Česká telekomunikační infrastruktura a.s.

Consolidated Annual Report 2016

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Appendices

Note:

Česká telekomunikační infrastruktura a.s. is also hereinafter referred to as "**CETIN**" or the "**Company**". Česká telekomunikační infrastruktura a.s. and its subsidiaries form the group of Česká telekomunikační infrastruktura – hereinafter referred to as the "**CETIN Group**".

A word of introduction from the Chairman of the Board

Ladies and gentlemen,

The results of Česká telekomunikační infrastruktura a.s. in the second year of its independent existence confirm the right direction of the Company and the benefits of an independent wholesale infrastructure provider for the Czech telecommunications market. The sound financial and market position is also apparent from the investment grade rating awarded by two prominent international rating agencies.

The Company actively listens to its customers, irrespective of their size, continually improving its public offer of wholesale services. As a result, the Company succeeds in attracting new wholesale partners among telecommunication operators. Moreover, we continue with our extensive investment program of networks modernisation, which is resulting in faster fixed broadband connection, increasing data capacity available, and extending coverage with the most advanced mobile signal. At the same time, the continually growing operational efficiency is being reflected in favourable prices for the whole market.

In the past year, we became the general partner of the Prague Spring International Music Festival and we are delighted to support this unique cultural event in the Czech Republic.

Martin Vlček

Chairman of the Board of Directors

Company profile

Basic information about the Company

Trade name:	Česká telekomunikační infrastruktura a.s.
Legal form:	joint stock company (akciová společnost)
Registered office of the Company:	Olšanská 2681/6, Žižkov, 130 00 Praha 3
Company registration number:	04084063
Commercial Court:	Municipal Court in Prague, file B 20623
Date of foundation:	1 June 2015
Registered capital:	CZK 3,102,200,670

Presentation of the company

CETIN came into existence by separation from O2 Czech Republic a.s. as of 1 June 2015. This resulted in an emergence of a purely infrastructure wholesale company that is not linked to specific service providers. CETIN offers its services to telecommunications operators and internet service providers, who in turn provide their services to end customers.

At the national level, CETIN mainly provides mobile network infrastructure services, mass fixed-line network services (network access, xDSL connection, IP TV, and voice services), data services for corporate networks, and rental of data centres. The main customers in the Czech market are telecommunication operators and internet service providers. These services yield gross margins at industry standard level, which the Company reinvests in the development of network infrastructure for the provision of these services.

CETIN owns and operates the largest electronic communication network within the Czech Republic. CETIN's telecommunication network covers 99.6% of the population with fixed-line technologies and an array of mobile technologies, broadcasting by nearly 6,000 base stations. CETIN participates in a network sharing project, thereby providing its mobile infrastructure to O2 and T-Mobile. In 2016, CETIN rolled out 725 new LTE stations that are used by the two operators. The network sharing project will be completed by the end of 2017. Moreover, more than 500 base stations in Prague had their capacity expanded by a second layer. This will enable higher data consumption, as Prague accounts for one fourth of the total national consumption.

CETIN's nation-wide network incorporates 20 million km of twisted metallic pairs and 38,000 km of optical cables throughout the Czech Republic and growing every day, through extensive investment in the FTTC (Fiber to the Cabinet) programme. 1,020 new FTTC street cabinets were installed in 2016, delivering faster connection to 449,000 households, of which more than 70% benefits from connection speeds of 50 Mbit/s and higher. During 2016, CETIN network started to offer connection speeds of 80 Mbit/s, now available to nearly 500,000 households throughout the country. Extensive development has also resulted in faster xDSL technology, which registered the highest increase in connection speeds of all technologies on the Czech market under review, growing by 25%.

CETIN has stepped up significantly also its investment in new development projects. In 2016, 16,982 housing units were being connected to the CETIN network.

CETIN provides international services, too, to both national as well as international service providers. The Company offers comprehensive international voice and data services for more than 200 customers worldwide via its points of presence (POP) in London, Vienna, Bratislava, and Frankfurt. Its international transit services primarily comprise the transmission of international voice traffic for international operators from all over the world. This kind of service is characterised by considerable revenues with very low margins, requiring however minimum operating costs.

With its experienced employees and extensive infrastructure, CETIN offers the most efficient, most reliable and most secure wholesale telecommunication services in the country. Nearly 1,500 employees at CETIN are making sure that customers are able to deploy their networks in a fast and efficient manner, facilitating their operation and availability throughout the Czech Republic. They manage major projects for operators and providers of telecommunication services to guarantee efficient deployment of industry leading infrastructure for their partners.

CETIN Group consists of Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, and CETIN Finance B.V. CETIN does not operate a branch or other part of business establishment abroad. A predominant part of Company's services in 2016 were provided in the Czech Republic. The main purpose of the subsidiaries in the area of telecommunication services is to allow the Company to operate its points of presence abroad for provision of international transit services to foreign operators.

Attestations

Business Certificate according to Section 20(1)(b) of Act No. 412/2005 Coll., which allows the Company to access classified information up to and including SECRET ("TAJNÉ") level.

Investment grade credit rating Baa2 with stable outlook, awarded by Moody's international rating agency.

Investment grade credit rating BBB with stable outlook, awarded by Fitch Ratings international rating agency.

Certificates

Quality management system according to ISO 9001:2008
Environmental management system according to ISO 14001:2004
Information security system according to ISO 27001:2013

Company bodies and senior management

Board of Directors

Ing. Martin Vlček	Chairman of the Board of Directors from 1 June 2015
Ing. Petr Slováček	Vice-Chairman of the Board of Directors from 1 June 2015
Mgr. Michal Frankl	Member of the Board of Directors from 1 June 2015

Supervisory Board

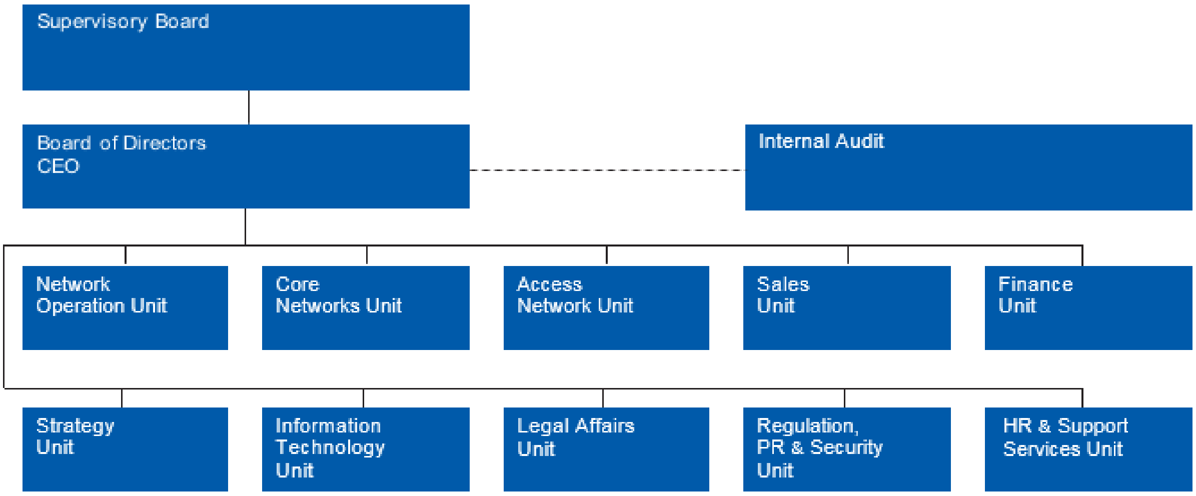
Ing. Ladislav Chvátal	Chairman of the Supervisory Board from 1 June 2015
Mgr. Lubomír Král	Vice-Chairman of the Supervisory Board from 1 June 2015
Vladimír Mlynář	Member of the Supervisory Board from 1 June 2015

Senior management

Ing. Petr Slováček	Chief Executive Officer from 1 June 2015
Ing. Petr Holý Ph.D.	Director, Network Operation Unit from 1 August 2016
Ing. Vladimír Filip	Director, Core Networks Unit from 1 June 2015
Ing. Petr Gazda	Director, Access Network Unit from 1 June 2015
Ing. Petr Možiš	Director, Sales Unit from 9 November 2015

Ing. Filip Cába	Director, Finance Unit from 1 June 2015
Colin James Shea	Director, Strategy Unit from 1 June 2015
Ing. Jiří Nováček	Director, Information Technology Unit from 1 June 2015
Mgr. Petr Prouza	Director, Legal Affairs Unit from 1 June 2015
Mgr. Michal Frankl	Director, Regulation, PR and Security Unit from 1 June 2015
Bc. Milena Synáčková	Director, Human Resources and Support Services Unit from 1 July

Company's organisational structure



Report of the Board of Directors on business activities

Business activities of the Company

CETIN Group comprises Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, and CETIN Finance B.V. The CETIN does not operate a branch or other part of business establishment abroad. On 25 April 2016, the Company founded a subsidiary CETIN Služby s.r.o. Based on a resolution of the General Meeting of 29 August 2016, the Company merged with CETIN Služby s.r.o. on 1 September 2016. A predominant share of Company's services in 2016 was provided through communications networks and related assets in the Czech Republic. The subsidiaries in Germany and Austria allow the Company to operate its point of presence abroad for provision of international transit services to foreign operators. On 7 September 2016, the Company founded a subsidiary CETIN Finance B.V., based in the Netherlands, which was used to issue Eurobonds and secure funding for the Company.

The Company only provides wholesale telecommunication infrastructure services to other telecommunication operators. The Company does not provide services directly to end users.

The Company divides its business activities into two segments – provision of national network services and international transit services. These two segments operate in different markets; the services are largely provided via different assets, and their business models, profitability and investment demands are fundamentally different.

The national network services primarily consist of mobile network services, mass fixed-line network services – network access service, xDSL, IPTV and voice service, data services, data centres and other services. Their main customers are service providers in the Czech telecommunications market. These services yield gross margins at industry standard level, which the Company reinvests in the development of network infrastructure for the provision of these services.

The international transit services primarily consist of the transmission of international voice traffic for international operators from all over the world. Considerable revenues with a very low margin that require minimum operating and capital costs are characteristic of this type of services.

The Company's revenues and profits in 2016 were mainly generated from three major contracts with O2 Czech Republic a.s.: a contract on the provision of mobile network services, a contract on access to the public fixed-line telecommunication network, and a contract on the provision of data centre services. The contracts represent a long-term obligation on the part of O2 Czech Republic a.s. to use the Company's services and the commitment of the Company to the agreed service levels and their improvement.

Products and services

Mobile network services – the Company is the main provider of mobile network services for O2 Czech Republic a.s. It also operates the mobile network for T-Mobile Czech Republic a.s. in half the country through a shared network. The lease transmission station capacity is a secondary source of income.

Mass fixed-line network services – the Company primarily offers all operators in the Czech market under equal condition, services involving access to the fixed-line network for the vast majority of housing units in the country, together with related voice services, xDSL broadband Internet access (broadband, FBB), IPTV paid television, local-loop unbundling (LLU) and technology collocation.

Data services – the Company also provides operators with data services on leased lines for their corporate customers.

International transit services – the Company provides international operators from all over the world with the transmission of international traffic, primarily voice.

Other services – This category includes the lease of dark fibres, housing in data centres, national interconnection services, support services for roaming, forced network transfers, duct hire and other associated services.

Commented financial results

This section provides comments on the financial results of CETIN Group in 2016. For detailed information, see the Consolidated Financial Statements for the financial year ended on 31 December 2016 in the following sections of this Annual Report.

Revenues, costs and profit

The total revenues of the CETIN Group amounted to CZK 20.4 billion in 2016. Total operating costs reported by CETIN Group were CZK 13.1 billion, with the major part represented by cost of sales in the international transit segment. CETIN Group reported a total of CZK 1.4 billion of payroll costs. Other significant cost items were the property leases, maintenance and operation and network operating and maintenance expenses.

The operating profit before impairment loss, interest, tax, depreciation and amortization (EBITDA) amounted to CZK 7.8 billion in 2016, with the predominant part of the profit coming from the national network services segment. CETIN Group's profit after tax amounted to CZK 2.3 billion in 2016.

Fixed tangible assets

Reduced by depreciation and other adjustments during the year, the net value of land, buildings and equipment required for the operations of the Company was CZK 49.1 billion as of 31 December 2016.

Cash and debt

In 2015, the Company received a bank loan in the amount of CZK 32.2 billion. The purpose of the loan was to provide another loan in the form of financial assistance in the amount of CZK 32.2 billion to PPF Arena 2 B.V. (presently PPF Infrastructure B.V.). In 2016, PPF Infrastructure B.V. prepaid the loan (financial assistance) in full.

As of 1 January 2016, the outstanding balance of the bank loan amounted to CZK 28.9 billion. In the course of 2016, the Company prepaid additional CZK 4.2 billion using its own free cash flows, thereby reducing the debt of the CETIN Group to CZK 24.7 billion.

On 6 December 2016, CETIN's subsidiary, CETIN Finance B.V. issued Eurobonds in the total amount of CZK 7.9 billion and EUR 625 million, with maturities of 1 year (CZK 3 billion), 5 years (EUR 625 million), and 7 years (CZK 4.9 billion). The funds raised were then provided as a loan to the Company with the same maturity. The Company used the funds to prepay the remaining balance of the bank loan.

For detailed information on loans and bonds, see Note 15 of the Notes to the Financial Statements included herein.

Profit distribution and other payments to shareholders

The General Meeting held on 30 June 2016 decided on the distribution of CZK 13.3 billion of distributable funds to shareholders. The distributions included CZK 1.8 billion from the Company's profit for 2015 and CZK 11.5 billion from released reserve funds. The payment took place on 11 July 2016.

The General Meeting held on 29 September 2016 decided on another distribution of CZK 19.0 billion of distributable funds to shareholders. The distributions included CZK 2.1 billion from the Company's profit for 2016 and CZK 16.9 billion from released reserve funds. The payment took place on 30 September 2016.

Capital expenditure

In 2016, the CETIN Group acquired fixed assets in the amount of CZK 3.5 billion. These investments were mainly channelled into the development of the telecommunication infrastructure. The main investment projects included the continued modernisation of the fixed-line network with FTTC technology, deployment of the 4G/LTE mobile network, and consolidation of existing 2G/3G mobile networks in a network shared with T-Mobile Czech Republic a.s.

Cash flows

The operating cash flow of CETIN Group amounted to CZK 7.7 billion in 2016. After working capital changes, the net cash flows from operating activities amounted to CZK 8.1 billion. The cash flows used in investment activities amounted to CZK 3.4 billion, mainly comprising investments in network infrastructure development. The cash flows used in financing activities consisted of the prepayment of financial assistance of CZK 32.2 billion from PPF Infrastructure B.V., dividend payments and distribution of other capital funds to Company's shareholders of CZK 32.3 billion, bonds issued in the total amount of CZK 24.7 billion, and repayment of a bank loan in the amount of CZK 28.9 billion.

In total, the net cash position has thus decreased by CZK 0.3 billion in 2016. The cash flows from CETIN Group's operating activities were thus used for investment in the telecommunications infrastructure development (CZK 3.5 billion) and for debt reduction (CZK 4.2 billion). Distributions to shareholders and financial assistance prepayment had a neutral effect on the total cash flows.

Treasury shares

As of 1 January 2016, the Company held 1,600 of its own shares. As of 11 January 2016, these shares of the Company were transferred, as part of a mandatory transfer (squeeze-out), to the majority shareholder, PPF A4 B.V., pursuant to resolution of the Company's General Meeting held on 3 December 2015.

Outlook for the forthcoming period

The Company will continue focusing on further modernisation and development of the telecommunication infrastructure and on increasing the efficiency of its operations. In terms of commercial performance, the Company will continue to maintain and improve the level of satisfaction of its existing customers with the provided services, while actively endeavouring to attract new customers in both commercial segments. The Company expects to further strengthen its leading position in the Czech telecommunications market through the best and most extensive networks, attractive products and services with reasonable prices, and neutrality towards all operators in the market. In the international transit segment, the Company will be expanding its points of presence abroad, trying to attract new business partners from all over the world.

The Company expects that its main investments in the forthcoming period will continue to be channelled into completion of the deployment of the 4G/LTE mobile network and consolidation of the 2G/3G network in cooperation with T-Mobile Czech Republic a.s. The Company will continue investing substantially in modernising existing fixed-line networks, mainly by increasing the connection speed by installing remote DSLAMs and reinforcing the backbone network in line with the expected increase of demand for transmission capacity of the network. The Company will also focus on the deployment of FTTH connection in development projects

In terms of operations, the Company will continue to focus on increasing the efficiency of its operating model, improving flexibility in providing services to customers and increasing their level of satisfaction.

In terms of the financial results, the Company expects the continued price erosion of data services and declining demand for fixed-line voice services to be compensated by growing revenue from mass services, mobile network services as well as international transit. The growth of investment in the development and modernisation of critical telecommunication infrastructure that will continue going forward will not have a significant impact on the Company's ability to generate steady free cash flows.

Telecommunication market in the Czech Republic

The most significant changes on the telecommunications market in 2016 include the continued consolidation of mobile networks of CETIN and T-Mobile Czech Republic a.s. and improvement of the LTE signal coverage throughout the country.

Development of regulation and associated legislation

From the Company's point of view, the regulatory environment on the electronic communications market in the Czech Republic was mainly affected by legislative developments, analyses of relevant markets, and product regulation in 2016.

The Company complies with regulatory obligations imposed on the Company as a resulted of the analyses of relevant markets conducted by the Czech Telecommunication Office ("CTO") during previous periods. This involves the obligation to provide access to the relevant markets of call termination at a fixed location, markets of physical and broadband access to the infrastructure, and the leased lines market under the terms and conditions set by the corrective measures.

Analyses of relevant markets and regulatory measures

In 2016, the CTO continued with the fourth round of the analyses of relevant markets. In September 2016, the obligations imposed in the market of call origination at a fixed location in public network were cancelled. Furthermore, the CTO issued a new decision in December 2016 on imposition of obligations and price decision in the relevant market for call termination wholesale services in public telephone networks provided at a fixed location, with a minor increase of the maximum price for the call termination service from CZK 0.03 per minute CZK 0.033 per minute excl. VAT. Analyses of relevant markets for wholesale services with local access at a fixed location and services with central access at a fixed location for mass products commenced in 2016 and will continue in 2017.

In October 2016, the Czech Government passed a draft Act on reduction of costs of deploying high-speed electronic communications networks. The draft transposes Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks, which is aimed at facilitating the sharing of existing physical network architecture among electronic communications networks operators. The draft is currently being reviewed by the Czech Parliament.

With regard to legislation of the European Union, it should be noted that the European Commission proposed a series of Directives and Regulations in September 2016 to review the regulatory framework for electronic communications. The proposal of the European Commission consolidates several applicable Directives forming the regulatory framework within a single "code", which is intended to promote the competitive environment and encourage investment in electronic communications. Furthermore, it proposes the establishment of BEREC as a separate European regulatory agency for electronic communications.

State policy and support of high-speed Internet access

In 2016, the Ministry of Industry and Trade of the Czech Republic continued its preparation of a programme of subsidies for deploying high-speed networks in areas that currently have no high-speed access to the Internet. This is part of the Operational Programme Enterprise and Innovations for Competitiveness that is financed by European Union structural funds.

Membership in associations and societies

In 2016, the Company was a member of prominent professional associations and societies supporting the development of the electronic communications market in the Czech Republic. These are mainly the Information Technology and Telecommunication Association (ICTU), Czech Association of Electronic Communications, Czech Telecommunications Association, and the Chamber of Commerce of the Czech Republic.

Risk management

The Company is exposed to market, operating and financial risks. Risks are continually identified by all units and evaluated by the Finance Unit from the perspective of potential financial impacts and the risk probability. Risks that are assessed as significant and current are periodically monitored and Company bodies regularly review these risks and assign tasks to the owners of risks to take preventive measures to effectively limit the impacts or probability of these risks.

The main market risks include public regulation, market environment consolidation and price erosion. Operating risks primarily refer to failures of the network infrastructure, services and critical systems, natural disasters, cybernetic attacks, and information leaks. Financial risks mainly include the credit risk associated with customer receivables and the risk of currency exchange rate fluctuations.

