

ČESKÁ TELEKOMUNIKAČNÍ INFRASTRUKTURA A.S.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016**

**PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS (AS ADOPTED BY THE EU)**

The interim consolidated financial statements were approved by the Board of Directors on 7 November 2016 and were signed on its behalf by:



Martin Vlček

Chairman of the Board of Directors



Petr Slovák

Chief Executive Officer

Vice-chairman of the Board of Directors

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

**Independent Auditor's Report to the Shareholders of
Česká telekomunikační infrastruktura a.s.**

We have audited the accompanying interim consolidated financial statements of Česká telekomunikační infrastruktura a.s., prepared in accordance with International Financial Reporting Standards as adopted by the European Union including the requirements of IAS 34, 'Interim Financial Reporting', which comprise the interim consolidated statement of financial position as of 30 September 2016, and the interim consolidated statements of total comprehensive income, the changes in equity and cash flows for the period from 1 January 2016 to 30 September 2016, and the notes to these interim consolidated financial statements including a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Interim Consolidated Financial Statements

The statutory body of Česká telekomunikační infrastruktura a.s. is responsible for the preparation of interim consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union including the requirements of IAS 34, 'Interim Financial Reporting' and for such internal controls as the statutory body determines are necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim consolidated financial statements, whether due to



fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim consolidated financial statements.

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

Opinion

In our opinion, the interim consolidated financial statements give a true and fair view of the consolidated financial position of Česká telekomunikační infrastruktura a.s. as of 30 September 2016, and of its consolidated financial performance and its consolidated cash flows for the period from 1 January 2016 to 30 September 2016 in accordance with International Financial Reporting Standards as adopted by the European Union including the requirements of IAS 34, 'Interim Financial Reporting'.

Prague
7 November 2016

KPMG Česká republika Audit
KPMG Česká republika Audit, s.r.o.

INTERIM CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

In CZK million	Note	For nine months period ended		For the year
		30 September 2016	30 September 2015	ended 31 December 2015
Revenues	6	15,324	14,350	19,097
Other income and capitalization of own work	6	369	373	482
Expenses	6	<u>(9,713)</u>	<u>(8,676)</u>	<u>(11,638)</u>
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)		5,980	6,047	7,941
Depreciation and amortisation	9, 10	(3,175)	(4,229)	(5,544)
Impairment loss	9, 10	<u>(476)</u>	<u>(10)</u>	<u>(13)</u>
Operating profit (EBIT)		2,329	1,808	2,384
Finance income	7	459	88	229
Finance costs	7	<u>(290)</u>	<u>(86)</u>	<u>(202)</u>
Profit before tax		2,498	1,810	2,411
Corporate income tax	8	<u>(489)</u>	<u>(333)</u>	<u>(466)</u>
Profit for the period		2,009	1,477	1,945
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Translation differences		<u>-</u>	<u>(1)</u>	<u>(1)</u>
Total other comprehensive income, net of tax		<u>-</u>	<u>(1)</u>	<u>(1)</u>
Total comprehensive income, net of tax		2,009	1,476	1,944
Profit attributable to:				
Equity holders of the Company		2,009	1,477	1,945
Total comprehensive income attributable to:				
Equity holders of the Company		2,009	1,476	1,944

The accompanying notes form an integral part of the interim consolidated financial statements.
Translation from the Czech original.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In CZK million	Note	As at		
		30 September 2016	31 December 2015	1 January 2015
ASSETS				
Property, plant and equipment	9	50,088	51,705	54,322
Intangible assets	10	1,119	1,097	981
Long-term loan	15	-	32,200	-
Other assets	12	60	60	67
Non-current assets		51,267	85,062	55,370
Inventories	11	45	48	27
Receivables	12	3,576	2,946	1,490
Short-term loan	15	-	228	-
Income tax receivable	8	-	12	-
Cash and cash equivalents	13	2,722	656	55
Current assets		6,343	3,890	1,572
Non-current assets held for sale	9	4	13	-
Total assets		57,614	88,965	56,942
EQUITY AND LIABILITIES				
Share capital	20	3,102	3,102	3,102
Reserves		(1)	(1)	-
Other funds	20	14,770	10,929	43,134
Reserve funds	20	-	32,200	-
Retained earnings	20	22	1,950	-
Total equity		17,893	48,180	46,236
Long-term financial debts	15	27,700	28,137	-
Deferred tax liability	16	5,978	6,246	6,525
Non-current provisions for liabilities and charges	17	168	185	236
Non-current other liabilities	14	899	630	431
Non-current liabilities		34,745	35,198	7,192
Short-term financial debts	15	18	794	-
Trade and other payables	14	4,697	4,741	3,481
Income tax liability	8	162	-	-
Provisions for liabilities and charges	17	99	52	33
Current liabilities		4,976	5,587	3,514
Total liabilities		39,721	40,785	10,706
Total equity and liabilities		57,614	88,965	56,942

The accompanying notes form an integral part of the interim consolidated financial statements.
Translation from the Czech original.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For nine months period ended 30 September 2016

In CZK million	Note	Share capital	Foreign exchange translation reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2016		3,102	(1)	10,929	32,200	1,950	48,180
Profit for the period		-	-	-	-	2,009	2,009
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	2,009	2,009
Transfers	20	-	-	32,200	(32,200)	-	-
Dividends paid	20	-	-	-	-	(1,830)	(1,830)
Distribution of other capital funds	20	-	-	(28,359)	-	-	(28,359)
Interim dividends	20	-	-	-	-	(2,107)	(2,107)
As at 30 September 2016		3,102	(1)	14,770	-	22	17,893

For nine months period ended 30 September 2015

In CZK million	Note	Share capital	Foreign exchange translation reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2015		3,102	-	43,134	-	-	46,236
Profit for the period		-	-	-	-	1,477	1,477
Other comprehensive income		-	(1)	-	-	-	(1)
Total comprehensive income		-	(1)	-	-	1,477	1,476
Transfers	20	-	-	(32,200)	32,200	-	-
As at 30 September 2015		3,102	(1)	10,934	32,200	1,477	47,712

For the year ended 31 December 2015

In CZK million	Notes	Share capital	Foreign exchange translation reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2015		3,102	-	43,134	-	-	46,236
Profit for the year		-	-	-	-	1,945	1,945
Other comprehensive income		-	(1)	-	-	-	(1)
Total comprehensive income		-	(1)	-	-	1,945	1,944
Transfers	20	-	-	(32,200)	32,200	-	-
As at 31 December 2015		3,102	(1)	10,934	32,200	1,945	48,180

The accompanying notes form an integral part of the interim consolidated financial statements.
Translation from the Czech original.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

In CZK million	Note	For the nine months period ended		For the year ended
		30 September 2016	30 September 2015	31 December 2015
Profit for the period		2,009	1,477	1,945
Non-cash adjustments for:				
Depreciation and amortisation	9, 10	3,175	4,229	5,544
Impairment loss	9	476	10	13
Profit on sale of property, plant and equipment	9	(57)	(29)	(29)
Net finance revenues	7	(170)	(18)	(48)
Foreign exchange losses (net)		1	15	15
Other non-cash adjustments		7	-	-
Tax expense	8	489	333	466
Operating cash flow before working capital changes		5,930	6,017	7,906
Working capital adjustments:				
Change in trade and other receivables		(638)	(1,753)	(1,417)
Change in inventories		3	(22)	(21)
Change in trade and other payables		485	789	918
Cash flows from operating activities		5,780	5,031	7,386
Income tax paid	8	(584)	(566)	(756)
Net cash flow from operating activities		5,196	4,465	6,630
Cash flows from investing activities				
Purchase of property, plant and equipment and intangibles		(2,283)	(2,032)	(2,701)
Proceeds from sales of property, plant and equipment and intangible assets		58	126	134
Net cash used in investing activities		(2,225)	(1,906)	(2,567)
Cash flows from financing activities				
Interest paid		(399)	(9)	(31)
Interest received		593	-	-
Other finance charges received		147	-	-
Repayments of loans	15	(1,150)	(975)	(4,325)
Grant/Repayment of loan	15	32,200	(32,200)	(32,200)
Proceeds from loans	15	-	33,107	33,107
Distribution of other capital funds paid	20	(28,359)	-	-
Dividends paid	20	(3,937)	-	-
Net cash used in financing activities		(905)	(77)	(3,449)
Net increase in cash and cash equivalents		2,066	2,482	614
Cash and cash equivalents at beginning of year	13	656	55	55
Effect of foreign exchange rate movements on cash and cash equivalents		-	(11)	(13)
Cash and cash equivalents at the period end	13	2,722	2,526	656

The accompanying notes form an integral part of the interim consolidated financial statements.
Translation from the Czech original.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**1. GENERAL INFORMATION**

Česká telekomunikační infrastruktura a.s. Group (Group) consists of Česká telekomunikační infrastruktura a.s. (Company) and its subsidiaries: CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH and CETIN Finance B.V.

Česká telekomunikační infrastruktura a.s. was incorporated by a spin –off (Separation) from the company O2 Czech Republic a.s. and registered on 1 June 2015 with decisive day of incorporation 1 January 2015.

