2015

ANNUAL **REPORT**

This version of the Annual Report is a translation from the original which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the Annual Report takes precedence over this translation.

Note:

O2 Czech Republic a.s., further below also as "O2 CZ" or "Company".
O2 Slovakia, s.r.o., further below also as "O2 Slovakia".

The O2 Czech Republic Group includes O2 Czech Republic a.s. and its subsidiaries, also as "the Group" or "O2 Group".

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01

LETTER BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

To Our Shareholders,

Let me briefly review the business of O2 Czech Republic in the past year.

In the previous Annual Report, I wrote that the year 2014 was a turning point for our Company. In the light of the developments in 2015, I dare say that the past year was revolutionary. Quite clearly the most important event was the separation of the Company; we were the first globally to spin off fixed and mobile infrastructure into a new company – Česká telekomunikační infastruktura a.s. (CETIN). This step already reflected on our business and results for the second half of 2015, and its full benefit will manifest in the future.

The seven months that have elapsed since the separation confirmed the correctness of our assumptions and benefits we identified in our analyses. Let me mention just a few of them here. The majority of obligations stemming from regulation passed to CETIN; this untied our hands when it comes to services which we could not offer to our customers prior to the separation. We introduced greater efficiency and effectiveness into the management and decision-making process, as we now focus exclusively on our service proposition and retail customer care. Planning, construction and operation of infrastructure are now the domain of CETIN, with which we have entered into several key contracts that govern our relationship.

At the same time, the separation indeed delivered a tangible improvement of our financial results. We stabilised our revenues in the shrinking market. We streamlined a significant part of our operating and commercial activities, which improved our operating profit and net profit. Simplification was one of the key priorities which we focused on in 2015. We embarked on a comprehensive transformation programme, Simple Online Company, which seeks to streamline systems, processes, products and product communication internally and also externally, to the market, consistently in all online channels. This will help us build a simple operating model that will make it possible to respond flexibly to changes in the market, quickly meet the demand from customers and launch new services and products across all distribution and service channels.

We significantly reduced the investment requirement as infrastructure investment is now carried out by CETIN. We took advantage of the favourable climate in the credit market, and, at the end of the year, we refinanced our existing debt and took out a new loan. We unveiled our new long-term dividend policy and target debt level. We also revisited the idea of a share buy-back. As managers of the Company, we cannot influence the share price directly, through our actions; we are, nonetheless responsible for the fundamental value of the Company. The financial results presented in this Annual Report, together with the implementation of key projects, drove the fundamental value of the Company upward. Till the end of the year, the share price went up about five times since June, when the Company's shares began to be publicly traded after the separation.

Even after the separation we remained a major player and a leader in the Czech telecommunication marketplace. We have millions of individual, business, corporate and government customers, and their loyalty is steadily increasing. Our quality and, in many cases, unique proposition reflects in the growing number of services subscribed by customers. The fact that the average customer spend has stabilised, and, in some cases increased, is a testament to the trust our customers place in our services and products, to the fact that they see value in them and are willing to pay for them. In the fiercely competitive marketplace we focus on acquiring customers who will stay with us in the long run. A long-term relationship with our customers is key for us.

One of the revolutionary new steps was to launch our own O_2 Sport television channel which is bundled with all O_2 TV packages. We acquired exclusive broadcasting rights to a number of sporting events; we launched new multidimensional functionality, such as a choice of several broadcast and camera angles. A new set-top box launched in December now enables all customers enjoy O_2 TV regardless of their internet access provider. Through CETIN, we continue to increase xDSL connection speeds; the faster connection can now be enjoyed by an ever-growing number of customers. We also partnered with alternative providers who will supply a part of our internet connectivity. This has helped us bring our data and ICT services to new customers.

In the mobile area, data services are among the dynamically growing segments. In 2015 we forged ahead with expanding our broadband internet coverage to meet the growing market demand for data services and to accommodate the increasing volume of data traffic. By the end of the year, we covered approximately 80% of the Czech population with LTE. We concentrate on marketing LTE-compatible devices.

We debuted a new communication strategy for our medium business and corporate customers. We want to offer quality, reliable and affordable tailor-made telecommunication and ICT solutions to our customers – to help them flexibly react to their immediate needs, better adapt to the ever-changing conditions and to assist them with achieving a greater growth dynamic.

In line with our strategy, we ventured into a new market, outside the telecommunications industry. Starting from October, we now offer insurance for your mobile phone or tablet against damage or theft. The service is proving to be very popular with customers.

As a major Czech corporation, we strive to foster innovative ideas and solutions. We launched SmartUp, a programme that helps young people develop their skills through funding as well as through training. Moreover, we decided to grant support to unique technology projects; we inaugurated BOLT, a new start-up accelerator. In addition to funding and prospects of a long-term partnership, we will also offer comfortable facilities and end-to-end infrastructure of our Company, the possibility to integrate the solution into our established ecosystem of products, and – of course – the use of our sales channels. We will choose mainly projects whose integration with O2 has a commercial potential.

The Slovak subsidiary remained in the O2 Group after the separation. Thanks to its straightforward and fair tariffs, the subsidiary is still the fastest-growing mobile operator in Slovakia in terms of the number of customers and the only financial growing operator in the market. As in the Czech Republic, mobile data is the main engine of revenue growth also in Slovakia. For this reason, O2 Slovakia continues to focus on the roll-out of proprietary 3G and LTE networks, in order to maintain its position in the fiercely competitive marketplace. The excellent operating results in Slovakia is a boost to the consolidated bottom line. We also set up a new company Business Services in Slovakia, to capitalize on the growth potential in fixed access services in particular for corporate customers.

I expect that the market environment in 2016 will remain highly competitive. However, I am confident that we approach this as a challenge which we will turn into an opportunity to use our edge and advantage to strengthen our position. New technology and new services come very fast in our industry. Technology lets people pursue their interests through it or through themselves. New technology enters the private and work life of us all.

Our great advantage is that we have Smart Network. I do not mean just our infrastructure. Smart network is us, O2, our perfectly functional and reliable ecosystem of technologies, companies, services and brands. We no longer are just a telecommunications provider. We are digital economy enabler. We, O2, want to help people realize their full potential, and be a source of inspiration, motivation and information. We want to give them tools that will help them succeed. The customer's size is no object – we have solutions for all: homes, small and medium business, corporations and the government. I see a great future in the development of smart households and smart cities concepts. And we are already making preparations.

I am confident that this approach will help us identify new growth areas and turn them into revenues. Our streamlined and more efficient operating and sales model will help us maintain robust operating profit. For this reason, we are planning to invest a large portion of our 2016 capex in further transformation of our IT systems. In Slovakia, we will advance with our investments in the roll-out of the LTE network.

I trust that all these actions will translate into improved customer and employee satisfaction, and, as a result, greater value for you, our shareholders.

We are #newO2!

Tomáš Budník

Chief Executive Officer and Chairman of the Board of Directors, O2 Czech Republic a.s.

02

FINANCIAL AND OPERATING **HIGHLIGHTS**

FINANCIAL AND OPERATING HIGHLIGHTS

Financial data is based on audited consolidated financial statements prepared in accordance with International Financial Reporting Standards. All figures are in CZK million, unless otherwise stated.

	2015	2014
Financials[1]		
Revenues[2]	37,385	37,372
EBITDA – Earnings before depreciation and amortization	10,142	8,133
Operating profit	6,595	4,597
Profit before taxes	6,438	4,505
Profit from continuing operations	5,077	3,515
Total assets	30,268	74,290
Property, plant and equipment	4,638	36,200
Total equity	18,344	54,153
Financial debts (long-term and short-term)	2,981	7,004
Capital expenditure[3] (additions to fixed assets)	3,289	9,482
Operating indicators (at end of period)		
Fixed voice lines (in thousand)	840	928
xDSL connections – retail (in thousand)	795	793
Pay TV – O_2 TV (in thousand)	202	184
Mobile customers in the Czech Republic (in thousand)	4,896	5,069
– of this contract customers	3,237	3,294
prepaid customers	1,659	1,775
Mobile customers in Slovakia (in thousand)	1,809	1,684
Number of employees in O2 Group (as at year-end)[4]	3,908	3,656
Ratios		
EBITDA margin (EBITDA/Revenues, in %)	27.1	21.8
Profit from continuing operations/Revenues (in %)	13.6	9.4
Capital expenditure/Revenues (in %)	8.8	25.4
ROA (Profit from continuing operations/Total assets, in %)	16.8	4.7
ROE (Profit from continuing operations/Equity, in %)	27.7	6.5
Gross gearing (Financial debts/Total equity, in %)	16.3	12.9
Net debt (Financial debt less Cash and cash equivalents)/EBITDA	0.1	0.5
Macroeconomic indicators[5]		
Population (in millions)	10.5	10.5
GDP growth (in %)[6]	4.2	2.5
Inflation (in %)	0.3	0.4

Unemployment (end of period, in %)	6.2	7.5
CZK/USD exchange rate – average	24.6	20.7
CZK/USD exchange rate – at end of period	24.8	22.8
CZK/EUR exchange rate – average	27.3	27.5
CZK/EUR exchange rate – at end of period	27.1	27.7

[1] Certain amounts shown in comparatives do not correspond to the consolidated financial statements for the year ended 31 December 2014. The reason for that is the spin-off of the Company as of 1 June 2015 and adjustments to reflect continuing and discontinued operations were made in comparatives

[2] Excluding revenues from non-telecommunications services

[3] Excluding discontinued operations

[4] As at 31 December 2014, excluding 1,236 employees of Infrastructure and Wholesale division of O2 CZ which were transferred to Česká telekomunikační infrastruktura a.s. (CETIN) as part of the separation of the Company as of 1 June 2015

[5] Source: Czech Statistical Office, Ministry of Labour and Social Affairs of the Czech Republic, Czech National Bank

[6] At constant 1995 prices, 2015 based on Bloomberg consensus

03

CALENDAR OF KEY EVENTS

CALENDAR OF KEY EVENTS

JANUARY

The Board of Directors of the Company elected Tomáš Budník as its Chairman and Tomáš Kouřil as Vice-chairman.

The Company decided to delist its Global Depository Receipts from the London Stock Exchange due to cost inefficiency.

FEBRUARY

The Company acquired exclusive broadcasting rights for the UEFA Champions League for the next three years, including semi-final matches and the final match.

The Company released its financial and operating results for 2014. Despite the ongoing transformation of the Company and the deteriorating conditions on the telecommunications market, it succeeded in stabilizing revenue and optimizing costs.

The Company successfully tested the Voice over LTE technology.

MARCH

The Company's Board of Directors decided to establish a fixed access provider in Slovakia.

The Company introduced Extra Card which lets customers save up to 40% on O2 services.

APRIL

The Company approved the distribution of a share in the profit of O2 Slovakia in the amount of EUR 31 mil. (approx. CZK 852 mil.) from a part of the 2014 profit to the sole shareholder O2 CZ.

The Company published a declaration The Truth about Mobile Phones and Tablets, which highlights the advantages of purchasing devices at O2. Customers now get a guarantee that they are getting a quality phone without commitment or risk.

The Company announced that, starting from August, it would offer live broadcasts, recent recordings and various other programming content related to combat sports from the production of Fighting Spirit on the O_2 Sport channel.

The Company held an Ordinary General Meeting. The supreme governing body approved the separation the Company in the form of spin-off and formation of a new company, Česká telekomunikační infrastruktura a.s. (CETIN).

MAY

The Company released its operating and financial results for the first quarter. Results exceeded the market expectations as a result of the improving trend in customer consumption and mobile data revenue, as well as solid results in Slovakia.

The Supervisory Board of the Company elected Jiří Hrabovský as member of the Board of Directors effective from 1 June 2015.

Starting mid-May, the Company offered a range of new benefits for existing and new customers of the *FREE* tariffs: calling from Europe charged at the same rate as an on-net call; basic data allowance with all tariffs and its easier restoration, as well as a new tariff *FREE Europe* for frequent travellers.

The O2 Foundation launched a new programme SmartUp aimed at people aged 15–26. The programme lets young people make their innovative ideas a reality and improve the quality of their community.

The Company acquired more exclusive content for its future channel O_2 Sport. Starting from the new season, it will broadcast one match from each round of the Synot liga football league.

The Board of Directors of the Company voted to acquire a 100% share in O2 IT Services s.r.o. (formerly PPF IT Services s.r.o.).

JUNE

The separation of O2 CZ into two separate companies came into effect. The new company CETIN assumed the ownership mainly of the former O2 CZ telecommunications infrastructure.

Peter Gažík became the new Chief Operating Officer of O2 Slovakia.

The Company introduced innovations to the Internet Air service, which now brings connectivity also to households out of reach of the O2 fixed broadband access.

The Company debuted a simple solution to help businesses to transition to the planned fiscal cash register.

JULY

The Company released its operating and financial results for the first half of the year, net of the results of CETIN. The focus on quality and value in the customer base has helped the Company with stabilising its revenues and maintaining its position in the shrinking telecommunications market.

The Company introduced naked O_2 TV without having to get an internet connection from O2 CZ.

AUGUST

The O2 corporate foundation donated one million Czech crowns to the charity Fond ohrožených dětí that runs the Klokánky shelter homes for children.

SEPTEMBER

The Company unveiled its new communication strategy Elastic Business Solutions, in which it explains to self-employed tradesmen, professionals, medium businesses and corporations how vital flexibility is for their survival.

OCTOBER

The Company started offering the insurance for mobile homes or tablets purchased in the O2 retail network.

The Company announced it had received from the Czech Telecommunication Office a decision which allocated it radio frequency spectrum in the 900 MHz and 1,800 MHz band, for the period from 8 February 2016 until 22 October 2024; the price of the allocation was CZK 432 million.

The Company decided to support innovative technology projects and established BOLT, a new start-up accelerator.

The Company released its operating and financial results for the first three quarters of the year 2015. Customer loyalty remained at a historically highest level, and the average spend stabilised despite the fact that the mobile voice prices in the market went down by a quarter.

The Board of Directors decided to effect a transfer of the Professional Services Division into its wholly-owned subsidiary O2 IT Services s.r.o., by way of a contribution of a part of enterprise.

NOVEMBER

The Company inaugurated a new IT centre in Pardubice. This is in line with the Company's strategy to strengthen its IT operations and establish itself as IT solutions provider to consumers and businesses.

The Company launched its Christmas campaign. New and existing customers were offered a tariff bonus of up to CZK 3,000 with a purchase of a new 4G LTE Samsung, Lenovo and Apple mobile phone.

The Company announced it was gearing up for the anticipated arrival of the fifth generation (5G) network.

The semi-annual MSCI survey published in November ranked the Company again into MSCI Czech Republic Index.

The Company unveiled a new set-top box that brings O_2 TV to any TV set, regardless of the internet connectivity provider.

DECEMBER

The Company introduced improvements to its O_2 TV Air mobile TV service. The programme offer from 31 channels to 58; launched its O_2 Sport in HD quality; and significantly increased the recording capacity.

The Company secured an alternative provider which will supply a part of the internet connectivity that had previously been supplied exclusively by CETIN. České Radiokomunikace became the first partner in this area.

Achieving 25% coverage of the Slovak population means that O2 has met its licence obligation attached to the allocation of the frequency spectrum.

After less than two months of operation, the start-up accelerator BOLT announced its first investment: project Tapito from the Czech Republic.

The Company entered into loan agreements in the total value up to CZK 12 billion. The Company used to its advantage the favourable market climate, and the 5-year credit line will be used for the refinancing of the present debt, for general corporate financing requirements.

In a pilot test, O2 CZ offered selected households a revolutionary tariff with unlimited calls from fixed lines.

An Ordinary General Meeting was held, which approved the transfer of the Professional Services Division to the subsidiary O2 IT Services. Shareholders also approved the framework of acquisition of the Company’s own shares. According to the framework, the Company can, over the course of five years, buy back its own shares in a volume that will not exceed 10% of the total number of Company shares issued, or CZK 8 billion; the permitted buy-back price is CZK 10–297 per share. The Board of Directors subsequently decided to execute the share buy-back programme on the regulated market and set the related conditions of purchase.

04

BOARD OF DIRECTORS' REVIEW OF BUSINESS

BOARD OF DIRECTOR'S REVIEW OF BUSINESS

SEPARATION OF THE COMPANY

Following a thorough analyses and a feasibility study, the Board of Directors of O2 CZ approved on 13 March 2015 the separation of the Company by spinning off and the formation of the new company. To this end, the Board of Directors drew up and approved a separation project, including the related accounting documents. On the same day, the separation of the Company was approved also by the Supervisory Board of the Company. On 28 April 2015, the General Meeting approved separation of the Company. The Decisive Date of the separation was set for 1 January 2015. The separation became legally effective as of the date of record of the separation in the Commercial Register, which was on 1 June 2015.

Česká telekomunikační infrastruktura a.s. (CETIN), a new company, was created as a result of the separation. A defined part of the equity of O2 CZ was transferred to the new company. The spun-off part included all assets and debt associated with the Infrastructure and Wholesale Division. The newly created company thus assumed:

i. the fixed public communication network, in particular transmission systems, switching or routing equipment and other means, including elements of the network that are not active, which enable transmission of signals along wires, radio, optical and other electromagnetic means in the fixed network,

ii. physical infrastructure of the mobile public communications network except for core parts of the network, data centres,

iii. all documentation (content of physical and electronic archives and databases, plans, designs, building permits, agreements, etc.),

iv. relevant contracts, as well as any rights and obligations arising thereunder, which are necessary for the future independent business of CETIN.

After the separation, OZ CZ retained assets that were directly associated with the delivery of fixed and mobile access to end customer; in particular GSM, CDMA, UMTS and LTE mobile service licences, O2 brand, CRM systems, billing and collection systems and active network elements.

The Company delivers its service through its own mobile network which comprises the so-called Mobile Core Network elements, service platforms and intelligent network systems which are fully owned and operated by O2 CZ. Furthermore, it includes frequency spectrum (a license to operate within the given frequency range) and the so-called Radio Access Network, which CETIN operates under contract for O2 CZ. Other systems provide for the Mobile Number Portability, MVNO access to the O2 mobile network, service logic and tariff plan (PCRF, OCS), and other supporting and supervision systems.

Value-added services and intelligent network services are delivered through service platforms such as the Voicemail system (VMS), Multimedia Messaging Service Centre (MMSC) and other platforms for the delivery of value-added services (VAS). Within its own network, O2 CZ operates the IMS (IP Multimedia Subsystem) platform for Voice over IP (VoIP) telephony in the fixed access network. The IMS platform will in the future also allow for calling within the LTE network using the VoLTE (Voice over LTE) standard. The Company distributes O_2 TV through its proprietary IPTV platform NANGU.

O2 CZ also operates an IP/MPLS backbone data network with the widest coverage of the Czech Republic's territory and consisting of proprietary network elements installed atop leased transmission capacity. The network provides for interconnection of CORE mobile network elements, data centres and the delivery of proprietary data services to customers with network access via the so-called PE routers, international internet connectivity and internet peering with other internet access providers in the Czech Republic.

In consequence of the spin-off, a total of 1,174 employees, who had been in the organisation of the Infrastructure and Wholesale Division, were transferred to CETIN.

Also transferred to CETIN in consequence of the spin-off was the ownership interest in two subsidiaries CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH. O2 CZ held on to ownership interests in the remaining subsidiaries (summary information on subsidiaries is provided in section 6 Corporate governance of the Annual Report). The separation concerned O2 CZ only, not the subsidiaries, in which O2 CZ continues to hold an ownership interest also after the separation.

In compliance with the applicable provisions of the Transformation Act, O2 CZ commissioned a court-appointed expert valuation of the spun-off part of the assets with Deloitte Advisory s.r.o. The expert company elaborated an expert opinion based on the situation as of 31 December 2014, and the relevant part of the assets of O2 CZ, including the corresponding equity, was valued to the stated date at an amount of CZK 46.9 billion.

In connection to the spin-off, O2 CZ reduced its share capital from CZK 27,461,384,874 to CZK 3,102,200,670 as of 1 June 2015. The nominal value of each share at the original nominal value of CZK 87 decreased to CZK 10, and the nominal value of the share at the existing nominal value of CZK 870 decreased to CZK 100. Within the framework of the share capital reduction, all treasury shares (5,428,035 units), which O2 CZ owned prior to the separation, were been cancelled. The reduction in the share capital and the cancellation of treasury shares did not cause any change in the actual proportional holdings of shares by individual O2 CZ shareholders. The reduction in the share capital had no immediate impact on the rights of shareholders. The purpose of the share capital reduction was to optimise the equity capital structure in O2 CZ after the separation in such a manner so that the equity recognised in the opening balance sheet of O2 CZ would not be lower than the share capital, and so that O2 CZ would have sufficient funds in the future, which are not assigned to a specific purpose, and so that all shareholders would be able to more flexibly decide on the distribution of these fund in the future.

At the time of the separation, an equal rate of share exchange was determined. Shareholders in O2 CZ were allocated 1 share in CETIN for each of their shares at the existing nominal value of CZK 87. Shareholders in O2 CZ had the right to an allocation of shares in CETIN according to the number of shares which they had owned on the date of the record of the separation in the Commercial Register.

