Česká telekomunikační infrastruktura a.s.

Consolidated Annual Report 2018

Contents

Appendices

Note:

Česká telekomunikační infrastruktura a.s. is also hereinafter referred to as "**CETIN**" or the "**Company**". CETIN and its hereinafter specified subsidiaries are hereinafter also referred to as the "**CETIN Group**".

A word of introduction from the Chairman of the Board

Ladies and gentlemen,

Last year, Česká telekomunikační infrastruktura a.s. again significantly contributed to the development of the Czech telecommunications market. In the eastern part of the country, we continued to strengthen the shared network 4G/LTE for the two biggest operators in the market. Customer demand for ever larger transmission capacities and mobile data speeds is accelerating, and our goal is to anticipate the development of requirements and to offer the market an infrastructure that is always a step ahead. We also continue to fulfil the public promise of modernising the fixed network, we accelerated our connection for further 906,000 residential units last year, making it possible to offer high speeds of 1 Gbps to users on the optical network for the first time.

Stable fast Internet provided through our fixed network and business partners became a well-known concept for the general public thanks to our cooperation with social networks, and all its users can verify on www.zrychlujemecesko.cz in real time the fulfilment of our promise to expand its availability. We also constantly invest in the traffic efficiency programme to continue to offer attractive prices to the entire market and to be able to meet the requirements of the growing number of our business partners in our public offering of wholesale services.

The financial results achieved last year demonstrate the Company's healthy market position and customer satisfaction with the quality of our services. Thanks to them, the Company is able to meet its obligations in relation to the telecommunications market, bondholders and shareholders. We increased the planned investment in building the infrastructure from CZK 22 billion to CZK 27 billion.

And last year, we continued to support an important cultural event – the Prague Spring International Music Festival. As a technology partner, we provide online transmission of the opening concert to the Kampa park in the Lesser Town.

Ing. Juraj Šedivý
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 was formed by splitting from O2 Czech Republic a.s. with effect from 1 June 2015. As a result, an infrastructure telecommunications wholesale company was established that is not tied to any particular end service provider. The Company offers its services to all telecommunications operators and Internet service providers that use them to provide services to end customers.

At the national level, CETIN primarily provides mobile network infrastructure services, mass fixed-line network services (network access services, xDSL and fiber connections, IP TV, voice services), data services for corporate networks and rental of data centres. The main customer´s in the Czech market are telecommunications operators and internet service providers. CETIN owns and operates the largest telecommunications network in the territory of the Czech Republic. The CETIN telecommunications network covers 99.6% of the population through fixed technologies and a set of mobile technologies transmitted by almost 6,000 base stations. CETIN participates in a network sharing project, providing its mobile infrastructure to O2 Czech Republic, a.s. and T-Mobile Czech Republic, a.s. In 2018, CETIN successfully completed the project of sharing 2G/3G networks with the LTE 800 coverage layer. In addition, capacity was increased for more than 870 base stations by adding additional frequency.

CETIN's nation-wide network 20 million km of twisted metallic cable pairs and 44,000 km of optical cables throughout the Czech Republic and growing every day through extensive investments in the FTTC (Fiber to the Cabinet) programme. 1,498 remote DSLAMs – FTTC street cabinets were installed in 2018. Based on the FTTC programme, CETIN could make further product changes in 2018, bringing total acceleration to 1.8 million households, of which more than 90% benefit from connection speeds of 50 Mbps or higher. Throughout the CETIN network, the 250 Mbps speed is available for 388,000 residential units in the Czech Republic. Extensive development was also reflected in acceleration of the xDSL technology, which saw an average speed increase of 39 to 64 Mbps in 2018. Vectoring was launched at 3,320 FTTC, i.e. 70% of FTTC.

In 2018, CETIN strengthened its position with new development projects, implementing almost all of its construction using optical infrastructure. CETIN is preparing several innovations for 2019 to gradually provide end customers with greater user comfort (through its partners) using a single optical infrastructure. To give users an idea of what we offer, we bring an analogy of terrestrial transmission through optic fibre to the selected development projects.

CETIN provides international services to both national as well as international service providers. The Company's international presence is based on physical network nodes (POPs) in London, Vienna, Bratislava and Frankfurt. CETIN offers comprehensive international voice and data services for more than 200 customers worldwide. In 2018, it launched a new POP for voice connections in Hong Kong and implemented a number of new connections with operators in Asia. International transit services mainly consist of international voice traffic transmissions for international operators from all over the world. This type of services is characterised by substantial revenue with a very low margin but requiring minimum operating costs.

With its experienced staff and extensive infrastructure, CETIN offers efficient, reliable secure wholesale telecommunications services throughout the Czech Republic. More than 2,000 CETIN employees are responsible for efficient and fast deployment of its networks, ensuring their operation and availability throughout the Czech Republic. They manage large projects for telecommunications service operators to guarantee their partners efficient deployment of the infrastructure, which is one of the best in its class.

CETIN Group is formed by Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, CETIN Finance B.V. and CETIN služby s.r.o. In 2018, the major part of CETIN Group's services was provided in the territory of the Czech Republic. The subsidiaries in Germany and Austria made it possible, in particular, to operate access points abroad for the purpose of providing international transit services to foreign operators, and they will be replaced by "permanent establishments" in 2019.

Attestations

Business Certificate according to Section 20(1)(b) of Act No. 412/2005 Coll., as amended (hereinafter referred to as the "Act on the Protection of Classified Information") which allows the Company to access and information processing classified information up to and including SECRET ("TAJNÉ") level.

Information system certificate for handling classified information according to Section 20 (a) for SECRET ("TAJNÉ") level.

Investment grade credit rating Baa2, awarded by Moody's international rating agency; the outlook has been changed to negative in the course of 2018.

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

Certificates

Quality management system according to ISO 9001:2015
Environmental management system according to ISO 14001:2015
Health and safety management system according to BS OHSAS 18001:2007
Information security system according to ISO 27001:2013
Energy management systems according to ISO 50001:2011

Company bodies and senior management

Board of Directors

Ing. Martin Vlček	Chairman of the Board of Directors from 1 June 2015 till 31 December 2018
Ing. Petr Slováček	Vice-Chairman of the Board of Directors from 1 June 2015 till 31 December 2018
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 till 31 December 2018
Mgr. Lubomír Král	Vice-Chairman of the Supervisory Board from 1 June 2015
Vladimír Mlynář	Member of the Supervisory Board from 1 June 2015 till 31 December 2018

Executive management

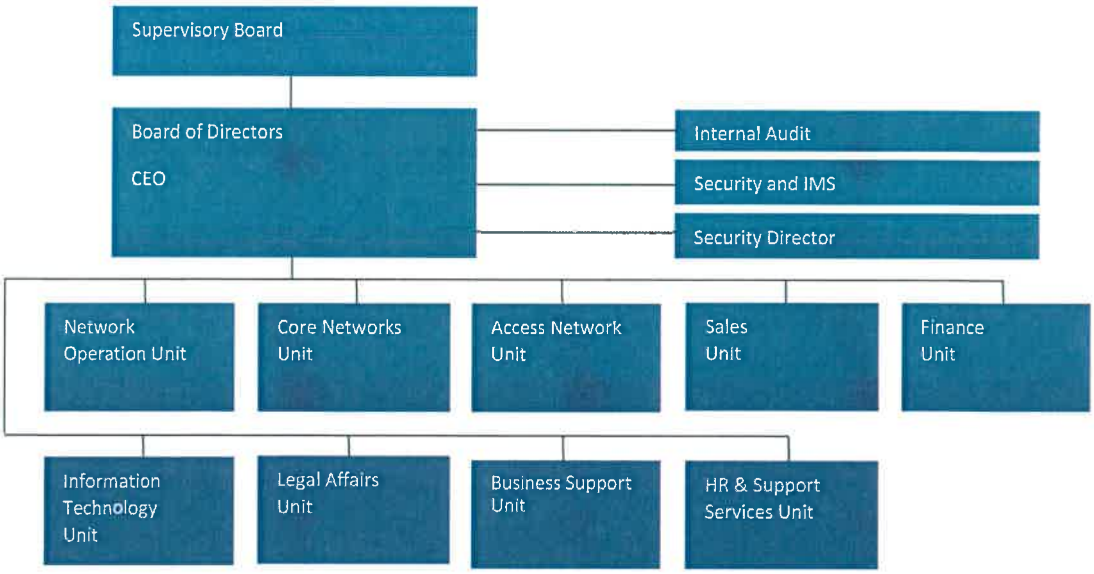
Status as of 31 December 2018:

Ing. Petr Slováček	Chief Executive Officer from 1 June 2015 till 31 December 2018
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. Vít Koucký	Director, Sales Unit from 2 January 2018
Ing. Filip Cába	Director, Finance Unit from 1 June 2015
Ing. Jiří Nováček	Director, Information Technology Unit from 1 June 2015
Mgr. Ľubomír Bubelíny, Ph.D.	Director, Legal Affairs Unit from 1 October 2018
Mgr. Michal Frankl	Director, Business Support from 1 July 2015
Bc. Milena Synáčková	Director, Human Resources and Support Services Unit from 1 July 2015

Changes in 2019, before the closing date of the Annual report

Ing. Juraj Šedivý	Member of the Board of Directors, from 1 January 2019, Chief Executive Officer and Chairman of the Board of Directors from 8 January 2019
Ing. Filip Cába	Member of the Board of Directors from 1 January 2019, Vice-Chairman of the Board of Directors from 8 January 2019
Ing. Martin Vlček	Member of the Supervisory Board from 1 January 2019
Ing. Petr Slováček	Member of the Supervisory Board from 1 January 2019
Mgr. Lubomír Král	Vice-Chairman of the Supervisory Board till 20 January 2019
Lubomír Vinduška	Member of the Supervisory Board from 23 January 2019

Company's organisational structure



Report of the Board of Directors on business activities

Business activities of the Company

CETIN Group is formed by Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, CETIN Finance B.V. and CETIN služby s.r.o. CETIN does not have any branch or other business part abroad. The major part of the Company's services was provided in 2018 via communications networks and related assets in the territory of the Czech Republic. The subsidiaries in Germany and Austria enabled the Company to operate access points abroad for the purpose of providing international transit services to foreign operators; the Company decided to liquidate them with effect from 31 December 2018. The business activity in Austria and Germany remain in the same scope based on a "permanent establishment". The subsidiary CETIN Finance B.V., based in the Netherlands, was used to issue eurobonds and to provide funding to the Company. The subsidiary CETIN služby s.r.o. did not carry out any business activity in 2018.

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, FTTH/FTTB, 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.

A significant source of Company's revenues and profits in 2018 were 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 or fibre broadband Internet access (broadband, FBB), IPTV paid television, local-loop unbundling (VULA and 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 2018. For detailed information, see the Consolidated Financial Statements for the financial year ended on 31 December 2018 in the following sections of this Annual Report.

Revenues, costs and profit

The total revenues of the CETIN Group amounted to CZK 20 billion in 2018. Total operating costs reported by CETIN Group were CZK 12.5 billion, with the major part represented by cost of sales in the international transit segment. CETIN Group reported a total of CZK 1.2 billion of payroll costs. Other significant cost items were property leases, maintenance and operation and network operating and maintenance expenses.

The operating profit before impairment loss, interest, tax, depreciation and amortisation (EBITDA) amounted to CZK 7.6 billion in 2018, with the predominant part of the profit coming from the national network services segment. CETIN Group's profit after tax amounted to CZK 2.6 billion in 2018.

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 48.6 billion as of 31 December 2018.

Cash and debt

In 2016, CETIN's subsidiary CETIN Finance B.V. issued Eurobonds. Outstanding tranches of Eurobonds are in the amount of EUR 625 million (5 years maturity) and CZK 4.9 billion (7 years maturity) as of 31 December 2018. The bonds are admitted to trading at Irish Stock Exchange. In case of CETIN Finance B.V. defaulting on the bond related liabilities, CETIN will be obliged to meet the liabilities as a guarantor. The foreign exchange risk of the bonds is hedged using derivatives.

The Company has obtained an overdraft and a revolving credit line in the total amount of CZK 675 million, that is available in case of temporary and short-term cash needs.

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 7 June 2018 decided on the distribution of the available part of the unconsolidated profit of the Company for 2017. The contribution to the social fund was CZK 3.4 million and the dividend was CZK 2.72 billion. The dividend was paid in two tranches on 12 June 2018 and 31 August 2018.

Capital expenditure

In 2018, the CETIN Group acquired fixed assets in the amount of CZK 4.1 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, FTTH and FTTB technology, strengthening the capacity of mobile networks and increasing its density and replacing older technologies with current ones.

Cash flows

The operating cash flow of CETIN Group amounted to CZK 7.6 billion in 2018. After working capital changes and income tax paid, the net cash flows from operating activities amounted to CZK 7.7 billion. Net cash flows used in investment activities amounted to CZK 4.1 billion, mainly comprising investments in network infrastructure development.

The cash flows used in financing activities consisted of coupon payments to bondholders of CZK 0.3 billion, dividend payment of CZK 2.7 billion and receipts of CZK 0.2 billion related to hedging of Eurobonds foreign exchange risk.

In total, the net cash position has thus increased by CZK 0.8 billion in 2018. The cash flows from CETIN Group's operating activities were mainly used for investment in the telecommunications infrastructure development (CZK 4.1 billion) and for payments to shareholders and bondholders (CZK 3 billion).

The information about own shares

Company did not acquire its own shares in 2018.

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 modernisation of the 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. Where appropriate, the Company will also focus on the deployment of FTTH connection. The Company will also continue investing substantially in further development mobile network.

In the operating business, the Company will continue to focus on increasing the efficiency of its operating model, increasing flexibility in delivering customer service and increasing its satisfaction.

In terms of the financial results, the Company expects a slight increase in mobile network and fixed internet service revenue, which will compensate the expected continued decline in demand for fixed-line voice services in a part of the domestic market. In the international voice transit market, the Company will compensate the ongoing competitive pressure on margins by penetrating new regions and by adopting a new business model of cooperation with international operators in the medium term. The continuing increase in investment costs of the development and modernisation of the critical telecommunications infrastructure in the future will not significantly affect the Company's ability to generate stable free cash flows.

Telecommunication market in the Czech Republic

In 2018, Czech telecommunications market continued stable growth and both fixed and mobile network capacities have been strengthened. A third of CETIN's last mile connections increased their available speed to at least 100 Mbit/s. Also, vectoring technology was commercially launched. Notably, UPC (Liberty Global) and Vodafone announced a merger. Holders of rights in the 3,7 GHz band have commenced offering services in the second half of the year.

The development of regulation and associated legislation

In the first half of 2018, the Czech Telecommunication Office ("CTO") concluded the analyses and the process of imposing measures in the relevant markets for wholesale services with local access at a fixed location and services with central access at a fixed location for mass-market products and the analysis of the market for wholesale high quality data services. The Company remains designated as having significant market power and complies with regulatory obligations imposed on the Company as a result of these analyses and measures. 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 remedy decisions.

In preparation for an auction of spectrum in the 700 MHz band, the CTO has held consultations with stakeholders on the basic principles of the spectrum auction. Also, the CTO indicated an intention to include additional spectrum in the 3,4 – 3,6 GHz band as part of the auction.

In December 2018, the review of the European regulatory framework for electronic communications was finally approved and published in the Official Journal. The new *Directive 2018/1972 establishing the European Electronic Communications Code* and *Regulation 2018/1971 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Agency for Support for BEREC (BEREC Office), amending Regulation (EU) 2015/2120 and repealing Regulation (EC) No 1211/2009* consolidate several applicable directives forming a regulatory framework into a single "code". The ambition of the Code is to promote competitive environment, encourage investment in electronic communications and high capacity networks and set relationships among individual regulatory bodies. The adoption of the Code will require its transposition into Act No. 127/2005 Coll., on electronic communications and on change of some related acts (Electronic Communications Act), as amended, as well as into some other laws.

State policy and support of high-speed Internet access

Due to the inquiry of the European Commission into state aid compatibility, no subsidies were paid out in the first half of 2018 for deploying high-speed networks from the Operational Programme Enterprise and Innovations for Competitiveness to projects that applied for support in the first call by the Ministry of Industry and Trade of the Czech Republic at the end of March 2017. As applications for state aid were withdrawn, the European Commission closed the inquiry in the second half of the year. The Ministry of Industry and Trade continued its preparations for a second call for applications within this operational programme.

During the first half of 2018, the Ministry of Industry and Trade continued working on the targets of the Action plan of non-subsidy measures facilitating the planning and construction of electronic communications networks.

Alternative performance measures

In accordance with ESMA guidelines on Alternative Performance Measures, the CETIN Group provides detailed information on measures that are not commonly reported under IFRS standards.

Consolidated financial statements:

Measure	Definition	Purpose	Reconciliation to financial statements (in CZK million)
EBITDA	Earnings before impairment loss, interest, tax, depreciation and amortisation	The indicator expresses a business's operating efficiency	Consolidated Statement of total comprehensive income (EBITDA): 2018: CZK 7 570 million 2017: CZK 7 845 million
Net debt / EBITDA	Ratio of Financial debt minus cash and cash equivalents and Earnings before impairment loss, interest, tax, depreciation and amortisation (EBITDA)	The indicator shows how many years it would take for a company to pay back its debt	Consolidated statement of total comprehensive income (EBITDA) and Statement of financial position (Cash and Cash equivalent, Financial debt): 2018: (20 869 + 21 - 1 650)/7 570 = 2,54 2017: (20 734 + 21 - 843)/7 845 = 2,54
Free cash flow	Cash flow from operating activities minus cash used in investing activities	The indicator expresses the remaining cash afer all necessary operating expenses paid	Consolidated statement of Cash flows (Cash flow from operating activities, cash flow from investing activities): 2018: 7 692 – 4 072 = CZK 3 620 million 2017: 7 172 – 2 979 = CZK 4 193 million

Standalone financial statements:

Measure	Definition	Purpose	Reconciliation to financial statements (in CZK million)
EBITDA	Earnings before impairment loss, interest, tax, depreciation and amortisation	The indicator expresses a business's operating efficiency	Statement of total comprehensive income (EBITDA): 2018: CZK 7 569 million 2017: CZK 7 842 million
Net debt / EBITDA	Ratio of Financial debt minus cash and cash equivalents and Earnings before impairment loss, interest, tax, depreciation and amortisation (EBITDA)	The indicator shows how many years it would take for a company to pay back its debt	Statement of total comprehensive income (EBITDA) and Statement of financial position (Financial debt, Cash and Cash equivalent): 2018: (20 846 + 22 – 1 556)/7 569 = 2,55 2017: (20 722 + 22 - 768)/7 842 = 2,55
Free cash flow	Cash flow from operating activities minus cash used in investing activities	The indicator expresses the remaining cash afer all necessary operating expenses paid	Statement of Cash flows (Cash flow from operating activities, cash flow from investing activities): 2018: 7 693 – 4 072 = 3 621 2017: 7 163 – 2 957 = 4 206

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 currency exchange rate risk related to EUR-denominated Eurobonds is hedged using cross currency swaps covering 85% of the debt. Details to the derivatives are disclosed in Note 15 of the Notes to the Consolidated Financial Statements included herein.

