# CETIN Finance B.V.

*Annual report for the year ended 31 December 2018*

# Contents

**Directors' report**

## Introduction

We, the Board of Directors (the "Management Board") of CETIN Finance B.V. (the "Company"), are pleased to present to you this director's report as part of the Company's Annual report for the financial year ended 31 December 2018.

## History and purpose

The Company was incorporated on 7 September 2016 as a financing vehicle for the issuance of Eurobonds to provide financing to its parent Česká telekomunikační infrastruktura a.s. The Company does not have any other activities. The Company has a one-tier Board of Directors. The Board consists of two Managing Directors.

The ultimate parent company is PPF Group N.V.

The Company issued Eurobonds on 6 December 2016 in three tranches, with total value corresponding to EUR 916 million and maturity ranging from 1 to 7 years. Eurobonds are admitted to trading on the Main Securities Market of the Irish Stock Exchange. On the 7 December 2016 the Company provided the funds raised in a form of an intra-group loan to Česká telekomunikační infrastruktura a.s. ("CETIN").

## Developments during the financial year

There were no significant developments in the Company's operations in 2018. The Company continued servicing its debt through interest payments that have been paid to all bond holders, using funds from the interest received on the loan receivable from CETIN.

## Financial position

The total assets amount to CZK 20,968,729 thousand as at 31 December 2018 (31 December 2017: CZK 20,853,744 thousand). The Company has a positive working capital in the amount of CZK 88,808 thousand (31 December 2017: CZK 71,192 thousand) and a positive cash flow from operations totalling CZK 16,502 thousand (2017: CZK 18,876 thousand).

## Financial instruments and risk management

The Management Board is aware that the Company is exposed to certain risks and threats when conducting business primarily connected to its financial instruments. The directors of the Company believe that the current systems in place provide suitable tools for mitigating and controlling risks. For additional details on risks exposure and risk management of the Company, refer to note 14 in the financial statements.

## Environmental and employment influence

The operations of the Company described above did not, to the best knowledge of the Management Board, have a significant impact on the environment. The Company did not employ any staff during 2018.

## Research and development

The Company did not engage in any research and development activities during 2018.

## Composition of the Board of Directors

The size and composition of the Board of Directors and the combined experience and expertise of their members should reflect the best fit for the profile and strategy of the Company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in the Company currently having a Board of Directors in which all members are male. In order to increase gender diversity on the Board of Directors, in accordance with article 2:391 paragraph 7 of the Dutch Civil Code, the Company pays close attention to gender diversity in the process of recruiting and appointing new members of the Board of Directors. The Company will retain an active and open attitude as regards selecting female candidates.

## Audit Committee

An audit committee has been established at a higher level within the PPF Group (specifically at PPF Group N.V.) in compliance with all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC, as a result of which the Company as a public interest entity in the meaning of Article 2 (13) (a) of Directive 2006/43/EC and as PPF Group N.V.'s subsidiary is entirely exempt from obligations in respect of an audit committee. Due to the application of the aforementioned exemption, the audit committee of PPF Group N.V. follows all obligatory responsibilities in relation to the Company as the public interest entity.

## Outlook 2019

The Company expects that it will continue to operate in a similar way as in 2018. The Management Board is not aware of any specific influences or developments that will negatively impact the operating structure, business activities or net result of the Company in 2019 in a direct manner.

The Company does not have the intent to make significant investments or divestments in 2019 or to change its primary business activities.

The Management Board assumes that the economic developments in general in Europe will not impact the performance of the Company directly. The Management Board anticipates that the Company's operating result for 2019 will remain at a level comparable with the preceding year.

Amsterdam, 30 April 2019

On behalf of the Board of Directors of CETIN Finance B.V.