The area of information/information technology security within the context of the group of standards ISO/IEC 27000 and Cybernetic Security Act represent a specific part of the Company's risk management system. The Company actively uses the risk management system pursuant to international standard ISO 27000, which involves annual full-scale analysis of operating risks and Business Impact analysis. In 2016, these analyses resulted in a risk catalogue, with links to threats and measures aimed at risk minimisation and management. In June 2016, the relevance of the analyses results was verified during the annual Integrated Management System certification audit. The methodology and the assessment system passed the audit without any significant deviations from the ISO/IEC 27000 standards being identified.

Corporate social responsibility

In 2016, CETIN became the general partner to the 71st annual Prague Spring International Music Festival. Classical music lovers were not familiar with CETIN previously, not only as the Festival's general partner. Nevertheless, the impact of changes in the form of the Festival has already been apparent and the Company has become more than a mere financial sponsor to the Festival.

The Prague Spring Festival, traditionally one of the highlights of the cultural calendar not only in the Czech Republic, has entered its eighth decade. It has many international fans and regular visitors. As a company active in the rapidly changing environment of telecommunications, CETIN tries to bring something new and fresh to this traditional festival of music. In 2016, people were able to enjoy the transmission of the opening concert outside of the concert hall, at Kampa Park in Prague, for the first time. CETIN thus laid foundation of a new tradition that will be beneficial to visitors and fans of the Prague Spring Festival in the years to come.

Research and development

In its research and development activities, the Company cooperates with the most prominent technical university in the Czech Republic – the Czech Technical University in Prague. The joint project office newly created by the Department of Telecommunications Technology (Faculty of Electrical Engineering, Czech Technical University) and by CETIN provides a forum for addressing pressing issues of cybernetic security. The main objective is the design and implementation of unique methodology for identifying network threats, increase in network robustness, and ongoing improvement of the methodology.

The cooperation between the academia and business professionals results in significant synergies, as the success of proposed solutions requires both theoretical expertise and practical experience in the fields of finance, legislation, business and operations. The objective of the Faculty of Electrical Engineering (Czech Technical University) is to carry out scientific and research activities and train professionals for practical applications in modern telecommunications networks. CETIN employees provide access to output of systems operating in real environment and to current business concerns, while benefiting from the possibility to become familiar with the latest scientific processes and findings in telecommunications.

The CETIN Group did not report any research and development activities in 2016 in terms of IFRS accounting standards.

Environmental protection

The Company is aware of the importance of protecting healthy and unharmed environment for present and future generations. The Company thus incorporated the limitation of adverse effects on the environment in its strategy and everyday activities. It has in place an environmental management system according to international standard ISO 14001. Successfully recertification audit took place in June 2016. CETIN also received a certificate for a newly-established system of energy management according to international standard ISO 50001. In 2016, the objectives aimed at limiting the negative impacts on the environment mainly focused on reducing the consumption of electricity, fuel savings and replacing the cooling media in air-conditioning units, which also leads to reduction in emissions of greenhouse gases and harmful substances into the atmosphere and to cost savings.

Human Resources

The average workforce in the Company in 2016 was 1,378 full-time equivalents, compared to 1,437 as of 31 December 2016. Overall, 271 new jobs have been created since the establishment of the Company, including insourcing of employees in financial accounting, logistics and information technology. The recruitment and selection process of new employees focused primarily on fulfilling the needs of deployment of fixed and mobile networks and IT operations.

In the area of human resource management and building a healthy company culture, the Company considers open communication between management and employees at all levels and in all regions to be the most crucial factor, aiming to explain the objectives and values of the Company and thus involve all employees in the development of a successful and effective company.

Significant events after the financial statements date

All material events occurring after the financial statements date are disclosed in Note 24 of the Notes to the Consolidated Financial Statements included herein.

Appendices

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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.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Česká telekomunikační infrastruktura a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements, individual financial statements and our auditor's reports. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information, with the exception of our separate review of the Report on Relations, to which we provide report below. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is/ responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Česká telekomunikační infrastruktura a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2016 and the statement of total comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the supervisory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of Česká telekomunikační infrastruktura a.s. for the year ended 31 December 2016. The responsibility for the preparation and factual accuracy of this report rests with the Company´s statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company´s personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations of Česká telekomunikační infrastruktura a.s. for the year ended 31 December 2016 contains material factual misstatements.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the consolidated financial statements and financial statements of Česká telekomunikační infrastruktura a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
7 March 2017

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Registration number 2059

Report on related party transactions

between a controlling entity and a controlled entity and between a controlled entity and other entities controlled by the same controlling entity in 2016

Česká telekomunikační infrastruktura a.s., with its registered office at Prague 3, Olšanská 2681/6, Postcode: 130 00, identification number (IČO): 040 84 063, registered in the Commercial Register administered by the Municipal Court in Prague, file B 20623 (hereinafter the "**Company**" or "**CETIN**" or "**Česká telekomunikační infrastruktura**"), is required to prepare a report for the accounting period of 2016 on related party transactions between the controlling entity and the Company and between the Company and other entities controlled by the same controlling entity in compliance with Section 82 et seq. of Act No. 90/2012 Coll., on Business corporations and cooperatives (Business Corporations Act), as amended (hereinafter the "**Business Corporations Act**"; this report shall hereinafter be referred to as the "**Report on Related Party Transactions**").

Report on Related Party Transactions for the period of 1 January 2016 - 31 December 2016

Controlling entity: Ing. Petr Kellner
Date of birth: 20 May 1964
Place of residence: Vrané nad Vltavou, Březovská 509, District of Praha-západ, Postcode: 252 45

Mr. Petr Kellner was a party with a share that allowed full control of the Company for the entire accounting period of 2016. During the accounting period, Mr. Petr Kellner had indirect control of a 94.9% to 100% share in the Company's voting rights. Mr. Petr Kellner held this indirect share in the Company's voting rights through PPF Infrastructure B.V., PPF A3 B.V. and PPF A4 B.V., which acted in concert in relation to the Company; individual shares of the aforementioned companies in the Company's voting rights varied in the course of the relevant accounting period. Based on a resolution of the Company's General Meeting of 3 December 2015, a mandatory transfer of all shares of other shareholders of the Company to the majority shareholder, PPF A4 B.V., took place on 11 January 2016. Consequently, PPF A4 B.V. became the sole shareholder of the Company. On the last day of the accounting period, Mr. Petr Kellner controlled the Company through PPF Infrastructure B.V. and PPF A3 B.V., which together owned shares associated with 100% of the voting rights in the Company.

1. Structure of relations between the controlling entity and the Company and between the Company and other companies controlled by the same controlling entity

The companies PPF Infrastructure B.V. and PPF A3 B.V., through which Mr. Petr Kellner acts as the controlling entity of the Company, are part of the PPF Group.

The PPF Group has its corporate ownership and controlling structure located in the Netherlands. PPF Group N.V., with its registered office in Amsterdam, is the key holding company of the PPF Group; strategic decisions are adopted on this level, which affect the control of the PPF Group. Specific sub-holding structures are usually set up within the individual business/commercial areas, in which the PPF Group operates and which it considers strategic (banking, financial services, real estate management, telecommunications, biotechnology, and agriculture); these sub-holding structures address various matters relating to the relevant business/commercial area. Special-purpose vehicles (SPVs) are used within these structures, reflecting the special conditions existing within the PPF Group, particularly from the perspective of funding of their acquisitions or transaction history.

According to information provided by PPF, a.s., an overview of entities directly or indirectly controlled by the same controlling entity - Mr. Petr Kellner – has been prepared, including other information about their structure. The overview is shown in Annex 1 to this Report on Related Party Transactions.

2. Role of the Company

The Company is a wholesale provider of infrastructure and other telecommunication services in the area of fixed and mobile communication networks to providers of electronic communication services within the territory of the Czech Republic. Through its points of presence abroad, it also provides voice and data traffic transit services to international operators.

3. Methods and means of control

Mr. Petr Kellner was able to control the Company during the period under review due to the fact that he held majority of shares in the Company and consequently a majority share of voting rights - through the aforementioned companies PPF Infrastructure B.V., PPF A3 B.V., and PPF A4 B.V. – whereas only changes in the structure of stakes in these companies took place during the accounting period of 2016 (see the introduction of this Report on Related Party Transactions).

The exercising of a majority share of the voting rights is the fundamental means of controlling the Company.

4. Overview of actions pursuant to Section 82(2)(d) of the Business Corporations Act

During the accounting period of 2016, the Company did not take any actions initiated by or in the interest of the controlling entity or companies it controls that would involve disposal of the Company's assets exceeding 10% of the Company's equity capital, as determined based on the latest financial statements.

Based on a resolution of the General Meeting concerning the approval of provision of financial assistance, the Company entered into a **Term Facilities Agreement Up to CZK 32,200,000,000** with a syndicate of banks on 31 July 2015, as well as an **Intra-Group Loan Agreement of Up To CZK 32,200,000,000** (Financing Facility Agreement) with PPF Arena 2 B.V. on the same date, receiving a loan in the amount of CZK 32.2 billion from the said syndicate of banks. The Company subsequently used the funds to provide a loan to PPF Arena 2 B.V. in the amount of CZK 32.2 billion, with maturity of 7 years (financial assistance). PPF Infrastructure B.V. is the legal successor of PPF Arena 2 B.V.

<u>Intra-Group Loan Agreement of Up To CZK 32,200,000,000</u>

On 30 June 2016, the General Meeting of the Company instructed the Company's Board of Directors to, *inter alia*, take any steps reasonably required for the early repayment of the financial assistance. The decision was taken using only the voting rights related to Company's shares owned by PPF Infrastructure B.V. The Company did not incur any loss in connection with the fulfilment of such instructions, since PPF Infrastructure B.V. covered the costs incurred by the Company.

In 2016, the Company received instalments in the total amount of CZK 32.2 billion from PPF Infrastructure B.V. under the Intra-Group Loan Agreement of Up To CZK 32,200,000,000 (Financing Facility Agreement), interest associated with the provision of the financial assistance in the amount of CZK 593 million and a compensation relating to early repayment of the financial assistance in the amount of CZK 147 million. All liabilities associated with the financial assistance provided by the Company to PPF Infrastruktura B.V. were thus repaid in full.

<u>Term Facilities Agreement Up to CZK 32,200,000,000</u>

In 2016, the Company repaid the outstanding balance of the loan in the amount of CZK 28.85 billion to the syndicate of banks under the Term Facilities Agreement Up to CZK 32,200,000,000 (with CZK 3.35 billion prepaid in 2015). Under the aforementioned Agreement, the Company paid interest of CZK 481 million to the syndicate of banks in 2016.

Actions pursuant to Section 82(2)(d) of the Business Corporations Act after the end of the accounting period of 2016

From the end of the accounting period of 1 January 2016 - 31 December 2016 to the preparation of this Report, the Company did not take any actions initiated by or in the interest of the controlling entity or companies it controls that would involve disposal of the Company's assets exceeding 10% of the Company's equity capital, as determined based on the latest financial statements.

5. Overview of mutual contracts

The following contracts existed or were newly concluded by and between the Company and the controlling entity or companies controlled by the same controlling entity during the accounting period of 2016:

- Service Level Agreement, *contracting party*: PPF a.s., *description of performance:* consultancy services.
- Contract on Services involving the Operation of Information Technology, *contracting party*: PPF IT Services s.r.o.;[1] *description of performance:* the Company purchases services consisting in the provision of IT operation, provision of support for IT infrastructure and application support.
- Lease Contracts, *contracting party*: PPF IT Services s.r.o.,[1] *description of performance*: lease or sublease of premises from the Company to be used for business activities.
- Non-disclosure Agreement and the Agreement on the Protection of Confidential Information, *contracting party*: PPF IT Services s.r.o.,[1] *description of performance*: rules for protection and nondisclosure of certain information in connection with commercial dealings between the contracting parties.
- Contract on the Provision of Support Services, *contracting party*: PPF IT Services s.r.o.,[1] *description of performance*: provision of certain support services to PPF IT Services s.r.o.
- Data Processing Contracts, *contracting party*: PPF IT Services s.r.o.,[1] *description of performance*: terms and conditions of processing personal and other data between the contracting parties according to the Personal Data Protection Act.
- Master Contract on Payment and Banking Services, *contracting party*: PPF banka a.s., *description of performance:* the subject-matter of the contract is the opening of accounts in CZK, EUR and USD.
- Contract on an Internal Escrow Account, *contracting party:* PPF banka a.s., *description of performance:* escrow account used to deposit purchase price for the purpose of real estate acquisition.
- Master Contract on the Provision of the Services of an Event Agency, *contracting party*: Public Picture & Marketing a.s., *description of performance:* provision of air tickets, accommodation, travel tickets, visas, rental of lounges.
- Master Contract on the Provision or Intermediation of Travel Desk Services, *contracting party*: Public Picture & Marketing a.s., *description of performance:* the contracting party provides the Company with a service package consisting in the intermediation of booking of air tickets, accommodation, travel tickets, provision of visas, car rentals, reporting.
- Contracts on the Processing of Personal Data Relating to the Travel Desk Contract; *contracting party*: Public Picture & Marketing a.s., *description of performance:* processing of personal data – CETIN once in the position of administrator and once in the position of processor.
- Agreement on the Payment of Expenses; *contracting party*: PPF Group N.V., *description of performance:* it contains the undertaking of the contracting party to cover the Company's expenses incurred by the Company in connection with the preparation of approval of financial assistance for PPF Arena 2 B.V. (PPF Infrastructure B.V.is the legal successor of PPF Arena 2 B.V.) or in connection with the syndicated loan.
- Intra-Group Loan Agreement of Up To CZK 32,200,000,000 (Financing Facility Agreement), *contracting party*: PPF Infrastructure B.V., *description of performance:* it contains the terms and conditions of the provision of a loan of CZK 32.2 billion, repayable within 7 years, by the Company to PPF Infrastructure B.V.
- Mobile Network Services Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: a contract on mobile network services which ensures access for O2 Czech Republic a.s. to the infrastructure and functionalities of the Radio Access Network mobile network on the part

[1] On 29 May 2016, the 100% share in the company PPF IT Services s.r.o. was transferred from PPF a.s. to O2 Czech Republic a.s. The company was then renamed O2 IT Services s.r.o.

of CETIN and performance by CETIN consists in the operation and maintenance of the 2G, 3G, LTE and CDMA networks, consolidation of the 2G and 3G networks, development of the LTE network.

- Non-Disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: the application of rules for maintaining confidentiality of information from the Mobile Network Services Agreement between CETIN and O2 Czech Republic a.s. in cooperation with T-Mobile Czech Republic a.s.
- Contract on Access to Terminal Sections; *contracting party*: O2 Czech Republic a.s., *description of performance*: data services according to a new reference offer terminated in regional capitals.
- Contract on Access to the Public Fixed Communication Network; *contracting party*: O2 Czech Republic a.s., *description of performance*: a contract based on a reference offer, the subject-matter of which is the provision of services involving connection to the network at a terminal point, access to a publicly-accessible telephone services and to broadband services in the CETIN fixed network.
- Contract on Connection of the CETIN Public Fixed Communication Network to the O2 CZ Public Mobile Communication Network; *contracting party*: O2 Czech Republic a.s., *description of performance*: provision of electronic communication services and activities to subscribers connected to the networks of the contracting parties and to other users, the connection and maintenance of connection of infrastructures of their public communication networks.
- Service Agreement – Wholesale Roaming Services, *contracting party*: O2 Czech Republic a.s., *description of performance*: arrangement of discount contracts with roaming partners on behalf of O2 Czech Republic a.s.
- Data Centre Service Level Agreement, *contracting party*: O2 Czech Republic a.s., *description of performance*: lease of space in data centres owned by CETIN.
- Contract on Collocation for Specific Locations, *contracting party*: O2 Czech Republic a.s., *description of performance*: provision of collocation space and physical collocation services in certain locations.
- Contract on the Provision of Carrier-type Services, *contracting party*: O2 Czech Republic a.s., *description of performance*: Carrier wholesale data services.
- Contract on the Provision of Billing for Wholesale Services, *contracting party*: O2 Czech Republic a.s., *description of performance*: provision of billing for wholesale services for O2 Czech Republic a.s.
- Contract on the Provision of Billing for Wholesale Services, *contracting party*: O2 Slovakia s.r.o. (O2 SK), *description of performance*: provision of billing for wholesale services for O2 SK.
- Lease Contracts, *contracting party*: O2 Czech Republic a.s., *description of performance*: lease or sublease of office space owned by CETIN.
- Contracts on the Provision of Support Services by CETIN for O2 CZ / by O2 CZ for CETIN; *contracting party*: O2 Czech Republic a.s., *description of performance*: temporary provision of mutual support services.
- Contract on the Provision of Support Services by CETIN for O2 SK / by O2 SK for CETIN; *contracting party*: O2 Slovakia s.r.o., *description of performance:* the temporary provision of mutual support services.
- Contract on the Termination of International Voice Operation; *contracting party*: O2 Czech Republic a.s., *description of performance*: transit of international operation originating in the O2 Czech Republic a.s. fixed and mobile network, including operation originating in the O2 Slovakia network.
- Contract on the Lease of Optical Fibres, *contracting party*: O2 Czech Republic a.s., *description of performance*: lease of optical fibres.
- Contract on the Use of Optical Fibres, *contracting party*: O2 Slovakia s.r.o. (O2 SK), *description of performance*: exclusive use of optical fibres owned by O2 SK by CETIN and regular maintenance.
- Contract on the Provision of Technological Housing Services, *contracting party*: O2 Czech Republic a.s., *description of performance*: lease of space within the technological areas of CETIN for installation of technology by O2 Czech Republic a.s.

- Contracts of Purchase for the Sale of Assets of O2 CZ to CETIN / CETIN to O2 CZ; *contracting party*: O2 Czech Republic a.s., *description of performance*: to finalise the property settlement between the companies.
- Contracts of Purchase for the Sale of Assets of O2 SK to CETIN / CETIN to O2 SK; *contracting party:* O2 Slovakia s.r.o., *description of performance:* to finalise the property settlement between the companies.
- Contracts of Purchase for the Sale of Assets of O2 IT Services s.r.o. to CETIN; *contracting party*: O2 IT Services s.r.o., *description of performance:* transfer of ownership rights to assets – computers, mobile telephones etc.
- Services Agreement on Signalling and GRX / IPX, *contracting party*: O2 Czech Republic a.s., *description of performance*: CETIN ensures SCCP and diameter signalling, GRX/S8 payload mobile data exchange.
- Master Agreement on the Terms and Conditions of the Provision of Mobile Electronic Communication Services; *contracting party*: O2 Czech Republic a.s., *description of performance*: O2 Czech Republic a.s. provides the Company with electronic communication services through mobile networks and supplies mobile telephones and accessories under the agreed terms and conditions.
- Contract on the Terms and Conditions of Supplying Microsoft Products; *contracting party*: O2 Czech Republic a.s., *description of performance*: the subject-matter of the contract is the transfer of Microsoft licences from O2 Czech Republic a.s., obtained by O2 Czech Republic a.s. before 31 May 2015, to CETIN.
- Agreement on the Payment of Costs for Services within the scope of Personnel Activity, *contracting party*: PPF a.s., *description of performance:* the subject-matter of the contract is the evaluation of the information of applicants.
- Contract on the Supply of an Application Migration Project; *contracting party*: O2 IT Services s.r.o., *description of performance:* migration of applications used by O2 IT Services s.r.o. to the CETIN infrastructure, the provision of servicing services for certain applications and other ad hoc services.
- Contract on the Assignment of Rights and Obligations from a Contract; *contracting party*: O2 IT Services s.r.o., *description of performance:* O2 IT Services s.r.o. assigns to CETIN a Contract on the Supply of Services for the Assurance of Operation, Supervision and Servicing of Non-IT Technology at a Data Centre with supplier ALTRON a.s.
- Master Contract on the Commercial Lease of Movables; *contracting party*: O2 Slovakia s.r.o. (O2 SK), *description of performance*: specification of general terms and conditions for the lease of movables specified in each partial contract; this contract passed to CETIN as of 1 June 2015; O2 Czech Republic a.s. is no longer a contracting party to this contract.
- Contract on the Provision of a Voice Solution; *contracting party*: O2 Czech Republic a.s., *description of performance*: provision of a VOLUME 1 + 1 voice solution.
- Non-disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: maintaining confidentiality regarding information from the Project for the Construction and Transfer of the Parallel Functioning of the Signal Transfer Point and Number Portability systems from the O2 Czech Republic a.s. network to the new environment of the Company.
- Non-disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: maintaining confidentiality regarding information relating to the implementation of the “Checker” project, the subject-matter of which is the sharing of mobile networks between the Company and T-Mobile Czech Republic a.s.
- Mandate Contract on Arrangement of Trade in Money Market and Derivative Investment Instruments; *contracting party*: PPF banka a.s., *description of performance:* arrangement of trade on money and foreign exchange markets and trade in financial derivatives.
- Personal Data Processing Contracts, *contracting party*: O2 Czech Republic a.s., *description of performance*: the processing of personal data associated with the performance of selected contracts entered into with O2 Czech Republic a.s.
- Master Services Agreement (on Signalling GRX/IPX); *contracting party*: O2 Slovakia s.r.o., *description of performance:* provision of roaming signalling services and roaming data exchange (2G/3G/4G) to O2 Slovakia, s.r.o.

