e.g. by proposing candidates), in doing so it respects these principles and complies with the relevant laws and regulations, while taking care that the governing bodies are composed of members whose professional knowledge and experience predispose them to good service. Furthermore, the Company is aware that any measures that a possible diversity policy would have introduced should also be in compliance with the Anti-Discrimination Act which prohibits unequal treatment. This may pose a problem in terms of positive discrimination. The very definition of affected groups (e.g. by age, gender or education) which could be the subject of positive discrimination for the nomination to the governing bodies or appointment into the executive management as a result of application of a diversity policy is a highly sensitive issue.

Executive management

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

Members of executive management

Jindřich Fremuth
Chief Executive Officer
(résumé given in section Board of Directors)

Tomáš Kouřil
Director, Finance Division
(résumé given in section Board of Directors)

Václav Zakouřil
Director, Legal and Regulatory Affairs
(résumé given in section Board of Directors)

Pavel Milec
Director, Human Resources Division
(résumé given in section Supervisory Board)

Richard Siebenstich
Director, Commercial Division

Graduated in Finance at the University of Economics in Bratislava. In 2003–2012, he worked in various management positions at Coca-Cola HBC. In 2012 he joined O2 CZ as a director for brand stores. From 2013 he managed all sales channels, and, from 2017, also marketing communication and online platforms. He is a member of the board of directors of Bolt Start Up Development a.s., statutory executive of mluvii.com s.r.o. and O2 TV s.r.o. and a member of the O2 Foundation's Board of Trustees.

In the last five years, he has not been a member of governing, executive or supervisory bodies outside the Group.

9 MOPET CZ a.s.

Jan Hruška
Director, Technology Division

Graduated from Charles University in Prague, Faculty of Informatics. From 1997 he worked as consultant at ANIMA Praha spol. s r.o. on IT project design, business and marketing processes and strategic planning for prominent clients, especially in banking and energy. In 2004 he joined Eurotel Praha spol. s r.o., which became Telefónica Czech Republic, a.s. and later O2 Czech Republic a.s., where he has served in a number of management roles, especially as an e-commerce manager, director of distribution strategy and planning, marketing director for fixed services to the current position of Director of the Technology Division. Jan has extensive experience in managing the entire value chain of a telecommunications, from planning and designing marketing propositions through sales performance management and motivation systems, product lifecycle management, profitability management to specific technology. He is Managing Director of eKasa s.r.o., O2 IT Services s.r.o. and Emeldi Technologies s.r.o. In the last five years, he has not been a member of governing, executive or supervisory bodies.

Remuneration of persons charged with governance

Pecuniary and non-pecuniary (in-kind) income of directors and members of the supervisory board in 2019

In 2019, the members of the Board of Directors received a total of CZK 48,023,924 from O2 CZ, members of the Supervisory Board CZK 199,486 and the executive management (excluding members of the Board of Directors) CZK 21,408,369. Persons with executive powers received no royalties and no income from persons controlled by O2 CZ.

Principles of remuneration and information about executive service agreements of members of the Board of Directors

- Remuneration is governed by rights and obligations negotiated in individual executive service agreements and in the rules for the remuneration and provision of other benefits to members of the Board of Directors. The Supervisory Board approves the remuneration rules and the executive service agreements. Members of the Board of Directors enter into an executive service agreement which binds them with a non-competition covenant for the duration of their service.
- Members of the Board of Directors are entitled to (i) a compensation fee equal to the amount of mandatory payments (taxes, public health insurance, etc.) which a member of the Board of Directors is obliged to bear because the Company pays insurance premiums for insurance against the member's liability for losses caused by breach of duties in the course of the member's service; (ii) special remuneration, the amount of which is negotiated in the service agreement, is individual and takes into account the responsibility of the member of the Board of Directors for the management of the specified scope of activities of the Company; (iii) stabilization or incentive remuneration, the amount and terms of which are negotiated in a separate agreement in accordance with Section 61 (1) of the Business Corporations Act and in accordance with Article 1.3 of the Rules for the Remuneration of Members of the Board of Directors; the agreement is approved by the Supervisory Board and the amount of the remuneration depends on the Company's operating performance.
- The Company also provides other performances to members of the Board of Directors for the purpose of fulfilling the obligations arising from their service. These include voice and data services, communication and IT technology, and liability insurance for losses caused by a breach of duties in the course of a service as member of the Board of Directors.

Principles of remuneration and information about executive service agreements of members of the Supervisory Board

- Remuneration is governed by the rules for the remuneration and provision of other benefits as approved by the General Meeting of the Company. A member of the Supervisory Board is entitled to remuneration only if he/she makes a claim for it. Members of the Supervisory Board are entitled to a pecuniary monthly fee consisting of (i) an amount covering mandatory payments (taxes, health insurance, etc.) which a member of the Supervisory Board is obliged to bear because the Company pays insurance premiums for the insurance of the member's

liability for losses caused by a breach of duties in the course of the member's service; (ii) the amount payable to members of the Supervisory Board per month - member: CZK 8 thousand; Chairman: CZK 10 thousand; (iii) the amount of CZK 5 thousand to each member for each Supervisory Board meeting attended.
- The Company also provides other performances to members of the Supervisory Board for the purpose of fulfilling the obligations arising from their service. These include voice and data services, communication and IT technology, and liability insurance for losses caused by a breach of duties in the course of a service as member of the Supervisory Board.
- In 2019, all members of the Supervisory Board were bound by an executive service agreement with the Company, which was approved by the General Meeting of the Company. In the agreement, members of the Supervisory Board accepted a non-competition covenant, i.e. not to act independently or to the benefit of another person on the territory of the Czech Republic in the field of telecommunications, unless it is within the O2 Czech Republic concern. The non-competition covenant applies for six months from the date of termination of service. For the commitment of non-competition, the Company is obliged to provide a member with a pecuniary compensation equivalent to six times the amount of average flat remuneration.

Principles of remuneration of members of the executive management

- The remuneration principles are set forth in the Internal Remuneration Directive, which is approved by the Director of Human Resources. The directive defines the principles and the mechanism for determining the basic wage and the performance-related bonus.
- Members of executive management are entitled to remuneration comprised of a basic wage and a performance-related bonus. The performance-related bonus is paid in relation to fulfilment of specific annual targets which represent key performance indicators of both financial and non-financial nature and general performance of the whole Company. The performance of individual targets of executive managers is approved by the Company's Chief Executive Officer, and individual performance indicators at the company level are set by the Chief Executive Officer and evaluated by the Board of Directors of the Company. The performance-related bonus may, in aggregate for the calendar year, reach 50% of the total annual income if the targets are achieved to a standard level.

Other information concerning persons charged with governance

Ownership of shares

Information on the number of shares issued by O2 CZ and held by those charged with governance as at 31 December 2019:

	Number of shares
Board of Directors	604
Supervisory Board	0
Executive management [10]	0

10 Shares owned by members of executive management who are at the same time members of the Board of Directors are accounted for under Board of Directors.

Conflict of interest

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

Information on internal control principles and procedures

The Company has a system of internal controls through policy documents which are approved by the Company's Board of Directors. Internal Audit, functionally accountable to the Audit Committee, represents an important instrument of Corporate Governance. It provides the Company's governing and executive bodies with independent and professional assessment of the Company's internal control system and the situation and trends in the given area compared to current best practice.

In 2019, Internal Audit and Risk Management carried out a total of 17 audits as per the annual plan of Internal Audit or as mandated by the governing bodies and the Chief Executive Officer of the Company. The Internal Audit unit also acts as internal auditor of O2 CZ subsidiaries. Audit findings are used by the management to formulate actions to redress the issues identified. Internal Audit monitors the implementation of such corrective actions and reports to the Company's governing bodies and executive management four times per year. The activities of Internal Audit and its main processes are laid down in the Internal Audit Charter of O2 CZ, which also stipulates the principle of independence of the Internal Audit function and the principle of objectiveness of internal auditors. The work of Internal Audit is monitored on a regular basis by the Audit Committee which discusses audit reports and other audit-related reporting presented by Internal Audit. The Director of Internal Audit & Risk Management has full access to the Audit Committee. He/she is present for the discussion of audit reports and other outputs of the unit at meetings of the governing bodies of the Company.

Accounting policies in O2 CZ and subsidiaries are regularly updated through new releases of internal rules and regulations. Complex transactions with high financial materiality are described in detail in guidance documents produced by the unit of Accounting Methodology, which are subsequently approved by the management of the Finance Division. The consolidation rules and other general guidelines for the preparation of the consolidated financial statements of the Group are set forth in the Consolidation Manual. The approval of accounting documents for purchases and supplies is done electronically in the approval workflow of the Company's SAP system. The scope of the signing authority of specific approvers, as well as the scope of powers and authority of the governing bodies, organisation units and personnel of the Company are set forth in the Rules of Organisation and the Signing Rules of the Company. Documents exempt from electronic approval are periodically reviewed.

The "four-eyes" principle and strict separation of the process of listing business partners and managing their data from the process of payments and settlement of booked payables are reflected in the Company's accounting policies. At the same time, the list of persons with the authority to create, edit and approve accounting documents in SAP is limited and subject to regular review. Specific accounting documents can always be traced to specific users who created or cancelled them. The Finance Division monitors that accounts and financial statements are correct on an ongoing basis. Selected areas of accounting and the compliance of internal processes with the currently applicable legislation are subject to internal audit. If issues are identified, remedies are proposed immediately and implemented as soon as practicable. The effectiveness of the Company's internal control system, the process of preparation of the stand-alone and consolidated financial statements, as well as the process of external audit of the financial statements, is monitored by the Audit Committee which, as one of the Company's bodies, performs these activities without prejudice to the accountability of members of the Board of Directors and the Supervisory Board.

The unit Revenue Assurance (RA) has been established in the Finance Division; its mission is to identify, through independent controls, potential loss of revenues from loss of data in billing for services to customers. It is a so-called end-to-end process, where individual activities and controls cover the whole process – from billing and CDR generation to invoicing.

Information on corporate governance codes of the Company

The Company follows the recommendations of the 2018 Czech Code of Corporate Governance (the "Code"). The general principles contained in the Code are primarily based in the applicable legislation of the Czech Republic. They are also inspired by comparable national corporate governance codes (in particular the German and Austrian codes) and international corporate governance standards (in particular, the G20 / OECD Countries Corporate Governance Principles from 2015). The 2018 Code of Corporate Governance of the Czech Republic is available on the website of the Ministry of Finance of the Czech Republic www.mfcr.cz [11].

The Company's practice derogates from some of the recommendations of the Code, for the following reasons.

- Shareholder decisions outside the General Meeting. The Code does not recommend that corporations allow shareholder decisions outside the general meeting (per rollam). The Articles of Association of the Company allow the possibility of absentee voting; however, this method is not used for voting at the Ordinary General Meeting. The option of absentee voting is used in exceptional circumstances (also with regard to the number of shareholders of the Company), at Extraordinary General Meetings, where the discharge of shareholders' rights depends on their way of voting on a specific resolution of the General Meeting.
- Voting at the General Meeting assisted by technology. O2 CZ regularly examines possibilities of streamlining the process of the General Meeting, including, for example, electronic voting. So far, the Company has not concluded that any voting method other than the one it has been using to date would have the benefit of at least compensating for the technical, security and financial efforts that would have to be made.
- Regular assessment of the integrity, experience and independence of the members of the corporate bodies. The Company duly assesses the integrity, experience and, if applicable, the duty of independence of members of elected bodies, prior to their election. The assessment whether the members are in compliance with these requirements also during their term of office is left to the members' personal discretion in accordance with Section 159 of the NCC.
- Remuneration rules. The amendment to the Capital Market Undertakings Act [12] has introduced a new duty for O2 CZ concerning the remuneration of the members of the Board of Directors, the Supervisory Board and the Chief Executive Officer, namely to draw up a remuneration policy and submit it to the General Meeting for approval [13]. The policy must incorporate all the obligations set forth in the law, as well as the rules and recommendations of the Code.
- Independence of Supervisory Board members. The Code recommends that a sufficient number of Supervisory Board members be independent. Members of the Supervisory Board are, in accordance with the law, elected and recalled by the General Meeting. As a result, the Company has no control over the choice of members of the Supervisory Board and, by extension, it cannot directly ensure compliance with the Code's recommendations in this respect. This, however, does not prevent the members of the Supervisory Board from discharging their duties duly and from exercising independent and objective judgment.
- Significant related party transactions. The Code lays down rules on how the Company should identify, approve and disclose such significant transactions. O2 CZ will implement these rules in 2020 based on the requirements introduced in the amendment to the Capital Market Undertakings Act.

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

11 It can be presently found here: https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812.
12 Act No. 256/2004 Coll., On Capital Market Undertakings, specifically amended by Act No. 204/2019 Coll.
13 At the time of the preparation of this Annual Report, the remuneration policy for 2020 is expected to be submitted for approval to the General Meeting in 2020, which will approve the financial statements of the Company for the year 2019.

05 Financial part

Financial part

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

Content **Pages**

GENERAL INFORMATION

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

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

As at 31 December 2019, 81.06% of the Company's voting rights were held indirectly by Mr. Petr Kellner through PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

The average number of employees employed by the Group was 5,116 (2018: 5,381) as at 31 December 2019.

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

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020 and are subject to review by the Supervisory Board.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2019

In CZK million	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	1, 2	38,760	37,996
Other income from non-telecommunication services	1	160	207
Capitalisation of fixed assets	1	349	335
Expenses	1, 3	(26,397)	(27,140)
Impairment loss on financial assets	12, 16	(253)	(235)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**12,619**	**11,163**
Depreciation and amortisation	8, 9, 10	(4,797)	(3,573)
Amortisation of costs to obtain contracts	2	(555)	(455)
Impairment loss on non-current assets	8, 9	(26)	(27)
Operating profit		**7,241**	**7,108**
Finance income	4	86	30
Finance costs	4	(444)	(224)
Share of profit/(loss) of investments accounted for using the equity method	24	2	2
Profit before tax		**6,885**	**6,916**
Corporate income tax	5	(1,425)	(1,468)
Net profit		**5,460**	**5,448**
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	16	(13)	14
Changes in fair value of financial instruments measured at fair value through other comprehensive income, net of tax	16	-	-
Translation differences		(52)	19
Items that will not be reclassified to profit or loss			
Changes in fair value of financial instruments measured at fair value through other comprehensive income, net of tax	16	16	(19)
Other comprehensive income, net of tax		**(49)**	**14**
Total comprehensive income, net of tax		**5,411**	**5,462**

Profit attributable to:			
Equity holders of the Company	6	5,463	5,450
Non-controlling interests		(3)	(2)
Total comprehensive income attributable to:			
Equity holders of the Company		5,414	5,464
Non-controlling interests		(3)	(2)
Earnings per share (CZK) attributable to equity holders – basic*	6	18	18

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

In CZK million	Notes	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	8	6,171	6,130
Intangible assets	9	15,457	17,164
Right-of-use assets	10	4,094	-
Costs to obtain contracts	2	766	678
Investments in equity accounted investees	24	13	16
Contract assets	2	129	134
Other non-current assets	12	1,213	900
Deferred tax asset	17	163	168
Non-current assets		28,006	25,190
Inventories	11	987	906
Receivables	12	7,247	7,067
Income tax receivable	5	81	81
Contract assets	2	354	411
Cash and cash equivalents	13	5,989	2,475
Assets held for sale		16	-
Current assets		14,674	10,940
Total assets		42,680	36,130
EQUITY AND LIABILITIES			
Ordinary shares	22	3,102	3,102
Treasury shares	22	(2,348)	(2,204)
Share premium	22	8,264	9,470
Retained earnings, funds and reserves		5,145	4,857
Equity attributable to owners of the parent		14,163	15,225
Non-controlling interests		14	-
Total equity		14,177	15,225
Financial debts	15	7,530	10,461
Lease liabilities	10	3,475	-
Deferred tax liability	17	511	484
Provisions for liabilities and charges	18	74	66
Contract liabilities	2	56	81
Other liabilities	14	546	991
Non-current liabilities		12,192	12,083
Financial debts	15	7,066	38
Lease liabilities	10	693	-
Trade and other payables	14	7,853	7,975
Income tax liability	5	66	116
Contract liabilities	2	514	610
Provisions for liabilities and charges	18	119	83
Current liabilities		16,311	8,822
Total liabilities		28,503	20,905
Total equity and liabilities		42,680	36,130

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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
		Equity attributable to owners of the parent										
As at 1 January 2019		3,102	9,470	(2,204)	17	278	(2)	35	4,529	15,225	-	15,225
Other comprehensive income		-	-	-	(52)	-	16	(13)	-	(49)	-	(49)
Profit for the period		-	-	-	-	-	-	-	5,463	5,463	(3)	5,460
Total comprehensive income		-	-	-	(52)	-	16	(13)	5,463	5,414	(3)	5,411
Sale of financial assets measured through other comprehensive income		-	-	-	-	-	(16)	-	16	-	-	-
Distribution declared in 2019	7	-	(1,206)	-	-	-	-	-	(5,274)	(6,480)	-	(6,480)
Distribution on treasury shares	7	-	-	-	-	-	-	-	148	148	-	148
Acquisition of treasury shares	22	-	-	(144)	-	-	-	-	-	(144)	-	(144)
Acquisition of subsidiary with non-controlling interest	24	-	-	-	-	-	-	-	-	-	17	17
As at 31 December 2019		3,102	8,264	(2,348)	(35)	278	(2)	22	4,882	14,163	14	14,177

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax		6,885	6,916
Non-cash adjustments for:			
Share of (profit)/loss of investments accounted for using the equity method		(2)	(2)
Dividend income		(7)	(5)
Amortisation and depreciation	8, 9, 10	4,797	3,573
Amortisation of costs to obtain contracts	2	555	455
Impairment loss		26	27
(Profit)/loss on sale of tangible and intangible fixed assets		5	2
(Profit)/loss on sale of part of business and other investments		(38)	(36)
(Profit)/loss from lease modifications		(2)	-
Net interest cost	4	362	175
Unrealised foreign exchange (gains)/losses (net)		7	(10)
Fair value changes		(33)	(1)
Change in provisions and allowances and write-off of receivables		311	252
Operating cash flow before working capital changes		12,866	11,346
Working capital changes:			
(Increase)/decrease in receivables and other assets		(669)	(1,132)
(Increase)/decrease in inventories		(64)	(70)
(Increase) of costs to obtain contracts	2	(645)	(594)
(Increase)/decrease of contract assets		62	(91)
(Increase)/decrease of contract liabilities		(121)	-
Increase/(decrease) in trade and other payables		(24)	(299)
Cash flows from operating activities		11,405	9,160
Interest received		24	11
Income tax paid		(1,449)	(1,458)
Net cash flow from operating activities		9,980	7,713
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,589)	(1,479)
Purchase of intangible assets		(1,470)	(1,382)
Proceeds from sales of fixed assets		3	13
Proceeds from sales of part of business and other investments		69	25
Cash purchase of subsidiary		(18)	(2)
Dividends and other distributions received		11	9
Repayment of loans		5	3
Net cash used in investing activities		(2,989)	(2,813)
Cash flows from financing activities			
Proceeds from borrowings	15	4,106	1,200
Interest paid*		(360)	(186)
Repayment of borrowings	15	(4)	(1,200)
Repayment of lease liabilities	10	(688)	-
Dividends and other distributions paid		(6,332)	(6,332)
Acquisition of treasury shares		(144)	-
Net cash used in financing activities		(3,422)	(6,518)
Net increase/(decrease) in cash and cash equivalents		3,569	(1,618)
Cash and cash equivalents at beginning of year	13	2,475	4,088
Effect of foreign exchange rate movements on cash and cash equivalents		(55)	5
Cash and cash equivalents at the year end	13	5,989	2,475

*The Group has changed the presentation of interest paid. It was previously presented in cash flows from operating activities. Currently interest paid, which is directly related mainly to the financing of the Group's activities, is presented in cash flows from financing activities. Information for the comparable period were adjusted.

ACCOUNTING POLICIES

A Basis of preparation

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

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

The consolidated financial statements were prepared under the historical cost convention except for cases when IFRS require a different measurement method, as disclosed in the accounting policies below.

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

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

The Group is an integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Group reports its operating segments according to two main areas of services, i.e. the fixed segment and the mobile segment. The Group also reports two geographic segments. For further details, refer to Note 1.

Adoption of new or revised IFRS standards and interpretations

For financial statements for the year ended 31 December 2019, the Group adopted new or revised standards and interpretations as mentioned below.

- New standard IFRS 16 Leases (issued in January 2016)
- New interpretation of IFRIC 23 Uncertainty over Income Tax Treatments
- Revision of IFRS 9 Prepayment Features with Negative Compensation
- Revision of IAS 28 Long-term Interests in Associates and Joint Ventures
- Revision of IAS 19 Amendments, Curtailment and Settlement
- Annual improvements to IFRS Standards 2015–2017 (issued 12 December 2017)

Standard IFRS 16 Leases has a significant impact on the Group and its implementation is described below. Other new standards and interpretations do not have significant impact on the Group.

IFRS 16 Leases

The new standard IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and replaced all existing IFRS lease requirements for both lessees and lessors at that date.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. The lessee accounts for the right-of-use assets representing its rights to use the underlying asset and for lease liabilities representing its obligation to make lease payments. The lessor's accounting remains similar to the current standard – i.e. the lessor continues to classify leases either as financial or as operating.

A) Definition of leasing

Previously, at contract inception, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

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

At the inception or on reassessment of a contract that contains a lease component and one or more additional lease or non-lease components, the Groups allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. However, for leases of cars in which the Group is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B) Leases where the Group is the lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership.

In line with IFRS 16, the Group has re-classified its recognition of assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of these related costs has changed from operating costs to depreciation of right-of-use assets and interest cost on the lease liability.

The Group elected to apply the practical expedient not to recognise a right-of-use asset and a lease liability for contracts where the lease term is less than 12 months and for leases of low-value underlying assets (particularly the lease of small IT and office equipment). These contracts are accounted for by the Group as before.

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain reassessments of the lease liability. Rights of use assets are depreciated on a straight-line method over the shortest of the lease term or the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest costs on the lease liability and decreased by any lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or the rate used to determine these payments, a change in the estimate of the amount expected to be payable under a residual value guarantee, or in the event of a change in the lease term due to the Group re-evaluating whether it is sufficiently certain to exercise the option to extend, or not to exercise the option to terminate the lease.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options or contracts with indefinite periods. The assessment of whether the Group is reasonably certain to exercise such options and the assessment of how long the Group will use the underlying assets under contracts of indefinite periods impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

C) Leases where the Group is the lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, where the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

There was no significant impact for the Group as a lessor resulting from the adoption of IFRS 16.

Adoption and impact of the standard on financial statements

The Group decided to adopt IFRS 16 using a modified retrospective method. Comparable data for the previous period were not adjusted.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at the day of initial application. At the date of initial application, the right-of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to these leases, and recognised in the balance sheet immediately before the date of initial application.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. The Group applied the exemption not to recognise the right-of-use assets and liabilities for leases with a lease end less than 12 months from the date of the initial application and excluded initial direct costs from the measurment of the right-of-use asset at the date of initial application.

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact of transition on 1 January 2019 is summarised below.

In CZK million	1 January 2019
Right-of-use-assets	4,338
Lease liabilities	4,368
Trade and other payables – non-current	(25)
Trade and other payables – current	(5)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 January 2019. The applied weighted-average rate was 2.22%.

The following table shows the reconciliation of Lease liability as at 1 January 2019 and future minimum lease payments as at 31 December 2018.

In CZK million	
Future minimum operating lease payments at 31 December 2018	3,360
Lease payments above the minimum operating lease payments resulting from extension option and contracts with indefinite period	1,661
Recognition exemption for leases of low-value assets and leases with less than 12 months of lease term at transition	(114)
Lease incentives receivable	(55)
Gross lease liability at 31 December 2018	**4,852**
Discounting	(484)
Lease liabilities recognised at 1 January 2019	**4,368**

New standards not yet effective as at 31 December 2019 (standards relevant to the Group are included)

As of the date of these financial statements, the following standards have been issued that are relevant to the Group and were not mandatory to adopt at that date. The Group shall adopt these standards on their effective date.

Standards and changes		Effective from
	Amendments to References to the Conceptual Framework in IFRS standards	1 January 2020
Revision of IFRS 3	Definition of a Business	1 January 2020*
Revision of IAS 1 and IAS 8	Definition of Material	1 January 2020
Revision of IAS 39, IFRS 7, IFRS 9	Interest Rate Benchmark Reform	1 January 2020
Revision of IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

* These revisions/interpretations have not yet passed the EU endorsement process.

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

B Use of estimates, assumptions and judgements

The preparation of financial statements in conformity with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses for the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Given the fact that these assumptions and estimates represent a certain degree of uncertainty, the actual results and recognised assets and liabilities could differ from those estimates.

The estimates and assumptions that might have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(i) Income taxes and deferred taxes

The Group creates an estimate for current income tax and, considering the temporary differences, also for deferred tax. There is no final tax assessment of a number of transactions and calculations at the time of making the estimates, and the determination of the deferred tax liability and receivable reflects the expectation of how the Group's assets will be used and its liabilities settled. Where the final items that increase or decrease the tax base are different from the amounts that were calculated, such differences will be recognised in the period in which such determination is made (refer to Note 5 and Note 17).

(ii) Property, plant and equipment and intangible assets

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortisation purposes.

Due to future technological developments and alternative uses for assets, it is necessary to make estimates for the purpose of determining the useful life of software and telecommunication technology and equipment (refer to Note 8 and Note 9). There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

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

(iii) Right-of-use assets and lease liabilities

The valuation of right-of-use assets is based on significant judgment by the management to determine the contractual lease term.

The Group's lease term generally includes a non-cancellable lease term, the periods covered by the lease extension option if the Group is reasonably certain to exercise that option, and the periods covered by the termination option if the Group is reasonably certain to not exercise that option.

In the case of contracts for indefinite periods, the Group distinguishes leases of data centres, telecommunication technology and other assets. In the case of leasing of data centres and telecommunication technology, the lease term is determined as the average or typical market contractual term of a particular type of lease, usually 6 to 10 years.

The Group does not recognise the right-of-use assets from the lease contracts of other assets for an indefinite period if the lessee and the lessor both have the possibility of terminating the lease contract at short notice (generally 3 months) and without significant penalties, either contractual or financial.

(iv) Lease discount rate

The Group uses its incremental borrowing rate as the discount rate for the leasing. The lease contracts were divided into groups based on the length of the contract period and the currency in which the contract is denominated, and the relevant discount rate was allocated to each group of lease contracts. The IRS rates over a 15 year period for the major currencies, in which leases of the Group are denominated, were used to calculate the incremental borrowing rate. These rates were increased by a risk premium corresponding to the Group's usual loan margin and a premium reflecting the type of underlying asset and its collateral.

(v) Provisions and contingent liabilities

As set out in Note 19, the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. For all litigation and administrative proceedings, it is necessary to estimate the probability of occurrence of the liability, its amount and the moment of its occurrence. Provisions are recognised only when it is probable that the Group will be forced to pay a present obligation in future and it is possible to reliably estimate its amount. Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Group.

(vi) Receivables

Trade receivables are carried at face value less a bad debt allowance. The loss allowance is equal to the expected credit losses in the lifetime of the contract. Details regarding the determination of receivables impairment are stated in Note K Financial instruments and Note 16.

(vii) Commission as costs to obtain contracts with customers

For the capitalised costs to obtain contracts, the amortisation period was determined as the expected average period over which the customer will continue to use the Group’s services. This amortisation period was further specified by customer segments of the Group, separately for business customers and consumers and separately for certain types of products.

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

(viii) Stand-alone selling prices

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

C Subsidiaries

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

A business combination is accounted for using the acquisition method. The consideration transferred for the acquisition of the business combination is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Subsequent changes in the fair value are recognised in profit or loss. Acquisition related costs are expensed when incurred. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

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

Goodwill is initially measured at cost being the excess of the purchase price of the business combination including the amount recognised for a non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognised as gain in profit or loss on the date when the Group obtained control. For details, refer to Accounting policies (Note H Intangible assets and Note 9).

Intergroup transactions, balances and unrealised gains from transactions among the Group companies are eliminated. Unrealised losses are eliminated except for transactions providing evidence of an impairment of the asset transferred. The accounting policies for subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group and other companies within the Group.

D Transactions under common control

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

E Investment in joint ventures and associates

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

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

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

Associates are accounted for using the equity method. At least annually as at the balance sheet date, equity accounted investments are tested for impairment. Impairment loss is recognised in profit or loss as part of the Share of profit/(loss) of investments accounted for using the equity method.

F Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of O2 Slovakia, s.r.o. and O2 Business Services, a.s. is the euro. The functional currency of the Company and other companies within the Group is the Czech crown (CZK). The consolidated financial statements are presented in Czech crowns (CZK), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Balances of monetary items are translated at period-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

(iii) Group companies

Profit or loss of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates prevailing on the balance sheet day. Exchange differences arising from the translation are reported in other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on the sale.

G Property, plant and equipment

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

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

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

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

Repairs and maintenance costs are expensed as incurred.

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

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

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

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

	Years
Buildings	up to 56
Communication technology and related equipment	up to 26
Other fixed assets	up to 26

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

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

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

H Intangible assets

Intangible assets of the Group include computer software, purchased goodwill, licences, valuable rights and customer bases. Computer software mainly represents the external acquisition costs of the Group's information systems that are intended for use within the Group. Generally, costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and that have a probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their estimated useful lives, generally from one to five years. Valuable rights are amortised according to the period for which the Group is allowed to utilise the rights, usually for a period of 1 to 5 years.

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (refer to Note 9).

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

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

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

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

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

I Non-current assets held for sale

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

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and net realisable value.

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

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

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

J Impairment of non-current non-financial assets

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

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

K Financial instruments

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

(i) Financial assets – classification and valuation

Financial assets are classified into three categories – instruments subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Financial assets are generally classified according to the Group's business model for managing financial assets and at the same time according to the contractual cash flow characteristics of the financial asset. Derivatives embedded in contracts where the host contract is a financial asset within the scope of the IFRS 9 standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification and measurement.

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Financial assets – impairment

The Group uses a model of impairment of financial assets that reflects expected credit losses and is applied to financial assets measured at amortised cost, contractual assets and investments in debt instruments at fair value through other comprehensive income (not relevant to the Group).

The Group calculates the loss allowance for financial assets as equal to the 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

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

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

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

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

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

Impairment losses on financial assets, including contract assets, are recognised in the income statement within a separate line Impairment loss on financial assets.

(iii) Financial liabilities

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

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

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

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

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

(iv) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are initially measured at cost with subsequent measurement at amortised cost decreased by a loss allowance according to the IFRS 9 impairment model. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less, adjusted for bank overdrafts. Bank overdrafts are shown within short-term financial debts in the financial liabilities section of the balance sheet.