The Board of Directors of the Company identified three main advantages that separation is expected to bring all shareholders:

1. The first advantage is the possibility to focus independently on two key aspects of the Company's future business. Prior to the separation, the Company was in fact a vertically integrated entity containing two different units. They were different in their nature, investment horizon and the number of customers. The first of them, the service unit, was focused on retail and fixed and mobile voice and data service delivery to consumers, business and government clients, on audio visual entertainment distribution and on various complex solutions of information and telecommunications technologies. The other unit, which comprised the infrastructure, was concerned with the planning, building and operating high-quality mobile networks, metallic and optical fixed networks, national high-capacity data communication network with third-party access, services in the area of transmission and traffic termination for domestic and international (foreign) operators. In light of the differing nature of both units, the Board of Directors of the Company was convinced that separating their governance and management would enable both future entities to focus their efforts exclusively and with more efficiency on their respective business areas. The Board of Directors of the Company therefore believed that the separation would deliver a tangible and specific increase in profitability for both business segments of the Company, and thus for all shareholders.

2. The second positive aspect is that now, the telecommunications industry regulation focuses more on CETIN, which owns the relevant telecommunications infrastructure. Before the separation, the regulation affected all of O2 CZ because of its vertical integration. O2 CZ will be able in the future to better balance the entire portfolio of the services it offers.

3. The third undisputed advantage of the separation is the fact that it will enable shareholders to realise the potential shareholder value. The separation of the Company into two entities may deliver a higher shareholder value, partly through increasing the profitability of both entities, and partly by affording both companies greater flexibility and more room to focus on key investments in the corresponding timeframes, which, due to the nature of their business, is significantly different. The investment horizon and the financial framework of contracts in the consumer business are ordinarily in the order of years. On the contrary, the infrastructure unit typically has much more long-term investments and agreements, and agreements with an estimated return on investment exceeding 10 years. The separation of the Company should deliver value stemming from better management of both companies, also from the point of their debt finance structure, which would also facilitate any future local and international acquisitions.

The Board of Directors of the Company also identified and assessed the potential risks of separation and arrived at the conclusion that these can be reduced to a bare minimum. It was also fully convinced that the expected advantages of separation significantly exceed the expected costs affiliated with it. For these reasons, the Board of Directors of the Company was of the opinion that division would be beneficial for shareholders.

Starting 1 June 2015, both companies, O2 CZ and CETIN, are functioning as mutually independent companies, where CETIN is in the position of key supplier to O2 CZ. As of this date, complete separation occurred of the corporate bodies, management and control of both companies, including security, information and control systems.

Between O2 CZ and its subsidiaries on one hand, and CETIN and further companies from PPF Group on the other, no above-the-line relationships exist that could negate the purpose of the separation and the independence arising therefrom. Following the separation, PPF Group made a public statement that it considered O2 CZ shares to be the group's long-term financial investment. As a financial investor, it is not in the group's interest to delist the shares from the Prague Stock Exchange, increase its effective ownership interest in O2 CZ and attempt to squeeze out smaller shareholders. On the contrary, PPF Group intends to promote public trading in the shares, increase their liquidity and free-float. The group also declared that, as a shareholder in O2 CZ, its principal long-term motif is to increase the fundamental value of O2 CZ shares.

Effective from 1 June 2015, agreements governing their mutual relationships were concluded between O2 CZ and CETIN. This concerns the following agreements:

- Mobile Network Services Agreement; description of supply under contract: this agreement ensures access of O2 CZ to infrastructure and functionality of the Radio Access Network in the mobile network on the part of CETIN, and supply under contract on the part of CETIN involves the operation and maintenance of 2G, 3G, LTE and CDMA networks, consolidation of the 2G and 3G networks, and deployment of the LTE network and other network development projects, e.g. expanding the service to include also coverage of the Prague metro tunnels;
- Agreement on Access to Termination Points; description of supply under contract: data services according to a new reference offer completed in regional capitals;
- Agreement on Access to Public Fixed Communications Network; description of supply under contract: agreement based on a reference offer, the subject of which is providing the network service at a termination point, and access to public telephone service and to broadband service in the fixed network of CETIN;
- Agreement on Interconnection of the Public Fixed Communications Network of CETIN with the Public Mobile Communications Network of O2 CZ; description of supply under contract: provision of services of electronic communications and activities to subscribers connected to networks of third parties and other users, interconnection and maintenance of interconnection of infrastructures of their public communications networks;
- Service Agreement; description of supply under contract: providing discount agreements with roaming partners on behalf of O2 CZ;
- Agreement on the Provision Data Centre Services; description of supply under contract: rental of space in data centres owned by CETIN;
- Agreement on Collocation in Specific Locations; description of supply under contract: provision of collocation space and services of physical collocation in specific locations;
- Agreement on the Provision Carrier-Type Services; description of supply under contract: Carrier ATM Access data services;
- Agreement on the Billing of Wholesale Services; description of supply under contract: billing of wholesale services O2 CZ;
- Lease Agreement; description of supply under contract: lease or rent of office space owned by CETIN;
- Agreement on the Provision Support Services - CETIN to O2 CZ / O2 CZ to CETIN; description of supply under contract: temporary provision of mutual support services;
- Agreement on Termination of International Voice Traffic; description of supply under contract: transit of international traffic originating in mobile and fixed access networks of O2 CZ, including traffic originating in the network O2 Slovakia;

- Optical Fibre Lease Agreement; description of supply under contract: lease of optical fibres;
- Agreement on the Provision Technological Housing Services; description of supply under contract: rent of space in CETIN facilities to house O2 CZ technology;
- Asset Sale and Purchase Agreements - O2 CZ to CETIN / CETIN to O2 CZ; description of supply under contract: to finalize the division of property between the companies;
- Services Agreement on Signalling and GRX / IPX; description of supply under contract: CETIN provides SCCP and diameter signalling, GRX/S8 payload mobile data exchange.

In the period between the separation of the Company until the end of 2015, O2 CZ began to see the materialization of some of the benefits and value of the separation, which the Board of Directors had identified in its analysis of the separation.

In the period from 1 June until 31 December, a number of regulation obligations passed from O2 CZ to CETIN, see section 4 Regulation.

As expected by the Board of Directors, the separation of O2 CZ made the management of the Company, and the decisions on strategic matters, more effective. The executive management of the Company analyses and evaluates, on a weekly basis, the current financial, operating and commercial results; flexibly responds to the needs of customers and to market developments. Based on this, the Board of Directors effectively plans and proposes future projects and activities.

Last but not least, the separation delivered a tangible and specific increase in profitability of O2 CZ. Revenues were successfully stabilised on a year-on-year basis, despite the shrinking market. Operating profitability expressed as EBITDA was up 24.7% year on year, as a result of a 6.5% cost saving. The change in the way the Company is managed also delivered results; the decline in operating costs were mainly due to the streamlining of all operating and commercial activities.

The re-negotiation of the contracts with all key suppliers continued, with a future upside in the range of hundreds of millions of Czech crowns. The consolidated net profit from continuing operations grew in 2015 by 44.4% year on year. Investment demands also substantially decreased, with the consolidated capex to revenue ratio reaching 7.6% (excluding the cost of CZK 432 million for renewing the licences for the 900 MHz and 1,800 MHz spectrum). O2 CZ directed its investments mainly to the acquisition of exclusive rights and content for its O_2 TV service, and to upgrades and consolidation of its IT systems with a view to further streamline processes and systems. The Company also invested in upgrades of its network management, supervision and control systems and of its billing systems.

The Company also successfully and at preferential terms refinanced its existing financial debt of CZK 7 billion, and acquired a new 5-year credit line of up to CZK 5 billion.

FACTORS INFLUENCING THE BUSINESS AND RESULTS IN 2015

Regulation

The regulatory environment of the electronic communications market in the Czech Republic in 2015 was influenced mainly by development of legislation, analyses of relevant markets, product regulation, international roaming, Universal Service and management of the radio spectrum.

Legislation

In terms of legislation regulating the area of electronic telecommunications or with implications for the business of O2 CZ, no fundamental changes were adopted in the first six months. The implementation of legislation enacted last year continued. Amidst these laws, the Company's business was particularly affected by the Act No. 181/2014 Coll., on Cyber Security, which came into effect on 1 January 2015.

Relevant markets analysis and product regulation

O2 CZ continued to meet its obligations based on the relevant markets analysis which the Czech Telecommunications Office (CTO) completed in previous periods. Along with the separation of the Company as of 1 June 2015, a number of regulatory obligations passed from O2 CZ over to CETIN.

O2 CZ is still bound by regulation in market no. 1 – Access to a public telephone network at a fixed location, based on which obligations are imposed to provide the service of Carrier Selection and Carrier Pre-selection (CS/CPS).

Furthermore, O2 CZ is bound by regulation in market no. 7 – Termination of voice calling (termination) in individual public mobile telephone networks. The termination rate continues to be subject to regulation, currently at the level of CZK 0.27 per minute excluding VAT; this applies to calls from telephone numbers with codes of countries in the European Economic Area.

International roaming regulation

Roaming services and prices in the European Union are regulated until 2022 by Regulation of the European Parliament and of the Council (EU) No. 531/2012 of 13 June 2012. In October 2015, an amendment to the Regulation No. 531/2012 from 13 June 2012 was adopted, to come into effect from 2016, or 2017, respectively. Throughout the year 2015, the regulated retail prices applied which had last been published to take effect from 1 July 2014.

Obligations associated with the provision of the Universal Service

As part of the obligation to provide Universal Service (imposed by the CTO), the Company delivered the following specific services in 2015:

a) public payphone service;

b) access of disabled persons to a publicly available telephone service equal to access that other end users enjoy; especially by means of specially equipped telecommunications terminal devices,

c) special price plans for disabled persons which are different from the price plans provided under normal terms and conditions of sale.

Covering the cost of the Universal Service

On 28 July 2015, O2 CZ submitted its claim for reimbursement of costs incurred in connection with the provision of the Universal Service, including the loss incurred as a result of providing special price plans to persons with disabilities, for the year 2014. The CTO proceeded to verify the amount of the claim and the supporting documentation. The CTO decided on the reimbursement at the end of 2015; it recognized the claim to the extent of CZK 48,240,857 for specific services under letters (a) and (b) above, and in the extent of CZK 89,241,313.57 for the specific service under (c) above.

Frequency spectrum management

On 3 June 2015, the Czech government approved a strategy paper frequency spectrum management proposed by the CTO and the Ministry of Industry and Trade (MIT). The document lists strategic goals in frequency spectrum management, together with actions aimed at their achievement, subordinated to the overall goals of the state policy in the area of electronic communications.

In autumn 2015, the government adopted a regulation amending the Government Regulation No. 154/2005 Coll., laying down the amount and method of calculation of charges for the use of radio frequencies and numbers. The amendment introduces a degression of the fees for higher frequency bands of the terrestrial mobile service by 80%, to take into account the economic potential of that part of the radio spectrum for the holders of spectrum licences.

At the end of 2015, a new public consultation of the draft terms and conditions of a new tender for spectrum in the 1,800 MHz and 2.6 GHz band. The tender is planned for the 1st half of 2016. The CTO also conducted a public consultation of the planned tender for the 3.7 GHz band, which is set to follow also in 2016, after the tender for the 1,800 MHz and 2.6 GHz bands.

The CTO assigned to O2 CZ frequency spectrum of 900 MHz and 1,800 MHz, effective till 7 February 2016, which had gone through the statutory renewal process in 2015. On 9 October 2015, the CTO decided to allocate new frequency spectrum for the period from 8 February 2016 until 22 October 2024, for the price of CZK 432 million.

The Czech telecommunications market

The most significant event in the telecommunications market in 2015 was, without doubt, the separation of O2 CZ into two standalone companies. Further details about the separation of the Company can be found in section 4 Separation of the Company.

The Czech telecommunications market in 2015 was dominated in particular by innovations in the area of mobile data and television. After O2 CZ, also T-Mobile and Vodafone also brought out their television products.

The market saw also the acceleration and increasing availability of mobile and fixed access internet. According to a survey by HIS commissioned by the European Commission, which compared the 4G LTE network coverage in all EU member states, the Czech Republic in 2015 took one of the leading places for its extensive 4G LTE coverage.

The sharing of 3G and 4G mobile networks, as well as the consolidation of 2G networks with T-Mobile, which, after the separation, was passed to CETIN from 1 July 2015, continued for the benefit of customers of both providers. In the area of fixed internet access, CETIN continued install remote DSLAMs which, together with the implementation of vectoring, brought broadband internet to a greater number of customers. An overview of new O2 CZ products and services can be found in section 4 Products and services.

Vodafone presented its new tariff proposition designed for families of four and businesses. Shared tariffs offer unlimited calling and SMS to all networks and shared small-screen internet. In June, Vodafone launched new prepaid bundles with automatic renewal.

In April, T-Mobile debuted its new voice bundles for prepaid customers; in May, the company adjusted the flat-rate fee and data allowance for small-screen internet. Also in May, T-Mobile cut off data service to customers using its small-screen internet price plan with an allowance of 50 MB, after the FUP has been used up. Customers can buy additional data allowance for an extra fee.

Together with Blue Cell Networks and SIGFOX, in May T-Mobile commenced pilot operation of a wireless network for Internet of Things. Also in May, the company started the commercial operation of its VoLTE service, which allows to carry voice traffic over the LTE network. In November, T-Mobile began testing of voice over WiFi.

In January, UPC increased the price of fixed internet access and cable television. Starting from May, it now offers a fixed telephony tariff. In September, the company increased the speed of fixed internet connection for some customers. The price of some tariffs remained the same and increased for others.

O2 CZECH REPUBLIC GROUP

Overview of the O2 Group and the main changes in 2015

O2 Group consists of O2 CZ and its subsidiaries. In 2015, the majority of the Group's services were provided within the territory of the Czech Republic. Through its 100% owned subsidiary O2 Slovakia, the Group has been offering mobile services to customers in Slovakia since 2007. In 2015, the Company also established a foreign branch in Slovakia, to promote the sales of fixed access telecommunications services in Slovakia.

The regional breakdown of consolidated revenues (excluding revenues from non-telecommunications services) was as follows:

In million CZK	Year ending 31 December	
	2015	2014
Czech Republic	31,062	31,557
Slovakia	6,683	6,173
Consolidation adjustments	(360)	(358)
Total consolidated revenues[1]	**37,385**	**37,372**

[1] Excluding other revenues from non-telecommunications services

Several changes occurred in the structure of the O2 Group in 2015. A more detailed summary of subsidiaries and affiliated companies is given in chapter Subsidiaries and other ownership interests.

The Company is the largest integrated provider of telecommunications services in the Czech Republic, offering an end-to-end range of retail voice, data and internet services via fixed and mobile access. It also offers a unique television service, O_2 TV, which is the fastest-growing service in the pay television market in the Czech Republic. With its portfolio of Professional Services and Managed Services, O2 Group is also one of the leading providers of ICT services in the Czech Republic.

Virtual operators also offer their services via the O2 network. In terms of the size of customer base, the largest MVNOs are O2 Family, BLESKmobil, Tesco Mobile and MOBIL OD ČEZ.

As part of its efforts to help the communities, O2 CZ in 2015 launched a programme called SmartUp through its O2 Foundation. The programme helps young people develop their abilities not just through grants but also courses. In 2015, O2 CZ started, on the platform of SmartUp and through its subsidiary Bolt Start Up Development, promote smart ideas, solutions and innovative technology projects. The Company opened BOLT, a new start-up accelerator, to get these projects on the way.

In Slovakia, O2 Slovakia continued to grow in all monitored financial and operating indicators. The growth in the customer base was supported mainly by the growth in the number of contract customers.

The total number of customers of the O2 Group was as follows:

In thousands	As at 31 December	
	2015	2014
Fixed voice access	840	928
xDSL access	795	793
ADSL	357	411
VDSL	438	382
O_2 TV (pay TV)	202	184
FIXED ACCESS SEGMENT – CZECH REPUBLIC	1,837	1,905
Contract customers	3,237	3,294
Prepaid customers	1,659	1,775
MOBILE SEGMENT – CZECH REPUBLIC	4,896	5,069
Contract customers	971	858
Prepaid customers	838	826
MOBILE SEGMENT – SLOVAKIA	1,809	1,684
GROUP CUSTOMERS TOTAL	8,542	8,658

O2 Group incurs internal research and development costs on activities pursuant to § 2 paragraph 1 of Act on Research and Development Support No. 130/2002 Coll.

Transformation programme

In 2015, the O2 Group continued to implement restructuring and cost optimisation measures aimed at achieving a greater operational efficiency. O2 Group introduced new projects in many areas of its business.

One of the key projects is the comprehensive transformation programme Simple Online Company.
The programme is unique both in terms of the scope of the transformation – it includes the replacement and major upgrade in fact of all key IT systems, and the design, which focuses on immediate and intuitive customer service in all channels of the Company. The programme introduces significantly simplified processes, products and their communication – internally and externally, to the customers, online in all channels. This will help O2 CZ build a simple operating model that will help it flexibly respond to the changing needs of the market, meet the demand from customers fast and introduce new services and products across all distribution and service channels.

As part of the programme, in February the Company launched two systems, for users in the Business division and the SME segment, in the area of customer management and bid preparation. These systems significantly helped the sales divisions efficiently serve customers and correctly identify their needs.

At the end of October 2015, the Company launched, as part of its Prepaid CRM project, a new customer relationship management system for prepaid customers, and migrated close to 1.9 million of its own customers and virtual operators' customers in the network. The system is designed in a way which eliminates the need for user training and complicated manuals.

The Company also opened a new data centre, to aid the successful implementation of key consolidation and transformation projects. The data centre seeks to improve operating efficiency and it has been equipped to the latest infrastructure standards.

The total number of employees of the O2 Group in territorial breakdown was as follows:

	As at 31 December	
	2015	2014
O2 Czech Republic[1]	2,967	3,116
O2 Family	83	104
O2 TV	10	0
O2 IT Services	238	0
Employees in the Czech Republic total	3,298	3,220
O2 Slovakia	572	436
O2 Business Services	38	0
Employees in Slovakia total	610	436
Group employees total	3,908	3,656

[1] As at 31 December 2014, excluding 1,236 employees of the Infrastructure and Wholesale Division of O2 CZ who, as at 1 June 2015, were transferred to CETIN following the separation of the Company

Slovakia

O2 Slovakia

Also in 2015, O2 Slovakia grew in all financial and operating indicators. Its revenues were up 8.2% year on year to CZK 6,683 million in 2015. O2 Slovakia at the same time posted a 23.3% growth of EBITDA in 2015, to CZK 2,285 million. As a result, the EBITDA margin in 2015 reached 34.2%, which is 4.2 percentage points better than in 2014.

The number of customers also showed a year-on-year growth of 7.4% to 1.809 million. The increase in the customer base was driven mainly by the growth in the number of contract customers whose share of the total customer base increased to 54% as at 31 December. The ARPU in 2015 was EUR 12.9 per contract customer and EUR 5.8 per prepaid customer.

In 2015, O2 Slovakia forged ahead with its long-term network development strategy and brought its fast data service to new locations within Slovakia. As at the end of 2015, the company's proprietary 2G network covered 96.1% of the population, and the proprietary 3G network was available to already 70% of the population. Also in 2015, the company continued the roll-out of its 4G network which, as at 31 December, reached 25% of the population. O2 Slovakia customers could already take advantage of the fastest data service in thirteen largest Slovak cities and their agglomerations.

In addition to its network development investments, in 2015 O2 Slovakia embarked on another leg of its journey: it became a complex telecommunications operator. At the end of the year, the company debuted its fixed access service portfolio and a range of ICT solutions for business through O2 Business Services (see below in this section).

As concerns its product proposition, in 2015 O2 Slovakia concentrated on making its price plans *O_2 Fér* and *O_2 Paušál* even more economical to use. *O_2 Paušál* was significantly innovated; customers of the "diamond" and "platinum" *O_2 Paušál* can now grant unlimited calls to up to four users of any *O_2 Paušál*. O2 Slovakia also introduced "gold" *O_2 Paušál* to the family. Customers of the popular *O_2 Fér* could take advantage of *Férový strop*, a service which, if activated, caps the monthly mobile spend of its users at EUR 40.

O2 Slovakia, as a company with a strong customer focus, continued to improve customer comfort. In 2015, the company gradually implemented the option to surf the 4G network without a speed surcharge also abroad. The first country was the Czech Republic and, by the end of the year, Austria, Poland, Hungary, Croatia, Slovenia, Russia, United States, Holland, Germany and Italy were added to the list.

O2 Slovakia "surprised" its customers when it brought down the outgoing call rates in the European Union to the level of national call rates in the summer – between 1 July and 31 August, when most people take vacations. *O_2 Fér* customers called from abroad for only 13 cents; business customers subscribed to *O_2 Moja Firma* called for 12 cents, and *O_2 Paušál* customers for as little as 10 cents per minute.

The end of the year was in the name of a marathon of gradual deployment of the proprietary 4G network in thirteen largest Slovak cities and their agglomerations. At the end of the year, the company's 4G network reached 25% of the Slovak population; the plan is to expand the coverage in 2016 to close to 60% of the population in Slovakia.

O2 Slovakia successfully tested its LTE Advanced technology in selected parts of the capital; customers could use it automatically. The network speed enhanced by this technology is up to 165 Mbps in real terms, while the theoretical maximum in the operator's network is only marginally higher.

O2 Business Services

On 2 April 2015, O2 CZ incorporated its branch in Slovakia; on 1 May 2015, the branch changed its name to O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s. (O2 Business Services). Its role is to offer a comprehensive portfolio of fixed and mobile access services and ICT solutions for business. The O2 Business Services product portfolio includes internet, fixed and mobile voice, data, data centre services and server virtualisation.