- Non-disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: maintaining confidentiality regarding information from the division of O2 Czech Republic a.s. and COPE, which is to undertake the transfer and any required modification of existing applications (including of the system infrastructure and its application support) from the environment of O2 Czech Republic a.s. to the new environment of the Company for the purpose of separating the IT systems of the Company and O2 Czech Republic a.s.
- Non-disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: maintaining confidentiality regarding the matters of a joint project with Mycroft Mind, a.s., and O2 Czech Republic a.s., in which the transmission of data readings in the electricity grid is modelled.
- Indemnity Undertaking; *contracting parties*: PPF Group N.V. and PPF Infrastructure B.V., *description of performance:* confirmation by CETIN that it is aware of and consents to the fact that PPF Group N.V. undertakes to pay PPF Infrastructure B.V. (formerly PPF Arena 2 B.V.) any potential claims which CETIN brings against this entity.
- Confidentiality Agreement; *contracting parties*: O2 Czech Republic a.s. and Genpact International, Inc., *description of performance:* specification of the terms and conditions of protecting disclosed information or trade secrets, as appropriate, in connection with the considered transfer of services of the accounting department.
- Liquidity Support Undertaking; *contracting parties*: PPF Group N. V., PPF Arena 1 B.V. and PPF Infrastructure B.V., *description of performance:* guarantee for CETIN that in the case that a direct debtor does not have sufficient liquid resources to pay liabilities arising from loan documentation, either PPF Arena 1 B.V. or PPF Group N. V. will replenish financial funds in the form of premium or direct contribution to the equity capital of PPF A2 in order to ensure the fulfilment of such liabilities.
- Contract on the Provision of Address Space; *contracting party*: O2 Czech Republic a.s., *description of performance*: mutual provision for use of address space (IP Address Space), which, as a result of the division of O2 Czech Republic a.s., which, inter alia, resulted in the complete division of the Company and O2 Czech Republic a.s., the Company and O2 Czech Republic a.s. would not presently be able to use as anticipated upon division without this contract.
- Lease Contracts, *contracting party*: CITY TOWER, a.s., *description of performance:* installation of antenna bodies on real estate owned by the company CITY TOWER, a.s.
- Lease Contract, *contracting party*: Office Star Five, spol. s r.o., *description of performance:* installation of antenna post on real estate owned by the company Office Star Five, spol. s r.o.
- Non-disclosure Agreement; *contracting party*: O2 Czech Republic a.s., *description of performance*: the SmartGrid project, the potential supply of a technical and software solution for customers of E-on and ČEZ.
- Non-disclosure Agreement; *contracting party*: O2 IT Services s.r.o., *description of performance:* the SmartGrid project, the potential supply of a technical and software solution for customers of E-on and ČEZ.
- Contract of Purchase; *contracting party*: O2 Czech Republic a.s., *description of performance*: transfer of ownership rights to assets (MC boxes – Cisco switch) to the Company.
- Service Agreement, *contracting party:* O2 Czech Republic, *description of performance:* maintenance of the communication infrastructure optical elements.
- Service Agreement – Wholesale Roaming Services, *contracting party*: O2 Slovakia s.r.o. (O2 SK), *description of performance*: arrangement of discount contracts with roaming partners on behalf of O2 SK.
- Service Level Agreement, *contracting party*: O2 Czech Republic a.s., *description of performance*: data services provided by O2 Czech Republic a.s., the provision of rights to use IP addresses.

- Master Contract on Trading on Financial Market (EMA), *contracting party*: PPF banka a.s., *description of performance:* financial services – financial market trading.
- Lease Contract, *contracting parties*: Art Office Gallery a.s., T – Mobile Czech Republic a.s. and Vodafone Czech Republic a.s., *description of performance:* lease of space for running the lines of coaxial cables fed between technological units and antennae and the lease of space for placing antennae and other distribution elements.
- Lease Contract, *contracting party*: Art Office Gallery a.s., *description of performance:* lease of space in technology rooms.
- Lease Contract, *contracting party*: Gen Office Gallery a.s., *description of performance:* lease of space in technology rooms.
- Lease Contract, *contracting parties*: Gen Office Gallery a.s., T – Mobile Czech Republic a.s. and Vodafone Czech Republic a.s., *description of performance:* lease of space for running the lines of coaxial cables fed between technological units and antennae and the lease of space for placing antennae and other distribution elements.
- Contract on the Establishment of Servitude, *contracting party*: Gen Office Gallery a.s., *description of performance:* establishment of servitude, consisting in the establishment, operation, maintenance and repair of underground communication lines of the public communication network on part of the land of the encumbered party.
- Contract on the Establishment of Servitude, *contracting party*: Gen Office Gallery a.s., *description of performance:* establishment, operation, maintenance and repair of underground communication lines of the public communication network on part of the land of the encumbered party.
- Assignment of Agreements, *contracting parties:* O2 Czech Republic a.s., Polystar OSIX AB, *description of performance:* assignment of rights and obligations arising from agreements entered into by and between O2 CZ and Polystar OSIX AB to CETIN.
- Novation Agreement, *contracting parties:* O2 Czech Republic a.s., Independent Technology Systems Limited, *description of performance:* mutual confirmation of contracting parties on the assignment of a license agreement with Independent Technology Systems Limited from O2 CZ to CETIN, as a result of the Company division.
- Contract on the Transfer of Rights and Obligations from a License Agreement, *contracting party:* O2 Czech Republic a.s., *description of performance:* transfer, for consideration, of some unused license rights from O2 CZ to CETIN.
- Contract on the Provision of Archiving Services, Principles for Potential Division of Archives and Associated Cooperation, *contracting party:* O2 Czech Republic a.s., *description of performance:* archiving and access to archived documents within the central archives of O2 CZ pertaining to CETIN, under the division project or relating to joint corporate history of both companies.
- Intra-Group Multi-Currency Loan Agreement of Up To EUR 2,000,000,000 Equivalent (and the following Drawdown Terms), *contracting party*: CETIN Finance B.V., *description of performance*: conditions of the loan provided by CETIN Finance B.V. to the Company in various currencies up to the equivalent of CZK 2bn, due in 1 to 6 years.
- Dealer Agreement (and the associated documentation), *contracting party:* CETIN Finance B.V., příslušné banky, *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Trust Deed (and the associated documentation), *contracting party:* CETIN Finance B.V., Citicorp Trustee Company Limited, *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.

- Issue and Paying Agency Agreement (and the associated documentation), *contracting party:* CETIN Finance B.V., relevant banks, including PPF banka a.s., *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Programme Manual; *contracting party:* CETIN Finance B.V., *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Subscription Agreement in respect of CZK 3,000,000,000 and CZK 4,866,000,000 Notes (and the associated documentation), *contracting party:* CETIN Finance B.V., relevant banks, *description of performance:* conditions related to issuance of the CZK tranche of corporate bonds issued by CETIN Finance B.V.
- Subscription Agreement in respect of EUR 625,000,000 Notes (and the associated documentation), *contracting party:* CETIN Finance B.V., relevant banks, *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Agreement on Providing the Documentation, Protection of Information and Prevention of their Abuse, *contracting party:* Bestsport, a.s., *description of performance:* provision of Company's documentation and commitment to protect the contained confidential information
- Lease Contract, *contracting party:* Bestsport, a.s., *description of performance:* lease of part of real estate with the purpose of installation of telecommunications devices.
- Contract on the Provision of Telecommunication Services, *contracting party:* CZECH TELECOM Austria GmbH, *description of performance:* telecommunication services.
- Purchase contracts, *contracting party:* CZECH TELECOM Austria GmbH, *description of performance:* purchase and sale of telecommunication and other devices.
- Contract on the Provision of Telecommunication Services, *contracting party:* CZECH TELECOM Germany GmbH, *description of performance:* telecommunication services.
- Purchase contracts, *contracting party:* CZECH TELECOM Germany GmbH, *description of performance:* purchase and sale of telecommunication and other devices.

From the perspective of the controlled company, the performance based on the aforementioned contracts/agreements was invariably at a level corresponding in terms of price and quality to the services provided on the market by third parties or to third parties, as appropriate. Any other information from the said contracts/agreements cannot be disclosed due to the need to ensure trade secret and the agreed obligation to maintain confidentiality.

6. Assessment of potential loss incurred by the Company and assessment of its settlement pursuant to Sections 71 and 72 of the Business Corporations Act

Any and all contracts/agreements described in Section 5 of this Report on Related Party Transactions were concluded under the terms and conditions customary for standard commercial relations. Similarly, any provided and received performance based on such contracts/agreements took place under the terms and conditions customary for standard commercial relations, whereas the Company did not incur any loss in connection with these contracts. The settlement of costs associated with the syndicated loan and of prepayments of the financial assistance in 2016 was described in Section 4 hereof.

7. Conclusion

The most significant events relevant to the Report on related party transactions during the accounting period of 2016 were the mandatory transfer of ownership of all shares in the Company to PPF A4 B.V. (i.e. the squeeze-out of minority shareholders), the distribution of profit for 2015 and partial distribution of equity to shareholders of the Company, and the partial prepayment of the financial assistance.

The practice of consistent separation of the Company and its subsidiaries (in particular their commercial and management leadership and management) and other companies from the PPF Group from O2 Czech Republic a.s. continued during the accounting period of 2016. Therefore, there are no special relations among them which could negate the purpose of division and the independence arising therefrom. All relations are regulated by the relevant contracts, which have been and are entered into under the terms and conditions customary for standard commercial relations.

The Board of Directors of the Company hereby represents that, based on the evaluation of the role of the Company in relation to the controlling entity and to companies controlled by the same controlling entity, the Company has not enjoyed any special benefits or suffered any disadvantages or risks arising from relations between the Company and the controlling entity and/or companies controlled by the same controlling entity. The Company has not incurred any loss which should be settled according to Section 71 and Section 72 of the Business Corporations Act. The settlement of costs associated with the syndicated loan and of prepayments of the financial assistance in 2016 was described in Section 4 hereof.

The Board of Directors of the Company hereby represents that it made reasonable effort in gathering and verifying information for the purpose of this Report on Related Party Transactions, whereas the conclusions at which it arrived were formulated following careful consideration. Moreover, to the best knowledge of the Board of Directors of the Company, all information presented in this Report on Related Party Transactions is accurate and complete.

In Prague, on 7 March 2017

Česká telekomunikační infrastruktura a.s.

Annex no. 1 – List of companies directly or indirectly controlled by the same controlling entity

Controlling entity: Ing. Petr Kellner

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
AB 1 B.V.	56007043	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 18 October 2016	Air Bank a.s.
AB 2 B.V.	57279667	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Air Bank a.s.
AB 3 B.V.	58435425	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 18 October 2016	Air Bank a.s.
AB 4 B.V.	34186049	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Air Bank a.s.
AB 5 B.V.	34192873	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 18 October 2016	Air Bank a.s.
AB 6 B.V.	58435956	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 18 October 2016	Air Bank a.s.
AB 7 B.V.	57279241	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Air Bank a.s.
Accord Research, s.r.o.	29048974	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Capital Partners Fund B.V.
Air 24 a.s.	5479070	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 14 October 2016	PPF a.s.
Air Bank a.s.	29045371	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Airline Gate 1 s.r.o.	2973081	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
ALCAMORA LIMITED	HE 290 379	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
ALMONDSEY LIMITED	HE 291 856	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
ALRIK VENTURES LIMITED	HE 318 488	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		TOLESTO LIMITED
ANTHEMONA LIMITED	HE 289 677	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Comcity Office Holding B.V.
ANTHIAROSE LIMITED	HE 224463	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Areál Ďáblice s.r.o.	3762939	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Office Star Nine s.r.o.
Art Office Gallery a.s.	24209627	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Office Star Eight a.s.
ASTAVEDO LIMITED	HE 316 792	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Autotým, s.r.o.	3040836	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit Lab N.V.
B2S Servisní, a.s. v likvidaci	19013825	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		ANTHIAROSE LIMITED
Bavella B.V.	52522911	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Bestsport Services, a.s. v likvidaci	24215171	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 15 Septembe r 2016	ANTHIAROSE LIMITED
Bestsport, a.s.	24214795	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		LINDUS SERVICES LIMITED
BONAK a.s.	5098815	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 19 May 2016	PPF a.s.
Bolt Start Up Development a.s.	4071336	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
BORACORA LIMITED	HE 251 936	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		GLANCUS INVESTMENTS INC.
					FIGERA LIMITED
BOVESTO LIMITED	HE353152	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	From 7 May 2016 to 8 December 2016	FACIPERO INVESTMENTS LIMITED
Boryspil Project Management Ltd.	34999054	Ukraine	Company controlled by the same controlling entity by way of ownership interest		Pharma Consulting Group Ltd.
Bucca Properties Ltd.	1377468	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		BORACORA LIMITED
Capellalaan (Hoofddorp) B.V.	58391312	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
CAPERTON HOLDINGS LIMITED	HE 173 977	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 27 Septembe r 2016	Corvus Services Limited
Celestial Holdings Group Limited	1471389	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
CETIN Finance B.V.	66805589	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Česká telekomunikační infrastruktura a.s.
CETIN služby s.r.o.	5022983	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 25 April 2016 to 1 Septembe r 2016	Česká telekomunikační infrastruktura a.s.
CF Commercial Consulting (Beijing) Limited	78860280-7	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
CITY TOWER Holding a.s.	2650665	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
CITY TOWER, a.s.	271 03 251	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 27 Septembe r 2016	CITY TOWER Holding a.s.
CJSC "Intrust NN"	1065259035896	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		STINCTUM HOLDINGS LIMITED
CJSC "Investments trust"	1037739865052	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Trilogy Park Holding B.V.
«Closed Joint Stock Insurance Company «Asnova Insurance»"	806000245	Belarus	Company controlled by the same controlling entity by way of ownership interest		SEPTUS HOLDING LIMITED, TALPA ESTERO LIMITED, RHASKOS FINANCE LIMITED, SYLANDER CAPITAL LIMITED, ENADOCO LIMITED, ASTAVEDO LIMITED
Codar Invest B.V.	27278985	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 30 June 2016	ANTHIAROSE LIMITED
Comcity Office Holding B.V.	64411761	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Corvus Services Limited	1061050	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest	To 29 December 2016	VELTHEMIA LIMITED
Czech Equestrian Team a.s.	019 52 684	Czech Republic	Company controlled by the same controlling entity acting in concert by way of ownership interest		SUNDOWN FARMS LIMITED
CZECH TELECOM Austria GmbH	229578s	Austria	Company controlled by the same controlling entity acting in concert by way of ownership interest		Česká telekomunikační infrastruktura a.s.
CZECH TELECOM Germany GmbH	HRB 51503	Federal Republic of Germany	Company controlled by the same controlling entity acting in concert by way of ownership interest		Česká telekomunikační infrastruktura a.s.
Česká telekomunikační infrastruktura a.s.	040 84 063	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Infrastructure B.V. PPF A3 B.V.
DADRIN LIMITED	HE 321 173	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		TOLESTO LIMITED
De Reling (Dronten) B.V.	58164235	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
DELIFLEX LIMITED	HE 221 768	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
DOUSAVI LIMITED	HE 331 420	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 12 July 2016	Bavella B.V.
Eastern Properties B.V.	58756566	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
eKasa s.r.o.	050 89 131	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 17 May 2016	O2 Czech Republic a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
ELDORADO LICENSING LIMITED	HE 144 889	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 26 April 2016	LLC Eldorado
ELTHYSIA LIMITED	HE 290 356	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
ENADOCO LIMITED	HE 316 486	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
ETO LICENSING LIMITED	HE 179 386	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		FACIPERO INVESTMENTS LIMITED
EusebiusBS (Arnhem) B.V.	58169778	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
FACIPERO INVESTMENTS LIMITED	HE 232 483	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Favour Ocean Limited	1065678	Hong Kong	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED
					FIGERA LIMITED
FELISTON ENTERPRISES LIMITED	HE 152674	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		SALEMONTO LIMITED
FERRYMAT HOLDINGS LIMITED	HE 313289	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED
					FIGERA LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
FIGERA LIMITED	HE 251 908	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Fodina B.V.	59400676	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
GABELLI CONSULTANCY LIMITED	HE 160 589	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		VELTHEMIA LIMITED
GALIO INVESTMENTS LIMITED	HE 310 260	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED
					FIGERA LIMITED
Garco Group B.V.	34245884	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		GLANCUS INVESTMENTS INC.
Gen Office Gallery a.s.	24209881	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Office Star Eight a.s.
German Properties B.V.	61008664	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
GRACESPRING LIMITED	HE 208 337	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
Grandview Resources Corp.	1664098	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		Bavella B.V.
Guangdong Home Credit Number Two Consulting Co., Ltd	76732894-1	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
HC Asia N.V.	34253829	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
HC Broker, s.r.o.	29196540	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit a.s.
HC Consumer Finance Philippines, Inc	CS 201301354	Republic of the Philippines	Company controlled by the same controlling entity by way of ownership interest		HC Philippines Holding B.V.
HC Insurance Services s.r.o.	1487779	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
HC Philippines Holding B.V.	35024270	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia N.V.
Hofplein Offices (Rotterdam) B.V.	64398064	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Home Credit a.s.	26978636	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit Asia Limited	890063	Hong Kong	Company controlled by the same controlling entity by way of ownership interest		HC Asia N.V.
Home Credit B.V.	34126597	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Financial Holding B.V.
Home Credit Business Management (Tianjin) Co., Ltd.	67596220-8	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest	To 25 July 2016	Home Credit Asia Limited
Home Credit Consumer Finance Co., Ltd	91120116636067462H	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit Egypt Trade S.A.E.	50614	Egypt	Company controlled by the same controlling entity by way of ownership interest		HC Philippines Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
HOME CREDIT EUROPE PLC	7744459	United Kingdom of Great Britain and Northern Ireland	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Home Credit India B.V.	52695255	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia N.V.
HOME CREDIT INDIA FINANCE PRIVATE LIMITED	U65910HR1997PTC047448	Republic of India	Company controlled by the same controlling entity by way of ownership interest		Home Credit India B.V.
Home Credit Indonesia B.V.	52695557	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia N.V.
Home Credit International a.s.	60192666	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit Lab N.V.	52695689	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit Slovakia, a.s.	36234176	Slovak Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit US Holding, LLC	5467913	United States of America	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Home Credit US, LLC	5482663	United States of America	Company controlled by the same controlling entity by way of ownership interest		Home Credit US Holding
Home Credit Vietnam Finance Company Limited	307672788	Vietnam	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
HOPAR LIMITED	HE 188 923	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF PROPERTY LIMITED
Horse Arena s.r.o.	044 79 823	Czech Republic	Company controlled by the same controlling entity acting in concert by way of ownership interest		SUNDOWN FARMS LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Chelton Properties Limited	1441835	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner
iCORD International s.r.o.	27405354	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 2 Septembe r 2016	Bolt Start Up Development a.s.
Internethome, s.r.o.	24161357	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
JARVAN HOLDINGS LIMITED	HE 310 140	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
					FIGERA LIMITED
JH Media Services Plus s.r.o.	4002423	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bestsport, a.s.
Johan H (Amsterdam) B.V.	58163239	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Joint Stock Company "Gorod Molodogo Pokolenija"	1027700473756	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
Joint Stoct Company "Sibzavod Centre"	1035501017221	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Trust - Invest
JONSA LIMITED	HE 275 110	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
					FIGERA LIMITED
JSC Yugo - Vostochnaya promyshlennaya companiya "KARTONTARA"	1037700008895	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
JSC HC Kazakhstan	70-700-1910-AO	Kazakhstan	Company controlled by the same controlling entity by way of ownership interest		HC Asia N.V.
KARMION HOLDINGS LIMITED	HE 312 004	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Karperstraat (Amsterdam) B.V.	58163883	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Kateřinská Office Building s.r.o.	3495663	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate s.r.o.
Langen Property B.V.	61012777	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		German Properties B.V.
LINDUS Real s.r.o.	29139309	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		LINDUS SERVICES LIMITED
LINDUS SERVICES LIMITED	HE 281 891	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
LLC Alfa South	1077760158618	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		GRACESPRING LIMITED
LLC Alians R	1086627000635	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JONSA LIMITED
LLC Almondsey	1127747228190	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC Bonus Center Operations	1127746491861	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Home Credit & Finance Bank
LLC BRAMA	1107746950431	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC Bryanskii Torgovij Centr-Invest	1063250034385	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 27 October 2016	JARVAN HOLDINGS LIMITED
LLC Collect Credit	36726094	Ukraine	Company controlled by the same controlling entity by way of ownership interest	To 22 June 2016	Home Credit B.V.
LLC Comcity Kotelnaya	5157746112959	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 8 February 2016	Comcity Office Holding B.V.
LLC Delta Com	1137746330358	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Bavella B.V.
LLC El Logistic	1020201302472	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		TAPADEO LIMITED
LLC Eldomarket	1045002950354	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	LLC Eldorado BOVESTO LIMITED
LLC Eldorado	5077746354450	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	BOVESTO LIMITED
LLC Ellin	1021601767395	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	LLC Invest Realty
LLC ERKO	1044702180863	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Joint Stock Company "Gorod Molodogo Pokolenija"