(v) De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flow from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or, has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(vi) Financial instruments offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

L Accounting for financial derivatives and hedging activities

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

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

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

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

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

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) hedge of the fair value of a recognised asset or liability (fair value hedge),

(ii) hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or

(iii) other derivatives.

(i) Fair value hedging derivatives

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

(ii) Cash flow hedging derivatives

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

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

(iii) Other derivatives

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, either do not qualify for hedge accounting under the specific rules previously included in IAS 39 and currently in IFRS 9 or the Group has elected not to apply the specific hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss in line with IFRS 9.

M Leases

As of 1 January 2019, the Group applied the new standard IFRS 16 Leasing for the initial recognition and subsequent accounting of leases. The impact of this standard on the recognition and accounting of leases was significant for the Group. The classification and presentation of leases and related accounting policies are described in Note A Basis of preparation, part IFRS 16.

Accounting policies valid until 31 December 2018

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

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

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

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

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

N Inventories

Inventories are stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using the weighted average cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

O Current and deferred income taxes

Income tax expense represents both current and deferred taxation.

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

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

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

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

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

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

P Employee benefits

(i) Pension insurance and supplementary pension insurance

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

(ii) Redundancy and severance payments

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

(iii) Bonus plans

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

Q Provisions

Provisions are recognised when the Group will be obliged to pay a present liability in the future and it is possible to reliably estimate its amount. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

R Revenues and expenses

The Group generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, Internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. The Group recognises revenues when the promised goods or services are transferred to customers and at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Products and services can be sold separately or in bundles.

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

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

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

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. These expenditures are recognised in the balance sheet within the line Costs to obtain contracts and are linearly amortised. The amortisation of those costs is presented within the line Amortisation of costs to obtain contracts in the income statement, the amortisation period is determined on the basis of the estimated average period, during which the customer uses Group’s services.

(i) Mobile origination – Internet and data, voice services, MMS and SMS

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

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

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

(ii) Fixed services – voice, internet, data and television

Revenues from fixed telecommunication services include revenues from Internet connectivity, data and TV and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are recognised, invoiced and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months. For new products, customers have the option to terminate the service at any time without penalty.

(iii) Sale of equipment

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

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment is paid for by customers at the moment of sale or it is sold on an instalment basis with a maturity of 12 to 48 months.

The Group identified a significant financing component for selected contracts for the sale of fixed access equipment sold on an instalment basis over 48 months considering the time between the customers' payments and the transfer of the equipment. The invoiced price for these contracts is discounted using the interest rate. This rate is commensurate with the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

(iv) Mobile termination

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

(v) Other mobile revenues

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

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

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

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

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

Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period of at least of 24 months.

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

(vii) Other fix revenues

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

(viii) Dividend income

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

(ix) Interest income

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

S Dividend distribution

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

T Changes in accounting policies

The Group implemented new standard IFRS 16 Leases, from contracts with customers as at 1 January 2019 and its implementation is described in Note A Basis for preparation, section IFRS 16. The Group implemented new standards IFRS 9 Financial instruments: classification and measurement, and IFRS 15 Revenue from contracts with customers as at 1 January 2018. Relevant accounting policies are described in Note K Financial instruments and in Note R Revenues and expenses.

No other significant changes in accounting policies were applied in 2019 and 2018.

U Treasury shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of changes in equity as a reduction in equity. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Any consideration received from the sale of treasury shares is presented in the financial statements as an addition to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Segment information

Segments recognised by the Group are as follows:

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

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

Inter-segment pricing rates in 2019 and 2018 were determined on the same basis as rates applicable for other mobile operators.

For the year ended 31 December 2019	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million	Fix	Mobil			
Revenues	10,670	20,908			
Cost of Sales (CoS)	(6,581)	(9,676)			
Gross margin	4,089	11,232			
Other income from non-telecommunication services	154				
Capitalisation of fixed assets	255				
Other costs excluding CoS	(6,123)				
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**9,607**				
Revenues	31,578		7,647	(465)	38,760
Other income from non-telecommunication services	154		13	(7)	160
Capitalisation of fixed assets	255		85	9	349
Total consolidated cost	(22,380)		(4,690)	420	(26,650)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**9,607**		**3,055**	**(43)**	**12,619**
Depreciation and amortisation	(3,897)		(945)	45	(4,797)
Amortisation of costs to obtain contracts	(408)		(147)	-	(555)
Impairment loss on non-current assets	(19)		(7)	-	(26)
Operating profit	**5,283**		**1,956**	**2**	**7,241**
Interest expense	(352)		(89)	54	(387)
Interest income	79		-	(54)	25
Other finance income/(costs)	1,379		(8)	(1,367)	4
Net finance costs	**1,106**		**(97)**	**(1,367)**	**(358)**
Share of profit/(loss) of investments accounted for using the equity method	2		-	-	2
Profit before tax	**6,391**		**1,859**	**(1,365)**	**6,885**
Corporate income tax	(950)		(475)	-	(1,425)
Profit for the period	**5,441**		**1,384**	**(1,365)**	**5,460**
Non-current assets*	19,564		6,928	(4)	26,488
Other assets	21,638		3,890	(9,336)	16,192
Total Assets	**41,202**		**10,818**	**(9,340)**	**42,680**
Total liabilities	**(25,006)**		**(6,724)**	**3,228**	**(28,503)**
Fixed assets additions**	**1,445**		**1,036**	**(49)**	**2,432**

* Non-current assets do not include investments in subsidiaries and equity accounted investees, contract assets, other non-current assets and deferred tax asset for the purposes of segment analysis.
** Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations and additions to rights of use assets, refer in Note 10.

For the year ended 31 December 2018	Czech Republic		Slovak Republic	Elimination CR vs SR	Group
In CZK million	**Fix**	**Mobil**			
Revenues	10,402	20,472			
Cost of Sales (CoS)	(6,635)	(9,629)			
Gross margin	3,767	10,843			
Other income from non-telecommunication services	202				
Capitalisation of fixed assets	251				
Other costs excluding CoS	(6,489)				
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,574**				
Revenue	30,874		7,486	(364)	37,996
Other income from non-telecommunication services	202		7	(2)	207
Capitalisation of fixed assets	251		76	8	335
Total consolidated cost	(22,753)		(4,980)	358	(27,375)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**8,574**		**2,589**	**-**	**11,163**
Depreciation and amortisation	(2,866)		(707)	-	(3,573)
Amortisation of costs to obtain contracts	(349)		(106)	-	(455)
Impairment loss	(26)		(1)	-	(27)
Operating profit	**5,333**		**1,775**	**-**	**7,108**
Interest expense	(186)		(25)	24	(187)
Interest income	36		-	(24)	12
Other finance income/(costs)	1,184		(4)	(1,199)	(19)
Net finance costs	**1,034**		**(29)**	**(1,199)**	**(194)**
Share of profit/(loss) of investments accounted for using the equity method	2		-	-	2
Profit before tax	**6,369**		**1,746**	**(1,199)**	**6,916**
Corporate income tax	(1,000)		(468)	-	(1,468)
Profit for the period	**5,369**		**1,278**	**(1,199)**	**5,448**
Non-current assets*	18,846		5,126	-	23,972
Other assets	16,867		3,294	(8,003)	12,158
Total Assets	**35,713**		**8,420**	**(8,003)**	**36,130**
Total liabilities	**(18,502)**		**(4,292)**	**1,889**	**(20,905)**
Fixed assets additions**	**3,312**		**1,112**	**(7)**	**4,417**

* Non-current assets do not include investments in subsidiaries and equity accounted investees, contract assets, other non-current assets and deferred tax asset for the purposes of segment analysis.
** Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations and additions to rights of use assets.

2 Revenues from contracts with customers

(i) Classification of revenues from customer contracts

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

For the year ended 31 December 2019	Czech Republic	Slovak Republic	Intragroup eliminations	Group
In CZK million				
Mobile origination:				
- Voice services and SMS & MMS	8,236	2,844	-	11,080
- Internet and data	6,782	1,857	-	8,639
Mobile terminations	2,218	865	-	3,083
Revenues from sale of equipment	1,883	1,439	(92)	3,230
Other mobile revenues	1,789	490	(334)	1,945
Total mobile revenues	**20,908**	**7,495**	**(426)**	**27,977**
Voice services	1,855	54	-	1,909
Data services	959	49	(4)	1,004
Internet and television	5,227	26	(7)	5,246
ICT	1,694	12	(19)	1,687
Revenues from sale of equipment	603	6	(9)	600
Other fixed revenues	332	5	-	337
Total fixed revenues	**10,670**	**152**	**(39)**	**10,783**
Total revenues	**31,578**	**7,647**	**(465)**	**38,760**

For the year ended 31 December 2018	Czech Republic	Slovak Republic	Intragroup eliminations	Group
In CZK millions				
Mobile services:				
- Voice services and SMS & MMS*	8,532	2,992	-	11,524
- Internet and data	6,068	1,523	-	7,591
Mobile terminations	2,273	909	-	3,182
Revenues from sale of hardware	1,990	1,479	(50)	3,419
Other mobile revenues	1,609	455	(289)	1,775
Total mobile revenues	**20,472**	**7,358**	**(339)**	**27,491**
Voice services	2,114	63	-	2,177
Data services	950	35	(1)	984
Internet and television	5,012	18	(4)	5,026
ICT	1,642	6	(17)	1,631
Revenues from sale of hardware	340	4	(3)	341
Other fixed revenues	344	2	-	346
Total fixed revenues	**10,402**	**128**	**(25)**	**10,505**
Total revenues	**30,874**	**7,486**	**(364)**	**37,996**

* In 2019, the Group changed the presentation of revenues from data-centric tariffs that were previously included in mobile revenues in the Voice and SMS & MMS category. Currently, the Group presents them as mobile revenues in the Internet and data category. Data for the comparable period were adjusted, the revenues from the data-centric tariffs for 2018 were CZK 138 million.

(ii) Contract assets and contract liabilities

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

The balance of contract assets is decreased by an allowance of CZK 5 million (2018: CZK 5 million), determined in accordance with the methodology described in Note K Financial instruments.

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

The amount of CZK 511 million recognised as contract liabilities as at 1 January 2019 was recognised as revenues in 2019. The amount of CZK 449 million recognised as contract liabilities as at 1 January 2018 was recognised as revenues in 2018.

Receivables arising from contracts with customers represent the trade receivables described in Note 12.

The table below analyses contract assets and liabilities:

Contract assets In CZK million	31 December 2019	31 December 2018
- short-term (less than 1 year)	354	411
- long-term (over 1 year)	129	134
Total contract assets	483	545

Contract liabilities In CZK million	31 December 2019	31 December 2018
- short-term (less than 1 year)	514	610
- long-term (over 1 year)	56	81
Total contract liabilities	570	691

In 2019 and 2018, the Group did not recognise any revenues from contract liabilities which were met (or partially met) in prior periods.

The Group expects to recognise revenues of CZK 14,426 million from current contracts with customers related to performance obligations that are yet to be fulfilled (or are only partially fulfilled) as at 31 December 2019, assuming that these obligations will be fulfilled in the next five years (2018: CZK 14,946 million). These contractual revenues mainly include revenues from the sale of telecommunication services, which were determined by the Group on the basis of the average monthly spend of contractual customers with commitment, the number of contractual customers with commitment as at 31 December 2019 and the average remaining duration of these customers' contracts, while all the parameters are broken down into the main operating segments. The expected revenues also contain revenues from other contracts with complex delivery of goods and services for which, in line with IFRS 15, the Group allocates the total transaction price to separate performance obligations on a pro-rata basis according to the individual stand-alone selling prices. These revenues are recognised based on the fulfilment of separate performance obligations and not according to the invoicing of customers. The Group applied the practical expedients allowed for in the standard and the balance of contractual revenues does not include revenues from contracts which originally had an expected duration of one year or less, nor the revenues from contracts which are recognised in an amount that corresponds directly to the services provided (in line with principles described in Note R Revenues and expenses).

(iii) Incremental costs to obtain contracts

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

Capitalised costs to obtain contracts In CZK million	
As 1 January 2018	**539**
Capitalised costs to obtain contracts	594
Amortisation of capitalised costs to obtain contracts	(455)
As 31 December 2018	**678**
Capitalised costs to obtain contracts	645
Amortisation of capitalised costs to obtain contracts	(555)
Foreign exchange differences	(2)
As 31 December 2019	**766**

The Group regularly evaluates capitalised incremental costs to obtain contracts and assesses whether there is any indication of impairment. The assessment is based on the monitoring of two parameters – statistical evolution of clawbacks, i.e. deductions for the additional change of contracted services or contractual penalties for non-observance of the performance indicators and, simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use individual segments of the Group. Based on an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 31 December 2019 and 2018.

3 Expenses

Expenses In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Cost of sales	18,896	19,129
Staff costs	4,421	4,386
External services	2,662	3,225
Other expenses	418	400
Total expenses	**26,397**	**27,140**

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

The Group does not participate in any pension plans.

4 Finance income and costs

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Finance income		
Interest income	25	12
Foreign exchange gain (net)	-	10
Other finance income	7	8
Gain on fair value adjustments and settlement of financial derivatives (net)	54	-
Total finance income	**86**	**30**
Finance costs		
Interest expense	387	187
Other finance costs	41	29
Foreign exchange loss (net)	16	-
Loss on fair value adjustments and settlement of financial derivatives (net)	-	8
Total finance costs	**444**	**224**

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

Interest expense also includes interest on lease contracts, refer to Note 10.

In 2019, no interest expense was capitalised. In 2018, an interest expense in the amount of CZK 15 million was capitalised. The capitalisation rate used to determine the amount of borrowing cost to be capitalised is the weighted average interest rate applicable to the Company's general borrowings, in this case 1.4%.

5 Income tax

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Total income tax expense consists of:		
Current income tax charge	1,415	1,355
Deferred income tax (Note 17)	10	113
Income tax	**1,425**	**1,468**

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

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax	6,885	6,916
Income tax charge calculated at the weighted average statutory rate (Note 17)	1,353	1,355
Tax effects of:		
- income not taxable	(24)	(9)
- expenses not deductible for tax purposes	39	37
- loss for the period not included in the deferred tax calculation	-	2
Special tax for regulated business for O2 Slovakia, s.r.o.	82	107
Tax related to prior periods	6	(24)
Recognition of tax losses, not previously included in the deferred tax calculation	(31)	-
Income tax	**1,425**	**1,468**
Effective tax rate	21%	21%

As at 31 December 2019, the total amount of current income tax liability was CZK 1,332 million (2018: CZK 1,386 million), overpayments and advances paid for corporate income tax were CZK 1,347 million (2018: CZK 1,351 million) and the net deferred tax liability was CZK 348 million (2018: net deferred tax liability CZK 316 million).

6 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year (refer to Note 22).

	31 December 2019	31 December 2018
Weighted number of ordinary shares outstanding (in thousands)	301,409	301,525
Net profit attributable to shareholders (in CZK million)	5,463	5,450
Basic earnings per share (in CZK)	18	18

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

7 Dividends and other distributions

In CZK million	31 December 2019	31 December 2018
Dividends declared	5,274	5,274
Other distributions	1,206	1,206
Total declared distributions	**6,480**	**6,480**

Dividends and other distributions include a withholding tax on dividends paid by the Company to its shareholders. No interim dividend has been paid in respect of 2019 and 2018. The approval of the 2018 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 4 June 2019 (for year 2017: 4 June 2018). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 from the 2018 profit were payable on 4 July 2019 (from 2017 profit: CZK 17 and CZK 170 respectively). Dividends on treasury shares in the amount of CZK 148 million (2018: CZK 148 million) remained in the retained earnings account.

In addition to the payment of dividends, the Annual General Meeting of the Company approved distribution of part of the share premium, in total an amount of CZK 1,241 million (2018: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for the share with a nominal value of CZK 100, CZK 40 before tax was allocated). The right to receive the amount related to the payment of the share premium for the treasury shares was not applied. This part of the share premium in the amount of CZK 35 million (2018: CZK 35 million) remained in the share premium account.

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

In CZK	Year ended 31 December 2019	Year ended 31 December 2018
Dividend per share (nominal value of CZK 10)	17	17
Other distributions	4	4
Total distributions per share	**21**	**21**

8 Property, plant and equipment

In CZK million	Land, buildings and constructions	Telecommunication technology and related equipment	Other fixed assets	Total
As at 31 December 2019				
Opening net book amount	1,183	3,549	1,398	6,130
Additions	247	880	283	1,410
Disposals	(1)	(5)	(6)	(12)
Reclassifications and currency differences	170	(155)	(56)	(41)
Depreciation	(149)	(865)	(302)	(1,316)
Impairment	-	-	-	-
Closing net book amount	**1,450**	**3,404**	**1,317**	**6,171**
As at 31 December 2019				
Purchase price	2,680	10,409	4,072	17,161
Accumulated depreciation and impairment	(1,230)	(7,005)	(2,755)	(10,990)
Net book amount	**1,450**	**3,404**	**1,317**	**6,171**

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

As at 31 December 2019, the net book value of tangible assets in progress was CZK 694 million (2018: CZK 1,201 million) and was spread over all disclosed categories of property, plant and equipment according to their characteristics.

Additions to property, plant and equipment in category communication technology and related equipment relate mainly to the construction of telecommunication network in Slovakia.

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

No property, plant and equipment were pledged as at 31 December 2019 and 31 December 2018.

In 2019, the Group achieved a total gain from the sale of fixed assets amounting to CZK 6 million (2018: CZK 5 million) and total losses of CZK 9 million (2018: CZK 5 million).

9 Intangible assets

In CZK million	Goodwill	Licences	Software and other intangible assets	Valuable rights	Customer portfolios	Total
As at 31 December 2019						
Opening net book amount	4,464	5,697	5,594	1,318	91	17,164
Additions	-	-	1,022	-	-	1,022
Additions – acquisitions of subsidiaries	-	-	47	-	-	47
Disposals	-	-	(1)	-	-	(1)
Disposal – acquisitions of subsidiaries	-	-	(2)	-	-	(2)
Reclassifications and currency differences	-	(6)	(3)	-	(2)	(11)
Amortisation	-	(680)	(1,564)	(434)	(58)	(2,736)
Impairment	-	-	(26)	-	-	(26)
Closing net book amount	**4,464**	**5,011**	**5,067**	**884**	**31**	**15,457**
As at 31 December 2019						
Purchase price	4,464	10,427	25,434	4,478	525	45,328
Accumulated amortisation and impairment	-	(5,416)	(20,367)	(3,594)	(494)	(29,871)
Net book amount	**4,464**	**5,011**	**5,067**	**884**	**31**	**15,457**
As at 31 December 2018						
Opening net book amount	4,477	6,321	3,986	1,863	168	16,815
Additions	-	10	2,857	-	-	2,867
Disposals	-	-	(16)	-	-	(16)
Reclassifications and currency differences	-	-	(58)	-	8	(50)
Amortisation	-	(634)	(1,162)	(545)	(85)	(2,426)
Impairment	(13)	-	(13)	-	-	(26)
Closing net book amount	**4,464**	**5,697**	**5,594**	**1,318**	**91**	**17,164**
As at 31 December 2018						
Purchase price	4,464	10,431	24,915	4,484	526	44,820
Accumulated amortisation and impairment	-	(4,734)	(19,321)	(3,166)	(435)	(27,656)
Net book amount	**4,464**	**5,697**	**5,594**	**1,318**	**91**	**17,164**

As at 31 December 2019, the net book value of intangible assets in progress was CZK 475 million (2018: CZK 210 million) and was spread over all disclosed categories of intangible assets according to their characteristic.

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

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

Goodwill

Goodwill from individual companies as at 31 December:

In CZK million	31 December 2019	31 December 2018
O2 Czech Republic a.s.	4,443	4,443
O2 IT Services s.r.o.	13	13
INTENS Corporation s.r.o. (Note 23)	6	6
mluvii.com s.r.o.	1	1
Bolt Start Up Development a.s.	1	1
Total	**4,464**	**4,464**

As at 31 December 2019 and 31 December 2018, O2 Czech Republic a.s. contained goodwill of CZK 4,315 million resulting from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel) and CZK 128 million related to the take-over of assets as a part of the project of merging Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, with the Company from 2012.

The Group performed impairment tests, which did not result in any impairment losses on goodwill, in 2019 and 2018. The impairment test involves a determination of the recoverable amount of a cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from the Group's internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of five years, adjusted for the impact of IFRS 16 Leases. The business plan has been approved by the management and is current as at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. In addition, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the five-year period are extrapolated using appropriate growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan, include estimates of the future development of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share and growth rates.

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

The calculation of value in use for the cash-generating unit is most sensitive to the following key assumptions:

Estimated growth rate – the basis for the determination of the value assigned to the estimated growth rate is the forecast of the market and regulatory environment, where the Group conducts its principal business. The Group uses a growth rate of between -1% and 0% (2018: -1% and 0%).

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

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

The Group also performed impairment tests of goodwill in other companies. The calculation methodology is the same as for O2 Czech Republic a.s. Tests did not indicate any impairment loss as of 31 December 2019. Tests indicated a decrease in the value of goodwill for the company Tapito s.r.o. as of 31 December 2018, where the full amount of CZK 13 million was written off.

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

Intangible assets in progress are tested annually for impairment losses. The tests performed as at 31 December 2019 and 31 December 2018 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks. The licences are technologically neutral. The Group uses the following standards for the operation of cellular networks in the Czech Republic and Slovakia: GSM (2G), UMTS (3G), LTE (4G) and 5G-ready.

Details of the individual licences are described in Note 21.

Carrying value of licences:

In CZK million	31 December 2019	31 December 2018
GSM licence	241	291
CDMA licence	184	198
UMTS licence	520	770
LTE licence	3,324	3,599
GSM and UMTS licence – the Slovak Republic	49	57
LTE licence – the Slovak Republic	693	782
Total	5,011	5,697

Valuable rights

Under a licence agreement, the Group has an exclusive right to use the O2 brand in the Czech Republic and Slovakia until 27 January 2022. Furthermore, the Group is entitled to unilaterally extend the right to use the O2 brand licence by another five years, i.e. until 27 January 2027. As at 31 December 2019, the O2 brand is recognised within intangible assets in the net book amount of CZK 884 million (2018: CZK 1,318 million).

10 Leases

The Group mainly leases stores, office and technical buildings, telecommunication technology, vehicles and various office equipment.

Contracts for the lease of stores and office buildings are usually concluded for a period of 3 to 5 years. Contracts may contain options to extend the lease period and the amount of payments is often adjusted according to the development of the consumer price index. The lease of technical buildings and telecommunication technology is usually concluded for a period of 5 to 10 years, and the lease of vehicles for a period of 3 years. The lease of office equipment is usually short-term or the underlying asset has a low value. The Group has decided not to recognise the right-of-use assets and lease liabilities arising from these leases.

The lease contracts are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be the subject of collateral in connection with the drawing down of loans. For selected leases, the Group is limited in its conclusion of sublease contracts.

Right-of-use assets

In CZK million	Land, buildings and constructions	Telecommunication technology and related equipment	Other fixed assets	Total
As at 1 January 2019				
Opening net book amount	3,073	1,196	69	4,338
Additions	260	361	36	657
Additions relating to acquisitions of subsidiaries	1	-	-	1
Disposals	(124)	(2)	(10)	(136)
Reclassifications and currency differences	(4)	(17)	-	(21)
Depreciation	(482)	(219)	(44)	(745)
Closing net book amount	**2,724**	**1,319**	**51**	**4,094**

Lease liabilities

In CZK million	
As at 1 January 2019	**4,368**
Repayment of lease liabilities	(688)
Lease interest paid	(98)
Cash flow total	**(786)**
Change in lease liabilities due to additions / disposals of right-of-use assets	500
(Profit) / loss from lease modification	(2)
Interest cost from lease liabilities	98
Other	(10)
Non-cash flows total	**586**
As at 31 December 2019	**4,168**

Relevant discount rates for lease liabilities as at 31 December 2019 are in the range 1.3%–2.6% depending on the length of the contract and the currency in which the contract is denominated.

For a detailed description of the analysis of the currency risk and the maturity of the lease liabilities refer to Note 16.

As at 31 December 2019, the portfolio of short-term leases does not differ materially from the short-term leases accounted for during 2019 to which the short-term lease costs disclosed below are related.

The following table shows selected amounts in the statement of total comprehensive income relating to the lease:

In CZK million	2019
Interest on the lease liabilities	98
Costs relating to short-term leases	52
Costs relating to the leasing of low-value assets not referred above as short-term leases	10

The total cash outflow from leasing in 2019 was CZK 786 million.

The Group estimates that the total amount of potential future cash outflows from lease contracts that have not started, residual value guarantees and lease options that are not included in the measurement of lease liabilities at 31 December 2019, is 189 million CZK.

In 2018, the Group recognised lease expenses under IAS 17 of CZK 784 million.

11 Inventories

In CZK million	31 December 2019	31 December 2018
Goods	976	894
Telecommunication material	11	12
Total	**987**	**906**

The inventories stated above are net of an allowance of CZK 68 million (2018: CZK 86 million), reducing the value of the inventories to their net realisable value. The value of inventories recognised as an expense for sale of goods and utilisation of material is CZK 3,462 million (2018: CZK 3,538 million).

12 Receivables and other assets

In CZK million	31 December 2019	31 December 2018
Trade receivables (net)	6,853	6,691
Prepayments	240	241
Other debtors (net)	120	118
Financial derivatives	26	-
Financial instruments at fair value through profit or loss	6	14
Indirect taxes	2	3
Total current receivables	**7,247**	**7,067**

Trade receivables and other debtors are stated net of a bad debt provision of CZK 2,198 million (2018: CZK 2,325 million).

In 2019, expenses for impairment of receivables were CZK 253 million (2018: CZK 235 million).

The analysis of credit risk, the ageing structure of trade receivables and the loss allowance for trade receivables is described in Note 16.

In CZK million	31 December 2019	31 December 2018
Trade and other receivables – non-current	895	599
Prepayments	276	256
Financial derivatives	2	43
Financial instruments at fair value through other comprehensive income	40	2
Total other non-current assets	**1,213**	**900**

Trade and other non-current receivables contained restricted cash of CZK 5 million (2018: CZK 30 million) resulting from the legal requirements of the Czech National Bank as a financial regulator for the Company as a small-scale payment services provider.

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

In CZK million	31 December 2019	31 December 2018
Gross amounts of trade receivables from third parties	462	211
Amounts that are set off	(238)	(178)
Net amounts of trade receivables from third parties	**224**	**33**

13 Cash and cash equivalents

In CZK million	31 December 2019	31 December 2018	Interest rate
Cash at current bank accounts and other cash equivalents	4,673	2,104	Floating
Cash at current bank accounts and other cash equivalents (inter-company) (refer to Note 23)	1,316	371	Floating
Total cash and cash equivalents	**5,989**	**2,475**	

As at 31 December 2019 and 2018, cash and cash equivalents of the Group comprised deposits with a maximum maturity of one month.

The committed and undrawn facilities available to the Group amounted to CZK 5,338 million as at 31 December 2019 (2018: CZK 5,638 million).

14 Trade and other payables

In CZK million	31 December 2019	31 December 2018
Trade payables	6,558	6,792
Tax and social security liabilities	728	626
Employee wages and benefits	448	489
Other payables	119	68
Total current trade and other payables	**7,853**	**7,975**

In CZK million	31 December 2019	31 December 2018
Trade payables	514	943
Other payables	32	48
Total other non-current liabilities	**546**	**991**

As at 31 December 2019 and 2018, other non-current liabilities consisted primarily of liabilities related to the purchase of non-current assets with a maturity exceeding 12 months.

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

In CZK million	31 December 2019	31 December 2018
Gross amounts of trade payables	282	183
Amounts that are set off	(238)	(178)
Net amounts of trade payables	**44**	**5**

15 Financial debts

In CZK million	31 December 2019	31 December 2018
Debt in local currency	14,535	10,461
Accrued interest	55	38
Financial derivatives	6	-
Total financial debt	**14,596**	**10,499**
Repayable:		
Within one year	7,066	38
In more than one year	7,530	10,461
Total financial debt	**14,596**	**10,499**

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	Interst rate	Maurity 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	Interst rate	Maurity day
Schuldschein – CZK 5Y float	CZK	90,000,000	3M PRIBOR + 0.75%	5 April 2022
Schuldschein – CZK 7Y float	CZK	130,000,000	3M PRIBOR + 1.05%	5 April 2024
Schuldschein – EUR 5Y float	EUR	11,000,000	6M EURIBOR + 1.30%	5 April 2022
Schuldschein – EUR 7Y float	EUR	9,000,000	6M EURIBOR + 1.50%	5 April 2024
Schuldschein – CZK 5Y fix	CZK	470,000,000	1.316%	5 April 2022
Schuldschein – CZK 7Y fix	CZK	2,280,000,000	1.734%	5 April 2024

On 16 December 2015, the Group entered into a long-term facility agreement with maturity in five years and a credit limit of CZK 12,000 million. The interest rate is based on 1M PRIBOR increased by 0.60% margin. In 2019, there was no drawdown or repayment under the long-term loan agreement. As at 31 December 2019, the Group had utilised a total of CZK 7,000 million (2018: CZK 7,000 million) from the long-term facility agreement.

Assets held for sale of CZK 16 million are pledged as colleteral for the loan of CZK 8 million provided to subsidiary Emeldi Technologies, s.r.o. No other Group's assets serve as a collateral in connection with the drawing down of current loans.

Changes in liabilities arising from financial activities

In CZK million	2019	2018
Short-term and long-term loans as at 1 January	10,461	10,448
Drawdown	4,106	1,200
Repayment	(4)	(1,200)
Cash flow total	4,102	0
Acquisition of a subsidiary (Note 24)	21	0
Exchange rate revaluation	(47)	4
Other	(2)	9
Non-cash flow total	(28)	13
Short-term and long-term loans as at 31 December	14,535	10,461

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

16 Financial instruments and financial risk management

A) Classification of financial instruments

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

As at 31 December 2019

In CZK million	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Total
Financial assets				
Trade and other receivables (excluding prepayments and indirect taxes)	7,868	-	-	7,868
Financial instruments at fair value through profit or loss	-	6	-	6
Financial instruments at fair value through other comprehensive income	-	-	40	40
Financial derivatives – interest (hedge accounting)	-	-	28	28
Cash and cash equivalents	5,989	-	-	5,989
Total	**13,857**	**6**	**68**	**13,931**
Financial liabilities				
Financial debts	14,590	-	-	14,590
Trade and other payables*	7,223	-	-	7,223
Lease liabilities	4,168	-	-	4,168
Financial derivatives – foreign currency (trading)	-	6	-	6
Total	**25,981**	**6**	**-**	**25,987**

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

As at 31 December 2018

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

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

Financial instruments at fair value through profit or loss as at 31 December 2019 and 2018 represent a loan provided, which includes an embedded derivative in the form of an option to convert the debt into equity.