J.C. Jansen

## Statement of financial position

| TCZK | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Loan receivables | 4 | 20,858,812 | 20,760,324 |
| **Total non-current assets** | | **20,858,812** | **20,760,324** |
| **Current assets** | | | |
| Loan receivables | 4 | 22,001 | 21,879 |
| Other receivables | 6 | 78 | 205 |
| Cash at banks | 5 | 87,838 | 71,336 |
| **Total current assets** | | **109,917** | **93,420** |
| **Total assets** | | **20,968,729** | **20,853,744** |
| **Capital and reserves** | | | |
| Issued capital | 7 | 3 | 3 |
| Share premium | | 55,418 | 55,418 |
| Retained earnings | | (6,655) | 3,872 |
| **Total equity** | | **48,766** | **59,293** |
| **Non-current liabilities** | | | |
| Debt securities | 8 | 20,898,854 | 20,772,223 |
| **Total non-current liabilities** | | **20,898,854** | **20,772,223** |
| **Current liabilities** | | | |
| Debt securities | 8 | 20,630 | 20,513 |
| Other liabilities | 9 | 1 | 1 |
| Income tax liability | 11 | 478 | 1,714 |
| **Total current liabilities** | | **21,109** | **22,228** |
| **Total liabilities** | | **20,919,963** | **20,794,451** |
| **Total liabilities and equity** | | **20,968,729** | **20,853,744** |

## Statement of comprehensive income

| TCZK | Note | For the year ended on 31 December 2018 | For the year ended on 31 December 2017 |
|---|---|---|---|
| Interest income | 4 | 308,427 | 321,723 |
| Interest expense | 8 | (300,355) | (313,139) |
| **Net interest income** | | **8,072** | **8,584** |
| General administrative expenses | 10 | (711) | 78 |
| **Net operating result** | | **7,361** | **8,662** |
| Impairment loss on receivables | 4 | (2,671) | - |
| Foreign exchange result gain/(loss) | | 112 | (1,803) |
| **Profit before taxation** | | **4,802** | **6,859** |
| Income tax expense | 11 | (1,036) | (1,714) |
| **Net profit for the period** | | **3,766** | **5,145** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the period** | | **3,766** | **5,145** |
| **Profit attributable to:** | | | |
| Owner of the company | | **3,766** | **5,145** |
| Non-controlling interest | | **-** | **-** |
| **Total comprehensive profit attributable to:** | | | |
| Owner of the company | | **3,766** | **5,145** |
| Non-controlling interest | | **-** | **-** |

## Statement of changes in equity

| TCZK | Issued capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| **Balance at 31 December 2017** | **3** | **55,418** | **3,872** | **59,293** |
| IFRS 9 transition impact, net of tax (note 4) | - | - | (14,293) | (14,293) |
| **Balance at 1 January 2018** | **3** | **55,418** | **(10,421)** | **45,000** |
| ***Total comprehensive income*** | | | | |
| Net profit for the period | - | - | 3,766 | 3,766 |
| **Balance at 31 December 2018** | **3** | **55,418** | **(6,655)** | **48,766** |

## Statement of changes in equity

| TCZK | Issued capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| **Balance at 31 December 2016** | **3** | **67,583** | **(1,273)** | **66,313** |
| ***Transaction with the owner of the Company*** | | | | |
| Distributions to the owner | - | (12,165) | - | (12,165) |
| ***Total comprehensive income*** | | | | |
| Net profit for the period | - | - | 5,145 | 5,145 |
| **Balance at 31 December 2017** | **3** | **55,418** | **3,872** | **59,293** |