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC Fantom	1053001163302	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		FAYDE INVESTMENTS LIMITED
LLC Financial Innovations	1047796566223	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Home Credit & Finance Bank
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
					Home Credit International a.s.
LLC Home Credit Insurance	1027739236018	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
LLC Home Credit Online	1157746587943	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit Lab N.V.
LLC HOMER SOFTWARE HOUSE	35364346	Ukraine	Company controlled by the same controlling entity by way of ownership interest		REDLIONE LIMITED
					Home Credit B.V.
LLC Charlie Com	1137746330336	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		ALMONDSEY LIMITED
					LLC Almondsey
LLC ICC Klokovo	1127746186501	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Rutar Invest
LLC In Vino	1052309138628	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Alfa South
LLC IN VINO - ANAPA - 2	1072301000200	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 20 July 2016	LLC IN VINO HOLDING

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC IN VINO HOLDING	7734565173	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 20 July 2016	UNDERTREA HOLDINGS LIMITED
LLC In Vino Natukhaevskoe	1052309081880	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 20 July 2016	LLC IN VINO HOLDING
LLC Invest Realty	1057746212666	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	LLC Eldorado
					BOVESTO LIMITED
LLC K-Development	1077760004629	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
LLC KEPS	1127746190604	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		GALIO INVESTMENTS LIMITED
LLC Kvartal Togliatti	1056320172567	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF PROPERTY LIMITED
LLC LB Orel	1135749000793	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC EASTERN PROPERTIES RUSSIA
					LLC LB Voronezh
LLC LB Voronezh	1133668033872	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC EASTERN PROPERTIES RUSSIA
					LLC LB Orel
LLC Logistics - A	1115048002156	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		ELTHYSIA LIMITED
					FIGERA LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC Logistika - Rostov	1167746090236	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 26 January 2016	FERRYMAT HOLDINGS LIMITED
LLC Logistika - Ufa	1150280069477	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		TAPADEO LIMITED
LLC MCC Kupi ne kopi	1027700280640	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
LLC Mitino Sport City	1107746473383	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		MICROLIGHT TRADING LIMITED
LLC My Gym	5157746112915	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 9 February 2016	Comcity Office Holding B.V.
LLC Oil Investments	1167746861677	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 28 Septembe r 2016	Paleos Industries B.V.
LLC PPF Life Insurance	1027739031099	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
LLC PPF Real Estate Russia	1057749557568	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
LLC RAV Agro	1073667022879	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Bavella B.V.
					Grandview Resources Corp.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC RAV Agro Orel	1115741001496	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
LLC RAV Agro Penza	1115802001765	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 26 March 2016	LLC RAV Agro
LLC RAV Agro Pro	1033600135557	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
					LLC RAV Molokoprodukt
LLC RAV Molokoprodukt	1083627001567	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
					Bavella B.V.
					Grandview Resources Corp.
LLC RAV Myasoproduct - Orel	1135749001684	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Molokoprodukt –
LLC RAV Niva	1023601232522	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
LLC RAV Niva Orel	1113668051090	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
LLC Razvitie	1155009002609	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		VELTHEMIA LIMITED
LLC Regional Real Estate	1137746217950	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF REAL ESTATE LIMITED
LLC Rentol	1027700403500	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	LLC Eldorado
					BOVESTO LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC ROKO	5107746049329	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JONSA LIMITED
LLC ROST Agro	1103601000030	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC RAV Agro
LLC Rutar Invest	1137746325640	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		STEPHOLD LIMITED
LLC Skladi 104	5009049271	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		GABELLI CONSULANCY LIMITED
LLC Skolkovo Gate	1137746214979	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Trigon II B.V.
LLC Sotio	1117746901502	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Sotio N.V.
LLC Sotio	EIN 35-2424961	United States of America	Company controlled by the same controlling entity by way of ownership interest		Sotio N.V.
LLC Spectrum	1097746356806	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		NIDALEE HOLDING LIMITED
LLC Strata	7702765300	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		VELTHEMIA LIMITED
LLC Stroyinvest	1056320172611	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 5 August 2016	LLC Kvartal Togliatti
LLC TGK - Trilogy	1155027001030	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC PPF Real Estate Russia
LLC TK Donskoe	1056102003715	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Trust - Invest

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC Torgovij complex Lipetskiy	1074823001593	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
LLC Tower	1117746550020	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
LLC Trade center "Permskiy"	1087746243694	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 8 December 2016	LLC Eldorado
					BOVESTO LIMITED
LLC Trilogy Services	1155027007398	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	As of 24 November 2016	Trilogy Park Holding B.V.
LLC Trust - Invest	1057746391306	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
LLC Uhrozhay	1063627011910	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Yug
LLC Yug	1083627001567	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC LB Voronezh
LvZH (Rijswijk) B.V.	58163999	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Mapleridge Development Limited	1668985	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest	To 22 December 2016	ANTHIAROSE LIMITED
Maraflex s.r.o.	2415852	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
MICROLIGHT TRADING LIMITED	HE 224 515	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Millennium Tower (Rotterdam) B.V.	56261330	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
MINIFLEX LIMITED	HE 221 915	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
Misterine s.r.o.	5249899	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 22 Septembe r 2016	Bolt Start Up Development a.s.
MOETON a.s.	27864561	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF FO Management B.V.
Monheim Property B.V.	61012521	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		German Properties B.V.
Monchyplein (Den Haag) B.V.	58163603	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Montería, spol. s r.o.	27901998	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF FO Management B.V.
Moranda, a.s.	28171934	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Mystery Services s.r.o.	24768103	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.
NACUDU LIMITED	HE 254 166	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 12 July 2016	PPF Group N.V.
Naneva B.V.	67400639	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 2 December 2016	PPF Group N.V.
Net Gate s.r.o.	247 65 651	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED
					FIGERA LIMITED
O2 Business Services, a.s.	50087487	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
O2 Czech Republic a.s.	60193336	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Telco B.V.
					PPF A3 B.V.
O2 Family, s.r.o.	24215554	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
O2 Financial Services s.r.o.	5423716	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	As of 26 Septembe r 2016	O2 Czech Republic a.s.
O2 IT Services s.r.o.	2819678	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
O2 Slovakia, s.r.o.	35848863	Slovak Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
O2 TV s.r.o.	3998380	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
Office Star Eight a.s.	27639177	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF PROPERTY LIMITED
Office Star Five, spol. s r.o.	27639185	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 31 May 2016	TENACITY LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Office Star Nine, spol. s r. o.	27904385	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF PROPERTY LIMITED
Office Star Two, spol. s r.o.	27639169	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 31 May 2016	TENACITY LIMITED
OJSC „Non-banking Credit and Financial Organization „Home Credit“	807000056	Belarus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
ORIBASE Pharma SAS	499824670	Francie	Company controlled by the same controlling entity by way of ownership interest		PPF Capital Partners Fund B.V.
PACHATA LIMITED	HE 188 914	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		ANTHIAROSE LIMITED
Paleos Industries B.V.	66846919	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 19 Septembe r 2016	PPF Group N.V.
Pharma Consulting Group Ltd.	34529634	Ukraine	Company controlled by the same controlling entity by way of ownership interest		HOPAR LIMITED
					FIGERA LIMITED
Pompenburg (Rotterdam) B.V.	58163506	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
PPF a.s.	25099345	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF A3 B.V.	61684201	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF A4 B.V.	63365391	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF Advisory (CR) a.s.	25792385	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF ADVISORY (RUSSIA) LIMITED	HE 276 979	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF Advisory (UK) Limited	5539859	United Kingdom of Great Britain and Northern Ireland	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF ADVISORY (UKRAINE) LIMITED	HE 162 172	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF Arena 1 B.V.	59009187	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF Arena 2 B.V.	59029765	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 22 January 2016	PPF Arena 1 B.V.
PPF Art a.s.	63080672	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.
PPF banka a.s.	47116129	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Financial Holding B.V.
PPF Beer Bidco B.V.	67332722	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 23 November 2016	PPF Beer IM Holdco B.V.
PPF Beer Holdco 1 B.V.	67330495	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 23 November 2016	PPF Group N.V.
PPF Beer Holdco 2 B.V.	67330355	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 23 November 2016	PPF Group N.V.
PPF Beer IM Holdco B.V.	67331378	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 23 November 2016	PPF Beer Holdco 1 B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF Beer Topholdco B.V.	67420427	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 6 December 2016	PPF Group N.V.
PPF Capital Partners Fund B.V.	55003982	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF CO 1 B.V.	34275402	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	To 30 December 2016	PPF Group N.V.
PPF CO 3 B.V.	34360935	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF banka a.s.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF banka a.s.
PPF Financial Holdings B.V.	61880353	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF FO Management B.V.	34186296	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Holdings S.á r.l.
PPF GATE a.s.	27654524	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
PPF Group N.V.	33264887	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner
					PPF Holdings B.V.
PPF Healthcare N.V.	34308251	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF Holdings B.V	34186294	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Holdings S.á r.l.
PPF Holdings S.á r.l.	B 186335	Luxembourg	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF Infrastructure B.V.	65167899	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 22 January 2016	PPF Arena 1 B.V.
PPF Partners 1 GP Limited	49291	Guernsey	Company controlled by the same controlling entity by way of ownership interest	To 6 July 2016	PPF Partners Limited
PPF Partners a.s. v likvidaci	28515064	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 9 March 2016	PPF a.s.
PPF Partners Limited	49292	Guernsey	Company controlled by the same controlling entity by way of ownership interest	To 6 July 2016	PPF Group N.V.
PPF PROPERTY LIMITED	HE 189 164	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		GLANCUS INVESTMENTS INC.
					FIGERA LIMITED
PPF Real Estate Holding B.V.	34276162	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF REAL ESTATE LIMITED	HE 188 089	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
PPF Real Estate s.r.o.	27638987	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
					Figera Limited
PPF reality a.s.	29030072	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
PPF RUSSIA LIMITED	HE 172467	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 6 July 2016	PPF Group N.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF SECRETARIAL LIMITED	HE 340 708	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF SERVICES LIMITED
PPF SERVICES LIMITED	HE 92432	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF Telco B.V.	65167902	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 22 January 2016	PPF Arena 1 B.V.
Prague Entertainment Group B.V.	63600757	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PT Home Credit Indonesia	03.193.870.7-021.000	Republic of Indonesia	Company controlled by the same controlling entity by way of ownership interest		Home Credit Indonesia B.V.
Public Picture & Marketing a.s.	25667254	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.
RAVENSBOURNE LIMITED	HE 188 284	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
RC PROPERTIES S.R.L.	12663031	Romania	Company controlled by the same controlling entity by way of ownership interest	As of 10 October 2016	PPF Real Estate s.r.o.
Real Estate Russia B.V.	63458373	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
REDLIONE LIMITED	HE 178 059	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
REPIENO LIMITED	HE 282 866	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V. GLANCUS INVESTMENTS INC.
Retail Star 22, spol. s r.o.	24132161	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
RHASKOS FINANCE LIMITED	HE 316 591	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
RobbyNet s.r.o.	014 08 437	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 30 June 2016	PPF Real Estate Holding B.V.
Ruconfin B.V.	55391176	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF banka a.s.
RYAZAN INVESTORS COMPANY LIMITED	HE 180 968	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		GLANCUS INVESTMENTS INC.
RYAZAN SHOPPING MALL LIMITED	HE 180 951	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		RYAZAN INVESTORS COMPANY LIMITED
Saint World Limited	1065677	Hong Kong	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
SALEMONTO LIMITED	HE 161 006	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		BORACORA LIMITED
JSC Bank Home Credit	513-1900-AO (UI)	Kazakhstan	Company controlled by the same controlling entity by way of ownership interest		LLC Home Credit & Finance Bank
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
Settembre Holdings Limited	1449898	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest	To 14 July 2016	ANTHIAROSE LIMITED
Seven Assets Holding B.V.	58163050	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Shenzhen Home Credit Financial Services Co., Ltd.	79663852-7	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Favour Ocean Limited

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Shenzhen Home Credit Number One Consulting Co., Ltd.	66417425-7	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
Sichuan Home Credit Financing Guarantee Co., Ltd.	66046758-9	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
SILINE CONSULTING LIMITED	HE 281 961	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
SILLERUD LIMITED	HE 224 392	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
Slovak Trade Company, s.r.o. v likvidácii	36659 061	Slovak Republic	Company controlled by the same controlling entity by way of ownership interest		SILINE CONSULTING LIMITED
SOTIO a.s.	24662623	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Sotio N.V.
Sotio Medical Research (Beijing) Co. Ltd	110000410283022	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Sotio N.V.
Sotio N.V.	34302290	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Standish Holdings Ltd.	1870560	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest	To 22 December 2016	PPF Real Estate Holding B.V.
STEPHOLD LIMITED	HE 221 908	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
STINCTUM HOLDINGS LIMITED	HE 177 110	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		SALEMONTO LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
SUNDOWN FARMS LIMITED	HE 310 721	Republic of Cyprus	Company controlled by the same controlling entity acting in concert by way of ownership interest		Vixon Resources Limited
					Chelton Properties Limited
Sundown s.r.o.	242 60 479	Czech Republic	Company controlled by the same controlling entity acting in concert by way of ownership interest		SUNDOWN FARMS LIMITED
SYLANDER CAPITAL LIMITED	HE 316 597	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
TALPA ESTERO LIMITED	HE 316 502	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
TANAINA HOLDINGS LIMITED	HE 318 484	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		TOLESTO LIMITED
TANFORD LIMITED	HE 167 324	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner
TAPADEO LIMITED	HE 341 777	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED
					FIGERA LIMITED
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Eastern Properties B.V.
TENACITY LIMITED	HE 180 866	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 31 May 2016	PPF Real Estate Holding B.V.
					FIGERA LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Tesco Mobile ČR s.r.o.	29147506	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
Tesco Mobile Slovakia, s.r.o.	36863521	Slovak Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Slovakia, s.r.o.
TIMEWORTH HOLDINGS LTD.	HE 187 475	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
TOLESTO LIMITED	HE 322 834	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
Trilogy Park Holding B.V.	60006609	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	As of 24 November 2016	PPF Real Estate Holding B.V.
Trigon Berlin B.V.	55440916	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Trigon II B.V.	56068948	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
TROMSON ENTERPRISES LIMITED	233665	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
UNDERTREA HOLDINGS LIMITED	HE 221 285	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 20 July 2016	Celestial Holdings Group Limited
UNILEAVE LIMITED	HE 179 204	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		ANTHIAROSE LIMITED
VALMARIE HOLDINGS LIMITED	HE 300 697	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 9 June 2016	Corvus Services Limited

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		REPIENO LIMITED
Vítězné náměstí a.s.	28511441	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 16 March 2016	PPF Real Estate Holding B.V.
Vixon Resources Limited	144 18 84	British Virgin Islands	Company controlled by the same controlling entity acting in concert by way of ownership interest		Ing. Petr Kellner (jednáním ve shodě)
Vox Ventures B.V.	65879554	The Netherlands	Company controlled by the same controlling entity acting in concert by way of ownership interest	As of 21 April 2016	PPF Group N.V.
Wilhelminaplein (Rotterdam) B.V.	59494034	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
WOODBERRY LIMITED	HE 181 999	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
Zonky s.r.o.	035 70 967	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit Lab N.V.