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 Olšanská 2681/6, Praha 3, 130 00, Czech Republic.

The majority shareholder of the Company as at 30 September 2016 is PPF Infrastructure B.V. (part of the PPF Group).

The Company is the leading telecommunications provider in the Czech market providing fully integrated services. It is understood as the access, aggregation and backbone infrastructure, mediating the access of customers of other operators to their fixed and mobile voice, data and video services.

The number of employees employed by the Group amounted in average to 1,359 in 2016.

The financial statements contained herein are interim consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and including the requirements of IAS 34 Interim Financial Reporting.

The Group will prepare its statutory financial statements in accordance with IFRS for the year ended 31 December 2016 for the first time. These consolidated interim financial statements are prepared in line with first time adopter of IFRS requirements. The Group has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position as at 1 January 2015 and throughout all periods presented, as if these policies had always been in effect. For the year ended 31 December 2015 the Group prepared financial statements in accordance with Czech accounting legislation for business entities using double-entry bookkeeping (CZ GAAP) which were prepared as the Group's statutory financial statements. For the year ended 31 December 2016 only IFRS financial statements will be prepared and presented.

Note 4 discloses the impact of the transition to IFRS on the Group's reported financial position and financial performance in comparison to CZ GAAP.

The interim consolidated financial statements were approved for issue by the Company's Board of Directors on 7 November 2016.

2. BASIS OF PREPARATION

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

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

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

The interim consolidated financial statements were prepared under the historical cost convention except for non-current assets held for sale (measured at lower of cost and fair value less cost to sell), financial derivatives and certain assets and liabilities acquired during business combinations which are measured at fair value as disclosed in the accounting policies below.

In preparing these interim consolidated financial statements in conformity with IFRS, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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

Use of estimates, assumptions and judgements

Under IAS 34 interim consolidated financial statements are in some areas an update from the most recent previous annual consolidated IFRS financial statements. Since the Group does not have any previous annual consolidated IFRS financial statements, the interim consolidated financial statements cannot be seen as simply an update. These interim consolidated financial statements were prepared in accordance with IAS 34 but represent the complete set of the consolidated financial statements as described in IAS 1. In preparing these interim consolidated financial statements, the significant judgements made by management applying the Group's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

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

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

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

(1) Income taxes and deferred taxes

The Group creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (see Note 8 and Note 16).

(2) 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 amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict. Further details are described in Note 3c and Note 3d.

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

The Group evaluates the performance of its cash-generating units regularly to identify potential impairments. Determining the recoverable amount of the cash-generating units also entails the use of assumptions and estimates and requires a significant element of judgment.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount where an impairment loss recognised in prior periods shall be subject to the reversal.

(3) Provisions and contingent liabilities

The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (see Note 17). The Group recognizes provision for dismantling assets, which is part of the costs of the assets, which The Group is required to dismantle at the end of their useful lives. The change in the estimates is recorded to the related fixed assets.

Contingent liabilities are not recognised, because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

Trade receivables are carried at original amount less bad debt allowance. The bad debt provision is estimated according to historical experience and individual assessment. Details regarding the determination of receivables impairment are stated in Note 3j.

(5) Netting

Financial instruments that are subject to an enforceable master netting arrangement or similar agreement are presented on net basis.

(6) Mobile network services agreement

Amongst the most important contracts of the Group are Mobile network services agreement as described in Note 21. The Group evaluates this arrangement as a service contract according to the IFRIC 4 because fulfilment of the arrangement is not dependent on the use of a specified asset and the arrangement does not convey a right to use the asset.

3. SIGNIFICANT ACCOUNTING POLICIES

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

New IFRS not effective as at 30 September 2016 (includes standards applicable to the Group)

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

Standards and amendments		Mandatory application: annual periods beginning on or after
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial instruments - classification and measurement	1 January 2018
IFRS 16	Leases	1 January 2019

The Group is currently assessing the impact of the application of these standards and amendments. With respect to IFRS 15 and IFRS 16 the Group estimates significant impact on the consolidated financial statements in the initial period of application. Based on the analyses made to date, the Group estimates that adoption of other standards and amendments will not have a significant impact on the consolidated financial statements in the initial period of application.

a) Basis of consolidation

Consolidation

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (date of acquisition) and are no longer consolidated from the date when the Group ceases to have control.

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

Business Combination

A business combination is accounted for using the acquisition method. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes

the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed when incurred. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The excess of the fair value of the Group's share of the identifiable net assets acquired over the considerations transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree is recorded as gain in profit or loss on the acquisition date. For detail refer to Note 3d.

b) 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 the Company is the Czech crown (CZK). The consolidated financial statements are presented in Czech crowns (CZK), which is the Group's presentation currency. The Functional currency of subsidiaries is their local currency.

(ii) Transactions and balances

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

(iii) Group companies

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

c) Property, plant and equipment

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

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

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

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

Repairs and maintenance costs are expensed as incurred.

Significant spare parts with the useful life longer than one year are recognized as property, plant and equipment.

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

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

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

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

	Years
Buildings and constructions	From 9 to 56
Ducts, cables and related plant	From 8 to 41
Communication technology and related equipment	From 1 to 21
Other fixed assets	From 1 to 11

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 3f).

d) Intangible assets

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

Intangible assets of the Group acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated amortisation and accumulated impairment charges and are amortised on a straight-line basis over their estimated useful lives.

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment reviews (see Note 10).

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

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

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

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

e) Non-current assets classified as held for sale

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

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

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

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

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

f) Impairment of assets

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

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

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

g) Investments and other financial assets

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis, as required under IAS 39. All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. The cost of purchase includes all transaction costs. Financial assets at fair value through profit or loss and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. On the contrary, unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in other comprehensive income in the period in which they arise, except for impairment losses, until the financial asset is de-recognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency) that the Group will not be able to collect all of

the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or sold.

(2) Available for sale financial assets

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

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

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

De-recognition of financial assets

A financial asset is de-recognised when:

- a) the rights to receive cash flow from the asset have expired,
- b) the Group retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement, or
- c) the Group has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

h) Leases

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

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

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

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

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

i) Inventories

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

j) Trade receivables

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

Amounts receivable from and payable to other domestic and foreign operators related to transit are netted and settled net on a regular basis.

k) Cash and cash equivalents

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

l) Financial debt

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

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

Borrowing costs on debts used to finance the acquisition and construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use in line with IAS 23. Other borrowing costs are expensed.

m) Current and deferred income taxes

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

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

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

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

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

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

The Group accounts for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity.

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

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

n) Employee benefits

(1) Pension insurance and supplementary pension insurance

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

(2) Redundancy and severance payments

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

(3) Bonus plans

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

o) Provisions

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

The asset retirement obligation recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted at 30 September 2016 using a long-term real rate of interest in the range from 2.83% to 4,44% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the sites. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. As at 30 September 2016 the estimate for the effect of inflation is 2%. The decommissioning process is expected to continue for a period from 36 to 96 years depending on the type of the liquidated site. The estimate of future decommissioning costs are based on the contracted amounts with external suppliers.

p) Revenue and expenses

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

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

Revenues within the network sharing project are recognized at net value, because mutually provided services within the project are of similar nature and value.

Revenues from the rent of dark fibres are deferred at the date of the conclusion of the contract and recognized equally through the contracted period.

Dividend income

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

Interest income

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

q) Dividend distribution

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

r) Financial instruments

Financial instruments carried on the consolidated statement of financial position include cash and bank balances, investments, receivables, payables, borrowings and derivatives. Detailed figures are described in Note 15.

Accounting for derivative financial instruments and hedging activities

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

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

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

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

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

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

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy

for undertaking various hedge transactions. The process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions.

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

Fair value estimation

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

s) Operating profit

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

t) Alternative earnings measures

The Group presents certain alternative earnings measures such as EBITDA, EBIT. As used in these interim consolidated financial statements, the following terms have the following meaning:

“EBITDA” refers to income before income taxes and finance income (costs) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets.

„EBIT“ refers to income before income taxes and finance income and finance costs.

u) The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to the financial position as at 30 September 2016 (Consolidated Statement of Financial Position) are shown as at 31 December 2015 and 1 January 2015. The comparative financial information (Consolidated Statement of Total Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash flows) are presented for nine months period ended 30 September 2015. For a complex understanding related to first time adoption of IFRS, also additional financial information for the year ended 31 December 2015 are presented in Consolidated Statement of Total Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash flows and relevant notes.

4. FIRST-TIME ADOPTION OF IFRS - EXPLANATION OF TRANSITION

The above stated accounting policies have been applied in preparing the interim financial statements for the period ended 30 September 2016, the comparative information presented in the financial statements for the year ended 31 December 2015 and period ended 30 September 2015 as applicable and in the preparation of an consolidated opening IFRS statement of financial position at 1 January 2015 (the Group's date of transition).

In preparing its consolidated opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Czech accounting legislation for business entities using double-entry bookkeeping (CZ GAAP).