## Statement of cash flows

| TCZK | Note | For the year ended on 31 December 2018 | For the year ended on 31 December 2017 |
|---|---|---|---|
| **Net profit for the period** | | **3,766** | **5,145** |
| **Adjustments for:** | | | |
| Interest income | 4 | (308,427) | (321,723) |
| Interest expense | 8 | 300,355 | 313,139 |
| Other non-cash adjustments | | (74) | (1,387) |
| Tax expense | 11 | 1,036 | 1,714 |
| Impairment expense | 4 | 2,671 | - |
| **Net operating cash flows before changes in working capital** | | **(673)** | **(3,112)** |
| Change in other receivables and payables | 6, 9 | 127 | (45) |
| **Cash flows used in the operations** | | **(546)** | **(3,157)** |
| Interest paid | 8 | (291,280) | (300,355) |
| Interest received | | 310,601 | 322,388 |
| Tax paid | | (2,273) | - |
| **Cash flows from operating activities** | | **16,502** | **18,876** |
| Repayments of loan receivable | 4 | - | 2,998,200 |
| **Cash flows from/(used in) investing activities** | | **-** | **2,998,200** |
| Distribution of share premium | | - | (12,165) |
| Repayments on bonds issue | 8 | - | (3,000,000) |
| **Cash flows from/(used in) financing activities** | | **-** | **(3,012,165)** |
| **Change in cash and cash equivalents** | | **16,502** | **4,911** |
| Cash and cash equivalents at beginning of the period | | 71,336 | 66,425 |
| **Cash and cash equivalents at end of the period** | | **87,838** | **71,336** |

# NOTES TO THE FINANCIAL STATEMENTS

## 1 General information

The Company was incorporated with limited liability under the Dutch law on 7 September 2016. The registered office of the Company is in Amsterdam, the Netherlands. The address of the Company is Strawinskylaan 933, Amsterdam, the Netherlands. The main activity of the Company is to act as a financing company.

The Company is a fully owned subsidiary of Česká telekomunikační infrastruktura a.s. ("CETIN") having its seat at Olšanská 2681/6, Prague, Czech Republic.

These financial statements comprise Company's stand-alone financial statements.

Board of Directors:
J.C. Jansen
M.M. van Santen

## 2 Basis of preparation

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, including International Accounting Standards ("IASs"), promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

### 2.2 Basis of measurement

The financial statements are prepared at the historical cost convention and are presented in Czech Koruna ("CZK"), and rounded to the nearest thousand. Assets and liabilities are stated at nominal value, unless stated otherwise.

### 2.3 Functional and presentation currency

The financial statements are presented in Czech Koruna, which is the Company's functional currency.

### 2.4 Use of judgement and estimates

Estimates and judgements 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.

### 2.5 Going concern

These financial statements have been prepared on the basis of the going concern assumption.

## 2.6 Changes in Accounting policies and accounting pronouncements adopted since 1 January 2018

The following revised standards effective from 1 January 2018 are mandatory and relevant for the Company and have been applied by the Company since 1 January 2018.

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement:

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Impairment:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired.

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018)

The IFRIC 22 clarifies the transactions date used to determine the exchange rate for foreign currency transactions involving an advance payment or receipt: the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. These amendments did not have significant impact on the Company's financial statements.

## 2.7 Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company's financial statements

A number of new Standards, amendments to Standards and Interpretations were not yet effective as of 31 December 2018, and have not yet been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The

Company plans to adopt these pronouncements when they become effective. The Company is in the process of analysing the likely impact on its financial statements.

Annual Improvements 2015-2017 Cycle (effective from 1 January 2019)
In February 2018 the IASB published Annual Improvements to IFRSs 2014-2017 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. These Annual Improvements have not yet been adopted by the EU. These amendments are not expected to have significant impact on the Company's separate financial statements.

# 3 Significant accounting policies

## 3.1 Foreign currency transactions

A foreign currency transaction is a transaction that is denominated or requires settlement in a currency other than functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the foreign currency exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Czech Koruna at rates of exchange prevailing at the reporting date (31 December 2018: CZK/EUR 25.725 and 31 December 2017: CZK/EUR 25.540). Transactions denominated in foreign currencies are translated at rates prevailing at the time the transaction occurred. Translation differences are recorded in the statement of profit or loss. Non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction. The share capital is recalculated by the closing foreign exchange rate through currency translation reserve at each reporting date.