A specific part of the Company's risk management system is the area of information security and information technology in the context of the ISO/IEC 27000 series and Act No. 181/2014 Coll., on cyber security and on amendment to related acts (Cyber Security Act), as amended. The Company actively uses the risk management system pursuant to international standard ISO 27001, which involves annual full-scale analysis of operating risks and Business Impact analysis. In 2018, these analyses resulted in a risk catalogue, with links to threats and measures aimed at risk minimization and management according to the respective areas. In June 2018, the relevance of the analyses results was verified during the annual Integrated Management System (IMS) certification audit. The chosen methodology and the risk assessment system passed the audit without any significant deviations from the ISO/IEC 27001 standard being identified.

Corporate social responsibility

In 2018, CETIN continued to act as the technology partner of the Prague Spring International Music Festival. In 2016, a tradition of open transmission of the opening concert was established with the Company's contribution in the beautiful environment of the Kampa park. Technical and financial support for the event was provided by CETIN. In addition, this concert, which had always been sold out immediately, was transmitted to 9 Czech cinemas.

In this third year, CETIN continued the started tradition and firmly believes it will enrich the audience and fans of Prague Spring in the years to come. CETIN's imprint in the form of the festival is significant, and the Company became more than just the financial sponsor of the festival.

In 2018, CETIN became the main partner of the Shakespeare Festival, the oldest and largest open-air theatre show in Europe presenting William Shakespeare's works. The Company appreciates the opportunity to support high-quality theatrical production.

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 of the Department of Telecommunications Technology (Faculty of Electrical Engineering, Czech Technical University) and CETIN provides a forum for addressing pressing issues of cybernetic security and telecommunication fraud. The main objective remains the continued implementation of unique methodology for identifying network threats, increase in network robustness, and ongoing improvement of the methodology. In 2018 saw a completion of the development other components of a system supporting security management with unique methodology of evaluation of the actual operational risks to the Company.

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 operated by CETIN. CETIN employees thus gain access to output of systems operating in real environment, to current business concerns and benefit 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 2018 in terms of IFRS accounting standards.

Non-financial information

The Company will prepare a separate report containing non-financial information pursuant to Section 32g of the Act 563/1991, on Accounting. The separate report will be published on Company's web pages in the section https://www.cetin.cz/en/vyrocni-zpravy on 30 June 2019 at the latest. The separate report will also contain information on environmental protection and industrial relations pursuant to the practice anticipated in Section 32g paragraph 6 of the Act on Accounting.

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 2018, 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 General information 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 2018, 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.

KPMG

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, standalone financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. 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 Standalone Financial Statements

Opinion

We have audited the accompanying standalone 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 2018, 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 standalone financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in note General information to the standalone financial statements.

In our opinion, the accompanying standalone financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 Standalone 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 Standalone Financial Statements

The statutory body is responsible for the preparation and fair presentation of the standalone 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 standalone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone 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 Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone 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 standalone 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 standalone 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 standalone 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 standalone financial statements, including the disclosures, and whether the standalone 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

Statutory Auditor Responsible for the Engagement

Martina Štegová is the statutory auditor responsible for the audit of the consolidated financial statements and standalone financial statements of Česká telekomunikační infrastruktura a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
28 February 2019

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

M. Štegová
Martina Štegová
Partner
Registration number 2082

Report on relations

between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity in 2018

Česká telekomunikační infrastruktura a.s., with its registered office at Olšanská 2681/6, Žižkov, 130 00 Prague 3, 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**"), is required to prepare a report for the accounting period of 2018 on relations 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 Commercial Companies 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 2018 - 31 December 2018

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 person with a share that allowed indirect full control of the Company for the entire accounting period of 2018. Mr. Petr Kellner held indirect share in the Company's voting rights through PPF Infrastructure B.V. and PPF A3 B.V., which acted in concert in relation to the Company and together owned shares associated with 100% of voting rights in the Company. The individual shares of companies PPF Infrastructure B.V. and PPF A3 B.V. in the Company's voting rights did not vary in the course of the relevant accounting period.

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 indirectly majority of share of voting rights - through the aforementioned companies PPF Infrastructure B.V. and PPF A3 B.V., which together owned 100% of shares of Company

The exercising of majority 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 2018, 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.

Actions pursuant to Section 82(2)(d) of the Business Corporations Act after the end of the accounting period of 2018

From the end of the accounting period of 1 January 2018 - 31 December 2018 to the issuance of this Report on Related Party Transactions, 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 2018:

contracting party: **Art Office Gallery a.s.**

- Lease Contract, *description of performance:* lease of space for running the lines of coaxial cables fed between technological units and antennas and the lease of space for placing antennas and other distribution elements.
- Lease Contract, *description of performance:* lease of space in technology rooms.

contracting party: **Bestsport, a.s.**

- Agreement on Providing the Documentation, Protection of Information and Prevention of their Abuse, *description of performance:* provision of Company's documentation and commitment to protect the contained confidential information
- Lease Contract, *description of performance:* lease of part of real estate with the purpose of installation of telecommunications devices.

contracting party: **CETIN Finance B.V.**

- Programme Manual, *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), 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), relevant banks, *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Intra-Group Multi-Currency Loan Agreement of Up To EUR 2,000,000,000 Equivalent (and the following Drawdown Terms), *description of performance*: conditions of the loan provided by CETIN

Finance B.V. to the Company in various currencies up to the equivalent of EUR 2bn, due in 1 to 6 years.

- Dealer Agreement (and the associated documentation), *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.
- Trust Deed (and the associated documentation), *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 parties include* PPF banka a.s., *description of performance:* conditions related to issuance of corporate bonds issued by CETIN Finance B.V.

contracting party: **CZECH TELECOM Austria GmbH**

- Contract on the Provision of Telecommunication Services, *description of performance:* telecommunication services.
- Purchase contracts, *description of performance:* purchase and sale of telecommunication and other devices.

contracting party: **CZECH TELECOM Germany GmbH**

- Contract on the Provision of Telecommunication Services, *description of performance:* telecommunication services.
- Purchase contracts, *description of performance:* purchase and sale of telecommunication and other devices.

contracting party: **Gen Office Gallery a.s.**

- Lease Contract, *description of performance:* lease of space in technology rooms.
- Lease Contract, *description of performance:* lease of space for running the lines of coaxial cables fed between technological units and antennas and the lease of space for placing antennas and other distribution elements.
- Contract on the Establishment of Servitude, *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.

contracting party: **Kateřinská Office Building s.r.o.**

- Lease Contract, *description of performance:* lease of part of real estate with the purpose of installation of telecommunications devices.

contracting party: **O2 Czech Republic a.s.**

- Mobile Network Services Agreement; *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 of Company and performance by Company 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.
- Contract on Access to Terminal Sections; *description of performance*: data services according to a new reference offer terminated in regional capitals.
- Contract on Access to the Public Fixed Communication Network; *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 Company fixed network.

- Contract on Connection of the CETIN Public Fixed Communication Network to the O2 Czech Republic a.s. Public Mobile Communication Network; *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 (+EU, TGR representation) Wholesale Roaming Services, *description of performance*: arrangement of discount contracts with roaming partners on behalf of O2 Czech Republic a.s.
- Data Centres Service Level Agreement, *description of performance*: lease of space in data centres owned by Company and providing other services related with placement and operation of technologies of O2 Czech Republic a.s. and its customers.
- Contract on Collocation for Specific Locations, *description of performance*: provision of collocation space and physical collocation services in certain locations.
- Contract on the Provision of Carrier-type Services, *description of performance*: Carrier wholesale data services.
- Contracts on the Provision of Billing for Wholesale Services, *description of performance*: provision of billing for wholesale services for O2 Czech Republic a.s.
- Lease and Sublease Contracts, *description of performance*: lease or sublease of office, storage and other space, as well as movables.
- Contract on the Termination of International Voice Operation; *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, s.r.o. network.
- Contract on the Lease of Optical Fibres, *description of performance*: lease of optical fibres.
- Contract on the Provision of Technological Housing Services, *description of performance*: provision of space for placement of technological equipment required for business activities of O2 Czech Repuublic a.s. and services directly related to the provision of space
- Purchase Contracts, *description of performance*: sell/purchase movables to/from O2 Czech Republic a.s.
- Master Services Agreement on Signalling and GRX / IPX, *description of performance*: Company 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; *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 Provision of Voice Solutions, *description of performance:* provision of voice solution VOLUME 1 + 1.
- Personal Data Processing Contracts, *description of performance*: the processing of personal data associated with the performance of selected contracts entered into with O2 Czech Republic a.s.
- Contract on the Provision of Address Space; *description of performance*: mutual provision for use of address space (IP Address Space).
- Service Agreements, *description of performance:* maintenance of the communication infrastructure optical elements.
- Contract on the Provision of Archiving Services, Principles for Potential Division of Archives and Associated Cooperation, *description of performance:* archiving and access to archived documents within the central archives of O2 Czech Republic a.s. pertaining to Company, under the separation project or relating to joint corporate history of both companies.
- Contract on the Supply of Migration Services; *description of performance:* migration of services from legacy technologies to new technical solutions.

- Contract on the Provision of Housing Services located at Praha - Hvězdova, *description of performance*: provision of space for placement of technological equipment required for business activities of Company and services directly related to the provision of space.
- Security Services Agreement, *description of performance:* provision of security services by Company.
- Agreement On Termination And Change Of Agreements Related To The Sale Of ÚTB; *description of performance*: agreement on early termination of lease in the ÚTB building and conditions for the removal of O2 Czech Republic's technologies to a new location.
- Agreement on the Use of Test Lab – SELFLAB; *description of performance*: use of Company's test lab.
- Settlement Agreement; *description of performance*: settlement of mutual rights and obligations related to termination of a dispute with a third party.
- Non-disclosure Agreements; *description of performance*: maintaining confidentiality regarding business proceedings of the parties.
- Agreement on Provision site Services and Maintenance; *description of performance:* provision of regular maintenance, revisions and repairs of infrastructure of O2 Czech Republic a.s. located at Prague – Hvězdova.
- Settlement Agreement; *description of performance:* solution of mutual obligations and claims arisen from the Project of Demerger and/or related to the Project of Demerger.
- Agreement on Settlement and Confirmation regarding several items of the Project of Demerger dated 13 March 2015; *description of performance:* solution of mutual obligations and claims arisen from Project of Demerger and/or related to the Project of Demerger.

contracting party: **O2 Family, s.r.o.**

- Lease Contract, *description of performance*: lease of space for business activities.

contracting party: **O2 IT Services s.r.o.**

- Lease and Sublease Contracts, *description of performance*: lease or sublease of office space from Company.
- Technical Service Specification of the Carrier Services, *description of performance*: data services.

contracting party: **O2 Slovakia, s.r.o.**

- Contract on the Provision of Billing for Wholesale Services, *description of performance*: provision of billing for wholesale services for O2 Slovakia, s.r.o.
- Contract on the Provision of Support Services; *description of performance*: the temporary provision of mutual support services.
- Contract on the Use of Optical Fibres, *description of performance*: exclusive use of optical fibres owned by O2 Slovakia, s.r.o by Company and regular maintenance.
- Purchase Contracts; *description of performance*: purchase/sale of assets from/to O2 Slovakia, s.r.o.
- Master Contract on the Commercial Lease of Movables[1]; *description of performance*: specification of general terms and conditions for the lease of movables specified in each partial contract; this contract passed to Company as of 1 June 2015; O2 Czech Republic a.s. is no longer a contracting party to this contract.
- Master Services Agreement (on Signalling GRX/IPX); *description of performance:* provision of roaming signalling services and roaming data exchange (2G/3G/4G) to O2 Slovakia, s.r.o.

[1] No performance has been provided pursuant to this contract by contracting parties in 2018.

- Service Agreement – Wholesale Roaming Services, *description of performance*: arrangement of discount contracts with roaming partners on behalf of O2 Slovakia s.r.o.
- Contract on the Provision of Carrier-type Services, *description of performance*: Carrier wholesale data services.

contracting party: **PPF a.s.**

- Agreement on the Payment of Costs for Services within the scope of Personnel Activity, *description of performance:* consultancy and advising activities, searching of employees.
- Service Level Agreement, *description of performance:* consultancy services.
- Agreement on the Payment of Costs for arrange of professional trainings, *description of performance*: arrange of professional trainings.

contracting party: **PPF banka a.s.**

- Master Contract on Payment and Banking Services, *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 no. E/2322290003, *description of performance:* financial services.
- Contract on an Internal Escrow Account no. 2322290003/2, *description of performance:* financial services.
- Mandate Contract on Arrangement of Trade in Money Market and Derivative Investment Instruments; *description of performance:* arrangement of trade on money and foreign exchange markets and trade in financial derivatives.
- Agreement on Cancelation of Mandate Contract on Arrangement of Trade in Money Market and Derivative Investment Instruments; *description of performance:* cancelation of Mandate Contract on Arrangement of Trade in Money Market and Derivative Investment Instruments.
- Master Contract on Trading on Financial Market (EMA), *description of performance:* financial services – financial market trading.
- Contract on Provision of Investment Services, *description of performance:* investment services – arrangement of trades (purchase or sell of investment instrument) and related services (settlement and administration).
- Contract on Performance of Penetration Tests, *description of performance:* performance of penetration tests.
- Agreement on Non-disclosure and Data Processing; *description of performance*: protection of mutually disclosed confidential information and right and obligations of the parties regarding the processing of personal data.

contracting party: **PPF Real Estate s.r.o.**

- Real Estate Consultancy Agreement, *description of performance:* real estate consultancy services.

contracting party: **Public Picture & Marketing a.s.**

- Master Contract on the Provision of the Services of an Events Agency, *description of performance:* design, preparation and organisation of events and provision of advertising services for different target groups.
- Master Contract on the Provision or Intermediation of Travel Desk Services, *description of performance:* the contracting party provides the Company with a service package consisting of arranging 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; *description of performance:* processing of personal data –CETIN once in the position of administrator and once in the position of processor.

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.

7. Conclusion

The most significant events relevant to the Report on related party transactions during the accounting period of 2018 was the distribution of 2017 profit to shareholders of the Company.

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 2018. 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 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 28 February 2019

Česká telekomunikační infrastruktura a.s.

Annex no. 1 – List of companies directly or indirectly controlled by the same controlling entity as of 31 December 2018

Controlling entity: Ing. Petr Kellner

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
4Local, s.r.o.	24161357	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic 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 4 B.V.	34186049	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		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.
AB STRUCTURED FUNDING 1 DESIGNATED ACTIVITY COMPANY	619700	Ireland	Company controlled by the same controlling entity by way of ownership interest	From 29 January 2018	Air Bank a.s.
ABDE Holding s.r.o. (dříve Airline Gate 1 s.r.o.)	02973081	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit Group B.V
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.
AF Airfueling s.r.o.	02223953	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Air Bank a.s.	29045371	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit 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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
ALRIK VENTURES LIMITED	HE 318 488	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	To 13 August 2018	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.
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.
Autobusová doprava- Miroslav Hrouda s.r.o.	25166522	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018 To 24 October 2018	ŠKODA TRANSPORTATION a.s.
Autotým, s.r.o., in liquidation	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		PPF CYPRUS MANAGEMENT LIMITED
Bammer trade a.s.	28522761	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
Bavella B.V.	52522911	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
Bestsport holding a.s.	06613161	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Bestsport, a.s.	24214795	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		LINDUS SERVICES LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Bolt Start Up Development a.s.	04071336	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
BONAK a.s.	05098815	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF 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.
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
C & R Office Center Two s.r.o.	28227913	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bestsport, a.s.
Capellalaan (Hoofddorp) B.V.	58391312	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Carolia Westminster Hotel Limited	9331282	United Kingdom of Great Britain and Northern Ireland	Company controlled by the same controlling entity by way of ownership interest		CW Investor S.á.r.l.
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.
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.	06095577	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Česká telekomunikační infrastruktura a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
CF Commercial Consulting (Beijing) Limited	78860280-7	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest	To 8 February 2018	Home Credit B.V.
CIAS HOLDING a.s.	273 99 052	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
CIAS Split 1 a.s.	076 63 986	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 22 November 2018 To 31 December 2018	PPF Beer Topholdco 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.
«Closed Joint Stock Insurance Company «Asnova Insurance»"	806000245	Belarus	Company controlled by the same controlling entity by way of ownership interest	To 8 February 2018	Septus Holding Limited, Talpa Estero Limited, Rhaskos Finance Limited, Sylander Capital Limited, Enadoco Limited, Astavedo Limited
COLANDS s.r.o.	03883663	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bestsport, a.s.
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.
CW Investor S.á.r.l.	B211446	Luxembourg	Company controlled by the same controlling entity by way of ownership interest		Westminster JV a.s.
Cytune Pharma SAS	500998703	France	Company controlled by the same controlling entity by way of ownership interest	From 22 August 2018	PPF Capital Partners Fund B.V.
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