With the O2 CZ product portfolio at hand, the company can offer standardised service to business customers – ranging from corporations to small businesses in the Czech Republic and Slovakia. O2 Business Services distributes its telecommunications services using wireless technology in the 3.7 GHz spectrum which it recently secured. In addition, O2 Business Services shall construct and roll-out optical metropolitan networks in Bratislava and other cities across Slovakia.

O2 Business Services, a.s., a wholly owned subsidiary of O2 Slovakia, was incorporated on 15 December. In early 2016, the plan is to transfer all business of O2 Business Services to the new company.

Risk management

Risk management is one of the primary management tools for effective governance of the Company. Its purpose is to render support in accomplishing the Company's vision and strategy. The risk management model which is being applied fully conforms to the best international practice in the field of corporate governance and the COSO II framework (Committee of Sponsoring Organizations of the Treadway Commission). The risk management system continues to be developed as an indispensable instrument of internal control.

Risks are identified based on a regular assessment of the relevant management levels and suggestions made by the Internal Audit Risk and Management unit and other units of the Company, and evaluated in terms of their potential financial impact and likelihood of materialisation. Where the value of a risk exceeds a set limit, the risk is included in the risk catalogue of the Company and is subject to regular monitoring and updates. Each material risk is assigned to an executive manager who is responsible for managing the risk and keeping the risk status up to date. Also in 2015, the Risk Management unit was responsible for the methodology and risk management system on the Company level. The governing bodies – the Board of Directors and the Supervisory Board, or, where appropriate, the Audit Committee – were informed on a monthly basis of all major risks to which the Company was exposed, and of the ways the risks were managed. The Risk Management unit also handles the risks of O2 Slovakia; the risks were managed according to the approved methodology.

In the course of its operations, the Company may be exposed to the following risks:

Commercial (market) risks

The general economic climate has a major influence over the Company's business. Any uncertainty regarding future economic prospects or further intensifying of competition in the electronic communications marketplace may dampen demand from customers. The Company operates in a regulated marketplace. Regulatory interventions on the European (European Commission) and the national (CTO) level may have a negative impact on the Company's business. Already approved roaming regulation, to come into effect in the first half of 2016 (or 2017, respectively), may have a significant bearing on the Company's performance. The Company's business may be also negatively influenced by the ongoing technology progress. New products and technologies may cause existing products and services to become obsolete; they may have also a negative bearing on the profitability of traditional voice and data services.

Financial and credit risks

The Company is exposed to various types of financial risk, in particular risks of the fluctuation of the exchange rates of currencies or interest rates. The Company is also faced with the risk of losses stemming from defaults on payment and delivery terms contracted with partners, e.g. receivables from customers or sales agents.

Operating risks

The Company is exposed to risks associated with a sudden disruption of service due to network failure, information system downtime or attacks compromising cyber security. Such service interruptions may negatively influence customer satisfaction and revenues, and make the Company liable to bear extra maintenance costs or financial sanctions. The Company may be exposed to increased operating costs if major transformation projects, especially in the area of information technology, incur delays. The Company is also dependent on a small number of key suppliers of essential products and services (e.g. mobile handsets or network equipment). The Company is also implicated in several significant litigation cases and figures in several administrative proceedings with regulators; the outcome cannot be predicted. If the decision is negative to the Company, its costs may increase significantly, which would in turn have a negative effect on its bottom line. The above risks are regularly monitored and managed by the executive management of the Company in a way that corresponds to the nature of the risk, with the view of limiting the potential impact on the Company's results.

PRODUCTS AND SERVICES

Consumer segment

Mobile access segment

In 2015, O2 CZ continued – through CETIN – with the expansion of its 4G LTE mobile internet service. At the end of the year, already 80% of the population and the majority of Czech motorways were within reach of 4G LTE. O2 CZ was the first among Czech operators to cover with signal D1, the busiest Czech motorway. To build up its 4G LTE network, the Company uses the 800 MHz frequency, which is the most suitable for the purpose. For the next two years, the priority is to complete the roll-out of the 4G LTE network and densify the coverage. O2 CZ at the same time announced it was getting ready for the arrival of the fifth-generation (5G) network.

To make sure that all customers can take advantage of the fastest service, from the middle of May the Company increased the basic data allowance for the tariff *FREE O_2 60* without increasing the monthly subscription. At the same time, the roll-over of the data allowance was simplified, to avoid the deceleration of the speed after the basic allowance that comes with the tariff is used up.

To take advantage of the 4G LTE data service, people need a data tariff and an LTE SIM card in an LTE-enabled handset. For this reason, in April O2 CZ launched a long-term initiative The Truth About Mobile Phones and Tablets, in which it draws attention to the risks associated with choosing a new mobile phone and highlights the benefits of buying from an operator – such as no-commitment purchase, lowest price guarantee or the assistance from O_2 Guru in-store specialists. Together with the campaign, the Company's revamped and easier-to-navigate e-shop went live, which gave a significant boost to the sales of 4G LTE handsets.

To further promote fast mobile data, in May the Company offered a discount of CZK 1,000 on selected 4G LTE mobile phones to all *FREE* tariff subscribers. O2 CZ came out with another promotion just in time for the summer holidays: customers who bought a new Samsung or Microsoft 4G LTE mobile phone by, and turned in their old model which had to be still functional, had the recycling bonus taken off the price. Starting from October, the Company started offering insurance against damage or theft for new mobile phones or handsets. In November, O2 CZ launched its Christmas promotion. New and existing customers could get a bonus – depending on their tariff – of up to CZK 3,000 against a purchase of a new Samsung, Lenovo or Apple 4G LTE mobile phone.

The Company also debuted a simpler offer of prepaid services bundled with new benefits for customers. The tariff *NA!DLOUHO*, which comes with free calling after the first minute, now offers also reduced rates on international calls. At the same time, O2 CZ also substituted some of its previous prepaid ad-on bundles with more economically priced ones, and consolidated its whole tariff portfolio.

From the middle of May until the end of September, all O2 CZ customers could call for the lowest ever prices in the market. Roaming rates went down to the level of the rates for which customers of *FREE* tariffs call nationally. In the same period, O2 CZ also doubled the data allowance of European data tariffs; as a result, 1 MB of data cost only CZK 1, way below the EU-regulated price of CZK 6.60 per 1 MB of data. Customers who travel frequently in Europe can now take advantage of a new tariff *FREE Evropa* launched in mid-May. At the end of 2015, O2 CZ customers could roam on LTE networks in twelve countries – Slovakia, Austria, Croatia, the Netherlands, Slovenia, Poland, Italy, Belgium, Germany, Hungary, Russia and the United States. The list of countries is steadily growing.

Fixed access segment

O_2 TV

The year 2015 was a year of big changes for O_2 TV. The most significant ones include the launch of a proprietary sports channel, O_2 Sport, unveiling of the Multidimension concept or making O_2 TV available to all homes, regardless of their choice of internet access provider.

At the end of the year, the number of O_2 TV customers broke the 200,000 mark. As a result of all improvements introduced by the Company in 2015, O_2 TV became the fastest-growing pay TV service.

O2 CZ also launched a new tariff range which introduced many improvements and simplified the whole tariff portfolio. With each tariff, customers got four licences to watch O_2 TV on the small screen. Throughout the year, the Company migrated all O_2 TV customers.

In February, the Company secured exclusive rights to the next three seasons of the UEFA Champions League, including the semi-final and final matches. In August, the Company also signed other exclusive content – a match from each round of Synot football league – to broadcast on its O_2 Sport proprietary channel. In the same month, the Company debuted live broadcasts, recent recordings and various other programming content related to combat sports from the production of Fighting Spirit.

In August, the digital O_2 TV portfolio was expanded to include a new sports channel O_2 Sport with unique functionality and exclusive sport content. The viewer can choose between Champions League matches broadcast simultaneously, or select the camera angle for the best Synot league match. The sports channel also offers exclusive sporting events, such as World Rally Championship (WRC), WTA and ATP tennis tournaments, Euroleague in basketball, Men's and Women's European Volleyball Championship, FINA Swimming World Cup; also, in the world of combat sports, M1 Global, Final Fight Championship, World Series Boxing and Enfusion Live. The combination of innovative functionality and exclusive content makes O_2 TV the most progressive and unique digital television in the Czech market.

To make the O_2 Sport channel within everyone's reach, the Company revamped its O_2 TV Go mobile television as O_2 TV Air. In addition to O_2 Sport, the mobile television offers also all the other sports channels from the O_2 TV selection, as well as many other genres – freeview, documentary, children's and film channels.

In August, O2 CZ and Staropramen teamed up for the project Sportovní kino (Sports Cinema), which, to Czech pubs that have TV screens, brings the new O_2 Sport channel and public broadcasting rights for other sports channels. Pub landlords thus get attractive and, most importantly, legal programming for their guests as part of a marketing bundle that can help promote their establishment in the community.

At the end of the year, O_2 TV Air mobile television transformed into O_2 TV Air M. Thirty original channels were upped to the present sixty, plus O_2 Sport in HD quality. The Company at the same time increased the recording capacity to 100 hours per month. O2 CZ also made possible to buy a set-top box with the service, which allows O_2 TV to run with internet connectivity from any provider. This service is intended especially for those customers who do not live within reach of O2 network and broadband internet.

Internet and fixed access

Throughout 2015, the Company forged ahead with its efforts to improve its broadband internet service. At the end of 2015, 795 thousand customers were connected to the internet through the Company's xDSL service. During the year, the number of customers subscribed to the VDSL service, which offers a minimum speed of 20 Mbps, grew to 438 thousand, which represents 55% of the xDSL customer base. In November, the upload speed for the highest Aktiv tariff increased from 2 Mbps to 4 Mbps for all customers. The service availability increased as a result of new remote DSLAMs being brought online and technical improvements to the network implemented in the autumn, which together increased the radius from the exchange within which it is possible to install VDSL. The Company also unveiled its wireless internet innovations. Internet Air connects people via the 4G LTE at a speed of up to 20 Mbps – even homes outside the reach of fixed xDSL internet access from O2. From June, the service is no longer tied to a particular address; customers can use it at home, while holidaying in the country or at their weekend house. 93% of Czech households are eligible for the service.

In June 2015, O2 CZ expanded its internet proposition to business users with the introduction of new *Internet PROfi* tariffs. As an innovation, the Company now offers security for company networks in the form of online content filters, improved technical support with xDSL availability guarantee, including a lifelong modem warranty.

Mainly as a result of the increasing share of VDSL customers, emphasis on the retail experience and fair treatment of customers, in 2015 the Company managed to reduce the churn rate to the lowest ever rate. Also in the segment of fixed access, the Company posted the lowest ever churn rate, continuing the trend of the first half of 2015 with a 30% churn reduction year on year.

Corporations and government

In the corporations and government segment in 2015, the Company focused mainly on streamlining of the product portfolio, shortening response times for customer requests so that the majority of them are handled within two days, and the launch of Elastic Business Solutions, a new marketing communication concept. The motto of the first phase of the campaign was the mission statement: "We Help to Create Elastic Companies." In the upcoming phases, O2 CZ will demonstrate how O2 CZ products and services can help businesses and institutions increase their productivity and capacity to flexibly adapt to the changing marketplace environment.

In the mobile access segment, the Company completed its programme of renegotiation of contracts so that, starting from 2016, all contracts in force are only for sales-active Vario tariffs and profile offers. This has consolidated the portfolio of products in active use. The expected benefits of the rationalization of the supporting IT systems and customer care materialized, with a positive impact on future operating costs and customer experience. In August, the Company debuted optional functionality of automatic data allowance recovery, which also improved customer experience. As a result of active 4G LTE marketing, the number of corporate subscribers of the fastest data 4G LTE recorded a significant year-on-year increase.

In the area of data and internet, the Company diversified its infrastructure supply. International IP connectivity from CETIN was complemented with Tier I connectivity from Telia Sonera International Carrier; it is intended primarily for corporate and institutional clients. Despite the fact that CETIN remains a key supplier of telecommunication infrastructure, systemic and processual measures were taken to offer the Company's services to corporate and institutional clients also on the infrastructure of alternative providers. The first contract was signed with České Radiokomunikace; UPC and T-Mobile followed suit.

In the area of IT solutions, the Company substantially restructured its product portfolio. The Company now offers cloud-based services on Microsoft platform as an alternative to VMware services. The Cloud from O2 family of services now comprises Virtualised Solution, Virtual Data Centre and Virtual Servers, plus innovated data back-up, storage and security. At the same time, the Company modernised its top-class data centre facilities which are used to provide O2 Data Centre services.

In machine-to-machine, the Company completed the in-house development of a special mobile connectivity management platform. The modern platform lets customers manage – through an application and web-based (portal) interface – their mobile connectivity lifecycle; the user sees the current status, can activate and deactivate SIM cards, use geolocation monitoring of devices with a SIM card, see and generate reports of data volumes, or set limits and alarms based on defined parameters.

ICT

In 2015, O2 CZ's Professional Services Division concentrated on the design and development of customer-focused information and communication technology solutions. With the use of standardised product solutions and components, in 2015 the Company reduced the delivery time and costs, and offer to all customers an optimal and tailor-made solution for the business they are in.

The Company continued to bolster its strong focus on security. Security Expert Center (SEC) is a service that makes sure that the customer is in compliance with the requirements of the cybernetic security, privacy and other security laws. The service helps eliminate risks associated with cyber threats and the loss, unauthorised use or theft of data and information. It combines security monitoring, analysis, reporting and other security services, and protects the IT environment as a whole.

The Company is pursuing also other prospective fields – the so-called Internet of Things, orchestrated cloud infrastructures and integrated application solutions.

The Company also continued the implementation of existing major IT contracts, e.g. ISDS (Data Box Information System) for Czech Post and projects for the Ministry of Agriculture. From October 2015, new major projects included the support and development of ISKN (Land Registry Information System) – migration from the legacy system and system operation for the State Administration of Land Surveying and Cadastre, or a private cloud solution for RWE.

Following a resolution of the Company's General Meeting, effective from 1 January 2016, the Professional Services Division was transferred into the wholly owned subsidiary O2 IT Services. Both members of the O2 Group will take advantage of their synergies and broader technology base in the future.

Payment and financial services

O2 CZ provides payment services to its customers in keeping with the Act No. 284/2009 Coll., on the payment system. The services allow customers raise a payment order and use their mobile device or fixed line to pay for goods or services provided by third parties. In 2015, the turnover of services paid for this way was close to CZK 692 million.

The customer has a choice of several payment methods: Premium SMS, Premium-rate Telephone Number, online or in-app payment. More than 250 thousand customers on average use at least one payment method a month. The most popular method of payment for third-party services is Premium SMS, which is used mainly to purchase public transport fare, parking or to vote in television programmes.

The option to pay online through the O2 mobile payment gateway or in a third party application has been gaining popularity with customers. By the end of 2015, i.e. 12 months from the launch of the option to pay via O2 in Google Play, more than 70 thousand customers effected at least one payment transaction. In October, the option to pay for apps and games via O2 was introduced also for Windows Phone Store.

Donor SMS (DMS) is a special service for the non-profit sector. It allows people to make contributions to charitable causes. O2 CZ bears the full cost of the service and offers it as a free service within its network.

In March, the Company debuted Extra karta, which gives customers 5–40% off O2 services with every bill, if the customer sets up a direct debit from Extra karta. The same discounts apply to topping up prepaid credit with Extra karta. Extra karta holder can use the card to pay up to four bills; the monthly saving is capped at CZK 2,000. Home Credit in collaboration with MasterCard provide the credit card service on behalf of O2 CZ.

Starting from October, the Company began offering insurance with any new handset or tablet purchased in an O2 branded store. The insurance cover can be bought for 12 or 24 months with purchase of a new device, both for the full price and pay-by-instalments without interest. The price of insurance is then added to the regular monthly billing. O2 offers insurance to both consumers and small business customers.

The Company, in collaboration with other mobile operators on the Association of Mobile Network Operators, strives to inform customers of the various payment services, how they work in principle and how to use them via the website www.platmobilem.cz.

COMMENTS ON THE FINANCIAL RESULTS

In this section we present and comment on the consolidated financial results of the O2 Group prepared in accordance with International Financial Reporting Standards (IFRS). Certain amounts shown in comparatives have been restated due to the spin-off of the Company as of 1 June 2015 and adjustments to reflect continuing and discontinued operations were made in comparatives. More information is provided in note 4 of the notes to the Consolidated financial statements for the year ending 31 December 2015.

Consolidated financial results

Revenues, Operating Costs and EBITDA

The total consolidated revenues of O2 Group reached CZK 37.4 bn in 2015, flat compared with 2014. O2 Group, after seven years, turned the decline in revenues around, while telecommunications revenues in Europe continued to fall. Stopping the decline of the average spend per mobile customer, achieved through its focus on customer value and high loyalty, mobile data revenue growth, higher ICT and O_2 TV revenues, strong hardware sales and continuous revenue growth in Slovakia, were the key factors in the stabilisation of the consolidated revenues. Other income, including own work capitalized, reached CZK 394 mil. in 2015, up 19.0% year on year.

O2 Group continued with its effort to deliver efficiencies in both the commercial and non-commercial area by way of simplification of its operating and commercial model. As a result, total consolidated expenses dropped 6.5% year on year to CZK 27.6 bn in 2015. Earnings before depreciation and amortization (EBITDA) in 2015 amounted to CZK 10.1 bn, up 24.7% year on year. As a result, EBITDA margin improved 5.4 percentage point year on year, reaching 27.1%.

Operating Income, Income before Tax and Net Income

The consolidated operating income and consolidated income before tax went up 43.5% and 42.9% year on year, respectively, and reached CZK 6.6 bn and CZK 6.4 bn, respectively. The consolidated net income amounted to CZK 5.1 bn in 2015, up 44.4% year on year, as the growing EBITDA more than compensated for the higher depreciation and amortization, net financial expenses and corporate income tax.

Property, plant and equipment; intangible assets

The net book value of property, plant and equipment reached CZK 4.6 bn as at 31 December 2015, compared with CZK 36.2 bn at the end of 2014. The transfer of the fixed public communications network, physical infrastructure of the public mobile communications network and the data centres to CETIN, as part of the separation of the Company, was the principal reason for the substantial year-on-year decline. The value of the transferred assets was CZK 31.6 bn. The major of property, plant and equipment net book value as at 31 December 2015 accounted for telecommunication technology and related equipment (CZK 2.9 bn), which includes mainly exchanges and transmission equipment.

The net book value of intangible assets reached CZK 16.1 bn as at 31 December 2015. In the process of the separation of the Company, intangible assets worth CZK 9.6 bn were transferred to CETIN, of which CZK 9 bn was goodwill. Intangible assets as at 31 December 2015 included, for the most part, licenses, especially the rights to operate mobile networks in the Czech Republic and in Slovakia. The O2 brand, which O2 Group uses in the Czech Republic and in Slovakia, was another major intangible asset.

Cash and Debt

As at 31 December 2015, the O2 Group's consolidated financial debts (long-term and short-term) amounted to CZK 3 bn. In the fourth quarter of 2015, the O2 Group entered into Loan Facility Agreements with a consortium of banks for a loan of up to CZK 12 billion for 5 years. The facilities were used for the refinancing of the existing debt of CZK 7 billion (of which CZK 4 billion were refinanced only in January 2016) and for general corporate purposes. At the same time, cash and cash equivalents reached CZK 2.0 bn at the end of the period.

Capital expenditure

The total consolidated capital expenditure (excluding discontinued operations) reached CZK 3.3 bn in 2015, down 65.3% year on year. Excluding the acquisition costs of the LTE licences in the Czech Republic and in Slovakia (CZK 3.9 bn) and the capitalised cost of the O2 brand (CZK 3.7 bn) in 2014 and GSM license renewal cost (CZK 432 mil.) in 2015, the total consolidated capital expenditure increased 57.5% year on year. Non-recurring investments related to the IT transformation (upgrade, consolidation and implementation of IT and systems) aiming at simplification of systems and processes were the key driver of the capital expenditure growth. The Company also invested in an upgrade of the network management, control and administration systems and an upgrade of its billing systems. Investments were made also in the acquisition of exclusive sports broadcasting rights and in the start up of a new O_2 Sport channel, together with its own studio. In Slovakia, O2 Group invested in the deployment of a 4G network and in a capacity upgrade of its 3G network, as well as in the acquisition of 3.4 and 3.7 GHz spectrum and upgrade of billing systems.

Cash Flow

Net cash flow from operating activities reached CZK 11.6 bn in 2015, while net cash used in investing activities reached CZK 3.3 bn. Consolidated free cash flow[1] reached CZK 6.3 bn in 2015.

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[1] Net cash flow from operating activities less net cash used in investing activities less distribution of CETIN cash

Overview of consolidated revenue

In the Czech and Slovak telecommunications markets, which continued to show a negative trend, the total consolidated revenues remained flat year on year, reaching CZK 37.4 bn in 2015.

Revenues from voice services reached CZK 16.9 bn in 2015, down 5.5% year on year, largely due to lower number of fixed voice lines driven by advanced fixed to mobile voice substitution, lower effective price of the mobile calling due to more customers on unlimited voice tariffs and the competitive pressure.

The total mobile customer base in the Czech Republic reached 4,896 thousand at the end of December 2015, which represents a 3.4% year-on-year decline. The Company's focus on customer base quality and value over quantity is the main reason of the smaller mobile customer base. The contract customer base declined 1.7% year on year in 2015, reaching 3,237 thousand. The number of prepaid customers reached 1,659 thousand at the end of December 2015, down 6.5%.