## 3.2 Financial instruments

**a) Recognition and derecognition**

Financial assets and liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Company's policy is to recognise them at the settlement date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

**b) Classification and measurement**

*Financial assets*
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

*Financial liabilities*
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:
– the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and

the remaining amount of the change in the fair value will be presented in profit or loss.

**c) Impairment**

The Company recognises allowances for expected credit losses ("ECLs") on the following financial instruments that are not measured at FVTPL:

- loans and receivables;
- trade receivables and accrued income; and
- cash and cash equivalents;

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. The Company measures impairment loss allowance at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition, for which they are measured as 12-month ECL.

12-month ECLs are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

*Measurement of ECL*

ECLs are a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

*Inputs into measurement of ECLs*

The key inputs into the measurement of ECLs are – in general – the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The ECL is calculated as a multiple of PD * LGD * EAD

PD is mostly derived from available market data, such as Moody's PD statistics, internally adjusted to the current macroeconomic forecasts.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

EAD is equal to the gross carrying amount (book value) of the respective balance sheet item as of the reporting date.

**d) Fair value measurement principals**

The fair value of financial instruments is based on their quoted market price at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the end of the reporting period for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the end of the reporting period.

**e) Offsetting**

Financial assets and liabilities are permitted to be set off and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

No amounts were offset in periods reported.

## 3.3 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, short term deposits at banks with original maturity of three months or less, other short-term highly liquid investments readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, and bank overdrafts. Cash and cash equivalents are carried at amortised cost less expected credit losses (impairment) in the statement of financial position.

## 3.4 Other receivables and payables

Other receivables and payables arise when the Company has a contractual obligation to receive or deliver cash or another financial asset. Other receivables and payables are measured at amortised cost, which is normally equal to their nominal or repayment value.

## 3.5 Equity

Share capital represents the nominal value of shares issued by the Company.

Dividends on share capital, share premium reduction and other capital distributions are recognised as a liability provided that they are declared before the end of the reporting period. Dividends, share premium reduction and other capital distributions declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

## 3.6 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3.7 Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income on an accrual basis, taking into account the effective yield of the asset or liability, or the applicable floating rate. Interest income and interest expense includes the amortisation of any discounts or premiums of other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated using the effective interest rate method.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Other income and expense items are recognised in profit or loss when the corresponding service is provided.

## 3.8 Operating expenses

Operating expenses are accounted for in the period in which these are incurred. Losses are accounted for in the year in which they are identified.

### 3.9 Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

The recoverable amount of the Company's investment in subsidiaries and other assets is greater of their value less the cost to sell and their value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, an impairment loss is reversed through the statement of comprehensive income if there has been an increase in the recoverable amount and increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 4 Loan receivables

The Company provided the following loans to the parent company CETIN.

| **In TCZK** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Loans in CZK | 4,821,768 | 4,821,768 |
| Loans in EUR | 16,054,008 | 15,938,556 |
| Accrued interest | 22,001 | 21,879 |
| Allowance for impairment | (16,964) | - |
| **Total loans** | **20,880,813** | **20,782,203** |
| | | |
| Repayable: | | |
| Within one year | 22,001 | 21,879 |
| Between one and five years | 20,875,776 | 15,938,556 |
| More than five years | - | 4,821,768 |
| Allowance for impairment | (16,964) | - |
| **Total loans** | **20,880,813** | **20,782,203** |

The Company adopted IFRS 9 as per 1 January 2018, which resulted in an initial impairment allowance balance of TCZK 14,293. As per 31 December 2018 the impairment was TCZK 16,964.

The intial impairment allowance balance of TCZK 14,293 was recorded directly in equity as an IFRS 9 transition adjustment, while the 2018 change of TCZK 2,671 is reflected in the statement of comprehensive income.