An explanation of how the transition from previous CZ GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and explanatory notes that accompany the tables.

IFRS Exemptions

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

Fixed assets were carried in the consolidated statement of financial position prepared in accordance with Czech GAAP on the basis of expert's valuations performed as at 31 December 2014 for the purpose of spin-off of the Company from O2 (refer to Note 1). This valuation of fixed assets was then used in the opening balance of the Company prepared based on CZ GAAP as at 1 January 2015. The Group has elected to regard those values as deemed cost at the date of the transition since they were broadly comparable to fair value.

Based on IFRS 1, any hindsight since the transition date is not allowed to be used to create or revise estimates in the financial statements and was treated as non-adjusting event. Therefore, the estimates previously made by the Group under CZ GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Group reconciliation of financial position as at 1 January 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
ASSETS				
Property plant and equipment	A	54,041	281	54,322
Intangible assets	C	1,559	(578)	981
Other assets	D	7	60	67
Non-current assets		55,607	(237)	55,370
Inventories	A	284	(257)	27
Receivables and prepayments	D	1,602	(112)	1,490
Cash and cash equivalents		55	-	55
Current assets		1,941	(369)	1,572
Total assets		57,548	(606)	56,942
EQUITY AND LIABILITIES				
Share capital		3,102	-	3,102
Reserves		-	-	-
Other funds	C	43,798	(664)	43,134
Retained earnings		5	(5)	-
Total equity		46,905	(669)	46,236
Deferred tax liability		6,525	-	6,525
Non-current provisions for liabilities and charges	F	269	(33)	236
Non-current other liabilities	G	454	(23)	431
Non-current liabilities		7,248	(56)	7,192
Trade and other payables	G	3,395	86	3,481
Provisions for liabilities and charges	F	-	33	33
Current liabilities		3,395	119	3,514
Total liabilities		10,643	63	10,706
Total equity and liabilities		57,548	(606)	56,942

Group reconciliation of financial position as at 31 December 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
ASSETS				
Property plant and equipment	A, B	51,140	565	51,705
Intangible assets	C	1,536	(439)	1,097
Long-term loan		32,200	-	32,200
Other assets	D	6	54	60
Non-current assets		84,882	180	85,062
Inventories	A	618	(570)	48
Receivables and prepayments	E	3,300	(354)	2,946
Short-term loan	E	-	228	228
Current tax receivable		12	-	12
Cash and cash equivalents		656	-	656
Current assets		4,586	(696)	3,890
Non-current assets classified as held for sale	B	-	13	13
Total assets		89,468	(503)	88,965
EQUITY AND LIABILITIES				
Share capital		3,102	-	3,102
Reserves		-	(1)	(1)
Other funds	C	11,480	(551)	10,929
Reserve funds		32,200	-	32,200
Retained earnings		1,840	110	1,950
Total equity		48,622	(442)	48,180
Long-term financial debts	E	28,200	(63)	28,137
Deferred tax liability		6,246	-	6,246
Non-current provisions for liabilities and charges	F	237	(52)	185
Non-current other liabilities	G	685	(55)	630
Non-current liabilities		35,368	(170)	35,198
Short-term financial debts	G	650	144	794
Trade and other payables	G	4,828	(87)	4,741
Provisions for liabilities and charges	F	-	52	52
Current liabilities		5,478	109	5,587
Total liabilities		40,846	(61)	40,785
Total equity and liabilities		89,468	(503)	88,965

Group reconciliation of total comprehensive income for nine months period ended 30 September 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
Revenues	H	14,800	(450)	14 350
Other income	I	755	(382)	373
Expenses	H, I, J	(9,511)	835	(8,676)
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)		6,044	3	6,047
Depreciation and amortisation	J	(4,293)	64	(4,229)
Impairment loss	J	-	(10)	(10)
Operating profit (EBIT)		1,751	57	1,808
Finance income	K	146	(58)	88
Finance costs	K	(168)	82	(86)
Profit before tax		1,729	81	1,810
Corporate income tax		(333)	-	(333)
Profit for the period		1,396	81	1,477
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Translation differences		-	(1)	(1)
Other comprehensive income, net of tax		-	(1)	(1)
Total comprehensive income, net of tax		1,396	80	1,476
Profit attributable to:				
Equity holders of the Company		1,396	81	1,477
Total comprehensive income attributable to:				
Equity holders of the Company		1,396	80	1,476

Group reconciliation of total comprehensive income for year ended 31 December 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
Revenues	H	19,759	(662)	19,097
Other income	I	1,068	(586)	482
Expenses	H, I, J	<u>(12,894)</u>	<u>1,256</u>	<u>(11,638)</u>
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)		7,933	8	7,941
Depreciation and amortisation	J	(5,632)	88	(5,544)
Impairment loss	J	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Operating profit (EBIT)		2,301	83	2,384
Finance income	K	291	(62)	229
Finance costs	K	<u>(291)</u>	<u>89</u>	<u>(202)</u>
Profit before tax		2,301	110	2,411
Corporate income tax		<u>(466)</u>	<u>-</u>	<u>(466)</u>
Profit for the year		1,835	110	1,945
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Translation differences		<u>-</u>	<u>(1)</u>	<u>(1)</u>
Other comprehensive income, net of tax		<u>-</u>	<u>(1)</u>	<u>(1)</u>
Total comprehensive income, net of tax		1,835	109	1,944
Profit attributable to:				
Equity holders of the Company		1,835	110	1,945
Total comprehensive income attributable to:				
Equity holders of the Company		1,835	109	1,944

Group reconciliation of cashflows for nine months period ended 30 September 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
Profit for the period		1,396	81	1,477
Non-cash adjustments for:				
Depreciation and amortisation	J	4,293	(64)	4,229
Impairment loss		-	10	10
Profit on sale of property, plant and equipment		(24)	(5)	(29)
Net finance revenues		(18)	-	(18)
Foreign exchange losses (net)		-	15	15
Change in provision		3	(3)	-
Tax expense		333	-	333
Operating cash flow before working capital changes		5,983	34	6,017
Working capital adjustments:				
Change in trade and other receivables		(1,807)	54	(1,753)
Change in inventory	A	(227)	205	(22)
Change in trade and other payables		841	(52)	789
Cash flows from operating activities		4,790	241	5,031
Interest paid		(10)	10	-
Income tax paid		(566)	-	(566)
Net cash flow from operating activities		4,214	251	4,465
Cash flows from investing activities				
Purchase of property, plant and equipment and intangibles	A	(1,812)	(220)	(2 032)
Proceeds from sales of property, plant and equipment and intangible assets		126	-	126
Loans granted	L	(32,200)	32,200	-
Net cash used in investing activities		(33,886)	31,980	(1,906)
Cash flows from financing activities				
Interest paid		-	(9)	(9)
Repayments of loans	L	-	(975)	(975)
(Grant)/Repayment of loan	L	-	(32,200)	(32,200)
Proceeds from loans	L	32,143	964	33,107
Net cash used in financing activities		32,143	(32,220)	(77)
Net increase in cash and cash equivalents		2,471	11	2,482
Cash and cash equivalents at beginning of year		55	-	55
Effect of foreign exchange rate movements on cash and cash equivalents		-	(11)	(11)
Cash and cash equivalents at the period end		2,526	-	2,526

Group reconciliation of cashflows for year ended 31 December 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
Profit for the year		1,835	110	1,945
Non-cash adjustments for:				
Depreciation and amortisation	J	5,632	(88)	5,544
Impairment loss		6	7	13
Profit on sale of property, plant and equipment		(29)	-	(29)
Net finance revenues		(54)	6	(48)
Foreign exchange losses (net)		-	15	15
Change in provision		(32)	32	-
Other non-cash adjustments		(6)	6	-
Tax expense		466	-	466
Operating cash flow before working capital changes		7,818	88	7,906
Working capital adjustments:				
Change in trade and other receivables		(1,406)	(11)	(1,417)
Change in inventory	A	(330)	309	(21)
Change in trade and other payables		951	(33)	918
Cash flows from operating activities		7,033	353	7,386
Interest paid		(31)	31	-
Income tax paid		(756)	-	(756)
Net cash flow from operating activities		6,246	384	6,630
Cash flows from investing activities				
Purchase of property, plant and equipment and intangibles	A	(2,361)	(340)	(2,701)
Proceeds from sales of property, plant and equipment and intangible assets		134	-	134
Loans granted	L	(32,200)	32,200	-
Net cash used in investing activities		(34,427)	31,860	(2,567)
Cash flows from financing activities				
Interest paid		-	(31)	(31)
Repayments of loans	L	-	(4,325)	(4,325)
(Grant)/Repayment of loan	L	-	(32,200)	(32,200)
Proceeds from loans	L	28,782	4,325	33,107
Net cash used in financing activities		28,782	(32,231)	(3,449)
Net increase in cash and cash equivalents		601	13	614
Cash and cash equivalents at beginning of year		55	-	55
Effect of foreign exchange rate movements on cash and cash equivalents		-	(13)	(13)
Cash and cash equivalents at the year end		656	-	656

Explanatory notes to reconciliation of financial position, total comprehensive income and cashflows

All significant remeasurements between Czech GAAP and IFRS are described below.