Financial instruments measured at fair value through other comprehensive income as at 31 December 2019 represent stakes in companies Dateio s.r.o. and IP FABRIC, INC., which the Group owns through its subsidiary Bolt Start Up Development a.s. Financial instruments measured at fair value through other comprehensive income as at 31 December 2018 represent a stake in IP FABRIC, INC., which the Group owns through its subsidiary Bolt Start Up Development a.s.

B) Financial risk management

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

The Group does not conduct any speculative trading activities.

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to items denominated in EUR, XDR and partially in the USD:

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

The Group's objective in managing its exposure to foreign currency fluctuations is to minimise the earnings and cash flow volatility associated with foreign exchange rate changes. The Group manages currency risk at Company level, the exposure of other Group companies to currency risk is not significant.

The Group primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR, USD or XDR. Only plain-vanilla instruments are currently used to hedge these liabilities.

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

In CZK million	Notional amount as at 31 December		Fair value as at 31 December	
	2019	2018	2019	2018
Exchange rate contracts	1,169	772	(6)	-

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

In CZK million	Effect on profit before tax	
	as at 31 December 2019	as at 31 December 2018
FX risk		
Value at Risk*	(39)	(44)
Stress testing**	(11)	(53)

* The Value at Risk (VaR) Model enables the Group to estimate the probability of maximum possible loss to the portfolio value in a given time frame which will not be exceeded given the defined confidence level. To conduct a VaR calculation, the Group uses the risk variance and covariance method using the normal distribution (parametric method). The time frame used is one month with a 95% confidence level. Considering the importance of net open positions resulting from the Group's financial assets and financial liabilities in individual foreign currencies, the Group models the VaR for a translation and transaction EUR and USD position.
** The foreign currency stress test represents the immediate loss caused by a 6% change in the foreign exchange rate in an unfavourable direction.

The following table illustrates the comprehensive quantitative data about the Group's exposure to currency risk. Other currencies mainly represent Special Drawing Rights (XDR), which are used in certain transactions within international roaming.

	31 December 2019			
In CZK million	CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	2,618	3,251	120	-
Financial instruments at fair value through profit or loss	-	6	-	-
Financial instruments at fair value through other comprehensive income	40	-	-	-
Financial derivatives – interest (hedge accounting)*	28	-	-	-
Financial derivatives – foreign currency (trading)*	-	1,169	-	-
Trade and other receivables (excluding prepayments and indirect taxes)	4,725	3,028	37	78
Total financial assets	**7,411**	**7,454**	**157**	**78**
Financial liabilities				
Financial debts	9,997	4,593	-	-
Trade and other payables**	3,627	3,293	276	27
Lease liabilities	1,745	2,423	-	-
Total financial liabilities	**15,369**	**10,309**	**276**	**27**

* Foreign currency financial derivatives are disclosed in the nominal amount of the contract (translated to CZK using the exchange rate as at 31 December 2019). For interest financial derivatives, the fair value as at 31 December 2019 is disclosed.
** The payables do not include employee liabilities and benefits, liabilities related to VAT, other taxes and social security liabilities.

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

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

(ii) Interest rate risk

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The financial assets and short-term liabilities are currently maintained on floating rates while long-term debts can be maintained on both floating and fixed rates. The Group uses interest rate swaps to manage the ratio of debts with fixed and variable interest rates (Note 16(e)).

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

In CZK million	Effect on profit before tax	
	31 December 2019	31 December 2018
Interest rate risk		
Stress testing*	(13)	(29)

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

(b) Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2019 and as at 31 December 2018 based on contractual undiscounted payments. Values include projections of future interests. The impact of the initial application of the new standard IFRS 16 is described in Note A Basis of preparation. Due to the selected method of application, the Group has not adjusted the comparable data for the previous period.

As at 31 December 2019 In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5years
Interest bearing borrowings	42	7,243	7,023	935
Lease liabilities	216	542	2,358	1,435
Trade and other payables*	5,559	1,125	551	-
Total	**5,817**	**8,910**	**9,932**	**2,370**

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

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

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

As at 31 December 2019, banks had provided third parties with payment guarantees or other guarantees for liabilities of the Group amounting to CZK 580 million (31 December 2018: CZK 778 million).

(c) Credit risk

(i) Trade receivables, contract assets and other receivables

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. The major part of trade receivables is concentrated within the Czech Republic. Although the Group does not currently foresee higher credit risk associated with these receivables, the collectability is significantly impacted by the financial stability of the national economy.

It is the Group's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis in order to minimise the Group's exposure to bad debts.

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

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

a) prevention: scoring of new customers – activation control procedures (integrated Black Lists, Solus Debtors Register, other information), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.).

b) monitoring of accounts receivables: regular monitoring of the creditworthiness of existing customers and monitoring and analysis of the receivables ageing structure (internal and external indicators of any potential bad debts). Those activities are processed in an integrated system solution for scoring, maintenance and collection of receivables.

c) collection process: Credit Management cooperates with Customer Care on the implementation of a reasonable, effective and continuous collection process. Collection process responsibilities are divided. The collection from active customers is in the responsibility of the Customer Care unit; collection after the contract is terminated falls within the responsibility of Credit Management.

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

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

The Group calculates the loss allowance for trade receivables and contract assets as the expected lifetime credit losses. The loss allowance for contract assets is created in the same way as the loss allowance for trade receivables.

Other receivables include mainly receivables from the Czech Telecommunication Office in respect of discounts granted to customers with disabilities and claims for damages. The credit risk assessment of these receivables is prepared along with the trade receivables and contract assets.

Overview of the credit risk for trade receivables, contract assets and other receivables as at 31 December 2019

In CZK million	Weighted-average loss rate	Gross carrying amount	Loss allowance	Residual value	Receivables credit-impaired
Due	1%	7,557	85	7,472	No
1–30 days overdue	3%	442	13	429	No
31–90 days overdue	11%	193	21	172	No
More than 91 overdue	88%	2,362	2,084	278	Yes
Total	**21%**	**10,554**	**2,203**	**8,351**	

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

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

Loss allowance for trade receivables, contract assets and other receivables In CZK million	
As at 1 January 2018	**2,389**
Additions	1,029
Write-off of receivables	(768)
Retirements/amount paid	(322)
Foreign currency differences	2
As at 31 December 2018	**2,330**
Additions	988
Write-off of receivables	(745)
Retirements/amount paid	(367)
Foreign currency differences	(3)
As at 31 December 2019	**2,203**

The Group uses the following methods of hedging against the credit risk of receivables: insurance of receivables, receiving deposits from customers, bank guarantees and bills of exchange. Insurance of the receivables and deposits received from customers for goods and services provided were the most significant means of hedging in 2019 and 2018.

As at 31 December 2019 and 2018, the Group held no trade receivables or contract assets for which no loss allowance would be created due to collateral received.

(ii) Cash and cash equivalents

As at 31 December 2019, the Group reported cash and cash equivalents of CZK 5,989 million (2018: CZK 2,475 million). Bank receivables are held by institutions rated A2–A1 by Moody's; in 2019 and 2018 none of the credit ratings of the institutions deteriorated in a way which, in the Group's view, would cause the credit risk to increase significantly.

Cash and cash equivalents were analysed for impairment in accordance with the methodology described in Note K Financial instruments. As at 31 December 2019 and 31 December 2018, the loss allowance was evaluated as immaterial and the Group decided not to recognise it.

(d) Fair value estimation

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

As at 31 December 2019 and 2018, the Group reported financial assets at fair value through profit or loss, and investments in equity instruments measured at fair value through other comprehensive income classified as Level 3. As at 31 December 2019 and as at 31 December 2018, the Group held foreign currency forward and swap contracts and interest rate swaps classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2019 and 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

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

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rates. An exception are tranches of Schuldschein financing with fixed interest rates (Note 15) with a total carrying amount of CZK 3,810 million (2018: CZK 2,784 million) and fair value of CZK 3,663 million (2018: CZK 2,628 million) as at 31 December 2019.

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

(e) Hedge accounting

In 2017, the Group began to hedge cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. The hedged cash flows are the expected monthly payments from September 2017 to November 2020. In 2019, the Group concluded new interest rate swaps designed to hedge cash flows between May 2019 and December 2022. The Group's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept.

As at 31 December 2019, the total nominal value of hedging instruments was CZK 3,500 million (2018: CZK 2,500 million) and their fair value was in total CZK 28 million (2018: CZK 43 million). The hedge was assessed as effective as at 31 December 2019 and 2018 the net unrealised gain of CZK 17 million (2018: CZK 17 million), net of deferred tax of CZK 4 million (2018: CZK 3 million), was recognised in other comprehensive income. As at 31 December 2019, the weighted average of the fixed interest rate determined by the hedging instruments was 1.33% (2018: 1.02%).

In 2019 and 2018, the cash flow hedge was effective and no ineffectiveness was recognised in profit or loss. Interest expense includes the net interest income from realised hedge derivatives in amount of CZK 25 million (2018: net interest income CZK 2 million).

17 Deferred income taxes

Deferred tax was calculated for 2019 at statutory rate 19% for the Czech Republic (2018: 19%) and 21% for the Slovak Republic (2018: 21%).

In CZK million	2019	2018
As at 1 January	**(316)**	**(54)**
Charged/(credited) to Profit or loss (Note 5)	(10)	(113)
Charged/(credited) to Other comprehensive income	4	(2)
Deferred tax from acquisitions of subsidiaries (Note 23)	(9)	-
Foreign exchange translation reserve	(2)	-
Other movements	(15)	-
Impact for initial application of IFRS 9 and IFRS 15	-	(147)
As at 31 December	**(348)**	**(316)**

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

In CZK million	31 December 2019	Expiration	31 December 2018	Expiration
O2 Family, s.r.o.*	76	2021–2022	-	
O2 Business Services, a. s.	71	2020–2022	70	2020–2022
eKasa s.r.o.	53	2021–2023	80	2021–2023
Bolt Start Up Development a.s.	3	2023	5	2023
4Local, s.r.o.*	-		208	2021–2022
Tapito s.r.o.**	-		12	2021–2022
Smart home security s.r.o.	-		4	2023
Total	**203**		**379**	

* Surviving subsidiary O2 Family s.r.o. took over assets and liabilities of the merged company 4Local, s.r.o. as a result of the merger. The date of the merger was 1 January 2019 (Note 24).
** The company Tapito s.r.o. was sold in 2019 (Note 24).

As at 31 December 2019, no deferred tax asset was recognised in respect of tax losses carried forward amounting to CZK 203 million (2018: CZK 379 million) as the companies' managements are not certain that the realisation of the related tax benefit through future taxable profits is probable.

The following amounts are offset in the consolidated balance sheet:

In CZK million	31 December 2019	31 December 2018
Deferred tax assets	607	590
Deferred tax liabilities	(955)	(906)
Total	(348)	(316)

The deferred tax comprises the following components:

In CZK million	Balance sheet		Profit or loss		Other comprehensive income	
	31 Dec 2019	31 Dec 2018	2019	2018	2019	2018
Temporary differences relating to:						
Tax losses	43	27	16	(10)	-	-
Property, plant and equipment and intangible assets	(519)	(440)	(70)	(45)	-	-
Costs to obtain contracts	(110)	(95)	(15)	9	-	-
Contract assets	(90)	(104)	14	(19)	-	-
Trade receivables, inventories and other differences	332	304	45	(48)	-	-
Financial derivatives – hedge accounting	(4)	(8)	-	-	4	(3)
Financial instruments at fair value through other comprehensive income	-	-	-	-	-	1
Total	(348)	(316)	(10)	(113)	4	(2)

18 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
As at 1 January 2018	**50**	**74**	**23**	**147**
Additions during the year	14	8	-	22
Utilised during the year	-	(11)	(9)	(20)
As at 31 December 2018	**64**	**71**	**14**	**149**
Additions during the year	10	47	1	58
Utilised during the year	-	(9)	(5)	(14)
As at 31 December 2019	**74**	**109**	**10**	**193**
Short-term provisions 2018	1	68	14	83
Long-term provisions 2018	63	3	-	66
As at 31 December 2018	**64**	**71**	**14**	**149**
Short-term provisions 2019	-	109	10	119
Long-term provisions 2019	74	-	-	74
As at 31 December 2019	**74**	**109**	**10**	**193**

As at 31 December 2019, the Group recognised the provision for the estimated costs of dismantling, removing assets and restoring sites amounting to CZK 74 million (2018: CZK 64 million). The reason for recognition of the provision was an estimate of the present value of the future costs of dismantling, removing assets and restoring sites in connection with the network construction in Slovakia. Scenarios of future costs based on management estimates, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of the future dismantling and removal of assets.

Other provisions for which the expected timing of payments is not certain are expected to be utilised within twelve months of the balance sheet date. Other provisions consist mainly of restructuring costs.

Provisions for regulatory and court decisions are made in respect of legal proceedings involving the Group (refer to Note 19).

19 Contingencies and litigations

The Company is involved in several legal disputes arising from ordinary course of business. Throughout the year 2019, further successes were achieved, which confirmed long term trend of success in proceedings in which the Company is involved. However, some proceedings take very long time, with their alleged basis more than 15 years ago. In general, most major proceedings last over 5 years without any decision being reached, or the decision is repeatedly reversed and the proceedings are returned to lower instances.

Significant legal disputes and other proceedings relating to the Company are described below.

I. Office for Protection of Economic Competition ("ÚOHS") – proceedings concerning fine of CZK 49.5 million

These proceedings were originally initiated in 2003 against Eurotel. The Company was therefore not a party to the proceedings. The subject was the conclusion of an interconnection contract with Vodafone (then Český Mobil), in which the parties had agreed to connect their networks directly.

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

Originally, the Office imposed a fine of CZK 22 million on Eurotel, but Eurotel filed an administrative action. After several proceedings with judicial reviews in various administrative courts, the courts eventually overturned the decision. In the meantime, however, Eurotel ceased to exist, without the possibility of transferring the liability for administrative delicts.

However, in the second half of 2016, the Office suddenly completely ignored this fact and issued a "clarification of the subject of the administrative proceedings", in which it accused the Company (which had not concluded the interconnection contract) of the action, and in December 2016, it issued a decision imposing a fine of CZK 49.5 million.

The company filed an appeal. Based on this appeal, the decision was cancelled in January 2019 and the case returned to the first instance for further proceedings. No new decision was issued during 2019.

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

On 28 March 2011, VOLNÝ, a.s. ("VOLNÝ") filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. VOLNÝ filed the legal action to coincide directly with the opening of ÚOHS proceedings, which were closed by a decision in favour of O2 on 23 January 2019.

The amount is meant to represent the lost profit for the years 2004 to 2010. VOLNÝ claims to have had 30% share on the dial-up Internet market in 2003 and, in its legal action, it implies that it should have automatically had the same result on the broadband market, which it did not. Allegedly, it was due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and pointing out discrepancies in the petition claims. The court started the proceedings in the matter and hearings took place during the year 2013, including the hearings of witnesses and experts.

At the hearing held on 30 March 2016, the court considered the possibility of a revision expert opinion, which would review the opinions filed by VOLNÝ as well as by the Company. VOLNÝ proposed an expert, who eventually turned out to be biased and thus the Company filed a protest. Subsequently, the court appointed another expert and defined a set of questions. The revision expert opinion confirmed the Company's statement. The expert opinion stated that no anti-competition practice had been proved against the Company and also pointed out absence of the Company's dominant position in the market of Internet broadband connection.

After hearing the independent expert appointed, the Municipal Court in Prague dismissed the legal action by VOLNÝ in full. The court concluded that the Company had not breached competition rules and thus could not cause any damage. The decision was delivered in June 2018. The plaintiff filed an appeal and also applied for the court fee relief. The Municipal Court in Prague and the High Court in Prague granted the plaintiff a court fee relief of 50%.

The Company is convinced that the ÚOHS decision dated 23 January 2019, which was submitted to the court, confirms the Company's consistent position in the civil dispute and the correctness of the first instance dismissal of the legal action.

No decision on the merits was issued by the court of appeal during 2019.

III. TELECONSULT INTERNATIONAL – dispute concerning CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, in which the Company had already succeeded. Although the reasons were mainly of procedural and formal character, the Municipal Court in Prague is obliged to go through all the evidence again. The plaintiff, as a former operator of the audiotex lines claims that the Company allegedly caused damages (lost profit) between May and October 1998. At the hearing held on 14 January 2016, the court issued a decision in which the vast majority of the claim was dismissed and the Company should receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was awarded CZK 1.7 million in damages, which represents the difference between the volumes of minutes measured by both parties in May 1998. The Company filed an appeal against this part of the decision.

In its decision dated 29 March 2017, the High Court in Prague confirmed the dismissal of the legal action against the Company and also changed the original verdict regarding the amount of

CZK 1.7 million. Ultimately, the Company was completely successful in this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court and the Company filed its response to it.

On 30 September 2019, the Supreme Court cancelled the decision of the High Court in Prague for formal procedural failures and hence the case is now back in the appellate instance again. The decision of the Municipal Court in Prague remained unaffected. The Company expects the decision of the court of appeals during 2020, when the duration of this speculative court case will exceed 20 years. During this period, the Company has been successful so far, but the case has not been definitively closed.

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

The legal action brought by Vodafone Czech Republic a.s. ("Vodafone") claiming CZK 384,691,000 was delivered to the Company on 2 April 2015. The legal action is grounded on an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a notice claiming this amount was delivered to the Company. According to the Company, the whole claim is a purely artificial case, the sole purpose of which was to damage the Company by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. The Company provided the court with its statement that there are no grounds for the claim.

The Municipal Court in Prague dismissed the plaintiff's petition requesting the Company to disclose all information and documents supporting the claim filed in the legal action. The court found that the plaintiff had not yet described the essential facts which would at least indicate that the plaintiff would have ever suffered any damage. This is confirmed also by the decision of ÚOHS dated 23 January 2019 in a separate administrative proceedings. The High Court in Prague confirmed this decision. Vodafone filed an extraordinary appeal to the Supreme Court.

No court hearings were ordered during 2019.

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

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

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

BELL TRADE, whose current sole director, shareholder and legal representative is attorney JUDr. Milan Fulec, tried to base the new claim and the latest attempt to establish the jurisdiction of the County Court in Malacky on the letter dated 8 June 2015, in which it stated that it "withdraws from all agreements concluded between the RVI, a.s. and O2" and reserves the right to claim recovery of damages caused by such withdrawal. The new claim raised against the Company is for an amount of CZK 5.2 billion with interest from 14 March 2016.

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

The Company filed a legal action to the Municipal Court in Prague in response to the repeated attempts organised by the connected companies BELL TRADE and PET-PACK SK s.r.o. The Company claims that no contracts have ever been concluded and that the Company, therefore, has no obligations under these "never-concluded" contracts. The Municipal Court in Prague confirmed the Company's arguments and upheld the legal action at the hearing on 26 June 2017.

In the first half of 2018, breakthrough decisions in favour of the Company in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the Municipal Court in Prague's previous decision against PET PACK and BELL TRADE, which determined that no receivables or contracts had ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. It is therefore definitely determined that no contracts or claims have ever existed in relation to any of these companies.

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

During 2019, another positive decision was achieved. The Constitutional Court by its resolution dated 30 July 2019 rejected the constitutional complaint of BELL TRADE against the Supreme

Court's denial of an extraordinary appeal. The case was thus closed in the courts of the Czech Republic – it is legally established that no contracts or receivables have ever existed.

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

In 2016, the European Commission initiated own-initiative proceedings concerning a suspected infringement of Article 101 of the Treaty on the Functioning of the European Union (agreements disrupting competition in the internal market). The reason given is the network sharing agreement concluded between T-Mobile and the Company in 2013 (as part of the 2015 spin-off, the contract was transferred to CETIN a.s. (formerly Česká telekomunikační infrastruktura a.s.)). In the notification, the Commission initially stated that the commencement of the proceedings alone does not mean that it is convinced of any offence. The company has submitted its opinions and supporting documents to the Commission and is cooperating with an international expert institute.

On 7 August 2019, the Commission issued a statement of objections, expressing its intention to issue a decision that the network sharing agreements constitute a breach of Article 101 of the Treaty. If such a decision were taken, there would be a risk for the Company of the imposition of a fine pursuant to Article 23 of Regulation (EC) No. 1/2003 and, possibly, of the imposition of further measures (e.g. technological, financial, legal or procedural) to put an end to the alleged infringement. However, the Commission has in no way indicated the amount of the potential fine, not even approximately. Given the fact that a similar case has not yet been dealt with by the European Commission, it is very difficult for the Company in this case to apply the legal and sub-legal norms, interpretative rules and case law to estimate the possible amount of the fine.

The Company is firmly convinced that it has acted in compliance with applicable legal and regulatory rules. In addition, in the opinion of the Company, network sharing has significantly strengthened the availability and quality of mobile signal in the Czech Republic, which is currently among the top European countries in terms of mobile signal quality. Thus, no harm to competition or consumers has occurred. 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. For these reasons, the Company does not create a provision in relation to the case.

VII. Other

The Company is involved in other legal disputes where the amount disputed is over CZK 5 million. The aggregate value of all these pending disputes totals nearly CZK 62 million. The possible impact of these disputes is reflected in the financial statements. However, the risks associated with these disputes are not significant.

The Company considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Company in these cases.

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

20 Commitments

Capital expenditures contracted but not yet included in the financial statements as at 31 December 2019 amounted to CZK 385 million (2018: CZK 503 million). The majority of contracted amounts relates to the construction of telecommunication networks and maintenance and development of internal IT systems . The capital expenditures will be financed by both internal and external sources.

21 Service concession arrangements

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

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

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone services,
d) other voice services – service is defined as of public access,
e) leased lines – service is defined as of public access,
f) radio and TV signal broadcasting – service is defined as of public access,
g) data transmission – service is defined as of public access,
h) Internet access services – service is defined as of public access,
i) other voice services – service is not defined as of public access,
j) leased lines – service is not defined as of public access,
k) radio and TV signal broadcasting – service is not defined as of public access,
l) data transmission – service is not defined as of public access,
m) Internet access services – service is not defined as of public access.

The Company provides electronic communications services in the 900 and 1,800 MHz frequency bands under the GSM (2G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024. The Company provides services in the 2,100 MHz frequency band under the UMTS (3G) standard using radio frequencies assigned by the CTO and valid until 1 January 2022. Services are further provided in the 800, 1,800 and 2,600 MHz frequency bands under an LTE (4G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024 for a part of the 1,800 MHz frequency band, and until 30 June 2029 for the 800 and 2,600 and the remaining part of the 1,800 MHz frequency bands. The Company provides broadband mobile access to Internet in the 450 MHz frequency band using LTE technology based on the radio frequency assigned by the CTO and valid until 7 February 2033. The Company also holds the radio frequency assigned in the 3.7 GHz frequency band and valid until 30 June 2032, where it provides broadband mobile Internet access at a fixed location using 5G-ready technology.

The radio frequency license can be extended by another license based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, given the current regulatory and business environment in the Czech Republic, prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Provision of electronic communications services in the Slovak Republic

O2 Slovakia, s.r.o. provides electronic communication services as defined in the Act on Electronic Communications no. 351/2011 by means of a public mobile electronic communication network in the 800 MHz and 1,800 MHz frequency bands under the LTE standard on the basis of individual authorisation from the Regulation Office of the Slovak Republic (RO) and valid until 31 December 2028 for 800 MHz frequency band and 7 September 2026 for the 1800 MHz frequency band, in the 900 MHz frequency band under GSM and UMTS standards on the basis of individual authorisation from the RO and valid until 7 September 2026, in the 2,100 MHz frequency bands under UMTS and LTE standards on the basis of individual authorisation from the RO and valid until 7 September 2026, and also provides services of broadband mobile access to the Internet at fixed location in the 3,500 MHz and 3,700 MHz frequency bands on the basis of individual authorisations from the RO and valid until 31 December 2024 for 3,700 MHz frequency band and 31 August 2025 for 3,500 MHz frequency bands.

Imposition of obligations related to the provision of the Universal Service

During 2019, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

a) public pay telephone services (VTA),
b) access for persons with disability to the public telephone service, which must be equal to access enjoyed by other end users; such special access primarily takes the form of specially adapted telecommunication equipment,
c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disabilities.

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

22 Share capital and reserves

	31 December 2019	31 December 2018
Nominal value per ordinary registered share (in CZK)	10	10
Number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (in CZK)	100	100
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	3,102

Shareholdings in the Company were as follows:

	31 December 2019	31 December 2018
PPF Telco B.V.	65.79%	65.79%
PPF A3 B.V.	10.27%	10.27%
PPF CYPRUS MANAGEMENT Ltd.	5.00%	5.00%
O2 Czech Republic a.s. (treasury shares)	3.01%	2.80%
Other shareholders	15.93%	16.14%

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company’s objectives when managing its capital are:

a) to safeguard the Company’s ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

In the following periods, the Board of Directors will continue to make in-depth analyses of and assess the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation, and will optimise the capital structure to serve the purpose of achieving these plans.

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

Stand-alone equity structure as at 31 December 2019 and 2018:

In CZK million	31 December 2019	31 December 2018
Share capital	3,102	3,102
Treasury shares	(2,348)	(2,204)
Share premium	8,264	9,470
Funds and reserves	8	8
Cash flow hedging	22	35
Retained earnings from previous years	1,678	1,438
Net income for current year	5,351	5,366
Total	**16,077**	**17,215**

In accordance with the decision of the General Meeting on 8 December 2015 concerning acquisition of treasury shares (up to 10% of the total number of shares issued over the following 5 years), the Company continued in the share buyback programme in 2019. As at 31 December 2019 the Company held 9,337,910 treasury shares for a total purchase price of CZK 2,348 million (2018: 8,695,327 treasury shares for a total purchase price of CZK 2,204 million).

23 Related party transactions

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

The PPF Group invests in various industries such as banking and financial services, telecommunication, real estate, and biotechnology. PPF's reach spans from Europe to Russia, across Asia and the USA.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are, interest-free (excl. financial assets and liabilities used for financing), unsecured and the settlement occurs either in cash or by offsetting. The financial assets are tested for impairment at the balance sheet date, and neither allowances nor write-offs were recorded due to a value decrease.

The following transactions were carried out with related parties:

I. Parent company:

The total amount of dividend paid in 2019 to shareholders from the PPF Group was CZK 5,281 million (2018: CZK 5,281 million). Payables from the dividend and other distributions to shareholders from the PPF Group were fully settled as of 31 December 2019 and 31 December 2018 respectively

II. Other related parties – PPF Group:

Balance sheet In CZK million	31 December 2019	31 December 2018
a) Receivables and other assets	366	265
b) Payables	1,118	1,070
c) Financial derivatives – assets	10	14
d) Financial derivatives – liabilities	3	-
e) Cash equivalents (Note 13)	1,316	371
f) Lease liabilities	1,547	-

Statement of comprehensive income In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
a) Sales of services and goods	501	489
b) Purchases of services and goods	9,847	10,229
c) Loss on fair value adjustments of financial instruments net)	9	(9)
d) Interest income	3	9
e) Interest expense*	(8)	-
f) Other finance costs	1	1

* Net interest income on realised hedging derivatives concluded with PPF banka a.s. is recognised within the interest expense.

In 2019, purchases of goods and services and interest expense do not include lease payments for lease contracts, for which right-of-use asset is recognised according to requirements of IFRS 16. It relates mainly to the lease of data centres and other technical and administrative buildings from company CETIN a.s. Total amount of these payments is CZK 258 million.

In 2018, the Company sold assets in the amount of CZK 1 million to CETIN.

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

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

a) mobile network services agreement

The subject of the agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Group is obliged to use the services for a period of seven years, that is until 31 May 2022. Two years before the expiration of this term, negotiations on the price for the next period will begin. In 2019, the total payment was approximately CZK 4,656 million (2018: CZK 4,551 million).

b) agreement on the access to the public fixed communications network (so-called MMO)

The subject of the MMO agreement is the access to the public fixed communications network of CETIN, the provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement has been concluded for an indefinite period, during which the Company will pay monthly charges (number of access points multiplied by unit price) and undertakes to utilise at least 640,000 xDSL lines (which represents only part of the total payment) for a period of seven years after signing the agreement, that is until 31 May 2022. In 2019, the total cost was approximately CZK 3,629 million (2018: CZK 3,766 million).

c) agreement on the access to end points (so-called RADO)

CETIN enables the Group to access end points, which includes the provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company pays one-off expenses for the establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. In 2019, the total cost was approximately CZK 810 million (2018: CZK 848 million).

III. Associates and joint ventures

Balance sheet In CZK million	31 December 2019	31 December 2018
a) Receivables and other assets	50	47
b) Trade and other payables	32	56

Statement of comprehensive income In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
a) Sales of services and goods	167	165
b) Purchases of services and goods	186	189
c) Dividend income	11	8

IV. Remuneration and loans to members of the Board of Directors, Supervisory Board and executive management

Members of the Board of Directors, the Supervisory Board and executive management of the Company were provided with benefits from the Group as follows:

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Board of Directors	48	45
Supervisory Board	-	1
Executive management	21	23
Total	**69**	**69**

No loans were provided to any members of the Board of Directors, Supervisory Board or executive management in 2019 and 2018.

24 Associates and joint ventures

Investments in equity accounted investees can be analysed as follows:

In CZK million	31 December 2019	31 December 2018
Associates	9	12
Joint ventures	4	4
Investments in total	**13**	**16**

Financial information for the joint venture Tesco Mobile ČR s.r.o., which is accounted for in the consolidated financial statements of the Group using the equity method and which is material for the Group, are presented in the table below. The information below reflects the amounts presented in the financial statements of the joint venture prepared in accordance with IFRS and adjusted for any differences in accounting policies and reported accounting periods.

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

In CZK million	For the period 01-12/2019	For the period 01-12/2018
Revenue	289	289
Profit/(loss) before tax	9	10
Profit/(loss) after tax	7	8

In CZK million	31 December 2019	31 December 2018
Current assets	104	111
Non-current assets	12	7
Current liabilities	110	112
Equity	6	6

* Fiscal year of Tesco Mobile ČR s.r.o. is from March to February.