### Provided Loans Analysis

| In TCZK | | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|---|
| Utilization date | Maturity date | Currency | Nominal amount | Net carrying amount | Nominal amount | Net carrying amount |
| 7 December 2016 | 6 December 2021 | EUR | 16,054,008 | 16,057,979 | 15,938,556 | 15,955,451 |
| 7 December 2016 | 6 December 2023 | CZK | 4,821,768 | 4,822,834 | 4,821,768 | 4,826,752 |
| **Total** | | | **20,875,776** | **20,880,813** | **20,760,324** | **20,782,203** |

Provided loans bear fixed interest rates in the range from 1.451% to 1.4881% (31 December 2017: 1.451% to 1.4881%). All interest income comes from the parent company CETIN.

The terms and conditions of these loans were not more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-related companies on an arm's length basis.

## 5 Cash at banks

| In TCZK | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bank balance in EUR | 24,475 | 17,329 |
| Bank balance in CZK | 63,363 | 54,007 |
| **Total** | **87,838** | **71,336** |

Cash is freely available.

Cash in amount of TCZK 80,883 (2017: TCZK 61,513) is held at PPF banka a.s. (a related party). The interest income from the related party amounts to TCZK 6 (2017: TCZK 2) and general administrative expenses charged by the related party amount to TCZK 2 (2017: TCZK 2).

## 6 Other receivables

In 2018 other receivables in amount of TCZK 78 (2017: TCZK 205) related to certain charges for the issuance of bonds. These charges will be recharged to the parent company CETIN.

# 7 Equity

## 7.1 Share capital

| In EUR | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Authorised capital (100 shares) | 100 | 100 |
| Issued and fully paid up (100 shares) | 100 | 100 |
| Nominal value | 1 | 1 |

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

The Netherlands Civil Code article 2.373.5 requires the Company to translate its issued share capital from its registered currency to presentation currency at the exchange rate effective on the reporting date. Effect of this translation is presented in the Foreign Currency Translation reserve, which is a non-distributable reserve.

The share capital was translated from EUR to CZK using historical exchange rate CZK/EUR 27.02.

## 7.2 Share premium

Share premium is the amount by which the amount received by the Company is in excess of par value of its shares. Share premium is freely distributable. There was no change in share premium in 2018 (2017: reduction of TCZK 12,165).

# 8 Debt securities

The Company issued the following debt securities:

| In TCZK | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bonds in CZK | 4,834,856 | 4,828,537 |
| Bonds in EUR | 16,063,998 | 15,943,686 |
| Accrued interest | 20,630 | 20,513 |
| **Total debt securities** | **20,919,484** | **20,792,736** |
| | | |
| Repayable: | | |
| Within one year | 20,630 | 20,513 |
| Between one and five years | 20,898,854 | 15,943,686 |
| More than five years | - | 4,828,537 |
| **Total debt securities** | **20,919,484** | **20,792,736** |

### Issued Bonds Analysis

| **In TCZK** | | | | **31 December 2018** | |
|---|---|---|---|---|---|
| Date of issue | Maturity | ISIN | Currency | Nominal value | Net carrying value |
| 6 December 2016 | 6 December 2021 | XS1529934801 | EUR | 16,078,125 | 16,080,296 |
| 6 December 2016 | 6 December 2023 | XS1529936335 | CZK | 4,866,000 | 4,839,189 |
| **Total** | | | | **20,944,125** | **20,919,485** |

| **In TCZK** | | | | **31 December 2017** | |
|---|---|---|---|---|---|
| Date of issue | Maturity | ISIN | Currency | Nominal value | Net carrying value |
| 6 December 2016 | 6 December 2021 | XS1529934801 | EUR | 15,962,500 | 15,959,866 |
| 6 December 2016 | 6 December 2023 | XS1529936335 | CZK | 4,866,000 | 4,832,870 |
| **Total** | | | | **20,828,500** | **20,792,736** |

During 2018 and 2017, the Company was in compliance with all applicable terms of the bond issues. Certain bonds issue related costs were amortized and are part of the effective interest rate.

Issued bonds have stated fixed interest rates in the range from 1.25% to 1.423% (31 December 2017: 1.25% - 1.423%).