ČESKÁ TELEKOMUNIKAČNÍ INFRASTRUKTURA A.S.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

The consolidated financial statements were approved by the Board of Directors on 7 March 2017 and were signed on its behalf by:

Martin Vlček

Chairman of the Board of Directors

Petr Slováček

Chief Executive Officer

Vice-chairman of the Board of Directors

CONTENT

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

In CZK million	**Note**	**31 December 2016**	**For the year ended 31 December 2015**
Revenues	6	20,378	19,097
Other income and capitalization of own work	6	512	482
Expenses	6	(13,105)	(11,638)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**7,785**	**7,941**
Depreciation and amortisation	9, 10	(4,242)	(5,544)
Impairment loss	9, 10	(822)	(13)
Operating profit (*EBIT*)		**2,721**	**2,384**
Finance income	7	471	229
Finance costs	7	(378)	(202)
Profit before tax		2,814	2,411
Corporate income tax	8	(559)	(466)
Profit for the year		**2,255**	**1,945**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		-	(1)
Cash flow hedges – effective portion of changes in fair value	21	(24)	-
Related deferred tax	16	4	-
Total other comprehensive income, net of tax		**(20)**	**(1)**
Total comprehensive income, net of tax		**2,235**	**1,944**
Profit attributable to:			
Equity holders of the Company		2,255	1,945
Total comprehensive income attributable to:			
Equity holders of the Company		2,235	1,944

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

			As at	
In CZK million	**Note**	**31 December 2016**	**31 December 2015**	**1 January 2015**
ASSETS				
Property, plant and equipment	9	49,092	51,550	54,167
Intangible assets	10	1,341	1,097	981
Long-term loan	15	-	32,200	-
Other assets	12	129	60	67
Non-current assets		**50,562**	**84,907**	**55,215**
Inventories	11	42	48	27
Receivables	12	3,148	2,946	1,490
Short-term loan	15	-	228	-
Income tax receivable	8	-	12	-
Cash and cash equivalents	13	378	656	55
Current assets		**3,568**	**3,890**	**1,572**
Non-current assets held for sale	9	**681**	**13**	**-**
Total assets		**54,811**	**88,810**	**56,787**
EQUITY AND LIABILITIES				
Share capital	21	3,102	3,102	3,102
Reserves	21	(21)	(1)	-
Other funds	21	14,620	10,779	42,979
Reserve funds	21	-	32,200	-
Retained earnings	21	263	1,945	-
Total equity		**17,964**	**48,025**	**46,081**
Long-term financial debts	15	21,635	28,137	-
Deferred tax liability	16	5,955	6,246	6,525
Non-current provisions for liabilities and charges	17	317	185	236
Non-current other liabilities	14	976	630	431
Non-current liabilities		**28,883**	**35,198**	**7,192**
Short-term financial debts	15	3,016	794	-
Trade and other payables	14	4,823	4,741	3,481
Income tax liability	8	59	-	-
Provisions for liabilities and charges	17	66	52	33
Current liabilities		**7,964**	**5,587**	**3,514**
Total liabilities		**36,847**	**40,785**	**10,706**
Total equity and liabilities		**54,811**	**88,810**	**56,787**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2016		**3,102**	**(1)**	**-**	**10,779**	**32,200**	**1,945**	**48,025**
Profit for the year		-	-	-	-	-	2,255	2,255
Other comprehensive income		-	-	(20)	-	-	-	(20)
Total comprehensive income		**-**	**-**	**(20)**	**-**	**-**	2,255	2,235
Transfers	21	-	-	-	32,200	(32,200)	-	-
Dividends paid	21	-	-	-	-	-	(1,830)	(1,830)
Distribution of other capital funds	21	-	-	-	(28,359)	-	-	(28,359)
Interim dividends	21	-	-	-	-	-	(2,107)	(2,107)
As at 31 December 2016		**3,102**	**(1)**	**(20)**	**14,620**	**-**	**263**	**17,964**

For the year ended 31 December 2015

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2015		**3,102**	**-**	**-**	**42,979**	**-**	**-**	**46,081**
Profit for the year		-	-	-	-	-	1,945	1,945
Other comprehensive income		-	(1)	-	-	-	-	(1)
Total comprehensive income		**-**	**(1)**	**-**	**-**	**-**	**1,945**	**1,944**
Transfers	21	-	-	-	(32,200)	32,200	-	-
As at 31 December 2015		**3,102**	**(1)**	**-**	**10,779**	**32,200**	**1,945**	**48,025**

CONSOLIDATED STATEMENT OF CASH FLOWS

In CZK million	**Note**		**For the year ended**
		31 December 2016	**31 December 2015**
Profit for the year		2 255	1,945
Non-cash adjustments for:			
Depreciation and amortisation	9, 10	4 242	5,544
Impairment loss	9	822	13
Profit on sale of property, plant and equipment	9	(66)	(29)
Net finance revenues	7	(80)	(48)
Foreign exchange losses (net)		(12)	15
Other non-cash adjustments		(19)	-
Tax expense	8	559	466
Operating cash flow before working capital changes		**7,701**	**7,906**
Working capital adjustments:			
Change in trade and other receivables		(94)	(1,417)
Change in inventories		6	(21)
Change in trade and other payables		299	950
Change in provisions		146	(32)
Cash flows from operating activities		**8,058**	**7,386**
Income tax paid	8	(776)	(756)
Net cash flow from operating activities		**7,282**	**6,630**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(3,471)	(2,701)
Proceeds from sales of property, plant and equipment and intangible assets		71	134
Net cash used in investing activities		**(3,400)**	**(2,567)**
Cash flows from financing activities			
Interest paid		(481)	(31)
Interest received		593	-
Other finance charges received		147	-
Repayments of loans	15	(28,850)	(4,325)
Grant/Repayment of loan	15	32,200	(32,200)
Proceeds from loans	15	-	33,107
Bonds Issue	15	24,698	-
Net proceeds from settlement of derivatives		(16)	-
Cash collateral placed due to derivatives transactions	12	(155)	-
Distribution of other capital funds paid	21	(28,359)	-
Dividends paid	21	(3,937)	-
Net cash used in financing activities		**(4,160)**	**(3,449)**
Net increase in cash and cash equivalents		**(278)**	**614**
Cash and cash equivalents at beginning of year	13	656	55
Effect of foreign exchange rate movements on cash and cash equivalents		-	(13)
Cash and cash equivalents at the year end	13	**378**	**656**

NOTES TO 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 31 December 2016 is PPF Infrastructure B.V. (part of the PPF Group). Further details are described in Note 21.

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 1,378 in 2016 (2015: 1,215).

The financial statements contained herein are consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The Group prepares its statutory financial statements in accordance with IFRS for the year ended 31 December 2016 for the first time. These consolidated 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 years 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 consolidated financial statements were approved for issue by the Company’s Board of Directors on 7 March 2017.

2. BASIS OF PREPARATION

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

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) 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 consolidated financial statements in accordance with IFRS adopted by the EU (Regulation (EC) No 1606/2002). At the balance sheet date, there are no differences in the IFRS policies applied by the Group, and IFRS adopted by the EU.

The consolidated financial statements were prepared under the historical cost convention except for non-current assets held for sale (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 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 consolidated financial statements are presented in millions Czech crowns (CZK), if not stated otherwise.

Use of estimates, assumptions and judgements

The Group makes forward-looking estimates and assumptions. The resulting accounting estimates might be, by definition, different from 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 year 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 22. 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.

(7) Asset held for sale

The Group regularly revises its long term assets according to IFRS 5 to ensure correct presentation in the financial staments. The Group has to estimate the probability of sale, time prospectives of the sale and market value considering the costs of sale.

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 31 December 2016 (includes standards applicable to the Group)

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 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
IFRS 10 and IAS 28 (amendment)	Sales or contributions of assets between an investor and its associate/joint venture	n/a

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a five-step model.

The Group is still in the process of quantifying the implications of this standard, however we expect the following indicative impacts:

Currently, the Group recognises the part of the installation/activation fees as one-time revenue in the period when the fees are paid by the customer with no regard to time value of the money. Under IFRS 15 these fees will be accrued over the period of provided services and the financing component of these transaction will be taken into account.

Sales commissions and other third party acquisition costs resulting directly from securing contracts with customers are currently expensed when incurred. IFRS 15 will require these costs of acquiring contracts to be recognised as an asset when incurred, to be expensed over the associated contract period.

IFRS 15 gives far greater detail on how to account for contract modifications than current revenue standards IAS 18 and IAS 11. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of past revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

There will be a corresponding effect on tax liabilities in relation to all of the above impacts.

The Group is continuing its analysis of the expected impacts of transition to IFRS 15.

IFRS 16 Leases

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both leasees and lessors. In accordance with the new standard the lessees will be required to recognize most leases on their balance sheets while lessor accounting is substantially unchanged.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard has not yet been endorsed by EU.

The Company is currently assessing concrete impacts of the new standard, however the Company expects significant increase of assets and liabilities as a result of the recognition of most operating leases on the balance sheet and classification impact on the statement of profit or loss. The Company plans to adopt the new standard on the required effective date.

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 year-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

Profit or loss of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their 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 is 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, e.g. based on insurance contract,

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 31 December 2016 using a long-term real rate of interest in the range from 0.37% to 2.95% 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 31 December 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 is recognized when the right to receive payment is established.

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 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 31 December 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 the year ended 31 December 2015.

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

The above stated accounting policies have been applied in preparing the financial statements for the year ended 31 December 2016, the comparative information presented in the financial statements for the year ended 31 December 2015 and in the preparation of a 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	Restatement of CZ GAAP	Remeasurements	IFRS
ASSETS					
Property plant and equipment	A	54,041	(131)	257	54,167
Intangible assets	C	1,559	(26)	(552)	981
Other assets	D	7	-	60	67
Non-current assets		**55,607**	**(157)**	**(235)**	**55,215**
Inventories	A	284	-	(257)	27
Receivables and prepayments	D	1,602	(42)	(70)	1,490
Cash and cash equivalents		55	-		55
Current assets		**1,941**	**(42)**	**(327)**	**1,572**
Total assets		**57,548**	**(199)**	**(562)**	**56,787**
EQUITY AND LIABILITIES					
Share capital		3,102	-	-	3,102
Reserves		-	-	-	-
Other funds	C	43,798	(272)	(547)	42,979
Retained earnings		5	-	(5)	-
Total equity		**46,905**	**(272)**	**(552)**	**46,081**
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	73	13	3,481
Provisions for liabilities and charges	F	-	-	33	33
Current liabilities		**3,395**	**73**	**46**	**3,514**
Total liabilities		**10,643**	**73**	**(10)**	**10,706**
Total equity and liabilities		**57,548**	**(199)**	**(562)**	**56,787**

Group reconciliation of financial position as at 31 December 2015

In CZK million	Note	CZ GAAP	Restatement of CZ GAAP	Remeasurements	IFRS
ASSETS					
Property plant and equipment	A, B	51,140	(155)	565	51,550
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**	**(155)**	**180**	**84,907**
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**	**(155)**	**(503)**	**88,810**
EQUITY AND LIABILITIES					
Share capital		3,102	-	-	3,102
Reserves		-	-	(1)	(1)
Other funds	C	11,480	(155)	(546)	10,779
Reserve funds		32,200	-	-	32,200
Retained earnings		1,840	-	105	1,945
Total equity		**48,622**	**(155)**	**(442)**	**48,025**
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**	**(155)**	**(503)**	**88,810**

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	(12,894)	1,256	(11,638)
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	-	(13)	(13)
Operating profit (*EBIT*)		**2,301**	**83**	**2,384**
Finance income	K	291	(62)	229
Finance costs	K	(291)	89	(202)
Profit before tax		2,301	110	2,411
Corporate income tax		(466)	-	(466)
Profit for the year		**1,835**	**110**	**1,945**
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		**1,835**	**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 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

Restatement of the statement of financial position according to CZ GAAP

In the context of Separation the Group identified an error during the year 2015 in the statement of financial position according to CZ GAAP as at the 1 January 2015. The error related to overstatement of intangible assets in the amount of 26 mil. CZK, understatement of tangible fixed assets in the amount of CZK 24 million, overstatement of adjustments to short-term loans CZK 42 million, understatement of short-term trade payables and other items in the amount of CZK 73 million and overstatement of other capital funds in equity in the amount of CZK 117 million.

In December 2016 the Group identified during regular checks on property register an error in amount of CZK 155 million. The Company identified items of property, plant and equipment that were sold before 2015, but weren't excluded from the property registr. The correction of this error was made against other capital funds in equity, which was reduced by CZK 155 million.

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 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 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 year ended 31 December 2015 the income recognised in Czech GAAP in Other income 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 year ended 31 December 2015 the difference between income from sale of fixed assets measured on gross and net basis 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 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 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 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 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 year ended 31 December 2015 the insurance charge amounting to CZK 32 million.

Under Czech GAAP the change in deccommisioning provision is recognized as a non-financial expense. Under IFRS this unwiding of the discount is recognized as financial expense. 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 EBITDA margins from the segment is 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.

Year ended 31 December 2016	Domestic services	International transit	Total reportable segments	Reconciling items	Group
In CZK million					
Revenues	11,673	8,705	20,378	-	20,378
Other income and capitalization of own work	-	-	-	512	512
Total costs	(4,249)	(8,344)	(12,593)	(512)	(13,105)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,424**	**361**	**7,785**	**-**	**7,785**
Total depreciation and amortization	(4,189)	(53)	(4,242)	-	(4,242)
Impairment charge	(822)	-	(822)	-	(822)
Operating income (EBIT)	**2,413**	**308**	**2,721**	**-**	**2,721**
Net financial income					93
Profit before tax					2,814
Corporate income tax					(559)
Profit for the year					**2,255**
As at 31 December 2016 Total assets	**53,532**	**1 279**	**54,811**	**-**	**54,811**
Trade and other payables	4,006	817	4,823	-	4,823
Other liabilities	32,024	-	32,024	-	32,024
Total liabilities	**36,030**	**817**	**36,847**	**-**	**36,847**
Capital expenditure (Fixed assets additions)	**3,526**	**22**	**3,548**	**-**	**3,548**

Year ended 31 December 2015 **In CZK million**	**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	**87,329**	**1,481**	**88,810**	**-**	**88,810**
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 and International transit represent more than 10% of Group's revenues. For the year ended 31 December 2016 these revenues are CZK 10,360 million (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**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Czech Republic	12,268	12,426
Germany	2,720	1,977
Slovakia	739	1,306
Other EU countries	2,352	1,569
Switzerland	1,621	1,125
Other Non-EU countries	678	694
Total revenues	**20,378**	**19,097**

6. REVENUES AND EXPENSES

Revenues **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Revenues from mobile network services	4,549	4,504
Revenues from fixed network mass service	4,667	4,829
Revenues from transit services	8,705	7,264
Revenues from data services	1,465	1,532
Other telecommunication revenues	992	968
Total revenues	**20,378**	**19,097**
Other income	512	482

Other income includes own work capitalized in the amount of CZK 286 million (31 December 2015: CZK 251 million).

Revenues from related parties are disclosed in Note 22.

Expenses **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Supplies	(8,609)	(7,197)
Staff costs	(1,398)	(1,230)
External services	(2,864)	(3,099)
Provisions for bad debts and inventories	20	(10)
Other expenses	(254)	(102)
Total expenses	**(13,105)**	**(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 year ended 31 December 2016 amounted to CZK 8 million (31 December 2015: CZK 4 million).

Purchases from related parties are disclosed in Note 22.

7. FINANCE INCOME AND COSTS

In CZK million	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income	365	229
Gain on fair value adjustments of financial instruments (net)	1	-
Foreign exchange gain (net)	12	-
Other finance income	93	-
Total finance income	**471**	**229**
Finance costs		
Interest expenses	(368)	(180)
Loss on fair value adjustments of financial instruments (net)	-	(1)
Foreign exchange loss (net)	-	(15)
Other finance costs	(10)	(6)
Total finance costs	**(378)**	**(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	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax	2,814	2,411
Income tax charge calculated at the statutory rate of 19%	(535)	(458)
Non-taxable income	34	41
Tax non-deductible expenses	(41)	(63)
Additional income tax related to prior years	(24)	-
Other differences	7	14
Income tax expense	**(559)**	**(466)**
Effective tax rate	19.86%	19.33%

As at 31 December 2016, the total amount of provisions for current income taxes is CZK 823 million (31 December 2015: CZK 745 million, 1 January 2015: CZK 0 million), advances paid for income taxes is CZK 764 million (31 December 2015: CZK 756 million, 1 January 2015: CZK 0 million), the net deferred tax liability is CZK 5,955 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 31 December 2016						
Opening net book amount	7,469	37,518	4,995	168	1,400	**51,550**
Additions	177	763	1,281	69	691	**2,981**
Disposals	(11)	-	(17)	-	-	**(28)**
Transfers	71	198	413	16	(698)	**-**
Reclassifications and currency differences	19	-	(5)	(12)	9	**11**
Depreciation	(536)	(2,072)	(1,263)	(48)	-	**(3,919)**
Impairment	(700)	-	(112)	(12)	2	**(822)**
Reclassification to Assets held for sale	(675)	-	(5)	(1)	-	**(681)**
Closing net book amount	5,814	36,407	5,287	180	1,404	**49,092**
As at 31 December 2016						
Cost	6,779	40,518	9,123	321	1,430	**58,171**
Accumulated depreciation	(965)	(4,111)	(3,836)	(141)	(26)	**(9,079)**
Net book amount	5,814	36,407	5,287	180	1,404	**49,092**

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	7,862	39,099	6,277	183	746	**54,167**
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	7,469	37,518	4,995	168	1,400	**51,550**
As at 31 December 2015						
Cost	8,021	39,560	7,798	278	1,433	**57,090**
Accumulated depreciation	(552)	(2,042)	(2,803)	(110)	-	**(5,507)**
Accumulated impairment	-	-	-	-	(33)	**(33)**
Net book amount	7,469	37,518	4,995	168	1,400	**51,550**

As at 31 December 2016, the carrying value of non-depreciated assets amounted to CZK 169 million (31 December 2015: CZK 215 million, 1 January 2015: CZK 219 million).

As at 31 December 2016, the Group recognised assets held for sale of CZK 681 million (31 December 2015: CZK 13 million, 1 January 2015: CZK 0 million). Assets held for sale are mainly represented by the Company's head office building and other buildings currently empty or not used by the Group. The Group expects that sale of these assets will be finalized in one year. All assets held for sale belong to the segment Domestic services.

In connection with the asset held for sale classification of above mentioned assets, the Group identified an impairment loss of CZK 822 million in accordance to IFRS 5. The fair value less cost to sell is calculated from preliminary proposals or experts' opinions. The majority of the amount is impairment of the Company's head office building amounting to CZK 740 million related to expected sale of the property. After the sale of the Company's head office building the Group will rent the head office building, but plans to move out to the new headquarters as soon as possible.

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

For the year ended 31 December 2016, the Group achieved a total gain from the sale of the fixed assets of CZK 71 million (31 December 2015: CZK 32 million) and total losses of CZK 5 million (31 December 2015: CZK 3 million).

10. INTANGIBLE ASSETS

In CZK million	**Licences**	**Software**	**Valuable rights**	**Construction in progress**	**Total**
As at 31 December 2016					
Opening net book amount	-	875	49	173	**1,097**
Additions	-	334	35	198	**567**
Disposals		-	-	-	**-**
Transfers	-	109	8	(117)	**-**
Reclassifications and currency differences	-	-	-	-	**-**
Amortisation charge	-	(309)	(14)	-	**(323)**
Closing net book amount	-	1,009	78	254	**1 341**
As at 31 December 2016					
Cost	-	1,549	98	254	**1,901**
Accumulated amortisation	-	(540)	(20)	-	**(560)**
Net book amount	-	1,009	78	254	**1,341**

In CZK million	**Licences**	**Software**	**Valuable rights**	**Construction in progress**	**Total**
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	31 December 2016	31 December 2015	1 January 2015
Telecommunication material	26	48	27
Other	16	-	-
Total	**42**	**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 131 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	31 December 2016	31 December 2015	1 January 2015
Trade receivables from third parties (net)	1,640	1,508	1,348
Receivables with related parties (Note 22)	1,117	1,279	8
Prepayments	94	138	117
Tax receivables for indirect taxes	124	-	-
Derivative financial assets	10	-	-
Advance payments	123	60	67
Cash collateral placed due to derivatives transactions (Note 15)	155	-	-
Other debtors (net)	14	21	17
Total receivables and other assets	**3,277**	**3,006**	**1,557**

Trade receivables and other debtors are stated net of bad debt provision of CZK 29 million (31 December 2015: CZK 52 million, 1 January 2015: CZK 42 million).

Prepayments comprise primarily prepaid lease-related service costs of CZK 46 million (31 December 2015: CZK 55 million, 1 January 2015: CZK 56 million), prepaid expenses from International transit of CZK 14 million (31 December 2015: CZK 17 million, 1 January 2015: CZK 21 million).

Receivables from related parties are disclosed in Note 22.

		Not impaired but overdue			
Trade receivables not impaired In CZK million	**Neither impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
As at 31 December 2016	2,411	306	13	15	-
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	14
Release	(37)
As at 31 December 2016	**29**

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

As at 31 December 2016, the Group presented non-current other assets of CZK 244 million (31 December 2015: CZK 60 million, 1 January 2015: CZK 67 million) consisting of prepayments, advance payments for long-term expenses and collateral.

Cash collateral placed represents the one – side collateral of derivative transactions of the Group, see Note 15. Cash collateral placed results from Group's obligation to place the cash collateral to the derivative transaction counterparty and for the period of the derivative transaction, where the amount of collateral is calculated from nominal and fair value of the financial derivative. Amount of collateral placed is regularly updated. As at 31 December 2016 the short term part of the collateral placed represents CZK 114 million and long term part CZK 41 million.

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	**31 December 2016**	**31 December 2015**	**1 January 2015**
Gross amounts of trade receivables	2,287	2,180	644
Amounts that are set off	(522)	(421)	(268)
Net amounts of trade receivables	1,765	1,759	376

13. CASH AND CASH EQUIVALENTS

In CZK million	**31 December 2016**	**31 December 2015**	**1 January 2015**
Cash at bank accounts and other cash equivalents	113	45	55
Cash at bank accounts and other cash equivalents (inter-company)	265	611	-
Total cash and cash equivalents	**378**	**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 43 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 31 December 2016, 31 December 2015 and 1 January 2015, the Group did not have any available equivalent of undrawn committed facilities.

As at 31 December 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

In CZK million	31 December 2016	31 December 2015	1 January 2015
Trade creditors	4,456	4,324	3,269
VAT, other taxes and social security liability	78	211	53
Other deferred revenue	98	56	23
Employee wages and benefits	168	123	103
Other creditors	23	27	33
Trade and other payables - current	4,823	4,741	3,481
Other non-current liabilities	976	630	431

Payables to related parties are disclosed in Note 22.