Reconciliation of the summarised financial information presented to the carrying amount of its interest in joint venture is as follows:

In CZK million	2019	2018
Net assets as at 1 January	6	5
Group share of net assets as at 1 January	4	3
Group share of profit/(loss) after tax	4	5
Dividend income	(4)	(4)
Total investment in joint venture	4	4

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

In CZK million	2019	2018
Investments in associates as at 31 December	9	12
Group share of:		
- profit/(loss) after tax	(2)	(3)
- impairment of equity accounted investments	-	-

The Group held interests in the following entities as at 31 December 2019 and 2018:

		Group's interest as at 31 December				
		2019	2018	Country of incorporation	Activity	Method of consolidation
Subsidiaries						
1.	O2 Slovakia, s.r.o.	100%	100%	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
2.	4Local, s.r.o.	0%	100%	Czech Republic	Provision of internet access	Consolidated (full consolidation)
3.	O2 Family, s.r.o.	100%	100%	Czech Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
4.	O2 TV s.r.o.	100%	100%	Czech Republic	Digital television	Consolidated (full consolidation)
5.	O2 IT Services s.r.o.	100%	100%	Czech Republic	Information technology services	Consolidated (full consolidation)
6.	Bolt Start Up Development a.s.	100%	100%	Czech Republic	Start-up fund	Consolidated (full consolidation)

7.	O2 Business Services, a.s.	100%	100%	Slovak Republic	Mobile telephony, internet and data transmission services	Consolidated (full consolidation)
8.	eKasa s.r.o.	100%	100%	Czech Republic	Electronic sales reporting ("EET") solution provider	Consolidated (full consolidation)
9.	O2 Financial Services s.r.o.	100%	100%	Czech Republic	Financial Services intermediary	Consolidated (full consolidation)
10.	mluvii.com s.r.o.	100%	100%	Czech Republic	On-line communication platform	Consolidated (full consolidation)
11.	Smart home security s.r.o.	100%	100%	Czech Republic	Provider of home security equipment and services	Consolidated (full consolidation)
12.	INTENS Corporation s.r.o.	100%	100%	Czech Republic	Provider of transport telematics services	Consolidated (full consolidation)
13.	Tapito s.r.o.	0%	100%	Czech Republic	Mobile applications development	Consolidated (full consolidation)
14.	Emeldi Technologies, s.r.o.	51%	0%	Czech Republic	Software development and sales	Consolidated (full consolidation)
Associates						
15.	První certifikační autorita, a.s.	23%	23%	Czech Republic	Certification services	Not consolidated (immaterial)
16.	AUGUSTUS, spol. s.r.o.	40%	40%	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
17.	Dateio s.r.o.*	14%	21%	Czech Republic	Direct marketing platform development	Consolidated (equity method)
Joint ventures						
18.	Tesco Mobile ČR s.r.o.	50%	50%	Czech Republic	Mobile virtual network operator for prepaid services	Consolidated (equity method)
19.	Tesco Mobile Slovakia, s.r.o.	50%	50%	Slovak Republic	Mobile virtual network operator for prepaid services	Not consolidated (immaterial)

* The Group lost significant influence in the company Dateio s.r.o after the sale of part of the company's shares. As at 31 December 2019, the investment in the company Dateio s.r.o. was classified as financial instruments at fair value with revaluation through other comprehensive income.

Transactions in 2019

On 25 June 2019, the Company acquired a 51% stake in the company Emeldi Technologies, s.r.o. and obtained control over the company. Total purchase price was in the amount of CZK 18 million. The non-controlling interest was valued at the proportionate share of the acquiree's identifiable net assets.

On 7 May 2019, the Group sold an 100% stake in the company Tapito s.r.o. through the subsidiary Bolt Start Up Development a.s. On 11 November 2019, the Group sold a part of the stake in the company Dateio s.r.o. through the subsidiary Bolt Start Up Development a.s. which resulted in a loss of significant influence in the company. As at 31 December 2019, the investment in Dateio s.r.o. was classified as financial instruments at fair value with revaluation through other comprehensive income. Total sale price for these stakes was CZK 52 million.

The surviving company O2 Family s.r.o. took over assets and liabilities of the merged company 4Local, s.r.o. as a result of the merger. The effective date of the merger was 1 January 2019.

Transactions in 2018

On 17 August 2018, the Group increased its share in the company mluvii.com from 90% to 100% through the subsidiary Bolt Start Up Development a.s.

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

25 Post balance sheet events

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2019.

26 February 2020

Jindřich Fremuth
Chief Executive Officer
Chairman of the Board of Directors

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Content

GENERAL INFORMATION

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

As at 31 December 2019, 81.06% of the Company's voting rights were held indirectly by Mr. Petr Kellner through PPF Telco B.V., PPF A3 B.V. and PPF CYPRUS MANAGEMENT Ltd. – companies from the PPF group, which is controlled by Mr. Petr Kellner.

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

The average number of employees employed by the Company was 4,059 (2018: 4,354) as at 31 December 2019.

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

The financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020 and are subject to review by the Supervisory Board.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2019

In CZK million	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	1, 2	30,435	29,795
Other income from non-telecommunication services	1	153	227
Capitalisation of fixed assets	1	230	224
Expenses	1, 3	(21,734)	(22,084)
Impairment loss on financial assets	12, 16	(159)	(151)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**8,925**	**8,011**
Depreciation and amortisation	8, 9, 10	(3,537)	(2,579)
Amortisation of costs to obtain contracts	2	(407)	(349)
Impairment loss on non-current assets	8, 9	(14)	(5)
Operating profit		**4,967**	**5,078**
Finance income	4	1,680	1,440
Finance costs	4	(368)	(215)
Profit before tax		**6,279**	**6,303**
Corporate income tax	5	(928)	(937)
Net profit		**5,351**	**5,366**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedging financial instruments net of tax	16	(13)	14
Other comprehensive income, net of tax		**(13)**	**14**
Total comprehensive income, net of tax		**5,338**	**5,380**
Earnings per share (in CZK) – basic*	6	18	18

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

BALANCE SHEET

As at 31 December 2019

In CZK million	Notes	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	8	2,152	2,385
Intangible assets	9	13,410	14,926
Right-of-use assets	10	2,576	-
Costs to obtain contracts	2	579	527
Investment in subsidiaries and equity accounted investees	24	6,730	6,687
Contract assets	2	126	132
Other assets	12	593	275
Non-current assets		**26,166**	**24,932**
Inventories	11	759	682
Receivables	12	8,279	6,891
Income tax receivable	5	56	79
Contract assets	2	351	409
Cash and cash equivalents	13	4,604	1,736
Current assets		**14,049**	**9,797**
Total assets		**40,215**	**34,729**
EQUITY AND LIABILITIES			
Ordinary shares	22	3,102	3,102
Treasury shares	22	(2,348)	(2,204)
Share premium	22	8,264	9,470
Retained earnings, funds and reserves		7,059	6,847
Total equity		**16,077**	**17,215**
Financial debts	15	7,524	10,461
Lease liabilities	10	2,166	-
Deferred tax liability	17	490	472
Provisions for liabilities and charges	18	-	4
Contract liabilities	2	8	16
Other liabilities	14	225	499
Non-current liabilities		**10,413**	**11,452**
Financial debts	15	7,056	38
Lease liabilities	10	460	-
Trade and other payables	14	5,750	5,579
Contract liabilities	2	346	372
Provisions for liabilities and charges	18	113	73
Current liabilities		**13,725**	**6,062**
Total liabilities		**24,138**	**17,514**
Total equity and liabilities		**40,215**	**34,729**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

In CZK million	Notes	Share capital	Share premium	Treasury shares	Funds	Cash flow hedging	Retained earnings	Total
As at 31 December 2017		**3,102**	**10,676**	**(2,204)**	**8**	**21**	**6,010**	**17,613**
Adjustment for initial application of IFRS 9 (net of tax)		-	-	-	-	-	(9)	(9)
Adjustment for initial application of IFRS 15 (net of tax)		-	-	-	-	-	563	563
Adjusted balance as at 1 January 2018		**3,102**	**10,676**	**(2,204)**	**8**	**21**	**6,564**	**18,167**
Profit for the year		-	-	-	-	-	5,366	5,366
Other comprehensive income		-	-	-	-	14	-	14
Total comprehensive income		**-**	**-**	**-**	**-**	**14**	**5,366**	**5,380**
Distribution declared in 2018	7	-	(1,206)	-	-	-	(5,274)	(6,480)
Distribution on treasury shares	7	-	-	-	-	-	148	148
As at 31 December 2018		**3,102**	**9,470**	**(2,204)**	**8**	**35**	**6,804**	**17,215**
Profit for the year		-	-	-	-	-	5,351	5,351
Other comprehensive income		-	-	-	-	(13)	-	(13)
Total comprehensive income		**-**	**-**	**-**	**-**	**(13)**	**5,351**	**5,338**
Distribution declared in 2019	7	-	(1,206)	-	-	-	(5,274)	(6,480)
Distribution on treasury shares	7	-	-	-	-	-	148	148
Acquisition of treasury shares	22	-	-	(144)	-	-	-	(144)
As at 31 December 2019		**3,102**	**8,264**	**(2,348)**	**8**	**22**	**7,029**	**16,077**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax		**6,279**	**6,303**
Non-cash adjustments for:			
Dividend income	4	(1,585)	(1,394)
Amortisation and depreciation	8, 9, 10	3,537	2,579
Amortisation of costs to obtain contracts	2	407	349
Impairment loss		14	5
(Profit)/loss on sale of property, plant and equipment and intangible assets		4	3
(Profit)/loss from lease modifications		1	-
Net interest cost		270	150
Unrealised foreign exchange losses/(gains) (net)		(1)	(16)
Fair value changes		5	(1)
Change in provisions, allowances and write-off of receivables		170	138
Other non-cash operations		0	(4)
Operating cash flow before working capital changes		**9,101**	**8,112**
Working capital changes:			
(Increase)/decrease in trade and other receivables		(505)	(324)
(Increase)/decrease in inventories		(57)	(60)
(Increase) of costs to obtain contracts	2	(459)	(413)
(Increase)/decrease of contract assets		64	(92)
(Increase)/decrease in contract liabilities		(34)	-
Increase/(decrease) in trade and other payables		110	(11)
Cash flows from operating activities		**8,220**	**7,212**
Interest received		74	34
Income tax paid		(883)	(956)
Net cash flow from operating activities		**7,411**	**6,290**
Cash flows from investing activities			
Purchase of property, plant and equipment		(655)	(696)
Purchase of intangible assets		(980)	(1,133)
Proceeds from sales of property, plant and equipment and intangible assets		2	25
Cash purchase of financial investments and part of business		(18)	-
Dividends received		280	394
Provision of loans	23	(56)	(157)
Repayment of loans	23	80	211
Net cash used in investing activities		**(1,347)**	**(1,356)**
Cash flows from financing activities			
Proceeds from borrowings	15	4,106	1,200
Repayment of borrowings	15	-	(1,315)
Repayment of lease liabilities	10	(459)	-
Interest paid*		(327)	(187)
Acquisition of treasury shares		(144)	-
Dividends and other distributions paid		(6,332)	(6,332)
Net cash used in financing activities		**(3,156)**	**(6,634)**
Net increase/(decrease) in cash and cash equivalents		**2,908**	**(1,700)**
Cash and cash equivalents – beginning of year	13	1,736	3,434
Effect of foreign exchange rate movements on cash and cash equivalents		(40)	2
Cash and cash equivalents – end of year	13	4,604	1,736

* The Company has changed the presentation of interest paid. It was previously presented in cash flows from operating activities. Currently, interest paid, which is directly related mainly to the financing of the Company's activities, is presented in cash flows from financing activities. Figures for the comparable period were adjusted.

ACCOUNTING POLICIES

A Basis of preparation

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

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

The financial statements are the separate financial statements of the Company and meet requirements of IFRS with respect to the preparation of parent's separate financial statements. The Company also issued consolidated financial statements prepared for the same period in accordance with IFRS, which were approved for issue by the Board of Directors.

The financial statements were prepared under the historical cost convention except for cases when IFRS require a different measurement method, as disclosed in the accounting policies below.

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

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

The Company is an integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Company reports its operating segments according to two main areas of services, i.e. the fixed segment and the mobile segment. For further details refer to Note 1.

Adoption of new or revised IFRS standards and interpretations

For financial statements for the year ended 31 December 2019, the Company adopted new or revised standards and interpretations as mentioned below.

- New standard IFRS 16 Leases (issued in January 2016)
- New interpretation IFRIC 23 Uncertainty over Income Tax Treatments
- Revision of IFRS 9 Prepayment Features with Negative Compensation
- Revision of IAS 28 Long-term Interests in Associates and Joint Ventures
- Revision of IAS 19 Plan Amendment, Curtailment or Settlement
- Annual improvements to IFRS Standards 2015–2017 (issued 12 December 2017)

Standard IFRS 16 Leases has a significant impact on the Company and its implementation is described below. Other new standards and interpretations do not have significant impact on the Company.

IFRS 16 Leases

The new standard IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and replaced all existing IFRS lease requirements for both lessees and lessors at that date.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. The lessee accounts for the right-of-use assets representing its rights to use the underlying asset and for lease liabilities representing its obligation to make lease payments. The lessor's accounting remains similar to the current standard – i.e. the lessor continues to classify leases either as financial or as operating.

A) Definition of leasing

Previously, at contract inception, the Company determined whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

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

At the inception or on reassessment of a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. However, for leases of cars in which the Company is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B) Leases where the Company is the lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership.

In line with IFRS 16, the Company has re-classified its recognition of assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of these related costs has changed from operating costs to depreciation of right-of-use assets and interest cost on the lease liability.

The Company elected to apply the practical expedient not to recognise a right-of-use asset and a lease liability for contracts where the lease term is less than 12 months and for leases of low-value underlying assets (particularly the lease of small IT and office equipment). These contracts are accounted for by the Company as before.

(i) Significant accounting policies

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use underlying asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain reassessments of the lease obligation. Rights of use assets are depreciated on a straight-line method over the shortest of the lease term or the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest costs on the lease liability and decreased by any lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or the rate used to determine these payments, a change in the estimate of the amount expected to be payable under a residual value guarantee, or in the event of a change in the lease term due to the Company re-evaluating whether it is sufficiently certain to exercise the option to extend, or not exercise the option to terminate the lease.

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options or contracts with indefinite periods. The assessment of whether the Company is reasonably certain to exercise such options and assessing how long the Company will use the underlying assets under contracts of indefinite periods impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

C) Leases where the Company is the lessor

The accounting policies applicable to the Company as a lessor are not different from those under IAS 17. However, where the Company is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

There was no significant impact for the Company as a lessor resulting from the adoption of IFRS 16.

D) Adoption and impact of the standard on financial statements

The Company decided to adopt IFRS 16 using a modified retrospective method. Comparable data for the previous period were not adjusted.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at the day of initial application. At the date of initial application, the right-of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to these leases, and recognised in the balance sheet immediately before the date of initial application.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. The Company applied the exemption not to recognise the right-of-use assets and liabilities for leases with a lease end less than 12 months from the date of the initial application and excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities. The impact of transition on 1 January 2019 is summarised below.

In CZK million	1 January 2019
Right-of-use-assets	2,937
Lease liabilities	2,967
Trade and other payables – non-current	(25)
Trade and other payables – current	(5)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 January 2019. The applied weighted-average rate was 2.29%.

The following table shows the reconciliation of Lease liability as at 1 January 2019 and future minimum lease payments as at 31 December 2018.

In CZK million	
Future minimum operating lease payments at 31 December 2018	2,226
Lease payments above the minimum operating lease payments resulting from extension option and contracts with indefinite period	1,128
Recognition exemption for leases of low-value assets and leases with less than 12 months of lease term at transition	(30)
Lease incentives receivable	(55)
Gross lease liability at 31 December 2018	**3,269**
Discounting	(302)
Lease liabilities recognised at 1 January 2019	**2,967**

New IFRS not yet effective as at 31 December 2019 (includes standards applicable for the Company)

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

Standards and amendments		Effective from
	Amendments to References to the Conceptual Framework in IFRS standards	1 January 2020
Revision of IFRS 3	Definition of a Business	1 January 2020*
Revision of IAS 1 and IAS 8	Definition of Material	1 January 2020
Revision of IAS 39, IFRS 7, IFRS 9	Interest Rate Benchmark Reform	1 January 2020*
Revision of IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

* These revisions/interpretations have not yet passed the EU endorsement process.

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

B Use of estimates, assumptions and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses for the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Given the fact that these assumptions and estimates represent a certain degree of uncertainty, the actual results and recognised assets and liabilities could differ from those estimates.

The estimates and assumptions that might have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(i) Income taxes and deferred taxes

The Company creates an estimate for current income tax and, considering the temporary differences, also for deferred tax. There is no final tax assessment of a number of transactions and calculations at the time of making the estimates, and the determination of the deferred tax liability and receivable reflects the expectation of how the Company's assets will be used and its liabilities settled. Where the final items that increase or decrease the tax base are different from the amounts that were calculated, such differences will be recognised in the period in which such determination is made (refer to Note 5 and Note 17).

(ii) Property, plant and equipment and intangible assets

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortisation purposes.

Due to future technological developments and alternative uses for assets, it is necessary to make estimates for the purpose of determining the useful life of software and telecommunication technology and equipment (refer to Note 8 and Note 9). There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

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

(iii) Right-of-use assets and lease liabilities

The valuation of right-of-use assets is based on significant judgment by the management to determine the contractual lease term.

The Company's lease term generally includes a non-cancellable lease term, the periods covered by the lease extension option if the Company is reasonably certain to exercise that option, and the periods covered by the termination option if the Company is reasonably certain to not exercise that option.

In case of contracts of indefinite periods, the Company distinguishes leases relating to data centres, telecommunication technology and other assets. In the case of data centres and telecommunication technology, the lease term is determined as the average or typical market contractual term of a particular type of lease, usually 6 to 10 years.

The Company does not recognise the right-of-use assets from the lease contracts of other assets for an indefinite period if the lessee and the lessor both have the possibility of terminating the lease contract at short notice (generally 3 months) and without significant penalties, either contractual or financial.

(iv) Lease discount rate

The Company uses the incremental borrowing rate as the discount rate for the leasing. The lease contracts were divided into groups based on the length of the contract period and the currency in which the contract is denominated, and the relevant discount rate was allocated to each group of lease contracts. The IRS rates over a 15 years period for the major currencies, in which leases of the Company are denominated, were used to calculate the incremental borrowing rate. These rates were increased by a risk premium corresponding to the Company's usual loan margin and a premium reflecting the type of underlying asset and its collateral.

(v) Provisions and contingent liabilities

As set out in Note 19, the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. For all litigation and administrative proceedings, it is necessary to estimate the probability of occurrence of the liability, its amount and the moment of its occurrence. Provisions are recognised only when it is probable that the Company will be forced to pay a present obligation in future and it is possible to reliably estimate its amount. Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Company.

(vi) Receivables

Trade receivables are carried at face value less a bad debt allowance. The loss allowance is equal to the expected credit losses in the lifetime of the contract. Details regarding the determination of receivables impairment are stated in Note K Financial instruments and Note 16 Financial instruments and financial risk management.

(vii) Commission as costs to obtain contracts with customers

For the capitalised incremental costs to obtain contracts, the amortisation period was determined as the expected average period over which the customer will use the Company's services. This amortisation period was further specified by Company's customer segments, separately for business customers and consumers and separately for certain types of products.

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

(viii) Stand-alone selling prices

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

C Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in the Czech crowns (CZK), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Balances of monetary items are translated at period-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

D Property, plant and equipment

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

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

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use.

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

Repairs and maintenance costs are expensed as incurred.

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

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

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

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

	Years
Buildings	up to 56
Communication technology and related equipment	up to 26
Other fixed assets	up to 26

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

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

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note G Impairment of non-current non-financial assets)

E Intangible assets

Intangible assets of the Company include computer software, purchased goodwill, licences, valuable rights and customer bases. Computer software mainly represents the external acquisition costs of the Company's information systems that are intended for use within the Company. Generally, costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company and that have a probable economic benefit exceeding the cost beyond one year are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, generally from one to five years. Valuable rights are amortised according to the period for which the Company is allowed to utilise the rights, usually for the period of 1 to 5 years.

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (refer to Note 9).

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

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

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

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

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

F Non-current assets held for sale

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

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

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

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

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

G Impairment of non-current non-financial assets

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

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

H Financial instruments

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

(i) Financial assets – classification and valuation

Financial assets are classified into three categories – instruments subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Financial assets are generally classified according to the Company's business model for managing financial assets and at the same time according to the contractual cash flow characteristics of the financial asset. Derivatives embedded in contracts where the host contract is a financial asset within the scope of the IFRS 9 standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification and measurement.

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Financial assets – impairment

The Company uses a model of impairment of financial assets that reflects expected credit losses and is applied to financial assets measured at amortised cost, contract assets and investments in debt instruments at fair value through other comprehensive income (not relevant for the Company).

The Company calculates the loss allowance for financial assets as equal to the 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

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

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

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

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

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

Impairment losses on financial assets, including contract assets, are recognised in the income statement within a separate line Impairment loss on financial assets.

(iii) Financial liabilities

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

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

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

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

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

(iv) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost with subsequent measurement at amortised cost decreased by a loss allowance according to the IFRS 9 impairment model. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less, adjusted for bank overdrafts. Bank overdrafts are shown within short-term financial debts in the financial liabilities section of the balance sheet.

(v) De-recognition of financial assets

A financial asset is de-recognised when the rights to receive cash flow from the asset have expired or the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(vi) Financial instruments offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

I Accounting for financial derivatives and hedging activities

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

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

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

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

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

On the date a derivative contract is entered into, the Company designates certain derivatives as either:

(i) hedge of the fair value of a recognised asset or liability (fair value hedge),

(ii) hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or

(iii) other derivatives.

(i) Fair value hedging derivatives

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

(ii) Cash flow hedging derivatives

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

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

(iii) Other derivatives

Certain derivative transactions, while providing effective economic hedges under the Company's risk management policies, either do not qualify for hedge accounting under the specific rules previously included in IAS 39 and currently in IFRS 9 or the Company has elected not to apply the specific hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss in line with IFRS 9.

J Leases

As of 1 January 2019, the Company applied the new standard IFRS 16 Leasing for the initial recognition and subsequent accounting of leases. The impact of this standard on the recognition and accounting of leases was significant for the Company. The classification and presentation of leases and related accounting policies are described in Note A Basis of preparation, part IFRS 16.

Accounting policies valid until 31 December 2018

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

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

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

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

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

K Inventories

Inventory is stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using the weighted average cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

L Current and deferred income taxes

Income tax expense represents both current and deferred taxation.

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

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

The main temporary differences arise from differences in the tax and accounting values of property, plant and equipment and intangible assets, impairment of receivables and allowance for obsolete and slow moving inventories, contract asset and cost to obtain contracts according to IFRS 15, non-deductible tax allowances and provisions and unused tax credits.

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

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

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

M Employee benefits

(i) Pension insurance and supplementary pension insurance

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

(ii) Redundancy and severance payments

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

(iii) Bonus plans

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

N Provisions

Provisions are recognised when the Company will be obliged to pay a present liability in the future and it is possible to reliably estimate its amount. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

O Revenues and expenses

The Company generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, Internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. The Company recognises revenues when the promised goods or services are transferred to customers and at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Products and services can be sold separately or in bundles.

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

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

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

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. These expenditures are recognised in the balance sheet within the line Costs to obtain contracts and are linearly amortised. The amortisation of those costs is presented within the line

Amortisation of costs to obtain contracts in the income statement, the amortisation period is determined on the basis of the estimated average period, during which the customer uses Company's services.

(i) Mobile origination – Internet and data, voice services, MMS and SMS

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

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

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

(ii) Fixed access services – voice, internet, data and television

Revenues from fixed telecommunication services include revenues from Internet connectivity, data and TV and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are invoiced and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months. For new products, customers have the option to terminate the service at any time without penalty.

(iii) Sale of equipment

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

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment is paid for by customers at the moment of sale or it is sold on an instalment basis with a maturity of 12 to 48 months.

The Company identified a significant financing component for selected contracts for the sale of fixed access equipment sold on an instalment basis over 48 months considering the time between the customers' payments and the transfer of the equipment. The invoiced price for these contracts is discounted using the interest rate. This rate is commensurate with the rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception.

(iv) Mobile termination

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

(v) Other mobile revenues

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

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

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

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

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

Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period at least of 24 months.

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

(vii) Other fix revenues

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

(viii) Dividend income

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

(ix) Interest income

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

P Dividend distribution

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

Q Investments in subsidiaries, joint ventures and associates

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies in order to obtain benefits from its activities.

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

In relation to its interest in a joint arrangement, the Company recognises investments in joint ventures, which are recorded at cost less an impairment charge.

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

Equity investments in subsidiaries and associates are recorded at cost less an impairment charge.

No consolidation of subsidiaries or associates has been performed as these financial statements are presented on a stand-alone basis. In accordance with the requirements of the Act on Accounting, the Company prepares consolidated financial statements in accordance with IFRS.

R Transactions under common control

Business combination under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Investments acquired in business combinations under common control are recognised in the stand-alone financial statements of the Company at acquisition price.

S Changes in accounting policies

The Company implemented new standard IFRS 16 Leases as at 1 January 2019 and the impact of its application is described in Note A Basis for preparation, section IFRS 16. The Company implemented new standards IFRS 9 Financial instruments: classification and measurement and IFRS 15 Revenue from contracts with customers as at 1 January 2018. Relevant accounting policies are described in Note H Financial instruments and in Note O Revenues and expenses.

No other significant changes in accounting policies were applied in 2019 and 2018.

T Treasury shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of changes in equity as a reduction in equity. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Any consideration received from the sale of treasury shares is presented in the financial statements as an addition to equity.

NOTES TO THE FINANCIAL STATEMENTS

1 Segment information

Segments recognised by the Company are as follows:

- The Czech Republic:
  - mobile segment – mobile telecommunication and data services provided by the Company
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, and ICT services provided by the Company

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

Inter-segment pricing rates in 2019 and 2018 were determined on the same basis as rates applicable for other mobile operators.

Year ended
31 December 2019

In CZK million

	Mobil	Fix	Total
Revenues	20,623	9,812	30,435
Cost of Sales (CoS)	(9,683)	(6,422)	(16,105)
Gross margin	10,940	3,390	14,330
Other income from non-telecommunication services			153
Capitalisation of fixed assets			230
Other costs excluding CoS			(5,788)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			**8,925**
Depreciation and amortisation			(3,537)
Amortisation of costs to obtain contracts			(407)
Impairment loss			(14)
Operating profit			**4,967**
Interest expense			(348)
Interest income			78
Other finance income/(costs)			1,582
Net finance income			**1,312**
Profit before tax			**6,279**
Corporate income tax			(928)
Profit for the period			**5,351**
Non-current assets*			18,717
Other assets			21,498
Total Assets			**40,215**
Total liabilities			**(24,138)**
Fixed assets additions**			**1,319**

* Non-current assets do not include investments in subsidiaries and equity accounted investees, contract assets, other non-current assets and deferred tax asset for the purposes of segment analysis.
** Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations and additions to right-of-use assets, refer to Note 10.

Year ended
31 December 2018

In CZK million

	Mobil	Fix	Total
Revenues	20,210	9,585	29,795
Cost of Sales (CoS)	(9,653)	(6,414)	(16,067)
Gross margin	10,557	3,171	13,728
Other income from non-telecommunication services			227
Capitalisation of fixed assets			224
Other costs excluding CoS			(6,168)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			**8,011**
Depreciation and amortisation			(2,579)
Amortisation of costs to obtain contracts			(349)
Impairment loss			(5)
Operating profit			**5,078**
Interest expense			(185)
Interest income			34
Other finance income/(costs)			1,376
Net finance income			**1,225**
Profit before tax			**6,303**
Corporate income tax			(937)
Profit for the period			**5,366**
Non-current assets*			17,838
Other assets			16,891
Total Assets			**34,729**
Total liabilities			**(17,514)**
Fixed assets additions**			**2,504**

* Non-current assets do not include investments in subsidiaries and equity accounted investees, contract assets, other non-current assets and deferred tax asset for the purposes of segment analysis.
** Fixed assets additions do not include tangible and intangible fixed assets (including goodwill) identified during business combinations.

2 Revenues from contracts with customers

(i) Classification of revenues from customer contracts

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

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Mobile origination:		
- Voice services and SMS & MMS*	6,907	7,307
- Internet and data*	6,782	6,068
Mobile termination	2,218	2,273
Revenues from sale of equipment	1,880	1,988
Other mobile revenues	2,836	2,574
Total mobile revenues	**20,623**	**20,210**
Voice services	1,856	2,115
Data services	981	973
Internet and television	5,029	4,915
ICT	720	716
Revenues from sale of equipment	603	340
Other fixed revenues	623	526
Total fixed revenues	**9,812**	**9,585**
Total revenues	**30,435**	**29,795**

* In 2019, the Company changed the presentation of revenues from data-centric tariffs that were previously included in mobile revenues in the Voice and SMS & MMS category. Currently, the Company presents them as mobile revenues in the Internet and data category. Data for the comparable period were adjusted, the revenues from the data-centric tariffs for 2018 were CZK 138 million.

(ii) Contract assets and contract liabilities

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

The balance of contract assets is decreased by an allowance of CZK 5 million (2018: CZK 5 million) determined in accordance with the methodology described in Note H Financial instruments.

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

The amount of CZK 319 million recognised as contract liabilities at 1 January 2019 was recognised as revenues in 2019. The amount of CZK 243 million recognised as contract liabilities at 1 January 2018 was recognised as revenues in 2018.

Receivables arising from contracts with customers represent the trade receivables described in Note 12.

The table below analyses contract assets and liabilities:

Contract assets In CZK million	31 December 2019	31 December2018
- short-term (less than 1 year)	351	409
- long-term (over 1 year)	126	132
Total contract assets	477	541

Contract liabilities In CZK million	31 December 2019	31 December 2018
- short-term (less than 1 year)	346	372
- long-term (over 1 year)	8	16
Total contract liabilities	354	388

In 2019 and 2018, the Company did not recognise any revenues from contract liabilities which were met (or partially met) in prior periods.

The Company expects to recognise revenues of CZK 10,426 million from current contracts with customers related to performance obligations that are yet to be fulfilled (or are only partially fulfilled) as at 31 December 2019, assuming that these obligations will be fulfilled in the next five years (2018: CZK 11,354 million). These contractual revenues mainly include revenues from the sale of telecommunication services, which were determined by the Company on the basis of the average monthly spend of contractual customers with commitment, the number of contractual customers with commitment as at 31 December 2019 and average remaining time of contract for these customers, while all the parameters are broken down into the main operating segments. The expected revenues also contain revenues from other contracts with complex delivery of goods and services for which, in line with IFRS 15, the Company allocates the total transaction price to separate performance obligations on a pro-rata basis according to the individual stand-alone selling prices. These revenues are recognised based on the fulfilment of separate performance obligations and not according to invoicing of customers. The Company applied the practical expedients allowed for in the standard and the balance of contractual revenues does not include revenues from contracts which originally had an expected duration of one year or less, nor the revenues from contracts which are recognised in an amount that corresponds directly to the services provided (in line with principles described in Note O Revenues and expenses).