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
CZECH TELECOM Austria GmbH	229578s	Austria	Company controlled by the same controlling entity 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 by way of ownership interest		Česká telekomunikační infrastruktura a.s.
CzechToll s.r.o.	06315160	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF 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.
D - Toll Holding GmbH	HRB 191929	Federal Republic of Germany	Company controlled by the same controlling entity by way of ownership interest	From 24 January 2018	PPF a.s.
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.
DEVEDIACO ENTERPRISES LIMITED	HE 372136	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		TELISTAN LIMITED
DRAK INVESTMENT HOLDING LTD	324472	Cayman Islands	Company controlled by the same controlling entity by way of ownership interest		GONDRA HOLDINGS LTD
Duoland s.r.o.	06179410	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group 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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
eKasa s.r.o.	050 89 131	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
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	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED PPF CYPRUS RE MANAGEMENT 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 PPF CYPRUS RE MANAGEMENT LIMITED
Filcommerce Holdings, Inc	CS 201 310 129	Republic of the Philippines	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
FLOGESCO LIMITED	HE 172588	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Gilbey Holdings Limited
FO Management s.r.o.	06754295	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 10 January 2018	PPF FO Management B.V.
Fodina B.V.	59400676	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
FOSOL ENTERPRISES LIMITED	HE 372077	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		DEVEDIACO ENTERPRISES LIMITED
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 PPF CYPRUS RE MANAGEMENT LIMITED
Ganz-Skoda Eletric Ltd.	110045500	Hungary	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
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.
GILBEY HOLDINGS LIMITED	HE182860	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		BUCCA PROPERTIES LTD.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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.
GONDRA HOLDINGS LTD	324452	Cayman Islands	Company controlled by the same controlling entity by way of ownership interest		Salonica Holding Limited
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 Information Consulting Co., Ltd	91440000767328941H	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
HC Advisory Services s.r.o.	01487779	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
HC Asia B.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 Philippines Holding B.V.	35024270	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia B.V.
HCPH 2 FINANCING, INC.	CS201812176	Republic of the Philippines	Company controlled by the same controlling entity by way of ownership interest	From 14 September 2018	HC Philippines Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
HCPH Financing I. Inc	CS 201 727 565	Republic of the Philippines	Company controlled by the same controlling entity by way of ownership interest		HC Philippines Holding B.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 International a.s.
Home Credit Asia Limited	890063	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		HC Asia B.V.
Home Credit B.V.	34126597	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Home Credit Group B.V.
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.
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 Group B.V.	69638284	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Financial Holdings B.V.
Home Credit India B.V.	52695255	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia B.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 International a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
HOME CREDIT INDIA STRATEGIC ADVISORY SERVICES PRIVATE LIMITED	U7499HR2017FTC0 70364	Republic of India	Company controlled by the same controlling entity by way of ownership interest		Home Credit India B.V., Home Credit International a.s.
Home Credit Indonesia B.V.	52695557	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		HC Asia B.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 Americ	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, LLC
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
Chelton Properties Limited	1441835	British Virgin Islands	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
Innoble GmbH	HRB 239796	Federal Republic of Germany	Company controlled by the same controlling entity by way of ownership interest	From 25 July 2018	ABDE Holding s.r.o.
INTENS Corporation s.r.o.	28435575	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bolt Start Up Development a.s.
Izotrem Investments Limited	HE 192753	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Gilbey Holdings Limited
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. PPF CYPRUS RE MANAGEMENT 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 Stoct Company "Sibzavod Centre"	1035501017221	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC Trust - Invest
Joint-Stock Company " Investments trust" (formerly CJSC "Investments trust")	1037739865052	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Trilogy Park Holding B.V.
Joint-Stock Company "Intrust NN" (formerly CJSC "Intrust NN")	1065259035896	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Stinctum Holdings Limited
Jokiaura Kakkonen Oy	2401050-2	Finland	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
JONSA LIMITED	HE 275 110	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		CELESTIAL HOLDINGS GROUP LIMITED, PPF CYPRUS RE MANAGEMENT LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
JSC Yugo - Vostochnaya promyshlennaya companiya "KARTONTARA"	1037700008895	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
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		PPF Real Estate 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.
Komodor LLC	32069917	Ukraine	Company controlled by the same controlling entity by way of ownership interest		West Logistics Park LLC (WLP)
Langen Property B.V.	61012777	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		German Properties B.V.
Letiště Praha Letňany, s.r.o.	24678350	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Letňany Air Land s.r.o.	06138462	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Letňany Air Logistics s.r.o.	06138411	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Letňany eGate s.r.o.	06137628	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.
Letňany Park Gate s.r.o.	06138446	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Prague Entertainment Group B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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 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 BRAMA	1107746950431	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
LLC Comcity Kotelnaya	5157746112959	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Comcity Office Holding B.V.
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Bavella B.V. GRANDVIEW RESOURCES CORP.
LLC ERKO	1044702180863	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		"LLC Gorod Molodogo Pokolenija"
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 Forward leasing (formerly LLC Home Credit Online)	1157746587943	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit Lab N.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LLC Gorod Molodogo Pokolenija (formerly Joint Stock Company "Gorod Molodogo Pokolenija)	1027700473756	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGSLIMITED
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
LLC Home Credit Insurance	1027739236018	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V.
LLC HOMER SOFTWARE HOUSE	35364346	Ukraine	Company controlled by the same controlling entity by way of ownership interest	To 12 May 2018	REDLIONE LTD 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 In Vino	1052309138628	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		GRACESPRING LIMITED
LLC ISK (ICC) Klokovo	1127746186501	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		STEPHOLD 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

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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, PPF CYPRUS RE MANAGEMENT LIMITED
LLC Logistika - Rostov	1167746090236	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 21 November 2018	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		Comcity Office Holding B.V.
LLC Oil Investments	1167746861677	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V., 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.
LLC RAV Agro Orel	1115741001496	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	To 3 December 2018	LLC Rav Agro

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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, Grandview Resources Corp., Bavella B.V.
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 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 Skladi 104	5009049271	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		GABELLI CONSULTANCY LIMITED
LLC Skolkovo Gate	1137746214979	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Trigon II B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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 Spetsializirovanniy zastroyschik " Delta Com" (formerly LLC Delta Com)	1137746330358	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		Comcity Office Holding B.V., ANTHEMONA LIMITED
LLC Strata	7702765300	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		VELTHEMIA LIMITED
LLC TGK - Trilogy	1155027001030	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		LLC PPF Real Estate Russia
LLC Torgovij complex Lipetskiy	1074823001593	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		JARVAN HOLDINGS LIMITED
LLC Trilogy Services	1155027007398	Russian Federation	Company controlled by the same controlling entity by way of ownership interest		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 Urozhay	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

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
LOKEL s.r.o.	01731530	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
LOSITANTO Ltd.	HE157131	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	SATACOTO Ltd.
LvZH (Rijswijk) B.V.	58163999	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		Seven Assets Holding B.V.
Maraflex s.r.o.	02415852	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.
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.
Misterine s.r.o.	05249899	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	To 17 September 2018	Bolt Start Up Development a.s.
mluvii.com s.r.o.	27405354	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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.
MOVO spol. s r. o.	46887989	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
MP Holding 2 B.V.	69457018	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		DEVEDIACO ENTERPRISES LIMITED
My Air a.s.	05479070	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Air Bank a.s.
Mystery Services s.r.o.	24768103	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.
Naneva B.V.	67400639	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		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.
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		KARMION HOLDINGS LIMITED PPF CYPRUS RE MANAGEMENT LIMITED
O2 Business Services, a.s.	50087487	Slovak Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Slovakia, s.r.o.
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. PPF CYPRUS MANAGEMENT LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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.	05423716	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		O2 Czech Republic a.s.
O2 IT Services s.r.o.	02819678	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.	03998380	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 Nine, spol. s r. o.	27904385	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF PROPERTY LIMITED
OJSC „Non-banking Credit and Financial Organization „Home Credit“	807000056	Belarus	Company controlled by the same controlling entity by way of ownership interest	To 19 June 2018	Home Credit B.V.
One Westferry Circus S.a.r.l.	B175495	Luxembourg	Company controlled by the same controlling entity by way of ownership interest	From 12 April 2018	PPF Real Estate s.r.o.
OOO Sibelectroprivod	1045400530922	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	LOSITANTO Ldt.
OOO Skoda-R	7725682339	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
OOO Vagonmash	1117847029695	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ORIBASE Pharma SAS	499824670	France	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		PPF CYPRUS MANAGEMENT LIMITED
Paleos Industries B.V.	66846919	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Pars nova a.s.	25860038	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
Pharma Consulting Group Ltd.	34529634	Ukraine	Company controlled by the same controlling entity by way of ownership interest		HOPAR LIMITED PPF CYPRUS RE MANAGEMENT LIMITED
Plaza Development SRL	22718444	Romania	Company controlled by the same controlling entity by way of ownership interest	From 20 November 2018	PPF Real Estate s.r.o., PPF CYPRUS MANAGEMENT LIMITED
POLL, s.r.o.	62967754	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF A4 B.V.	63365391	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
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 TMT Holdco 2 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 Holdings B.V.
PPF Beer Holdco 1 B.V.	67330495	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		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		PPF Beer Holdco 1 B.V.
PPF Beer Topholdco B.V.	67420427	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Industrial Holding B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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 3 B.V.	34360935	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF banka a.s.
PPF CYPRUS MANAGEMENT LIMITED (formerly ANTHIAROSE LIMITED)	HE 224463	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF CYPRUS RE MANAGEMENT LIMITED (formerly 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.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF 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 Industrial Holding B.V.	71500219	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Group N.V.
PPF Infrastructure B.V.	65167899	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Arena 1 B.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. PPF CYPRUS RE MANAGEMENT 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. PPF CYPRUS RE MANAGEMENT LIMITED
PPF reality a.s.	29030072	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate s.r.o.
PPF SECRETARIAL LTD	HE 340708	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		PPF Arena 1 B.V.
PPF TMT Bidco 1 B.V.	70498288	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	From 3 January 2018	PPF Arena 1 B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
PPF TMT Bidco 2 B.V (formerly PPF Beer Bidco B.V.)	67332722	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
PPF TMT Holdco 1 B.V.	70498261	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	From 3 January 2018	PPF Group N.V.
PPF TMT Holdco 2 B.V.	70526214	The Netherlands	Company controlled by the same controlling entity by way of ownership interest	From 4 January 2018	PPF TMT Holdco 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.
RC PROPERTIES S.R.L.	12663031	Romania	Company controlled by the same controlling entity by way of ownership interest		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 LTD	HE 178 059	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Home Credit B.V., Home Credit International a.s.
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.
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. PPF CYPRUS RE MANAGEMENT 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.
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	To 21 December 2018	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	To 21 December 2018	RYAZAN INVESTORS COMPANY LIMITED
Saint World Limited	1065677	People's Republic of China	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
Salonica Holding Limited	1949492	British Virgin Islands	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner
SATACOTO Ltd.	HE 155018	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
SB 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
SCI LA FORET	309844371 R.C.S. Chambery	France	Company controlled by the same controlling entity by way of ownership interest		Ing. Petr Kellner
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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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 Number One Consulting Co., Ltd.	91440300664174257K	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Home Credit Asia Limited
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	91440300796638527A	People's Republic of China	Company controlled by the same controlling entity by way of ownership interest		Favour Ocean Limited
SIGURNO LIMITED	HE 172539	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Gilbey Holdings Limited
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd.	901510100660467589T	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 281961	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Celestial Holdings Group Limited
SKODA Transportation Deutschland GmbH	HRD 208 725	Federal Republic of Germany	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
Smart home security s.r.o.	06321399	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bolt Start Up Development a.s.
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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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
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
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.
ŠKODA CITY SERVICE s.r.o.	29119057	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ŠKODA ELECTRIC a.s.	477 18 579	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ŠKODA ICT s.r.o.	279 94 902	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA INVESTMENT a.s.
ŠKODA INVESTMENT a.s.	265 02 399	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 3 May 2018	PPF Beer Topholdco B.V.
ŠKODA RAIL s.r.o.	058 22 149	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ŠKODA REAL ESTATE DEVELOPMENT a.s. v likvidaci	264 11 521	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018 To 8 November 2018	ŠKODA INVESTMENT a.s.
ŠKODA SERVIS s.r.o.	263 51 277	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA INVESTMENT a.s.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
ŠKODA TRANSPORTATIO N a.s.	626 23 753	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
Škoda Transportation USA, LLC	81-257769	United States of America	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ŠKODA TVC s.r.o.	25247964	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
ŠKODA VAGONKA a.s.	258 70 637	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
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 PPF CYPRUS RE MANAGEMENT LIMITED
Tapito s.r.o. (formerlyTapMedia s.r.o.)	3853365	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Bolt Start Up Development a.s.
Telematika a.s.	054 18 046	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 18 May 2018	PPF a.s.
Telenor Bulgaria EAD	130460283	Bulgaria	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Telenor Common Operation Ztr.	13-10-041370	Hungary	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.
Telenor d.o.o. Beograd	20147229	Serbia	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.
Telenor d.o.o. Podgorica	50017124	Montenegro	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.
Telenor Direct d.o.o. Beograd	20426306	Serbia	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	Telenor d.o.o. Beograd
Telenor Direct MNE d.o.o. Podgorica	50537063	Serbia	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	Telenor d.o.o. Beograd
Telenor Magyarorzág Zrt.	13-10-040409	Hungary	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.
Telenor Real Estate Hungary Ztr.	13-10-041060	Hungary	Company controlled by the same controlling entity by way of ownership interest	From 31 July 2018	PPF TMT Bidco 1 B.V.
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		Eastern Properties B.V.
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.

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
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. PPF CYPRUS RE MANAGEMENT LIMITED
TRADING RS Sp. z o.o.	NIP 7010213385	Poland	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
TRANSTECH OY	1098257-0	Finland	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	ŠKODA TRANSPORTATION a.s.
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.
Trilogy Park Holding B.V.	60006609	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Trilogy Park Nizhny Novgorod Holding B.V.	67330355	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	To 19 April 2018	PPF Group N.V.
UNILEAVE LIMITED v likvidaci	HE 179 204	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		PPF CYPRUS MANAGEMENT LIMITED
Usconfin 1 DAC	619282	Ireland	Company controlled by the same controlling entity by way of ownership interest	From 23 january 2018	PPF banka a.a.
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest		REPIENO LIMITED

Trade name	Identification / registration number	Country of registration	Method and means of control	Note	Interest via
Vixon Resources Limited	144 18 84	British Virgin Islands	Company controlled by the same controlling entity acting in concert by way of ownership interest		Renáta Kellnerová
Vox Ventures B.V.	65879554	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Group N.V.
VÚKV a.s.	452 74 100	Czech Republic	Company controlled by the same controlling entity by way of ownership interest	From 24 April 2018	PPF Beer Topholdco B.V.
Wagnerford Holdings Limited	HE 210154	Republic of Cyprus	Company controlled by the same controlling entity by way of ownership interest	From 18 April 2018	MP Holding 2 B.V.
Wagnerford LLC	5087746372819	Russian Federation	Company controlled by the same controlling entity by way of ownership interest	From 18 April 2018	Wagnerford Holdings Limited
West Logistics Park LLC (WLP)	35093235	Ukraine	Company controlled by the same controlling entity by way of ownership interest		Izotrem Investments Limited
Westminster JV a.s.	05714354	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		PPF a.s.
Wilhelminaplein (Rotterdam) B.V.	59494034	The Netherlands	Company controlled by the same controlling entity by way of ownership interest		PPF Real Estate Holding B.V.
Zonky s.r.o.	035 70 967	Czech Republic	Company controlled by the same controlling entity by way of ownership interest		Home Credit International a.s.

ČESKÁ TELEKOMUNIKAČNÍ INFRASTRUKTURA A.S.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 28 February 2019 and were signed on its behalf by:

Filip Cába	**Michal Frankl**
Vice-chairman of the Board of Directors	Member of the Board of Directors

CONTENT

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

In CZK million	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenues	5	19,813	20,968
Other income from non-telecommunication services		215	207
Expenses	6	(12,458)	(13,330)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**7,570**	**7,845**
Depreciation and amortisation	9, 10	(3,871)	(4,206)
Impairment loss	9, 10	(154)	(56)
Operating profit (*EBIT*)		**3,545**	**3,584**
Finance income	7	7	135
Finance costs	7	(381)	(304)
Profit before tax		3,171	3,415
Corporate income tax	8	(620)	(696)
Profit for the year		**2,551**	**2,719**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		-	(2)
Cash flow hedges – effective portion of changes in fair value	21	220	504
Related deferred tax	16	(42)	(95)
Total other comprehensive income, net of tax		**178**	**407**
Total comprehensive income, net of tax		**2,729**	**3,126**
Profit attributable to:			
Equity holders of the Company		2,551	2,719
Total comprehensive income attributable to:			
Equity holders of the Company		2,729	3,126

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In CZK million	Note	As at 31 December 2018	31 December 2017
ASSETS			
Property, plant and equipment	9	48,633	48,807
Intangible assets	10	1,616	1,396
Other assets	12	467	363
Non-current assets		**50,716**	**50,566**
Inventories	11	56	52
Receivables	12	3,392	3,219
Income tax receivable	8	1	73
Cash and cash equivalents	13	1,650	843
Current assets		**5,099**	**4,187**
Non-current assets held for sale	9	**26**	**18**
Total assets		**55,841**	**54,771**
EQUITY AND LIABILITIES			
Share capital	21	3,102	3,102
Reserves	21	564	386
Other funds	21	14,620	14,620
Retained earnings	21	2,552	2,725
Total equity		**20,838**	**20,833**
Long-term financial debts	15	20,869	20,734
Deferred tax liability	16	6,203	6,098
Non-current provisions for liabilities and charges	17	376	395
Non-current other liabilities	14	1,561	1,555
Non-current liabilities		**29,009**	**28,782**
Short-term financial debts	15	21	21
Trade and other payables	14	5,824	5,041
Income tax liability	8	64	2
Provisions for liabilities and charges	17	85	92
Current liabilities		**5,994**	**5,156**
Total liabilities		**35,003**	**33,938**
Total equity and liabilities		**55,841**	**54,771**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2018		**3,102**	**(3)**	**389**	**14,620**	**2,725**	**20,833**
Profit for the year		-	-	-	-	2,551	2,551
Other comprehensive income		-	-	178	-	-	178
Total comprehensive income		**-**	**-**	**178**	**-**	**2,551**	**2,729**
Dividends paid	21	-	-	-	-	(2,720)	(2,720)
Other distribution and roundings		-	-	-	-	(4)	(4)
As at 31 December 2018		**3,102**	**(3)**	**567**	**14,620**	**2,552**	**20,838**

For the year ended 31 December 2017

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2017		**3,102**	**(1)**	**(20)**	**14,620**	**263**	**17,964**
Profit for the year		-	-	-	-	2,719	2,719
Other comprehensive income		-	(2)	409	-	-	407
Total comprehensive income		**-**	**(2)**	**409**	**-**	**2,719**	**3,126**
Dividends paid	21	-	-	-	-	(257)	(257)
As at 31 December 2017		**3,102**	**(3)**	**389**	**14,620**	**2,725**	**20,833**

CONSOLIDATED STATEMENT OF CASH FLOWS

In CZK million	Note	31 December 2018	For the year ended 31 December 2017
Profit for the year		2,551	2,719
Non-cash adjustments for:			
Depreciation and amortisation	9, 10	3,871	4,205
Impairment loss	9	154	56
Profit on sale of property, plant and equipment	9	(47)	(60)
Net finance costs/revenues	7	305	299
Foreign exchange gains (net)	7	69	(130)
Other non-cash adjustments		38	26
Tax expense	8	620	696
Operating cash flow before working capital changes		**7,561**	**7,811**
Working capital adjustments:			
Change in trade and other receivables		(432)	(152)
Change in inventories		(4)	(10)
Change in trade and other payables		1,049	351
Change in provisions		(60)	(59)
Cash flows from operating activities		**8,114**	**7,941**
Income tax paid	8	(422)	(769)
Net cash flow from operating activities		**7,692**	**7,172**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(4,115)	(3,701)
Proceeds from sales of property, plant and equipment and intangible assets		43	722
Net cash used in investing activities		**(4,072)**	**(2,979)**
Cash flows from financing activities			
Interest paid		(291)	(295)
Interest received		33	27
Other finance charges (paid)/received		-	(55)
Repayments of loans	15	-	(3,000)
Net proceeds from settlement of derivatives		3	3
Cash collateral placed due to derivatives transactions	12	162	(151)
Distribution of other capital funds paid	21	-	-
Dividends paid	21	(2,720)	(257)
Net cash used in financing activities		**(2,813)**	**(3,728)**
Net increase in cash and cash equivalents		**807**	**465**
Cash and cash equivalents at beginning of year	13	843	378
Effect of foreign exchange rate movements on cash and cash equivalents		-	-
Cash and cash equivalents at the year end	13	**1,650**	**843**

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, CETIN Finance B.V. and CETIN služby s.r.o.