During 2018 and 2017 CETIN has granted to the Company a guarantee for non-fulfilment of Company's liabilities in connection with the bonds issued. The guarantee constitutes a direct and unconditional obligation of CETIN which is at all times rank *pari passu* with all other present and future unsecured obligations of CETIN, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Net proceeds received by CETIN Finance B.V. from bonds emission were granted in full amount to CETIN as loan (see Note 4).

**Reconciliation of movements of liabilities to cash flows arising from financing activities:**

| | Liabilities | Equity | Total |
|---|---|---|---|
| **In TCZK** | **Debt securities issued** | **Share premium** | |
| Balance as at 1 January 2018 | 20,792,736 | 55,418 | **20,848,154** |
| **Changes from financing cash flows** | **-** | **-** | **-** |
| Other changes | | | |
| Interest expense | 300,355 | - | **300,355** |
| Interest paid | (291,280) | - | **(291,280)** |
| Effect of changes in FX rates | 117,673 | - | **117,673** |
| Total other changes | **126,748** | **-** | **126,748** |
| **Balance as at 31 December 2018** | **20,919,484** | **55,418** | **20,974,902** |

## 9 Other liabilities

| **In TCZK** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Accounts payable | 1 | 1 |
| Accrued expenses | - | - |
| **Total** | **1** | **1** |

## 10 General administrative expenses

| **In TCZK** | **2018** | **2017** |
|---|---|---|
| Professional services | 688 | (107) |
| Other financial services | 23 | 29 |
| **Total** | **711** | **(78)** |

Professional services represent mainly consulting and audit fees.

In 2018 Professional services contain management and other service fees charged by PPF Group N.V. (ultimate parent entity) in amount of TCZK 65 (2017: TCZK 69).

## 11 Income tax

| In TCZK | 2018 | 2017 |
|---|---|---|
| Profit before tax | 4,802 | 6,859 |
| Non-deductible costs | 2,671 | - |
| **Profit taxable** | **7,473** | **6,859** |
| Income tax – provisional (domestic rates 20%/25%) | (1,612) | (1,714) |
| Income tax – prior period final assessment adjustment | 576 | - |
| **Income tax expense** | **(1,036)** | **(1,714)** |
| Income tax settlement during the period | 2,273 | - |
| **Income tax liability as at 31 December** | **(478)** | **(1,714)** |

In 2017, the Company carried an unrecognised deferred tax asset in the amount of TCZK 318 arising from unutilised tax losses for 2016. The 2016 tax losses were eventually utilised in 2017 final income tax assessment and thus became part of the 2018 income tax expense.

## 12 Audit fee

With reference to Section 2:382a(1) and (2) of the Dutch Civil Code, the fee in relation to the 2018 financial statements that have been charged by KPMG Accountants N.V. to the Company amount to TCZK 623 (2017: TCZK 622). No other engagements, tax related advisory services and other non-audit services have been provided by KPMG Accountants N.V. to the Company.

## 13 Employees and directors

The Company did not employ any personnel in 2018 (2017: none). The Company had two directors as at 31 December 2018 (31 December 2017: two). During 2018 directors of the Company were not entitled to any remuneration.

## 14 Related parties

The Company has a related party relationship with its parent and other related parties (PPF Group entities). All transactions with related parties are disclosed in the individual disclosures above.

Furthermore, the key management personnel of the Company, plus the close family members of such personnel and other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which the individuals hold significant voting power are also considered related parties. The Company did not conclude any transaction with these related parties in 2018 and 2017.

# 15 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 debt taken and loans provided. Management of the risk arising from financial instruments is fundamental to the Company's business and is an essential element of the Company's 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 Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The risks are managed in the following manner:

### (i) Foreign currency risk

The Company's exposure to foreign currency risk arising from exposures in other currencies than CZK is limited. Foreign currency risk arising from issued bond denominated in EUR is mitigated by the provided loan at almost the same terms (currency, amount, interest rate, maturities) as the issued bond. The remaining foreign currency risk resulting from slightly different amounts between EUR denominated loan and the nominal amount of the issued bond is not significant.