(iii) Incremental costs to obtain contracts

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

Capitalised costs to obtain contracts In CZK million	
As at 1 January 2018	**463**
Capitalised costs to obtain contracts	413
Amortisation of capitalised costs to obtain contracts	(349)
As at 31 December 2018	**527**
Capitalised costs to obtain contracts	459
Amortisation of capitalised costs to obtain contracts	(407)
As at 31 December 2019	**579**

The Company regularly evaluates capitalised incremental costs to obtain contracts and assesses whether there is any indication of impairment. The assessment is based on the monitoring of two parameters – statistical evolution of clawbacks, i.e. deductions for the additional change of contracted services or contractual penalties for non-observance of the performance indicators, and simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use the services of the Company in individual segments. Based on an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 31 December 2019 and 2018.

3 Expenses

Expenses In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Cost of sales	16,106	16,068
Staff costs	3,395	3,413
External services	1,932	2,322
Other expenses	301	281
Total expenses	**21,734**	**22,084**

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

The Company does not participate in any pension plans.

4 Finance income and costs

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Finance income		
Interest income	78	34
Foreign exchange gain (net)	-	12
Gain on fair value adjustments and settlement of financial derivatives (net)	16	-
Other finance income	1,586	1,394
Total finance income	**1,680**	**1,440**

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Finance costs		
Interest expense	348	185
Loss on fair value adjustments and settlement of financial derivatives (net)	-	8
Foreign exchange loss (net)	13	-
Other finance costs	7	22
Total finance costs	**368**	**215**

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

Interest expense also includes interest on lease contracts, refer to Note 10.

Other finance income contains dividends and other distributions from the subsidiaries O2 Slovakia, s.r.o. of CZK 1,367 million (2018: CZK 1,199 million), O2 Family, s.r.o. of CZK 39 million (2018: CZK 36 million), O2 IT Services s.r.o. of CZK 102 million (2018: CZK 150 million), O2 Financial Services s.r.o of CZK 25 million (2018: CZK 0 million), O2 TV s.r.o. of CZK 41 million (2018: CZK 0 million), from the associate První certifikační autorita, a.s. of CZK 7 million (2018: CZK 5 million) and from Tesco Mobile ČR s.r.o. of CZK 4 million (2018: CZK 4 million). In 2019 and 2018, dividend from the subsidiary O2 Slovakia, s.r.o. was settled with right to draw the loan provided by the Company (Note 23).

In 2019, no interest expense was capitalised. In 2018, an interest expense in the amount of CZK 15 million was capitalised. The capitalisation rate used to determine the amount of borrowing cost to be capitalised is the weighted average interest rate applicable to the Company's general borrowings, in this case 1.4%.

5 Income tax

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Total income tax expense consists of:		
Current income tax charge	906	856
Deferred income tax charge (Note 17)	22	81
Income tax	**928**	**937**

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

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax	6,279	6,303
Income tax charge calculated at the statutory rate of 19%	1,193	1,198
Tax effects of:		
- income not taxable	(301)	(265)
- expenses not deductible for tax purposes	29	20
Tax related to prior periods	7	(16)
Income tax	**928**	**937**
Effective tax rate	15%	15%

As at 31 December 2019 the total amount of current income tax liability was CZK 899 million (2018: CZK 872 million), overpayments and advances paid for corporate income tax were CZK 955 million (2018: CZK 951 million) and the net deferred tax liability as CZK 490 million (2018: CZK 472 million).

6 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year (refer to Note 22).

	31 December 2019	31 December 2018
Weighted number of ordinary shares outstanding (in thousands)	301,409	301,525
Net profit attributable to shareholders (in CZK million)	5,351	5,366
Basic earnings per share (in CZK)	18	18

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

7 Dividends and other distributions

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Dividends declared	5,274	5,274
Other distributions	1,206	1,206
Total declared distributions	**6,480**	**6,480**

Dividends and other distributions include withholding tax on dividends paid by the Company to its shareholders. No interim dividend has been paid in respect of 2019 and 2018. The approval of the 2018 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 4 June 2019 (for year 2017: 4 June 2018). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 17 per share with a nominal value of CZK 10 and in the amount of CZK 170 per share with a nominal value of CZK 100 from the 2018 profit were payable on 4 July 2019 (from 2017 profit: CZK 17 and CZK 170 respectively). Dividends on treasury shares in the amount of CZK 148 million (2018: CZK 148 million) remained in the retained earnings account.

In addition to the payment of dividends, the Annual General Meeting of the Company approved distribution of part of the share premium, in total an amount of CZK 1,241 million (2018: CZK 1,241 million). For each share with a nominal value of CZK 10, the amount of CZK 4 before tax was allocated (for the share with a nominal value of CZK 100, CZK 40 before tax was allocated). The right to receive the amount related to the payment of the share premium for the treasury shares did not arise. This part of the share premium in the amount of CZK 35 million (2018: CZK 35 million) remained in the share premium account.

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

In CZK	Year ended 31 December 2019	Year ended 31 December 2018
Dividend per share (nominal value of CZK 10)	17	17
Other distributions	4	4
Total distributions per share	**21**	**21**

8 Property, plant and equipment

In CZK million	Land, buildings and constructions	Telecommunication technology and related equipment	Other fixed assets	Total
As at 31 December 2019				
Opening net book amount	180	1,559	646	2,385
Additions	174	227	212	613
Disposals	(1)	(3)	(2)	(6)
Reclassifications	-	(24)	24	-
Depreciation	(74)	(550)	(216)	(840)
Impairment	-	-	-	-
Closing net book amount	**279**	**1,209**	**664**	**2,152**
As at 31 December 2019				
Purchase price	822	6,322	2,892	10,036
Accumulated depreciation and impairments	(543)	(5,113)	(2,228)	(7,884)
Net book amount	**279**	**1,209**	**664**	**2,152**
As at 31 December 2018				
Opening net book amount	157	1,675	570	2,402
Additions	70	280	287	637
Disposals	(1)	-	(1)	(2)
Reclassifications	-	79	(8)	71
Depreciation	(46)	(475)	(201)	(722)
Impairment	-	-	(1)	(1)
Closing net book amount	**180**	**1,559**	**646**	**2,385**
As at 31 December 2018				
Purchase price	761	7,670	3,246	11,677
Accumulated depreciation and impairments	(581)	(6,111)	(2,600)	(9,292)
Net book amount	**180**	**1,559**	**646**	**2,385**

As at 31 December 2019, the net book value of tangible assets in progress was CZK 206 million (2018: CZK 359 million) and was spread over all disclosed categories of property, plant and equipment according to their characteristics.

No property, plant and equipment were pledged as at 31 December 2019 and 31 December 2018.

In 2019, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 2 million (2018: CZK 5 million) and total losses of CZK 5 million (2018: CZK 8 million).

9 Intangible assets

In CZK million	Goodwill	Licences	Software and other intangible assets	Valuable rights	Customer portfolios	Total
As at 31 December 2019						
Opening net book amount	4,443	4,858	4,244	1,308	73	14,926
Additions	-	-	706	-	-	706
Disposals	-	-	(1)	-	-	(1)
Reclassifications	-	-	-	-	-	-
Amortisation	-	(588)	(1,168)	(424)	(27)	(2,207)
Impairment	-	-	(14)	-	-	(14)
Closing net book amount	**4,443**	**4,270**	**3,767**	**884**	**46**	**13,410**
As at 31 December 2019						
Cost	4,443	9,169	22,053	3,978	165	39,808
Accumulated amortisation and impairments	-	(4,899)	(18,285)	(3,094)	(120)	(26,398)
Net book amount	**4,443**	**4,270**	**3,768**	**884**	**45**	**13,410**
As at 31 December 2018						
Opening net book amount	4,443	5,408	3,317	1,732	100	15,000
Additions	-	-	1,867	-	-	1,867
Disposals	-	-	(10)	-	-	(10)
Reclassifications	-	-	(70)	-	-	(70)
Amortisation	-	(550)	(856)	(424)	(27)	(1,857)
Impairment	-	-	(4)	-	-	(4)
Closing net book amount	**4,443**	**4,858**	**4,244**	**1,308**	**73**	**14,926**
As at 31 December 2018						
Cost	4,443	9,169	21,801	3,978	165	39,556
Accumulated amortisation and impairments	-	(4,311)	(17,557)	(2,670)	(92)	(24,630)
Net book amount	**4,443**	**4,858**	**4,244**	**1,308**	**73**	**14,926**

As at 31 December 2019, the net book value of intangible assets in progress was CZK 450 million (2018: CZK 173 million) and was spread over all disclosed categories of intangible assets according to their characteristic.

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

Goodwill

As at 31 December 2019 and 2018, goodwill consisted of CZK 4,315 million resulting from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel) and CZK 128 million related to the take-over of assets as a part of the project of merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company in 2012.

The Company performed impairment tests, which did not result in impairment losses on goodwill in 2019 and 2018. The impairment test involves a determination of the recoverable amount of a cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from the Company's internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 5 years, adjusted for the impact of IFRS 16 Leases. The business plan has been approved by the management and it is current as at the time of the impairment test. The business plan is based on past experience as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the five-year period are extrapolated using appropriate growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan, include estimates of future development of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share and growth rates.

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

The calculation of value in use for the cash-generating unit is most sensitive to the following key assumptions:

Estimated growth rate – the basis for the determination of the value assigned to the estimated growth rate is the forecast of the market and regulatory environment, where the Company conducts its principal business. The Company uses a growth rate of between -1% and 0% (2018: -1% and 0%).

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

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

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

Intangible assets in progress are tested annually for impairment losses. The review performed as at 31 December 2019 and 2018 did not indicate any impairment losses.

Licences

Acquired licences represent the rights to operate cellular networks and are technologically neutral. The Company uses the following standards for the operation of cellular networks in the Czech Republic: GSM (2G), UMTS (3G), LTE (4G) and 5G-ready.

Details of the individual licences are described in Note 21.

Carrying value of licences:

In CZK million	31 December 2019	31 December 2018
GSM licences	241	291
CDMA licences	184	198
UMTS licences	521	770
LTE licences	3,324	3 599
Total	**4,270**	**4,858**

Valuable rights

Under a licence agreement, the Company has an exclusive right to use the O2 brand in the Czech Republic and Slovakia until 27 January 2022. Furthermore, the Company is entitled to unilaterally extend the right to use the O2 brand licence by another five years, i.e. until 27 January 2027. As at 31 December 2019, the O2 brand is recognised within intangible assets in the net book amount of CZK 884 million (2018: CZK 1,308 million).

10 Leases

The Company mainly leases stores, office and technical buildings, telecommunication technology, vehicles and various office equipment.

Contracts for the lease of stores and office buildings are usually concluded for a period of 3 to 5 years. Contracts may contain options to extend the lease term and the amount of payments is often adjusted according to the development of the consumer price index. The lease of technical buildings and telecommunication technology is usually concluded for a period of 5 to 10 years, and the lease of vehicles for a period of 3 years. The lease of office equipment is usually short-term or the underlying asset has a low value. The Company has decided not to recognise right-of-use assets and lease liabilities arising from these leases.

The leasing contracts are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be the subject of collateral in connection with the drawing down of loans. For selected leases, the Company is limited in its conclusion of sublease contracts.

Right-of-use assets

In CZK million	Land, buildings and construction	Telecommunication technology and related equipment	Other fixed assets	Total
As at 1 January 2019				
Opening net book amount	2,806	74	57	2,937
Additions	221	-	32	253
Disposals	(111)	(2)	(11)	(124)
Depreciation	(403)	(51)	(36)	(490)
Closing net book amount	**2,513**	**21**	**42**	**2,576**

Lease liabilities

In CZK million	
As at 1 January 2019	2,967
Repayment of lease liabilities	(459)
Lease interest paid	(66)
Cash flow total	(525)
Change in lease liabilities due to additions / disposals of rights-of-use assets	127
(Profit) / loss from lease modification	1
Interest costs from lease liabilities	66
Other	(10)
Non-cash flows total	184
As at 31 December 2019	2,626

Relevant discount rates for lease liabilities as at 31 December 2019 are in the range 1.3%–2.6% depending on the length of the contract and the currency in which the contract is denominated.

For a detailed description of the analysis of the currency risk and the maturity of the lease liabilities, refer to Note 16.

As at 31 December 2019, the portfolio of short-term leases does not differ materially from the short-term leases accounted for during 2019 to which the short-term lease costs disclosed below are related.

The following table shows selected amounts in the statement of total comprehensive income relating to the lease:

In CZK million	2019
Interest on the lease liabilities	66
Costs relating to short-term leases	48
Costs relating to the leasing of low-value assets not referred above as short-term leases	7

The total cash outflow from leasing in 2019 was CZK 525 million.

The Company estimates that the total amount of potential future cash outflows from lease contracts that have not started, residual value guarantees and lease options that are not included in the measurement of lease liabilities at 31 December 2019, is 189 million CZK.

In 2018, the Company recognised lease expenses under IAS 17 of CZK 574 million.

11 Inventories

In CZK million	31 December 2019	31 December 2018
Goods	753	675
Telecommunication material	6	7
Total	**759**	**682**

The inventories stated above are net of an allowance of CZK 67 million (2018: CZK 85 million), reducing the value of the inventories to their net realisable value. The value of inventories recognised as an expense for sale of goods and utilisation of material is CZK 2,332 million (2018: CZK 2,262 million).

12 Receivables and other assets

In CZK million	31 December 2019	31 December 2018
Trade receivables (net)	4,873	4,828
Prepayments	163	122
Other receivables (net)	3,217	1,941
Financial derivatives	26	0
Total current receivables	**8,279**	**6,891**

Trade receivables and other receivables are stated net of a loss allowance of CZK 1,970 million (2018: CZK 2,098 million).

Other receivables (net) contain mainly short-term loans provided to subsidiaries (refer to Note 23).

In 2019, expenses for impairment of receivables were CZK 159 million (2018: CZK 151 million).

The analysis of credit risk, the ageing structure of trade receivables and the loss allowance for trade receivables is described in Note 16.

In CZK million	31 December 2019	31 December 2018
Trade receivables	364	30
Other receivables	27	40
Prepayments	200	162
Financial derivatives	2	43
Total other non-current assets	**593**	**275**

Other non-current receivables contained restricted cash of CZK 5 million (2018: CZK 30 million) resulting from the legal requirements of the Czech National Bank as a financial market regulator for the Company as a small-scale payment service provider.

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

In CZK million	31 December 2019	31 December 2018
Gross amounts of trade receivables	313	211
Amounts that are set off	(204)	(178)
Net amounts of trade receivables	**109**	**33**

13 Cash and cash equivalents

In CZK million	31 December 2019	31 December 2018	Interest rate
Cash at current bank accounts and other cash equivalents	3,587	1,645	Floating
Cash at current bank accounts and other cash equivalents (inter-company) (refer to Note 22)	1,017	91	Floating
Total cash and cash equivalents	**4,604**	**1,736**	

As at 31 December 2019 and 2018, cash and cash equivalents of the Company comprised interest-bearing deposits with a maximum maturity of one month.

In 2019 and 2018, the Company has concluded agreement on cash-pooling with its subsidiary, O2 Family, s.r.o., with interest rate based on 1M PRIBOR (refer to Note 23).

The committed and undrawn facilities available to the Company amounted to CZK 5,300 million as at 31 December 2019 (2018: CZK 5,600 million).

14 Trade and other payables

In CZK million	31 December 2019	31 December 2018
Trade payables	4,826	4,703
Tax and social security liabilities	553	475
Employee wages and benefits	338	366
Other payables	33	35
Total current trade and other payables	**5,750**	**5,579**

In CZK million	31 December 2019	31 December 2018
Trade payables	194	475
Other payables	31	24
Other non-current liabilities	**225**	**499**

As at 31 December 2019 and 2018, other non-current liabilities consisted primarily of liabilities related to purchase of non-current assets with a maturity exceeding 12 months.

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

In CZK million	31 December 2019	31 December 2018
Gross amounts of trade payables	216	183
Amounts that are set off	(204)	(178)
Net amounts of trade payables	**12**	**5**

15 Financial debts

In CZK million	31 December 2019	31 December 2018
Debt in local currency	14,518	10,461
Accrued interest	56	38
Financial derivatives	6	-
Total financial debt	**14,580**	**10,499**
Repayable:		
Within one year	7,056	38
In more than one year	7,524	10,461
Total financial debt	**14,580**	**10,499**

On 18 April 2019, the Company 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	Interst rate	Maurity 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 Company 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	Interst rate	Maurity day
Schuldschein – CZK 5Y float	CZK	90,000,000	3M PRIBOR + 0.75%	5 April 2022
Schuldschein – CZK 7Y float	CZK	130,000,000	3M PRIBOR + 1.05%	5 April 2024
Schuldschein – EUR 5Y float	EUR	11,000,000	6M EURIBOR + 1.30%	5 April 2022
Schuldschein – EUR 7Y float	EUR	9,000,000	6M EURIBOR + 1.50%	5 April 2024
Schuldschein – CZK 5Y fix	CZK	470,000,000	1.316%	5 April 2022
Schuldschein – CZK 7Y fix	CZK	2,280,000,000	1.734%	5 April 2024

On 16 December 2015 the Company entered into term facility agreement with maturity in five years and a credit limit up to CZK 12,000 million. The interest rate is based on 1M PRIBOR increased by 0.60% margin. In 2019, there was no drawdown or repayment under the long-term loan agreement. As at 31 December 2019, the Company had utilised a total of CZK 7,000 million (2018: CZK 7,000 million) from the long-term facility agreement.

None of the Company's assets serve as a collateral in connection with the drawing down of these loans.

Changes in liabilities from financing activities

In CZK million	2019	2018
Short-term and long-term loans as at 1 January	**10,461**	**10,563**
Drawdown	4,106	1,200
Repayment	0	(1,315)
Cash flow total	**4,106**	**(115)**
Exchange rate revaluation	(47)	4
Other	(2)	9
Non-cash flow total	**(49)**	**13**
Short-term and long-term loans as at 31 December	**14,518**	**10,461**

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

16 Financial instruments and financial risk management

A) Classification of financial instruments

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

As at 31 December 2019

In CZK million	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Total
Financial assets				
Trade receivables	5,237	-	-	5,237
Provided loans and other receivables (excluding prepaid expenses and indirect taxes)	3,244	-	-	3,244
Financial derivatives – interest (hedge accounting)	-	-	28	28
Cash and cash equivalents	4,604	-	-	4,604
Total	**13,085**	**-**	**28**	**13,113**
Financial liabilities				
Financial debts	14,574	-	-	14,574
Trade and other payables*	5,083	-	-	5,083
Lease liabilities	2,626	-	-	2,626
Financial derivatives – foreign currency (held for trading)	-	6	-	6
Total	**22,283**	**6**	**-**	**22,289**

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

As at 31 December 2018

In CZK million	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Total
Financial assets				
Trade receivables	4,858	-	-	4,858
Provided loans and other receivables (excluding prepaid expenses and indirect taxes)	1,981	-	-	1,981
Financial derivatives – interest (hedge accounting)	-	-	43	43
Cash and cash equivalents	1,736	-	-	1,736
Total	**8,575**	**-**	**43**	**8,618**
Financial liabilities				
Financial debts	10,499	-	-	10,499
Trade and other payables*	5,237	-	-	5,237
Total	**15,736**	**-**	**-**	**15,736**

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

B) Financial risk management

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

The Company does not conduct any speculative trading activities.

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

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to items denominated in the EUR, XDR and partially to the USD:

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

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

The Company primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR, USD or XDR. Only plain-vanilla instruments are currently used to hedge these liabilities.

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

In CZK million	Notional amount as at 31 December		Fair value as at 31 December	
	2019	2018	2019	2018
Exchange rate contracts	1,169	772	(6)	-

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

In CZK million	Effect on profit before tax	
	as at 31 December 2019	as at 31 December 2018
FX risk		
Value at Risk*	(39)	(44)
Stress testing**	(11)	(53)

* The Value at Risk (VaR) Model enables the Company to estimate the probability of maximum possible loss to the portfolio value in a given time frame which will not be exceeded given the defined confidence level. To conduct a VaR calculation, the Company uses the risk variance and covariance method using the normal distribution (parametric method). The time frame used is one month with a 95% confidence level. Considering the importance of net open positions resulting from Company's financial assets and financial liabilities in individual foreign currencies, the Company models VaR for a translation and transaction EUR and USD position.
** The foreign currency stress test represents the immediate loss caused by a 6% change in the foreign exchange rate in an unfavourable direction.

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

	31 December 2019			
In CZK million	CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	2,053	2,433	118	-
Trade receivables	4,612	538	26	61
Provided loans and other receivables (excluding prepayments and indirect taxes)	230	3,014	-	-
Financial derivatives – foreign currency (trading)*	-	1,169	-	-
Financial derivatives – interest (hedge accounting)*	28	-	-	-
Total financial assets	**6,923**	**7,154**	**144**	**61**
Financial liabilities				
Financial debts	9,980	4,593	-	-
Trade and other payables**	3,140	1,741	201	1
Lease liabilities	1,740	886	-	-
Total financial liabilities	**14,860**	**7,220**	**201**	**1**

* Foreign currency financial derivatives are disclosed in the nominal amount of the contract (translated to CZK using the exchange rate as at 31 December 2019). For interest financial derivatives, the fair value as at 31 December 2019 is disclosed.
** The payables do not include employee liabilities and benefits, liabilities from VAT, other taxes and social security liabilities.

	31 December 2018			
In CZK million	CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	1,628	82	26	-
Trade receivables	3,829	858	64	107
Provided loans and other receivables (excluding prepayments and indirect taxes)	257	1,724	-	-
Financial derivatives – interest (hedge accounting)*	43	-	-	-
Total financial assets	**5,757**	**2,664**	**90**	**107**
Financial liabilities				
Financial debts	9,984	516	-	-
Financial derivatives – foreign currency (trading)*	-	772	-	-
Trade and other payables**	3,000	2,046	190	1
Total financial liabilities	**12,984**	**3,334**	**190**	**1**

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

(ii) Interest rate risk

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

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The financial assets and short-term liabilities are currently maintained on floating rates while long-term debts can be maintained on both floating and fixed rates. The Company uses interest rate swaps to manage the ratio of debts with fixed and variable interest rates (Note 16(e)).

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

In CZK million	Effect on profit before tax	
	31 December 2019	31 December 2018
Interest rate risk		
Stress testing*	3	(18)

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

(b) Liquidity risk

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

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2019 and as at 31 December 2018 based on contractual undiscounted payments. Values include projections of future interests. The impact of the initial application of the new standard IFRS 16 is described in Note A Basis of preparation. Due to the selected method of implementation, the Company has not adjusted data for the comparable period.

As at 31 December 2019 In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Interest bearing borrowings	42	7,242	7,016	935
Trade and other payables*	4,162	702	225	-
Lease liabilities	148	349	1,576	824
Total	**4,352**	**8,293**	**8,817**	**1,759**

As at 31 December 2018 In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Interest bearing borrowings	40	174	8,244	2,690
Trade and other payables*	4,256	486	506	-
Total	**4,296**	**660**	**8,750**	**2,690**

* As at 31 December 2019 and 2018, the payables do not include employee liabilities and benefits, liabilities for VAT, other taxes and social security liabilities.

As at 31 December 2019, banks had provided third parties with payment guarantees or other guarantees for liabilities of the Company amounting to CZK 561 million (31 December 2018: CZK 761 million).

(c) Credit risk

(i) Trade receivables and contract assets

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

It is the Company's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis in order to minimise the Company's exposure to bad debts.

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

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

a) prevention: scoring of new customers – activation control procedures (integrated Black Lists, Solus Debtors Register, other external databases), limits and/or deposits applied based on the customer segments or the products. Credit limits for indirect sales partners (dealers, distributors, retailers) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.).

b) monitoring of accounts receivables: regular monitoring of the creditworthiness of existing customers and analysis of the receivables ageing structure (internal and external indicators of any potential bad debts). Those activities are processed in an integrated system solution for scoring, maintenance and collection of trade receivables.

c) collection process: Credit Management cooperates with Customer Care on the implementation of a reasonable, effective and continuous collection process. Collection process responsibilities are divided. The collection from active customers is in the responsibility of the Customer Care unit; collection after the contract is terminated falls within the responsibility of Credit Management.

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

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

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

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

Overview of the credit risk for trade receivables and contract assets as at 31 December 2019

In CZK million	Weighted-average loss rate	Gross carrying amount	Loss allowance	Residual value	Receivables credit-impaired
Due	1%	5,079	40	5,039	No
1–30 days overdue	3%	318	8	310	No
31–90 days overdue	11%	142	16	126	No
More than 91 overdue	89%	2,100	1,861	239	Yes
Total	**25%**	**7,639**	**1,925**	**5,714**	

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

In CZK million	Weighted-average loss rate	Gross carrying amount	Loss allowance	Residual value	Receivables credit-impaired
Due	1%	4,948	29	4,919	No
1–30 days overdue	3%	300	8	292	No
31–90 days overdue	20%	118	24	94	No
More than 91 overdue	96%	2,089	1,995	94	Yes
Total	**28%**	**7,455**	**2,056**	**5,399**	

Loss allowance for trade receivables and contract assets

In CZK million	
As at 1 January 2018	2,124
Additions	926
Write-off of receivables	(233)
Retirements/amount paid	(761)
As at 31 December 2018	**2,056**
Additions	892
Write-off of receivables	(303)
Retirements/amount paid	(720)
As at 31 December 2019	**1,925**

The company uses the following methods of hedging against the credit risk of receivables: insurance of receivables, receiving deposits from customers, bank guarantees and bills of exchange. Insurance of the receivables and deposits received from customers for goods and services provided were the most significant means of hedging in 2019 and 2018.

As at 31 December 2019 and 2018, the Company held no trade receivables or contract assets for which no loss allowance would be created due to collateral received.

(ii) Loans provided and other receivables

Other receivables include mainly loans provided to subsidiaries (refer to Note 12), receivables from the Czech Telecommunication Office in respect of discounts granted to customers with disabilities and claims for damages. These financial assets are assessed individually by the Company in accordance with the methodology described in Note H Financial instruments.

Overview of credit risk for other receivables

	31 December 2019			
In CZK million	12-month expected credit losses	Lifetime expected credit losses – not credit impaired	Lifetime expected credit losses – credit impaired	Total
Provided loans	3,106	-	-	3,106
Other receivables	141	-	47	188
Loss allowance	(4)	-	(46)	(50)
Carrying amount	**3,243**	**-**	**1**	**3,244**

Overview of credit risk for other receivables

	31 December 2018			
In CZK million	12-month expected credit losses	Lifetime expected credit losses – not credit impaired	Lifetime expected credit losses – credit impaired	Total
Provided loans	1,856	-	-	1,856
Other receivables	126	-	48	174
Loss allowance	(3)	-	(46)	(49)
Carrying amount	**1,979**	**-**	**2**	**1,981**

(iii) Cash and cash equivalents

As at 31 December 2019, the Company reported cash and cash equivalents of CZK 4,604 million (2018: CZK 1,736 million). Bank receivables are held by institutions rated A2–A1 by Moody's; in 2019 and 2018 none of the credit ratings of the institutions deteriorated in a way which, in the Company's view, would cause the credit risk to increase significantly.

Cash and cash equivalents were analysed for impairment in accordance with the methodology described in Note H Financial Instruments. As at 31 December 2019 and 31 December 2018, the loss allowance was evaluated as immaterial and the Company decided not to recognise it.

(d) Fair value estimation

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly based on data from active market.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

As at 31 December 2019 and as at 31 December 2018, the Company held foreign currency forward and swap contracts and interest rate swaps classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2019 and 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

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

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rates. An exception are tranches of Schuldschein financing with fixed interest rates (Note 15) with a total carrying amount of CZK 3,810 million (2018: CZK 2,784 million) and fair value of CZK 3,663 million (2018: CZK 2,628 million) as at 31 December 2019.

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

(e) Hedge accounting

In 2017, the Company began to hedge cash flows arising from a long-term debt denominated in CZK with a floating interest rate in order to hedge the interest rate risk. The hedging instrument used is a combination of several interest rate swaps denominated in CZK. The hedged cash flows are the expected monthly payments from September 2017 to November 2020. In 2019, the Company concluded new interest rate swaps designed to hedge cash flows between May 2019 and December 2022. The Company's objective is to maintain an appropriate mix of debts with fixed and floating interest rates in line with the risk management concept.

As at 31 December 2019, the total nominal value of hedging instruments was CZK 3,500 million (2018: CZK 2,500 million) and their fair value was in total CZK 28 million (2018: CZK 43 million). The hedge was assessed as effective at 31 December 2019 and the net unrealised gain of CZK 17 million (2018: CZK 17 million), net of deferred tax of CZK 4 million (2018: CZK 3 million), was recognised in other comprehensive income. As at 31 December 2019, the weighted average of the fixed interest rate determined by the hedging instruments was 1.33% (2018: 1.02%).

In 2019 and 2018, the cash flow hedge was effective and no ineffectiveness was recognised in profit or loss. Interest expense includes the net interest income from realised hedge derivatives in amount of CZK 25 million (2018: net interest income of CZK 2 million).

17 Deferred income taxes

Deferred tax was calculated at 19% for both years 2019 and 2018.

In CZK million	2019	2018
As at 1 January	**(472)**	**(258)**
Charged/(credited) to Profit or loss (Note 5)	(22)	(81)
Charged/(credited) to Other comprehensive income (Note 16(e))	4	(3)
Effect of initial application of standards IFRS 9 and IFRS 15	-	(130)
As at 31 December	**(490)**	**(472)**

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

In CZK million	31 December 2019	31 December 2018
Deferred tax assets	351	362
Deferred tax liabilities	(841)	(834)
Total	**(490)**	**(472)**

The deferred tax comprises the following components:

In CZK million	Balance sheet		Profit or loss		Other comprehensive income	
	31 Dec 2019	31 Dec 2018	2019	2018	2019	2018
Temporary differences relating to:						
Property, plant and equipment and intangible assets	(433)	(412)	(21)	(16)	-	-
Costs to obtain contracts	(110)	(100)	(10)	(12)	-	-
Contract assets	(90)	(104)	14	(20)	-	-
Trade receivables, inventories and other differences	147	152	(5)	(33)	-	-
Financial derivatives – cash flow hedge	(4)	(8)	-	-	4	(3)
Total	**(490)**	**(472)**	**(22)**	**(81)**	**4**	**(3)**

18 Provisions for liabilities and charges

In CZK million	Regulatory and court decisions	Other provisions	Total
As at 1 January 2018	**73**	**23**	**96**
Additions during the year	-	-	-
Utilised during the year	(10)	(9)	(19)
As at 31 December 2018	**63**	**14**	**77**
Additions during the year	46	-	46
Utilised during the year	(5)	(5)	(10)
As at 31 December 2019	**104**	**9**	**113**
Short-term provisions 2018	59	14	73
Long-term provisions 2018	4	-	4
Total as at 31 December 2018	**63**	**14**	**77**
Short-term provisions 2019	104	9	113
Long-term provisions 2019	-	-	-
Total as at 31 December 2019	**104**	**9**	**113**

Other provisions for which the expected timing of payments is not certain are expected to be utilised within the twelve months of the balance sheet date. Provision for regulatory and court decisions is made in respect of legal proceedings involving the Company (refer to Note 19).