A Property, plant and equipment

Under Czech GAAP, the significant spare parts (including material for construction) are recognised as inventory. IAS 16 requires the significant spare parts to be recognised as Property, plant and equipment. At the date of transition to IFRS, the amount of significant spare parts to be reclassified to PPE is CZK 257 million. At the 31 December 2015 the amount to be reclassified is CZK 570 million.

B Assets held for sale

Under Czech GAAP, assets held for sale were classified as Property, plant and equipment. IFRS 5 requires these assets to be classified as assets held for sale and disclosed in a separate line in the financial statements. At the 31 December 2015 the Group recognised assets held for sale under IFRS 5 in the amount CZK 13 million.

C Goodwill

Under Czech GAAP, the Group recognised goodwill amounting to CZK 552 million as at 1 January 2015 and CZK 442 million as at 31 December 2015. Under IFRS this goodwill does not qualify for recognition. Goodwill has been presented within Intangible assets in the Consolidated Statement of Financial position.

D Other assets

Under Czech GAAP, Group recognised part of the other assets in an other category of the Consolidated Statement of Financial position - Receivables and prepayments. Under IFRS this amount is part of the other assets. As at 1 January 2015 the amount of these assets is CZK 60 million and as as 31 December 2015 these assets amounted to CZK 54 million.

E Receivables

Under Czech GAAP, the Group recognised the interest receivable from provided loan amounting to CZK 228 million as an estimated receivable. Under IFRS this item is classified as a short-term provided loan. The arrangement fees paid amounting to CZK 63 million were recognised as a prepaid expenses under Czech GAAP. Under IFRS these fees lower the value of the debt. The remaining difference is caused by the item described in the Note D.

F Provisions

Under Czech GAAP, Group recognised long-term and short-term part of the provisions together in the section Provisions. Under IFRS the long-term and short-term parts are presented

separately in the Consolidated Statement of Financial position. The short-term part of the provision is CZK 33 million at 1 January 2015 and CZK 52 million at 31 December 2015.

G Non-current and current liabilities

Under Czech GAAP, the Group recognised long-term and short-term parts of deferred income together in section Other liabilities - temporary accounts of liabilities. Under IFRS the long-term and short-term parts are presented separately in the Consolidated Statement of Financial position in sections Non-current and Current liabilities.

The short-term part of deferred income is CZK 23 million at 1 January 2015 and CZK 55 million at 31 December 2015 and long-term part is CZK 428 million at 1 January 2015 and CZK 621 million at 31 December 2015.

Under Czech GAAP accrued interest were recognised separately from trade and other payables. Under IFRS accrued interest are presented together with trade and other payables. The total amount of accrued interest at 1 January 2015 was CZK 0 million and at 31 December 2015 was CZK 144 million.

H Revenues and expenses

Under Czech GAAP revenues and expenses within the network sharing project are recognised on a gross basis. Under IAS 18 these revenues and expenses are recognised at net amount, because mutually provided services within the project are of similar nature and value. For the period ended 30 September 2015 these revenues and expenses amounting to CZK 336 million and for the year ended 31 December 2015 these revenues and expenses amounting to CZK 517 million.

Under Czech GAAP other rentals are recognised within revenues. Under IFRS these rentals are recognised within Other income as these rentals do not represent the main activity of the Company. For the period ended 30 September 2015 these rentals amounting to CZK 104 million and for the year ended 31 December 2015 these rentals amounting to CZK 138 million.

I Other income

Under Czech GAAP the material used for capitalisation is recognised in the same amount as an expense and revenue. Under IFRS this material is directly capitalised with no impact on the consolidated statement of comprehensive income. For the period ended 30 September 2015 the income recognised in Czech GAAP in Other income amounting to CZK 382 million and for the year ended 31 December 2015 amounting to CZK 604 million.

Under Czech GAAP the sale of fixed assets is recognised on gross basis. Under IFRS the sale of fixed assets is recognised on a net basis which means that only gain or loss from the sale is recognised. For the period ended 30 September 2015 the difference between income from sale

of fixed assets measured on gross and net basis amounting to CZK 95 million and for the year ended 31 December 2015 amounting to CZK 99 million.

Under Czech GAAP other rentals are recognized within revenues. Under IFRS these rentals are recognised within Other income as these rentals do not represent the main activity of the Company. For the period ended 30 September 2015 these rentals amounting to CZK 104 million and for the year ended 31 December 2015 these rentals amounting to CZK 138 million.

J Depreciation, amortisation and impairment

Under Czech GAAP, the Group recognised goodwill amounting to CZK 552 million as at 1 January 2015 and CZK 442 million as at 31 December 2015. Under IFRS this goodwill does not qualify for recognition. According to Czech GAAP the goodwill is amortised by CZK 110 million a year.

Under Czech GAAP the significant spare parts are recognised as an inventory. IAS 16 requires the significant spare parts to be recognised as Property, plant and equipment. For the period ended 30 September 2015 depreciation of these spare parts amounting to CZK 16 million and for the year ended 31 December 2015 depreciation of these spare parts amounting to CZK 20 million.

Under Czech GAAP the impairment charge is recognised as other operating expenses. Under IFRS the impairment charge is recognised on a separate line. For the period ended 30 September 2015 the impairment charge amounting to CZK 10 million, for the year ended 31 December 2015 the impairment charge amounting to CZK 13 million.

K Finance income and finance costs

Under Czech GAAP the FX revenues and expenses are recognised at gross amount. Under IFRS these revenues and expenses are recognised at net amount. For the period ended 30 September 2015 the FX revenues amounted to CZK 58 million and FX expenses amounted to CZK 71 million. For the year ended 31 December 2015 the FX revenues amounted to CZK 62 million and FX expenses amounted to CZK 78 million.

Under Czech GAAP the insurance charge is recognized as a finance expense. Under IFRS this expense is recognized as an other expense. For the period ended 30 September 2015 the insurance charge amounting to CZK 24 million and for the year ended 31 December 2015 the insurance charge amounting to CZK 32 million.

Under Czech GAAP the change in decommissioning provision is recognized as a non-financial expense. Under IFRS this unwinding of the discount is recognized as financial expense. For the period ended 30 September 2015 the discount unwinding expense amounted to CZK 3 million and for year ended 31 December 2015 the discount unwinding expense amounted to CZK 5 million.

L Presentation of provided loan and debt repayment in Consolidated Cash flow statement

Under Czech GAAP the loan provided is reported under cash flows from investing activities. Under IFRS it is reported under cash flows from financing activities. The Syndicate Loan was drawn (see Note 15) for the purpose to raise funding to provide Financial assistance to the shareholders. The drawing of The Syndicate Loan is reported under cash flow from financing activities under both reporting frameworks.

Repayment of the debt is reported on a net basis under Czech GAAP, while under IFRS it is reported in gross in line with IAS 7.

5. SEGMENT INFORMATION

The Group recognises two main operating segments:

- Domestic services – provision of wholesale telecommunication services (mobile, fixed and data services) to other Czech telco operators, utilising the Group's network infrastructure in the Czech Republic; this is the core business of the Group,
- International transit - routing and termination of mainly international voice traffic to international operators, utilising the points of presence outside of the Czech Republic.

The International transit business of the Group is reported separately for these reasons:

- I. The nature of the international transit business is fundamentally different from the core business of the Group. In the case of the core business, the Company is selling services of its own network infrastructure in the Czech wholesale telecommunication market. In the case of the international transit business, the Group acts as an intermediary between international operators, earning a small margin on the difference between the units of traffic purchased and sold.
- II. The financial risk exposure of the international transit business is significantly lower compared to the core business of the Group. The impact of the potential impairment of carrying value of assets related to the international transit business is marginal as the international transit business is capital light.
- III. Discrete financial information is available for the international transit business and the management assesses its performance and makes decisions about the resources to be allocated to this segment separately, with no impact on the core business of the Group.

The Group is capable of achieving substantial revenue from international transit services, while the effective gross and EBITDA margins from the segment are on a completely different scale from the core business, due to the intermediary nature of transit services.

The operating results of all segments are regularly controlled and reviewed by the chief operating decision maker only to the level of EBIT.