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 2018 is PPF Infrastructure B.V. (part of the PPF Group). Further details are described in Note 22.

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 1,890 in 2018 (2017: 1,530).

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 consolidated financial statements were approved for issue by the Company's Board of Directors on 28 February 2019.

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.

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.

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

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 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 estimates the liability for current income taxes and in consideration of the temporary differences also for the 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 – Property, plant and equipmentand Note 3d – Intangible assets.

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 – Trade receivables.

(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 2018 (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 16	Leases	1 January 2019
IFRS 10 and IAS 28 (amendment)	Sales or contributions of assets between an investor and its associate/joint venture	postponed indefinitely

Impact of adoption of new standard IFRS 15 – Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group has chosen a modified cumulative retrospective method for the initial adoption of the IFRS 15 standard, which means that the Group applied the rules only to contracts which have not been terminated as of 1 January 2018. The cumulative effect as of the date of transition to the new standard was not recognized as an adjustment of the opening balance of retained earnings as of 1 January 2018 due to its immateriality. Comparative data for the previous period was not adjusted.

The following tables summarise the impacts of adopting IFRS 15 on the Group`s balance sheet and income statement. The cash flow statement was without significant impact.

Impact on the balance sheet as at 31 December 2018

In CZK million	Note	Balances with IFRS 15	Impact	Balances without IFRS 15
Total assets		**55,841**	**-**	**55,841**
Share capital	21	3,102	-	3,102
Reserves	21	564	-	564
Other funds	21	14,620	-	14,620
Retained earnings	21	2,552	11	2,563
Total equity		**20,838**	**11**	**20,849**
Long-term financial debts	15	20,869	-	20,869
Deferred tax liability	16	6,203	-	6,203
Non-current provisions for liabilities and charges	17	376	-	376
Non-current other liabilities	14	1,561	(13)	1,548
Non-current liabilities		**29,009**	**(13)**	**28,996**
Short-term financial debts	15	21	-	21
Trade and other payables	14	5,824	-	5,824
Income tax liability	8	64	2	66
Provisions for liabilities and charges	17	85	-	85
Current liabilities		**5,994**	**2**	**5,996**
Total liabilities		**35,003**	**(11)**	**34,992**
Total equity and liabilities		**55,841**	**-**	**55,841**

Impact to profit and loss for the year ended 31 December 2018

In CZK million	Note	Balances with IFRS 15	Impact	Balances without IFRS 15
Revenues	5	19,813	(20)	19,793
Other income from non-telecommunication services		215	-	215
Expenses	6	(12,458)	-	(12,458)
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)		**7,570**	**(20)**	**7,550**
Depreciation and amortisation	9, 10	(3,871)	-	(3,871)
Impairment loss	9, 10	(154)	-	(154)
Operating profit (EBIT)		**3,545**	**(20)**	**3,525**
Finance income	7	7	-	7
Finance costs	7	(381)	33	(348)
Profit before tax		**3,171**	**13**	**3,184**
Corporate income tax	8	(620)	(2)	(622)
Profit for the year		**2,551**	**11**	**2,562**

The new relevant accounting procedure and its impact and change from the previous one is described below.

Significant financing component

According to IFRS 15, the accounting entity should account for the financing component – interest if the payment and delivery of the goods/services do not occur at the same time or, more precisely with a difference of up to 1 year. This way the accounting entity reflects the time value of money.

The Group identified one revenue group where the difference between received payment and delivery is greater than 1 year. It is installation fees for the Dark fibre service – granting of the right to use the optical fibre. These installation fees are invoiced on one-off basis upon delivery of the subject of the service. The typical period of provision is 15-20 years. These installation fees are accrued over the term of the contract/actual provision of the service.

The Group will receive the payment ahead of the performance of the service. Starting from 1 January 2018, the Group has been recognizing the financing component (interest expense) on monthly basis. It is an accounting adjustment which increases the straight-line revenues from the service provided while accounting for the interest expense for the financing of the Group by the recipient of the service.

IFRS 9 – Financial Instruments

As of 1 January 2018, the IFRS 9 standard – Financial Instruments replaced the original IAS 39 - Financial Instruments: Recognition and Measurement. The new standard includes requirements for (a) classification and measurement of financial assets and financial liabilities, (b) methodology for impairment of financial assets, and (c) general hedge accounting.

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018 the Group has not entered into any new hedging relations for which standard IFRS 9 has been applied and all hedging relations follow IAS 39.

Expected impact of new standard IFRS 16 – Leases

The new standard IFRS 16 Leases will be effective for annual periods beginning on or after 1 January 2019 and replaces all existing IFRS leases requirements for both lessees and lessors.

IFRS 16 provides a single balance sheet accounting model for leases. The lessee accounts for the right to use the asset, that represents his right to use the underlying asset, and for his liability under the lease, which expresses the obligation to pay the lease payments. The standard provides for exceptions from this recognition that apply to short-term leases and leases where the asset has a low value. The lessor's accounting remains similar to the current standard - i.e. the lessor continues to classify leases either as financial or as operating.

(i) Leases where the Group is the lessee

The Group will newly recognize assets and liabilities from operating leases of land, non-residential premises, easements, telecommunication technology, collectors, vehicles and office equipment. The nature of related costs has now changed; depreciation of right of use assets and interest expense of lease liabilities will be recognized instead of operating costs as before.

Based on currently available information, the Group estimates that as at 1 January 2019, it will recognize lease liabilities and right of use in the range of CZK 4,500 – 5,000 million.

(ii) Leases where the Group is the lessor

The Group does not expect a material impact from leases where it stands as the lessor.

(iii) Adoption of the standard

The Group plans to initially adopt the standard as of 1 January 2019 using a modified retrospective method. The cumulative effect of transition as of the date of transition to the new standard will be recognized as an adjustment of the opening balance of retained earnings as of 1 January 2019. Comparable data for the previous period will not be adjusted.

The Group will use the exception in the standard for contracts for leases with a low-value underlying asset. These exceptional cases will be accounted for by the Group as before.

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

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 11 to 45
Communication technology and related equipment	From 1 to 35
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 – Impairment of assets).

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) Financial assets and liabilities

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

The initial recognition and subsequent measurement of financial instruments of the Group is based on new standard IFRS 9 Financial instrument – classification and measurement since 1 January 2018. The adoption of IFRS 9 has not had a significant effect on classification and measurement of financial assets and liabilities and the Group's related accounting policies are described below.

(i) Financial assets

According to IFRS 9, all financial assets are classified as measured at amortised cost, at fair value through other comprehensive income („FVOCI") or at fair value through profit and loss („FVTPL").

Except for trade receivables without a significant financing component, a financial asset is initially measured at fair value plus (for an item not at FVTPL category) transaction costs that are directly attributable to its acquisition. Subsequent measurement of individual categories of financial assets relevant to the Group is as follows.

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

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

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

(ii) Impairment of financial assets

In accordance with IFRS 9, entities calculate the loss allowance for financial assets as equal to the 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

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

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

(iii) Financial liabilities

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

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. These financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are recognised initially as the proceeds received, net of transaction costs incurred. In subsequent periods, they 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 related period.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to settle 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. Other interest costs are recognised directly in profit and loss.

(iv) Derecognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The write off is recognized when the Group considers that there are no realistic prospects of recovery of the asset or when the Group`s legal right to such asset has ceased to exist. Even if the Group expects no significant recovery from the amount written off, the financial asset still could be subject to enforcement activities in order to comply with the Group's terms and conditions. The losses from write-offs are recognized in the position Impairment loss on financial assets.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The potential difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Legally enforceable right can not be dependent on future events and it has to be executable in ordinary business and also in case of failure, insolvency or bankruptcy of the Group or a counterparty.

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) 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.

m) 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.

n) 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 2018 using a long-term real rate of interest in the range from 2.64% to 3.36% 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 2018 the estimate for the effect of inflation is 2%. The decommissioning process is expected to continue for a period of up to 45 years. The estimate of future decommissioning costs is based on useful live of technology.

o) 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.

Revenue from mobile services includes in particular revenue from provision of a service of coverage of mobile signal for O2. This is a long-term contract. The service is provided on continuous basis and is regularly invoiced in the form of a service fee (Note 22). The revenue is recognized over the time.

Revenue from mass services of the fixed network represents revenue from provided access to the public fixed communications network (Internet, television lines and fixed phone lines). The service is provided and invoiced on continuous basis. The revenue is calculated as a price for the network line and the number of lines provided.

Revenue from data services represents a fee for access to end points of the existing telecommunication network. The service is provided on continuous basis and is regularly invoiced. The revenue is calculated as a price for the network line and the number of lines provided.

Other telecommunication revenues include but are not limited to revenues from the granting of the right to use the optical fibre (dark fibre); the revenues are accrued at the time of signing of the contract and recognized as revenue on straight-line basis over the contract term. Revenue from housing represents data centre services; the revenue occurs continuously in accordance with the invoicing.

Revenue from transit represents the service of routing and termination of mostly international voice traffic of international operators utilising the points of presence outside of the Czech Republic. The revenue is calculated by valuation of the incoming and outcoming minutes based on the measurement of the monthly traffic.

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

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

p) 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.

q) Financial instruments - derivatives

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).

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018 the Group has not entered into any new hedging relations for which standard IFRS 9 has been applied and all hedging relations follow IAS 39.

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.

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 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.

t) The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to the financial position as at 31 December 2018 (Consolidated Statement of Financial Position) are shown as at 31 December 2017. 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 2017.

4. 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 Group 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 a provider of interconnection 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 not capital intensive.

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 2018 **In CZK million**	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Group**
Revenues	11,634	8,179	19,813	-	19,813
Other income from non-telecommunication services	-	-	-	215	215
Total costs	(4,302)	(7,941)	(12,243)	(215)	(12,458)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,332**	**238**	**7,570**	**-**	**7,570**
Total depreciation and amortization	(3,837)	(34)	(3,871)	-	(3,871)
Impairment charge	(154)	-	(154)	-	(154)
Operating income (EBIT)	**3,341**	**204**	**3,545**	**-**	**3,545**
Net financial loss					(374)
Profit before tax					3,171
Corporate income tax					(620)
Profit for the year					**2,551**
As at 31 December 2018					
Total assets	**54,505**	**1,336**	**55,841**	**-**	**55,841**
Trade and other payables	4,600	1,224	5,824	-	5,824
Other liabilities	29,179	-	29,179	-	29,179
Total liabilities	**33,779**	**1,224**	**35,003**	**-**	**35,003**
Capital expenditure (Fixed assets additions)	**4,076**	**12**	**4,088**	**-**	**4,088**

Year ended 31 December 2017 **In CZK million**	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items (restated)**	**Group (restated)**
Revenues	11,625	9,343	20,968	-	20,968
Other income	-	-	-	207	207
Total costs	(4,116)	(9,007)	(13,123)	(207)	(13,330)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,509**	**336**	**7,845**	**-**	**7,845**
Total depreciation and amortization	(4,158)	(47)	(4,205)	-	(4,205)
Impairment charge	(56)	-	(56)	-	(56)
Operating income (*EBIT*)	**3,395**	**289**	**3,584**	**-**	**3,584**
Net financial income					(169)
Profit before tax					3,415
Corporate income tax					(696)
Profit for the year					**2,719**
As at 31 December 2017					
Total assets	**53,675**	**1,096**	**54,771**	**-**	**54,771**
Trade and other payables	4,294	747	5,041	-	5,041
Other liabilities	28,897	-	28,897	-	28,897
Total liabilities	**33,191**	**747**	**33,938**	**-**	**33,938**
Capital expenditure (Fixed assets additions)	**4,033**	**22**	**4,055**	**-**	**4,055**

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 represent mainly rentals and sale of the fixed assets, which are 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 2018 these revenues are CZK 9,976 million (31 December 2017: CZK 10,244 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 2018**	**Year ended** **31 December 2017**
Czech Republic	12,159	12,177
Germany	1,011	2,443
Slovakia	740	959
Other EU countries	3,988	2,525
Switzerland	1,182	1,681
Other Non-EU countries	733	1,183
Total revenues	**19,813**	**20,968**

5. REVENUES

The impact of the first adoption of the new standard, IFRS 15 is described in Note 3 – Significant accounting policies. Due to the chosen method of transition to IFRS 15, the Group did not restate the comparative financial information for the prior period.

(i) Categorization of revenue from contracts with customers

The following table shows the classification of the revenues from contracts with customers according to the main operating segments and products provided. The degree of categorization of the revenues from contracts with customers reflects the specific sector of the Group as well as the method the Group uses for reporting and monitoring revenues for internal purposes. The table also shows the total lines allowing for reconciliation of revenue to the data reported in the segment analysis according to IFRS 8 (Note 4).

Revenues **In CZK million**	**Year ended** **31 December 2018**	**Year ended** **31 December 2017**
Domestic service		
Revenues from mobile network services	4,690	4,606
Revenues from fixed network mass service	4,472	4,591
Revenues from data services	1,359	1,390
Other telecommunication revenues	1,113	1,038
	11,634	**11,625**
International transit		
Revenues from transit services	**8,179**	**9,343**
Celkem	**19,813**	**20,968**

Revenues from related parties are disclosed in Note 22.

The following table shows the classification of the revenues from contracts with customers according to the primary geaographical market.

Revenues				**Year ended**
In CZK million				**31 December 2018**
Domestic service	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from mobile network services	4,690	-	-	4,690
Revenues from fixed network mass service	4,472	-	-	4,472
Revenues from data services	1,288	70	1	1,359
Other telecommunication revenues	1,095	18	-	1,113
	11,545	**88**	**1**	**11,634**
International transit	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from transit services	614	5,652	1,913	8,179
Total	**12,159**	**5,740**	**1,914**	**19,813**

Revenues				**Year ended**
In CZK million				**31 December 2017**
Domestic service	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from mobile network services	4,606	-	-	4,606
Revenues from fixed network mass service	4,591	-	-	4,591
Revenues from data services	1,327	62	1	1,390
Other telecommunication revenues	1,016	22	-	1,038
	11,540	**84**	**1**	**11,625**
International transit	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from transit services	637	5,843	2,863	9,343
Total	**12,177**	**5,740**	**1,914**	**20,968**

(ii) Receivables from contracts with customers, contract assets and contract liabilities

Receivables from contracts with customers are described in Note 12. They are trade receivables.

A contract asset is the right of the Group to a consideration in exchange for goods or services which the Group has already transferred to customers and which are not receivable yet. As the Group provides its supplies in the course of time, there are no contingencies for invoicing, the Group issues invoices regularly on monthly basis, it does not have any significant contractual assets recorded.

A contract liability is an obligation of the Group to deliver goods or provide services for which the Group has already received consideration from the customers. Contract liabilities are in particular the dark fibre services – granting of the right to use the optical fibre paid for by the customers. These are services which are typically provided for 15 – 20 years. A portion of the fees is invoiced and collected at the beginning of the provision of this service, but the service will be provided in the years to come. It includes activation fees for these services which do not constitute a stand-alone performance obligation and are therefore distributed throughout the term of the contract with the customers, i.e., the actual provision of the service. These expected revenues will be recognised during the upcoming years.

The amount of CZK 172 million, which was recognized as at 1 January 2018 as contract liabilities, was recognized as revenues in 2018.

Contract balances:

In CZK million	**Note**	**31 December 2018**	**1 January 2018**
Trade receivables	12	3,207	2,937
Contract liabilities (included in the position Accrued revenues, Note 14)		1,765	1,370

In 2018, the Group did not recognize any revenue from contract liabilities which were met (or partially met) in prior periods.

(iii) The expected revenues from concluded contracts with customers

The following tables include revenues which are expected by the Group to be recognized in the future. These are revenues related to performance obligatons that are unsatisfied (or partially unsatisfied) as at 31 December 2018.

In CZK million

	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues from mobile network services	4,643	4,682	4,682	4,452	4,035	3,603	3,166	2,836
Revenues from fixed network mass service	2,736	2,699	2,639	1,484	43	17	6	-
Revenues from data services	860	445	122	44	24	18	18	18
Other telecommunication revenues	308	304	299	181	118	118	118	115
Total	**8,547**	**8,130**	**7,742**	**6,161**	**4,220**	**3,756**	**3,308**	**2,969**

In CZK million	2027	2028	2029	2030	2031	2032	2033	2034-2035
Revenues from mobile network services	2,549	2,350	2,194	2,059	1,939	1,826	1,490	52
Revenues from fixed network mass service	-	-	-	-	-	-	-	-
Revenues from data services	18	18	18	18	16	11	6	-
Other telecommunication revenues	94	90	80	61	57	12	6	3
Total	**2,661**	**2,458**	**2,292**	**2,138**	**2,012**	**1,850**	**1,502**	**55**

The Group applies the practical expedient of the standard and does not disclose in the table above information about contracted revenues with originally expected term of contract one year or less and contracted revenues for which are expected revenues recognized to the amount corresponding to the right to invoice.

The contracts for data services are concluded individually based on the customer`s needs. The contracts are split into categories based on the contract duration. Following the frequency of concluded contracts in each category, we have allocated the expected revenues from data services. Mostly preferred contract`s duration by the customer is 2 years.

(iv) Financing component

The Group has identified one revenue group where the time difference between the consideration received (incoming payment) and provision of the service is more than one year. These are the dark fibre services – granting of the right to use the optical fibre (dark fibre). The Company recognizes increase in revenues and interest expense. For more information see Note 3 – Significant Accounting Policies.