As at 31 December 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:

In CZK million	31 December 2016	31 December 2015	1 January 2015
Gross amounts of trade creditors	1,097	1,112	954
Amounts that are set off	(522)	(421)	(268)
Net amounts of trade creditors	575	691	686

15. FINANCIAL ASSETS AND LIABILITIES

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

Loan agreement – Financial assistance

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 were valid under the condition of complying with defined contractual conditions.

The Financial assistance was fully repaid during 2016.

In CZK million	31 December 2016	31 December 2015	1 January 2015
Provided loan in local currency	-	28,787	-
Bonds in local currency	7,808	-	-
Bonds in foreign currency	16,821	-	-
Accrued interest	22	144	-
Total financial liabilities	**24,651**	**28,931**	**-**
Repayable:			
Within one year	3,016	794	-
Between one and five years	16,821	6,150	-
More than five years	4,814	21,987	-
Total financial liabilities	**24,651**	**28,931**	**-**

Issued Bonds

In million CZK				**31 December 2016**	
Date of issue	Maturity	ISIN	Currency	Nominal value	Net carrying value
6 December 2016	6 December 2017	XS1529936251	CZK	3,000	2,994
6 December 2016	6 December 2021	XS1529934801	EUR	16,888	16,838
6 December 2016	6 December 2023	XS1529936335	CZK	4,866	4,819
Total				**24,754**	**24,651**

All conditions resulted from bonds emission were met as at 31 December 2016.

Syndicated loan agreement

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 were valid under the condition of complying with defined contractual conditions.

The syndicated loan was fully repaid during 2016.

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

- Pledge over the metalic 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.

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 31 December 2016.

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 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 positions at EURO and partially to positions at 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**	
	31 December 2016	**31 December 2015**	**1 January 2015**
Non-hedging			
Foreign exchange contracts (Note 22) (FX FWD a FX SWAP CZK/EUR)	11,566	162	-
Hedging			
Cross currency swap (Note 22)	4,053	-	-

In CZK million		**Fair value**	
	31 December 2016	**31 December 2015**	**1 January 2015**
Non-hedging			
Foreign exchange contracts (Note 22) (FX FWD a FX SWAP CZK/EUR)	10	-	-
Hedging			
Cross currency swap (Note 22)	(24)	-	-

Derivative transactions are collateralized by cash collateral placed – see Note 12.

Remaining maturity of financial derivatives – contracted amounts (nominal value)

In CZK million	Within 1 year	1 – 5 years	More than 5 years	Total
Foreign exchange contracts (FX FWD a FX SWAP CZK/EUR)	11,566	-	-	11,566
Cross currency swap	-	4,053	-	4,053

Derivative transactions from the year 2015 were settled in the year 2016.

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

In CZK million	Effect on profit before tax	
	Year ended 31 December 2016	Year ended 31 December 2015
FX risk		
Value at Risk*	(8)	(13)
Stress testing*	(22)	(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 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.

As at 31 December 2016 the Group has not been exposed to interest rate risk arising from debt instruments as all debt instruments (bonds) carry fixed interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates arising from cash investments.

In CZK million	**Effect on profit before tax**	
	Year ended 31 December 2016	**Year ended 31 December 2015**
FX risk		
Stress testing*	(20)	(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 31 December 2016 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2016 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Bonds	-	3,307	18,093	4,988
Trade and other payables (excluding Deferred revenue)	2,668	2,057	-	-
Total	2,668	5,364	18,093	4,988
Non-current other liabilities (excluding Deferred revenue)	-	-	9	2

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)	2,260	1,198	-	-
Total	2,260	1,198	-	-
Non-current other liabilities (excluding Deferred revenue)	-	-	1	2

In 2016 and 2015, the Company did not have any guarantees to third parties (exept for the Cross Guarentee described in Note 22).

(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 22), 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.

Offset of financial assets and financial liabilities

In million CZK	**Relevant amount offset/not offset in the consolidated statement of financial position as at 31 December 2016**					
	Amount of an asset/liability presented in the consolidated statement of financial position	Amount of an asset/liability offset in the consolidated statement of financial position	Net amount presented in the consolidated statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	10	-	10	10	-	**-**
Trade receivables	2,287	(522)	1,765	-	-	**1,765**
Total assets	**2,297**	**(522)**	**1,775**	**10**	**-**	**1,765**
Liabilities						
Negative values of financial derivatives	24	-	24	10	14	**-**
Trade payables	1,097	(522)	575	-	-	**575**
Total liabilities	**1,121**	**(522)**	**599**	**10**	**14**	**575**

In million CZK	**Relevant amount offset/not offset in the consolidated statement of financial position as at 31 December 2015**					
	Amount of an asset/liability presented in the consolidated statement of financial position	Amount of an asset/liability offset in the consolidated statement of financial position	Net amount presented in the consolidated statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	**-**
Trade receivables	2,180	(421)	1,759	-	-	**1,759**
Total assets	**2,180**	**(421)**	**1,759**	**-**	**-**	**1,759**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	**-**
Trade payables	1,112	(421)	691	-	-	**691**
Total liabilities	**1,112**	**(421)**	**691**	**-**	**-**	**691**

In million CZK	Relevant amount offset/not offset in the consolidated statement of financial position as at 1 January 2015					
	Amount of an asset/liability presented in the consolidated statement of financial position	Amount of an asset/liability offset in the consolidated statement of financial position	Net amount presented in the consolidated statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	**-**
Trade receivables	644	(268)	376	-	-	**376**
Total assets	**644**	**(268)**	**376**	**-**	**-**	**376**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	**-**
Trade payables	954	(268)	686	-	-	**686**
Total liabilities	**954**	**(268)**	**686**	**-**	**-**	**686**

(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 31 December 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 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows estimated values and fair values of fin. assets and fin. liabilities which are not stated in fair value in the statements of financial position:

In CZK million	**31 December 2016**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	378	378	378	-
Interest bearing loans and borrowings (incl. accruals)	-	-	-	-	-	-
Receivables (excluding derivatives)	-	-	3,023	3,023	3,023	-
Other financial assets	-	-	244	244	244	-
Financial liabilities						
Bonds (inc. accruals)	25,121	-	-	25,121	24,651	470
Trade and other payables	-	-	4,823	4,823	4,823	-

In CZK million	**31 December 2015**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	656	656	656	-
Interest bearing loans and borrowings (incl. accruals)	-	-	32,428	32,428	32,428	-
Receivables (excluding derivatives)	-	-	2,946	2,946	2,946	-
Other financial assets	-		60	60	60	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	-	28,931	28,931	28,931	-
Trade and other payables	-	-	4,741	4,741	4,741	-

In CZK million	**1 January 2015**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	55	55	55	-
Interest bearing loans and borrowings (incl. accruals)	-	-	-	-	-	-
Receivables (excluding derivatives)	-	-	1,490	1,490	1,490	-
Other financial assets	-	-	67	67	67	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	-	-	-	-	-
Trade and other payables	-	-	3,481	3,481	3,481	-

The fair value of bond has been determined using market price as bonds are traded on the public market.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates as at 31 December 2015.

Financial instruments in fair value

In CZK million	Fair value 31 December 2016			Fair value 31 December 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Positive fair values of financial derivative instruments	-	10	-	-	-	-
Negative fair values of financial derivative instruments	-	24	-	-	-	-

As at 1 January 2015 the Company did not have any financial derivative instruments.

The fair value of financial derivative instruments has been calculated by discounting the expected future cash flows at prevailing interest rates as at 31 December 2016 and 31 December 2015.

16. DEFERRED INCOME TAXES

Short-term and long-term deferred taxes were calculated at a tax rate 19% (valid for Czech Republic) as at 31 December 2016, 31 December 2015 and 1 January 2015.

In CZK million	31 December 2016	31 December 2015
Opening balance	6,246	6,525
Profit or loss tax charge	(287)	(279)
Valuation gain/(losses) – cash flow hedge	(4)	-
Closing balance	**5,955**	**6,246**

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

In CZK million	31 December 2016	31 December 2015	1 January 2015
Deferred tax liabilities	5,955	6,246	6,525
Total	**5,955**	**6,246**	**6,525**

The deferred tax liability includes CZK 286 million (31 December 2015: CZK 166 million, 1 January 2015: CZK 173 million) to be realized in less than twelve months and CZK 5,669 million (31 December 2015: CZK 6,080 million, 1 January 2015: CZK 6,352 million) to be realized in more than twelve months.

The deferred tax is determined by these components:

In CZK million	**Consolidated statement of financial position**		
	31 December 2016	**31 December 2015**	**1 January 2015**
Temporary differences relating to:			
Property, plant and equipment	5,960	6,204	6,487
Intangible assets	106	103	101
Trade receivables, inventories, provisions and other differences	(107)	(61)	(63)
Valuation gain/(losses) – cash flow hedge	(4)	-	-
Total	**5,955**	**6,246**	**6,525**

In CZK million	**Consolidated statement of total comprehensive income**	
	Year ended 31 December 2016	**Year ended 31 December 2015**
Temporary differences relating to:		
Property, plant and equipment	244	283
Intangible assets	(3)	(2)
Trade receivables, inventories, provisions and other differences	46	(2)
Total	**287**	**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	9	157	166
Utilised during the year	(12)	(8)	(20)
As at 31 December 2016	**226**	**157**	**383**

In CZK million	Asset retirement obligation	Other provisions	Total
As at 31 December 2016			
Short-term provisions	29	37	66
Long-term provisions	197	120	317
	226	**157**	**383**
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 226 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 (31 December 2015: CZK 41 million).

The Group recognized provision for costs connected with removal of CZK 120 million (31 December 2015: CZK 0 million, 1 January 2015: CZK 0 million). This provision represents costs which will occur in connection with the sale of the seat of the Company. These costs are mainly removal costs and costs connected with the premature termination of some rental services. Other provisions includes provision for redundancy cost of CZK 31 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. CONTINGENT LIABILITIES

In October 2016 the European Commission (EC) initiated a formal phase of an investigation in respect of Network sharing agreement between O2 Czech Republic, the Company and T-Mobile Czech Republic. Its objective is to review if the mutual cooperation does not harm free business competion in the czech market and so there are no obstructions to innovations in contrary to EU antitrust rules. The Company fully cooperates with EC during the investigation, there is no specific indication to potential negative results from EC.

19. 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 31 December 2016

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	744	1,548	2,540
Operating leases - lessor	131	59	-

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 887 million (31 December 2015: CZK 870 million).

Capital expenditure contracted but not yet recognized in the financial statements as at 31 December 2016 amounted to CZK 544 million (31 December 2015: CZK 682 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

20. 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 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)

21. EQUITY

	31 December 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

Shareholders of the Company were as follows:

	31 December 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 according to CZ GAAP 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 proceessed 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.

Gains and Losses from revaluation arising from Cash Flow Hedges

In CZK million	**2016**	**2015**
The fair value of the effective part of cash flow hedges at 1 January	-	-
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	-	-
Total balance at 1 January	**-**	**-**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period		
Cross currency swap	(24)	-
Accumulated net profit/(loss) arising from cash flow hedges for the period recognised through profit or loss		
Cross currency swap	-	-
Tax effect of cash flow hedges for the period	4	-
The fair value of the effective part of cash flow hedges at 31 December	(24)	-
Deferred tax asset/(liability) arising from revaluation gains and losses at 31 December	4	-
Total balance at 31 December	**(20)**	**-**

The Group started applying hedge accounting upon cash flow hedges in 2016.

22. 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

	Assets/Liabilities as at		
In CZK million	**31 December 2016**	**31 December 2015**	**1 January 2015**
Receivables from provided services			
Shareholders of the Company	-	6	-
Other companies in PPF Group	1,272	1,273	8
of which: O2 Czech Republic a.s.	1,096	1,249	-
Payables from purchased services			
Other companies in PPF Group	246	283	-
of which: O2 Czech Republic a.s.	170	237	-
Loans provided including interest – financial assistance			
Shareholders of the Company (Note 15)	-	32,428	-
Positive fair value of derivatives			
Other companies in PPF Group (Note 15)	10	-	-
Negative fair value of derivatives			
Other companies in PPF Group (Note 15)	24	-	-
Nominal value of derivatives			
Other companies in PPF Group (Note 15)	15,627	162	-
Cash equivalents			
Other companies in PPF Group	265	611	-

	Volume of mutual transactions	
In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Sale of services		
Shareholders of the Company	-	-
Other companies in PPF Group	10,541	10,701
of which: O2 Czech Republic a.s.	10,360	10,474
Purchase of services		
Other companies in PPF Group	442	527
of which: O2 Czech Republic a.s.	259	241
Loans provided including interest – financial assistance		
Shareholders of the Company	456	228
Net gain/loss on fair value of derivatives		
Other companies in PPF Group	1	(1)

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 year ended 31 December 2016, capital expenditures from related parties amounted to CZK 18 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

	Year ended 31 December 2016	Year ended 31 December 2015
Remuneration in CZK million		
Board of directors	20	13
Supervisory board	-	-
Key management	45	39
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	10	10

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

23. SUBSIDIARIES

As at 31 December 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%	68	Netherlands	Financial services	Full consolidation

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

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

24. MATERIAL SUBSEQUENT EVENTS

As at 14 February 2017, the company signed head office building sales contract. This event do not have impact to the consolidated financial statements for year ended 31 December 2016.

Beside above stated, there are no other subsequent events with material impact to the consolidated financial statements for year ended 31 December 2016.

ČESKÁ TELEKOMUNIKAČNÍ INFRASTRUKTURA A.S.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

The financial statements were approved by the Board of Directors on 7 March 2017 and were signed on its behalf by:

Martin Vlček

Chairman of the Board of Directors

Petr Slováček

Chief Executive Officer
Vice-chairman of the Board of Directors

CONTENT

STATEMENT OF TOTAL COMPREHENSIVE INCOME

In CZK million	**Note**	**31 December 2016**	**For the year ended 31 December 2015**
Revenues	6	20,379	19,097
Other income and capitalization of own work	6	511	482
Expenses	6	(13,108)	(11,642)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**7,782**	**7,937**
Depreciation and amortisation	9, 10	(4,239)	(5,542)
Impairment loss	9, 10	(822)	(13)
Operating profit (*EBIT*)		**2,721**	**2,382**
Finance income	7	471	229
Finance costs	7	(378)	(202)
Profit before tax		2,814	2,409
Corporate income tax	8	(560)	(465)
Profit for the year		**2,254**	**1,944**
Other comprehensive income			
Cash flow hedges – effective portion of changes in fair value	21	(24)	-
Related deferred tax	16	4	-
Total other comprehensive income, net of tax		**(20)**	**-**
Total comprehensive income, net of tax		**2,234**	**1,944**
Profit attributable to:			
Equity holders of the Company		2,254	1,944
Total comprehensive income attributable to:			
Equity holders of the Company		2,234	1,944

STATEMENT OF FINANCIAL POSITION

In CZK million	Note	As at 31 December 2016	31 December 2015	1 January 2015
ASSETS				
Property, plant and equipment	9	49,086	51,537	54,153
Intangible assets	10	1,341	1,097	981
Investment in subsidiaries	23	84	16	16
Long-term loan	15	-	32,200	-
Other assets	12	129	60	67
Non-current assets		**50,640**	**84,910**	**55,217**
Inventories	11	42	48	27
Receivables	12	3,148	2,948	1,492
Short-term loan	15	-	228	-
Income tax receivable	8	-	12	-
Cash and cash equivalents	13	309	652	52
Current assets		**3,499**	**3,888**	**1,571**
Non-current assets held for sale	9	**681**	**13**	**-**
Total assets		**54,820**	**88,811**	**56,788**
EQUITY AND LIABILITIES				
Share capital	21	3,102	3,102	3,102
Reserves	21	(20)	-	-
Other funds	21	14,615	10,774	42,974
Reserve funds	21	-	32,200	-
Retained earnings	21	261	1,944	-
Total equity		**17,958**	**48,020**	**46,076**
Long-term financial debts	15	21,635	28,137	-
Deferred tax liability	16	5,954	6,244	6,523
Non-current provisions for liabilities and charges	17	317	185	236
Non-current other liabilities	14	976	630	431
Non-current liabilities		**28,882**	**35,196**	**7,190**
Short-term financial debts	15	3,016	794	-
Trade and other payables	14	4,840	4,749	3,489
Income tax liability	8	58	-	-
Provisions for liabilities and charges	17	66	52	33
Current liabilities		**7,980**	**5,595**	**3,522**
Total liabilities		**36,862**	**40,791**	**10,712**
Total equity and liabilities		**54,820**	**88,811**	**56,788**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In CZK million	Note	Share capital	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2016		**3,102**	**-**	**10,774**	**32,200**	**1,944**	**48,020**
Profit for the year		-	-	-	-	2,254	2,254
Other comprehensive income		-	(20)	-	-	-	(20)
Total comprehensive income		**-**	**(20)**	**-**	**-**	**2,254**	**2,234**
Transfers	21	-	-	32,200	(32,200)	-	-
Dividends paid	21	-	-	-	-	(1,830)	(1,830)
Distribution of other capital funds	21	-	-	(28,359)	-	-	(28,359)
Interim dividends	21	-	-	-	-	(2,107)	(2,107)
As at 31 December 2016		**3,102**	**(20)**	**14,615**	**-**	**261**	**17,958**

For the year ended 31 December 2015

In CZK million	Note	Share capital	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2015		**3,102**	**-**	**42,974**	**-**	**-**	**46,076**
Profit for the year		-	-	-	-	1,944	1,944
Total comprehensive income		-	-	-	-	**1,944**	**1,944**
Transfers	21	-	-	(32,200)	32,200	-	-
As at 31 December 2015		**3,102**	**-**	**10,744**	**32,200**	**1,944**	**48,020**

STATEMENT OF CASH FLOWS

In CZK million	Note		For the year ended
		31 December 2016	31 December 2015
Profit for the year		2,254	1,944
Non-cash adjustments for:			
Depreciation and amortisation	9, 10	4,239	5,542
Impairment loss	9	822	13
Profit on sale of property, plant and equipment	9	(66)	(29)
Net finance revenues	7	(80)	(48)
Foreign exchange losses (net)		(13)	15
Other non-cash adjustments		(19)	1
Tax expense	8	560	465
Operating cash flow before working capital changes		**7,697**	**7,903**
Working capital adjustments:			
Change in trade and other receivables		(94)	(1,417)
Change in inventories		6	(21)
Change in trade and other payables		306	952
Change in operation provisions		146	(32)
Cash flows from operating activities		**8,061**	**7,385**
Income tax paid	8	(776)	(756)
Net cash flow from operating activities		**7,285**	**6,629**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(3,471)	(2,701)
Proceeds from sales of property, plant and equipment and intangible assets		71	134
Investment in subsidiaries	23	(68)	-
Net cash used in investing activities		**(3,468)**	**(2,567)**
Cash flows from financing activities			
Interest paid		(481)	(31)
Interest received		593	-
Other finance charges received		147	-
Repayments of loans	15	(28,850)	(4,325)
Proceeds from loans	15	24,698	33,107
Grant/Repayment of loan	15	32,200	(32,200)
Net proceeds from settlement of derivatives		(16)	-
Cash collateral placed due to derivatives transactions	12	(155)	-
Distribution of other capital funds paid	21	(28,359)	-
Dividends paid	21	(3,937)	-
Net cash used in financing activities		**(4,160)**	**(3,449)**
Net increase in cash and cash equivalents		**(343)**	**613**
Cash and cash equivalents at beginning of year	13	652	52
Effect of foreign exchange rate movements on cash and cash equivalents		-	(13)
Cash and cash equivalents at the year end	13	**309**	**652**

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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.

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 majority shareholder of the Company as at 31 December 2016 is PPF Infrastructure B.V. (part of the PPF Group). Further details are described in Note 21.

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 Company amounted in average to 1,378 in 2016 (2015: 1,215).

The financial statements contained herein are the financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

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

The financial statements were approved for issue by the Company's Board of Directors on 7 March 2017.

2. BASIS OF PREPARATION

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

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) 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 financial statements in accordance with IFRS adopted by the EU (Regulation (EC) No 1606/2002). At the balance sheet date, there are no differences in the IFRS policies applied by the Company, and IFRS adopted by the EU.

The financial statements 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 financial statements in conformity with IFRS, management has made judgements, estimates and assumptions that affect the application of the Company'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 financial statements are presented in millions Czech crowns (CZK), if not stated otherwise.