19 Contingencies and litigations

The Company is involved in several legal disputes arising from ordinary course of business. Throughout the year 2019, further successes were achieved, which confirmed long term trend of success in proceedings in which the Company is involved. However, some proceedings take very long time, with their alleged basis more than 15 years ago. In general, most major proceedings last over 5 years without any decision being reached, or the decision is repeatedly reversed and the proceedings are returned to lower instances.

Significant legal disputes and other proceedings relating to the Company are described below.

I. Office for Protection of Economic Competition ("ÚOHS") – proceedings concerning fine of CZK 49.5 million

These proceedings were originally initiated in 2003 against Eurotel. The Company was therefore not a party to the proceedings. The subject was the conclusion of an interconnection contract with Vodafone (then Český Mobil), in which the parties had agreed to connect their networks directly.

In the proceedings, the Office considered such agreement as a cartel agreement, but without specifying whom, how and from which market the companies should exclude by such agreement.

Each operator is logically the only entity which can offer a call termination service in its own network. Thus, competition in such a market cannot exist. The regulation by the Czech Telecommunication Office and other European regulators is also based on this basic principle. Logically, no other subject can offer a better price for termination than the network operator itself – as in the case of indirect connection, additional fee for transit is added while the termination fee remains the same.

Originally, the Office imposed a fine of CZK 22 million on Eurotel, but Eurotel filed an administrative action. After several proceedings with judicial reviews in various administrative courts, the courts eventually overturned the decision. In the meantime, however, Eurotel ceased to exist, without the possibility of transferring the liability for administrative delicts.

However, in the second half of 2016, the Office suddenly completely ignored this fact and issued a "clarification of the subject of the administrative proceedings", in which it accused the Company (which had not concluded the interconnection contract) of the action, and in December 2016, it issued a decision imposing a fine of CZK 49.5 million. The company filed an appeal. Based on this appeal, the decision was cancelled in January 2019 and the case returned to the first instance for further proceedings. No new decision was issued during 2019.

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

On 28 March 2011, VOLNÝ, a.s. ("VOLNÝ") filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. VOLNÝ filed the legal action to coincide directly with the opening of ÚOHS proceedings, which were closed by a decision in favour of O2 on 23 January 2019.

The amount is meant to represent the lost profit for the years 2004 to 2010. VOLNÝ claims to have had 30% share on the dial-up Internet market in 2003 and, in its legal action, it implies that it should have automatically had the same result on the broadband market, which it did not. Allegedly, it was due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and pointing out discrepancies in the petition claims. The court started the proceedings in the matter and hearings took place during the year 2013, including the hearings of witnesses and experts.

At the hearing held on 30 March 2016, the court considered the possibility of a revision expert opinion, which would review the opinions filed by VOLNÝ as well as by the Company. VOLNÝ proposed an expert, who eventually turned out to be biased and thus the Company filed a protest. Subsequently, the court appointed another expert and defined a set of questions. The revision expert opinion confirmed the Company's statement. The expert opinion stated that no anti-competition practice had been proved against the Company and also pointed out absence of the Company's dominant position in the market of Internet broadband connection.

After hearing the independent expert appointed, the Municipal Court in Prague dismissed the legal action by VOLNÝ in full. The court concluded that the Company had not breached competition rules and thus could not cause any damage. The decision was delivered in June 2018. The plaintiff filed an appeal and also applied for the court fee relief. The Municipal Court in Prague and the High Court in Prague granted the plaintiff a court fee relief of 50%.

The Company is convinced that the ÚOHS decision dated 23 January 2019, which was submitted to the court, confirms the Company's consistent position in the civil dispute and the correctness of the first instance dismissal of the legal action.

No decision on the merits was issued by the court of appeal during 2019.

III. TELECONSULT INTERNATIONAL – dispute concerning CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, in which the Company had already succeeded. Although the reasons were mainly of procedural and formal character, the Municipal Court in Prague is obliged to go through all the evidence again. The plaintiff, as a former operator of the audiotex lines claims that the Company allegedly caused damages (lost profit) between May and October 1998. At the hearing held on 14 January 2016, the court issued a decision in which the vast majority of the claim was dismissed and the Company should receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was awarded CZK 1.7 million in damages, which represents the difference between the volumes of minutes measured by both parties in May 1998. The Company filed an appeal against this part of the decision.

In its decision dated 29 March 2017, the High Court in Prague confirmed the dismissal of the legal action against the Company and also changed the original verdict regarding the amount of CZK 1.7 million. Ultimately, the Company was completely successful in this dispute. The plaintiff filed an extraordinary appeal to the Supreme Court and the Company filed its response to it.

On 30 September 2019, the Supreme Court cancelled the decision of the High Court in Prague for formal procedural failures and hence the case is now back in the appellate instance again. The decision of the Municipal Court in Prague remained unaffected. The Company expects the decision of the court of appeals during 2020, when the duration of this speculative court case will exceed 20 years. During this period, the Company has been successful so far, but the case has not been definitively closed.

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

The legal action brought by Vodafone Czech Republic a.s. ("Vodafone") claiming CZK 384,691,000 was delivered to the Company on 2 April 2015. The legal action is grounded on an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a notice claiming this amount was delivered to the Company. According to the Company, the whole claim is a purely artificial case, the sole purpose of which was to damage the Company by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. The Company provided the court with its statement that there are no grounds for the claim.

The Municipal Court in Prague dismissed the plaintiff's petition requesting the Company to disclose all information and documents supporting the claim filed in the legal action. The court found that the plaintiff had not yet described the essential facts which would at least indicate that the plaintiff would have ever suffered any damage. This is confirmed also by the decision of ÚOHS dated 23 January 2019 in a separate administrative proceedings. The High Court in Prague confirmed this decision. Vodafone filed an extraordinary appeal to the Supreme Court.

No court hearings were ordered during 2019.

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

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

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

BELL TRADE, whose current sole director, shareholder and legal representative is attorney JUDr. Milan Fulec, tried to base the new claim and the latest attempt to establish the jurisdiction of the County Court in Malacky on the letter dated 8 June 2015, in which it stated that it "withdraws from all agreements concluded between the RVI, a.s. and O2" and reserves the right to claim recovery of damages caused by such withdrawal. The new claim raised against the Company is for an amount of CZK 5.2 billion with interest from 14 March 2016.

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

The Company filed a legal action to the Municipal Court in Prague in response to the repeated attempts organised by the connected companies BELL TRADE and PET-PACK SK s.r.o. The Company claims that no contracts have ever been concluded and that the Company, therefore, has no obligations under these "never-concluded" contracts. The Municipal Court in

Prague confirmed the Company's arguments and upheld the legal action at the hearing on 26 June 2017.

In the first half of 2018, breakthrough decisions in favour of the Company in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the Municipal Court in Prague's previous decision against PET PACK and BELL TRADE, which determined that no receivables or contracts had ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. It is therefore definitely determined that no contracts or claims have ever existed in relation to any of these companies.

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

During 2019, another positive decision was achieved. The Constitutional Court by its resolution dated 30 July 2019 rejected the constitutional complaint of BELL TRADE against the Supreme Court's denial of an extraordinary appeal. The case was thus closed in the courts of the Czech Republic – it is legally established that no contracts or receivables have ever existed.

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

In 2016, the European Commission initiated own-initiative proceedings concerning a suspected infringement of Article 101 of the Treaty on the Functioning of the European Union (agreements disrupting competition in the internal market). The reason given is the network sharing agreement concluded between T-Mobile and the Company in 2013 (as part of the 2015 spin-off, the contract was transferred to CETIN a.s. (formerly Česká telekomunikační infrastruktura a.s.)). In the notification, the Commission initially stated that the commencement of the proceedings alone does not mean that it is convinced of any offence. The company has submitted its opinions and supporting documents to the Commission and is cooperating with an international expert institute.

On 7 August 2019, the Commission issued a statement of objections, expressing its intention to issue a decision that the network sharing agreements constitute a breach of Article 101 of the Treaty. If such a decision were taken, there would be a risk for the Company of the imposition of a fine pursuant to Article 23 of Regulation (EC) No. 1/2003 and, possibly, of the imposition of further measures (e.g. technological, financial, legal or procedural) to put an end to the alleged infringement. However, the Commission has in no way indicated the amount of the potential fine, not even approximately. Given the fact that a similar case has not yet been dealt with by the European Commission, it is very difficult for the Company in this case to apply the legal and sub-legal norms, interpretative rules and case law to estimate the possible amount of the fine.

The Company is firmly convinced that it has acted in compliance with applicable legal and regulatory rules. In addition, in the opinion of the Company, network sharing has significantly strengthened the availability and quality of mobile signal in the Czech Republic, which is currently among the top European countries in terms of mobile signal quality. Thus, no harm to competition or consumers has occurred. 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. For these reasons, the Company does not create a provision in relation to the case.

VII. Other

The Company is involved in other legal disputes where the amount disputed is over CZK 5 million. The aggregate value of all these pending disputes totals nearly CZK 62 million. The possible impact of these disputes is reflected in the financial statements. However, the risks associated with these disputes are not significant.

The Company considers disclosing other information regarding the said litigations not advisable, as it could endanger the strategy of the Company in these cases.

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

20 Commitments

Capital expenditures contracted but not yet included in the financial statements as at 31 December 2019 amounted to CZK 451 million (2018: CZK 295 million). The majority of contracted amounts relates to the maintenance and development of internal IT systems and other investment activities. The capital expenditures will be financed by both internal and external sources.

21 Service concession arrangements

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

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

a) public fixed communications network,
b) public mobile communications network,
c) public access telephone services,
d) other voice services – service is defined as public access service,
e) leased lines – service is defined as public access service,
f) radio and TV signal broadcasting – service is defined as public access service,
g) data transmission – service is defined as public access service,

h) Internet access services – service is defined as public access service,
i) other voice services – service is defined as public access service,
j) leased lines – service is not defined as public access service,
k) radio and TV signal broadcasting – service is not defined as public access service,
l) data transmission – service is not defined as public access service,
m) Internet access services – service is not defined as public access.

The Company provides electronic communications services in the 900 and 1,800 MHz frequency bands under the GSM (2G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024. The Company provides services in the 2,100 MHz frequency band under the UMTS (3G) standard using radio frequencies assigned by the CTO and valid until 1 January 2022. Services are further provided in the 800, 1,800 and 2,600 MHz frequency bands under an LTE (4G) standard using radio frequencies assigned by the CTO and valid until 22 October 2024 for a part of the 1,800 MHz frequency band, and until 30 June 2029 for the 800 and 2,600 and the remaining part of the 1,800 MHz frequency bands. The Company provides broadband mobile access to Internet in the 450 MHz frequency band using LTE technology based on the radio frequency assigned by the CTO and valid until 7 February 2033. The Company also holds the radio frequency assigned in the 3.7 GHz frequency band and valid until 30 June 2032, where it provides broadband mobile Internet access at a fixed location using 5G-ready technology.

The radio frequency licence can be extended by another licence based on an application submitted to the CTO in accordance with the Act on Electronic Communications. On the other hand, given the current regulatory and business environment in the Czech Republic, the prevailing contractual, legal, regulatory, competitive or other economic factors may limit the period for which the Company can benefit from the use of these radio frequency assignments in the future.

Imposition of obligations related to the provision of the Universal Service

During 2019, the Company provided the following selective services under CTO-imposed obligations to provide Universal Service:

a) public pay telephone services (VTA),
b) access for persons with disability to the public telephone service which must be equal to access enjoyed by other end users; such special access primarily takes the form of specifically adapted telecommunication equipment,
c) special price plans, which are different from the price plans used under standard commercial conditions, for persons with special social needs and persons with disabilities.

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

22 Share capital and reserves

	31 December 2019	31 December 2018
Nominal value per ordinary registered share (in CZK)	10	10
- number of shares – fully paid-up	310,220,057	310,220,057
Nominal value per ordinary registered share (in CZK)	100	100
- number of shares – fully paid-up	1	1
Total nominal value of ordinary shares (in CZK million)	3,102	3,102

Shareholdings in the Company were as follows:

	31 December 2019	31 December 2018
PPF Telco B.V.	65.79%	65.79%
PPF A3 B.V.	10.27%	10.27%
PPF CYPRUS MANAGEMENT Ltd.	5.00%	5.00%
O2 Czech Republic a.s. (treasury shares)	3.01%	2.80%
Other shareholders	15.93%	16.14%

Capital management

The Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing its capital are:

a) to safeguard the Company's ability to continue as a going concern so that it can provide value for its shareholders, and
b) to comply with all relevant legal requirements.

In the following periods, the Board of Directors will continue doing in-depth analyses of and assess the current and anticipated results of the Company, including scheduled and potential investments and cash flow generation and will optimise the capital structure to serve the purpose of achieving these plans.

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

Equity structure as at 31 December 2019 and 2018:

In CZK million	31 December 2019	31 December 2018
Share capital	3,102	3,102
Treasury shares	(2,348)	(2,204)
Share premium	8,264	9,470
Funds and reserves	8	8
Cash flow hedges	22	35
Retained earnings from previous years	1,678	1,438
Net income for the current year	5,351	5,366
Total	**16,077**	**17,215**

In accordance with the decision of the General Meeting on 8 December 2015 concerning acquisition of treasury shares (up to 10% of the total number of shares issued over the following 5 years), the Company continued in the share buyback programme in 2019. As at 31 December 2019 the Company held 9,337,910 treasury shares for a total purchase price of CZK 2,348 million (2018: 8,695,327 treasury shares for a total purchase price of CZK 2,204 million).

23 Related party transactions

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

The PPF Group invests in various industries such as banking and financial services, telecommunications, real estate, and biotechnology. PPF's reach spans from Europe to Russia, across Asia and the USA.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are interest-free (excl. financial assets and liabilities used for financing), unsecured and the settlement occurs either in cash or by offseting. The financial assets are tested for impairment at the balance sheet date.

The following transactions were carried out with related parties:

I. Parent company:

The total amount of dividend and other distributions paid in 2019 to shareholders from the PPF Group was CZK 5,281 million (2018: CZK 5,281 million). Payables from the dividend and other distributions to shareholders from the PPF Group were fully settled as at 31 December 2019 and 31 December 2018, respectively.

II. Company's subsidiaries:

Balance sheet In CZK million	31 December 2019	31 December 2018
a) Receivables and other assets	589	549
b) Short-term loans provided	3,103	1,853
c) Trade and other payables	230	167
d) Contractual obligations	16	16

Statement of comprehensive income In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
a) Sales of services and goods	1,847	1,588
b) Purchases of services and goods	820	773
c) Dividend income (Note 4)	1,574	1,385
d) Interest income	55	24

As at 31 December 2019, the Company had provided a short-term loan of CZK 90 million (2018: CZK 130 million) to O2 TV s.r.o., CZK 2,997 million (2018: CZK 1,724 million) to O2 Slovakia, s.r.o. and CZK 16 million (2018: CZK 0 million) to Emeldi Technologies, s.r.o. In 2019, the loan provided to subsidiary O2 Slovakia, s.r.o. was increased by CZK 1 306 million as a result of settlement with the declared dividend (refer to Note 4) and decreased by the exchange rate difference at the date of the offsetting (2018: CZK 1,199 million). The loan conditions are based on the arm’s length principle.

As at 31 December 2019, the allowances to intragroup loans amounted to CZK 3 million (2018: CZK 1 million). The Company did not create any other allowances towards related parties in 2019 and 2018.

In 2019, the Company acquired fixed assets from O2 IT Services s.r.o. in the amount of CZK 7 million (2018: CZK 14 million).

In 2018, the Company sold property, plant and equipment in the amount of CZK 7 million to O2 Slovakia, s.r.o and in the amount of CZK 6 million to O2 IT Services s.r.o.

III. Associates and joint ventures

Balance sheet In CZK million	31 December 2019	31 December 2018
a) Receivables and other assets	49	46
b) Trade and other payables	11	34

Statement of comprehensive income In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
a) Sales of services and goods	163	159
b) Purchases of services and goods	64	68
c) Dividend income	11	9

IV. Other related parties – PPF Group:

Balance sheet In CZK million	31 December 2019	31 December 2018
a) Receivables and other assets	352	248
b) Trade and other payables	1,088	1,026
c) Financial derivative instruments – assets	10	14
d) Financial derivative instruments – liabilities	3	-
e) Cash equivalents (Note 13)	1,017	91
f) Lease liabilities	1,546	-

Statement of comprehensive income In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
a) Sales of services and goods	410	394
b) Purchases of services and goods	9,670	10,051
c) Loss on fair value adjustments of financial instruments (net)	9	(9)
d) Interest expense*	(8)	(1)
e) Interest income	3	9

* Net interest income on realised hedging derivatives concluded with PPF banka a.s. is recognised within the interest expense.

In 2019, purchases of goods and services and interest expense do not include lease payments for lease contracts, for which right-of-use asset is recognised according to requirements of IFRS 16. It relates mainly to the lease of data centres and other technical and administrative buildings from company CETIN a.s. Total amount of these payments is CZK 247 million.

In 2018, the Company sold property, plant and equipment in the amount of CZK 1 million to CETIN a.s.

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

Amongst the most important relationships, there are the following wholesale agreements:

a) mobile network services agreement

The subject of the agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about the development, operation and maintenance of the network, the transfer capacity of the network, new services, the extension of new services and collocation. The agreement has been concluded for a period of 30 years. The Company is obliged to use the services for a period of seven years, that is until 31 May 2022. Two years before the expiration of this term, negotiations on the price for the next period will begin. In 2019, the total payment was approximately CZK 4,656 million (2018: CZK 4,551 million).

b) agreement on the access to the public fixed communications network (so-called MMO)

The subject of the MMO agreement is the access to the public fixed communications network of CETIN, the provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement has been concluded for an indefinite period, during which the Company will pay monthly charges (number of access points multiplied by unit price) and undertakes to utilise at least 640,000 xDSL lines (which represents only part of the total payment) for a period of seven years after signing the agreement, that is until 31 May 2022. In 2019, the total cost was approximately CZK 3,629 million (2018: CZK 3,766 million).

c) agreement on the access to end points (so-called RADO)

CETIN enables the Company to access end points, which includes the provision of transfer capacity between the end point of the electronic communications network and the transfer point located in a collocation within the area of a single region. The Company pays one-off expenses for the establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. In 2019, the total cost was approximately CZK 810 million (2018: CZK 848 million).

V. Remuneration and loans to members of Board of Directors, Supervisory Board and executive management

Members of the Board of Directors, the Supervisory Board and executive management of the Company were provided with benefits from the Company as follows:

In CZK million	Year ended 31 December 2019	Year ended 31 December 2018
Board of Directors	48	45
Supervisory Board	-	1
Executive management	21	23
Total	**69**	**69**

No loans were provided to members of the Board of Directors, Supervisory Board or executive management in 2019 and 2018.

24 Subsidiaries, associates and joint ventures

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

In CZK million	31 December 2019	31 December 2018
Subsidiaries	6,721	6,678
Associates	9	9
Investments in subsidiaries and securities in total	**6,730**	**6,687**

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

Subsidiaries		Company's interest as at 31 December 2019	2018	Carrying amount as at 31 December 2019	2018	Country of incorporation	Activity
1.	O2 Slovakia, s.r.o.	100%	100%	6,116	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
2.	4Local, s.r.o.	0%	100%	-	20	Czech Republic	Provision of internet access
3.	O2 Family, s.r.o.	100%	100%	45	-	Czech Republic	Mobile telephony, internet and data transmission services
4.	O2 TV s.r.o.	100%	100%	1	1	Czech Republic	Digital television
5.	O2 IT Services s.r.o.	100%	100%	244	244	Czech Republic	Information technology services
6.	Bolt Start Up Development a.s.	100%	100%	177	177	Czech Republic	Startup fund
7.	eKasa s.r.o.	100%	100%	120	120	Czech Republic	Electronic sales reporting ("EET") solution provider
8.	O2 Financial Services s.r.o.	100%	100%	-	-	Czech Republic	Financial Services intermediary
9.	Emeldi Technologies, s.r.o.	51%	0%	18	-	Czech Republic	Software development and sales
Associates							
10.	První certifikační autorita, a.s.	23%	23%	9	9	Czech Republic	Certification services
11.	AUGUSTUS, spol. s r.o.	40%	40%	-	-	Czech Republic	Auction sales and advisory services
Joint ventures							
12.	Tesco Mobile ČR s.r.o.	50%	50%	-	-	Czech Republic	Mobile virtual network operator for prepaid services

At the balance sheet date, the Company assesses whether there are indicators of a possible impairment of equity investments in subsidiaries and equity accounted investments. If such impairment indicators exist, the Company verifies that the recoverable amount of the investments is not lower than their net book value. As at 31 December 2019, the Company did not recognise any impairment relating to investments in its subsidiaries. As at 31 December 2018, the Company had recognised impairment created in previous years relating to investment in its subsidiary, 4Local, s.r.o., amounting to CZK 252 million. This impairment was settled in 2019 as part of a merger of the subsidiaries O2 Family, s.r.o. and 4Local, s.r.o. (see Transactions in 2019 below).

Transactions in 2019

The surviving company O2 Family, s.r.o. took over assets and liabilities of the merged subsidiary 4Local, s.r.o. as a result of the merger with effective date as at 1 January 2019. As at the date of the merger, the Company assessed an impairment relating to the investment in the merged subsidiary 4Local. The Company released part of this impairment of CZK 25 million and recognised it as a decrease of Finance costs in the income statement. The net book value of the merged investment in 4Local, s.r.o. of CZK 45 million was subsequently included in the cost of investment in the surviving subsidiary O2 Family, s.r.o., which resulted in the permanent settlement of the remaining impairment of CZK 227 million.

On 29 May 2019, the General Meeting of O2 IT Services s.r.o. decided to distribute a reserve fund of CZK 20 million. The full amount was paid to the Company and is disclosed in profit or loss within Finance income.

On 25 June 2019, the Company acquired a 51% stake in company Emeldi Technologies, s.r.o. and obtained control over the company. The total purchase price was CZK 18 million.

Transactions in 2018

On 13 June 2018, the General Meeting of O2 IT Services s.r.o. decided to distribute a reserve fund of CZK 93 million. The full amount was paid to the Company and is disclosed in profit or loss within Finance income.

On 13 June 2018, the subsidiary, O2 Family, s.r.o., decided to pay back a contribution of CZK 200 million to equity to the Company. As at 31 December 2018, the amount was fully paid to the Company.

25 Post balance sheet events

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2019.

26 February 2020

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

06 Declaration of persons responsible for the Annual Report

Declaration of persons responsible for the Annual Report

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

and

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

hereby declare that, to their best knowledge, the consolidated Annual Report gives a true and faithful reflection of the financial situation, business and the results of the Company and its consolidated whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

Jindřich Fremuth
Chairman of the Board of Directors
and Chief Executive Officer

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

In Prague on 26 February 2020

07 Independent auditor’s report to the shareholders

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This document is an unsigned English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of O2 Czech Republic a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of O2 Czech Republic a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note "General information" to these consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue from contracts with customers (CZK 38,760 million)
See paragraph R of "Accounting policies" and Note 2 in the notes to the consolidated financial statements.

Description of the key audit matter
The accuracy and completeness of recognised revenues from contracts with customers were a key area of this year's audit of the Group as the revenue recognition process depends on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). Among other things, the complexity of those systems is caused by the Group's wide offer of products and services (e.g. mobile and fixed services, IPTV services, IT solutions, etc.), frequent price changes and the complexity of contractual terms and conditions of certain products. The invoiced amounts are subsequently adjusted by the Group in compliance with the requirements of IFRS 15 "Revenue from Contracts with Customers" so that the final value of the revenue fulfils the substance of the contractual relationships with the Group's customers.

Auditor's approach to the key audit matter
Our audit procedures included in particular:

- tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists;
- tests of the Group's control environment, focusing on the Group's Controlling and Revenue Assurance departments' controls relating to the accuracy and completeness of revenues recognised;
- tests of the transaction process (walkthroughs) for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms and conditions;
- tests of the Group's internal controls over the accuracy of invoicing and the accuracy and completeness of recorded revenues, including controls over the handling of customer complaints;
- substantive analytical tests relating to significant revenue accounts, including analytical procedures involving comparisons of recognised revenues with other financial and non-financial information;
- recalculations of the most significant accounting adjustments performed by the Group in compliance with the requirements of IFRS 15, impacting on revenues.

Legal actions, lawsuits, and regulatory risks
See paragraph B(v) and Q of “Accounting policies” and Note 19 in the notes to the consolidated financial statements.

Description of the key audit matter
The Group is a party to several lawsuits and regulatory proceedings. In compliance with the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, it is necessary to assess whether it is probable that fines or other forms of settlement will be imposed to the Group and if so, in what amount. If the Group winning the relevant lawsuit or proceeding is more probable, then this is a contingent liability, and the information on these lawsuits and proceedings is stated in the notes and no provision is recorded in such cases.

This assessment requires a high level of judgment on part of the Group, and therefore we consider this area significant for our audit.

Auditor's approach to the key audit matter
Our audit procedures included in particular:

- inquiry with the board of directors and director for corporate law, litigations and compliance on impending and existing lawsuits and regulatory proceedings, incl. an inspection of the relating documentation supporting the provided explanations (e.g. internal summary of lawsuits of the Group, minutes from the meetings of the board of directors and the supervisory board, protocols and other relevant correspondence related to ongoing proceedings);
- critical assessment of the adequacy of the estimates of the probable impact made by the Group in respect of all significant lawsuits and regulatory proceedings, supported by inquiries with external legal representatives of the Group through confirmation letters and in selected cases also by using our internal specialists in the field of law and regulatory matters;
- retrospective review of the accuracy of the estimates made by the Group in the preceding accounting periods to verify the reliability of the Group’s judgments;
- verification of the concord of the information on provisions and contingent liabilities stated in the notes to the consolidated financial statements with the information acquired during the audit and a critical assessment of the accuracy and completeness of the disclosed information.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and financial statements and our auditor’s report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements and financial statements does not cover the other information. In connection with our audit of the consolidated financial statements and financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements and financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the consolidated financial statements and financial statements is, in all material respects, consistent with the consolidated financial statements and financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the supervisory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Company's statutory body is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process. The audit committee is responsible for monitoring the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information on the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of O2 Czech Republic a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2019, and the statement of total comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note "General information" to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the non-consolidated financial position of the Company as at 31 December 2019, and of its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue from contracts with customers (CZK 30,435 million)
See paragraph O of "Accounting policies" and Note 2 in the notes to the financial statements.

Description of the key audit matter
The accuracy and completeness of recognised revenues from contracts with customers were a key area of this year's audit of the Company as the revenue recognition process depends on a high number of complex billing and support IT systems (such as CRM, mediation and other systems). Among other things, the complexity of those systems is caused by the Group's wide offer of products and services (e.g. mobile and fixed

services, IPTV services, IT solutions, etc.), frequent price changes and the complexity of contractual terms and conditions of certain products. The invoiced amounts are subsequently adjusted by the Company in compliance with the requirements of IFRS 15 “Revenue from Contracts with Customers” so that the final value of the revenue fulfils the substance of the contractual relationships with the Company's customers.

Auditor's approach to the key audit matter
Our audit procedures included in particular:

- tests of general and application IT controls, focusing on access rights management, change management and tests of data interfaces between key IT systems. The testing was performed in cooperation with our internal IT specialists;
- tests of the Company's control environment, focusing on the Company's Controlling and Revenue Assurance departments’ controls relating to the accuracy and completeness of revenues recognised;
- tests of the transaction process (walkthroughs) for all significant types of products and services, including a test of the appropriate recognition of changes in pricing and other contractual terms and conditions;
- tests of the Company's internal controls over the accuracy of invoicing and the accuracy and completeness of recorded revenues, including controls over the handling of customer complaints;
- substantive analytical tests relating to significant revenue accounts, including analytical procedures involving comparisons of recognised revenues with other financial and non-financial information;
- recalculations of the most significant accounting adjustments performed by the Company in compliance with the requirements of IFRS 15, impacting on revenues.

Legal actions, lawsuits, and regulatory risks
See paragraph B(v) and N of “Accounting policies” and Note 19 in the notes to the financial statements.

Description of the key audit matter
The Company is a party to several lawsuits and regulatory proceedings. In compliance with the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, it is necessary to assess whether it is probable that fines or other forms of settlement will be imposed to the Company and if so, in what amount. If the Company winning the relevant lawsuit or proceedings is more probable, then this is a contingent liability, and the information on these lawsuits and proceedings is disclosed in the notes and no provision is recorded.

This assessment requires a high level of judgment on part of the Company, and therefore we consider this area significant for our audit.

Auditor's approach to the key audit matter
Our audit procedures included in particular:

- inquiry with the board of directors and director for corporate law, litigations and compliance on impending and existing lawsuits and regulatory proceedings, incl. an inspection of relating documentation supporting the provided explanations (e.g. internal summary of lawsuits of the Company, minutes from the meetings of the board of directors and the supervisory board, protocols and other relevant correspondence related to ongoing proceedings);

- critical assessment of the adequacy of the estimates of the probable impact made by the Company in respect of all significant lawsuits and regulatory proceedings, supported by inquiries with external legal representatives of the Company through confirmation letters and in selected cases also by using our internal specialists in the field of law and regulatory matters;
- retrospective review of the accuracy of the estimates made by the Company in the preceding accounting periods in order to verify the reliability of the Company's judgments;
- verification of the concord of the information on provisions and contingent liabilities stated in the notes to the financial statements with the information acquired during the audit and a critical assessment of the accuracy and completeness of the disclosed information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the supervisory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Company’s financial reporting process. The audit committee is responsible for monitoring the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group by the Company's General Meeting of Shareholders on 4 June 2019 and our uninterrupted engagement has lasted for 6 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements and financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 February 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

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

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in the Company's annual report.

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of O2 Czech Republic a.s. ("the Company") for the year ended 31 December 2019. The responsibility for the preparation of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of O2 Czech Republic a.s. for the year ended 31 December 2019 contains material factual misstatements.

Statutory Auditor Responsible for the Engagement

Petr Škoda is the statutory auditor responsible for the audit of the consolidated financial statements and financial statements of O2 Czech Republic a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague, on 26 February 2020

Signed by

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

Signed by

Petr Škoda
Partner
Registration number 1842

Appendix: Report on relations between the controlling person and the controlled person, and between the controlled person and persons controlled by the same controlling person for the accounting period of 2019

Report on relations

between the controlling person and the controlled person, and between the controlled person and persons controlled by the same controlling person for the accounting period of 2019

The Company: O2 Czech Republic a.s., with its registered seat at Prague 4-Michle, Za Brumlovkou 266/2, Postal code 140 22, Identification No.: 60193336, registered in the Commercial Register maintained by the Municipal Court in Prague under File No. B 2322 (the "Company" or "O2 CZ" or also as "O2 Czech Republic") is obliged to elaborate so-called report on relations between the controlling person and the Company, and between the Company and other persons controlled by the same controlling person for the accounting period of 2019 (1 January 2019 –31 December 2019) pursuant to Sec 82 et seq. of the Business Corporations Act ("Report on Relations").