Financing component

In CZK million	Year ended 31 December 2018
The amount which increases the revenues	20
Interest expense	(33)

6. EXPENSES

Expenses In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Supplies	(8,216)	(9,289)
Staff costs	(1,150)	(1,008)
External services	(2,967)	(2,919)
Provisions for bad debts and inventories	(38)	(26)
Other expenses	(87)	(88)
Total expenses	**(12,458)**	**(13,330)**

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 2018 amounted to CZK 5 million (31 December 2017: CZK 4 million).

Purchases from related parties are disclosed in Note 22.

7. FINANCE INCOME AND COSTS

In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Finance income		
Interest income	7	1
Foreign exchange gain (net)	-	130
Other finance income	-	4
Total finance income	**7**	**135**
Finance costs		
Interest expenses	(311)	(294)
Foreign exchange loss (net)	(69)	-
Other finance costs	(1)	(10)
Total finance costs	**(381)**	**(304)**

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

Interest expenses include the net interest income from hedging derivatives of CZK 31 million (31 December 2017: CZK 33 million).

8. INCOME TAX

In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Total income tax expense is made up of:		
Current income tax charge	557	649
Deferred income tax credit (Note 16)	63	47
Total income tax	**620**	**696**

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 2018	Year ended 31 December 2017
Profit before tax	3,171	3,415
Income tax charge calculated at the statutory rate of 19%	(603)	(651)
Non-taxable income	60	197
Tax non-deductible expenses	(131)	(258)
Income tax related to prior years	20	2
Other differences	34	14
Income tax expense	**(620)**	**(696)**
Effective tax rate	19.55%	20.38%

As at 31 December 2018, the total amount of provisions for current income taxes is CZK 576 million (31 December 2017: CZK 646 million), advances paid for income taxes is CZK 513 million (31 December 2017: CZK 717 million), the net deferred tax liability is CZK 6,203 million (31 December 2017: CZK 6,098 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	Construction in progress	Total
As at 31 December 2018						
Opening net book amount	5,419	35,388	6,186	236	1,578	**48,807**
Additions	165	793	1,532	89	900	**3,479**
Disposals	(25)	(1)	(5)	(1)	(4)	**(36)**
Transfers	155	138	509	8	(810)	**-**
Reclassifications	-	-	(2)	4	22	**24**
Depreciation	(389)	(1,777)	(1,253)	(60)	-	**(3,479)**
Impairment	(85)	(52)	-	-	(17)	**(154)**
Reclassification to Assets held for sale	(4)	(1)	(3)	-	-	**(8)**
Closing net book amount	5,236	34,488	6,964	276	1,669	**48,633**
As at 31 December 2018						
Cost	6,933	42,529	12,708	497	1,700	**64,367**
Accumulated depreciation	(1,697)	(8,041)	(5,744)	(221)	(31)	**(15,734)**
Net book amount	5,236	34,488	6,964	276	1,669	**48,633**

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 2017						
Opening net book amount	5,814	36,407	5,287	180	1,404	**49,092**
Additions	112	934	1,850	88	627	**3,611**
Disposals	(20)	(1)	(7)	-	-	**(28)**
Transfers	34	160	211	28	(433)	-
Reclassifications	10	1	22	(8)	(12)	**13**
Depreciation	(514)	(2,113)	(1,177)	(52)	-	**(3,856)**
Impairment	(9)	-	-	-	(8)	**(17)**
Reclassification to Assets held for sale	(8)	-	-	-	-	**(8)**
Closing net book amount	5,419	35,388	6,186	236	1,578	**48,807**
As at 31 December 2017						
Cost	6,827	41,605	11,021	408	1,604	**61,465**
Accumulated depreciation	(1,408)	(6,217)	(4,835)	(172)	(26)	**(12,658)**
Net book amount	5,419	35,388	6,186	236	1,578	**48,807**

As at 31 December 2018, the carrying value of non-depreciated assets amounted to CZK 169 million (31 December 2017: CZK 163 million).

As at 31 December 2018, the increase in fixed assets held for sale amounted of CZK 8 million (31 December 2017: CZK 8 million). As at 31 December 2018 and 31 December 2017 all of assets held for sale belong to the segment of Domestic services.

In connection with the asset held for sale classification of above mentioned assets, the Group identified an impairment loss of CZK 85 million in accordance to IFRS 5 (31 December 2017: CZK 17 million). The fair value less cost to sell is calculated from preliminary proposals or experts‘ opinions.

No property, plant and equipment were pledged as at 31 December 2018 and 31 December 2017.

For the year ended 31 December 2018, the Group achieved a total gain from the sale of the fixed assets of CZK 53 million (31 December 2017: CZK 65 million) and total losses of CZK 5 million (31 December 2017: CZK 6 million).

The Group has concluded contracts with T-Mobile Czech Republic a.s. related to the sharing of mobile networks. Companies provide each other services related to the sharing of active and passive 2G and 3G network elements and the sharing of LTE technologies for mobile networks based on geographical distribution of the Czech Republic territory. Contracts are based on the principle of balance. Revenue and costs relating to network sharing are reported in net value because the services provided within the project are of the same nature and value.

10. INTANGIBLE ASSETS

In CZK million	Software	Valuable rights	Construction in progress	Total
As at 31 December 2018				
Opening net book amount	1,129	101	166	**1,396**
Additions	370	67	172	**609**
Disposals	-	-	-	**-**
Transfers	42	20	(62)	**-**
Reclassifications	6	(5)	2	**3**
Amortisation charge	(368)	(24)	-	**(392)**
Impairment	-	-	-	**-**
Closing net book amount	1,179	159	278	**1,616**
As at 31 December 2018				
Cost	2,413	221	278	**2,912**
Accumulated amortisation	(1,234)	(62)	-	**(1,296)**
Net book amount	1,179	159	278	**1,616**

In CZK million	Software	Valuable rights	Construction in progress	Total
As at 31 December 2017				
Opening net book amount	1,009	78	254	**1,341**
Additions	377	24	43	**444**
Disposals	-	-	-	**-**
Transfers	97	20	(117)	**0**
Reclassifications	-	-	(1)	**(1)**
Amortisation charge	(328)	(21)	-	**(349)**
Impairment	(26)	-	(13)	**(39)**
Closing net book amount	1,129	101	166	**1,396**
As at 31 December 2017				
Cost	1,998	142	166	**2,306**
Accumulated amortisation	(869)	(41)	-	**(910)**
Net book amount	1,129	101	166	**1,396**

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. Other intangible assets are tested annually for impairment. In 2017, an impairment of CZK 39 million was identified. It represented an investment in the planned implementation of a new accounting software. After further reassessment of the project, the Group chose other supplier and fully impaired all related capital expenditures. In 2018, no impairment of intagible asset was identified.

11. INVENTORIES

In CZK million	31 December 2018	31 December 2017
Telecommunication material	45	34
Other	11	18
Total	**56**	**52**

The inventories stated above are net of an allowance cumulative write down for obsolete inventory of CZK 6 million (31 December 2017: CZK 7 million). The amount of inventories recognised as an expense is CZK 130 million (31 December 2016: CZK 128 million).

In 2018 and 2017, the Group had no inventories pledged as a security for liabilities.

12. RECEIVABLES AND OTHER ASSETS

In CZK million	31 December 2018	31 December 2017
Trade receivables from third parties (net)	2,187	1,856
Receivables with related parties (Note 22)	1,020	1,082
Prepayments	279	96
Tax receivables for indirect taxes	129	155
Derivative financial assets	11	-
Advance payments	79	76
Cash collateral placed due to derivatives transactions (Note 15)	144	306
Other debtors (net)	10	11
Total receivables and other assets	**3,859**	**3,582**

Trade receivables and other debtors are stated net of bad debt provision of CZK 76 million (31 December 2017: CZK 53 million).

Prepayments comprise primarily prepaid expenses related to purchases of capacity upgrade from T-Mobile for O2 under the network sharing project of CZK 170 million (31 December 2017: CZK 0 million), prepaid lease-related service costs of CZK 33 million (31 December 2017: CZK 42 million) and prepaid expenses from International transit of CZK 7 million (31 December 2017: CZK 10 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 2018	2,705	452	79	-	-
As at 31 December 2017	2,647	244	7	-	-

Bad debt provisions In CZK million	
As at 1 January 2017	29
Additions	45
Release	(21)
As at 31 December 2017	53
Additions	41
Release	(18)
As at 31 December 2018	**76**

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 2018, the Group presented non-current other assets of CZK 467 million (31 December 2017: CZK 363 million) consisting of prepayments, advance payments for long-term expenses, revaluation of derivative financial asset 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 2018 the short term part of the collateral placed represents CZK 0 million (31 December 2017: CZK 0 million) and long term part CZK 144 million (31 December 2017: CZK 306 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 2018**	**31 December 2017**
Gross amounts of trade receivables	2,282	2,405
Amounts that are set off	(333)	(564)
Net amounts of trade receivables	1,949	1,841

13. CASH AND CASH EQUIVALENTS

In CZK million	**31 December 2018**	**31 December2017**
Cash at bank accounts and other cash equivalents	1,348	114
Cash at bank accounts and other cash equivalents (intercompany)	302	729
Total cash and cash equivalents	**1,650**	**843**

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 40 million (31 December 2017:

CZK 38 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.

The Group acquired treasury bills which are presented as cash equivalents amounting to CZK 1,214 million (31 December 2017: CZK 0 million). The Group sold these treasury bills on 2 January 2019.

As at 31 December 2018, the Group had available undrawn uncommitted overdraft facility up to CZK 500 million and undrawn uncommitted revolving facility up to CZK 175 million. As at 31 December 2017, the Group had available undrawn committed overdraft facility up to CZK 500 million and undrawn uncommitted revolving facility up to CZK 175 million.

As at 31 December 2018 and 31 December 2017, no cash and cash equivalents were pledged.

14. TRADE AND OTHER PAYABLES

In CZK million	31 December 2018	31 December 2017
Trade creditors	5,228	4,626
VAT, other taxes and social security liability	103	87
Other deferred revenue	274	137
Employee wages and benefits	211	182
Other creditors	8	9
Trade and other payables - current	5,824	5,041
Other non-current liabilities	1,561	1,555

Payables to related parties are disclosed in Note 22.

As at 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Gross amounts of trade creditors	695	1,117
Amounts that are set off	(333)	(564)
Net amounts of trade creditors	362	553

15. FINANCIAL ASSETS AND LIABILITIES

Financial liabilities:

In CZK million	31 December 2018	31 December 2017
Bonds in local currency	4,830	4,822
Bonds in foreign currency	16,039	15,912
Accrued interest	21	21
Total financial liabilities	**20,890**	**20,755**
Repayable:		
Within one year	21	21
Between one and five years	20,869	15,912
More than five years	-	4,822
Total financial liabilities	**20,890**	**20,755**

Issued Bonds

In million CZK					Nominal value		Net carrying value	
Date of issue	**Maturity**	**ISIN**	**Interest rate**	**Curr**	**2018**	**2017**	**2018**	**2017**
6 December 2016	6 December 2021	XS1529934801	1.423	EUR	16,078	15,963	16,056	15,928
6 December 2016	6 December 2023	XS1529936335	1.250	CZK	4,866	4,866	4 834	4,827
Total					**20,944**	**20,829**	**20,890**	**20,755**

As at 31 December 2018, the nominal value of EUR bond amounted to EUR 625 million (31. prosince 2017: EUR 625 million).

All conditions resulted from bonds emission were met as at 31 December 2018.

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 (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 Group's exposure to currency risk as quantitative data.

In million	**31 December 2018**		**31 December 2017**	
	EUR	**USD**	**EUR**	**USD**
Closing balance of the currency	**12**	**-**	**1**	**-**
Trade receivables	36	3	25	4
Issued bonds	(625)	-	(625)	-
Trade payables	(51)	(5)	(29)	(5)
Net statement of financial position exposure	**(640)**	**(2)**	**(629)**	**(1)**
Next 12 months forecast sales	45	3	85	2
Next 12 months forecast purchases	(74)	(10)	(120)	(7)
Net forecast transaction exposure	**(29)**	**(7)**	**(35)**	**(5)**
Financial derivatives	535	-	535	0
Net exposure	**(122)**	**(9)**	**(128)**	**(6)**

CZK	**Average rate for the year ended**		**Year-end spot rate**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
EUR 1	25.643	26.330	25.725	25.540
USD 1	21.735	23.382	22.466	21.291

The Group also has an exposure to GBP and CHF, but due to its insignificance it is not included in the net position neither used within GAP analysis for the stress position.

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 2018	**31 December 2017**
Hedging		
Cross currency swap (Note 22)	14,429	14,429

In CZK million	**Fair value**	
	31 December 2018	**31 December 2017**
Hedging		
Cross currency swap (Note 22)	11	(308)

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

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

31 December 2018 **In CZK million**	**Within 1 year**	**1 – 5 years**	**More than 5 years**	**Total**
Cross currency swap	-	14,429	-	14,429

31 December 2017 **In CZK million**	**Within 1 year**	**1 – 5 years**	**More than 5 years**	**Total**
Cross currency swap	-	14,429	-	14,429

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 2018	**Year ended 31 December 2017**
FX risk		
12 forthcoming months „GAP“ analysis*	(168)	(171)

* 12 forthcoming months „GAP“ analysis represent FX risk modeling 5% negative development of EUR/CZK and USD/CZK FX rate.

(ii) Interest rate risk

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 2018 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 2018	**Year ended 31 December 2017**
FX risk		
Stress testing*	(14)	(14)

* 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 2018 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2018 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Bonds	-	290	21,646	-
Trade and other payables (excluding Deferred revenue)	3,838	1,683	15	15
Total	**3,838**	**1,973**	**21,661**	**15**
Non-current other liabilities (excluding Deferred revenue)	-	-	49	17

As at 31 December 2017 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Bonds	-	288	16,887	4,927
Trade and other payables (excluding Deferred revenue)	2,964	1,941	-	-
Total	**2,964**	**2,247**	**16,931**	**4,892**
Non-current other liabilities (excluding Deferred revenue)	-	-	9	-

In 2018 and 2017, the Group did not have any guarantees to third parties (except for the Cross Guarentee described in Note 21).

(iv) Credit risk

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

The Group trades only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis resulting in an insignificant Group's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 12. There is no significant concentration of credit risk within the Group in respect to unrelated parties. The Group also has significant trade with companies from the PPF Group (see Note 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

	Relevant amount offset/not offset in the consolidated statement of financial position as at 31 December 2018					
In million CZK	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/ provided cash collateral	**Total**
Assets						
Positive values of financial derivatives	11	-	11	-	144	**155**
Trade receivables	2,282	(333)	1,949	-	-	**1,949**
Total assets	**2,293**	**(333)**	**1,960**	**-**	**144**	**2,104**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	**-**
Trade payables	695	(333)	362	-	-	**362**
Total liabilities	**695**	**(333)**	**362**	**-**	**-**	**362**

In million CZK	Relevant amount offset/not offset in the consolidated statement of financial position as at 31 December 2017					
	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/ provided cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	-
Trade receivables	2,405	(564)	1,841	-	-	**1,841**
Total assets	**2,405**	**(564)**	**1,841**	**-**	**-**	**1,841**
Liabilities						
Negative values of financial derivatives	308	-	308	-	306	**2**
Trade payables	1,117	(564)	553	-	-	**553**
Total liabilities	**1,425**	**(564)**	**861**	**-**	**306**	**555**

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 (unrestated) 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 2018 and 31 December 2017, 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 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The 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 2018**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	1,650	1,650	1,650	-
Receivables and other finanacial asset (excluding derivatives)	-	-	3,848	3,848	3,848	-
Financial liabilities						
Bonds (inc. accruals)	-	21,037	-	21,037	20,890	147
Trade and other payables	-	-	5,824	5,824	5,824	-

In CZK million	**31 December 2017**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	843	843	843	-
Receivables and other finanacial asset (excluding derivatives)	-	-	3,582	3,582	3,582	-
Financial liabilities						
Bonds (inc. accruals)	-	21,220	-	21,220	20,755	465
Trade and other payables	-	-	5,041	5,041	5,041	-

The fair value of bonds as at 31 December 2018 and 31 December 2017 has been determined using market price as bonds are traded on the public market.

Financial instruments in fair value

In CZK million	**Fair value 31 December 2018**			**Fair value 31 December 2017**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Positive fair values of financial derivative instruments	-	11	-	-	-	-
Negative fair values of financial derivative instruments	-	-	-	-	308	-

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 2018 and 31 December 2017.

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 2018 and 31 December 2017.

In CZK million	31 December 2018	31 December 2017
Opening balance	6,098	5,955
Profit or loss tax charge	63	48
Valuation gain/(losses) – cash flow hedge	42	95
Closing balance	**6,203**	**6,098**

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

In CZK million	31 December 2018	31 December 2017
Deferred tax liabilities	6,203	6,098
Total	**6,203**	**6,098**

The deferred tax liability includes CZK 86 million (31 December 2017: CZK 143 million) to be realized in less than twelve months and CZK 6,117 million (31 December 2017: CZK 5,955 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 2018	31 December 2017
Temporary differences relating to:		
Property, plant and equipment	6,074	6,027
Intangible assets	133	111
Trade receivables, inventories, provisions and other differences	(137)	(131)
Valuation gain/(losses) – cash flow hedge	133	91
Total	**6,203**	**6,098**

In CZK million	Consolidated statement of total comprehensive income	
	Year ended 31 December 2018	Year ended 31 December 2017
Temporary differences relating to:		
Property, plant and equipment	48	68
Intangible assets	21	4
Trade receivables, inventories, provisions and other differences	(6)	(24)
Total	**63**	**48**

17. PROVISIONS

In CZK million	Asset retirement obligation	Other provisions	Total
As at 1 January 2017	226	157	383
Additions during the year	-	7	7
Utilised during the year	(22)	(17)	(39)
Change of estimate	163	(27)	136
As at 31 December 2017	**367**	**120**	**487**
Additions during the year	-	6	6
Utilised during the year	(41)	(25)	(66)
Change of estimate	34	-	34
As at 31 December 2018	**360**	**101**	**461**

In CZK million	Asset Asset retirement obligation	Other provisions	Total
As at 31 December 2018			
Short-term provisions	27	58	85
Long-term provisions	333	43	345
	360	**101**	**461**
As at 31 December 2017			
Short-term provisions	40	52	92
Long-term provisions	327	68	395
	367	**120**	**487**

The Group recognized provision for estimated cost of dismantling and removing assets and restoring sites of CZK 360 million (31 December 2017: CZK 367 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. In accordance with the plan of the liquidation of the sites within the network sharing project, the utilization of provision was of CZK 34 million (31 December 2017: CZK 0 million) and due to change of liquidation timing estimate and an update of discount rate the provision for non-shared mobile site increased by CZK 39 million. In 2018, the Group further refined the estimated costs of dismantling, removing tangible assets and restoring them in rented premises as part of a planned project to reduce the area of leased technical buildings which decreased the provision by CZK 5 million and utilization of provision was CZK 7 million (31 December 2017: CZK 0 million).