Interim consolidated financial statements for nine months period ended 30 September 2016

Period ended 30 September 2016 In CZK million	Domestic services	International transit	Total reportable segments	Reconciling items	Group
Revenues	8,717	6,607	15,324	-	15,324
Other income and capitalization of own work	-	-	-	369	369
Total costs	(3,001)	(6,343)	(9,344)	(369)	(9,713)
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)	5,716	264	5,980	-	5,980
Total depreciation and amortization	(3,135)	(40)	(3,175)	-	(3,175)
Impairment charge	(476)	-	(476)	-	(476)
Operating income (EBIT)	2,105	224	2,329	-	2,329
Net financial income					169
Profit before tax					2,498
Corporate income tax					(489)
Profit for the period					2,009
As at 30 September 2016					
Total assets	56,008	1,606	57,614	-	57,614
Trade and other payables	3,492	1,205	4,697	-	4,697
Other liabilities	35,024	-	35,024	-	35,024
Total liabilities	38,516	1,205	39,721	-	39,721
Capital expenditure (Fixed assets additions)	2,041	18	2,059	-	2,059

Period ended 30 September 2015 In CZK million	Domestic services	International transit	Total reportable segments	Reconciling items	Group
Revenues	8,884	5,466	14,350	-	14,350
Other income and capitalization of own work	-	-	-	373	373
Total costs	<u>(3,102)</u>	<u>(5,201)</u>	<u>(8,303)</u>	<u>(373)</u>	<u>(8,676)</u>
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)	5,782	265	6,047	-	6,047
Total depreciation and amortization	(4,185)	(44)	(4,229)	-	(4,229)
Impairment charge	<u>(10)</u>	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>(10)</u>
Operating income (EBIT)	1,587	221	1,808	-	1,808
Net financial income					<u>2</u>
Profit before tax					1,810
Corporate income tax					<u>(333)</u>
Profit for the year					<u>1,477</u>
As at 30 September 2015					
Total assets	89,704	1,279	90,983	-	90,983
Trade and other payables	7,678	933	8,611	-	8,611
Other liabilities	<u>34,669</u>	<u>-</u>	<u>34,669</u>	<u>-</u>	<u>34,669</u>
Total liabilities	42,347	933	43,280	-	43,280
Capital expenditure (Fixed assets additions)	1,861	27	1,888	-	1,888

Year ended 31 December 2015	Domestic services	International transit	Total reportable segments	Reconciling items	Group
Revenues	11,833	7,264	19,097	-	19,097
Other income and capitalization of own work	-	-	-	482	482
Total costs	(4,223)	(6,933)	(11,156)	(482)	(11,638)
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)	7,610	331	7,941	-	7,941
Total depreciation and amortization	(5,486)	(58)	(5,544)	-	(5,544)
Impairment charge	(13)	-	(13)	-	(13)
Operating income (EBIT)	2,111	273	2,384	-	2,384
Net financial income					27
Profit before tax					2,411
Corporate income tax					(466)
Profit for the year					1,945
As at 31 December 2015					
Total assets	87,484	1,481	88,965	-	88,965
Trade and other payables	3,739	1,002	4,741	-	4,741
Other liabilities	36,044	-	36,044	-	36,044
Total liabilities	39,783	1,002	40,785	-	40,785
Capital expenditure (Fixed assets additions)	3,088	44	3,132	-	3,132

The Group presents the segments in the category of operating revenues and expenses. Finance revenues and expenses and tax expenses are presented for the whole Group.

Reconciling items represents mainly own work capitalized, which is not reported within business revenues per segments but in net within total costs.

Revenues from one customer from segment Domestic services represent more than 10% of Group's revenues. For the period ended 30 September 2016 these revenues are CZK 7,756 million, for the period ended 30 September 2015 CZK 7,880 million and for the year ended 31 December 2015 CZK 10,474 million.

The following table shows the split of revenues according to the location of the entity where the revenues are originated:

Revenues In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Czech Republic	9,150	9,312	12,426
Germany	2,122	1,602	1,977
Slovakia	532	946	1,306
Other EU countries	1,744	1,156	1,569
Switzerland	1,282	763	1,125
Other Non-EU countries	494	571	694
Total revenues	15,324	14,350	19,097

6. REVENUES AND EXPENSES

Revenues In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Revenues from mobile network	3,414	3,370	4,504
Revenues from fixed network	3,507	3,636	4,829
Revenues from transit services	6,607	5,324	7,264
Revenues from data services	1,101	1,170	1,532
Other telecommunication	695	850	968
Total revenues	15,324	14,350	19,097
Other income	369	373	482

Other income includes own work capitalized in the amount of CZK 197 million (30 September 2015: CZK 194 million, 31 December 2015: CZK 251 million).

Revenues from related parties are disclosed in Note 21.

Expenses In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Supplies	(6,521)	(5,447)	(7,197)
Staff costs	(1,010)	(925)	(1,230)
External services	(2,073)	(2,240)	(3,099)
Provisions for bad debts and inventories	(7)	11	(10)
Other expenses	(102)	(75)	(102)
Total expenses	(9,713)	(8,676)	(11,638)

Supplies include mainly costs of transit and interconnection costs.

The Group does not participate in any pension plans.

Statutory auditor's fees during the period ended 30 September 2016 amounted to CZK 3 million (30 September 2015: CZK 3 million, 31 December 2015: CZK 4 million).

Purchases from related parties are disclosed in Note 21.

7. FINANCE INCOME AND COSTS

In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Finance income			
Interest income	365	88	229
Income on fair value adjustments of financial instruments (net)	1	-	-
Other finance income	93	-	-
Total finance income	459	88	229
Finance costs			
Interest expenses	(279)	(70)	(180)
Loss on fair value adjustments of financial instruments (net)	-	-	(1)
Foreign exchange loss (net)	(2)	(14)	(15)
Other finance costs	(9)	(2)	(6)
Total finance costs	(290)	(86)	(202)

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

8. INCOME TAX

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

In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Profit before tax	2,498	1,810	2,411
Income tax charge calculated at the statutory rate of 19%	(475)	(344)	(458)
Non-taxable income	30	22	41
Tax non-deductible expenses	(45)	(38)	(63)
Additional income tax related to prior periods	(24)	-	-
Other differences	25	27	14
Income tax expense	(489)	(333)	(466)
Effective tax rate	19.58%	18.40%	19.33%

As at 30 September 2016, the total amount of provisions for current income taxes is CZK 733 million (31 December 2015: CZK 745 million, 1 January 2015: CZK 0 million), advances paid for income taxes is CZK 571 million (31 December 2015: CZK 756 million, 1 January 2015: CZK 0 million), the net deferred tax liability is CZK 5,978 million (31 December 2015: CZK 6,246 million, 1 January 2015: CZK 6,525 million).

9. PROPERTY, PLANT AND EQUIPMENT

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Construc- tion in progress	Total
As at 30 September 2016						
Opening net book amount	7,624	37,518	4,995	168	1,400	51,705
Additions	134	408	755	46	453	1,796
Disposals	(9)	-	(11)	-	6	(14)
Transfers	70	192	410	3	(675)	-
Reclassifications and currency differences	14	-	-	-	-	14
Depreciation	(417)	(1,551)	(930)	(36)	-	(2,934)
Impairment	(479)	(1)	-	-	4	(476)
Reclassification to Assets held for sale	(3)	-	-	-	-	(3)
Closing net book amount	6,934	36,566	5,219	181	1,188	50,088
As at 30 September 2016						
Cost	8,361	40,159	8,807	322	1,212	58,861
Accumulated depreciation	(948)	(3,592)	(3,588)	(141)	-	(8,269)
Accumulated impairment	(479)	(1)	-	-	(24)	(504)
Net book amount	6,934	36,566	5,219	181	1,188	50,088

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Construction in progress	Total
As at 31 December 2015						
Opening net book amount	8,017	39,099	6,277	183	746	54,322
Additions	111	383	1,026	107	1,052	2,679
Disposals	-	(5)	(36)	(5)	-	(46)
Transfers	64	86	249	-	(399)	-
Reclassifications and currency differences	-	-	22	-	14	36
Depreciation	(555)	(2,045)	(2,543)	(117)	-	(5,260)
Impairment	-	-	-	-	(13)	(13)
Reclassification to Assets held for sale	(13)	-	-	-	-	(13)
Closing net book amount	7,624	37,518	4,995	168	1,400	51,705
As at 31 December 2015						
Cost	8,176	39,560	7,798	278	1,433	57,245
Accumulated depreciation	(552)	(2,042)	(2,803)	(110)	-	(5,507)
Accumulated impairment	-	-	-	-	(33)	(33)
Net book amount	7,624	37,518	4,995	168	1,400	51,705

As at 30 September 2016, the carrying value of non-depreciated assets amounted to CZK 215 million (31 December 2015: CZK 215 million, 1 January 2015: CZK 219 million).

The Group identified and recorded the impairment of the headquarter building of the Company according to IAS 36 and amounting to CZK 480 million. The recoverable amount is based on the indicative offers to purchase the headquarter building and amounting to CZK 669 million.

Due to the Investment Rating Grade of the Company received in July 2016, no assets are pledged as at 30 September 2016. Pledged assets as at 31 December 2015 are listed in Note 15.

As at 30 September 2016, the Group recognised assets held for sale of CZK 4 million (31 December 2015: CZK 13 million, 1 January 2015: CZK 0 million).

For the period ended 30 September 2016, the Group achieved a total gain from the sale of the fixed assets of CZK 60 million (30 September 2015: CZK 21 million, 31 December 2015: CZK 32 million) and total losses of CZK 3 million (30 September 2015: CZK 2 million, 31 December 2015: CZK 3 million).