1. Controlling person

Controlling person: Ing. Petr Kellner
Born: 20 May 1964
Resident: Vrané nad Vltavou, Březovská 509, Praha-západ, Postal code 252 45

Mr. Petr Kellner was a person with a controlling interest for the entire period from 1 January 2019 until 31 December 2019. In the period from 1 January 2019 to 31 December 2019, he indirectly controlled an 83.58% share in the voting rights of the Company (equivalent to a 81.06% share in the share capital of the Company). In this period, Mr. Petr Kellner was the controlling person of the Company through the following companies:

- PPF Telco B.V.
- PPF A3 B.V.
- PPF CYPRUS MANAGEMENT LIMITED

These companies, through which Mr. Petr Kellner was the controlling person of O2 CZ in 2019, are members of the PPF Group.

2. Structure of relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person

PPF Group controlled by Petr Kellner is an international investment group. It operates in Europe, Asia and North America. PPF Group controls sector-diversified companies, which are active especially in the markets of consumer financial services (Home Credit Group, PPF banka, Air Bank, Mobi Banka), insurance (PPF Life Insurance), biotechnology (SOTIO and other companies), real estate (PPF Real Estate Holding), engineering (Škoda Transportation), agriculture (RAV Agro) or telecommunications (CETIN a.s., Telenor CEE Group and the investment in O2 Czech Republic).

PPF Group has its corporate ownership and controlling structure located in the Netherlands: PPF Group N.V. with its registered seat in Amsterdam is the key holding company of the PPF Group.

In each business area where PPF Group is active financial services, real estate, telecommunications, biotechnology, agriculture, etc.), specific sub holding structures are typically established addressing the specific matters relating to the business sector in question.

According to information provided by PPF a.s., an overview of entities controlled directly or indirectly by the same controlling person, Petr Kellner, was compiled, including additional information about their structure. The overview is attached as Appendix 1 to the Report on Relations.

In relation to the Company, the PPF Group also published a declaration on its website (www.ppf.eu/en/) that from the PPF Group's (and its controlling person's) perspective the Company is a financial investment, and PPF Group did not interfere with the business management of the Company.

3. Role of the Company and O2 Czech Republic concern

Role of the Company

The Company is in the position of an independent telecommunications operator providing primarily electronic communications services through fixed and mobile networks within the territory of the Czech Republic, and, through a wholly owned subsidiary, also in Slovakia, where it provides electronic communications services through mobile networks. If negotiated, the Company also provides electronic communications services to other persons within the PPF Group. With its O_2 TV service, the Company is the IPTV leader in the Czech market.

O2 Czech Republic concern

In 2019, the Company (as a managing person) applied concern management to the majority of its subsidiaries pursuant to the provisions of Sec 79 of the Business Corporations Act. The main reason for this is a single management to ensure long-term advancement of the concern's interests within the single O2 Czech Republic concern policy. The Company manages the concern, with varying degree of intensity, by way of coordination and general management of the concern's businesses.

As of the date of making of this Report, the following companies were members of the O2 Czech Republic concern: O2 Family, s.r.o. (as a successor company as a result of a merger by acquisition of O2 Family, s.r.o. and 4Local, s.r.o.), O2 Financial Services s.r.o., O2 IT Services s.r.o., O2 TV s.r.o., O2 Slovakia, s.r.o., O2 Business Services, a.s. (owned through O2 Slovakia, s.r.o.), Bolt Start Up Development a.s. and eKasa s.r.o.

The Company maintains an up-to-date list of companies forming the O2 Czech Republic concern on its website (https://www.o2.cz/spolecnost/en/376775-skupina_o2_cr_a_ostatni_ucasti/).

4. Method and means of control

Mr. Peter Kellner is granted control of the Company (within the meaning of the Business Corporations Act) by holding a majority of the shares, and hence a majority share in the voting rights, through the companies referred to in point 1 above. He exercises voting rights at General Meetings of the Company. Beyond this controlling mechanism, PPF Telco B.V. applies specific instruments to the Company under the Business Corporations Act arising from its position as a qualified shareholder.

The PPF Group (which includes, for the purposes of this Report, the person controlling the Group as set out in Appendix 1 to this Report on Relations) does not interfere with the business management of the Company (as PPF Group also declared itself - see paragraph 2 above). and is therefore not a controlling person in relation to the Company within the meaning of Section 79 of the Business Corporations Act.

5. Overview of negotiations pursuant to Sec 82(2)(d) of the Business Corporations Act

In the 2019 accounting period, the Company did not pursue any actions on the initiative or in the interest of the controlling person or persons controlled by the same controlling person, which would result in disposal of the Company's assets exceeding 10% of the Company's share capital according to the last financial statements.

6. Overview of agreements

In the 2019 accounting period, the following agreements were in force between the Company on the one hand, and the controlling person or persons controlled by the same controlling person on the other:

Agreements with companies of the PPF Group

Agreements with Air Bank a.s.

- Framework agreement on the provision of telecommunication, managed services and other services, *description of contractual performance*: the Company provides to the contractual partner, electronic communication services, managed services and other related services under contracted terms and conditions.
- Implementing agreement on the provision of WAN services, *description of contractual performance*: the Company provides to the contractual partner telecommunication services of WAN access and connection under contracted terms and conditions.

- Agreement on the provision of Bulk SMS Connector service, *description of contractual performance*: the Company provides to the contractual partner, a service of bulk text messaging from customer applications to the networks of mobile and fixed access operators, including foreign networks, and provides also the functionality for managing SMS messages.
- Agreement on the provision of the service O_2 Záznam hovorů, *description of contractual performance*: provision of monitoring and call recording services for the purpose of compliance with the requirements of the MiFID directive (on financial market instruments).
- Framework agreement on the conditions for the provision of mobile electronic communications services for the operation of the service SMS Business Connector, *description of contractual performance*: terms and conditions for the provision of mobile service by O2 CZ for the delivery of SMS Connector Business.

Agreements with Bestsport, a.s.

- Agreement to use the arena name and other cooperation, *description of contractual performance*: the agreement is to grant a right to the Company to name the arena (a multifunctional arena in Prague 9: O_2 Arena and Small Arena) and use it (i.e. including the lease of commercial space) for its commercial and marketing purposes as the general and titular partner of the arena, and for the promotion of the brand, logo, products and services of the Company on the outside and inside of the arena, and ticket sales for events in the arena.
- Agreement to provide documentation, information protection and prevent its misuse, *description of contractual performance*: terms and conditions under which documentation is provided to O2 CZ, including an undertaking to protect protected information in this documentation.
- Lease agreement, *description of contractual performance*: lease of advertising space from Bestsport, a.s.
- Delivery and service agreement, *description of contractual performance*: delivery of goods (hardware) including delivery of software licenses, implementation and provision of technical and service support for a wireless communication.
- Delivery and service agreement, *description of contractual performance*: delivery of goods (hardware) including delivery of software licenses, implementation and provision of technical and service support for a local computer network project.
- Internet Business/IOL Ethernet service agreement, *description of contractual performance*: delivery of Internet connectivity.

Agreements with CETIN a.s.

- Mobile Network Services Agreement, *description of contractual performance*: mobile network services agreement for CETIN to grant to O2 CZ access to Radio Access Network and the functionality of this mobile network, and the undertaking of CETIN to operate and maintain the 2G, 3G, LTE and CDMA networks, consolidate 2G and 3G networks and roll out the LTE network.
- Termination point access agreement, *description of contractual performance*: data services according to the new reference offer with termination in regional capitals.
- Agreement on access to the public fixed telecommunications network; *description of contractual performance*: agreement based on a reference offer, for access to the network in the terminal point, access to the public telephone services and fixed broadband access in the network of CETIN.
- Data processing agreements; *description of contractual performance*: processing of personal information in connection with the performance under selected agreements with CETIN.
- Agreement on the interconnection of the fixed communications network of CETIN and the public mobile communications network of O2 CZ, *description of contractual performance*: provision of electronic communication services and activities to subscribers connected to third party networks and other users, interconnection and maintenance of interconnected infrastructure of the partners' public telecommunications networks.
- Service Agreement (EU+, TGR representation) Wholesale Roaming Services, *description of contractual performance*: entering into discount agreements with roaming partners on behalf of O2 CZ.
- Agreement on the provision of services of data centres, *description of contractual performance*: data centre capacity leases in CETIN data centres and the supply of additional services related to the housing and operation of the technology

of O2 CZ and its customers.

- Co-location agreements for specific locations, *description of contractual performance*: granting of co-location space and services of physical co-location in specific locations.
- Agreement on the provision of Carrier-type services, *description of contractual performance*: wholesale Carrier data services.
- Agreement on the provision of billing for wholesale services, *description of contractual performance*: billing for wholesale services of O2 CZ.
- Lease and sub-lease agreements; *description of contractual performance*: lease or sub-lease of office, warehouse and other space, as well as movable things.
- Agreement on termination of international voice traffic, *description of contractual performance*: transit of international voice traffic originated in the mobile and fixed access network of O2 CZ, including traffic originated in the network of O2 Slovakia.
- Lease agreement for optical fibres, *description of contractual performance*: lease of optical fibres.
- Agreement on the provision of technology housing services, *description of contractual performance*: procurement of space to house technology for exercise of the business of O2 CZ in specific locations, and services directly related thereto.
- Master Services Agreement on Signalling and GRX / IPX, *description of contractual performance*: CETIN provides SCCP and diameter signalling, GRX/S8 payload mobile data exchange.
- Framework agreement on the terms and conditions of service of mobile electronic communications, *description of contractual performance*: O2 CZ supplies to the contractual partner, and other entities, electronic communication services in mobile telecommunications networks and supplies mobile handsets and accessories under contracted terms and conditions.
- Agreement on the provision of archiving services, principles of a possible separation of the archive and related cooperation, *description of contractual performance*: archiving and retrieving of archive documents belonging to CETIN which are stored in the O2 CZ central archive according to the separation project or relating to the common corporate history of both companies.
- Agreement on the provision of security services, *description of contractual performance*: provision of security services by CETIN.
- Service migration agreement, *description of contractual performance*: migration of selected services from the existing technology to a new technical solution.
- Agreement on the provision of a technology housing services at the address Prague – Hvězdova; *description of contractual performance*: procurement of space to house technology for exercise of the business of CETIN, and services directly related thereto.
- Confidentiality and non-disclosure agreements, *description of contractual performance*: non-disclosure of information learned in the process of commercial negotiations between the parties.
- Agreement on the provision of a voice solution, *description of contractual performance*: provision of the VOLUME 1 + 1 voice solution.
- Address space agreement, *description of contractual performance*: mutual provision for the use of address space (IP address space).
- Service agreement, *description of contractual performance*: maintenance of optical communication infrastructure elements.
- Agreement on the provision of service and maintenance services, *description of contractual performance*: regular maintenance, inspections and repairs of infrastructure at the Prague – Hvězdova locations by CETIN.
- Agreement on the use of a test site – SELFLAB, *description of contractual performance*: use of a CETIN test site.
- Settlement agreement, *description of contractual performance*: settlement of disputed or doubtful rights in connection with the provision of services in the Nagano data centre.
- Framework contract for the supply of services, *description of contractual performance*: the subject of the contract is the supply of services from CETIN (installation or deinstallation of equipment for internet access at a fixed location or O_2 TV).
- Science Data Science Centre Professional Services Agreement, *description of contractual performance*: providing professional services to implement and develop procedures and algorithms for processing and aggregation of large amounts of data.
- Agreement on termination and change of contractual relations in connection with the sale of the ÚTB building, *description of contractual performance*: agreement on early termination

of the tenancy in the ÚTB building and setting forth the conditions for the relocation of O2 CZ technology into a new location.

- Agreement on the provision of DWDM capacity, *description of contractual performance*: provision of DWDM service.

Agreements with Home Credit a.s.

- Agreement on cooperation in financing purchases of merchandise from O2, description of the supply under contract: the agreement regulates the provision of interest-free loans to natural persons who have a contract with O2 CZ for the provision of services of electronic communications, for the purchase of mobile hardware from O2 CZ or its franchisees, as well as the cooperation in offering and providing such loan products.
- Cooperation agreements, *description of contractual performance*: provision of information by O2 CZ to Home Credit a.s. subject to the customer's consent and in connection with the analysis of the creditworthiness of applicants for Home Credit a.s. loans.

Agreements with Home Credit International a.s.

- Agreement on the provision of public electronic communication services, *description of contractual performance*: the Company provides to the contractual partner, voice and data services under contracted terms and conditions.
- Agreement on Provision of Selected Fixed Network Services, *description of contractual performance*: provision of an international WAN network to connect domestic and foreign branches (DC + HQ) worldwide into one MPLS network.

Agreements with PPF a.s.

- Framework agreement on the conditions for the provision of mobile electronic communications services, *description of contractual performance*: the Company provides, to the contractual partner and other entities from the PPF Group, mobile services of electronic communications, and provides mobile phones and accessories under negotiated conditions.
- Agreement on the conditions for the provision of selected electronic communications services provided through a fixed network, *description of contractual performance*: the Company provides electronic communications services through a fixed network to the contractual partner and other companies from the PPF Group under negotiated conditions.
- Contract for the provision of a voice solution, *description of contractual performance*: the Company provides, to the contractual partners and other entities, services of electronic communications through fixed networks under negotiated conditions.
- O_2 Mobile Device Management Service Agreement, *description of contractual performance*: The Company provides the O_2 Mobile Device Management service to the contractual partner.
- Agreements for Ethernet, IP Connect, O_2 AntiDos services, *description of contractual performance*: technical specifications of services provided by the Company.
- Agreement to interconnect exchanges, *description of contractual performance*: interconnection of Conex24 exchanges.

Agreements with PPF banka a.s.

- Framework agreement on payment and bank services, *description of contractual performance*: the agreement sets up a credit limit and opens bank accounts in CZK, EUR and USD for the Company.
- Framework agreement on trading on the financial market, *description of contractual performance*: trading transactions to hedge against financial risks.
- Subscriber agreement on the provision of publicly available services of electronic communications, *description of contractual performance*: provision of services of electronic communications.
- Agreement on the provision of cloud, housing and related services, *description of contractual performance*: provision of cloud, housing and related services to the other contracting party.
- Agreement on the provision of Aculla SIPREC SRS recording system, description of the supply under contract: the agreement regulates the terms of the provision of the recording system to the other party and the terms of its use for the purposes of meeting the MiFID (Markets in Financial Instruments Directive) requirements.
- SIPREC Mobile Service Agreement, *description of contractual performance*: provision of call monitoring and recording services for the purposes of meeting MiFID (Markets in Financial Instruments Directive) requirements.

Agreements with Telenor Bulgaria EAD

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor d.o.o. Beograd

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor d.o.o. Podgorica

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor Magyarország Zrt.

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Telenor Commmon Operation Zrt.

- International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.

Agreements with Benxy s.r.o.

- Agreement on cooperation, *description of contractual performance*: provision of information by O2 CZ to Benxy s.r.o., with the customer's consent, in connection with the assessment of the creditworthiness and solvency of the customer applying for a loan with Benxy s.r.o.
- Framework agreement on the conditions for the provision of selected electronic communication services over a fixed network, *description of contractual performance*: the Company provides electronic communication services over a fixed network to its contractual partner at negotiated terms.
- Agreement on the provision of a DIGITY UCS communication system for call centres, *description of contractual performance*: call centre services.
- Personal data processing agreement, *description of contractual performance*: terms of personal and other data processing between parties as required by the personal data protection laws.

Agreements with STEL–INVEST s.r.o.

- Framework agreement on the conditions for the provision of electronic communication services, *description of contractual performance*: the Company provides electronic communication services work to its contractual partner at negotiated terms.
- Contract for work, *description of contractual performance*: STEL–INVEST undertakes to carry out for O2 CZ work consisting of electrical installation work to connect brand stores to the distribution network.

Agreements with Czech Equestrian Team a.s.

- Implementing agreement, *description of contractual performance*: production of television content by O2 CZ.

Agreements with CzechToll s.r.o.

- Framework agreement on the provision of electronic communication services, *description of contractual performance*: provision of electronic communication services work and supply of goods.

Agreements with subsidiaries in the O2 Czech Republic concern

Agreements with eKasa s.r.o.

- Subscriber agreements, *description of contractual performance*: provision of services of electronic communications to eKasa, s.r.o., its employees and business partners.
- Discount agreement (for the business solution O_2 Profi), *description of contractual performance*: O2 CZ undertakes to grant to eKasa s.r.o. a discount on specific items in the billing for electronic communications services, depending on the monthly flat rate for the electronic communications services.
- Agreement on cooperation in service delivery, *description of contractual performance*: delivery of an application and services with respect to the O2 CZ product O_2 eKasa by eKasa.
- Agreement on the provision of support services, *description of contractual performance*: provision of support services by O2 CZ to eKasa s.r.o.
- Personal data processing agreements, *description of contractual performance*: terms of personal and other data processing between

parties as required by the personal data protection laws.

Agreements with O2 Business Services, a. s.

- Agreement on the provision and operation of communication and security services in LAN/WAN networks for the Slovak Statistical Office (O2 CZ and O2 Business Services, a. s., jointly signed the agreement on the supplier side), *description of contractual performance*: the supply and operation of communication and security services in LAN/WAN networks for the Slovak Statistical Office.

Agreements with O2 Family, s.r.o. (as a successor company as a result of a merger by acquisition of O2 Family, s.r.o. and 4Local, s.r.o.)

- Agreement on the access to a public mobile electronic communication network, *description of contractual performance*: O2 CZ provides to O2 Family, s.r.o., the access to a public mobile electronic communication network for the purpose of providing public electronic communications services by the company to its subscribers.
- Credit Facility Agreement, *description of contractual performance*: agreement to provide a credit facility to O2 Family, s.r.o.
- Subscriber agreement for the provision of public electronic communications services and a framework agreement on the terms and conditions of the provision of public electronic communications services, *description of contractual performance*: O2 CZ provides, to the contractual partner, electronic communications services in mobile networks, provides mobile hardware and accessories and other products.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.
- Deposit Agreement, *description of contractual performance*: cash pooling rules and related terms and conditions.
- Agreement on cooperation in the broadcasting of O_2 Info, *description of contractual performance*: cooperation between the contractual partners in the broadcasting of O_2 Info which is a support service of O_2 TV.
- Sublease contract, *description of contractual performance*: the subject of the contract is the obligation of O2 CZ to lease to O2 Family, s.r.o. office space and parking bays at Za Brumlovkou 266/2.
- Consent to access to the public mobile communication network and the provision of services and Agreement on the terms of access to the public mobile communication network, *description of contractual performance*: based on the agreement, O2 Family, s.r.o. is allowed to grant access to the network and provide services received from O2 CZ to 4Local, s.r.o. under similar terms under which O2 CZ provides access to the network and services to O2 Family, s.r.o.
- Support services agreement with 4Local, s.r.o., *description of contractual performance*: provision of support services by O2 CZ to 4Local, s.r.o.
- Credit Facility Agreement with 4Local, s.r.o., *description of contractual performance*: provision of a credit facility to 4Local, s.r.o.
- Framework contract on cooperation in the supply of O2 prepaid services, *description of contractual performance*: cooperation between the parties in the sale and brokerage of the sale of O2 prepaid services.
- Affirmative statement, *description of contractual performance*: specification of easements to be transferred to O2 CZ resulting from the contract for the purchase of part of the FTTX business concluded between 4Local, s.r.o. and O2 CZ.

Agreements with O2 IT Services s.r.o.

- Agreement on the provision of information technology services, *description of contractual performance*: O2 CZ procured services of IT operations, IT infrastructure support and application support.
- Agreement on the provision of ICT operations; *description of contractual performance*: the implementation of a public contract “Provision of ICT operations 2017+” for the contracting authority – Czech Republic – Ministry of Agriculture.
- Contracts on future contracts, *description of contractual performance*: O2 IT Services s.r.o. undertakes to act as subcontractor for selected public contracts of O2 CZ.
- Sub-lease agreements, *description of contractual performance*: sub-lease of commercial space from O2 CZ.
- Non-disclosure and confidentiality agreements, *description of contractual performance*: rules of non-disclosure and confidentiality of some information in relation to business negotiations

between the contractual parties.

- Agreement on the provision of support services, *description of contractual performance*: provision of support services to O2 IT Services s.r.o.
- Data processing agreements, *description of contractual performance*: terms and conditions for the processing of personal and other information between the parties according to Personal Data Protection Act.
- Framework loan agreement, *description of contractual performance*: terms and conditions for loans provided to O2 IT Services s.r.o.
- Sub-supply agreement for the Emergency Number Call Centre, *description of contractual performance*: sub-supply of O2 CZ services to O2 IT Services s.r.o. in order to perform under the contract to operate the Emergency Number Call Centre with the Ministry of Interior of the Czech Republic.
- Framework agreement on the provision of wholesale data services, *description of contractual performance*: a mechanism and the terms and conditions for the provision of wholesale data services for O2 IT Services s.r.o. for resale to the customers of O2 IT Services s.r.o.
- Agreement for the access to a public mobile communication network, *description of contractual performance*: O2 CZ provides to O2 IT Services s.r.o. the access to the public mobile electronic communication network.
- Trade Mark Sub-Licence Agreement, *description of contractual performance*: agreement to grant a sub-licence for the use of the O_2 brand in connection with the commercial operations of O2 IT Services s.r.o. in the Czech Republic.
- Framework agreement on terms and conditions of the supply of electronic communications services, *description of contractual performance*: O2 CZ provides to the contractual partner the services of electronic communications for machine-to-machine (M2M) communication.
- Framework agreement on terms and conditions of the supply of electronic communications services, *description of contractual performance*: O2 CZ provides electronic communications services in mobile networks.
- Agreements on provision of IP Connect, Hosting or cloud services, *description of contractual performance*: technical specifications of services provided to O2 IT Services s.r.o.
- C-Roads Czech Republic Consortium Agreement and the related agreement on grant provided by the Innovation and Networks Executive Agency (INEA) (the consortium consists of several companies and entities, including O2 Czech Republic and INTENS Corporation s.r.o. as beneficiaries, and O2 IT Services s.r.o. as the so-called affiliated entity O2 Czech Republic a.s.); *description of contractual performance*: the agreement sets forth the internal rules and operation of a consortium for the purpose of the C-Roads project, which aims to test C-ITS technology (cooperative intelligent transport systems) in practical scenarios.

Agreements with O2 Slovakia, s.r.o.

- Trade Mark Sub-Licence Agreement, *description of contractual performance*: provision of a sub-licence to use the O_2 brand in commercial activities of O2 Slovakia, s.r.o. in the Slovak Republic.
- Framework agreement on cooperation in functional areas, *description of contractual performance*: provision of support services to O2 Slovakia, s.r.o.
- Revolving Credit Facility Agreement, *description of contractual performance*: agreement to provide a revolving credit facility to O2 Slovakia, s.r.o.
- Deposit Agreement, *description of contractual performance*: a cash-pooling arrangement and the related terms and conditions.
- Bilateral International Roaming Agreement, *description of contractual performance*: mutual provision of wholesale roaming services.
- Framework agreement on terms and conditions of supply of mobile electronic communications services, *description of contractual performance*: provision of mobile electronic communications services to O2 Slovakia, s.r.o.
- iPhone Contract of Adherence to the iPhone Agreement between Apple and O2 Czech Republic (between Apple Distribution International, O2 CZ and O2 Slovakia s.r.o.), *description of contractual performance*: accession of O2 Slovakia, s.r.o., to the agreement between O2 CZ and Apple Distribution International for the purchase of hardware and the supply of related services.
- Agreement on O&M Fees for the period from 2016 to 2022 between O2 CZ and O2 Slovakia, s.r.o. (on the buyer side) and Huawei Technologies (Czech) s.r.o. and Huawei Technologies (Slovak), s.r.o. (on the supplier side); *description of contractual performance*: agreement laying down some additional terms and conditions for the provision of Operation

and Maintenance Support Services.

- Framework agreement for the provision of telecommunication equipment, *description of contractual performance*: provision of telecommunication equipment to O2 CZ.
- Cooperation agreement, *description of contractual performance*: creation of a group of suppliers for the purpose of performing a public contract "Provision of mobile electronic communication services" for the contracting authority Železničná spoločnosť Slovensko, a.s.
- Cooperation agreement for the provision of digital television, *description of contractual performance*: O2 CZ gives support in the process of broadcasting and making selected programming content available to paying users within the territory of the Slovak Republic.
- Agreement of undisclosed mandate, *description of contractual performance*: representation of interests of O2 Slovakia, s.r.o. in relation to suppliers.
- Agreement on the amount of consideration for the assignment of usage rights, description of the performance: determination of the amount of consideration for the assignment of license rights.
- Agreement on netting of mutual receivables, *description of contractual performance*: offsetting of mutual claims of the parties.
- Deed of Guarantee, *description of contractual performance*: a deed of guarantee in which O2 CZ provides a guarantee for obligations of O2 Slovakia, s.r.o. under a contract concluded with a supplier of goods.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.
- Agreement on netting of mutual receivables, *description of contractual performance*: offsetting of mutual claims of the parties.

Agreements with O2 TV s.r.o.

- Agreements on the provision of support services, *description of contractual performance*: provision of support services by O2 CZ to O2 TV s.r.o.
- Agreement to include content in the service O_2 TV, *description of contractual performance*: O2 TV s.r.o. grants an exclusive licence to the Company to broadcast sports content within the territory of the Czech Republic as part of the O_2 TV service; also, the cooperation in the area of media and marketing support of O_2 TV and the use of media space on selected sports channels.
- Rights agreements, *description of contractual performance*: granting of mutual rights to broadcast selected sports matches.
- Framework agreement on the terms and conditions of the provision of mobile electronic communications services, *description of contractual performance*: the supply of mobile electronic communications services and the provision of mobile hardware and accessories and other products.
- Agreement to transfer subscribership to data services, *description of contractual performance*: installation and provision of data services for O2 TV s.r.o.
- Agreement related to sports event broadcasting, *description of contractual performance*: cooperation in broadcasting sports events, including the use of live transmission vehicles.
- Framework loan agreement, *description of contractual performance*: the terms and rules for the provision of loans to O2 TV s.r.o.
- Data processing agreements, *description of contractual performance*: terms and conditions for the processing of personal and other information between the parties according to Personal Data Protection Act.
- Sub-license agreement for television broadcasting of football content in the seasons 2018/2019 and 2019/2020, *description of contractual performance*: O2 TV s.r.o. gives to O2 CZ the authorization to exercise television rights for the acquisition and broadcasting of programming and recordings of selected matches of the 1st football league.

Agreements with O2 Financial Services s.r.o.

- Articles of incorporation of a company without legal personality (association) between O2 Czech Republic a.s. and O2 Financial Services s.r.o., *description of contractual performance*: the purpose of the association is in particular to cooperate in the creation, development and sale of specialized services in the financial area.
- Agreement on the provision of specialized financial services, *description of contractual performance*: O2 Financial Services s.r.o. provides specialized financial services to O2 CZ.
- Service agreement, *description of contractual performance*: provision of support services to O2 Financial Services s.r.o.

- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with Bolt Start Up Development a.s.

- Service agreements, *description of contractual performance*: providing support services to Bolt Start Up Development a.s.
- Framework loan agreement, *description of contractual performance*: terms and conditions for the provision of loans to Bolt Start Up Development a.s.
- Agreement on the use of the Esperia e-commerce site, *description of contractual performance*: temporary use and leasehold of the Esperia e-commerce site by O2 CZ.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.
- Framework agreement, *description of contractual performance*: framework terms related to the transfer of a stake in Tapito s.r.o., company ID no.: 03853365. entered into between Bolt Start Up Development a.s. as the seller, Livesport Invest s.r.o. and O2 CZ.

Agreements between O2 Czech Republic and other subsidiaries outside the O2 Czech Republic concern

Agreements with INTENS Corporation s.r.o.

- Non-disclosure agreement, *description of contractual performance*: the reciprocal non-disclosure of trade secrets.
- Agreement on consultancy services, *description of contractual performance*: INTENS Corporation s.r.o. provides consultancy services in the area of transport telematics, mobile and FC data to O2 CZ.
- C-Roads Czech Republic Consortium Agreement and the related grant agreement provided by the Innovation and Networks Executive Agency (INEA) (the consortium consists of several companies and entities, including O2 Czech Republic and INTENS Corporation s.r.o. as beneficiaries , and O2 IT Services s.r.o. as the so-called affiliated entity O2 Czech Republic a.s.); *description of contractual performance*: the agreement sets forth the of internal rules and operation of a consortium for the purpose of the C-Roads project, which aims to test C-ITS technology (cooperative intelligent transport systems) in practical scenarios.
- Agreement on the provision of services, *description of contractual performance*: the subject of the contract is the provision of administrative support to INTENS Corporation s.r.o.
- Contract for services, *description of contractual performance*: the subject of the contract is the provision to INTENS Corporation s.r.o. of geodata and its processing
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with mluvii.com s.r.o.

- Framework agreement laying down the terms and conditions of provision of mobile electronic communications services, *description of contractual performance*: provision of mobile electronic communications services to mluvii.com s.r.o.
- Agreement on cooperation in the implementation of the pilot project, *description of contractual performance*: Licensing conditions and consultancy for the software Mluvii for O2 CZ.
- Framework agreement on the provision of services, *description of contractual performance*: conditions of licensing, consultancy and maintenance services by O2 CZ for the software Mluvii.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing of personal and other data by the parties under the Personal Data Protection Act.

Agreements with Tapito s.r.o.

- Framework cooperation agreement; *description of contractual performance*: provision of a native application Tapito for smartphones and tablets.
- Cooperation agreement; *description of contractual performance*: use of advertising space in O_2 TV by Tapito.
- Data processing agreements, *description of contractual performance*: agreement laying down the terms and conditions of processing

of personal and other data by the parties under the Personal Data Protection Act.
- Cooperation agreement, *description of contractual performance*: lease of advertising space by Tapito s.r.o. to O2 CZ.

Agreements with Emeldi Technologies, s.r.o.

- Contract for Development, Support and Maintenance Services, *description of contractual performance*: supply of application administration and small-scale application development services.
- Contract for the implementation of the HW Catalog project, *description of contractual performance*: commitment of Emeldi Technologies s.r.o. to implement the HW Catalog project.
- Framework loan agreement, *description of contractual performance*: O2 CZ undertakes to provide funds to Emeldi.