The Group recognized provision for costs connected with removal of CZK 68 million (31 December 2017: CZK 93 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. Based on the refinement of estimate of these costs in the context of the finalization of related contracts, the provision decreased by CZK 0 million (31 December 2017: CZK 27 million). Other provisions include above all the provision for redundancy cost of CZK 27 million (31 December 2017: CZK 20 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.

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 2018

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	780	1,751	2,334
Operating leases - lessor	121	80	-

As at 31 December 2017

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	771	1,577	2,245
Operating leases - lessor	116	59	-

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 2018 were CZK 796 million (31 December 2017: CZK 762 million).

Capital expenditure contracted but not yet recognized in the financial statements as at 31 December 2018 amounted to CZK 635 million (31 December 2016: CZK 805 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

On 25 May 2018 the Company signed a new lease contract for the lease of new head office` premises. The contracted term is 12 years. The Company has limited rights to terminate the contract, therefore a off-balance sheet liability of CZK 477 million is presented.

20. REGULATED SERVICES

The Group 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):

1. Public fixed communications network,
2. Public network for radio and TV signal broadcasting transmission,
3. Public access for electronic communications services
   a) Other voice services
   b) Leased lines
   c) Radio and TV signal broadcasting
   d) Data transmission
   e) Internet access services
   f) Publicly available telephone service
4. Non-public access for electronic communications services
   a) Other voice services
   b) Leased line
   c) Radio and TV signal broadcasting
   d) Data transmission
   e) Internet access services

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 in individual public telephone networks provided at a fixed location
- provision of co-location services

There is also further set maximal price gap between related services - e.g. xDSL.

21. EQUITY

	31 December 2018	31 December 2017
Nominal value per ordinary registered share (CZK)	10	10
Number of shares	310,220,067	310,220,067
Ordinary share capital (in CZK million)	3,102	3,102

Shareholders of the Company were as follows:

	31 December 2018	31 December 2017
PPF Infrastructure B.V.	89.7%	89.7%
PPF A3 B.V.	10.3%	10.3%

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, installing fibre access (FTTH) or further deployment of LTE network for mobile broadband. At the end of 2018 the Company started to implement WTTx technology (using 3,7 GHz frequency) that enables Company wholesale customers to introduce new services thus generating new revenues. The WTTx complements the technology mix in the Company network. The most common use of the WTTx will be to secure high-speed internet access enabling upload and download of large amounts of data especially in locations that are not covered by fixed broadband using FTTx. The WTTx build out will be ongoing in 2019. 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.

The General Meeting, held on 8 March 2018, approved the statutory financial statements for year ended 31 December 2017. The General Meeting, held on 7 June 2018, approved the distribution of dividends of CZK 2,720 million from profit for the year ended 31 December 2017. The payment was proceeded in two installments, CZK 2,000 million on 12 June 2018 and CZK 720 million on 31 August 2018.

Gains and Losses from revaluation arising from Cash Flow Hedges

In CZK million	**2018**	**2017**
The fair value of the effective part of cash flow hedges at 1 January	480	(24)
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	(91)	4
Total balance at 1 January	**389**	**(20)**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period		
Cross currency swap	220	504
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	(42)	(95)
The fair value of the effective part of cash flow hedges at 31 December	700	480
Deferred tax asset/(liability) arising from revaluation gains and losses at 31 December	(133)	(91)
Total balance at 31 December	**567**	**389**

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 2018**	**31 December 2017**
Receivables from provided services		
Other companies in PPF Group	1,020	1,082
of which: O2 Czech Republic a.s.	993	1,061
Payables from purchased services		
Other companies in PPF Group	224	152
of which: O2 Czech Republic a.s.	185	138
Positive fair value of derivatives		
Other companies in PPF Group (Note 15)	11	-
Negative fair value of derivatives		
Other companies in PPF Group (Note 15)	-	308
Nominal value of derivatives		
Other companies in PPF Group (Note 15)	14,429	14,429
Cash equivalents		
Other companies in PPF Group	383	729

	Volume of mutual transactions	
In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Sale of services		
Other companies in PPF Group	10,201	10,401
of which: O2 Czech Republic a.s.	10,034	10,244
Purchase of services		
Other companies in PPF Group	472	462
of which: O2 Czech Republic a.s.	239	242
Net gain/loss on fair value of derivatives		
Other companies in PPF Group	-	(5)

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 2018, capital expenditures from related parties amounted to CZK 3 million (31 December 2017: CZK 30 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 wholesale agreements are the following:

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 MMO)

The subject of the MMO agreement is access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement 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 2018	**Year ended 31 December 2017**
Remuneration in CZK million		
Board of directors	26	20
Supervisory board	-	-
Key management	28	35
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	8	9

No loans were provided to members of the Board of Directors and Supervisory Board in 2018 and 2017.

23. SUBSIDIARIES

As at 31 December 2018

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%	56	Netherlands	Financial services	Full consolidation
4.	CETIN služby s.r.o.	100%	*0	Czech Republic	Other services	Full consolidation

*200 ths CZK

As at 31 December 2017

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%	56	Netherlands	Financial services	Full consolidation
4.	CETIN služby s.r.o.	100%	*0	Czech Republic	Other services	Full consolidation

*200 ths CZK

In May 2017 the Company incorporated a subsidiary CETIN služby s.r.o. The main business of the subsidiary is other services.

On 11 December 2018 the Board of Director's decided to liqudate the subsidiaries CZECH TELECOM Germany GmbH a CZECH TELECOM Austria GmbH by 31 December 2018. The proces of liquidation will be going on in 2019 resp. 2020 in accordance with legal regulations in the individual countries.

24. MATERIAL SUBSEQUENT EVENTS

On 2 January 2019 the Group sold the treasury bills of CZK 1,214 million (Note 13).

Changes of members of the board of directors and supervisory board after 31 December 2018:

Ing. Juraj Šedivý	Member of the Board of Directors from 1 January 2019, Chief Executive Officer and Chairman of the Board of Directors from 8 January 2019
Ing. Filip Cába	Member of the Board of Directors from 1 January 2019, Vice-Chairman of the Board of Directors from 8 January 2019
Ing. Martin Vlček	Member of the Supervisory Board from 1 January 2019
Ing. Petr Slováček	Member of the Supervisory Board from 1 January 2019
Mgr. Lubomír Král	Vice-Chairman of the Supervisory Board till 20 January 2019
Lubomír Vinduška	Member of the Supervisory Board from 23 January 2019

No other subsequent events have occurred after the balance sheet date with material impact to the financial statements for the year ended 31 December 2018.

ČESKÁ TELEKOMUNIKAČNÍ INFRASTRUKTURA A.S.

STANDALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

The financial statements were approved by the Board of Directors on 28 February 2019 and were signed on its behalf by:

Filip Cába	**Michal Frankl**
Vice-chairman of the Board of Directors	Member of the Board of Directors

CONTENT

STATEMENT OF TOTAL COMPREHENSIVE INCOME

In CZK million	Note	31 December 2018	For the year ended 31 December 2017
Revenues	5	19,813	20,968
Other income from non-telecommunication services		215	207
Expenses	6	(12,459)	(13,333)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**7,569**	**7,842**
Depreciation and amortisation	9, 10	(3,869)	(4,203)
Impairment loss	9, 10	(154)	(56)
Operating profit (*EBIT*)		**3,546**	**3,583**
Finance income	7	7	146
Finance costs	7	(387)	(313)
Profit before tax		3,166	3,416
Corporate income tax	8	(619)	(693)
Profit for the year		**2,547**	**2,723**
Other comprehensive income			
Cash flow hedges – effective portion of changes in fair value	21	220	504
Related deferred tax	16	(42)	(95)
Total other comprehensive income, net of tax		**178**	**409**
Total comprehensive income, net of tax		**2,725**	**3,132**
Profit attributable to:			
Equity holders of the Company		2,547	2,723
Total comprehensive income attributable to:			
Equity holders of the Company		2,725	3,132

STATEMENT OF FINANCIAL POSITION

In CZK million	Note	As at 31 December 2018	As at 31 December 2017
ASSETS			
Property, plant and equipment	9	48,625	48,797
Intangible assets	10	1,616	1,396
Investment in subsidiaries	23	72	72
Other assets	12	467	363
Non-current assets		**50,780**	**50,628**
Inventories	11	56	52
Receivables	12	3,391	3,216
Income tax receivable	8	-	73
Cash and cash equivalents	13	1,556	768
Current assets		**5,003**	**4,109**
Non-current assets held for sale	9	**26**	**18**
Total assets		**55,809**	**54,755**
EQUITY AND LIABILITIES			
Share capital	21	3,102	3,102
Reserves	21	567	389
Other funds	21	14,615	14,615
Retained earnings	21	2,547	2,727
Total equity		**20,831**	**20,833**
Long-term financial debts	15	20,846	20,722
Deferred tax liability	16	6,202	6,097
Non-current provisions for liabilities and charges	17	376	395
Non-current other liabilities	14	1,561	1,555
Non-current liabilities		**28,985**	**28,769**
Short-term financial debts	15	22	22
Trade and other payables	14	5,823	5,039
Income tax liability	8	63	-
Provisions for liabilities and charges	17	85	92
Current liabilities		**5,993**	**5,153**
Total liabilities		**34,978**	**33,922**
Total equity and liabilities		**55,809**	**54,755**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In CZK million	Note	Share capital	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2018		**3,102**	**389**	**14,615**	**2,727**	**20,833**
Profit for the year		-	-	-	2,547	2,547
Other comprehensive income		-	178	-	-	178
Total comprehensive income		**-**	**178**	**-**	**2,547**	**2,725**
Dividends paid	21	-	-	-	(2,720)	(2,720)
Other distribution and roundings		-	-	-	(7)	(7)
As at 31 December 2018		**3,102**	**567**	**14,615**	**2,547**	**20,831**

For the year ended 31 December 2017

In CZK million	Note	Share capital	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2017		**3,102**	**(20)**	**14,615**	**261**	**17,958**
Profit for the year		-	-	-	2,723	2,723
Other comprehensive income		-	409	-	-	409
Total comprehensive income		**-**	**409**	**-**	**2,723**	**3,132**
Dividends paid	21	-	-	-	(257)	(257)
As at 31 December 2017		**3,102**	**389**	**14,615**	**2,727**	**20,833**

STATEMENT OF CASH FLOWS

In CZK million	Note	31 December 2018	For the year ended 31 December 2017
Profit for the year		2,547	2,723
Non-cash adjustments for:			
Depreciation and amortisation	9, 10	3,869	4,203
Impairment loss	9	154	56
Profit on sale of property, plant and equipment	9	(47)	(60)
Net finance costs/(revenues)	7	305	299
Foreign exchange gains (net)	7	67	(132)
Other non-cash adjustments		38	22
Tax expense	8	619	693
Operating cash flow before working capital changes		**7,552**	**7,804**
Working capital adjustments:			
Change in trade and other receivables		(434)	(155)
Change in inventories		(4)	(10)
Change in trade and other payables		1,059	352
Change in operation provisions		(60)	(59)
Cash flows from operating activities		**8,113**	**7,932**
Income tax paid	8	(420)	(769)
Net cash flow from operating activities		**7,693**	**7,163**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(4,115)	(3,701)
Proceeds from sales of property, plant and equipment and intangible assets		43	722
(Investment)/deinvestment in subsidiaries	23	-	12
Received dividends		-	10
Net cash used in investing activities		**(4,072)**	**(2,957)**
Cash flows from financing activities			
Interest paid		(310)	(316)
Interest received		33	27
Other finance charges (paid)/received		-	(55)
Repayments of loans	15	-	(2,998)
Net proceeds from settlement of derivatives		2	3
Cash collateral placed due to derivatives transactions	12	162	(151)
Dividends paid	21	(2,720)	(257)
Net cash used in financing activities		**(2,833)**	**(3,747)**
Net increase in cash and cash equivalents		**788**	**459**
Cash and cash equivalents at beginning of year	13	768	309
Effect of foreign exchange rate movements on cash and cash equivalents		-	-
Cash and cash equivalents at the year end	13	**1,556**	**768**

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 2018 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 1,890 in 2018 (2017: 1,530).

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 financial statements were approved for issue by the Company's Board of Directors on 28 February 2019.

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.

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.

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

Use of estimates, assumptions and judgements

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 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 estimates the liability for current income taxes and in consideration of the temporary differences also for the 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 - Property, plant and equipment and Note 3c - Intangible assets.

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 – Trade receivables.

(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 2018 (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 16	Leases	1 January 2019
IFRS 10 and IAS 28 (amendment)	Sales or contributions of assets between an investor and its associate/joint venture	postponed indefinitely

Impact of adoption of new standard IFRS 15 – Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Company has chosen a modified cumulative retrospective method for the initial adoption of the IFRS 15 standard, which means that the Company applied the rules only to contracts which have not been terminated as of 1 January 2018. The cumulative effect as of the date of transition to the new standard was not recognized as an adjustment of the opening balance of retained earnings as of 1 January 2018 due to its immateriality. Comparative data for the previous period was not adjusted.

The following tables summarise the impacts of adopting IFRS 15 on the Company`s balance sheet and income statement. The cash flow statement was without significant impact.

Impact on the balance sheet as at 31 December 2018

In CZK million	Note	Balances with IFRS 15	Impact	Balances without IFRS 15
Total assets		**55,809**	**-**	**55,809**
Share capital	21	3,102	-	3,102
Reserves	21	567	-	567
Other funds	21	14,615	-	14,615
Retained earnings	21	2,547	11	2,558
Total equity		**20,831**	**11**	**20,842**
Long-term financial debts	15	20,846	-	20,846
Deferred tax liability	16	6,202	-	6,202
Non-current provisions for liabilities and charges	17	376	-	376
Non-current other liabilities	14	1,561	(13)	1,548
Non-current liabilities		**28,985**	**(13)**	**28,972**
Short-term financial debts	15	22	-	22
Trade and other payables	14	5,823	-	5,823
Income tax liability	8	63	2	65
Provisions for liabilities and charges	17	85	-	85
Current liabilities		**5,993**	**2**	**5,995**
Total liabilities		**34,978**	**(11)**	**34,967**
Total equity and liabilities		**55,809**	**-**	**55,809**

Impact to profit and loss for the year ended 31 December 2018

In CZK million	Note	Balances with IFRS 15	Impact	Balances without IFRS 15
Revenues	5	19,813	(20)	19,793
Other income from non-telecommunication services		215	-	215
Expenses	6	(12,459)	-	(12,459)
Earnings before impairment loss, interest, tax, depreciation and amortization (EBITDA)		**7,569**	**(20)**	**7,549**
Depreciation and amortisation	9, 10	(3,869)	-	(3,869)
Impairment loss	9, 10	(154)	-	(154)
Operating profit (EBIT)		**3,546**	**(20)**	**3,526**
Finance income	7	7	-	7
Finance costs	7	(387)	33	(354)
Profit before tax		**3,166**	**13**	**3,179**
Corporate income tax	8	(619)	(2)	(621)
Profit for the year		**2,547**	**11**	**2,558**

The new relevant accounting procedure and its impact and change from the previous one is described below.

Significant financing component

According to IFRS 15, the accounting entity should account for the financing component – interest if the payment and delivery of the goods/services do not occur at the same time or, more precisely with a difference of up to 1 year. This way the accounting entity reflects the time value of money.

The Company identified one revenue group where the difference between received payment and delivery is greater than 1 year. It is installation fees for the Dark fibre service – granting of the right to use the optical fibre. These installation fees are invoiced on one-off basis upon delivery of the subject of the service. The typical period of provision is 15-20 years. These installation fees are accrued over the term of the contract/actual provision of the service.

The Company will receive the payment ahead of the performance of the service. Starting from 1 January 2018, the Company has been recognizing the financing component (interest expense) on monthly basis. It is an accounting adjustment which increases the straight-line revenues from the service provided while accounting for the interest expense for the financing of the Company by the recipient of the service.

IFRS 9 – Financial Instruments

As of 1 January 2018, the IFRS 9 standard – Financial Instruments replaced the original IAS 39 - Financial Instruments: Recognition and Measurement. The new standard includes requirements for (a) classification and measurement of financial assets and financial liabilities, (b) methodology for impairment of financial assets, and (c) general hedge accounting.

The Company has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018 the Company has not entered into any new hedging relations for which standard IFRS 9 has been applied and all hedging relations follow IAS 39.

Expected impact of new standard IFRS 16 – Leases

The new standard IFRS 16 Leases will be effective for annual periods beginning on or after 1 January 2019 and replaces all existing IFRS leases requirements for both lessees and lessors.

IFRS 16 provides a single balance sheet accounting model for leases. The lessee accounts for the right to use the asset, that represents his right to use the underlying asset, and for his liability under the lease, which expresses the obligation to pay the lease payments. The standard provides for exceptions from this recognition that apply to short-term leases and leases where the asset has a low value. The lessor's accounting remains similar to the current standard - i.e. the lessor continues to classify leases either as financial or as operating.

(i) Leases where the Company is the lessee

The Company will newly recognize assets and liabilities from operating leases of land, non-residential premises, easements, telecommunication technology, collectors, vehicles and office equipment. The nature of related costs has now changed; depreciation of right of use assets and interest expense of lease liabilities will be recognized instead of operating costs as before.

Based on currently available information, the Company estimates that as at 1 January 2019, it will recognize lease liabilities and right of use in the range of CZK 4,500 – 5,000 million.

(ii) Leases where the Company is the lessor

The Company does not expect a material impact from leases where it stands as the lessor.

(iii) Adoption of the standard

The Company plans to initially adopt the standard as of 1 January 2019 using a modified retrospective method. The cumulative effect of transition as of the date of transition to the new standard will be recognized as an adjustment of the opening balance of retained earnings as of 1 January 2019. Comparable data for the previous period will not be adjusted.

The Company will use the exception in the standard for contracts for leases with a low-value underlying asset. These exceptional cases will be accounted for by the Company as before.

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

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 11 to 45
Communication technology and related equipment	From 1 to 35
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 – Impairment of assets).