The blended monthly average churn rate in the Czech Republic declined 0.2 percentage point to a record low level of 1.9% in 2015, while the contract churn remained low at 1.1%. The prepaid churn declined 0.4 percentage point to reach 3.5% in 2015.

In 2015, mobile blended average revenue per user (ARPU) in the Czech Republic was CZK 287, up 0.3% year on year, as competitive pressure driving lower voice and SMS pricing was compensated by the quality of the growing customer base and higher average data spend. The year-on-year decline of the contract ARPU slowed down in the first half of 2015, and as a result of the growth in the second half, it dropped just by 0.6% year on year, to reach CZK 376 in 2015. Prepaid ARPU decreased 2.1% year on year to CZK 119 in 2015.

The total number of fixed voice lines declined 9.5% year on year to 840 thousand at the end of December 2015. The rate of the decline decelerated to 88 thousand net losses in 2015, compared with 125 thousand in 2014.

At the end of 2015, the total number of customers in Slovakia reached 1,809 thousand, which represents a 7.4% year-on-year growth. Their number increased by 125 thousand in 2015, mainly as a result of the growth in the contract base. The number of contract customers grew 13.2% year on year to 971 thousand at the end of December 2015, while the number of prepaid customers increased 1.4% year on year and closed at 838 thousand. The share of contract customers in Slovakia increased to 53.7% of the total customer base at the end of December 2015, up 2.7 percentage point year on year.

The total revenues from data services grew 2.6% year on year and reached CZK 10.4 bn in 2015. Higher revenues from mobile data services thanks to higher number of customers using data services and higher data traffic were the key drivers for the revenue growth. The small-screen base in the Czech Republic grew 16.5% year on year to 1,571 thousand, and in Slovakia 16.7 % to 796 thousand. The demand for the mobile internet continued growing, mainly as a result of the tariff proposition with an extended data package and the easier data recharge if the allowance is spent, and also as a result of the growing 4G service coverage. The growth has been also supported by the ongoing promotion of smartphone sales through the pay-in-instalments model, while keeping the best price guarantee proposition for the bestselling smartphones. Smartphone penetration grew further, and at the end of 2015 it reached 48.5% in the Czech Republic, up 8.7 percentage points year on year. In 2015, smartphones accounted for 81% of all new phones sales and 97% of them were LTE smartphones (100% in the fourth quarter). At the end of December 2015, LTE smartphones accounted to 38% of all smartphones in O2 network. In Slovakia, smartphone penetration reached close to 50% at 2015 year-end. Revenues from fixed internet dropped slightly due to the lower average per customer as a result of competitive pressure. At the same time, revenues from O_2 TV increased more than 30% as a result of the growth in the customer base, and higher average revenue per customer due to the migration of customers to the new tariffs.

The number of retail xDSL accesses reached 795 thousand at the end of December 2015, up 0.2% year on year. The share of VDSL in the total base increased to 55%. Already 438 thousand customers took advantage of the VDSL service at the end of 2015, up 14.6% year on year. The total number of O_2 TV customers reached 202 thousand at the end of December 2015, growing 9.6% year on year as a result of the popularity of new functions, exclusive content, newly launched own O_2 Sport channel and a brand new set-top box, which brings O_2 TV to all Czech households, regardless of the internet access provider they use. For the full 2015 year, O_2 TV recorded close to 20 thousand of new customers and became the fastest growing pay TV service in the Czech Republic.

ICT revenues grew 13.0% year on year to reach CZK 1.9 bn in 2015. O2 Group continued its successful proposition of standard ICT services (Managed Services, Cloud, Security, and Virtual Desktop) to the corporate customers and special projects for the government segment. Sale of goods increased 37% year on year to CZK 2.8 bn, in line with O2 Group's strategy to become a relevant reseller of mobile hardware. Other telecommunications revenues reached CZK 5.4 bn in total, down 4.3% year on year, mainly due to lower SMS and MMS revenues negatively influenced by the lower effective price.

Overview of consolidated operating expenses

The total consolidated operating expenses of O2 Group went down 6.5% year on year, reaching CZK 27.6 bn in 2015. A considerable simplification of the operating and commercial model, coupled with the renegotiation of vendor contracts, significantly contributed to this result. Supplies increased 2.6% year on year to CZK 19.4 bn. While the service cost of sales was broadly flat year on year, the higher costs of goods sold, in line with the higher revenue from these sales, were the key driver for the growth in supplies.

Staff costs including redundancy costs reached CZK 3.7 bn in 2015, down 4.10 year on year. O2 Group's headcount reached 3,908 as at 31 December 2015, which is an increase of 6.9% year on year, mainly due to the acquisition of O2 IT Services, starting a branch in Slovakia and insourcing in the Czech Republic and Slovakia.

Costs of external services reached CZK 4.1 bn in 2015, down 31.0% year on year. Lower cost of network and IT repair and maintenance, together with lower rent for buildings and vehicles, were among the key drivers. Also, the different treatment of O2 brand costs in 2014 (included in external services) and 2015 (included in intangible asset depreciation) reflected positively on this cost category.

Outlook for 2016

In 2016, O2 Group will continue its focus on marketing its valuable services and products, fostering the high loyalty of its customers and increasing their demand for more services. The Board of Directors is confident that these steps will help the O2 Group stabilise the year-on-year average spend in the majority of customer segments, and alleviate competitive pressure. It is also convinced that O2 Group's strength and uniqueness in selected areas will help it maintain its market leadership. The Board of Directors expects that revenue from O_2 TV, mobile and fixed data and internet access and ICT revenue will remain the key growth areas.

In addition to that, O2 Group will focus on improving the quality of customer relationships and shorter service time to market through continued investment in the transformation of IT, billing and CRM systems. This will lead to the simplification and acceleration of the ordering and service delivery process, and to fewer complaints, negative and repeat customer calls to call centres, which will lead to better customer experience and greater satisfaction. In the corporate segment, maintaining the market share through enhanced service proposition, while minimising average spend per customer dilution remains one of its goals. In addition, the Group will continue its development and marketing of ICT and digital services (Cloud, Security, and M2M).

The Board of Directors expects that in 2016, CETIN will continue with investments in an additional expansion of the VDSL service and in speed enhancements through the installation of remote DSLAMs and the implementation of vectoring and bonding. This will strengthen the position of the O2 Group in the highly competitive fixed broadband market. The Board of Directors believes that the unique O_2 TV service will attract new customers; to this end, O2 Group plans to add new distribution channels – retail chains and e-commerce platforms – for its O_2 TV Air M service with a new Wi-Fi set-top box, to cement its position on the pay TV market.

O2 Slovakia will continue to offer its transparent and fair service proposition focused on higher-value customers. Its goal is to minimise the impact of the growing competition on its commercial and financial results. As concerns investments, the company will focus mainly on the acceleration of its own 4G network rollout, where it targets to increase the population coverage to up to 60%. At the same time, O2 Slovakia will partner with O2 Business Services to meet the demand from corporate customers.

In the operations area, O2 Group will keep its focus on streamlining of all its activities through its ongoing transformation programme Simple Online Company, which aims to increase the number of online activities, largely in sales and the customer relationship area.

The Board of Directors expects that free cash flow will temporarily dip, especially in the first half of 2016, as a result of a higher payment for capital investments undertaken in the second half of 2015.

05

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CORPORATE SOCIAL RESPONSIBILITY

The concept of Corporate Social Responsibility (CSR) is ingrained in the Company's corporate culture. Driven by this ethos, the Company actively pursues environmental and social agendas, ethical entrepreneurship and treatment of customers, caring for employees and the workplace environment.

In 2015, the Company was a member of the Association of Social Responsibility, Business Leaders Forum and the expert platform Business for Society. In 2015, the Company was awarded a Silver Certificate in the category Socially Responsible Project 2015 from the Business for Society organisation.

O2 GROUP BUSINESS PRINCIPLES

O2 Group Business Principles are a fundamental document in which the Company declares its policies and the principles by which its employees are bound. The emphasis is on comprehensibility, accessibility and ease of recollection. The text of the Principles is, in its main points, in accord with the codes of conduct of other major corporations pursuing business in the Czech market. Key policies include a strict dissociation from any form of corruption, respect to the rule of law, privacy and personal data protection.

Employees continue to receive training by means of an electronic course, and they are familiarized with these principles upon initial entry training at the start of their employment relationship. Employees are obliged to report unethical conduct constituting a breach of the Business Principles which they may come across; the Company guarantees anonymity for the whistle-blower by available whistle-blowing tools.

As one of the fundamental policy documents of the Company, the Group Business Principles are integrated into the Work Regulation and the Company obliges its employees to respect them.

MARKET CONDUCT AND CUSTOMER CARE

Products and services for people with specific needs

As in the previous years, also in 2015, the Company focused on helping and supporting people with specific needs. More than 36 thousand customers took advantage of the services and special rates in 2015. Customers could claim a discount on mobile services or fixed line and internet tariffs. The eligibility criteria were ZTP/P, ZTP disability passes, deafness and other disabilities. The Company also offers terminal equipment suitable for people with motoric, sight or hearing disability or people with restricted movement.

Call service for hard of hearing

The Company continued to improve its line for hard of hearing people which helps people with a hearing handicap communicate with the world around them using modern technology. The service is 24/7 and free of charge; only a simple registration is required. In 2015, operators of the line handled 51,547 requests from clients with a hearing or sight disability. The number of registered clients increased 21.3% year on year. The call service also offers transcription for hearing-impaired customers who visit an O2 brand store; the service desk handles regular requests from registered clients and also offers several assistance services for people with sight impairment.

The Company decided to consolidate its philanthropic activities, so, from September 2015, the call service is a part of the O2 Foundation, where it continues to fulfil its mission.

Safe Internet

The Company has set a goal to raise awareness of safe conduct in an online environment. At the website www.o2myslimena.cz, in section For Parents, the Company advised parents how to talk to children about using the internet and smartphones safely. The Company wants to lead by example, so it pays scrupulous attention to keeping the data of its customers and partners safe. At www.o2.cz, in section Privacy, every customer can see for themselves how the Company manages their personal information.

In 2015, the Company became a partner to two conferences, Cyberspace and Czech Law and Information Technology; it also celebrated Safe Internet Day on 10 February and Data Privacy Day on 28 January.

School information channel

As in the year before, also in 2015, the Company was General Partner to the project ŠIK CZ, which brings the series Be Responsible – It Is Easy and Fast to schools. The series covers various aspects of CSR and explains corporate social responsibility to pupils and students. The series also deals with the problems of corruption and advises how to behave in specific situations.

Don't Be Afraid to Say No

At its website www.o2myslimena.cz, in section Advice for Senior Citizens, O2 CZ explains which information can be safely shared, and how to recognize a person of genuine authority. Senior citizens can also verify the identity of O2 personnel by calling a toll-free number.

CARING FOR EMPLOYEES AND THE WORKPLACE ENVIRONMENT

Building of a corporate culture that fosters motivation of employees and is aligned with the strategy – that is the Company's key activity. Also in 2015, O2 CZ set priorities within its strategy: business-focused thinking, simplification, personal responsibility and fairness (equal and open treatment).

In 2015, the employee agenda was, for the most part, focused on the organisation of the Company. The process of separation of the company and the incorporation of a new company, CETIN, necessitated a full separation of management and governance, including all HR processes and systems. Changes were made in the Company, as well as in other subsidiaries, to improve the customer experience. In 2015, the Company also started the construction of a new IT centre in Pardubice, which will, when built, employ more than 60 specialists.

As the job market showed signs of recovery, O2 CZ responded to the emergent shortage of talent. The Company streamlined its recruitment process and intensified its communication directed at job-seekers. However, internal transfers continued to be the Company's priority, with more than a third of vacant positions filled this way. The number of new recruitment went up 20% compared with 2014.

The Company continued to put emphasis on working with students through the fourth round of Talentum internship programme, which brought 40 student interns to the Company. Talentum is a long-term programme to develop young talent. The Company also expanded the scope of its cooperation with universities through lectures of speakers from the Company, workshops on specific topics and internship opportunities. The Company also launched O2 Academy, a programme which hosted interesting workshops on online, marketing, ICT and other subjects in O2 CZ premises.

In 2015, the Company focuses on the identification of key executives and specialists, in order to involve them deeper in what is going on in the Company on the platform called Meet the Champions. The platform's role is to inspire through personalities internal and external to the Company and through networking within the Company.

Leadership development continues to be one of key priorities. In 2015, a comprehensive development programme Leader was launched; in three variants, the programme develops basic skills of junior leaders (Leader Start), first-line leader development (Leader for Operative Management), and the development of advance leadership skills (Leader 2015+). More than 300 managers went through the Leader programmes in 2015.

The internal training teams systematically assists with the fast adaptation of newly recruited employees in sales channels. Adaptation programmes were modified in all divisions, to achieve maximum performance and quality in minimum time. Smart Call, a new programme was developed for call centre operators and managers, which aims to improve the customer experience of the call centre. The sales team in the Business Division underwent training focused on ICT, as this is now the Company's priority.

Motivation programmes and employee benefits are an important aspect of the employment strategy. In 2015, the Company introduced motivation programmes for key personnel, and adjusted the performance management system, to better reflect the results and attitudes of employees. At the same time, the Company promotes team meetups and corporate events.

As benefits are concerned, the Company allows its employees a credit of CZK 18 thousand which can be used at the benefits portal against various financial services, products of the Company, courses, culture, sports events, etc. Employees with disabilities were allowed an extra CZK 10 thousand a year for a recuperative holiday or as a compensation for the higher cost of healthcare. The Company provides employees with training, five weeks of paid leave, meal vouchers, special rates of telecommunications services also for family members, a mobile phone and other benefits. In cooperation with health funds, the Company also cares for the health of its employees.

It offers standard healthcare packages and also, for example, vaccination against flue or tick-borne encephalitis. The Company also allows sick days; up to three days/shifts of leave in the case of sudden sickness per calendar year, for 75% of the usual pay.

In line with its continued support to flexible working, the Company joined the celebrations of Work from Anywhere! day. O2 CZ wants to inspire employees and stoke the discussion about more flexibility and its advantages. Related to that, the Company supports part-time work and has a special programme for mothers on maternity leave, which financially motivates them to return to work sooner.

As in previous years, the Company offered a premium package for employees who are leaving in the form of outplacement or severance pay.

The total headcount of O2 CZ as at 31 December 2015 comprised 37% women and 63% men. Details of the employee headcount of the O2 Group can be found in section 4 O2 Czech Republic Group.

CARING FOR THE ENVIRONMENT

Environmental policy and certification

The Company realizes the importance of sustaining a healthy and undamaged environment for today's and future generations. It therefore undertakes to see to sustainable development, and permanently strives to decrease the negative impact of its activities on the environment. The Company has implemented and certified an environmental management system according to the international standard ISO 14001, and it is presently in the process of securing ISO 50001 certification. The standard ensures environmental sustainability through reducing energy consumption and cost.

The Company also updated its environmental policy and implemented a new energy management policy.

Reducing negative footprint

The long-term commitment of the Company is to decrease negative impacts of our activities on our surroundings, mainly decreasing consumption of energy, fuel, and water and limiting waste production. The Company is committed to protecting natural resources, optimising energy consumption, reducing the energy requirement of its network and minimising the impact on air quality.

Also in 2015, people could turn in their old mobile devices in O2 brand stores for sustainable recycling. For each such mobile device turned in, the Company donated CZK 25 to the O2 Foundation's Safety Line. By the end of September 2015, the total donation was CZK 11,875.

The Company continued to be a part of the Green Company project; employees could bring their no longer needed electrical appliances and batteries from home to the office or any brand store and turn them in for recycling.

The Company also followed up on the trend set by its internal campaigns, which directly motivate employees to behave sensitively to the environment – within the Company and outside it. In October 2015, O2 CZ launched a second round of an internal initiative called Save Paper, in which it invited employees to cut down on their need for paper, toner and print-related energy. In the last quarter of 2015, the saving on the previous year was 27%. Related to that, the Company is committed to supporting electronic billing for all customers, which reduces its footprint on nature and the environment.

CARING FOR THE COMMUNITIES

Community-oriented and philanthropic projects were deeply rooted in O2 CR's CSR policy also in 2015. The Company worked to put its technology and know-how to use in helping to improve the quality of life. O2 Foundation was the umbrella instrument for all activities supporting transparent and systemic corporate donorship. The total sum of all donations, financial or in-kind, including telecommunication services from O2 CZ to community projects in 2015 exceeded CZK 22 mil.

In May 2015, O2 Foundation launched SmartUp, a new educational programme that brings ideas of young people alive. SmartUp is one of three pillars in which the Company supports young people. Outside this pillar, the Company engages its employees in community life through internal fundraisers and grants. The last pillar involves helping through O2 technology and services; the Company has been assisting its partners such as Sdružení Linka bezpečí, which operates the Safety Line, and Elpida, which runs the Senior Assistance Line.

In 2015, 207 projects applied for SmartUp, of which 60 qualified for funding in two rounds. Teams of two to five people could apply for a grant of up to CZK 15 thousand. As part of the package, they got also project management, time management, communication and teamwork training. In addition to funding and training, the teams also received mentoring from a member of staff who guided them during the project implementation.

SmartUp Ambassador was a special programme in 2015, designed for young people who received some form of support from O2 Foundation in the past. Ten ambassadors were involved in the development and strategic planning of the SmartUp programme and its presentation to the public. O2 Foundation also offered them training, especially in soft skills.

Employee volunteer programmes

Also in 2015, employees of the Company were motivated to make donations in fundraisers. More than one thousand employees engaged in some form of community work in 2015. Employees raised over CZK 400 thousand to help people with disabilities; they also raised funds for the Safety Line and Senior Assistance Line. O2 CZ continued to support Teambuilding for a Good Cause; whole teams with their managers were volunteered in non-profit organisations. Employees also mentored and evaluated applications for the SmartUp programme. Easter and Christmas markets organised by the O2 Foundation, which have become a tradition in the offices of the Company all over the Czech Republic, sheltered workshops offered products made by people with disabilities. In 2015, more than thirty workshops sold goods for over CZK 286 thousand to employees of the Company. Also in 2015, employees gave blood at their workplace as part of the Give Blood with O2 initiative. Over the course of four days, 133 employees (some repeatedly) donated 99 litres of blood.

Help Your Community

Also in 2015, O2 Foundation continued with its programme Help Your Community. Employees could nominate a non-profit organisation in which they actively volunteer, or in which they want to engage in a project for which the organisation is seeking funding. 32 non-profits were selected and close to one million crowns was distributed among them.

Safety Line 116 111

O2 Foundation also continued as general partner with the only national free and anonymous helpline for children in difficult life situations. With funding from the Company, the Safety Line can offer the service free of charge. The project Adopt a Phone Box, which the Company implemented in collaboration with the Safety Line in 2014, was awarded a 'silver certificate' in the category Socially Responsible Project 2015 for its innovation in tackling pressing social issues from the Business for Society platform. The project invited members of the public to choose one phone box out of a hundred, and place a message for someone close or for the Safety Line, in the maximum length of 60 characters. A donation of CZK 500 to the account of the Safety Line was a condition to take part. The proceeds were used to cover the operating costs of the Safety Line.

Senior Assistance Line 800 200 007

O2 Foundation also continued its support of the Senior Assistance Line operated by Elpida. Senior citizens and their carers could call 800 200 007 and talk about their problems and joys with the counsellors. They could also ask for advice related to health, law, psychology and welfare. Funding from the O2 Foundation helped to keep the service free of charge, and also made it possible for Centrum Elpida to organise workshop which taught senior citizens, visitors to the day centre, how to work a tablet.

06

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE OF THE O2 GROUP

O2 Group comprises, in addition to the parent company O2 CZ, various subsidiaries – see the overview below. O2 CZ exercises the rights of holding management as controlling entity to its subsidiary O2 IT Services s.r.o.

Changes which occurred in the corporate governance of the Company related mainly to the separation of the Company. The General Meeting reduced the number of members of the Board of Directors from five to three; there were also personnel changes in the Board of Directors, Supervisory Board and the Audit Committee. With respect to the Company's organisation structure, the separation caused the Infrastructure and Wholesale Division to be spun off into the successor company CETIN (more details can be found in section 4 Separation of the Company).

Changes in the management of the O2 Group concerned, for the most part, its extension to include subsidiaries O2 IT Services s.r.o., O2 TV s.r.o. and Bolt Start Up Development a.s. Effective from 1 January 2016, the Professional Services Division was transferred from O2 CZ to the subsidiary O2 IT Services s.r.o. Effective from 2 April 2015, O2 CZ added O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s. to its organisation, to market fixed access services in Slovakia (until 1 May 2015 under the name O2 Czech Republic a.s., organizačná zložka Slovensko).

SUBSIDIARIES AND OWNERSHIP INTERESTS IN OTHER COMPANIES

SUBSIDIARIES				
Commercial name	Area of business	Corporate number	Share capital	O2 CZ share in equity
O2 Slovakia, s.r.o.	Operation of a public telecommunications network; operation of a public telecommunication service of leased lines; independent financial agent within the limits of the Czech National Bank Authorisation	35848863	EUR 103,203,437	100.00%
Internethome, s.r.o.	Internet access via WiFi	24161357	CZK 67,765,000	100.00%
O2 Family, s.r.o.	Operation of a public telecommunications network; public telephony service; data transmission; internet access; provider or agent of consumer loans	24215554	CZK 200,000	100.00%
O2 TV s.r.o.	O_2 Sport broadcaster	03998380	CZK 1,000,000	100.00%
O2 IT Services s.r.o.	Information technology services	02819678	CZK 200,000,000	100.00%
Bolt Start Up Development a.s.	Start-up finance through ownership interest in innovative companies with an interesting business plan	04071336	CZK 2,000,000	100.00%
O2 Business Services, a.s.	Public telephony service and other voice services; internet access; provision of leased lines; data transmission and other electronic services	50087487	EUR 25,000	100.00% (through O2 Slovakia. s.r.o.)