10. INTANGIBLE ASSETS

In CZK million	Licences	Software	Valuable rights	Construction in progress	Total
As at 30 September 2016					
Opening net book amount	-	875	49	173	1,097
Additions	-	123	6	134	263
Transfers	-	108	-	(108)	-
Reclassifications and currency differences	-	1	(1)	-	-
Amortisation charge	-	(232)	(9)	-	(241)
Closing net book amount	-	875	45	199	1,119
As at 30 September 2016					
Cost	-	1,359	61	199	1,619
Accumulated amortisation	-	(484)	(16)	-	(500)
Net book amount	-	875	45	199	1,119
As at 31 December 2015					
Opening net book amount	14	897	9	61	981
Additions	-	264	47	142	453
Disposals	(12)	(44)	-	-	(56)
Transfers	-	33	-	(33)	-
Reclassifications and currency differences	-	-	-	3	3
Amortisation charge	(2)	(275)	(7)	-	(284)
Closing net book amount	-	875	49	173	1,097
As at 31 December 2015					
Cost	-	1,140	56	173	1,369
Accumulated amortisation	-	(265)	(7)	-	(272)
Net book amount	-	875	49	173	1,097

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

11. INVENTORIES

In CZK million	30 September 2016	31 December 2015	1 January 2015
Telecommunication material	27	48	27
Other	18	-	-
Total	45	48	27

The inventories stated above are net of an allowance cumulative write down for obsolete inventory of CZK 12 million (31 December 2015: CZK 13 million, 1 January 2015: CZK 11 million). The amount of inventories recognised as an expense is CZK 89 million (30 September 2015: CZK 95 million, 31 December 2015: CZK 124 million).

In 2016 and 2015, the Group had no inventories pledged as a security for liabilities.

12. RECEIVABLES AND OTHER ASSETS

In CZK million	30 September 2016	31 December 2015	1 January 2015
Trade receivables from third parties (net)	2,029	1,508	1,348
Receivables with related parties (Note 21)	1,267	1,279	8
Prepayments	255	138	117
Other debtors (net)	25	21	17
Total receivables	3,576	2,946	1,490

Trade receivables and other debtors are stated net of bad debt provision of CZK 56 million (31 December 2015: CZK 52 million, 1 January 2015: CZK 42 million).

Prepayments comprise primarily prepaid lease-related service costs of CZK 111 million (31 December 2015: CZK 55 million, 1 January 2015: CZK 56 million), prepaid expenses from International transit of CZK 15 million (31 December 2015: CZK 17 million, 1 January 2015: CZK 21 million).

Receivables from related parties are disclosed in Note 21.

Trade receivables not impaired In CZK million	Neither impaired nor overdue	Not impaired but overdue			
		Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
As at 30 September 2016	2,816	447	11	-	-
As at 31 December 2015	2,492	260	10	-	1
As at 1 January 2015	1,088	223	36	1	8

**Bad debt provisions
In CZK million**

As at 1 January 2015	42
Additions	19
Release	(9)
As at 31 December 2015	52
Additions	21
Release	(17)
As at 30 September 2016	56

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

As at 30 September 2016, the Group presented non-current other assets of CZK 60 million (31 December 2015: CZK 60 million, 1 January 2015: CZK 67 million) consisting of prepayments and advance payments for long-term expenses.

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

In CZK million	30 September 2016	31 December 2015	1 January 2015
Gross amounts of trade receivables	1,866	2,180	644
Amounts that are set off	(635)	(421)	(268)
Net amounts of trade receivables	1,231	1,759	376

13. CASH AND CASH EQUIVALENTS

In CZK million	30 September 2016	31 December 2015	1 January 2015
Cash at bank accounts and other cash equivalents	52	45	55
Cash at bank accounts and other cash equivalents (inter-company)	2,670	611	-
Total cash and cash equivalents	2,722	656	55

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 44 million (31 December 2015: CZK 40 million, 1 January 2015: CZK 52 million). These are partnerships with other business parties founded for a specific purpose, where the Group is in a leading role. The usage of bank accounts of the Special Partnership Accounts is limited by mutual agreement.

As at 30 September 2016, 31 December 2015 and 1 January 2015, the Group did not have any available equivalent of undrawn committed facilities.

As at 30 September 2016, no cash and cash equivalents were pledged. As at 31 December 2015, the Group had a pledge over receivables from bank accounts of the Group as disclosed in Note 15.

14. TRADE AND OTHER PAYABLES

	30 September	31 December	1 January
In CZK million	2016	2015	2015
Trade creditors	4,313	4,324	3,269
VAT, other taxes and social security liability	148	211	53
Other deferred revenue	99	56	23
Employee wages and benefits	110	123	103
Other creditors	27	27	33
Trade and other payables - current	<u>4,697</u>	<u>4,741</u>	<u>3,481</u>
Other non-current liabilities	899	630	431

Payables to related parties are disclosed in Note 21.

As at 30 September 2016, 31 December 2015 and 1 January 2015, other non-current liabilities were made up primarily of deferred revenues from installation fees related to optical fiber long term rentals.

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

	30 September	31 December	1 January
In CZK million	2016	2015	2015
Gross amounts of trade creditors	1,121	1,112	954
Amounts that are set off	<u>(635)</u>	<u>(421)</u>	<u>(268)</u>
Net amounts of trade creditors	486	691	686

15. FINANCIAL ASSETS AND LIABILITIES

	30 September	31 December	1 January
In CZK million	2016	2015	2015
Long-term loan	-	32,200	-
Short-term loan	-	228	-
Total financial assets	<u>-</u>	<u>32,428</u>	<u>-</u>
Repayable:			
Within one year	-	228	-
More than five years	-	32,200	-
Total financial assets	<u>-</u>	<u>32,428</u>	<u>-</u>

Loan agreement – Financial assistance CZK 32,200 million

On 31 July 2015, the Company entered into a loan agreement with PPF Arena 2 B. V. in the form of financial assistance totalling CZK 32,200 million, which was repayable on 5 August 2022. The loan provided to PPF Arena 2 B. V. was utilized and used solely for the purpose of refinancing the acquisition loan provided to PPF Arena 2 B. V. by a bank syndicate for the acquisition of the shares of O2 Czech Republic from Telefónica Group in 2013. The interest rate is 6M PRIBOR + weighted average (0.75% p.a. of the outstanding amount of facility A + 1.15% p.a. of the outstanding amount of facility B) + additional margin. Interest rates as stated are valid under the condition of complying with defined contractual conditions.

The Financial assistance was fully repaid as at 30 September 2016.

In CZK million	30 September 2016	31 December 2015	1 January 2015
Provided loan in local currency	27,700	28,787	-
Interest obligation and derivatives	18	144	-
Total financial liabilities	<u>27,718</u>	<u>28,931</u>	-
Repayable:			
Within one year	18	794	-
Between one and five years	5,700	6,150	-
More than five years	22,000	21,987	-
Total financial liabilities	<u>27,718</u>	<u>28,931</u>	-

Syndicated loan agreement – CZK 32,200 million

On 31 July 2015 the Company entered into a syndicated loan agreement amounting CZK 32,200 million in two facilities: facility A with maturity of 3 years (amounting CZK 10,200 million) and interest rate 1M, 3M, 6M PRIBOR + 0.75% p.a. and facility B with maturity of 7 years (amounting CZK 22,000 million) and interest rate 1M, 3M, 6M PRIBOR + 1.15% p.a. Interest rates as stated are valid under the condition of complying with defined contractual conditions.

Covenants resulting from syndicated loan were met as at 30 September 2016 and 31 December 2015.

On 11 July 2016, an investment grade Baa2 has been assigned to the Company by Moody's rating agency. This led to the release of the collateral security of the syndicated bank loan. No assets of the Company are pledged as at 30 September 2016.

As at 31 December 2015 the loan was secured as follow:

- Pledge over the metallic fixed telecommunication network owned by the Company;

- Pledge over material trade receivables of the Company from its customer O2 Czech Republic a.s.;
- Pledge over receivables from bank accounts of the Company;
- Pledge over receivable from Financial assistance of the Company;
- Pledge over shares of the Company held by PPF Arena 2 B.V.

Financial risk management

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

The Group does not conduct any speculative trading activities.

Risk management is carried out by the treasury department according to the approved Treasury Policy that address specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and investing excess liquidity.

(i) Foreign currency risk

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

- a) financial position items (such as debt, receivables, payables) denominated in foreign currency,
- b) probable forecasted transactions or firm commitments (such as purchases or sales) denominated in foreign currency.

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

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

In CZK million	Nominal value		
	30 September 2016	31 December 2015	1 January 2015
Foreign exchange contracts (FX FORWARD CZK/EUR)	108	-	-
Foreign exchange contracts (Currency SWAP CZK/EUR)	-	162	-

In CZK million	Fair value		
	30 September 2016	31 December 2015	1 January 2015
Foreign exchange contracts (FX FORWARD CZK/EUR)*	-	-	-
Foreign exchange contracts (Currency SWAP CZK/EUR)	-	-	-

*Fair value is CZK 345,650 as at 30 September 2016

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

In CZK million	Effect on profit before tax		
	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
FX risk			
Value at Risk*	(5)	(7)	(13)
Stress testing*	(5)	(3)	(5)

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

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

(ii) Interest rate risk

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The short term and long term debt as well as cash assets can be currently maintained on both floating and fixed interest rates. The Group may sometimes use interest rate swaps, forward rate agreements and option based products to manage a desired mix of fixed and variable interest rates.