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) Financial assets and liabilities

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

The initial recognition and subsequent measurement of financial instruments of the Company is based on new standard IFRS 9 Financial instrument – classification and measurement since 1 January 2018. The adoption of IFRS 9 has not had a significant effect on classification and measurement of financial assets and liabilities and the Company's related accounting policies are described below.

(i) Financial assets

According to IFRS 9, all financial assets are classified as measured at amortised cost, at fair value through other comprehensive income („FVOCI") or at fair value through profit and loss („FVTPL").

Except for trade receivables without a significant financing component, a financial asset is initially measured at fair value plus (for an item not at FVTPL category) transaction costs that are directly attributable to its acquisition. Subsequent measurement of individual categories of financial assets relevant to the Company is as follows.

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

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

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

(ii) Impairment of financial assets

In accordance with IFRS 9, entities calculate the loss allowance for financial assets as equal to the 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

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

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

(iii) Financial liabilities

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

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. These financial liabilities are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are recognised initially as the proceeds received, net of transaction costs incurred. In subsequent periods, they 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 related period.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to settle 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. Other interest costs are recognised directly in profit and loss.

(iv) Derecognition of financial instruments

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The write off is recognized when the Company considers that there are no realistic prospects of recovery of the asset or when the Company`s legal right to such asset has ceased to exist. Even if the Company expects no significant recovery from the amount written off, the financial asset still could be subject to enforcement activities in order to comply with the Company's terms and conditions. The losses from write-offs are recognized in the position Impairment loss on financial assets.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The potential difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Legally enforceable right can not be dependent on future events and it has to be executable in ordinary business and also in case of failure, insolvency or bankruptcy of the Company or a counterparty.

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) 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.

l) 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.

m) 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 2018 using a long-term real rate of interest in the range from 2.64% to 3.36% 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 2018 the estimate for the effect of inflation is 2%. The decommissioning process is expected to continue for a period of up to 45 years. The estimate of future decommissioning costs is based on useful live of technology.

n) 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.

Revenue from mobile services includes in particular revenue from provision of a service of coverage of mobile signal for O2. This is a long-term contract. The service is provided on continuous basis and is regularly invoiced in the form of a service fee (Note 22). The revenue is recognized over the time.

Revenue from mass services of the fixed network represents revenue from the provided access to the public fixed communications network (Internet, television lines and fixed phone lines). The service is provided and invoiced on continuous basis. The revenue is calculated as a price for the network line and the number of lines provided.

Revenue from data services represents a fee for the access to end points of the existing telecommunication network. The service is provided on continuous basis and is regularly invoiced. The revenue is calculated as a price for the network line and the number of lines provided.

Other telecommunication revenues include but are not limited to revenues from the granting of the right to use the optical fibre (dark fibre); the revenues are accrued at the time of signing of the contract and recognized as revenue on straight-line basis over the contract term. Revenue from housing represents data centre services; the revenue occurs continuously in accordance with the invoicing.

Revenue from transit represents the service of routing and termination of mostly international voice traffic of international operators utilising the points of presence outside of the Czech Republic. The revenue is calculated by valuation of the incoming and outcoming minutes based on the measurement of the monthly traffic.

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

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

o) 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.

p) Financial instruments - derivatives

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).

The Company has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations. As at 31 December 2018 the Company has not entered into any new hedging relations for which standard IFRS 9 has been applied and all hedging relations follow IAS 39.

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.

q) 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.

r) 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.

s) The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to the financial position as at 31 December 2018 (Statement of Financial Position) are shown as at 31 December 2017. 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 2017.

4. 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 a provider of interconnection 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 not capital intensive.

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 2018 In CZK million	Domestic services	International transit	Total reportable segments	Reconciling items	Company
Revenues	11,634	8,179	19,813	-	19,813
Other income from non-telecommunication services	-	-	-	215	215
Total costs	(4,303)	(7,941)	(12,244)	(215)	(12,459)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,331**	**238**	**7,569**	**-**	**7,569**
Total depreciation and amortization	(3,835)	(34)	(3,869)	-	(3,869)
Impairment charge	(154)	-	(154)	-	(154)
Operating income (*EBIT*)	**3,342**	**204**	**3,546**	**-**	**3,546**
Net financial loss					(380)
Profit before tax					3,166
Corporate income tax					(619)
Profit for the year					**2,547**
As at 31 December 2017					
Total assets	**54,473**	**1,336**	**55,809**	**-**	**55,809**
Trade and other payables	4,599	1,224	5,823	-	5,823
Other liabilities	29,155	-	29,155	-	29,155
Total liabilities	**33,754**	**1,224**	**34,978**	**-**	**34,978**
Capital expenditure (Fixed assets additions)	**4,076**	**12**	**4,088**	**-**	**4,088**

Year ended 31 December 2017 **In CZK million**	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Company**
Revenues	11,625	9,343	20,968	-	20,968
Other income from non-telecommunication services	-	-	-	207	207
Total costs	(4,119)	(9,007)	(13,126)	(207)	(13,333)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**7,506**	**336**	**7,842**	**-**	**7,842**
Total depreciation and amortization	(4,156)	(47)	(4,203)	-	(4,203)
Impairment charge	(56)	-	(56)	-	(56)
Operating income (*EBIT*)	**3,294**	**289**	**3,583**	**-**	**3,583**
Net financial loss					(167)
Profit before tax					3,416
Corporate income tax					(693)
Profit for the year					**2,723**
As at 31 December 2017					
Total assets	**53,659**	**1,096**	**54,755**	**-**	**54,755**
Trade and other payables	4,292	747	5,039	-	5,039
Other liabilities	28,883	-	28,883	-	28,883
Total liabilities	**33,175**	**747**	**33,922**	**-**	**33,922**
Capital expenditure (Fixed assets additions)	**4,033**	**22**	**4,055**	**0**	**4,055**

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 represent mainly rentals and sale of the fixed assets, which are 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 2018 these revenues are CZK 9,976 million (31 December 2017: CZK 10,244 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 2018**	**Year ended** **31 December 2017**
Czech Republic	12,159	12,177
Germany	1,011	2,443
Slovakia	740	959
Other EU countries	3,988	2,525
Switzerland	1,182	1,681
Other Non-EU countries	733	1,183
Total revenues	**19,813**	**20,968**

5. REVENUES

The impact of the first adoption of the new standard, IFRS 15 is described in Note 3 – Significant accounting policies. Due to the chosen method of transition to IFRS 15, the Company did not restate the comparative financial information for the prior period.

(i) Categorization of revenue from contracts with customers

The following table shows the classification of the revenues from contracts with customers according to the main operating segments and products provided. The degree of categorization of the revenues from contracts with customers reflects the specific sector of the Company as well as the method the Company uses for reporting and monitoring revenues for internal purposes. The table also shows the total lines allowing for reconciliation of revenue to the data reported in the segment analysis according to IFRS 8 (Note 4).

Revenues **In CZK million**	**Year ended** **31 December 2018**	**Year ended** **31 December 2017**
National services		
Revenues from mobile network services	4,690	4,606
Revenues from fixed network mass service	4,472	4,591
Revenues from data services	1,359	1,390
Other telecommunication revenues	1,113	1,038
	11,634	**11,625**
International transit		
Revenues from transit services	8,179	9,343
Total revenues	**19,813**	**20,968**

Revenues from related parties are disclosed in Note 22.

The following table shows the classification of the revenues from contracts with customers according to the primary geaographical market.

Revenues In CZK million				**Year ended 31 December 2018**
Domestic service	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from mobile network services	4,690	-	-	4,690
Revenues from fixed network mass service	4,472	-	-	4,472
Revenues from data services	1,288	70	1	1,359
Other telecommunication revenues	1,095	18	-	1,113
	11,545	**88**	**1**	**11,634**

International transit	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from transit services	614	5,652	1,913	8,179
Total	**12,159**	**5,740**	**1,914**	**19,813**

Revenues In CZK million				**Year ended 31 December 2017**
Domestic service	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from mobile network services	4,606	-	-	4,606
Revenues from fixed network mass service	4,591	-	-	4,591
Revenues from data services	1,327	62	1	1,390
Other telecommunication revenues	1,016	22	-	1,038
	11,540	**84**	**1**	**11,625**

International transit	**Czech Republic**	**EU**	**Non EU**	**Total**
Revenues from transit services	637	5,843	2,863	9,343
Total	**12,177**	**5,927**	**2,864**	**20,968**

The Company does not recognises revenues from servicese at a point in time, all revenues are recognised over time.

(ii) Receivables from contracts with customers, contract assests and contract liabilities

Receivables from contracts with customers are described in Note 12. They are trade receivables.

A contract asset is the right of the Company to a consideration in exchange for goods or services which the Company has already transferred to customers and which are not the receivable yet. As the Company provides its supplies in the course of time, there are no contingencies for invoicing, the Company issues invoices regularly on monthly basis, it does not have any significant contractual assets recorded.

A contract liability is an obligation of the Company to deliver goods or provide services for which the Company has already received consideration from the customers. Contract liabilities are in particular the dark fibre services – granting of the right to use the optical fibre paid for by the customers. These are services which are typically provided for 15 – 20 years. A portion of the fees is invoiced and collected at the beginning of the provision of this service, but the service will be provided in the years to come. It includes activation fees for these services which do not constitute a stand-alone performance obligation and are therefore distributed throughout the term of the contract with the customers, i.e., the actual provision of the service. These expected revenues will be recognised during the upcoming years.

The amount of CZK 172 million, which was recognized as at 1 January 2018 as contract liabilities, was recognized as revenues in 2018.

Contract balances:

In CZK million

	Note	**31 December 2018**	**1 January 2018**
Trade receivables	12	3,207	2,937
Contract liabilities (included in the position Accrued revenues, Note 14)		1,765	1,370

In 2018, the Company did not recognize any revenue from contract liabilities which were met (or partially met) in prior periods.

(iii) The expected revenues from concluded contracts with customers

The following tables include revenues which are expected by the Company to be recognized in the future. These are revenues related to performance obligatons that are unsatisfied (or partially unsatisfied) as at 31 December 2018.

In CZK million

	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues from mobile network services	4,643	4,682	4,682	4,452	4,035	3,603	3,166	2,836
Revenues from fixed network mass service	2,736	2,699	2,639	1,484	43	17	6	-
Revenues from data services	860	445	122	44	24	18	18	18
Other telecommunication revenues	308	304	299	181	118	118	118	115
Total	**8,547**	**8,130**	**7,742**	**6,161**	**4,220**	**3,756**	**3,308**	**2,969**

In CZK million	2027	2028	2029	2030	2031	2032	2033	2034-2035
Revenues from mobile network services	2,549	2,350	2,194	2,059	1,939	1,826	1,490	52
Revenues from fixed network mass service	-	-	-	-	-	-	-	-
Revenues from data services	18	18	18	18	16	11	6	-
Other telecommunication revenues	94	90	80	61	57	12	6	3
Total	**2,661**	**2,458**	**2,292**	**2,138**	**2,012**	**1,850**	**1,502**	**55**

The Company applies the practical expedient of the standard and does not disclose in the table above information about contracted revenues with originally expected term of contract one year or less and contracted revenues for which are expected revenues recognized to the amount corresponding to the right to invoice.

The contracts for data services are concluded individually based on the customer`s needs. The contracts are split into categories based on the contract duration. Following the frequency of concluded contracts in each category, we have allocated the expected revenues from data services. Mostly preferred contract`s duration by the customer is 2 years.

(iv) Financing component

The Company has identified one revenue group where the time difference between the consideration received (incoming payment) and provision of the service is more than one year. These are the dark fibre services – granting of the right to use the optical fibre (dark fibre). The Company recognizes increase in revenues and interest expense. For more information see Note 3 – Significant Accounting Policies.

Financing component In CZK million	Year ended 31 December 2018
The amount which increases the revenues	20
Interest expense	(33)

6. EXPENSES

Expenses In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Supplies	(8,226)	(9,312)
Staff costs	(1,150)	(1,008)
External services	(2,958)	(2,900)
Provisions for bad debts and inventories	(38)	(26)
Other expenses	(87)	(87)
Total expenses	**(12,459)**	**(13,333)**

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 2018 amounted to CZK 4 million (31 December 2017: CZK 3 million).

Purchases from related parties are disclosed in Note 22.

7. FINANCE INCOME AND COSTS

In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Finance income		
Interest income	7	1
Foreign exchange gain (net)	-	132
Other finance income	-	13
Total finance income	**7**	**146**
Finance costs		
Interest expenses	(319)	(302)
Foreign exchange loss (net)	(67)	-
Other finance costs	(1)	(11)
Total finance costs	**(387)**	**(313)**

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

Interest expenses include the net interest income from hedging derivatives of CZK 31 million (31 December 2017: CZK 33 million).

8. INCOME TAX

In CZK million	Year ended 31 December 2018	Year ended 31 December 2017
Total income tax expense is made up of:		
Current income tax charge	556	646
Deferred income tax credit (Note 16)	63	47
Total income tax	**619**	**693**

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 2018	Year ended 31 December 2017
Profit before tax	3,166	3,416
Income tax charge calculated at the statutory rate of 19%	(602)	(649)
Non-taxable income	60	197
Tax non-deductible expenses	(131)	(257)
Income tax related to prior years	20	2
Other differences	34	14
Income tax expense	**(619)**	**(693)**
Effective tax rate	19.55%	20.29%

As at 31 December 2018, the total amount of provisions for current income taxes is CZK 576 million (31 December 2017: CZK 643 million), advances paid for income taxes is CZK 513 million (31 December 2017: CZK 716 million), the net deferred tax liability is CZK 6,202 million (31 December 2017: CZK 6,097 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 2018						
Opening net book amount	5,419	35,388	6,176	236	1,578	**48,797**
Additions	165	793	1,532	89	900	**3,479**
Disposals	(25)	(1)	(5)	(1)	(4)	**(36)**
Transfers	155	138	509	8	(810)	**-**
Reclassifications	-	-	(2)	4	22	**24**
Depreciation	(389)	(1,777)	(1,251)	(60)	-	**(3,477)**
Impairment	(85)	(52)	-	-	(17)	**(154)**
Reclassification to Assets held for sale	(4)	(1)	(3)	-	-	**(8)**
Closing net book amount	5,236	34,488	6,956	276	1,669	**48,625**
As at 31 December 2018						
Cost	6,933	42,529	12,676	497	1,700	**64,335**
Accumulated depreciation	(1,697)	(8,041)	(5,720)	(221)	(31)	**(15,710)**
Net book amount	5,236	34,488	6,956	276	1,669	**48,625**

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 2017						
Opening net book amount	5,814	36,407	5,280	180	1,405	**49,086**
Additions	112	934	1,850	88	627	**3,611**
Disposals	(20)	(1)	(7)	-	-	**(28)**
Transfers	34	160	211	28	(433)	**-**
Reclassifications	10	1	18	(8)	(13)	**8**
Depreciation	(514)	(2,113)	(1,176)	(52)	-	**(3,855)**
Impairment	(9)	-	-	-	(8)	**(17)**
Reclassification to Assets held for sale	(8)	-	-	-	-	**(8)**
Closing net book amount	5,419	35,388	6,176	236	1,578	**48,797**
As at 31 December 2017						
Cost	6,827	41,605	10,988	408	1,604	**61,432**
Accumulated depreciation	(1,408)	(6,217)	(4,812)	(172)	(26)	**(12,635)**
Net book amount	5,419	35,388	6,176	236	1,578	**48,797**

As at 31 December 2018, the carrying value of non-depreciated assets amounted to CZK 169 million (31 December 2017: CZK 163 million).

As at 31 December 2018, the increase in fixed assets held for sale amounted of CZK 8 million (31 December 2017: CZK 8 million). As at 31 December 2018 and 31 December 2017 all of assets held for sale belong to the segment of Domestic services.

In connection with the asset held for sale classification of above mentioned assets, the Company identified an impairment loss of CZK 85 million in accordance to IFRS 5 (31 December 2017: CZK 17 million). The fair value less cost to sell is calculated from preliminary proposals or experts' opinions.

No property, plant and equipment were pledged as at 31 December 2018 and 31 December 2017.

For the year ended 31 December 2018, the Company achieved a total gain from the sale of the fixed assets of CZK 53 million (31 December 2017: CZK 65 million) and total losses of CZK 5 million (31 December 2017: CZK 5 million).

The Company has concluded contracts with T-Mobile Czech Republic a.s. related to the sharing of mobile networks. Companies provide each other services related to the sharing of active and passive 2G and 3G network elements and the sharing of LTE technologies for mobile networks based on geographical distribution of the Czech Republic territory. Contracts are based on the principle of balance. Revenue and costs relating to network sharing are reported in net value because the services provided within the project are of the same nature and value.

10. INTANGIBLE ASSETS

In CZK million	Software	Valuable rights	Construction in progress	Total
As at 31 December 2018				
Opening net book amount	1,129	101	166	**1,396**
Additions	370	67	172	**609**
Disposals	-	-	-	**-**
Transfers	42	20	(62)	**-**
Reclassifications	6	(5)	2	**3**
Amortisation charge	(368)	(24)	-	**(392)**
Impairment	-	-	-	**-**
Closing net book amount	1,179	159	278	**1,616**
As at 31 December 2018				
Cost	2,413	221	278	**2,912**
Accumulated amortisation	(1,234)	(62)	-	**(1,296)**
Net book amount	1,179	159	278	**1,616**

In CZK million	Software	Valuable rights	Construction in progress	Total
As at 31 December 2017				
Opening net book amount	1,009	78	254	**1,341**
Additions	377	24	43	**444**
Disposals	-	-	-	**-**
Transfers	97	20	(117)	**-**
Reclassifications	-	-	(1)	**(1)**
Amortisation charge	(328)	(21)	-	**(349)**
Impairment	(26)	-	(13)	**(39)**
Closing net book amount	1,129	101	166	**1,396**
As at 31 December 2017				
Cost	1,998	142	166	**2,306**
Accumulated amortisation	(869)	(41)	-	**(910)**
Net book amount	1,129	101	166	**1,396**

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. Other intangible assets are tested annually for impairment. In 2017, an impairment of CZK 39 million was identified. It represented an investment in the planned implementation of a new accounting software. After further reassessment of the project, the Company chose other supplier and fully impaired all related capital expenditures. In 2018, no impairment of intagible asset was identified.

11. INVENTORIES

In CZK million	31 December 2018	31 December 2017
Telecommunication material	45	34
Other	11	18
Total	**56**	**52**

The inventories stated above are net of an allowance cumulative write down for obsolete inventory of CZK 6 million (31 December 2017: CZK 7 million). The amount of inventories recognised as an expense is CZK 130 million (31 December 2017: CZK 128 million).

In 2018 and 2017, the Company had no inventories pledged as a security for liabilities.