OWNERSHIP INTERESTS IN OTHER COMPANIES				
Commercial name	Area of business	Corporate number	Share capital	O2 CZ share in equity
První certifikační autorita, a.s.	Certification services in the area of electronic signature	26439395	CZK 20,000,000	23.25%
Tesco Mobile ČR s.r.o.	Mobile services of electronic communications in the O2 CZ network	29147506	CZK 200,000	50.00%
Tesco Mobile Slovakia, s.r.o.*	Mobile services of electronic communications in the O2 Slovakia network	36863521	EUR 5,000	50.00%
AUGUSTUS spol. s r.o.**	Consultancy and agency in the non-telecommunications area	49356160	CZK 166,000	39.76%
TapMedia s.r.o. ***	Mobile application development	03853365	CZK 1,000	20.00%

* Owned through subsidiary O2 Slovakia, s.r.o.

** The exercise of ownership rights is limited due to the ongoing insolvency proceedings, see note 20.II in the Notes to the consolidated financial statements

*** Owned through subsidiary Bolt Start Up Development a.s.

The following changes occurred in the companies belonging to the O2 Group in 2015:

O2 Slovakia, s.r.o.

The following decisions were made by decision of the sole member as part of the discharge of powers of the General Meeting:

- Effective from 1 June 2015, statutory executives Radek Štěrba and Martin Vlček resigned from their positions; Peter Gažík was appointed statutory executive effective from the same date.
- Effective from 1 June 2015, Jan Tomaník resigned from his membership in the Supuervisory Board; Radek Štěrba was appointed member of the Supervisory Board effective from the same date.

Information about the activities and results of O2 Slovakia, s.r.o. can be found in section 4 O2 Czech Republic Group.

O2 TV s.r.o.

- On 16 April 2015, a subsidiary O2 TV s.r.o, was incorporated, to broadcast and produce content for the O_2 Sport television channel.

O2 IT Services s.r.o.

- Effective from 29 May 2015, O2 CZ bought a 100% stake in PPF IT Services s.r.o. (O2 IT Services s.r.o. since 12 June 2015) from PPF, a.s.
- Effective from 1 January 2016, O2 CZ transferred the Professional Services Division to O2 IT Services s.r.o. The transfer was approved by the General Meeting of O2 CZ (see section General Meeting below).
- Effective from 13 January 2016, by decision of the sole member as part of the discharge of powers of the General Meeting, the number of statutory executives was increased to three; Jan Bechyně was appointed statutory executive effective from the same date.

Bolt Start Up Development a.s.

- On 8 June 2015, a wholly owned subsidiary Sargantos management a.s., was incorporated, which later changed its name to Bolt Start Up Development a.s. effective from 7 January 2016.

- Effective from 16 October 2016, by decision of the sole member as part of the discharge of powers of the General Meeting, the number of members of the Board of Directors and the Supervisory Board was increased to three; Jozef Dočkal was elected into the Board of Directors, and Tomáš Kouřil and Peter Gažík were elected into the Supervisory Board.

CZECH TELECOM Austria GmbH

CZECH TELECOM Germany GmbH

As a result of the separation of the Company, the ownership interests in these subsidiaries passed to CETIN effective from 1 June 2015

Tesco Mobile ČR s.r.o. (O2 CZ owns 50%)

On 28 May 2015, the General Meeting of Tesco Mobile ČR s.r.o. passed the following resolutions:

- Recalled David Morris and Kamal Chauhan from their posts as statutory executives of the company.
- Elected Alexander David Jablonowski and Martin Dlouhý as statutory executives of the company.
- Approved changes in the articles of incorporation, in parts concerning statutory executives of the company, deciding in matters of business management and acting and signing on behalf of the company.

On 2 November 2015, the General Meeting of Tesco Mobile ČR s.r.o. passed the following resolutions:

- Recalled Alexander David Jablonowski from his post as statutory executive of the company.
- Elected Robert Timothy Noah Preston as statutory executive of the company.
- Approved changes in the articles of incorporation, in parts concerning statutory executives of the company, deciding in matters of business management and acting and signing on behalf of the company.

On 1 December 2015, the General Meeting of Tesco Mobile ČR s.r.o. passed the following resolutions:

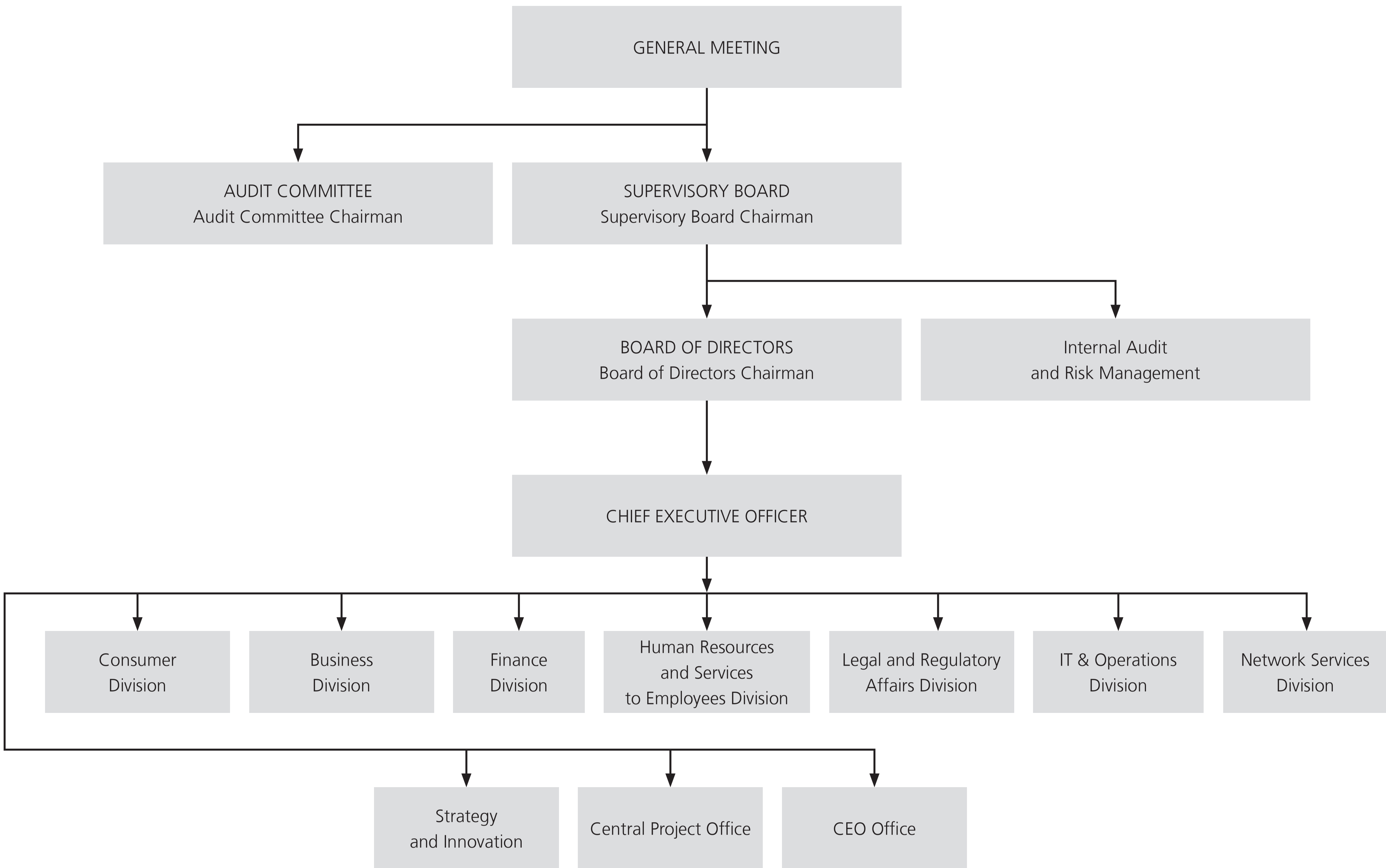
- Approved the extinction of a statutory executive post for Gustav Grundin.
- Elected David Spies as statutory executive of the company.
- Approved changes in the articles of incorporation, in parts concerning statutory executives of the company, deciding in matters of business management and acting and signing on behalf of the company.

ORGANISATION STRUCTURE OF O2 CZECH REPUBLIC A.S.

The first executive line of the organisational structure of the Company is divided into divisions and specialised units. Over the course of 2015, two significant changes offered in the organisation structure.

- Infrastructure and Wholesale Division was, effective from 1 June 2015, spun off into the successor company CETIN (details can be found in section 4 Separation of the Company).
- Professional Services Division was, effective from 1 January 2016, transferred into the subsidiary O2 IT Services s.r.o.

Basic organisation chart of O2 Czech Republic a.s. (as at 1 February 2016):



GOVERNING BODIES AND EXECUTIVE MANAGEMENT OF THE COMPANY

O2 CZ has the following governing bodies:

- General Meeting,
- Board of Directors,
- Supervisory Board,
- Audit Committee.

General Meeting

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

The General Meeting has the exclusive authority to:

- approve the Rules of Procedure of the General Meeting,
- decide on amendments to the Articles of Association, unless any change which occurred under any other legal circumstances is involved,
- decide on an increase of the share capital or on the authorisation of the Board of Directors pursuant to Art. 511 et seq. of the Business Corporations Act (i.e. on the authorisation of the Board of Directors to decide on an increase of the share capital) or on the option to offset a pecuniary receivable due from the Company against receivable of payment of the subscription price of shares,
- decide on the reduction of the share capital,
- decide on issue of bonds, where the decision by the General Meeting is required by the Business Corporations Act,
- decide to wind up the Company with liquidation, appoint and dismiss the liquidator, approve proposed distribution of the liquidation balance,
- decide on transformation of the Company, unless the law stipulates that the Board of Directors is authorized to make such decision,
- decide on a change in class of shares and any change in the rights attached to individual classes of shares,
- decide to transform the shares as securities into booked shares, or booked shares into securities, or decide on the change of the form of shares,
- elect and dismiss the members of the Supervisory Board,
- approve regular and extraordinary financial statements and consolidated financial statements and, in cases set forth by law, also interim financial statements; decide upon the distribution of profits or other own resources or cover of losses,
- discuss a Board of Directors' annual report on the Company's business, and on the situation of the Company's assets as part of the Annual Report according to the Act No. 563/1991 Coll. on Accounting, as amended,
- approve contracts for transfer or pledging or mortgaging of a business establishment or any such part thereof that would result in a material change in the structure of the establishment or a material change in the subject of the business or operations of the Company,

- decide on approval of the rules of remuneration to members of the Supervisory Board and the Audit Committee and stipulation of remuneration to members of the Supervisory Board and the Audit Committee,
- decide on approval of silent partnership, any changes thereto or termination thereof, if the Company concludes such agreements,
- decide on approval of executive service agreements for members of the Supervisory Board and the rules for provision of perquisites to members of the Supervisory Board of the Company, to which there is no right arising from the law, executive service agreement as approved by the General Meeting, or from an internal regulation approved by the General Meeting,
- decide on determination of an auditor to carry out mandatory audits or to audit other documents where the determination is required by law,
- elect and dismiss of the members and substitute members of Audit Committee,
- decide on approval of executive service agreements for members of the Audit Committee and the rules for provision of perquisites to members of the Audit Committee, to which there is no right arising from the law, agreement on the performance of the office as approved by the General Meeting, or from an internal regulation approved by the General Meeting,
- decision to approve financial assistance, if such approval is required by the law
- decide on instructions for members of the Board of Directors, or any other body of the Company, in accordance with the law and these Articles of Association.

General Meetings

Two Ordinary General Meetings of the Company were held in 2015.

General Meeting of 28 April 2015

- Approved the financial statements and consolidated financial statements of the Company for the year 2014 under International Financial Reporting Standards. The auditor KPMG Česká republika Audit, s.r.o. gave both sets of statements an unqualified opinion.
- Approved the distribution of unconsolidated profit of the Company for the year 2014 and a part of the retained earnings from previous years, in the total amount of CZK 4,103 m, as dividends, i.e. CZK 13 before tax per share of nominal value CZK 87 (before separation) and CZK 130 before tax per share of nominal value of CZK 870 (before separation). The record day for the payment of dividends was 28 April 2015, and the disbursement date was set by shareholders to 28 May 2015.
- Approved the separation of O2 Czech Republic a.s. by the demerger of a new company CETIN. As part of the separation, the General Meeting also approved the closing financial statements and starting balance sheet of O2 CZ, and the starting balance sheet of CETIN. In connection with the separation, the share capital of O2 CZ was reduced to CZK 3,102 m through the reduction of the nominal value of each share from CZK 87 to CZK 10, and from CZK 870 to CZK 100, and the cancellation of own shares of the Company.
- Approved an amendment to the Articles of Association, which reduced the number of Board of Directors members from five to three.
- Designated the audit firm KPMG Česká republika Audit, s.r.o. its statutory auditor for the year 2015.
- Elected Aleš Minx and Ctirad Lolek members of the Supervisory Board and approved their executive service agreements.

General Meeting of 8 December 2015

- Approved the contribution of the Professional Services Division as a part of the enterprise of O2 Czech Republic a.s. into O2 IT Services s.r.o., and the execution of the agreement to contribute a part of an enterprise, based on a proposal by the Board of Directors to the General Meeting. As a result of the contribution, the registered capital of O2 IT Services s.r.o. was raised CZK 199.8 m to CZK 200 m.
- Approved a framework for the acquisition of the Company's own shares. The Company has a mandate to acquire up to 31,022,005 of its ordinary shares, i.e. 10% from the total shares issued, for the maximum total

price of CZK 8 bn, over the course of 5 years. The lowest and the highest price which the Company can pay for the shares has been set at CZK 10 and CZK 297, respectively. The share buyback framework superseded a consent with the acquisition of Company shares granted by the General Meeting on 19 April 2012.

- Elected Michal Brandejs member of the Audit Committee of the Company.

A full overview of the resolutions of the General Meetings can be found on the Company's website (www.o2.cz/spolecnost/valne-hromady/).

Board of Directors

The Board of Directors is a statutory body that manages the business of the Company and acts on its behalf. The Board of Directors decides on all corporate affairs which, by law or the Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As a rule, the Board of Directors meets once every calendar month, but at least 12 times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is five years. The Board of Directors has a quorum if a simple majority of its members is present at the meeting. The number of members of the Board of Directors was decreased by resolution of the General Meeting on amendment to on amendment of the Articles of Association of the Company from five to three members effective from 1 June 2015.

The Board of Director has the particular authority to:

- operate the business and ensure the operational management of the Company,
- approve the Rules of Procedure of the Board of Directors,
- execute the rights of employer through its authorised member,
- convene the General Meeting,
- prepare and submit to the General Meeting for discussion the matters coming under the authority of the General Meeting,
- implement the General Meeting resolutions in accordance with law and these Articles of Association,
- ensure due and proper keeping of accounts and Company documents, in line with applicable legal regulations,
- submit to the Supervisory Board for review the Company's regular, extraordinary or, as the case may be, interim financial statement, always in its consolidated as well as unconsolidated form, and the proposal for distribution of profit or the other Company's resources or for coverage of losses and the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act,
- use retained earnings in line with the decision of the General Meeting,
- decide in accordance with the law on the use of the Funds of the Company,
- prepare the report of the Board of Directors on the business of the Company and on its property in accordance with the provisions of Art. 436(2) of the Business Corporations Act, the Annual Report according to the provisions of Art. 21 of the Act on Accounting, the provisions of Art. 118 of the Capital Markets Undertakings Act, including the report by the Board of Directors pursuant to the provisions of Art. 82 of the Business Corporations Act, Half-year Report pursuant to the provisions of Art. 119 of the Capital Markets Undertakings Act, interim report or equivalent quarterly information in accordance with the provisions of Art. 119a of the Capital Market Undertakings Act and a summary explanatory report pursuant to the provisions of Art. 118(8) of the Capital Markets Undertakings Act,
- set the Company's business policy,
- stipulate principles for the collective agreement,
- decide on the use of the Reserve Fund,
- grant and withdraw proxy,
- stipulate the rules for the creation and use of the Social Fund on the basis of collective bargaining,
- enter into an agreement on mandatory audit or, if applicable, on other services to be rendered with the auditor,
- discuss the audit report with the auditor.

Meetings of the Board of Directors in 2015

The Board of Directors of the Company had 47 meetings in 2015.

Members of the Board of Directors

Tomáš Budník (*1969)

Chairman of the Board of Directors as of 7 January 2015
Member of the Board of Directors as of 23 June 2014

Graduated the mechanical engineering faculty of VŠB Technical University of Ostrava in Ostrava. He has worked in telecommunications for over 20 years – he has worked in the companies INEC, Český Telecom and GTS, where he worked in various managerial positions in sales, marketing, customer care and regulation. In his latest role in GTS, he was responsible for planning, construction, development and operation of a telecommunications network and provision of customer services. Then as General Director, he took part in restructuring MobilKom, which operates the network U:fon. In 2011, he came to the PPF Group, where he first held the position of IT director in Eldorado, and in 2013 he led a project of the fourth mobile operator. As of June 2014 he is a member of the Supervisory Board of O2 Slovakia, s.r.o., and from July 2014 he has been Chief Executive Officer of O2 Czech Republic a.s. As of June 2015 he is a member of the Supervisory Board of Bolt Start Up Development a.s. He is a member of governing bodies in other companies[1] and in the past five years he was also a member of governing bodies in other corporations[2].

Tomáš Kouřil (*1974)

Vice-chairman of the Board of Directors as of 7 January 2015
Member of the Board of Directors as of 1 January 2015

He has worked in the Company in various executive positions since 2003. In 2006, he was responsible for preparing an offer to obtain a mobile licence and consequently for commencing activities of the mobile operator O2 in Slovakia. He then assumed responsibility for corporate finance, and served as Commercial Finance Director starting in 2009. In 2012, he became Director for Finance and Investor Relations. Prior to his arrival to our company, he worked in 1999–2003 for the consultancy company Deloitte. He started his working career as marketing director in Kapucín. As of April 2014, he has served as statutory representative in Tesco Mobile ČR s.r.o. and since September as 2014 Vice-chairman of the Supervisory Board of První certifikační autorita, a.s. Since 1 July 2014 till the end of the year he had been director of Finance Division in O2 Czech Republic a.s. and after he was elected a member of the Board of Directors in January 2015 he was appointed to head the Finance Division. As of October 2015 he is a member of the Supervisory Board of Bolt Start Up Development a.s. He has also been a member of governing bodies in other corporations over the last five years.[3]

Jiří Hrabovský (*1977)

Member of the Board of Directors as of 1 June 2015

As of July 2014 he has been Director of the Legal and Regulatory Affairs and Security Division. Previously he worked as legal consultant and manager in the corporate sector; he also spent a number of years in legal services and cooperated with a number of ICT companies in the Czech and Slovak market. In the past, he has also been a member of the CNB and CTO advisory committees. He has also been a member of governing bodies in other corporations over the last five years.[4]

Changes in the personnel composition of the Board of Directors

The following changes occurred in the personnel composition of the Board of Directors in 2015:

- Effective from 1 June 2015, the General Meeting approved an amendment to the Articles of Association, which reduced the number of members of the Bord of Directors from five to three.
- Effective from 31 May 2015 Martin Vlček, Petr Slováček and Michal Frankl resigned from their posts.
- Effective from 1 June 2015, the Supervisory Board elected Jiří Hrabovský as member to the Board of Directors.

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[1] Nadace O2, MAJER LABORATORY, s.r.o.

[2] Buda Investment, s.r.o,, Baila Communication, s.r.o., New Revolution a.s., Ecoclimate energo, s.r.o., Com-Pakt Energy, a.s., Revolution Mobile a.s., ULTRANET s.r.o., MobilKom, a.s., Tesco Mobile ČR s.r.o.

[3] Internethome, s.r.o.

[4] Generali Real Estate Fund CEE a.s.

Supervisory Board

The Supervisory Board is a supervisory body of the Company and it supervises the discharge of the powers by the Board of Directors in managing the business of the Company. The Supervisory Board meets as necessary, once in a quarter as a rule, but at least four times in the course of a calendar year. Supervisory Board members are elected and recalled by the General Meeting of the Company. Members of the Supervisory Board are elected for tenure of five years. The Supervisory Board has a quorum if a simple majority of its members is present at the meeting. The Supervisory Board has three members.