### (ii) Interest rate risk

As at reporting date, the Company has not been exposed to interest rate risk arising from any interest rate gap as maturities and nominal amounts of interest bearing financial assets are almost the same as those of interest bearing financial liabilities. Therefore, the Company's exposure to interest rate risk is naturally limited.

The Company does not classify and measures its financial assets or financial liabilities at fair value. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity of the Company.

### (iii) Liquidity risk

Liquidity risk represents the risk of being unable to meet obligations as they become due. The Company continually assesses its liquidity risk with the PPF Group treasury by identifying and monitoring changes in the funding required to meet the business goals. The Company is funded by equity and issued bonds.

The table below summarizes the maturity profile of the Company's financial assets and liabilities at 31 December 2018 and at 31 December 2017 based on contractual undiscounted payments. Amounts include projections of future interest.

| **As at 31 December 2018**<br>**In TCZK** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** |
|---|---|---|---|---|
| Cash at banks | 87,838 | - | - | - |
| Loan receivables | - | 308,864 | 21,634,277 | - |
| Other receivables | 78 | - | - | - |
| Debt securities | - | (289,617) | (21,645,802) | - |
| Other liabilities | (479) | - | - | - |
| Total | 87,437 | 19,247 | (11,525) | - |

| **As at 31 December 2017**<br>**In TCZK** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** |
|---|---|---|---|---|
| Cash at banks | 71,336 | - | - | - |
| Loan receivables | - | 307,146 | 17,000,762 | 4,821,768 |
| Other receivables | 205 | - | - | - |
| Debt securities | - | (287,971) | (16,887,239) | (4,926,825) |
| Other liabilities | (1,715) | - | - | - |
| Total | 69,826 | 19,175 | 113,523 | (105,057) |

### (iv) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s loan and other receivables.

The carrying amounts of financial assets represent the maximum credit exposure.

*Loan and other receivables*
The Company is not exposed to any significant credit risk, as almost all credit transactions are made with the parent company which is an investment grade rated and profitable company and trading with it does not represents any significant credit risk for the Company.

*Cash and cash equivalents*
The Company held cash and cash equivalents of TCZK 87,838 at 31 December 2018. The cash and cash equivalents are held with a reputable bank institution.

### (v) Fair values estimation

The Company uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

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

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

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

**In TCZK**

| | | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Note** | **Level 1** | **Level 2** | **Level 3** | **Fair value** | **Carrying amount** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5 | - | - | - | - | 87,838 |
| Loan receivables | 4 | - | 21,037,350 | - | 21,037,350 | 20,880,813 |
| Other receivables | 6 | - | - | - | - | 78 |
| **Financial liabilities** | | | | | | |
| Debt securities | 8 | - | 21,037,350 | - | 21,037,350 | 20,919,484 |
| Other liabilities | 9 | - | - | - | - | 1 |

**In TCZK**

| | | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Note** | **Level 1** | **Level 2** | **Level 3** | **Fair value** | **Carrying amount** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 5 | - | - | - | - | 71,336 |
| Loan receivables | 4 | - | 21,220,191 | - | 21,220,191 | 20,782,203 |
| Other receivables | 6 | - | - | - | - | 205 |
| **Financial liabilities** | | | | | | |
| Debt securities | 8 | - | 21,220,191 | - | 21,220,191 | 20,792,736 |
| Other liabilities | 9 | - | - | - | - | 1 |

During the current year end, the bonds were not actively traded. The estimated fair value of issued bonds was derived using a valuation technique based on observable market inputs. Therefore, these securities are disclosed in Level 2 of the fair value hierarchy as at 31 December 2018.

The fair value of loan receivable is determined from the bonds market price as conditions of the loan receivable are almost the same (currency, amount, interest rate, maturities) as the issued bonds.

The Company does not have any financial instruments reported in the statement of financial position at fair value.