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

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

In CZK million	Effect on profit before tax		
	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
FX risk			
Stress testing*	(48)	(30)	(61)

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

(iii) Liquidity risk

The Group's essential objective of liquidity risk management is having access to the cash resources sufficient to meet all its cash payment obligations as they fall due, allowing some flexibility. The cash resources consist of generated cash position maintained in highly liquid instruments.

The Group is particularly focused on the liquidity profile within the time horizon of the next 12 -18 months considering projected cash flow from operations and maturity structure of both debt obligations and financial investments.

The table below summarizes the maturity profile of the Group's financial and trade liabilities at 30 September 2016 based on contractual undiscounted payments. Values include projections of future interests.

As at 30 September 2016**In CZK million**

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Interest bearing loans and borrowings	88	237	6,980	22,286
Trade and other payables (excluding Deferred revenue)	3,445	1,153	-	-
Total	3,533	1,390	6,980	22,286

Non-current other liabilities
(excluding Deferred revenue)

- - 9 1

As at 31 December 2015**In CZK million**

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Interest bearing loans and borrowings	865	154	7,720	22,679
Trade and other payables (excluding Deferred revenue)	3,062	1,623	-	-
Total	3,927	1,777	7,720	22,679

Non-current other liabilities
(excluding Deferred revenue)

- - 7 2

As at 1 January 2015**In CZK million**

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Trade and other payables (excluding Deferred revenue)	2,219	1,176	-	-
Total	2,219	1,176	-	-

Non-current other liabilities
(excluding Deferred revenue)

- - 1 2

In 2016 and 2015, the Company did not have any guarantees to third parties (except for the Cross Guarantee described in Note 21).

(iv) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Group's trade receivables. The majority of the Group's customers have been transacting with the Group (respectively with the Demerged Company) over a long time period.

The Group trades only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis resulting in an insignificant Group's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 12. There is no significant concentration of credit risk within the Group in respect to unrelated parties. The Group also has significant trade with companies from the PPF Group (see Note 21), mainly with O2 Czech Republic a.s. which is listed and profitable company and trading with it does not represents any significant credit risk for the Group.

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

Credit Risk is managed by:

- monitoring of accounts receivables: regular monitoring of payment moral of existing customers and monitoring and analyzing of the receivable aging structure (internal and external indicators of any potential bad debts),
- collection process: Collection from active customers is in the competence of the Accounting unit; subsequent collection is the responsibility of the Treasury unit, Legal unit and Accounting unit.

(v) Fair values estimation

The Group uses the following hierarchy to determine and disclose 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 30 September 2016, 31 December 2015 and 1 January 2015, the Group held only foreign currency swap and FX Forward contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2015, 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.

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

In CZK million

	Carrying amount		
	30 September 2016	31 December 2015	1 January 2015
Financial assets			
Cash and cash equivalents	2,722	656	55
Interest bearing loans (incl. accrued interest)	-	32,428	-
Receivables	3,576	2,946	1,490
Other financial assets	60	60	67

	Carrying amount		
	30 September 2016	31 December 2015	1 January 2015
Financial liabilities			
Interest bearing loans and borrowings (incl. accrued interest)	27,718	28,931	-
Trade and other payables	4,697	4,741	3,481

In CZK million

	Fair value		
	30 September 2016	31 December 2015	1 January 2015
Financial assets			
Cash and cash equivalents	2,722	656	55
Interest bearing loans (incl. accrued interest)	-	32,428	-
Receivables	3,576	2,946	1,490
Other financial assets	60	60	67

	Fair value		
	30 September 2016	31 December 2015	1 January 2015
Financial liabilities			
Interest bearing loans and borrowings (incl. accrued interest)	27,718	28,931	-
Trade and other payables	4,697	4,741	3,481

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

16. DEFERRED INCOME TAXES

Short-term and long-term deferred taxes were calculated at a tax rate 19% as at 30 September 2016, 31 December 2015 and 1 January 2015.

In CZK million	30 September 2016	30 September 2015	31 December 2015
Opening balance for the period/year	6,246	6,525	6,525
Profit or loss tax charge	(268)	(263)	(279)
Closing balance for the period/year	5,978	6,262	6,246

The following amounts, determined after offsetting, are shown in the consolidated statement of financial position:

In CZK million	30 September 2016	31 December 2015	1 January 2015
Deferred tax liabilities	5,978	6,246	6,525
Total	5,978	6,246	6,525

The deferred tax liability includes CZK 244 million (31 December 2015: CZK 166 million, 1 January 2015: CZK 173 million) to be settled in less than twelve months and CZK 5,734 million (31 December 2015: CZK 6,080 million, 1 January 2015: CZK 6,352 million) to be settled in more than twelve months.

The deferred tax is determined by these components:

In CZK million	Consolidated statement of financial position		
	30 September 2016	31 December 2015	1 January 2015
Temporary differences relating to:			
Property, plant and equipment	5,951	6,204	6,487
Intangible assets	103	103	101
Trade receivables, inventories and other differences	(76)	(61)	(63)
Total	5,978	6,246	6,525

In CZK million	Consolidated statement of total comprehensive income		
	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Temporary differences relating to:			
Property, plant and equipment	253	254	283
Intangible assets	-	2	(2)
Trade receivables, inventories and other differences	15	7	(2)
Total	268	263	279

17. PROVISIONS

In CZK million	Asset retirement obligation	Other provisions	Total
As at 1 January 2015	267	2	269
Additions during the year	5	8	13
Utilised during the year	(2)	(2)	(4)
Change in estimate	(41)	-	(41)
As at 31 December 2015	229	8	237
Additions during the year	7	35	42
Utilised during the year	(4)	(8)	(12)
As at 30 September 2016	232	35	267

In CZK million	Asset retirement obligation	Other provisions	Total
As at 30 September 2016			
Short-term provisions	64	35	99
Long-term provisions	168	-	168
	232	35	267
As at 31 December 2015			
Short-term provisions	44	8	52
Long-term provisions	185	-	185
	229	8	237
As at 1 January 2015			
Short-term provisions	31	2	33
Long-term provisions	236	-	236
	267	2	269

The Group recognized provision for estimated cost of dismantling and removing assets and restoring sites of CZK 232 million (31 December 2015: CZK 229 million, 1 January 2015: CZK 267 million). Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future dismantling and removing of assets. Based on the updated plan of the liquidation of the sites within network sharing project the value of the provision for dismantling the assets remained unchanged in 2016 (30 September 2015: CZK 0 million, 31 December 2015: CZK 41 million).

Other provisions includes provision for redundancy cost of CZK 26 million (31 December 2015: CZK 5 million, 1 January 2015: CZK 0 million). Other provisions for which the expected timing of payments is not certain are expected to be utilised within the next twelve months from the balance sheet date.

18. COMMITMENTS

The aggregate future minimum lease payments under operating leases (Group is a lessee) and aggregate future minimum lease payments under non-cancellable operating leases (Group is a lessor):

As at 30 September 2016

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	748	1,558	2,512
Operating leases - lessor	116	1	-

As at 31 December 2015

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	766	1,430	2,260
Operating leases - lessor	134	99	-

The category Less than one year includes commitments from cancellable contracts due to longer notice period.

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2016 were CZK 679 million (30 September 2015: CZK 623 million, 31 December 2015: CZK 870 million).

Capital expenditure contracted but not yet recognized in the financial statements as at 30 September 2016 amounted to CZK 594 million (31 December 2015: CZK 682 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

19. REGULATED SERVICES

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 (CTO) no. 3987/1 as amended by later changes n. 3987/2.

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

- a) public fixed communications network,
- b) public network for radio and TV signal broadcasting transmission,
- c) public access telephone service - service is defined as of public access
- 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 activities of the Group are subject to statutory regulation and supervision by the Czech national regulatory authority, the CTO. The CTO is an independent regulatory body that regulates electronic communications and postal services in the Czech Republic. The relevant regulatory framework is set forth mainly in the Electronic Communications Act, together with secondary legislation and decisions of the CTO. As a member state of the European Union, the Czech Republic is subject to EU telecommunications regulation and the Electronic Communications Act thus implements the EU regulatory framework into the Czech legal system.