The Supervisory Board has the particular authority to:

- review the regular, extraordinary and consolidated or, as the case may be, interim financial statements and proposals for distribution of profits or the other Company's resources or for coverage of losses, and to submit its standpoint to the General Meeting,
- elect and recall members of the Board of Directors,
- approve executive service agreements for members of the Board of Directors in compliance with the provisions of Art. 438(2) of the Business Corporations Act,
- decide on approval of remuneration to members of the Board of Directors according to the provisions of Art. 61(1) of the Business Corporations Act,
- convene a General Meeting, if the interests of the Company so require, and propose any necessary measures to the General Meeting,
- submit to the General Meeting and to the Board of Directors its standpoints, recommendations, proposals and results of its supervision,
- review the exercise of the powers of the Board of Directors, based on the request of the shareholders who have shares which nominal value amounts to at least 1% of the share capital, in respect of the matters determined in the application, and review the relevant shareholders of the outcome of the review in accordance with the law,
- based on the request of the shareholders who have shares which nominal value amounts to at least 1% of the share capital, claim the right for compensation for damages incurred by the Company vis-à-vis a member of the Board of Directors or the Supervisory Board, or the meeting of any duties arising from a settlement agreement pursuant to the provisions of Art. 53(3) of the Business Corporations Act, or the final payment of the subscription price, against a shareholder who is in delay with the payment,
- discuss and give the Board of Directors consent with legal acts or other acts stated in Article 14(4) or (5); the Supervisory Board may give its consent also generally for a certain group of cases,
- be regularly informed by the Board of Directors mainly on matters listed in Article 14(6) or (7),
- decide on issues concerning benefits for the Supervisory Board members or the members of the Audit Committee insofar as it is in accordance with law,
- review Board of Directors report under Art. 82 of the Business Corporations Act; to inform the General Meeting of the review of this report and to submit its standpoint to the General Meeting,
- prohibit the Board of Directors from taking certain actions.

The Supervisory Board grants its approval to the Board of Directors regarding the following matters: issue of debt securities; issue of global deposit vouchers for shares in the Company; submittal of a request for acceptance of debt securities or global deposit vouchers for trading on the European regulated market or for their withdrawal; assumption or acquisition or disposal of equity investments or other disposal of equity investments if their value is at least CZK 100 m; investment or other expenditures exceeding CZK 500 m; termination of employment relationships of over 10% of Company employees; transformation of the Company; disposal of the Company's assets whose value exceeds CZK 100 m; proposal or amendment of the annual financial and business plan; execution, amendment or termination of an agreement to give or receive funding in excess of CZK 100 m; securing Company obligations exceeding CZK 100 m; payment of any Company's own resources; creation and use of Company funds.

Meetings of the Supervisory Board in 2015

The Supervisory Board of the Company had six meetings in 2015.

Members of the Supervisory Board

Martin Štefunko (*1977)

Member and Chairman of the Supervisory Board as of 29 January 2014

He earned a Ph.D. in economic theory and the history of economic thinking from the University of Economics in Bratislava, where he also earned a Master's Degree in finance, banking and investment. He took up further studies in Austria at Johannes Kepler University (banking and finance) and in the Mises Institute of Auburn University in the USA (economic theory). As of 2001, Martin Štefunko worked in Penta Investments, and starting in 2004 in the function of director of investments, he was responsible for managing investment projects. At this post, he managed an entire series of important acquisitions and business projects for the Penta Group in the area of retail, healthcare, power generation and machine-building. In 2009–2015 he was a member of top management in the PPF Group. He was a member of the Board of Directors of PPF a.s., the main consulting company of the PPF Group, and chairman of the Supervisory Board of PPF Bank. Since February 2014 he has been member and Chairman of the Supervisory Board of O2 Slovakia, s.r.o. As of December 2015 he is a member of the Supervisory Board of O2 Business Services, a.s. He has also been a member of governing bodies in other corporations over the last five years.[5]

Ctirad Lolek (*1973)

Vice-chairman of the Supervisory Board as of 3 June 2015
Member of the Supervisory Board as of 1 June 2015

Graduated from the Palacký University in Olomouc, where he studied sociology and adult education with a specialisation in HR management. After graduation he worked in several positions in human resources for multinational companies such as Kapa Karton Morava and EPCOS. In 2001 he was appointed HR director for The Timken Company, where he oversaw the start-up of a new plant in the Czech Republic; later he managed HR activities in Central and Eastern Europe. In 2008 he joined ArcelorMittal Ostrava as HR Director – he was responsible for HR strategy and management, served on the Board of Directors and, after two and half years started as HR Director of the Luxembourg-based division ArcelorMittal Long Carbon Europe. He joined O2 CZ in 2011 as Director, Human Resources Division. In this position he is responsible for the management of human resources in the Czech Republic and in Slovakia. Ctirad Lolek has extensive experience in HR management; he is an expert in personnel management, especially in HR strategy planning, including performance and talent management, leadership development, employee relations and internal communication. He is presently a member of governing bodies of other companies[6] and he has also been a member of governing bodies in other corporations over the last five years.[7]

Aleš Minx (*1964)

Member of the Supervisory Board as of 1 June 2015

A graduate of the University of Economics in Prague, Faculty of Production Economics. In 1987–1992 he worked in PAL a.s. as finance director. He joined PPF in 1992, and until June 2001 he was the group's Chief Financial Officer. From July 2001 until May 2005 he was Chief Executive Officer of PPF a.s. Until March 2007, he was vice-chairman of the PPF a.s. Supervisory Board; he is presently a member of the Board of Directors of PPF Group N.V. He is presently a member of governing bodies of other companies[8] and he has also been a member of governing bodies in other corporations over the last five years.[9]

Changes in the personnel composition of the Supervisory Board

The following changes occurred in the personnel composition of the Supervisory Board in 2015.

- Effective from 31 May 2015, Ladislav Bartoníček and Vladimír Mlynář resigned from their membership in the Supervisory Board.
- The General Meeting of 28 April 2015 elected Aleš Minx and Ctirad Lolek members of the Supervisory Board effective from 1 June 2015.

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[5] EP Energy, a.s., Energetický a průmyslový holding, a.s., CLANTON a.s., REAL AB a.s., PPF Group N.V.

[6] Nadace O2

[7] ArcelorMittal Tubular Products Karviná a.s., TAMEH Czech s.r.o.

[8] PPF a.s., PPF Art a.s., Open Gate a.s., OPEN GATE - gymnázium a základní škola, s.r.o., Czech Equestrian Team a.s., Board Show, a.s., MOETON a.s., Montería, spol. s r.o.

[9] Bestsport Services, a.s., Carolina, a.s., Public Picture & Marketing a.s., Nadace THE KELLNER FAMILY FOUNDATION, Generali CEE Holding B.V., organizační složka

Audit Committee

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

- The Audit Committee has the particular authority to:
- monitor the process of compilation of the financial statements and the consolidated financial statements,
- evaluate the effectiveness of the Company's internal controls, internal audit and risk management system,
- monitor the process of the statutory audit of the financial statements and the consolidated financial statements,
- review the independence of the statutory auditor and the audit firm, and the provision of non-audit services to the Company by the audit firm,
- recommend an auditor,
- receive from and discuss with the auditor all and any information, declarations and communications as per the applicable laws.

Meetings of the Audit Committee in 2015

The Audit Committee had four meetings in 2015.

Members of the Audit Committee

Martin Štefunko (*1977)
Chairman of the Audit Committee as of 24 March 2014
member of the Audit Committee as of 12 March 2014
(résumé can be found in section Supervisory Board)

Radek Neužil (*1970)
Vice-chairman of Audit Committee since 24 March 2014
member of Audit Committee since 12 March 2014

He earned the title LL.M. at the Faculty of Law of Masaryk University in Brno and the title of Ing. (MSc) at the Faculty of Mechanical Engineering, Economics and Management of Mechanical Engineering at the Brno Technical University. He is an expert in the area of freelance employment regulation. Since 1993, he has acted as Secretary of the Chamber of Tax Advisors of the Czech Republic, which et alias he represents in Confédération Fiscale Européenne (CFE). From 2009 until May 2015, he was a member of the presidium of the Council for Public Audit Oversight and Chairman of the Audit Cooperation and Coordination Committee, which he represents in the advisory body of the European Commission – European Group of Auditors' Oversight Bodies. In 2011–2013 he was a member of the Commission of the Ministry of Finance for Conception and Development of Accounting and Audit, Section for Audit and Tax Consultancy. Starting this year, he has also been a member of the Supervisory Board of Charles University in Prague. In 2013, he became a member of the Audit Committee in ČEZ a.s. He is presently a member of governing bodies of other companies[1] and he has also been a member of governing bodies in other corporations over the last five years.[10]

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[1] KDP – DATEV, družstvo, PASKI CLUB, v.o.s.

[10] Daňová akademie s.r.o., Eláán, Paski club

Michal Brandejs (*1967)
member of the Audit Committee as of 8 December 2015

Michal Brandejs is a graduate of the University of Economics in Prague, the studies of Automated management information systems. He is a statutory auditor of the Chamber of Auditors of the Czech Republic and a Certified internal auditor. In 1991–2013 he worked in the audit department of Deloitte and in 2001 he became a partner. He had managed a number of audits and due diligence projects both in the Czech Republic and the Central and Eastern European region. Since 2014 he is a Vice-chairman of the Supervisory Committee of the Chamber of Auditors of the Czech Republic. He has also been a member of governing bodies in other corporations over the last five years.[11]

Changes in the personnel composition of the Audit Committee

The following changes occurred in the personnel composition of the Audit Committee in 2015:

- Effective from 17 October 2015, Ondřej Chaloupecký resigned from his membership in the committee.
- The General Meeting of 8 December 2015 elected Michal Brandejs as member of the Audit Committee.

Executive management

The executive management of the Company comprises directors of divisions in the first executive level of the Company's organisation structure.

Tomáš Budník (*1969)
Chief Executive Officer
(résumé can be found in section Board of Directors)

Tomáš Kouřil (*1974)
Director, Finance Division
(résumé can be found in section Board of Directors)

Jiří Hrabovský (*1977)
Director. Legal and Regulatory Affairs
(résumé can be found in section Board of Directors)

Ctirad Lolek (*1973)
Director, Human Resources and Services to Employees Division
(résumé can be found in section Supervisory Board)

Jindřich Fremuth (*1975)
Director, Consumer Division

Appointed Director, Consumer Division in March 2013. He joined O2 CZ in 2009 as Director, Online Channels, where he was responsible for the planning and execution of the Company's online strategy, management of online tools and application development. In 2011 he took over the responsibility for the consumer distribution channel strategy, which plays a major role in the development of customer care. Before joining O2 CZ, he worked for 10 years in various marketing and sales positions. As consultant at McKinsey&Company, he specialised in telecommunications and technology projects, and worked for leading corporations in Europe and in the Middle East in particular. Previously he was Managing Director Euro RSCG 4D (Havas Group) whose business is digital marketing, direct marketing and sales support. Jindřich Fremuth graduated from the University of Economics in Prague. As of April 2015 he is the statutory executive of O2 TV s.r.o.

Vít Šubert (*1970)
Director, Business Division

Joined O2 CZ in 2011 as Director, ICT & Presales. In this capacity he was responsible for the planning and execution of the Company's ICT strategy. Before joining O2 CZ, he worked for several years in marketing and sales; first as Regional Marketing Director at Dell, later as Executive Director for the Czech Republic and Slovakia at LG Electronics. For over two years he was also Executive Director for the Czech Republic and Slovakia at

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[11] Deloitte Audit s.r.o.

Nextra. Since 2007 he has been member of the Board of Trustees of Srdce na dlani foundation, and since 2014 he has chaired the Administrative Board of the foundation fund HC Sparta Praha. He started his career in ČESKÝ TELECOM, a.s. (previous commercial name of O2 CZ), in 1997. As the head of the Internet OnLine division he was directly involved in the launch of the first commercial internet service in the Czech Republic. As of August 2015 he is a member of the Board of Trustees of the O2 Foundation, and as of December 2015 he is a member of the supervisory board of O2 Business Services, a.s.

Michal Dvořák (*1971)

Director, IT & Operations Division

Michal Dvořák has worked in IT since 1994, when he dealt with graphic and GIS systems. Later he worked as integrator in VAE. He has worked in Telco since 1998, when he worked for INEC. As part of the first acquisition of GTS Czech along with Datel, he began dealing with consolidations. In GTS he was in charge of the IT part of consolidation with companies Aliatel, KPN Qwest, Contactel, Nextra and Telenor. He left GTS in 2009 from the position of IS Development Director CE. Over the next two years he held the position of CIO and then CTO in Mobilkom. Between 2012 and 2014, he worked as IT Director in W.A.G. payment solutions. He has served as CIO in O2 CZ since October 2014. He is responsible for complex development and administration of IT including the network part providing services to end customers. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Václav Hanousek (*1962)

Director, Network Services Division

He joined SPT TELECOM (legal predecessor O2 CZ) in 1981, where he worked until 1995 as a technician. He started working in 1995 as a project manager, and in 1998 he became director of the programme office OSS. He served as Technology Operation Director in 2000, and in 2003, he held the position of transformation specialist, whereas transformation culminated in the company's sale to the Spanish company Telefonica. As Operations Director since 2005, he was responsible for supervising operation of technology, the access network and construction, and in 2006, he took part in merging the fixed and mobile network. In later years, he was responsible for the project for outsourcing construction and operation of the fixed and mobile network, and for building oversight of the German fixed network in the Czech Republic and oversight of the mobile network in Germany. In 2013, he became Director of the Service Management Department, and has been Director of the Service Unit Division since 2014. In the past five years, he has not been a member of governing, executive or supervisory bodies outside of O2 CZ.

Changes in the executive management

The following changes occurred in the executive management in 2015:

- As a result of changes in the organisation structure, the number of division directors who make up the executive management went down:
  a) Infrastructure and Wholesale Division led by Petr Slováček was spun off as part of the separation of the Company with effect from 1 June 2015 (more information can be found in section 4 Separation of the Company
  b) Professional Services Division led by Václav Provazník was transferred to the subsidiary O2 IT Services s.r.o. effective from 1 January 2016

RULES FOR THE REMUNERATION OF PERSONS WITH EXECUTIVE POWERS

Remuneration of members of the Board of Directors

Remuneration is governed by rights and obligations negotiated in individual executive service agreements and rules for remuneration and provision of other benefits to members of the Board of Directors. The Supervisory Board approves rules for remuneration and regulates the method and certain conditions for provision of remuneration and other benefits. In September 2015, the Supervisory Board ruled to effect a small change to the rules, to make the policy more compliant with the Business Corporations Act. The full text of the rules for remuneration is published on the Company's website.

Members of the Board of Directors are entitled to the following remuneration:

a) compensatory remuneration equalling the amount of obligatory payments (e.g. taxes, health insurance premium, etc.), which the member of the Board of Directors is obliged to pay or bear because the Company pays the insurance premium covering his liability for damage caused by breach of an obligation while serving as member of the Board of Directors; the amount of the compensatory remuneration is derived from the amount of the insurance premium falling to the given member of the Board of Directors, whereas the total insurance premium amount must be set based on procedures that are standard in the insurance business;

b) special remuneration whose amount is negotiated in the executive service agreement between the member of the Board of Directors and the Company, and which the Supervisory Board approves; the amount of the special remuneration is individual, and takes into account the responsibility of the member of the Board of Directors to manage the relevant division or other unit, or responsibility for a certain area of activity of the Company;

c) stabilisation remuneration whose amount and conditions for eligibility are negotiated in a separate agreement pursuant to Section 61(1) of the business Corporations Act and to Article 1.3 of the rules for remuneration of members of the Board of Directors; the agreement is subject to approval by the Supervisory Board, and the amount of the remuneration depends on the Company's performance.

Further benefits are also provided to members of the Board of Directors of the Company for fulfilling obligations arising from their serving as Board members. This concerns voice and data services as well as communication and computer technology (such benefits are not provided solely by request of the member) and liability insurance covering damage caused by breach of obligation when serving as member of the Board of Directors.

Remuneration of members of the Supervisory Board

Remuneration and provision of further benefits to members of the Supervisory Board are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its provision. Members of the Supervisory Board are entitled to remuneration on the condition that they make a claim for it.

Members of the Supervisory Board are entitled to monthly remuneration for serving in the Supervisory Board, which consists of:

a) amount covering mandatory payments (e.g. taxes, health insurance premiums, etc.) which a member of the Supervisory Board is liable to pay due to the fact that they are covered by a liability insurance for any damage arising from the serving as a member of the Supervisory Board, and mandatory payments arising from the provision of the amount as per this sentence; this amount is derived from the amount of the insurance premium falling to the given member of the Supervisory Board, whereas the total insurance premium amount must be set based on procedures that are standard in the insurance business;

b) an amount attributable to the individual categories of members of the Supervisory Board per month: (i) member: CZK 40,000; (ii) Vice-chairman: amount ad (i) increased by CZK 20,000; Chairman: amount ad (ii) increased by CZK 20,000.

In 2015, members of the Supervisory Board submitted claims for remuneration in the minimum amount of CZK 6,000 per month.

Members of the Supervisory Board of the Company are also provided further benefits. This concerns voice and data services, computer technology and health care. Members of the Supervisory Board did not submit any claims for any of the above items in 2015. The Company furthermore provides liability insurance to members of the Supervisory Board covering damage caused by breach of an obligation while serving as member of the Supervisory Board.

Remuneration of members of the executive management

Members of executive management are entitled to remuneration comprised of a basic wage, a performance-related bonus and a stabilisation remuneration. The performance-related bonus is paid in relation to fulfilment of specific annual targets. The performance-related bonus may, in aggregate for the calendar year, reach 50% of the total annual income if the targets are achieved to a standard level. The targets represent the key performance indicators of both financial and non-financial nature. A part of the overall assessment is assessment performed by the CEO. The stabilisation remuneration, whose amount and eligibility conditions are negotiated in a separate agreement, depends on the Company's operating performance.

Remuneration of members of the Audit Committee

Remuneration and provision of further benefits to members of the Audit Committee are governed by rules for remuneration and for providing non-claim benefits, which the General Meeting of the Company approves. The rules for remuneration rules determine the specific amount of remuneration for individual categories of members, and further criteria for its provision. Members of the Audit Committee are entitled to remuneration on the condition that they make a claim for it. In 2015, members of the Audit Committee received pecuniary and in-kind income from the Company in the amount of CZK 490,569. Audit Committee members did not receive any pecuniary or in-kind incomes from entities controlled by O2 CZ in 2015. In 2015, all Audit Committee members had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires.

The full versions of the rules for remuneration and additional benefits to the members of all governing bodies of the Company are published on the Company's website.

OTHER INFORMATION RELATED TO PERSONS WITH EXECUTIVE POWERS

Overview of pecuniary and in-kind incomes of persons with executive powers

Information about pecuniary and in-kind incomes received in the accounting period by persons with executive powers from O2 CZ:

(in CZK)	Pecuniary and in-kind incomes	of which royalties
Board of Directors	29,761,773	0
Supervisory Board	630,554	0
Executive management[1]	34,882,576	0

[1] Income of persons who are at the same time members of the Board of Directors is accounted for in the Board of Directors total category

In 2015, members of the Supervisory Board received no pecuniary or in-kind income from entities controlled by O2 CZ.

Information on the ownership of Company shares by persons with executive powers

Information on the number of shares issued by O2 CZ and held by persons with executive powers:

	Number of shares
Board of Directors	253
Supervisory Board	100,000
Audit Committee[1]	0
Executive management[2]	351

[1] Shares owned by members of the Audit Committee who are at the same time members of the Supervisory Board are accounted for under Supervisory Board

[2] Shares owned by members of executive management who are at the same time members of the Board of Directors are accounted for under Board of Directors

Conflict of interest of persons with executive powers

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

Information on executive service agreements concluded with members of the Board of Directors and the Supervisory Board

Members of the Board of Directors had an executive service agreement concluded with the Company, in which they commit to a non competition covenant for the duration of their service. The Supervisory Board approves executive service agreements concluded with members of the Board of Directors.

In 2014, members of the Supervisory Board had an executive service agreement concluded with the Company, which stipulated their right to a benefit for the commitment to a non-competition covenant after their tenure expires. Members of the Supervisory Board accept in the executive service agreement the commitment to a non-competition covenant after termination of their function independently or in the benefit of another person within the territory of the Czech Republic in the area of telecommunications (not even e.g. the area of thereto related advisory or consultancy service), unless it concerned working within the Group. The commitment to a non-competition covenant is accepted for a period of six months from the date of termination of service in the statutory body. The Company is obliged to provide to the member of the Supervisory Board in question, for committing to the non-competition covenant, compensation as consideration amounting to six times the average flat remuneration as laid down in the Rules for the Remuneration of Members of the Supervisory Board, in an amount attributable to one member of the Supervisory Board, in the month preceding the month in which the member of the Supervisory Board terminated his service in the Supervisory Board. The General Meeting approves executive service agreements concluded with members of the Supervisory Board.

INFORMATION ON CORPORATE GOVERNANCE CODES OF THE COMPANY

The Company has been meeting for a long time all the main criteria and observing the principles and recommendations of the Czech Code of Good Corporate Governance based on OECD Principles, which was published in 2004 (the Code). This Code is available at the website of the Ministry of Finance of the Czech Republic (www.mfcr.cz). An exception to this rule are the principles of Good Corporate Governance that are not in direct control of the Company's governing bodies and are dependent on the decisions of its owners. The Board of Directors regularly oversees the good practice of corporate governance in subsidiaries controlled by O2 CZ.