Agreements with Tesco Mobile ČR s.r.o. (joint venture of O2 CZ and Tesco Stores ČR a.s.)

- Shareholders' Agreement (between O2 CZ, Tesco Stores ČR a.s. and Tesco Mobile ČR s.r.o.), *description of contractual performance*: agreement regulates the relationship between the shareholders of Tesco Mobile ČR s.r.o.
- Mobile Services Agreement, *description of contractual performance*: setting forth the rights and obligations of the parties in relation to the use of the public mobile communication network operated by O2 CZ.
- Secondment Agreement, *description of contractual performance*: the terms and conditions of the secondment of O2 CZ personnel to Tesco Mobile ČR s.r.o. pursuant to the provisions of Sec 43a of the Labour Code.
- Agreement on cooperation in online sales, *description of contractual performance*: cooperation in the marketing and sale of goods and SIM cards through the e-commerce platform of Tesco Mobile ČR s.r.o.
- O2 Cloud service agreement, *description of contractual performance*: provision of O2 virtual data centre services and the service O_2 Zálohování (MBR) to Tesco Mobile ČR s.r.o.

As far as the controlled person is concerned, the value of the supply under the above agreements was in all cases at fair value, i.e. to standard conditions in business for supply to a third party or by a third party, as the case may be. Further details of the above contract cannot be disclosed with respect to the need to honour the commitment of confidentiality.

7. Review of any potential loss to the Company and analysis of its settlement pursuant to Sec 71 and Sec 72 of the Business Corporations Act

All actions described in point 6 of this Report were made under standard business terms and conditions; likewise, all supplied or received services under these agreements conformed to standard terms and conditions of business, and the Company incurred no loss as a result of these agreements.

8. Conclusion

The Board of Directors declares that, based on assessment of the role of the Company towards the controlling person and persons controlled by the same controlling person, the Company did not benefit from any special advantages nor suffered any disadvantage or exposed itself to any risk as a result of relations between the Company and the person controlling it and/or persons controlled by the same controlling person. The Company incurred no loss that should be settled according to Sec 71 and 72 of the Business Corporations Act.

The Board of Directors declares that in the process of collecting and verifying information for the purpose of this Report, it applied due diligence, and its conclusions have been formulated after careful consideration. The Board of Directors considers all information presented in this Report on Relations to be correct and complete

In Prague, 24 February 2020

O2 Czech Republic a.s.

Appendix 1 – List of companies directly or indirectly controlled by the same controlling person
Controlling person: Ing. Petr Kellner

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
4Local, s.r.o.	24161357	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 December 2019	O2 Czech Republic a.s
AB 2 B.V.	57279667	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 4 B.V.	34186049	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 7 B.V.	57279241	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY	619700	Ireland	Person controlled by the same controlling person through an ownership interest		PPF Financial Holdings B.V.
ABDE Holding s.r.o. (formerly Airline Gate 1 s.r.o.)	02973081	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
AB-X Projekt GmbH	HRB 247124	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest	from 25 April 2019	Home Credit Group B.V.
Accord Research, s.r.o.	29048974	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.
AF Airfueling s.r.o.	02223953	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Air Bank a.s.	29045371	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
ALMONDSEY LIMITED	HE 291 856	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 31 December 2019	PPF Real Estate Holding B.V.
ANTHEMONA LIMITED	HE 289 677	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Art Office Gallery a.s.	24209627	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
ASTAVEDO LIMITED	HE 316 792	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
Autotým, s.r.o.	03040836	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 28 September 2019	Vsegda Da N.V.
B2S Servisní, a.s. v likvidaci	19013825	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF CYPRUS MANAGEMENT LIMITED
Bammer trade a.s.	28522761	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
Bavella B.V.	52522911	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Benxy s.r.o. (formerly Zonky s.r.o.)	035 70 967	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
Bestsport holding a.s.	06613161	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Bestsport, a.s.	24214795	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED
Bolt Start Up Development a.s.	04071336	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
BONAK a.s.	05098815	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
BORACORA LIMITED	HE 251 936	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	GLANCUS INVESTMENTS INC.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Boryspil Project Management Ltd.	34999054	Ukraine	Person controlled by the same controlling person through an ownership interest		Pharma Consulting Group Ltd.
Bucca Properties Ltd.	1377468	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	BORACORA LIMITED
C & R Office Center Two s.r.o.	28227913	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 January 2019	Bestsport, a.s.
Capellalaan (Hoofddorp) B.V.	58391312	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Carolia Westminster Hotel Limited	9331282	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person acting in concert through an ownership interest		CW Investor S.á.r.l.
Celestial Holdings Group Limited	1471389	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
CETIN a.s. (formerly Česká telekomunikační infrastruktura a.s.)	040 84 063	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Infrastructure B.V., PPF A3 B.V.
CETIN Finance B.V.	66805589	Netherlands	Person controlled by the same controlling person through an ownership interest		CETIN a.s.
CETIN služby s.r.o.	06095577	Czech Republic	Person controlled by the same controlling person through an ownership interest		CETIN a.s.
CIAS HOLDING a.s.	273 99 052	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
CITY TOWER Holding a.s.	02650665	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
COLANDS s.r.o.	03883663	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 January 2019	Bestsport, a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Comcity Office Holding B.V.	64411761	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
CW Investor S.á.r.l.	B211446	Luxembourg	Person controlled by the same controlling person acting in concert through an ownership interest		Westminster JV a.s.
Cytune Pharma SAS	500998703	France	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.
Czech Equestrian Team a.s.	019 52 684	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest		SUNDOWN FARMS LIMITED
CZECH TELECOM Austria GmbH in Liquidation	229578s	Austria	Person controlled by the same controlling person through an ownership interest		CETIN a.s.
CZECH TELECOM Germany GmbH i.L.	HRB 51503	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		CETIN a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
CzechToll s.r.o.	06315160	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
D - Toll Holding GmbH	HRB 191929	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		PPF a.s.
DADRIN LIMITED	HE 321 173	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 28 June 2019	TOLESTO LIMITED
De Reling (Dronten) B.V.	58164235	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
DEVEDIACO ENTERPRISES LIMITED	HE 372136	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TELISTAN LIMITED
DRAK INVESTMENT HOLDING LTD	324472	Cayman Islands	Person controlled by the same controlling person through an ownership interest		GONDRA HOLDINGS LTD

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Duoland s.r.o.	06179410	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Eastern Properties B.V.	58756566	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
eKasa s.r.o.	050 89 131	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
ELTHYSIA LIMITED	HE 290 356	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Emeldi Technologies, s.r.o.	25663232	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 26 June 2019	O2 Czech Republic a.s.
ENADOCO LIMITED	HE 316 486	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
ETO LICENSING LIMITED	HE 179 386	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		FACIPERO INVESTMENTS LIMITED
EusebiusBS (Arnhem) B.V.	58169778	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
FACIPERO INVESTMENTS LIMITED	HE 232 483	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Favour Ocean Limited	1065678	People’s Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 2 December 2019	KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
FELISTON ENTERPRISES LIMITED	HE 152674	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
FERRYMAT HOLDINGS LIMITED	HE 313289	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 2 December 2019	KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
Filcommerce Holdings, Inc	CS 201 310 129	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
FLOGESCO LIMITED	HE 172588	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Gilbey Holdings Limited
FO Management s.r.o.	06754295	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
FO servis s.r.o.	08446407	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 23 August 2019	PPF FO Management B.V.
Fodina B.V.	59400676	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Forward leasing LLP	190740032911	Kazakhstan	Person controlled by the same controlling person through an ownership interest	from 30 July 2019	Vsegda Da N.V., LLC Forward leasing
FOSOL ENTERPRISES LIMITED	HE 372077	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		DEVEDIACO ENTERPRISES LIMITED
GABELLI CONSULTANCY LIMITED	HE 160 589	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
GALIO INVESTMENTS LIMITED	HE 310 260	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 2 December 2019	KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
Ganz-Skoda Electric Zrt.	110045500	Hungary	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
Garco Group B.V.	34245884	Netherlands	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	GLANCUS INVESTMENTS INC.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Gen Office Gallery a.s.	24209881	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
German Properties B.V.	61008664	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
GILBEY HOLDINGS LIMITED	HE182860	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	PPF Real Estate Holding B.V.
GONDRA HOLDINGS LTD	324452	Cayman Islands	Person controlled by the same controlling person through an ownership interest		Salonica Holding Limited
GRACESPRING LIMITED	HE 208 337	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 16 December 2019	PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Grandview Resources Corp.	1664098	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
Guangdong Home Credit Number Two Information Consulting Co., Ltd	76732894-1	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
HC Advisory Services s.r.o.	01487779	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
HC Asia B.V.	34253829	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
HC Broker, s.r.o.	29196540	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit a.s.
HC Consumer Finance Philippines, Inc	CS201301354	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
HC Philippines Holding B.V.	35024270	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia B.V.
HC Finance USA LLC	7241255	United States of America	Person controlled by the same controlling person through an ownership interest	from 1 March 2019	Home Credit US Holding, LLC
HCPH Financing I. Inc	CS201727565	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
HCPH INSURANCE BROKERAGE, INC. (formerly HCPH 2 FINANCING, INC.)	CS201812176	Republic of the Philippines	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
Hofplein Offices (Rotterdam) B.V.	64398064	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Home Credit a.s.	26978636	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit International a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Home Credit Asia Limited	890063	People's Republic of China	Person controlled by the same controlling person through an ownership interest		HC Asia B.V.
Home Credit Consumer Finance Co., Ltd	91120116636067 462H	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
Home Credit Egypt Trade S.A.E.	50614	Egypt	Person controlled by the same controlling person through an ownership interest	until 10 June 2019	HC Philippines Holding B.V
HOME CREDIT EUROPE PLC	7744459	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Home Credit Group B.V.	69638284	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Financial Holdings B.V.
Home Credit India B.V.	52695255	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
HOME CREDIT INDIA FINANCE PRIVATE LIMITED	U65910HR1997PTC047448	Republic of India	Person controlled by the same controlling person through an ownership interest		Home Credit India B.V., Home Credit International a.s.
HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED	U7499HR2017FTC070364	Republic of India	Person controlled by the same controlling person through an ownership interest		Home Credit India B.V., Home Credit International a.s.
Home Credit Indonesia B.V.	52695557	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia B.V.
Home Credit International a.s.	60192666	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
Home Credit N.V.	34126597	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
Home Credit Slovakia, a.s.	36234176	Slovak Republic	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Home Credit US Holding, LLC	5467913	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
Home Credit US, LLC	5482663	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit US Holding, LLC
Home Credit Vietnam Finance Company Limited	307672788	Vietnam	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
HOPAR LIMITED	HE 188 923	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Horse Arena s.r.o.	044 79 823	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest		SUNDOWN FARMS LIMITED
Chelton Properties Limited	1441835	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
INTENS Corporation s.r.o.	28435575	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bolt Start Up Development a.s.
ITIS Holding a.s.	07961774	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 6 March 2019	PPF a.s.
Izotrem Investments Limited	HE 192753	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Gilbey Holdings Limited
JARVAN HOLDINGS LIMITED	HE 310 140	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED
JH Media Services Plus s.r.o.	04002423	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 January 2019	Bestsport, a.s.
Johan H (Amsterdam) B.V.	58163239	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Joint Stoct Company "Sibzavod Centre"	1035501017221	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Trust - Invest
Joint-Stock Company "Investments trust" (formerly CJSC "Investments trust")	1037739865052	Russian Federation	Person controlled by the same controlling person through an ownership interest		Trilogy Park Holding B.V.
Joint-Stock Company "Intrust NN" (formerly CJSC "Intrust NN")	1065259035896	Russian Federation	Person controlled by the same controlling person through an ownership interest		Stinctum Holdings Limited
Jokiaura Kakkonen Oy	2401050-2	Finland	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
JONSA LIMITED	HE 275 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 16 December 2019	PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED
LLC "KARTONTARA"	1197746247247	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
KARMION HOLDINGS LIMITED	HE 312 004	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 31 December 2019	PPF Real Estate Holding B.V.
Karperstraat (Amsterdam) B.V.	58163883	Netherlands	Person controlled by the same controlling person through an ownership interest	until 31 December 2019	PPF Real Estate Holding B.V.
Kateřinská Office Building s.r.o.	03495663	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o.
Komodor LLC	32069917	Ukraine	Person controlled by the same controlling person through an ownership interest		West Logistics Park LLC
Langen Property B.V.	61012777	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
Letiště Praha Letňany, s.r.o.	24678350	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Letňany Air Land s.r.o.	06138462	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Letňany Air Logistics s.r.o.	06138411	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Letňany eGate s.r.o.	06137628	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
Letňany Park Gate s.r.o.	06138446	Czech Republic	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
LINDUS Real s.r.o.	29139309	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 January 2019	LINDUS SERVICES LIMITED
LINDUS SERVICES LIMITED	HE 281 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Bestsport holding a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Alians R	1086627000635	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED
LLC Almondsey	1127747228190	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V., LLC Charlie Com.
LLC BRAMA	1107746950431	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Comcity Kotelnaya	5157746112959	Russian Federation	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V., GRANDVIEW RESOURCES CORP.
LLC ERKO	1044702180863	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC "Gorod Molodogo Pokolenija"

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Fantom	1053001163302	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.
LLC Financial Innovations	1047796566223	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
LLC Forward leasing (formerly LLC Home Credit Online)	1157746587943	Russian Federation	Person controlled by the same controlling person through an ownership interest		Vsegda Da N.V.
LLC "Gorod Molodogo Pokolenija"	1187746792914	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit N.V., Home Credit International a.s.
LLC Home Credit Insurance	1027739236018	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Charlie Com	1137746330336	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V., LLC Almondsey
LLC In Vino	1052309138628	Russian Federation	Person controlled by the same controlling person through an ownership interest		Gracespring Limited
LLC ISK Klokovo	1127746186501	Russian Federation	Person controlled by the same controlling person through an ownership interest		STEPHOLD LIMITED
LLC K-Development	1077760004629	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC KEPS	1127746190604	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.
LLC Kvartal Togliatti	1056320172567	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC LB Voronezh	1133668033872	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC EASTERN PROPERTIES RUSSIA
LLC Logistics - A	1115048002156	Russian Federation	Person controlled by the same controlling person through an ownership interest		ELTHYSIA LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
LLC Logistika - Ufa	1150280069477	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.
LLC MCC Kupi ne kopi	1027700280640	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit N.V.
LLC Mitino Sport City	1107746473383	Russian Federation	Person controlled by the same controlling person through an ownership interest		MICROLIGHT TRADING LIMITED
LLC My Gym	5157746112915	Russian Federation	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Oil Investments	1167746861677	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.
LLC PPF Life Insurance	1027739031099	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
LLC PPF Real Estate Russia	1057749557568	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
LLC RAV Agro	1073667022879	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V., Grandview Resources Corp.
LLC RAV Agro Pro	1033600135557	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro, LLC RAV Molokoprodukt
LLC RAV Molokoprodukt	1083627001567	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro, Grandview Resources Corp., Bavella B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC RAV Myasoproduct - Orel	1135749001684	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Molokoprodukt
LLC RAV Niva	1023601232522	Russian Federation	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	LLC RAV Agro
LLC RAV Niva Orel	1113668051090	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC Razvitie	1155009002609	Russian Federation	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
LLC Regional Real Estate	1137746217950	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Limited
LLC ROKO	5107746049329	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC ROST Agro	1103601000030	Russian Federation	Person controlled by the same controlling person through an ownership interest	until 13 December 2019	LLC RAV Agro
LLC Skladi 104	5009049271	Russian Federation	Person controlled by the same controlling person through an ownership interest		GABELLI CONSULTANCY LIMITED
LLC Skolkovo Gate	1137746214979	Russian Federation	Person controlled by the same controlling person through an ownership interest		Trigon II B.V.
LLC Sotio	1117746901502	Russian Federation	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Sotio	EIN 35-2424961	United States of America	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Spectrum	1097746356806	Russian Federation	Person controlled by the same controlling person through an ownership interest		PALEOS INDUSTRIES B.V., PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Spetsial-izirovanniy zastroyschik " Delta Com" (formerly LLC Delta Com)	1137746330358	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest		Comcity Office Holding B.V., ANTHEMONA LIMITED
LLC Stockmann StP Centre	1057811023830	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest	from 21 January 2019	LLC Oil Investments
LLC Strata	7702765300	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest		VELTHEMIA LIMITED
LLC TGK - Trilogy	1155027001030	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest		LLC PPF Real Estate Russia
LLC Torgovij complex Lipetskiy	1074823001593	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Trilogy Services	1155027007398	Russian Federation	Person con-trolled by the same con-trolling person through an ownership interest		Trilogy Park Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Trust - Invest	1057746391306	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Urozhay	1063627011910	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Yug
LLC Vsegda Da	5177746179705	Russian Federation	Person controlled by the same controlling person through an ownership interest	from 3 June 2019	Vsegda Da N.V., LLC Forward leasing
LLC Yug	1073627001777	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC LB Voronezh
LOSITANTO Ltd.	HE157131	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SATACOTO Ltd.
LvZH (Rijswijk) B.V.	58163999	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Maraflex s.r.o.	02415852	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
MICROLIGHT TRADING LIMITED	HE 224 515	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Millennium Tower (Rotterdam) B.V.	56261330	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
mluvii.com s.r.o.	27405354	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bolt Start Up Development a.s.
MOBI BANKA AD BEOGRAD (NOVI BEOGRAD) (formerly TELENOR BANKA AD BEOGRAD (NOVI BEOGRAD))	17138669	Serbia	Person controlled by the same controlling person through an ownership interest	from 20 February 2019	PPF Financial Holdings B.V.
MOETON a.s. v likvidaci	27864561	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 19 February 2019	PPF FO Management B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Monheim Property B.V.	61012521	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
Monchyplein (Den Haag) B.V.	58163603	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Montería, spol. s r.o.	27901998	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
Moranda, a.s.	28171934	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
MOVO spol. s r. o.	46887989	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 1 February 2019	ŠKODA TRANSPORTATION a.s.
MP Holding 2 B.V.	69457018	Netherlands	Person controlled by the same controlling person through an ownership interest		DEVEDIACO ENTERPRISES LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
My Air a.s.	05479070	Czech Republic	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
Mystery Services s.r.o.	24768103	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
Naneva B.V.	67400639	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Net Gate s.r.o.	247 65 651	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 2 December 2019	KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
O2 Business Services, a.s.	50087487	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Slovakia, s.r.o.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
O2 Czech Republic a.s.	60193336	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Telco B.V., PPF A3 B.V., PPF CYPRUS MANAGEMENT LIMITED
O2 Family, s.r.o.	24215554	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 Financial Services s.r.o.	05423716	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 IT Services s.r.o.	02819678	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 Slovakia, s.r.o.	35848863	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
O2 TV s.r.o.	03998380	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Office Star Eight a.s.	27639177	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o.
Office Star Nine, spol. s r. o.	27904385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
One Westferry Circus S.a.r.l.	B175495	Luxembourg	Person controlled by the same controlling person through an ownership interest		PPR Real Estate s.r.o.
OOO Sibelectroprivod	1045400530922	Russian Federation	Person controlled by the same controlling person through an ownership interest		LOSITANTO LIMITED
OOO Vagonmash	1117847029695	Russian Federation	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ORIBASE Pharma SAS	499824670	France	Person controlled by the same controlling person through an ownership interest	until 25 October 2019	PPF Capital Partners Fund B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PACHATA LIMITED	HE 188 914	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 22 January 2019	PPF CYPRUS MANAGEMENT LIMITED
Paleos Industries B.V.	66846919	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Pars nova a.s.	25860038	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
Pharma Consulting Group Ltd.	34529634	Ukraine	Person controlled by the same controlling person through an ownership interest		HOPAR LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
Plaza Development SRL	22718444	Romania	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o. , PPF CYPRUS MANAGEMENT LIMITED
POLL,s.r.o.	62967754	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Pompenburg (Rotterdam) B.V.	58163506	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
POTLAK LIMITED	HE362788	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	from 30 September 2019	Ing. Petr Kellner
PPF a.s.	25099345	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF A3 B.V.	61684201	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF A4 B.V.	63365391	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Advisory (CR) a.s.	25792385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF ADVISORY (RUSSIA) LIMITED	HE 276 979	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Advisory (UK) Limited	5539859	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF ADVISORY (UKRAINE) LIMITED	HE 162 172	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 22 January 2019	PPF Group N.V.
PPF Arena 1 B.V.	59009187	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Art a.s.	63080672	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
PPF banka a.s.	47116129	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Financial Holdings B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Beer Holdco 1 B.V.	67330495	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Beer IM Holdco B.V.	67331378	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Beer Holdco 1 B.V.
PPF Beer Topholdco B.V.	67420427	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Industrial Holding B.V.
PPF Capital Partners Fund B.V.	55003982	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF CO 3 B.V.	34360935	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
PPF CYPRUS MANAGEMENT LIMITED	HE 224463	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF CYPRUS RE MANAGEMENT LIMITED	HE 251 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
PPF Financial Holdings B.V.	61880353	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF FO Management B.V.	34186296	Netherlands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
PPF GATE a.s.	27654524	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Group N.V.	33264887	Netherlands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Healthcare N.V.	34308251	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Holdings B.V.	34186294	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Holdings S.á r.l.
PPF Holdings S.á r.l.	B 186335	Luxembourg	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
PPF Industrial Holding B.V.	71500219	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Infrastructure B.V.	65167899	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Arena 1 B.V.
PPF PROPERTY LIMITED	HE 189 164	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 23 December 2019	GLANCUS INVESTMENTS INC., PPF CYPRUS RE MANAGEMENT LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Real Estate Holding B.V.	34276162	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF REAL ESTATE LIMITED	HE 188 089	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Real Estate s.r.o.	27638987	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED
PPF Real Estate I, Inc.	7705173	United States of America	Person controlled by the same controlling person through an ownership interest	from 15 November 2019	PPF Real Estate s.r.o.
PPF reality a.s.	29030072	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o.
PPF SECRETARIAL LTD	HE 340708	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF CYPRUS MANAGEMENT LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF SERVICES LIMITED	HE 92432	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Telco B.V.	65167902	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Arena 1 B.V.
PPF TMT Bidco 1 B.V.	70498288	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Arena 1 B.V.
PPF TMT Bidco 2 B.V (formerly PPF Beer Bidco B.V.)	67332722	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF TMT Holdco 1 B.V.	70498261	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF TMT Holdco 2 B.V.	70526214	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF TMT Holdco 1 B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Prague Entertainment Group B.V.	63600757	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PT Home Credit Indonesia	03.193.870.7-021.000	Republic of Indonesia	Person controlled by the same controlling person through an ownership interest		Home Credit Indonesia B.V.
Public Picture & Marketing a.s.	25667254	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
Qazbiz partners LLP	190740017254	Kazakhstan	Person controlled by the same controlling person through an ownership interest	from 16 June 2019	Vsegda Da N.V., Forward leasing LLP (KZ)
RC PROPERTIES S.R.L.	12663031	Romania	Person controlled by the same controlling person through an ownership interest		PPF Real Estate s.r.o.
Real Estate Russia B.V.	63458373	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
REDLIONE LTD	HE 178 059	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
REPIENO LIMITED	HE 282 866	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Retail Star 22, spol. s r.o.	24132161	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 10 October 2019	PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED
RHASKOS FINANCE LIMITED	HE 316 591	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
Ruconfin B.V.	55391176	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
Saint World Limited	1065677	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
SALEMONTO LIMITED	HE 161 006	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Salonica Holding Limited	1949492	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
SATACOTO Ltd.	HE 155018	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
SB JSC Bank Home Credit	513-1900-AO (UI)	Kazakhstan	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
SCI LA FORET	309844371	France	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Seven Assets Holding B.V.	58163050	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Shenzhen Home Credit Number One Consulting Co., Ltd.	91440300664174 257K	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	91440300796638 527A	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Favour Ocean Limited
SIGURNO LIMITED	HE 172539	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Gilbey Holdings Limited
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd.	90151010066046 7589T	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
SILINE CONSULTING LIMITED	HE 281961	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
SKODA Transportation Deutschland GmbH	HRD 208 725	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
Smart home security s.r.o.	063 21 399	Czech Republic	Person controlled by the same controlling person through an ownership interest		Bolt Start Up Development a.s.
SOTIO a.s.	24662623	Czech Republic	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
SOTIO Biotech AG	CHE-354.429.802	Switzerland	Person controlled by the same controlling person through an ownership interest	from 17 December 2019	SOTIO a.s.
Sotio Medical Research (Beijing) Co. Ltd	110000410283022	People’s Republic of China	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
Sotio N.V.	34302290	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
STEL-INVEST s.r.o.	262 38 365	Czech Republic	Person controlled by the same controlling person through an ownership interest	from 7 May 2019	CETIN a.s.
STEPHOLD LIMITED	HE 221 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
STINCTUM HOLDINGS LIMITED	HE 177 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
SUNDOWN FARMS LIMITED	HE 310 721	Republic of Cyprus	Person controlled by the same controlling person acting in concert through an ownership interest		Vixon Resources Limited, Chelton Properties Limited
SYLANDER CAPITAL LIMITED	HE 316 597	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
ŠKODA CITY SERVICE s.r.o.	29119057	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
ŠKODA DIGITAL s.r.o. (formerly LOKEL s.r.o.)	01731530	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA ELECTRIC a.s.	477 18 579	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA ICT s.r.o.	279 94 902	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA INVESTMENT a.s.
ŠKODA INVESTMENT a.s.	265 02 399	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
ŠKODA RAIL s.r.o.	058 22 149	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA SERVIS s.r.o.	263 51 277	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
ŠKODA TRANSPORTATION a.s.	626 23 753	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.
ŠKODA TRANSPORTATION UKRAINE, LLC	42614252	Ukraine	Person controlled by the same controlling person through an ownership interest	from 1 January 2019	ŠKODA TRANSPORTATION a.s.
Škoda Transportation USA, LLC	81-257769	United States of America	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA TRANSTECH OY (formerly TRANSTECH OY)	1098257-0	Finland	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA TVC s.r.o.	25247964	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
ŠKODA VAGONKA a.s.	258 70 637	Czech Republic	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
TALPA ESTERO LIMITED	HE 316 502	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit Group B.V.
TANAINA HOLDINGS LIMITED	HE 318 484	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED
TANFORD LIMITED	HE 167 324		Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
TAPADEO LIMITED	HE 341 777	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 2 December 2019	KARMION HOLDINGS LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED
Tapito s.r.o. (formerly TapMedia s.r.o.)	03853365	Czech Republic	Person controlled by the same controlling person through an ownership interest	until 16 May 2019	Bolt Start Up Development a.s.
Telematika a.s.	054 18 046	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Telenor Bulgaria EAD	130460283	Bulgaria	Person controlled by the same controlling person through an ownership interest		PPF TMT Bidco 1 B.V.
Telenor Common Operation Ztr.	13-10-041370	Hungary	Person controlled by the same controlling person through an ownership interest		PPF TMT Bidco 1 B.V.
Telenor d.o.o. Beograd	20147229	Serbia	Person controlled by the same controlling person through an ownership interest		PPF TMT Bidco 1 B.V.
Telenor d.o.o. Podgorica	50017124	Montenegro	Person controlled by the same controlling person through an ownership interest		PPF TMT Bidco 1 B.V.
Telenor Direct d.o.o. Beograd	20426306	Serbia	Person controlled by the same controlling person through an ownership interest	until 15 April 2019	Telenor d.o.o. Beograd
Telenor Direct MNE d.o.o. Podgorica	50537063	Serbia	Person controlled by the same controlling person through an ownership interest	until 17 April 2019	Telenor d.o.o. Beograd

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Telenor Magyarország Zrt.	13-10-040409	Hungary	Person controlled by the same controlling person through an ownership interest		TMT Hungary B.V.
Telenor Real Estate Hungary Ztr.	13-10-041060	Hungary	Person controlled by the same controlling person through an ownership interest		TMT Hungary B.V.
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Eastern Properties B.V.
Tesco Mobile ČR s.r.o.	29147506	Czech Republic	Person controlled by the same controlling person through an ownership interest		O2 Czech Republic a.s.
Tesco Mobile Slovakia, s.r.o.	36863521	Slovak Republic	Person controlled by the same controlling person through an ownership interest		O2 Slovakia, s.r.o.
TIMEWORTH HOLDINGS LTD.	HE 187 475	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
TMT Hungary B.V.	75752824	Netherlands	Person controlled by the same controlling person through an ownership interest	from 5 September 2019	PPF TMT Bidco 1 B.V.
TOLESTO LIMITED	HE 322 834	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V., PPF CYPRUS RE MANAGEMENT LIMITED
TRADING RS Sp. z o.o.	NIP 7010213385	Poland	Person controlled by the same controlling person through an ownership interest		ŠKODA TRANSPORTATION a.s.
Trigon Berlin B.V.	55440916	Netherlands	Person controlled by the same controlling person through an ownership interest	until 19 December 2019	PPF Real Estate Holding B.V.
Trigon II B.V.	56068948	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Trilogy Park Holding B.V.	60006609	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Trilogy Park Nizhny Novgorod Holding B.V.	67330355	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
TV Bermuda Ltd	55011	Islands of Bermuda	Person controlled by the same controlling person through an ownership interest	from 16 October 2019	TV Bidco B.V.
TV Bidco B.V.	75994437	Netherlands	Person controlled by the same controlling person through an ownership interest	from 3 October 2019	TV Holdco B.V.
TV Holdco B.V.	75983613	Netherlands	Person controlled by the same controlling person through an ownership interest	from 2 October 2019	PPF TMT Bidco 2 B.V.
UNILEAVE LIMITED v likvidaci	HE 179 204	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	until 22 January 2019	PPF CYPRUS MANAGEMENT LIMITED
Usconfin 1 DAC	619282	Ireland	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		REPIENO LIMITED
Velvon GmbH (formerly Innoble GmbH)	HRB 239796	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		AB-X Projekt GmbH
Vixon Resources Limited	144 18 84	British Virgin Islands	Person controlled by the same controlling person acting in concert through an ownership interest		Renáta Kellnerová
Vox Ventures B.V.	65879554	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Vsegda Da N.V. (formerly Home Credit Lab N.V.)	52695689	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit N.V., Forward leasing LLP (KZ)
VÚKV a.s.	452 74 100	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Beer Topholdco B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Wagnerford Holdings Limited	HE 210154	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		MP Holding 2 B.V.
Wagnerford LLC	5087746372819	Russian Federation	Person controlled by the same controlling person through an ownership interest		Wagnerford Holdings Limited
West Logistics Park LLC (WLP)	35093235	Ukraine	Person controlled by the same controlling person through an ownership interest		Izotrem Investments Limited
Westminster JV a.s.	05714354	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest		PPF Real Estate s.r.o.
Wilhelminaplein (Rotterdam) B.V.	59494034	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

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