For certain revenues streams there is price regulation in the form of the maximum allowed price imposed by CTO. These streams are:

- Call origination on the public telephone network at a fixed location
- Call Termination on Individual Public Telephone Networks Provided at a Fixed Location
- LLU and co-location services (there is further set maximal price gap of related services - e.g. xDSL)

20. EQUITY

	30 September 2016	31 December 2015	1 January 2015
Nominal value per ordinary registered share (CZK)	10	10	10
Number of shares	310,220,067	310,220,067	310,220,067
Ordinary share capital (in CZK million)	3,102	3,102	3,102

Ownership structure:

Shareholders of the Company were as follows:

	30 September 2016	31 December 2015
PPF Infrastructure B.V.	89.7%	-
PPF Arena 2 B.V.	-	74.5%
PPF A3 B.V.	10.3%	10.3%
PPF A4 B.V.	-	10.1%
Other shareholders	-	5.1%

Treasury shares

On 13 July 2015, the Company acquired 1,600 of its own shares for the price of CZK 164.72 per share as a result of mandatory tender offer following the incorporation of the Company. The mandatory tender offer was in effect from 15 June 2015 to 13 July 2015. The Company still owned the treasury shares as at 31 December 2015. The treasury shares were transferred to PPF A4 B.V., the principal shareholder of the Company, upon expiry of 11 January 2016, as a

result of a decision of the General Meeting of the Company, held on 3 December 2015, to squeeze out all minority shareholders.

Demerger of parent company PPF Arena 2 B.V.

The demerger of the parent company PPF Arena 2 B.V. came into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. ceased to exist and new successor companies, PPF Telco B.V. and PPF Infrastructure B.V., emerged. All shares of the Company were transferred to PPF Infrastructure B.V.

Capital management

The Company's objectives when managing its capital are:

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

The investment strategy of the Company in respect of managing its capital is to focus its investment activities on areas with the highest added value. That is on areas where the Company is currently strong and can utilize its scale and on areas with high growth potential. These areas are mainly improvement and development of fixed and mobile broadband infrastructure for wholesale customers of the Company. These are namely increasing the availability of high speed fixed internet via significant remote DSLAMs rollout and software update, or further deployment of LTE network for mobile broadband. Additional investments into technology upgrades, as well as internal systems development and efficiency projects are also among the objectives of capital management.

In the following periods, the Board of Directors will continue to make in-depth analysis and assessment of the current and forecasted results of the Company, including any potential investments and their impact on cash flow generation and will optimize the capital structure to serve the purpose of achieving these plans.

There are no other specific objectives. The Company realizes certain investments and transactions to comply with all relevant legal requirements and its contractual obligations.

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

In relation to the provision of the loan in 2015 to PPF Arena 2 B. V. in the form of financial assistance, the Group created the Reserve fund to Financial assistance of CZK 32,200 million (1 January 2015: CZK 0 million).

The Board of Directors shall decide on the creation of, contribution to, use of or the dissolution of the Reserve Fund, unless the law or Articles of Association provide that such decision in the specific context comes under the authority of the General Meeting.

The General Meeting, held on 30 June 2016, approved the statutory financial statements for year ended 31 December 2015 and the distribution of dividends of CZK 1,830 million from profit for year ended 31 December 2015 and distribution of other capital funds of CZK 11,481 million among the shareholders. The amount of distributed dividend per share is CZK 5.90. The payment was proceeded on 11 July 2016.

In relation to the provision of Financial assistance the Reserve fund to Financial assistance was created during 2015 in the amount of CZK 32,200 million according to § 311 of the Corporations Act. On 11 July 2016 the Financial assistance was partially paid and the Reserve Fund was accordingly decreased by CZK 13,311 million as a transfer to Other capital funds.

On 30 August 2016 the Company received a payment of CZK 3,700 million to the Financial assistance. Accordingly the Reserve Fund was decreased by CZK 3,700 million as a transfer to Other capital funds.

The Company prepared extraordinary financial statements as at 31 August 2016 due to the merger with its subsidiary CETIN služby s.r.o.

The General Meeting, held on 30 September 2016, approved the distribution of distributable funds of CZK 18,985 million (dividends of CZK 2,107 million as the profit for the period ended 31 August 2016 and Other capital funds of CZK 16,878 million) among the shareholders. The amount of distributed dividend per share is CZK 6.79. The payment was processed on 30 September 2016.

On 30 September 2016 the company PPF Infrastructure B.V. repaid outstanding amount of Financial assistance of CZK 15,189 million in advance. The Financial assistance was fully repaid and accordingly the Reserve Fund was reversed completely as a transfer to Other capital funds.

21. RELATED PARTY TRANSACTIONS

The companies PPF Infrastructure B.V. and PPF A3 B.V., through which Mr. Petr Kellner is the controlling party of the Company, are parts of PPF Group and are under common control of the PPF Group.

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF Group's reach spans from Europe to Russia, the USA and across Asia.

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices. Outstanding balances of assets and liabilities are unsecured, interest-free (excl. financial assets and liabilities used for financing) and the settlement occurs either in cash or by offsetting. The financial asset balances are tested for the impairment at the balance sheet date, and no allowance was recognized.

The following transactions were carried out with related parties:

a) Transactions with related parties

In CZK million	Assets/Liabilities as at		
	30 September 2016	31 December 2015	1 January 2015
Receivables from provided services			
Shareholders of the Company	-	6	-
Other companies in PPF Group	1,267	1,273	8
of which: O2 Czech Republic a.s.	1,246	1,249	-
Payables from purchased services			
Other companies in PPF Group	198	283	-
of which: O2 Czech Republic a.s.	175	237	-
Loans provided including interest – financial assistance			
Shareholders of the Company (Note 15)	-	32,428	-
Cash equivalents			
Other companies in PPF Group	2,670	611	-
Volume of mutual transactions			
In CZK million	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Sale of services			
Shareholders of the Company	-	-	-
Other companies in PPF Group	7,895	8,060	10,701
of which: O2 Czech Republic a.s.	7,756	7,880	10,474
Purchase of services			
Other companies in PPF Group	(318)	(346)	527
of which: O2 Czech Republic a.s.	(184)	(175)	241
Loans provided including interest – financial assistance			
Shareholders of the Company	456	87	228

Receivables and payables relating to the sale and purchase of goods and services are included in trade receivables and payables described in Note 12 and 14.

The Group has no long-term liabilities that are due in more than five years.

For the period ended 30 September 2016, capital expenditures from related parties amounted to CZK 17 million (30 September 2015: CZK 130 million, 31 December 2015: CZK 130 million).

In connection with Separation new business relations with O2 Czech Republic were established as of 1 January 2015 by virtue of the purchase of fixed and mobile telecommunications services and other services. These services are provided based on wholesale agreements and represent significant revenues for the Company.

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

a) mobile network services agreement

The subject of 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 development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Company is obliged to provide the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion.

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

The subject of the RAO agreement is access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement is concluded for an indefinite period, where the Company pays monthly charges (number of access points multiplied by unit price) and undertakes to draw at least 640,000 xDSL lines for a period of 7 years after signing the agreement (which represents only part of the total payment).

c) agreement on access to end points (so-called RADO) and others.

The Company enables O2 Czech Republic access to end points, which include 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 agreement is concluded for an indefinite period. The Company will receive one-off fee for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed.

One of the legal consequences of the Separation was the creation of the Cross Guarantee, whereby the Group guaranteed the monetary and non-monetary debts of O2 Czech Republic

that passed from O2 Czech Republic to the Group following the Separation. The Cross Guarantee is a secondary liability for the Guarantor, covering the monetary and non-monetary debts existing at the date of the Separation (1 January 2015).

The Cross Guarantee is limited to the value of the net assets that passed to the Group during the Separation, assessed by expert valuation as CZK 46.9 billion. As of the date of the Separation (1 January 2015), the total monetary debts of O2 Czech Republic amounted to CZK 12.6 billion, of which CZK 3.2 billion were long-term liabilities, including long-term loans in the amount of CZK 3.0 billion. CZK 9.4 billion were short-term liabilities, including short-term loans in the amount of CZK 4.0 billion. As of 30 September 2016, both loans have been repaid.

b) Remuneration and loans provided to member of board of directors, supervisory board and key management

	Period ended 30 September 2016	Period ended 30 September 2015	Year ended 31 December 2015
Remuneration in CZK million			
Board of directors	15	8	13
Supervisory board	-	-	-
Key management	29	28	39
Number of members			
Board of directors	3	3	3
Supervisory board	3	3	3
Key management	10	10	10

No loans were provided to members of the Board of Directors and Supervisory Board in 2016 and 2015.

22. SUBSIDIARIES

As at 30 September 2016

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2. CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3. CETIN Finance B.V.	100%	-*	Netherlands	Financial services	Full consolidation

*EUR 100

In September 2016 the Company incorporated a subsidiary CETIN Finance B.V. registered in Netherlands. The main business of the subsidiary is financial services.

Company CETIN Finance B.V. has not performed any activity as of date of these consolidated interim financial statements have been approved.

As at 31 December 2015

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2. CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation

As at 1 January 2015

Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1. CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2. CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation

23. MATERIAL SUBSEQUENT EVENTS

The Group has mandated BNP Paribas, HSBC and PPF Banka as Arrangers and BNP Paribas, Citigroup, HSBC, ING, SG CIB and PPF Banka as Dealers to establish its multi-currency EMTN Programme.

Beside above stated, there are no other subsequent events with material impact to the interim consolidated financial statements for period ended 30 September 2016.