Use of estimates, assumptions and judgements

The Company makes forward-looking estimates and assumptions. The resulting accounting estimates might be, by definition, different from the related actual results.

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

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

(1) Income taxes and deferred taxes

The Company creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the year 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 3b and Note 3c.

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

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

(3) Provisions and contingent liabilities

The Company's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources to settle the obligation will be required and a reliable estimate of the amount of the obligation can be made (see Note 17). The Company recognizes provision for dismantling assets, which is part of the costs of the assets, which the Company 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 Company. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

(4) Receivables

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

(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 Comapny are Mobile network services agreement as described in Note 22. The Company 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.

(7) Asset held for sale

The Company regurlary revises its long term assets according to IFRS 5 to ensure correct presentation in the financial staments. The Company has to estimate the probability of sale, time prospectives of the sale and market value considering the costs of sale.

3. SIGNIFICANT ACCOUNTING POLICIES

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

New IFRS not effective as at 31 December 2016 (includes standards applicable to the Company)

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 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
IFRS 10 and IAS 28 (amendment)	Sales or contributions of assets between an investor and its associate/joint venture	n/a

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a five-step model.

The Company is still in the process of quantifying the implications of this standard, however we expect the following indicative impacts:

Currently, the Company recognises the part of the installation/activation fees as one-time revenue in the period when the fees are paid by the customer with no regard to time value of the money. Under IFRS 15 these fees will be accrued over the period of provided services and the financing component of these transaction will be taken into account.

Sales commissions and other third party acquisition costs resulting directly from securing contracts with customers are currently expensed when incurred. IFRS 15 will require these costs of acquiring contracts to be recognised as an asset when incurred, to be expensed over the associated contract period.

IFRS 15 gives far greater detail on how to account for contract modifications than current revenue standards IAS 18 and IAS 11. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of past revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

There will be a corresponding effect on tax liabilities in relation to all of the above impacts.

The Company is continuing its analysis of the expected impacts of transition to IFRS 15.

IFRS 16 Leases

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both leasees and lessors. In accordance with the new standard the lessees will be required to recognize most leases on their balance sheets while lessor accounting is substantially unchanged.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard has not yet been endorsed by EU.

The Company is currently assessing concrete impacts of the new standard, however the Company expects significant increase of assets and liabilities as a result of the recognition of most operating leases on the balance sheet and classification impact on the statement of profit or loss. The Company plans to adopt the new standard on the required effective date.

a) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. Such balances of monetary items are translated at year-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.

b) 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 Company 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 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 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 3e).

c) Intangible assets

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

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

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

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

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

Intangible assets that are no longer in use and no future economic benefits are expected or that are disposed of for any other reason are de-recognised from the 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.

d) Non-current assets classified as held for sale

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

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

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

f) Investments and other financial assets

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

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

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

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

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

(2) Available for sale financial assets

If 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 is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

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

De-recognition of financial assets

A financial asset is de-recognised when:

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

g) Leases

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

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

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

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

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

h) 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.

i) Trade receivables

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

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

j) Cash and cash equivalents

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

k) Financial debt

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

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

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

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

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.

m) Employee benefits

(1) Pension insurance and supplementary pension insurance

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

(2) Redundancy and severance payments

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

(3) Bonus plans

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

n) Provisions

Provisions are recognised when the Company 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 Company expects a provision to be reimbursed, e.g. based on insurance contract,

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 31 December 2016 using a long-term real rate of interest in the range from 0.37% to 2,95% 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 31 December 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.

o) Revenue and expenses

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

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 is recognized when the right to receive payment is established.

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

p) Dividend distribution

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

q) Financial instruments

Financial instruments carried on the 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 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 Company designates certain derivatives as either:

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

Changes in the fair value of derivatives that are designated and 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 Company's risk management policies, either do not qualify for hedge accounting under the specific rules in IAS 39 or the Company has elected not to apply the specific IAS 39 hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

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

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

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

Fair value estimation

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

r) 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.

s) Alternative earnings measures

The Company presents certain alternative earnings measures such as EBITDA, EBIT. As used in these 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.

t) The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to the financial position as at 31 December 2016 (Statement of Financial Position) are shown as at 31 December 2015 and 1 January 2015. The comparative financial information (Statement of Total Comprehensive Income, Statement of Changes in Equity and Statement of Cash flows) are presented for the year ended 31 December 2015.

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

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

In preparing its opening IFRS statement of financial position, the Company 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 Company'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 Company has applied the following exemptions:

Fixed assets were carried in the 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 Company 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 Company under CZ GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Company reconciliation of financial position as at 1 January 2015

In CZK million	Note	CZ GAAP	Restatement of CZ GAAP	Remeasurements	IFRS
ASSETS					
Property plant and equipment	A	54,027	(131)	257	54,153
Intangible assets	C	1,559	(26)	(552)	981
Investment in subsidiaries		16	-	-	16
Other assets	D	7	-	60	67
Non-current assets		**55,609**	**(157)**	**(235)**	**55,217**
Inventories	A	284	-	(257)	27
Receivables and prepayments	D	1,604	(42)	(70)	1,492
Cash and cash equivalents		52	-	-	52
Current assets		**1,940**	**(42)**	**(327)**	**1,571**
Total assets		**57,549**	**(199)**	**(562)**	**56,788**
EQUITY AND LIABILITIES					
Share capital		3,102	-	-	3,102
Reserves		-	-	-	-
Other funds	C	43,798	(272)	(552)	42,974
Retained earnings		-	-	-	-
Total equity		**46,900**	**(272)**	**(552)**	**46,076**
Deferred tax liability		6,523	-	-	6,523
Non-current provisions for liabilities and charges	F	269	-	(33)	236
Non-current other liabilities	G	454	-	(23)	431
Non-current liabilities		**7,246**	**-**	**(56)**	**7,190**
Trade and other payables	G	3,403	73	13	3,489
Provisions for liabilities and charges	F	-	-	33	33
Current liabilities		**3,403**	**73**	**46**	**3,522**
Total liabilities		**10,649**	**73**	**(10)**	**10,712**
Total equity and liabilities		**57,549**	**(199)**	**(562)**	**56,788**

Company reconciliation of financial position as at 31 December 2015

In CZK million	Note	CZ GAAP	Restatement of CZ GAAP	Remeasurements	IFRS
ASSETS					
Property plant and equipment	A, B	51,127	(155)	565	51,537
Intangible assets	C	1,536	-	(439)	1,097
Investment in subsidiaries		14	-	2	16
Long-term loan		32,200	-	-	32,200
Other assets	D	6	-	54	60
Non-current assets		**84,883**	**(155)**	**182**	**84,910**
Inventories	A	618	-	(570)	48
Receivables and prepayments	E	3,303	-	(355)	2,948
Short-term loan	E	-	-	228	228
Current tax receivable		12	-	-	12
Cash and cash equivalents		652	-	-	652
Current assets		**4,585**	**-**	**(697)**	**3,888**
Non-current assets classified as held for sale	B	**-**	**-**	**13**	**13**
Total assets		**89,468**	**(155)**	**(502)**	**88,811**
EQUITY AND LIABILITIES					
Share capital		3,102	-	-	3,102
Reserves		(2)	-	2	-
Other funds	C	11,481	(155)	(552)	10,774
Reserve funds		32,200	-	-	32,200
Retained earnings		1,833	-	111	1,944
Total equity		**48,614**	**(155)**	**(439)**	**48,020**
Long-term financial debts	E	28,200	-	(63)	28,137
Deferred tax liability		6,244	-	-	6,244
Non-current provisions for liabilities and charges	F	237	-	(52)	185
Non-current other liabilities	G	685	-	(55)	630
Non-current liabilities		**35,366**	**-**	**(170)**	**35,196**
Short-term financial debts	G	650	-	144	794
Trade and other payables	G	4,838	-	(89)	4,749
Provisions for liabilities and charges	F	-	-	52	52
Current liabilities		**5,488**	**-**	**107**	**5,595**
Total liabilities		**40,854**	**-**	**(63)**	**40,791**
Total equity and liabilities		**89,468**	**(155)**	**(502)**	**88,811**

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

In CZK million	**Note**	**CZ GAAP**	**Remeasurements**	**IFRS**
Revenues	H	19,814	(717)	19,097
Other income	I	1,014	(532)	482
Expenses	H, I, J	(12,900)	1,258	(11,642)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**7,928**	**9**	**7,937**
Depreciation and amortisation	J	(5,630)	88	(5,542)
Impairment loss	J	-	(13)	(13)
Operating profit (*EBIT*)		**2,298**	**84**	**2,382**
Finance income	K	291	(62)	229
Finance costs	K	(291)	89	(202)
Profit before tax		2,298	111	2,409
Corporate income tax		(465)	-	(465)
Profit for the year		**1,833**	**111**	**1,944**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Other comprehensive income, net of tax		-	-	-
Total comprehensive income, net of tax		**1,833**	**111**	**1,944**
Profit attributable to:				
Equity holders of the Company		1,833	111	1,944
Total comprehensive income attributable to:				
Equity holders of the Company		1,833	111	1,944

Company reconciliation of cashflows for year ended 31 December 2015

In CZK million	Note	CZ GAAP	Remeasurements	IFRS
Profit for the year		1,833	111	1,944
Non-cash adjustments for:				
Depreciation and amortisation	J	5,630	(88)	5,542
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		(5)	6	1
Tax expense		465	-	465
Operating cash flow before working capital changes		**7,814**	**89**	**7,903**
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		953	(33)	920
Cash flows from operating activities		**7,031**	**354**	**7,385**
Interest paid		(31)	31	-
Income tax paid		(756)	-	(756)
Net cash flow from operating activities		**6,244**	**385**	**6,629**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangibles	A	(2,360)	(341)	(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		**(34,426)**	**31,859**	**(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		**600**	**13**	**613**
Cash and cash equivalents at beginning of year		52	-	52
Effect of foreign exchange rate movements on cash and cash equivalents		-	(13)	(13)
Cash and cash equivalents at the year end		**652**	**-**	**652**

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

Restatement of the statement of financial position according to CZ GAAP

In the context of Separation the Company identified an error during the year 2015 in the statement of financial position according to CZ GAAP as at the 1 January 2015. The error related to overstatement of intangible assets in the amount of 26 million CZK, understatement of tangible fixed assets in the amount of CZK 24 million, overstatement of adjustments to short-term loans CZK 42 million, understatement of short-term trade payables and other items in the amount of CZK 73 million and overstatement of other capital funds in equity in the amount of CZK 117 million.

In December 2016 the Company identified during regular checks on property register an error in amount of CZK 155 million. The Company identified items of property, plant and equipment that were sold before 2015, but weren't excluded from the property registr. The correction of this error was made against other capital funds in equity, which was reduced by CZK 155 million.

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 Company recognised assets held for sale under IFRS 5 in the amount CZK 13 million.

C Goodwill

Under Czech GAAP, the Company 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 Statement of Financial position.

D Other assets

Under Czech GAAP, the Company recognised part of the other assets in an other category of the 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 Company 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, the Company 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 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 Company 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 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 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 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 statement of comprehensive income. For the year ended 31 December 2015 the income recognised in Czech GAAP in Other income 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 year ended 31 December 2015 the difference between income from sale of fixed assets measured on gross and net basis 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 year ended 31 December 2015 these rentals amounting to CZK 138 million.

J Depreciation, amortisation and impairment

Under Czech GAAP, the Company 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 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 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 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 year ended 31 December 2015 the insurance charge amounting to CZK 32 million.

Under Czech GAAP the change in deccommisioning provision is recognized as a non-financial expense. Under IFRS this unwiding of the discount is recognized as financial expense. For year ended 31 December 2015 the discount unwinding expense amounted to CZK 5 million.

L Presentation of provided loan and debt repayment in 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 Company recognises two main operating segments:

- Domestic services – provision of wholesale telecommunication services (mobile, fixed and data services) to other Czech telco operators, utilising the Company's network infrastructure in the Czech Republic; this is the core business of the Company,
- 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 Company is reported separately for these reasons:

I. The nature of the international transit business is fundamentally different from the core business of the Company. 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 Company 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 Company. 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 Company.

The Company is capable of achieving substantial revenue from international transit services, while the EBITDA margin from the segment is 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.

Year ended 31 December 2016	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Company**
In CZK million					
Revenues	11,674	8,705	20,379	-	20,379
Other income and capitalization of own work	-	-	-	511	511
Total costs	(4,253)	(8,344)	(12,597)	(511)	(13,108)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,421**	**361**	**7,782**	**-**	**7,782**
Total depreciation and amortization	(4,186)	(53)	(4,239)	-	(4,239)
Impairment charge	(822)	-	(822)	-	(822)
Operating income (*EBIT*)	**2,413**	**308**	**2,721**	**-**	**2,721**
Net financial income					93
Profit before tax					2,814
Corporate income tax					-560
Profit for the year					**2,254**
As at 31 December 2016 Total assets	**53,541**	**1 279**	**54,820**	**-**	**54,820**
Trade and other payables	4,023	817	4,840	-	4,840
Other liabilities	32,022	-	32,022	-	32,022
Total liabilities	**36,045**	**817**	**36,862**	**-**	**36,862**
Capital expenditure (Fixed assets additions)	**3,526**	**22**	**3,548**	**-**	**3,548**

Year ended 31 December 2015 **In CZK million**	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Company**
Revenues	11,833	7,264	19,097	-	19,097
Other income and capitalization of own work	-	-	-	482	482
Total costs	(4,227)	(6,933)	(11,160)	(482)	(11,642)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,606**	**331**	**7,937**	**-**	**7,937**
Total depreciation and amortization	(5,484)	(58)	(5,542)	-	(5,542)
Impairment charge	(13)	-	(13)	-	(13)
Operating income (*EBIT*)	**2,109**	**273**	**2,382**	**-**	**2,382**
Net financial income					27
Profit before tax					2,409
Corporate income tax					(465)
Profit for the year					**1,944**

As at 31 December 2015					
Total assets	**87,330**	**1,481**	**88,811**	**-**	**88,811**
Trade and other payables	3,747	1,002	4,749	-	4,749
Other liabilities	36,042	-	36,042	-	36,042
Total liabilities	**39,789**	**1,002**	**40,791**	**-**	**40,791**
Capital expenditure (Fixed assets additions)	**3,088**	**44**	**3,132**	**-**	**3,132**

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

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 and International transit represent more than 10% of the Company’s revenues. For the year ended 31 December 2016 these revenues are CZK 10,360 million (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**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Czech Republic	12,269	12,426
Germany	2,720	1,977
Slovakia	739	1,306
Other EU countries	2,352	1,569
Switzerland	1,621	1,125
Other Non-EU countries	678	694
Total revenues	**20,379**	**19,097**

6. REVENUES AND EXPENSES

Revenues **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Revenues from mobile network services	4,549	4,504
Revenues from fixed network mass service	4,667	4,829
Revenues from transit services	8,705	7,264
Revenues from data services	1,465	1,532
Other telecommunication revenues	993	968
Total revenues	**20,379**	**19,097**
Other income	511	482

Other income includes own work capitalized in the amount of CZK 286 million (31 December 2015: CZK 251 million).

Revenues from related parties are disclosed in Note 22.

Expenses **In CZK million**	**Year ended** **31 December 2016**	**Year ended** **31 December 2015**
Supplies	(8,635)	(7,226)
Staff costs	(1,399)	(1,230)
External services	(2,840)	(3,074)
Provisions for bad debts and inventories	20	(10)
Other expenses	(254)	(102)
Total expenses	**(13,108)**	**(11,642)**

Supplies include mainly costs of transit and interconnection costs.

The Company does not participate in any pension plans.

Statutory auditor's fees during the year ended 31 December 2016 amounted to CZK 8 million (31 December 2015: CZK 4 million).

Purchases from related parties are disclosed in Note 22.

7. FINANCE INCOME AND COSTS

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Finance income		
Interest income	365	229
Income on fair value adjustments of financial instruments (net)	1	-
Foreign exchange gain (net)	12	-
Other finance income	93	-
Total finance income	**471**	**229**
Finance costs		
Interest expenses	(368)	(180)
Loss on fair value adjustments of financial instruments (net)	-	(1)
Foreign exchange loss (net)	-	(15)
Other finance costs	(10)	(6)
Total finance costs	**(378)**	**(202)**

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

In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Profit before tax	2,814	2,409
Income tax charge calculated at the statutory rate of 19%	(535)	(458)
Non-taxable income	34	41
Tax non-deductible expenses	(42)	(62)
Additional income tax related to prior years	(24)	-
Other differences	7	14
Income tax expense	**(560)**	**(465)**
Effective tax rate	19.90%	19.30%

As at 31 December 2016, the total amount of provisions for current income taxes is CZK 822 million (31 December 2015: CZK 745 million, 1 January 2015: CZK 0 million), advances paid for income taxes is CZK 764 million (31 December 2015: CZK 756 million, 1 January 2015: CZK 0 million), the net deferred tax liability is CZK 5,954 million (31 December 2015: CZK 6,244 million, 1 January 2015: CZK 6,523 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 31 December 2016						
Opening net book amount	7,469	37,518	4,982	168	1,400	**51,537**
Additions	177	763	1,281	69	691	**2,981**
Disposals	(11)	-	(17)	-	-	**(28)**
Transfers	71	198	413	16	(698)	**-**
Reclassifications and currency differences	19	-	(2)	(12)	10	**15**
Depreciation	(536)	(2,072)	(1,260)	(48)	-	**(3,916)**
Impairment	(700)	-	(112)	(12)	2	**(822)**
Reclassification to Assets held for sale	(675)	-	(5)	(1)	-	**(681)**
Closing net book amount	5,814	36,407	5,280	180	1,405	**49,086**
As at 31 December 2016						
Cost	6,779	40,518	9,077	321	1,431	**58,126**
Accumulated depreciation	(965)	(4,111)	(3,797)	(141)	(26)	**(9,040)**
Net book amount	5,814	36,407	5,280	180	1,405	**49,086**

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	7,862	39,099	6,263	183	746	**54,153**
Additions	111	383	1,026	107	1,052	**2,679**
Disposals	-	(5)	(36)	(5)	-	**(46)**
Transfers	64	86	249	-	(399)	**-**
Reclassifications and currency differences	-	-	20	-	14	**34**
Depreciation	(555)	(2,045)	(2,540)	(117)	-	**(5,257)**
Impairment	-	-	-	-	(13)	**(13)**
Reclassification to Assets held for sale	(13)	-	-	-	-	**(13)**
Closing net book amount	7,469	37,518	4,982	168	1,400	**51,537**
As at 31 December 2015						
Cost	8,021	39,560	7,752	278	1,433	**57,044**
Accumulated depreciation	(552)	(2,042)	(2,770)	(110)	-	**(5,474)**
Accumulated impairment	-	-	-	-	(33)	**(33)**
Net book amount	7,469	37,518	4,982	168	1,400	**51,537**

As at 31 December 2016, the carrying value of non-depreciated assets amounted to CZK 169 million (31 December 2015: CZK 215 million, 1 January 2015: CZK 219 million).

As at 31 December 2016, the Company recognised assets held for sale of CZK 681 million (31 December 2015: CZK 13 million, 1 January 2015: CZK 0 million). Assets held for sale are mainly represented by the Company's head office building and other buildings currently empty or not used by the Company. The Company expects that sale of these assets will be finalized in one year. All assets held for sale belong to the segment Domestic services.

In connection with the asset held for sale classification of above mentioned assets, the Company identified an impairment loss of CZK 822 million in accordance to IFRS 5. The fair value less cost to sell is calculated from preliminary proposals or experts' opinions. The majority of the amount is impairment of the Company's head office building amounting to CZK 740 million related to expected sale of the property. After the sale of the Company's head office building the Company will rent the head office building, but plans to move out to the new headquarters as soon as possible.

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

For the year ended 31 December 2016, the Company achieved a total gain from the sale of the fixed assets of CZK 71 million (31 December 2015: CZK 32 million) and total losses of CZK 5 million (31 December 2015: CZK 3 million).