INFORMATION ON INTERNAL CONTROL PRINCIPLES AND PROCEDURES

O2 CZ has implemented an internal control systems through the so-called internal governance documents which are approved by the Board of Directors of the Company. Internal Audit plays an important role in the system and represents an important instrument of Corporate Governance and it provides the Company's governing and executive bodies with independent and professional assessment of the Company's internal control system and the situation and trends in the given area compared to current best practice. In 2015, Internal Audit and Risk Management carried out 28 audits and controls as per the annual plan of Internal Audit or as mandated by the governing bodies and the Chief Executive Officer of the Company. In addition to performing audits and controls in the Company, the Internal Audit unit also acts as internal auditor of the subsidiaries in the group O2 Slovakia s.r.o. O2 IT Services s.r.o. and O2 Family s.r.o. Audit findings are used by the management to formulate actions to redress the issues identified. Internal Audit monitors the implementation of such corrective actions and reports to the Company's governing bodies and executive management four times per year. The activities of Internal Audit and its main processes are laid down in the Internal Audit Charter of O2 Czech Republic a.s., which also stipulates the principle of independence of the Internal Audit function and the principle of objectiveness of internal auditors. The work of Internal Audit is monitored on a regular basis by the Audit Committee which discusses audit reports and other reporting presented by Internal Audit. The Internal Audit Charter stipulates the Audit Committee's participation in the preparation and approval of the annual plan of internal audits. The Director of Internal Audit & Risk Management has full access to the Audit Committee. He/she is present for the discussion of audit reports and other outputs of Internal Audit & Risk Management at meetings of the governing bodies of the Company. Internal Audit and Risk Management is directly subordinated to the Supervisory Board.

The Internal Audit & Risk Management unit of O2 Czech Republic a.s., has been certified in quality by the Institute of Internal Auditors (IIA) since 2007. This certification assesses Internal Audit activity's conformity to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards).

INFORMATION REQUIRED BY THE CAPITAL MARKETS UNDERTAKINGS ACT

Information relating to matters according to Section 118(5) of the Act No. 256/2004 Coll., the Capital Market Undertakings Act (CMUA), and information which is a part of a summary report compiled according to the requirement of Section 118(8) of the CMUA:

a) Information about the issuer's equity capital structure, including shares not admitted for trading on the regulated market in a European Union Member State, including any potential qualification of different types of shares or similar securities representing a share in the issuer, and the share in the share capital of each type of share or similar security representing a share in the issuer

The equity structure of standalone O2 CZ as of 31 December 2015 was as follows:

	(in CZK mil.)
Share capital	3,102
Issue premium	11,894
Funds	8
Retained earnings	5,368
Total	20,372

The share capital of O2 CZ as of 31 December 2015 in the amount of CZK 3,102,200,670 was fully paid and was formed by the following shares:

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

In connection to the spin-off, O2 CZ reduced its share capital from CZK 27,461,384,874 to CZK 3,102,200,670 as of 1 June 2015. The nominal value of each share at the original nominal value of CZK 87 decreased to CZK 10, and the nominal value of the share at the existing nominal value of CZK 870 decreased to CZK 100. As part of the reduction of the share capital, all treasury shares (5,428,035) which O2 CZ owned prior to the separation were cancelled. As at 31 December 2015, the Company did not own any treasury shares.

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

1. The rights and obligations of the shareholders are determined by legislation and the Articles of Association. A shareholder of the Company may be a domestic or foreign legal entity or a natural person.
2. A shareholder is entitled under the law to attend the General Meeting, to vote at it, can request attendance and attend it, or receive at it, or prior to it and during fulfilment of legally determined conditions after it, explanation of matters concerning the Company or its controlled persons, if such explanation is necessary for judging matters included in the General Meeting or to exercise his shareholder rights to it, and to make proposals and counterproposals. Providing explanation to the shareholder is governed mainly by the provisions of Section 357 et seq of the Business Corporations Act. Implementing proposals and counterproposals is governed mainly by the provisions of Section 361 et seq of the Business Corporations Act.
3. The shareholder is entitled to a share in the profit of the Company (dividend), which the General Meeting

approved according to the financial result for division amongst shareholders; this does not affect the possibility for other persons listed in Article 35(2) to obtain a share of the profit. The shareholder's share in the profit is determined by the proportion of the nominal value of his shares to the nominal value of shares of all shareholders.

4. Throughout the duration of the Company's existence or in case of its winding down, the shareholder is not entitled to request the return of the subject of his deposit.

5. Upon liquidation of the Company, the shareholder is entitled to share in the liquidation balance. This share is determined and his payment is governed mainly by the provisions of Section 549 to 551 of the Business Corporations Act.

6. The shareholder is obliged to uphold legal regulations, mainly to act honourably, to abide by the internal rules of the Company, including these Articles of Association, and to exercise his rights in relation to the Company responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the Company or the other shareholders who or which could and should be known to the shareholder.

7. The Company is obliged to act towards all shareholders honourably and justly, to treat all shareholders equally under the same conditions and to enable all shareholders equal exercise of their own rights. The Company is obliged to act towards all shareholders responsibly, mainly to prevent unauthorized interference into the rights and legally protected interests of the shareholders, who or which could and should be known to the Company.

Registered shares at a nominal value of CZK 10 were admitted for trading on the following markets:

Market	Note
Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	Prime market
RM-SYSTÉM, česká burza cenných papírů a.s.	

On 23 January 2015, the O2 CZ Board of Directors decided to withdraw the Company's Global Depository Receipts from trading on the London Stock Exchange effective from 28 February 2015, and to subsequently cancel them.

A full wording of the Terms and Conditions of the Share Issue – the document which is the source of this summary – is available at the registered address of the Company.

The registered share in the nominal value of CZK 100 was not listed for trading on any regulated market in Europe.

b) Information about transferability of securities

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

c) Information about significant direct and indirect shares in the voting rights of the issuer

Key shareholders of O2 CZ as of 31 December 2014:

	Název	Address	% of share capital
1	PPF Arena 2 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	73.06%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10.09%
PPF Group total			83.16%
3	O2 Czech Republic a.s. (treasury shares)	Za Brumlovkou 266/2, Praha 4-Michle, 140 22, Czech Republic	1.72%
4	Investment funds and individual shareholders	–	15.12%

As part of the reduction of the share capital in connection with the separation of the Company, all treasury shares (5,428,035) which O2 CZ owned prior to the separation were cancelled. As at 31 December 2015, the Company did not own any treasury shares.

On 8 June 2015, PPF Group made a voluntary O2 CZ share buyout offer to shareholders; it was executed between 15 June 2015 and 15 July 2015. The offer was to all O2 CZ shareholders. The offered price was CZK 78 per share. On 13 August, PPF Group announced that, in connection with the voluntary share buyout offer for O2 CZ shares, it acquired 0.18% of O2 CZ shares.

On 30 November 2015, PPF Group announced that it sold 0.84% of O2 CZ on the Prague Stock Exchange.

Key shareholders of O2 CZ as of 31 December 2015:

	Name	Address	% of share capital
1	PPF Arena 2 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	73.79%
2	PPF A3 B.V.	Strawinskylaan 933, Amsterdam, Kingdom of the Netherlands	10.27%
PPF Group total			84,06%
3	Investment funds and individual shareholders	–	15.94%

As at 31 December 2015, the share of PPF Group members in the O2 CZ voting rights pursuant to Section 122 of the Capital Market Undertakings Act was 84.06%.

On 27 January 2016, PPF Telco B.V. informed the Company that on 23 January 2016, the separation of PPF Arena 2 B.V. had taken legal effect. As a result of the separation, PPF Arena 2 B.V. ceased to exist and two new successor companies had been established. PPF Telco B.V. was one of them, and all shares of O2 CZ originally owned by PPF Arena 2 B.V. were transferred to PPF Telco B.V. as part of the separation.

d) Information about the holding of shares with special rights, including the description of these right

The Company has not issued any securities with special rights, only ordinary shares as per point (a) above.

e) Information about restrictions of voting rights

Voting rights are attached to all shares issued by the Company and may be restricted or excluded only in instances set out in the law. The Company is not aware of any such statutory restriction or exclusion of voting rights. The Company's Articles of Association do not stipulate any restriction of voting rights; there are no other restrictions for reasons that would be on the part of the Company.

f) Information about agreements between shareholders or owners of securities representing a share in the Company, which could restrict the transferability of shares or similar securities representing a share in the issuer, or of voting rights, if such information is known to the issuer

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

g) Information about special rules for the election and recall of the statutory body, amendment to the articles of association or similar document of the issuer

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

h) Information about special powers of members of the statutory body or Supervisory Board under the law governing legal relations of business companies and cooperatives

Members of the Board of Directors hold no special powers; some acts by the Board of Directors require, as per Article 14(4) of the Company's Articles of Association, a previous consent by the Supervisory Board (for details see section Supervisory Board).

i) Information about important contracts, which the issuer is a party to and which will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid, and about the effects thereof, with the exception such contracts whose disclosure would bear a serious harm for the issuer, which, however, does not reduce other duties of disclosure of such information under this law or under other laws

The Company has not entered into any contracts that will come into effect, change or expire upon a change in the issuer's control as a result of a take-over bid.

j) Information about contracts between the issuer and the members of the statutory body or employees, by which the issuer is bound in the event of the termination of their executive service or employment in connection with a take-over bid

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

k) Information about any programmes based on which the employees and members of the statutory body of the Company can acquire shares, share options or other rights at preferential terms, and about how the rights associated with these securities are exercised

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

l) Information about payments remitted to the state for mining licences, provided the core business of the issuer is in the mining sector

The Company has no business in the mining sector.

07

FINANCIAL
PART

O2 CZECH REPUBLIC A.S.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Translation note

This version of the consolidated financial statements is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the consolidated financial statements takes precedence over this translation.

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GENERAL INFORMATION

O2 Czech Republic a.s. Group ("Group") consists of O2 Czech Republic a.s. (the "Company") and its subsidiaries: O2 Slovakia, s.r.o., O2 Family, s.r.o. (formerly Bonerix s.r.o.), Internethome, s.r.o., O2 TV s.r.o., O2 IT Services s.r.o., Bolt Start Up Development a.s. and O2 Business Services, a.s. (subsidiary of O2 Slovakia, s.r.o.). The Group operates a joint venture Tesco Mobile ČR s.r.o. with Tesco Stores ČR a.s. and O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., a branch in the Slovak Republic.

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

The majority shareholder of the Company as at 31 December 2015 was PPF Arena 2 B.V. („PPF").

The Company is the largest integrated telecommunications provider in the Czech market providing fully converged services.

The number of employees employed by the Group amounted in average to 3,856 in 2015 (2014: 4,859).

The Company's shares are traded on the Prague Stock Exchange.

The consolidated financial statements were approved for issue by the Company's Board of Directors on 10 February 2016.

Sale to PPF Group

The agreement between Telefónica S.A. (Telefónica) and PPF Group to sell 65.9% of the Company's shares was approved by the European Commission in mid-January 2014 and was closed on 28 January 2014.

The transaction involved all the Company's interests including O2 Slovakia, s.r.o. (former Telefónica Slovakia, s.r.o.). Both companies are allowed to trade under the O2 brand. Both joined Telefónica's Partners Programme, an initiative offering partner operators the opportunity to benefit from Telefónica's scale and cooperate on key business areas.

PPF Group's current share in the Company is 84.1% at 31 December 2015 (83.2% as at 31 December 2014).

The financial assistance

The financial assistance, which was approved by General Meeting on 17 December 2014, was not utilised and expired in 2015.

Separation of the Company

On 1 June 2015, the Company was divided through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. ("CETIN") where Infrastructure and Wholesale division was demerged. In line with the Czech legislation ("Zákon o přeměnách") the decisive date of separation is 1 January 2015. The date when the Company lost control over spun off business in accordance with International Financial Reporting Standards (IFRS), was 1 June 2015.
The financial information of the spun off part of the Company presented in the consolidated financial statements of the Group for the year ended 31 December 2015 are, in accordance with the IFRS 5, reported as *Discontinued Operations* as at 31 May 2015. Details are provided in Note 4.

Changes in subsidiaries and other financial investments

During the year ended 31 December 2015, the Company has incorporated two new subsidiaries, O2 TV s.r.o. and Bolt Start Up Development a.s. (former Sargantos management a.s.)

The Company has also created a branch in Slovakia to promote the sale of fixed telecommunication services. The branch, O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., is not a legal entity.

O2 Business Services, a.s. was incorporated on 15 December 2015 and it is a 100% subsidiary of O2 Slovakia, s.r.o. All activities of O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s. will be transferred to this entity.

Additionally, the Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF, a.s. on 29 May 2015. In accordance with its accounting policy, all assets and liabilities acquired are reported in the financial statements of the Company at original carrying values. The difference between acquisition price and carrying values is reflected directly in the equity.

In addition, on 8 December 2015, the Company's General Meeting has approved a non-monetary contribution of Professional Services Division into O2 IT Services s.r.o. The monetary contribution was registered in Commercial Register on 1 January 2016.

Change of name of subsidiary

The subsidiary Bonerix s.r.o. changed its name to O2 Family, s.r.o., with effect from 1 June 2015. Business activities remain the same.

The newly incorporated subsidiary Sargantos management a.s. changed its name to Bolt Start Up Development a.s. with effect from 7 January 2016. This subsidiary opened startup accelerator BOLT, which supports unique innovative technological projects.

Startup accelerator

The Group has decided to grant the access to unique technologies by launching the new BOLT startup accelerator on 1 November 2015. In contrast to existing startup funds, the main focus is on provision of long-term support and existing infrastructure with a broad customer and sales base. Selected projects are primarily those connected to the Group´s activities. All investments are made and operated by a newly incorporated subsidiary Bolt Start Up Development a.s.

Share buyback

The General Meeting approved on 8 December 2015 the ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

Following the above, the Board of Directors of the Company decided on 23 December 2015 to realize first phase of share buyback – up to 4% of total amount of ordinary shares can be acquired for a maximum period of 2 years.

Restructuring

During the year 2015, the Group continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

INDEPENDENT AUDITORS‘ REPORT TO THE SHAREHOLDERS OF O2 CZECH REPUBLIC A.S.

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

Independent Auditor's Report to the Shareholders of O2 Czech Republic a.s.

We have audited the accompanying consolidated financial statements of O2 Czech Republic a.s., prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidate balance sheet as of 31 December 2015, 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 the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about O2 Czech Republic a.s. is set out in Note "General Information" to these consolidated financial statements.

Statutory Body's Responsibility for the Consolidated Financial Statements

The statutory body of O2 Czech Republic a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of O2 Czech Republic a.s. as of 31 December 2015, 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.

Other Information

Other information is defined as information (other than the consolidated financial statements and our auditor's report) included in the consolidated annual report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements of O2 Czech Republic a.s. as of 31 December 2015 does not cover the other information and, with exception of our separate review of the Report on Relations, we do not express any form of assurance conclusion thereon. 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 included in the consolidated annual report is not materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, whether the consolidated annual report is prepared in accordance with applicable legislation and whether such information otherwise does not appear to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

KPMG

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of O2 Czech Republic a.s. for the year ended 31 December 2015. The responsibility for the preparation and factual accuracy of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

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

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations of O2 Czech Republic a.s. for the year ended 31 December 2015 contains material factual misstatements.

Prague
10 February 2016

Signed by

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

Signed by

Petr Škoda
Partner
Registration number 1842

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2015

In CZK million	Notes	Year ended 31 December 2015	Restated* Year ended 31 December 2014
Revenues	5	37,385	37,372
Other income from non-telecommunication services and activation of fixed assets	5	394	331
Expenses	5	(27,637)	(29,570)
Earnings before depreciation and amortization (EBITDA)		**10,142**	**8,133**
Depreciation and amortisation	10, 11	(3,520)	(3,362)
Impairment loss	10, 11	(27)	(174)
Operating profit		6,595	4,597
Finance income	6	8	18
Finance costs	6	(175)	(118)
Results attributed to joint venture		10	8
Profit before tax		6,438	4,505
Corporate income tax	7	(1,361)	(990)
Profit from continuing operations		**5,077**	**3,515**
Profit after tax from discontinued operations	4	1,722	483
Profit		**6,799**	**3,998**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		(98)	40
Other comprehensive income, net of tax		(98)	40
Total comprehensive income, net of tax		**6,701**	**4,038**
Profit attributable to:			
Equity holders of the Company	8	5,077	3,998
Equity holders of CETIN	4	1,772	-
Total comprehensive income attributable to:			
Equity holders of the Company		4,979	4,038
Equity holders of CETIN		1,772	-

Earnings per share (CZK) from continuing operations – basic**	8	16	11

* Amounts shown in comparatives do not correspond to the consolidated financial statements for the year ended 31 December 2014. The reason for that is the spin off of the Company as of 1 June 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 4.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

In CZK million	Notes	31 December 2015	31 December 2014
ASSETS			
Property, plant and equipment	10	4,638	36,200
Intangible assets	11	16,147	26,276
Investments in equity accounted investees	25	42	17
Other non-current assets	13	270	564
Deferred tax asset	18	323	313
Non-current assets		**21,420**	**63,370**
Inventories	12	722	470
Receivables	13	6,156	7,194
Cash and cash equivalents	14	1,970	3,256
Current assets		**8,848**	**10,920**
Total assets		**30,268**	**74,290**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	27,461
Treasury shares	23	-	(1,596)
Share premium		11,894	19,349
Retained earnings, funds and reserves		3,348	8,939
Total equity		**18,344**	**54,153**
Long-term financial debts	16	2,970	3,000
Deferred tax liability	18	60	2,151
Non-current provisions for liabilities and charges	19	22	251
Non-current other liabilities	15	94	155
Non-current liabilities		**3,146**	**5,557**
Short-term financial debts	16	11	4,004
Trade and other payables	15	8,391	10,135
Income tax liability	7	245	299
Provisions for liabilities and charges	19	131	142
Current liabilities		**8,778**	**14,580**
Total liabilities		**11,924**	**20,137**
Total equity and liabilities		**30,268**	**74,290**

The consolidated financial statements were approved by the Board of Directors on 10 February 2016 and were signed on its behalf by:

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

In CZK million	Notes	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2014		**27,461**	**19,349**	**(1,596)**	**256**	**38**	**6,542**	**3,699**	**55,749**
Currency translation differences – amount arising in period		-	-	-	40	-	-	-	40
Profit for the year		-	-	-	-	-	-	3,998	3,998
Total comprehensive income		**-**	**-**	**-**	**40**	**-**	**-**	**3,998**	**4,038**
Capital contribution and other transfers		-	-	-	-	(38)	45	(56)	(49)
Distribution declared in 2014	9	-	-	-	-	-	-	(5,682)	(5,682)
Treasury share transactions	23	-	-	-	-	-	-	97	97
At 31 December 2014		**27,461**	**19,349**	**(1,596)**	**296**	**-**	**6,587**	**2,056**	**54,153**

In CZK million	Notes	Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2015		**27,461**	**19,349**	**(1,596)**	**296**	**-**	**6,587**	**2,056**	**54,153**
Currency translation differences – amount arising in period		-	-	-	(98)	-	-	-	(98)
Profit for the year		-	-	-	-	-	-	5, 077	5,077
Net profit attributable to shareholders of CETIN (from Discontinued Operations)		-	-	-	-	-	-	1,722	1,722
Total comprehensive income		**-**	**-**	**-**	**(98)**	**-**	**-**	**6,799**	**6,701**
Capital contribution and other reclassifications		-	-	-	-	-	46	(46)	-
Distribution declared in 2015	9	-	-	-	-	-	-	(4,103)	(4,103)
Treasury share transactions	23	-	-	-	-	-	-	71	71
Cancellation of treasury shares	23	(472)	(1,124)	1,596	-	-	-	-	-
Acquisition of O2 IT Services s.r.o.		-	-	-	-	-	-	(79)	(79)
Other movements		-	-	-	-	-	-	(17)	(17)
Distribution of profit and other distribution to CETIN shareholders relating to spin off project		(23,887)	(6,331)	-	-	-	(6,442)	(1,722)	(38,382)
At 31 December 2015		**3,102**	**11,894**	**-**	**198**	**-**	**191**	**2,959**	**18,344**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax from continuing operations		6,438	4,505
Profit before tax from discontinued operations	4	2,176	673
Profit before tax		**8,614**	**5,178**
Non-cash adjustments for:			
Results attributed to Joint Venture		(10)	(8)
Dividends received		(4)	(5)
Depreciation	10	2,015	8,324
Amortisation	11	2,550	2,412
Impairment loss		27	180
Profit on sale of property, plant and equipment		(10)	(13)
Net interest and other income (charges)		86	80
Foreign exchange losses/(gains) (net)		39	21
Fair value changes		1	(3)
Change in provisions and allowances		142	353
Other non-cash operations		68	(32)
Operating cash flow before working capital changes		**13,518**	**16,487**
Working capital adjustments:			
Increase/(decrease) in trade and other receivables		(402)	(751)
Decrease/(increase) in inventories		(342)	58
Increase/(decrease) in trade and other payables		546	(1,217)
Cash flows from operating activities		**13,320**	**14,577**
Interest paid		(124)	(64)
Interest received		4	1
Income tax paid		(1,557)	(1,538)
Net cash flow from operating activities		**11,643**	**12,976**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,701)	(2,727)
Purchase of intangible assets		(1,285)	(9,330)
Proceeds from sales of property, plant and equipment and intangible assets		146	27
Cash purchase of financial investments		(5)	-
Cash purchase of subsidiary		(65)	-
Dividends received		4	5
Movement of restricted cash		(432)	-
Net cash used in investing activities		**(3,338)**	**(12,025)**
Cash flows from financing activities			
Proceeds from borrowings		3,000	4,000
Repayment of borrowings		(7, 000)	-
Dividends paid		(4,033)	(5,585)
Distribution of CETIN's cash	4	(1,970)	-
Net cash used in financing activities		**(10,003)**	**(1,585)**
Net increase/(decrease) in cash and cash equivalents		**(1,698)**	**(634)**
Cash and cash equivalents at beginning of year	14	3,256	3,890
Effect of foreign exchange rate movements on cash and cash equivalents		(20)	-
Cash and cash equivalents at the year end	14	1,538	3,256

ACCOUNTING POLICIES

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A The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to financial position as at 31 December 2014 (balance sheet and equity movements) are shown inclusive of discontinued operations. The financial information (statement of Total comprehensive income) for the year ended 31 December 2014 are reported without discontinued operation.