## 16 Segment reporting

The Company represents one reportable segment that has central management and follows a common business strategy. The revenue is attributable to interest income from a loan provided to Company's parent entity domiciled in the Czech Republic.

## 17 Events after the reporting period

There were no subsequent events or transactions that required recognition or disclosure in the financial statements.

| Date: 30 April 2019 | Signature of the Board of Directors: |
|---|---|

**Other information**

**Profit appropriation**

The allocation of profits accrued in a financial year shall be determined by the General Meeting of Shareholders. Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts. The General Meeting of Shareholders may resolve at the proposal of the management board to make interim distributions and/or to make distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount which does not exceed the amount of the distributable equity.

**Offices**

The Company has its operating office in the Netherlands. For details in this respect please refer to Note 1 of the financial statements.

**Auditor's report**

The auditor's report with respect to the Company financial statements is set out on page 27.

# Independent auditor's report

To: the General Meeting of Shareholders of CETIN Finance B.V.

## Report on the audit of the financial statements 2018 included in the annual report

### *Our opinion*

In our opinion the accompanying financial statements give a true and fair view of the financial position of CETIN Finance B.V. as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

### *What we have audited*

We have audited the financial statements 2018 of CETIN Finance B.V. (the Company) based in Amsterdam, the Netherlands.

The company financial statements comprise:

1. the company financial position as 31 December 2018;
2. the following statements for 2018: the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

### *Basis for our opinion*

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of CETIN Finance B.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

### *Audit approach*

## Summary

MATERIALITY
- Materiality of CZK 104 million
- 0.5% of Total assets

KEY AUDIT MATTERS
- Valuation of loan receivables

UNQUALIFIED OPINION

## Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at CZK 104 million (2017: CZK 104 million). The materiality is determined with reference to total assets (0.5 %). We consider total assets as the most appropriate benchmark because as CETIN Finance B.V. is a financing vehicle that provides financing to its parent Česká telekomunikační infrastruktura a.s. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee and Board of Directors that misstatements in excess of CZK 5.2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to management override of controls

Our audit procedures included an evaluation of the of internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of journal entries and documentation in relation to adjustments.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks and/or risk of non-compliance to laws and regulations did not result in findings to be included in this audit report.

## *Our key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of loan receivables

**Description**

The Company is a financing entity only entering into financing arrangements with its parent entity (Česká telekomunikační infrastruktura, a.s.). The financial performance of the Company going forward will be dependent on the ability of the parent entity to repay the loans including accrued interest. This is highlighted in Note14 (iv) of the financial statements. Given this pervasive impact on the financial statements of the Company, we consider this a key audit matter.

**Our response**

Management of the Company has assessed the financial robustness of the financial position and liquidity of Česká telekomunikační infrastruktura a.s. to meet its obligation regarding the loan receivables. We have assessed management's analysis and have verified it to the relevant source data, such as the audited consolidated financial statements of the parent and external rating agencies' reports (Moody's Investor Services and Fitch Ratings).

In addition, we evaluated the adequacy of the Company's disclosure in respect of credit risk in Note14 (iv) in the notes to the financial statements.

#### Our observation

We found that the credit risk related to loan receivables due from Česká telekomunikační infrastruktura a.s. has been appropriately taken into account and disclosed in the financial statements.

## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Director's report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors of CETIN Finance B.V. is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### *No prohibited non-audit services*

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

## Description of responsibilities regarding the financial statements

### *Responsibilities of the Board of Directors and the Audit Committee for the financial statements*

The Board of Directors of CETIN Finance B.V. is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements,  the Board of Directors is responsible for assessing the Company''s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

### *Our responsibilities for the audit of the financial statements*

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our auditor's report.

Amstelveen, 30 April 2019

KPMG Accountants N.V.

M. Frikkee RA

Appendix:
Description of our responsibilities for the audit of the financial statements

## Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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 the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining 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;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors';
- concluding on the appropriateness of the Board of Directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.