10. INTANGIBLE ASSETS

In CZK million	**Licences**	**Software**	**Valuable rights**	**Construction in progress**	**Total**
As at 31 December 2016					
Opening net book amount	-	875	49	173	**1,097**
Additions	-	334	35	198	**567**
Disposals		-	-	-	**-**
Transfers	-	109	8	(117)	**-**
Reclassifications and currency differences	-	-	-	-	**-**
Amortisation charge	-	(309)	(14)	-	**(323)**
Closing net book amount	-	1,009	78	254	**1,341**
As at 31 December 2016					
Cost	-	1,549	98	254	**1,901**
Accumulated amortisation	-	(540)	(20)	-	**(560)**
Net book amount	-	1,009	78	254	**1,341**

In CZK million	**Licences**	**Software**	**Valuable rights**	**Construction in progress**	**Total**
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 Company’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	31 December 2016	31 December 2015	1 January 2015
Telecommunication material	26	48	27
Other	16	-	-
Total	**42**	**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 131 million (31 December 2015: CZK 124 million).

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

12. RECEIVABLES AND OTHER ASSETS

In CZK million	31 December 2016	31 December 2015	1 January 2015
Trade receivables from third parties (net)	1,640	1,508	1,348
Receivables with related parties (Note 22)	1,118	1,281	10
Prepayments	94	138	117
Tax receivables for indirect taxes	124	-	-
Derivative financial assets	10	-	-
Advance payments	123	60	67
Cash collateral placed due to derivatives transactions (Note 15)	155	-	-
Other debtors (net)	13	21	17
Total receivables and other asstes	**3,277**	**3,008**	**1,559**

Trade receivables and other debtors are stated net of bad debt provision of CZK 29 million (31 December 2015: CZK 52 million, 1 January 2015: CZK 42 million).

Prepayments comprise primarily prepaid lease-related service costs of CZK 46 million (31 December 2015: CZK 55 million, 1 January 2015: CZK 56 million), prepaid expenses from International transit of CZK 14 million (31 December 2015: CZK 17 million, 1 January 2015: CZK 21 million).

Receivables from related parties are disclosed in Note 22.

		Not impaired but overdue			
Trade receivables not impaired In CZK million	**Neither impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
As at 31 December 2016	2,411	306	13	15	-
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	14
Release	(37)
As at 31 December 2016	**29**

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

As at 31 December 2016, the Company presented non-current other assets of CZK 244 million (31 December 2015: CZK 60 million, 1 January 2015: CZK 67 million) consisting of prepayments, advance payments for long-term expenses and collateral.

Cash collateral placed represents the one – side collateral of derivative transactions of the Company, see Note 15. Cash collateral placed results from the Company's obligation to place the cash collateral to the derivative transaction counterparty and for the period of the derivative transaction, where the amount of collateral is calculated from nominal and fair value of the financial derivative. Amount of collateral placed is regularly updated. As at 31 December 2016 the short term part of the collateral placed represents CZK 114 million and long term part CZK 41 million.

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	**31 December 2016**	**31 December 2015**	**1 January 2015**
Gross amounts of trade receivables	2,287	2,180	644
Amounts that are set off	(522)	(421)	(268)
Net amounts of trade receivables	1,765	1,759	376

13. CASH AND CASH EQUIVALENTS

In CZK million	**31 December 2016**	**31 December 2015**	**1 January 2015**
Cash at bank accounts and other cash equivalents	44	41	52
Cash at bank accounts and other cash equivalents (inter-company)	265	611	-
Total cash and cash equivalents	**309**	**652**	**52**

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 43 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 Company is in a leading role. The usage of bank accounts of the Special Partnership Accounts is limited by mutual agreement.

As at 31 December 2016, 31 December 2015 and 1 January 2015, the Company did not have any available equivalent of undrawn committed facilities.
As at 31 December 2016, no cash and cash equivalents were pledged. As at 31 December 2015, the Company had a pledge over receivables from bank accounts of the Company as disclosed in Note 15.

14. TRADE AND OTHER PAYABLES

In CZK million	31 December 2016	31 December 2015	1 January 2015
Trade creditors	4,473	4,332	3,277
VAT, other taxes and social security liability	78	211	53
Other deferred revenue	98	56	23
Employee wages and benefits	168	123	103
Other creditors	23	27	33
Trade and other payables - current	4,840	4,749	3,489
Other non-current liabilities	976	630	431

Payables to related parties are disclosed in Note 22.

As at 31 December 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:

In CZK million	31 December 2016	31 December 2015	1 January 2015
Gross amounts of trade creditors	1,097	1,112	954
Amounts that are set off	(522)	(421)	(268)
Net amounts of trade creditors	575	691	686

15. FINANCIAL ASSETS AND LIABILITIES

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

Loan agreement – Financial assistance

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 were valid under the condition of complying with defined contractual conditions.

The Financial assistance was fully repaid during 2016.

In CZK million	31 December 2016	31 December 2015	1 January 2015
Provided loan in local currency	7,808	28,787	-
Provided loan in foreign currency	16,821		
Accrued Interest	22	144	-
Total financial liabilities	**24,651**	**28,931**	**-**
Repayable:			
Within one year	3,016	794	-
Between one and five years	16,821	6,150	-
More than five years	4,814	21,987	-
Total financial liabilities	**24,651**	**28,931**	**-**

Intercompany loan agreement

On 7 December 2016 the Company entered into an intercompany loan agreement with CETIN Finance B.V. amounting CZK 24,680 million in form of three facilities: maturity 1 year (CZK 2,998 million), 5 years (EUR 624 million) and 7 years (CZK 4,822 million). The interest rate is fixed over the loan maturity.

All conditions resulting from intercompany loan agreement were met as at 31 December 2016.

Syndicated loan agreement

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 were valid under the condition of complying with defined contractual conditions.

The syndicated loan was fully repaid during 2016.

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

- Pledge over the metalic 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.

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 31 December 2016.

Financial risk management

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

The Company does not conduct any speculative trading activities.

Risk management is carried out by the treasury department 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 Company is exposed to foreign currency risk arising from various currency exposures, primarily with respect to positions at EURO and partially to positions at 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 Company'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 Company to manage the currency risk:

In CZK million		**Nominal value**	
	31 December 2016	**31 December 2015**	**1 January 2015**
Non-hedging			
Foreign exchange contracts (Note 22) (FX FWD a FX SWAP CZK/EUR)	11,566	162	-
Hedging			
Cross currency SWAP (Note 22)	4,053	-	-

In CZK million		**Fair value**	
	31 December 2016	**31 December 2015**	**1 January 2015**
Non-hedging			
Foreign exchange contracts (Note 22) (FX FWD a FX SWAP CZK/EUR)	10	-	-
Hedging			
Cross currency SWAP (Note 22)	(24)	-	-

Derivative transactions are collateralized by cash collateral placed – see Note 12.

Remaining maturity of financial derivatives – contracted amounts (nominal value)

In CZK million	**Within 1 year**	**1 – 5 years**	**More than 5 years**	**Total**
Foreign exchange contracts (FX FWD a FX SWAP CZK/EUR)	11,566	-	-	11,566
Cross currency swap	-	4,053	-	4,053

Derivative transactions from the year 2015 were settled in the year 2016.

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

In CZK million	Effect on profit before tax	
	Year ended 31 December 2016	Year ended 31 December 2015
FX risk		
Value at Risk*	(8)	(13)
Stress testing*	(22)	(5)

* The Value at Risk (VaR) Model enables the Company 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 Company uses the risk variance and covariance method using the normal distribution (e.g. parametric method). The time frame used is one month with a 95% reliability rate. Considering the importance of net open positions resulting from financial assets and financial liabilities of the Company in individual foreign currencies, the Company models VaR from a position of translation and transaction in EUR and USD.

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

(ii) Interest rate risk

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

The Company'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 maintained on both floating and fixed interest rates. The Company 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 Company's objective in managing its exposure to interest rate fluctuations is to minimize reported earnings and cash flow volatility associated with interest rate changes.

As at 31 December 2016 the Group has not been exposed to interest rate risk arising from debt instruments as all debt instruments (bonds) carry fixed interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates arising from cash investments.

In CZK million	Effect on profit before tax	
	Year ended 31 December 2016	Year ended 31 December 2015
FX risk		
Stress testing*	(20)	(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 Company cash flows (due to an

increase in interest expense or drop in interest received relating to financial assets and financial liabilities) is made each month on a floating basis within a 12 month time frame.

(iii) Liquidity risk

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

The Company 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 Company's financial and trade liabilities at 31 December 2016 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2016 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	-	3,326	18,147	4,962
Trade and other payables (excluding Deferred revenue)	2,678	2,064	-	-
Total	2,678	5,390	18,147	4,962
Non-current other liabilities (excluding Deferred revenue)	-	-	9	2

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)	3,067	1,626	-	-
Total	3,932	1,780	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)	2,265	1,201	-	-
Total	2,265	1,201	-	-
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 Guarentee described in Note 22).

(iv) Credit risk

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

The Company trades only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis resulting in an insignificant Company'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 Company in respect to unrelated parties. The Company also has significant trade with companies from the PPF Group (see Note 22), 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 Company.

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

Credit Risk is managed by:

- 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.

In million CZK	Relevant amount offset/not offset in the statement of financial position as at 31 December 2016					
	Amount of an asset/liability presented in the statement of financial position	Amount of an asset/liability offset in the statement of financial position	Net amount presented in the statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	10	-	10	10	-	**-**
Trade receivables	2,287	(522)	1,765	-	-	**1,765**
Total assets	**2,297**	**(522)**	**1,775**	**10**	**-**	**1,765**
Liabilities						
Negative values of financial derivatives	24	-	24	10	14	**-**
Trade payables	1,097	(522)	575	-	-	**575**
Total liabilities	**1,121**	**(522)**	**599**	**10**	**14**	**575**

In million CZK	Relevant amount offset/not offset in the statement of financial position as at 31 December 2015					
	Amount of an asset/liability presented in the statement of financial position	Amount of an asset/liability offset in the statement of financial position	Net amount presented in the statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	**-**
Trade receivables	2,180	(421)	1,759	-	-	**1,759**
Total assets	**2,180**	**(421)**	**1,759**	**-**	**-**	**1,759**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	**-**
Trade payables	1,112	(421)	691	-	-	**691**
Total liabilities	**1,112**	**(421)**	**691**	**-**	**-**	**691**

In million CZK	Relevant amount offset/not offset in the statement of financial position as at 1 January 2015					
	Amount of an asset/liability presented in the statement of financial position	Amount of an asset/liability offset in the statement of financial position	Net amount presented in the statement of financial position	Financial instrument	Received cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	**-**
Trade receivables	644	(268)	376	-	-	**376**
Total assets	**644**	**(268)**	**376**	**-**	**-**	**376**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	**-**
Trade payables	954	(268)	686	-	-	**686**
Total liabilities	**954**	**(268)**	**686**	**-**	**-**	**686**

(v) Fair values estimation

The Company 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 31 December 2016, 31 December 2015 and 1 January 2015, the Company 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 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows estimated and fair values of fin. assets and fin. Liabilities which are not stated in fair value in the statement of financial position.

In CZK million	31 December 2016					
	Level 1	Level 2	Level 3	Fair value	Carrying amount	Difference
Financial assets						
Cash and cash equivalents	-	-	309	309	309	-
Interest bearing loans and borrowings (incl. accruals)	-	-	-	-	-	-
Receivables (excluding derivatives)	-	-	3,023	3,023	3,023	-
Other financial assets	-	-	244	244	244	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	25,121	-	25,121	24,651	470
Trade and other payables	-	-	4,840	4,840	4,840	-

In CZK million	31 December 2015					
	Level 1	Level 2	Level 3	Fair value	Carrying amount	Difference
Financial assets						
Cash and cash equivalents	-	-	652	652	652	-
Interest bearing loans and borrowings (incl. accruals)	-	-	32,428	32,428	32,428	-
Receivables (excluding derivatives)	-	-	2,948	2,948	2,948	-
Other financial assets	-	-	60	60	60	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	-	28,931	28,931	28,931	-
Trade and other payables	-	-	4,749	4,749	4,749	-

In CZK million	1 January 2015					
	Level 1	Level 2	Level 3	Fair value	Carrying amount	Difference
Financial assets						
Cash and cash equivalents	-	-	52	52	52	-
Interest bearing loans and borrowings (incl. accruals)	-	-	-	-	-	-
Receivables (excluding derivatives)	-	-	1,492	1,492	1,492	-
Other financial assets	-	-	67	67	67	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	-	-	-	-	-
Trade and other payables	-	-	3,489	3,489	3,489	-

The fair value of borrowings has been determined by market value of bonds which are traded on the public market as at 31 December 2016.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates as at 31 December 2015.

Financial instruments in fair value

In CZK million	Fair value 31 December 2016			Fair value 31 December 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Positive fair values of financial derivative instruments	-	10	-	-	-	-
Negative fair values of financial derivative instruments	-	24	-	-	-	-

As at 1 January 2015 the Company did not have any financial derivative instruments.

The fair value of financial derivative instruments has been calculated by discounting the expected future cash flows at prevailing interest rates as at 31 December 2016 and 31 December 2015.

16. DEFERRED INCOME TAXES

Short-term and long-term deferred taxes were calculated at a tax rate 19% (valid for Czech Republic) as at 31 December 2016, 31 December 2015 and 1 January 2015.

In CZK million	31 December 2016	31 December 2015
Opening balance	6,244	6,523
Profit or loss tax charge	(286)	(279)
Valuation gain/(losses) – cash flow hedge	(4)	-
Closing balance	**5,954**	**6,244**

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

In CZK million	31 December 2016	31 December 2015	1 January 2015
Deferred tax liabilities	5,954	6,244	6,523
Total	**5,954**	**6,244**	**6,523**

The deferred tax liability includes CZK 286 million (31 December 2015: CZK 166 million, 1 January 2015: CZK 173 million) to be realized in less than twelve months and CZK 5,668 million (31 December 2015: CZK 6,078 million, 1 January 2015: CZK 6,350 million) to be realized in more than twelve months.

The deferred tax is determined by these components:

In CZK million	**Statement of financial position**		
	31 December 2016	**31 December 2015**	**1 January 2015**
Temporary differences relating to:			
Property, plant and equipment	5,959	6,202	6,485
Intangible assets	106	103	101
Trade receivables, inventories, provisions and other differences	(107)	(61)	(63)
Valuation gain/(losses) – cash flow hedge	(4)	-	-
Total	**5,954**	**6,244**	**6,523**

In CZK million	**Statement of total comprehensive income**	
	Year ended 31 December 2016	**Year ended 31 December 2015**
Temporary differences relating to:		
Property, plant and equipment	243	283
Intangible assets	(3)	(2)
Trade receivables, inventories, provisions and other differences	46	(2)
Total	**286**	**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	9	157	166
Utilised during the year	(12)	(8)	(20)
As at 31 December 2016	**226**	**157**	**383**

In CZK million	Asset retirement obligation	Other provisions	Total
As at 31 December 2016			
Short-term provisions	29	37	66
Long-term provisions	197	120	317
	226	**157**	**383**
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 Company recognized provision for estimated cost of dismantling and removing assets and restoring sites of CZK 226 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 (31 December 2015: CZK 41 million).

The Company recognized provision for costs connected with removal of CZK 120 million (31 December 2015: CZK 0 million, 1 January 2015: CZK 0 million). This provision represents costs which will occur in connection with the sale of the seat of the Company. These costs are mainly removal costs and costs connected with the premature termination of some rental services. Other provisions includes provision for redundancy cost of CZK 31 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. CONTINGENT LIABILITIES

In October 2016 the European Commission (EC) initiated a formal phase of an investigation in respect of Network sharing agreement between O2 Czech Republic, the Company and T-Mobile Czech Republic. Its objective is to review if the mutual cooperation does not harm free business competion in the czech market and so there are no obstructions to innovations in contrary to EU antitrust rules. The Company fully cooperates with EC during the investigation, there is no specific indication to potentional negative results from EC.

In connection with bonds which were issued during 2016 by subsidiary CETIN Finance B.V., the Company granted a guarantee for non-fullfilment of CETIN Finance B.V. liabilities.

The Company is responsible for liabilites related to the bonds emission. Net proceeds received by CETIN Finance B.V. from bonds emission were granted in full amount to the Company as loan (see Note 15).

19. COMMITMENTS

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

As at 31 December 2016

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	744	1,548	2,540
Operating leases - lessor	131	59	-

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 887 million (31 December 2015: CZK 870 million).

Capital expenditure contracted but not yet recognized in the financial statements as at 31 December 2016 amounted to CZK 544 million (31 December 2015: CZK 682 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

20. 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 Company 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 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)

21. EQUITY

	31 December 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

Shareholders of the Company were as follows:

	31 December 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 Company 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 according to CZ GAAP 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 proceessed 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.

Gains and Losses from revaluation arising from Cash Flow Hedges

In CZK million	**2016**	**2015**
The fair value of the effective part of cash flow hedges at 1 January	-	-
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	-	-
Total balance at 1 January	**-**	**-**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period		
Cross currency swap	(24)	-
Accumulated net profitn/(loss) arising from cash flow hedges for the period recognised through profit or loss		
Cross currency swap	-	-
Tax effect of cash flow hedges frothe period	4	-
The fair value of the effective part of cash flow hedges at 31 December	(24)	-
Deferred tax asset/(liability) arising from revaluation gains and losses at 31 December	4	-
Total balance at 31 December	**(20)**	**-**

The Company started applying hedge accounting upon cash flow hedges in 2016.

22. 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	31 December 2016	31 December 2015	1 January 2015
	Assets/Liabilities as at		
Receivables from provided services			
Shareholders of the Company	-	6	-
Subsidiaries	1	2	2
Other companies in PPF Group	1,272	1,273	8
of which: O2 Czech Republic a.s.	1,096	1,249	-
Payables from purchased services			
Subsidiaries	71	12	-
Other companies in PPF Group	246	283	-
of which: O2 Czech Republic a.s.	170	237	-
Loans provided including interest – financial assistance			
Shareholders of the Company (Note 15)	-	32,428	-
Loans received including interest			
Subsidiaries	24,705	-	-
Positive fair value of derivatives			
Other companies in PPF Group (Note 15)	10	-	-
Negative fair value of derivatives			
Other companies in PPF Group (Note 15)	24	-	-
Nominal value of derivatives			
Other companies in PPF Group (Note 15)	15,627	162	-
Cash equivalents			
Other companies in PPF Group	265	611	-

	Volume of mutual transactions	
In CZK million	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Sale of services		
Shareholders of the Company	-	-
Subsidiaries	-	2
Other companies in PPF Group	10,541	10,701
of which: O2 Czech Republic a.s.	10,360	10,474
Purchase of services		
Subsidiaries	26	29
Other companies in PPF Group	442	527
of which: O2 Czech Republic a.s.	259	241
Loans provided including interest – financial assistance		
Shareholders of the Company	456	228
Loans received including interest		
Subsidiaries	23	-
Net gain/loss on fair value of derivatives		
Other companies in PPF Group	1	(1)

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.

In connection with bonds issued the Company granted a guarantee to its subsidiary CETIN Finance B.V. (see Note 18).

The Company has a long-term liability that is due in more than five years in respect of received loan from CETIN Finance B.V. which is described in Note 15.

For the year ended 31 December 2016, capital expenditures from related parties amounted to CZK 18 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 Company guaranteed the monetary and non-monetary debts of O2 Czech Republic that passed from O2 Czech Republic to the Company 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 Company 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

	Year ended 31 December 2016	Year ended 31 December 2015
Remuneration in CZK million		
Board of directors	20	13
Supervisory board	-	-
Key management	45	39
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	10	10

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

23. SUBSIDIARIES

As at 31 December 2016

	Subsidiaries	Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services
3.	CETIN Finance B.V.	100%	68	Netherlands	Financial services
	Total		**84**		

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

As at 31 December 2015

Subsidiaries		Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services
	Total		**16**		

As at 1 January 2015

Subsidiaries		Company's interest	Cost of investment in CZK million	Country of incorporation	Activity
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services
	Total		**16**		

24. MATERIAL SUBSEQUENT EVENTS

As at 14 February 2017, the Company signed head office building sales contract. This event do not have impact to the financial statements for year ended 31 December 2016.

Beside above stated, there are no other subsequent events with material impact to the financial statements for year ended 31 December 2016.