12. RECEIVABLES AND OTHER ASSETS

In CZK million	31 December 2018	31 December 2017
Trade receivables from third parties (net)	2,187	1,855
Receivables with related parties (Note 22)	1,020	1,082
Prepayments	279	96
Tax receivables for indirect taxes	128	155
Derivative financial assets	11	-
Advance payments	79	76
Cash collateral placed due to derivatives transactions (Note 15)	144	306
Other debtors (net)	10	9
Total receivables and other asstes	**3,858**	**3,579**

Trade receivables and other debtors are stated net of bad debt provision of CZK 76 million (31 December 2017: CZK 53 million).

Prepayments comprise primarily prepaid expenses related to purchases of capacity upgrade from T-Mobile for O2 under the network sharing project of CZK 170 million (31 December 2017: CZK 0 million), prepaid lease-related service costs of CZK 33 million (31 December 2017: CZK 42 million) and prepaid expenses from International transit of CZK 7 million (31 December 2017: CZK 10 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 2018	2,705	452	79	-	-
As at 31 December 2017	2,647	244	7	-	-

Bad debt provisions **In CZK million**	
As at 1 January 2017	29
Additions	45
Release	(21)
As at 31 December 2017	53
Additions	41
Release	(18)
As at 31 December 2018	**76**

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 2018, the Company presented non-current other assets of CZK 467 million (31 December 2017: CZK 363 million) consisting of prepayments, advance payments for long-term expenses, revaluation of derivative financial asset 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 2018 the short term part of the collateral placed represents CZK 0 million (31 December 2017: CZK 0 million) and long term part CZK 144 million (31 December 2017: CZK 306 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 2018**	**31 December 2017**
Gross amounts of trade receivables	2,282	2,405
Amounts that are set off	(333)	(564)
Net amounts of trade receivables	1,949	1, 841

13. CASH AND CASH EQUIVALENTS

In CZK million	**31 December 2018**	**31 December 2017**
Cash at bank accounts and other cash equivalents	1,254	39
Cash at bank accounts and other cash equivalents (inter-company)	302	729
Total cash and cash equivalents	**1,556**	**768**

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 40 million (31 December 2017:

CZK 38 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.

The Company acquired treasury bills which are presented as cash equivalents amounting to CZK 1,214 million (31 December 2017: CZK 0 million). The Company sold these treasury bills on 2 January 2019.

As at 31 December 2018, the Company had available undrawn uncommitted overdraft facility up to CZK 500 million and undrawn uncommitted revolving facility up to CZK 175 million. As at 31 December 2017, the Company had available undrawn committed overdraft facility up to CZK 500 million and undrawn uncommitted revolving facility up to CZK 175 million.

As at 31 December 2018 and 31 December 2017, no cash and cash equivalents were pledged.

14. TRADE AND OTHER PAYABLES

In CZK million	**31 December 2018**	**31 December 2017**
Trade creditors	5,226	4,626
VAT, other taxes and social security liability	103	85
Other deferred revenue	274	137
Employee wages and benefits	211	182
Other creditors	9	9
Trade and other payables - current	5,823	5,039
Other non-current liabilities	1,561	1,555

Payables to related parties are disclosed in Note 22.

As at 31 December 2018 and 31 December 2017, 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 2018**	**31 December 2017**
Gross amounts of trade creditors	695	1,117
Amounts that are set off	(333)	(564)
Net amounts of trade creditors	362	553

15. FINANCIAL ASSETS AND LIABILITIES

Financial liabilities:

In CZK million	31 December 2018	31 December 2017
Received loan in local currency	4,817	4,816
Received loan in foreign currency	16,029	15,906
Accrued Interest	22	22
Total financial liabilities	**20,868**	**20,744**
Repayable:		
Within one year	22	22
Between one and five years	20,846	15,906
More than five years	-	4,816
Total financial liabilities	**20,868**	**20,744**

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) with nominal interest rate of 0.2759%, 5 years (EUR 624 million) with nominal interest rate of 1.4881% and 7 years (CZK 4,822 million) with nominal interest rate of 1.451%. The interest rate is fixed over the loan maturity. During 2017 the first facility totalling CZK 2,998 million was repaid.

All conditions resulting from intercompany loan agreement were met as at 31 December 2018.

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 (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 Company's exposure to currency risk as quantitative data.

In million	**31 December 2018**		**31 December 2017**	
	EUR	**USD**	**EUR**	**USD**
Closing balance of the currency	**11**	**-**	**-**	**-**
Trade receivables	36	3	25	4
Received loans	(624)	-	(625)	-
Trade payables	(51)	(5)	(29)	(5)
Net statement of financial position exposure	**(639)**	**(2)**	**(629)**	**(1)**
Next 12 months forecast sales	45	3	85	2
Next 12 months forecast purchases	(74)	(10)	(120)	(7)
Net forecast transaction exposure	**(29)**	**(7)**	**(35)**	**(5)**
Financial derivatives	535	-	535	-
Net exposure	**(122)**	**(9)**	**(129)**	**(6)**

CZK	**Average rate for the year ended**		**Year-end spot rate**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
EUR 1	25.643	26.330	25.725	25.540
USD 1	21.735	23.382	22.466	21.291

The Company also has an exposure to GBP and CHF, but due to its insignificance it is not included in the net position neither used within GAP analysis for the stress position.

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 2018	31 December 2017
Hedging		
Cross currency SWAP (Note 22)	14,429	14,429

In CZK million	Fair value	
	31 December 2018	31 December 2017
Hedging		
Cross currency SWAP (Note 22)	11	(308)

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

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

31 December 2018 In CZK million	Within 1 year	1 – 5 years	More than 5 years	Total
Cross currency swap	-	14,429	-	14,429

31 December 2017 In CZK million	Within 1 year	1 – 5 years	More than 5 years	Total
Cross currency swap	-	14,429	-	14,429

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 2018	Year ended 31 December 2017
FX risk		
12 forthcoming months „GAP" analysis*	(168)	(171)

* 12 forthcoming months „GAP" analysis represent FX risk modeling 5% negative development of EUR/CZK and USD/CZK FX rate.

(ii) Interest rate risk

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 2018 the Company 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 2018	**Year ended 31 December 2017**
FX risk		
Stress testing*	(14)	(14)

* 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 2018 based on contractual undiscounted payments. Values include projections of future interests.

As at 31 December 2018 In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Received loans	-	309	21,634	-
Trade and other payables (excluding Deferred revenue)	3,838	1,682	15	15
Total	3,838	1,991	21,649	15
Non-current other liabilities (excluding Deferred revenue)	-	-	49	17

As at 31 December 2017 In CZK million	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years
Received loans	-	306	16,931	4,892
Trade and other payables (excluding Deferred revenue)	2,963	1,940	-	-
Total	**2,963**	**2,246**	**16,931**	**4,892**
Non-current other liabilities (excluding Deferred revenue)	-	-	9	-

In 2018 and 2017, 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.

Offset of financial assets and financial liabilities

	Relevant amount offset/not offset in the statement of financial position as at 31 December 2018					
In million CZK	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/ provided cash collateral	**Total**
Assets						
Positive values of financial derivatives	11	-	11	-	144	**155**
Trade receivables	2,282	(333)	1,949	-	-	**1,949**
Total assets	**2,293**	**(333)**	**1,960**	-	**144**	**2,104**
Liabilities						
Negative values of financial derivatives	-	-	-	-	-	-
Trade payables	695	(333)	362	-	-	**362**
Total liabilities	**695**	**(333)**	**362**	-	-	**362**

In million CZK	Relevant amount offset/not offset in the statement of financial position as at 31 December 2017					
	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/ provided cash collateral	**Total**
Assets						
Positive values of financial derivatives	-	-	-	-	-	-
Trade receivables	2,405	(564)	1,841	-	-	**1,841**
Total assets	**2,405**	**(564)**	**1,841**	**-**	**-**	**1,841**
Liabilities						
Negative values of financial derivatives	308	-	308	-	306	**2**
Trade payables	1,117	(564)	553	-	-	**553**
Total liabilities	**1,425**	**(564)**	**861**	**-**	**306**	**555**

(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 (unrestated) 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 2018 and 31 December 2017, the Company held only foreign currency swap classified as Level 2 financial instruments measured at fair value.

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

The 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 2018**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	1,556	1,556	1,556	-
Receivables and other financial assets (excluding derivatives)	-	-	3,847	3,847	3,847	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	21,037	-	21,037	20,868	169
Trade and other payables	-	-	5,823	5,823	5,823	-

In CZK million	**31 December 2017**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	768	768	768	-
Receivables and other financial assets (excluding derivatives)	-	-	3,579	3,579	3,579	-
Financial liabilities						
Interest bearing loans and borrowings (inc. accruals)	-	21,220	-	21,220	20,744	476
Trade and other payables	-	-	5,039	5,039	5,039	-

The fair value of borrowings as at 31 December 2018 and 31 December 2017 has been determined by market value of bonds which are traded on the public market.

Financial instruments in fair value

In CZK million	**Fair value 31 December 2018**			**Fair value 31 December 2017**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Positive fair values of financial derivative instruments	-	11	-	-	-	-
Negative fair values of financial derivative instruments	-	-	-	-	308	-

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 2018 and 31 December 2017.

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 2018 and 31 December 2017.

In CZK million	**31 December 2018**	**31 December 2017**
Opening balance	6,097	5,954
Profit or loss tax charge	63	48
Valuation gain/(losses) – cash flow hedge	42	95
Closing balance	**6,202**	**6,097**

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

In CZK million	**31 December 2018**	**31 December 2017**
Deferred tax liabilities	6,202	6,097
Total	**6,202**	**6,097**

The deferred tax liability includes CZK 85 million (31 December 2017: CZK 143 million) to be realized in less than twelve months and CZK 6,117 million (31 December 2017: CZK 5,954 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 2018	**31 December 2017**
Temporary differences relating to:		
Property, plant and equipment	6,073	6,026
Intangible assets	133	111
Trade receivables, inventories, provisions and other differences	(137)	(131)
Valuation gain/(losses) – cash flow hedge	133	91
Total	**6,202**	**6,097**

In CZK million	Statement of total comprehensive income	
	Year ended 31 December 2018	Year ended 31 December 2017
Temporary differences relating to:		
Property, plant and equipment	47	67
Intangible assets	22	5
Trade receivables, inventories, provisions and other differences	(6)	(24)
Total	**63**	**48**

17. PROVISIONS

In CZK million	Asset retirement obligation	Other provisions	Total
As at 1 January 2017	226	157	383
Additions during the year	-	7	7
Utilised during the year	(22)	(17)	(39)
Change of estimate	163	(27)	136
As at 31 December 2017	**367**	**120**	**487**
Additions during the year	-	6	6
Utilised during the year	(41)	(25)	(66)
Change of estimate	34	-	34
As at 31 December 2018	**360**	**101**	**461**

In CZK million	Asset retirement obligation	Other provisions	Total
As at 31 December 2018			
Short-term provisions	27	58	85
Long-term provisions	333	43	376
	360	**101**	**461**
As at 31 December 2017			
Short-term provisions	40	52	92
Long-term provisions	327	68	395
	367	**120**	**487**

The Company recognized provision for estimated cost of dismantling and removing assets and restoring sites of CZK 360 million (31 December 2017: CZK 367 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. In accordance with the plan of the liquidation of the sites within the network sharing project, the utilization of provision was of CZK 34 million (31 December 2017: CZK 0 million) and due to change of liquidation timing estimate and an update of discount rate the provision for non-shared mobile site increased by CZK 39 million. In 2018, the Company further refined the estimated costs of dismantling, removing tangible assets and restoring them in rented premises as part of a planned project to reduce the area of leased technical buildings which decreased the provision by CZK 5 million and utilization of provision was CZK 7 million (31 December 2017: CZK 0 million).

The Company recognized provision for costs connected with removal of CZK 68 million (31 December 2017: CZK 93 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. Based on the refinement of estimate of these costs in the context of the finalization of related contracts, the provision decreased by CZK 0 million (31 December 2017: CZK 27 million). Other provisions include above all the provision for redundancy cost of CZK 27 million (31 December 2017: CZK 20 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 competition 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 (Company is a lessee) and aggregate future minimum lease payments under non-cancellable operating leases (Company is a lessor):

As at 31 December 2018

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	780	1,751	2,334
Operating leases - lessor	121	80	-

As at 31 December 2017

In CZK million	Less than 1 year	1 to 5 years	Over 5 years
Operating leases - lessee	771	1,577	2,245
Operating leases - lessor	116	59	-

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 2018 were CZK 796 million (31 December 2017: CZK 762 million).

Capital expenditure contracted but not yet recognized in the financial statements as at 31 December 2018 amounted to CZK 635 million (31 December 2017: CZK 805 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

On 25 May 2018 the Company signed a new lease contract for the lease of new head office` premises. The contracted term is 12 years. The Company has limited rights to terminate the contract, therefore an off-balance sheet liability of CZK 477 million is presented.

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):

1. Public fixed communications network,
2. Public network for radio and TV signal broadcasting transmission,
3. Public access for electronic communications services
    a) Other voice services
    b) Leased lines
    c) Radio and TV signal broadcasting
    d) Data transmission
    e) Internet access services
    f) Publicly available telephone service
4. Non-public access for electronic communications services
    a) Other voice services
    b) Leased line
    c) Radio and TV signal broadcasting
    d) Data transmission
    e) Internet access services

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 in individual public telephone networks provided at a fixed location
- provision of co-location services

There is also further set maximal price gap between related services - e.g. xDSL.

21. EQUITY

	31 December 2018	31 December 2017
Nominal value per ordinary registered share (CZK)	10	10
Number of shares	310,220,067	310,220,067
Ordinary share capital (in CZK million)	3,102	3,102

Shareholders of the Company were as follows:

	31 December 2018	31 December 2017
PPF Infrastructure B.V.	89.7%	89.7%
PPF A3 B.V.	10.3%	10.3%

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, installing fibre access (FTTH) or further deployment of LTE network for mobile broadband. At the end of 2018 the Company started to implement WTTx technology (using 3,7 GHz frequency) that enables Company wholesale customers to introduce new services thus generating new revenues. The WTTx complements the technology mix in the Company network. The most common use of the WTTx will be to secure high-speed internet access enabling upload and download of large amounts of data especially in locations that are not covered by fixed broadband using FTTx. The WTTx build out will be ongoing in 2019. 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.

The General Meeting, held on 8 March 2018, approved the statutory financial statements for year ended 31 December 2017. The General Meeting, held on 7 June 2018, approved the distribution of dividends of CZK 2,720 million from profit for the year ended 31 December 2017. The payment was proceeded in two installments, CZK 2,000 million on 12 June 2018 and CZK 720 million on 31 August 2018.

Gains and Losses from revaluation arising from Cash Flow Hedges

In CZK million	**2018**	**2017**
The fair value of the effective part of cash flow hedges at 1 January	480	(24)
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	(91)	4
Total balance at 1 January	**389**	**(20)**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period		
Cross currency swap	220	504
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	(42)	(95)
The fair value of the effective part of cash flow hedges at 31 December	700	480
Deferred tax asset/(liability) arising from revaluation gains and losses at 31 December	(133)	(91)
Total balance at 31 December	**567**	**389**

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

	Assets/Liabilities as at	
In CZK million	**31 December 2018**	**31 December 2017**
Receivables from provided services		
Other companies in PPF Group	1,020	1,082
of which: O2 Czech Republic a.s.	993	1,061
Payables from purchased services		
Subsidiaries	9	2
Other companies in PPF Group	224	152
of which: O2 Czech Republic a.s.	185	138
Positive fair value of derivatives		
Other companies in PPF Group (Note 15)	11	-
Negative fair value of derivatives		
Other companies in PPF Group (Note 15)	-	308
Nominal value of derivatives		
Other companies in PPF Group (Note 15)	14,429	14,429
Cash equivalents		
Other companies in PPF Group	302	729

In CZK million	Volume of mutual transactions Year ended 31 December 2018	Year ended 31 December 2017
Sale of services		
Other companies in PPF Group	10,201	10,401
of which: O2 Czech Republic a.s.	10,034	10,244
Purchase of services		
Subsidiaries	10	22
Other companies in PPF Group	472	462
of which: O2 Czech Republic a.s.	239	242
Loans received including interest		
Subsidiaries	308	322
Net gain/loss on fair value of derivatives		
Other companies in PPF Group	-	(5)

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 less 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 2018, capital expenditures from related parties amounted to CZK 3 million (31 December 2017: CZK 34 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 wholesale agreements are the following:

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 MMO)

The subject of the MMO agreement is access to the public fixed communications network of CETIN, provision of the wholesale service of interconnection at the end point, and the wholesale service of access to publicly available services of electronic communications and related additional services. The agreement 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 2018	Year ended 31 December 2017
Remuneration in CZK million		
Board of directors	26	20
Supervisory board	-	-
Key management	28	35
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	8	9

No loans were provided to members of the Board of Directors and Supervisory Board in 2018 and 2017.

23. SUBSIDIARIES

As at 31 December 2018

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%	56	Netherlands	Financial services
4. CETIN služby s.r.o.	100%	*0	Czech Republic	Other services

*200 ths CZK

As at 31 December 2017

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%	56	Netherlands	Financial services
4. CETIN služby s.r.o.	100%	*0	Czech Republic	Other services

*200 ths CZK

In May 2017 the Company incorporated a subsidiary CETIN služby s.r.o. The main business of the subsidiary is other services.

On 11 December 2018 the Board of Director's decided to liqudate the subsidiaries CZECH TELECOM Germany GmbH a CZECH TELECOM Austria GmbH by 31 December 2018. The proces of liquidation will be going on in 2019 resp. 2020 in accordance with legal regulations in the individual countries.

24. MATERIAL SUBSEQUENT EVENTS

On 2 January 2019 the Company sold the treasury bills of CZK 1,214 million (Note 13).

Changes of members of the board of directors and supervisory board after 31 December 2018:

Ing. Juraj Šedivý	Member of the Board of Directors from 1 January 2019, Chief Executive Officer and Chairman of the Board of Directors from 8 January 2019
Ing. Filip Cába	Member of the Board of Directors from 1 January 2019, Vice-Chairman of the Board of Directors from 8 January 2019
Ing. Martin Vlček	Member of the Supervisory Board from 1 January 2019
Ing. Petr Slováček	Member of the Supervisory Board from 1 January 2019
Mgr. Lubomír Král	Vice-Chairman of the Supervisory Board till 20 January 2019
Lubomír Vinduška	Member of the Supervisory Board from 23 January 2019

No other subsequent events have occurred after the balance sheet date with material impact to the financial statements for the year ended 31 December 2018.