B 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) and all applicable IFRSs adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

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

The consolidated financial statements were prepared under the historical cost convention except for non-current assets held for sale, financial derivatives and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS required the Group to use certain critical accounting estimates. It also required estimates be used in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Use of estimates, assumptions and judgements.

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

The Group is integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Group reports its operating segments according to these two main areas of services, i.e. fixed and mobile segment. The Group also has a single geographic segment, which forms its subsidiary O2 Slovakia, s.r.o. For further detail refer to Note 3.

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

For financial statements for the year ended 31 December 2015 the Company takes into account annual revisions 2010 to 2012 and 2011 to 2013, the purpose of which is to eliminate inconsistency and specify some formulations.

Annual revision 2010 to 2012 contains amendments of following standards:

IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 8 Operating Segments
IFRS 13 Fair Value Measurement
IAS 16 Property, Plant and Equipment
IAS 24 Related Party Disclosures
IAS 38 Intangible Assets

Annual revision 2011 to 2013 contains amendments of following standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 3 Business Combinations
IFRS 13 Fair Value Measurement
IAS 40 Investment Property

New IFRS not effective as at 31 December 2015 (includes standards applicable for 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**
IAS 1	Presentation of financial statements	1 January 2016
IAS 16 and IAS 38	Property, plant and equipment and Intangible assets	1 January 2016
IAS 27	Equity method in the separate financial statements	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 11	Joint arrangements	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment entities: Exemptions to consolidation	1 January 2016
IFRS 10 and IAS 28	Consolidated financial statements, Disclosure of interests in other entities and Investments in Associates and joint ventures	1 January 2016
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial instruments - classification and measurement	1 January 2018

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

C Group accounting

Consolidation

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

A business combination is accounted for using the acquisition method. The consideration transferred for the acquisition of the business combination is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 Accounting policies (see Note H Intangible assets and also Note 11).

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 another companies within the Group.

D Transactions under common control

Asset and liabilities acquired are recognized in the financial statements of the Company at original carrying value. The difference between acquisition price and carrying value of the acquired company under common control is recorded directly in the equity.

E Investment in joint ventures and associates

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

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

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

Associates are accounted for using the equity method.

F Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

Profit or loss of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. 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.

G Property, plant and equipment

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

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

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises every expenditure up to the customers' premises, including the cost of contractors, materials, 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.

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 balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income, i.e. 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
Freehold buildings	up to 56
Cable and other related plant	10 to 41
Exchanges and related equipment	up to 26
Other fixed assets	up to 26

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

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

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

H Intangible assets

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (see Note 11).

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

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, determinability of useful lives of assets and the useful lives of assets themselves are reviewed, revised and if necessary prospectively amended and accounted for as a change in an accounting estimate.

Intangible assets that are no longer in use and no future economic benefits are expected or that are disposed of for any other reason are de-recognised from the balance sheet together with the corresponding accumulated amortisation (for amortised assets only). All gains or losses arising in this respect are recognised in net operating income, i.e. 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.

I Estimated useful lives of tangible and intangible assets

The Group regularly assesses net book values and useful lives of assets as of each balance sheet date. In connection with the sale of the Group to PPF in 2014 the assessment of carrying values and useful lives, which is in line with International Financial Reporting Standards, was carried out by an external expert. Taking into account expert's appraisal, the Company has decided to reflect changes of useful lives as of 1 January 2015 (change in estimates). The above stated relates to both, continuing operations and discontinued operations.

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

	Year	**Extension of**
Buildings in the ownership of the Company	Up to 40	Up to 16 years
Cable and other related plant	10 to 25	Up to 16 years
Exchanges and related equipment	Up to 25	Up to 1 year
Other fixed assets	Up to 20	Up to 6 years
Software and valuable rights	3 to 8	Up to 4 years

The impact on depreciation and amortization in the consolidated financial statements arising from the extension of the useful lives of the tangible and intangible assets was CZK 413 mil. for the continuing operations for the year ended 31 December 2015 and CZK 1,962 mil. for the discontinued operation for the year ended 31 December 2015. Quantification of the impact of extension of useful lives on depreciation and amortization in future periods is impracticable.

J Discontinued operations

As stated above in General Information, in accordance with national legislation, the Company was split into two separate accounting units with effective date 1 January 2015. In accordance with the International Financial Reporting Standards, the date when the control over the spun off part ceased was 1 June 2015. Under IFRS 5, financial indicators relating to company CETIN for the period from January to May 2015, or as of 31 May 2015 respectively, are classified in the consolidated financial statements for the year ended 31 December 2015 as *Discontinued operations*.

New business relations between O2 and CETIN

In connection with the spin off, new business relations with CETIN 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 a significant item of interconnection costs for the Company. More information is provided in Note 4.

K Non-current assets classified as held for sale

The Group classifies separately in the balance sheet a non-current asset (or disposal group) 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 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.

L Impairment of assets

Property, plant and equipment and other assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least on an annual basis for goodwill and for intangibles with an indefinite useful life and for intangibles not yet in use. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's 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 (except for the Goodwill impairment loss) only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss in the period in which the reversal occurs.

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.

M Investments and other financial assets

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2015 and 2014, the Group did not hold any financial assets in this category.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. During 2015 and 2014, the Group did not hold any investments in this category.

The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis, as required under IAS 39.

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

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

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

De-recognition of financial assets

A financial asset is de-recognised when:

a) the rights to receive cash flow from the asset have expired,

b) the Group retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement, or

a) the Group has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

N Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or 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.

O 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.

P 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.

Q 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 (adjusted for negative deposits). Bank overdrafts are shown within borrowings in current liabilities section of the balance sheet.

R Financial debt

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

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

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

S Current and deferred income taxes

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

The 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. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill.

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.

T 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 Group has no further payment obligations once the contributions have been paid.
The contribution expense is charged to profit or loss in the same period as the related salary expense. The Group also makes contributions to defined supplementary pension insurance schemes operated by external pension funds. These contributions are charged to profit or loss in the period to which the contributions relate. The Group has no further payment obligations once the contributions have been paid.

(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 constructive obligation.

U Provisions

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

V 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. Commission payments to dealers for activations, various marketing promotions and other activities are included in the costs of sales for the period.

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.

Voice, data and internet
Revenues from voice, data and internet services entail tariff fee plus a variable rate. Both wireline and wireless traffic is recognized as revenue as service is provided.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services. Revenue from prepaid cards is recognised at the time of usage of airtime and other services or upon expiration of the card.

Equipment sales and sale of other goods
Revenue from the sale of telephone equipment and other goods is recognised at the time of sale i.e. when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are thus recognized when the product or service is delivered to the distributor or to the end customer. Losses arising from the sale of handsets due to discount are recognised at the date of sale.

Information and communication technology and construction contracts
Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the provided service.

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

Roaming revenues
The mobile segment derives roaming revenue as a result of airtime and other services used by the mobile segment's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled net on a regular basis. Revenue is recognised when services are provided.

Interconnection revenues
Interconnection revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but terminate in or transit the Group's network. These revenues are recognised in profit or loss at the time when the call is received in the

Group's network. The Group pays a proportion of the call revenue it collects from its customers to the other domestic and foreign operators' for the calls and other traffic originating in the Group's network, which use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled net on a regular basis.

Gross and net revenue recognition
In assessing whether revenue should be recognised gross, i.e. with separate disclosure of costs to arrive at gross profit, or on a net basis, the Group considers whether a transaction is considered to meet conditions of an agency arrangement. In such cases, the revenue is recognised only at the amount of the commission received/realised. The Group may enter agency relationship when providing premium SMS, audiotex or other services.

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

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

W 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.

X Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, bank balances, investments, receivables, payables, borrowings and derivatives. Detailed figures are described in Note 17.

Y Offsetting financial instruments

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

Z Accounting for derivative financial instruments and hedging activities

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

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

b) hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

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

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

AA Change in accounting policy

No significant changes in accounting policies were applied in 2015 and 2014.

BB Operating profit

Operating profit is defined as profit before financial results and taxes and represents profit from the business operations. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group does not conduct any speculative trading activities.

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

The Group primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR or USD. Only plain-vanilla instruments are currently used for hedging this kind of exposure. The Group is particularly focus on hedging the foreign currency risk on the Company level, exposure to foreign currency risk of other Group entities is insignificant.

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

In CZK million	Notional principal amount		Fair value	
	2015	2014	2015	2014
Foreign exchange contracts	399	333	(1)	1

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

In CZK million	Effect on profit before tax 2015	2014
FX risk		
Value at Risk*	(47)	(48)
Stress testing*	(169)	(246)

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

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 6% in an unfavourable direction.

The following table illustrates the summary quantitative data about the Group´s exposure to currency risk.

	31 December 2015			
In CZK million	**CZK**	**EUR**	**USD**	**Other**
Financial assets				
Cash and cash equivalents	1,128	825	17	-
Trade and other receivables (excluding prepayments and indirect taxes)	3,869	1,689	33	73
Total financial assets	4,997	2,514	50	73
Financial liabilities				
Financial debts	2,980	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,190	2,375	186	96
Derivative financial instruments	-	-	1	-
Total financial liabilities	7,170	2,375	187	96

In CZK million	CZK	31 December 2014 EUR	USD	Other
Financial assets				
Cash and cash equivalents	2,168	1,017	71	-
Trade and other receivables (excluding prepayments and indirect taxes)	4,216	2,432	7	93
Derivative financial instruments	-	1	-	-
Total financial assets	6,384	3,450	78	93
Financial liabilities				
Financial debts	7,004	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	3,805	4,114	145	55
Total financial liabilities	10,809	4,114	145	55

(ii) Interest rate risk

The Group is exposed to interest rate risk arising from floating interest rate bearing cash investments (Note 14) and debt instruments (Note 16).

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The cash assets and short term debt are currently maintained on floating rates while long term debt instruments could be maintained on both floating and fixed rates. The Group may sometimes use interest rate swaps and forward rate agreements to manage a mix of fixed and variable interest rates.

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

In CZK million	Effect on profit before tax 31 December 2015	31 December 2014
IR risk		
Stress testing*	(3)	(42)

* 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 within a 12 month time frame (due to an increase of interest cost or decrease of interest income) is made on a semi-annually basis based on approved cash-flow forecast.

(b) 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 quickly liquid instruments), and committed credit facilities arranged with banks.

The Group is particularly focused on the liquidity profile within the time horizon of the next 12 months considering projected cash flow from operations and maturity structure of both debt obligations and financial investments. The balance between the funding continuity and flexibility is managed through maintaining the option to use bank overdrafts or bilateral credit lines.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2015 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	12	36	3,192	-
Other intragroup borrowings	-	10	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,863	924	45	15
Derivative financial instruments	1	-	-	-
Financial guarantees	261	138	117	-
Total	6,137	1,108	3,354	15

At 31 December 2014 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**
Interest bearing loans and borrowings	4,026	46	3,047	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	6,064	1,953	96	6
Financial guarantees	272	122	-	-
Total	10,362	2,121	3,143	6

(c) Credit risk

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic and the Slovak Republic. Although the Group does not currently foresee a dramatically higher credit risk associated with these receivables, the repayment is significantly impacted by the financial stability of a particular national economy.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting non-significant Group's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 13. There is no significant concentration of credit risk within the Group.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, available for sale investments 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 the Credit Management Unit and is based on three main activities:

a) 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). Those activities are processed in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.
b) prevention: scoring of new customers – checking procedures (integrated Black List, Solus Debtor Register, other external information databases), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc).
c) collection process: Credit Management cooperates with Customer Care on the setting up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

See Note 17 for quantitative disclosures on credit risk.

(d) Fair value estimation

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

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

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

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

As at 31 December 2015 and 31 December 2014, the Group held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2015 and 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair values of the derivative financial instruments reflect estimates based on calculations performed using the Group's own discounted cash flow models (using market rates).

Carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rate.

2 Use of estimates, assumptions and judgements

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

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

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

(1) Income taxes and deferred taxes

The Group creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 7 and Note 18).

(2) Property, plant and equipment, intangible assets and goodwill

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 G Property, plant and equipment and Note H Intangible assets and Note I Estimated useful lives of tangible and 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 (See Note 11).

The Group tests goodwill for impairment at each reporting date. However, goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation to which the goodwill relates. In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (See Note 11).

(3) Provisions, and contingent liabilities

As set out in Note 20 the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. 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 19). 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 P Trade receivables.

3 Segment information

Segments recognised by the Group are as follows:

- Czech Republic:
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company and other subsidiaries in the Group excluding O2 Family, s.r.o.
  - mobile segment – mobile telecommunication and data services provided by the Company and O2 Family, s.r.o.
- Discontinued operations – separately reported segment relating to CETIN (spun off entity), which provides wholesale services using its own fixed and mobile infrastructure and wholesale services provided by CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH
- Slovak Republic - mobile telecommunication and data services provided by O2 Slovakia, s.r.o

The operating results of all segments are regularly controlled and reviewed by the chief operating decision maker who holds the power to make decisions about resource allocation to the segment and to assess its performance.

In 2015, in relation to the spin off of the Company (as described above in the part General Information), the Group adopted the following changes in monitoring segment information:

a) the original fixed and mobile segments of the Company continue to be monitored only to the level of gross margin, whereas these indicators are reported, managed and reviewed at the level of the entire Company. These facts are reflected in the segment statement below, where indirect costs are aggregated and presented for the entire Company;

b) due to a change in the organisation structure relating to spin off of the Company, a separate segment is reported concerning the spun-off part of the Company as Discontinued operations. The relevant information for the previous period was restated.

Inter-segment pricing rates in 2015 and 2014 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

Year ended 31 December 2015 **In CZK million**	**Czech Republic**		**Slovak Republic**	**Elimination CR vs SR**	**Discontinued Operations**	**Elimination Continuing vs Discontinued operations ***	**Group**
	Fix	**Mobile**					
Revenues	11,670	19,392					
Cost of Sales (CoS)	(7,264)	(9,475)					
Gross margin	4,406	9,917					
Other income from non/telecommunication services and activation of fixed assets	361						
Other costs excluding CoS	(6,827)						
Earnings before depreciation and amortization (EBITDA)	7,857						
Revenues	31,062		6,683	(360)	7,960	(4,558)	40,787
Other income from non/telecommunication services and activation of fixed assets	361		27	6	193	-	587
Total consolidated income	31,423		6,710	(354)	8,153	(4,558)	41,374
Total consolidated costs	(23,566)		(4,425)	354	(4,930)	4,558	(28,009)
Earnings before depreciation and amortization (EBITDA)	**7,857**		**2,285**	**-**	**3,223**	**-**	**13,365**
Depreciation and amortization	(2,815)		(705)	-	(1,045)	-	(4,565)
Impairment loss	(27)		-	-	-	-	(27)
Operating profit	**5,015**		**1,580**	**-**	**2,178**	**-**	**8,773**
Interest expense	(90)		-	-	-	-	(90)
Interest income	4		-	-	-	-	4
Other financial income/(expense)	(72)		(9)	-	(2)	-	(83)
Net financial loss	(158)		(9)	-	(2)	-	(169)
Results attributed to joint venture	10		-	-	-	-	10
Profit before tax	4,867		1,571	-	2,176	-	8,614
Corporate income tax	(972)		(389)	-	(454)	-	(1 815)
Profit for the period	**3,895**		**1,182**	**-**	**1,722**	**-**	**6,799**
Assets (excl. Goodwill)	26,633		6,298	(7,106)	-	-	25,825
Goodwill	4,443		-	-	-	-	4,443
Total Assets	**31,076**		**6,298**	**(7,106)**	**-**	**-**	**30,268**
Trade and other payables	(6,814)		(1,944)	367	-	-	(8,391)
Other liabilities	(3,954)		(202)	623	-	-	(3,533)
Total liabilities	**(10,768)**		**(2,146)**	**990**	**-**	**-**	**(11,924)**
Fixed assets additions	**2,759**		**530**	**-**	**807**	**-**	**4,096**

* Column *Elimination Continuing vs Discontinued operations* represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to May 2015 (further comments under point J of the part Accounting policies above and also in Note 4)

Restated** year ended 31 December 2014	Czech Republic		Slovak Republic	Elimination CR vs SR	Discontinued Operations	Elimination Continuing vs Discontinued operations ***	Group
In CZK million							
	Fix	Mobile					
Revenues	12,291	19,266					
Cost of Sales (CoS)	(7,565)	(9,241)					
Gross margin	4,726	10,025					
Other income from non/telecommunication services and activation of fixed assets	683						
Other costs excluding (CoS)	(9,154)						
Earnings before depreciation and amortization (EBITDA)	6,280						
Revenues	31,557		6,173	(358)	18,327	(11,010)	44,689
Other income from non/telecommunication services and activation of fixed assets	683		17	(369)	551	(107)	775
Total consolidated income	32,240		6,190	(727)	18,878	(11,117)	45,464
Total consolidated costs	(25,960)		(4,337)	727	(10,821)	11,117	(29,274)
Earnings before depreciation and amortization (EBITDA)	**6,280**		**1,853**	**-**	**8,057**	**-**	**16,190**
Depreciation and amortization	(2,723)		(639)	-	(7,374)	-	(10,736)
Impairment loss	(174)		-	-	(6)	-	(180)
Operating profit	**3,383**		**1,214**	**-**	**677**	**-**	**5,274**
Interest expense	(64)		-	1	-	-	(63)
Interest income	3		2	(1)	-	-	4
Other financial income/(expense)	(35)		(6)	-	(4)	-	(45)
Net financial loss	(96)		(4)	-	(4)	-	(104)
Results attributed to joint venture	8		-	-	-	-	8
Profit before tax	3,295		1,210	-	673	-	5,178
Corporate income tax	(679)		(311)	-	(190)	-	(1,180)
Profit for the period	**2,616**		**899**	**-**	**483**	**-**	**3,998**
Assets (excl. Goodwill)	27,860		5,627	(6,571)	33,926	-	60,842
Goodwill	4,443		-	-	9,005	-	13,448
Total Assets	**32,303**		**5,627**	**(6,571)**	**42,931**	**-**	**74,290**
Trade and other payables	(4,674)		(1,545)	217	(4,133)	-	(10,135)
Other liabilities	(7,945)		(164)	239	(2,132)	-	(10,002)
Total liabilities	**(12,619)**		**(1,709)**	**456**	**(6,265)**	**-**	**(20,137)**
Fixed assets additions	**8,112**		**1,370**	**-**	**2,008**	**-**	**11,490**

** Amounts shown in comparatives do not correspond to the consolidated financial statements for the year ended 31 December 2014. The reason for that is the spin off of the Company as of 1 June 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 4.

*** Column Elimination Continuing vs Discontinued operations represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) for the year 2014 (further comments under point J of the part Accounting policies above and also in Note 4).

Capital expenditures comprise additions to property, plant and equipment and intangible assets.

As at 31 December 2015, the net book value of non-current assets deployed in the Slovak Republic amounted to CZK 4,152 million (2014: CZK 4,105 million).

4 Discontinued operation

On 13 March 2015, the Board of Directors of the Company approved a separation project of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). On 28 April 2015, the General Meeting approved the separation of the Company. The decisive date of the separation is 1 January 2015, in accordance with the national legislation. From the perspective of the International Financial Reporting Standards the date when the Company cease the control over the spun off part CETIN is 1 June 2015.

The legal effect of the separation and formation of CETIN took place on the date when it was recorded in the Commercial Register, which happened on 1 June 2015. As a result of the separation a part of assets and liabilities in the amount of CZK 36,660 million has been transferred to CETIN, in particular fixed public communications network, physical infrastructure of public mobile communications network, data centres, all relevant evidence and relevant contracts, rights and obligations necessary for the future independent operations of the new company. In total 1,174 employees assigned to the Infrastructure and Wholesale division were also transferred to CETIN.

At the time of the separation an equal share exchange ratio was determined. One share in CETIN was assigned to all equity holders of the Company for each share of the Company that they held on the date of registration of the spin off in the Commercial Register.

CETIN, represents a separate business activity – Infrastructure and Wholesale division. CETIN's main activity is operating fixed and mobile networks. The term network is meant as a multiservice-access, aggregate and backbone infrastructure, which mediates access of operators' customers to their fixed and mobile voice, data and video services.

Accounting items relating to the spun off company were identified based on the relation to the Infrastructure and Wholesale division in the way it was defined in the separation project, and mainly represent property and equipment and relating assets and liabilities of the Infrastructure and Wholesale division.

Tangible and intangible assets

All tangible and intangible assets relating to access, aggregation and transmission infrastructure of the fixed and mobile telecommunications network were transferred into CETIN. The actual determination was based on an analysis of the fixed asset register, where individual asset cards were aggregated based on technological units, and consequently definitely determined as to whether they relate to the operations of the Company or those of CETIN.

Financial investments

Financial investments in the companies CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH, which are used by the Infrastructure and Wholesale division for the wholesale data transmission (transit) were transferred into CETIN.

Inventories

The directly identifiable items of material that related to tangible assets were transferred into CETIN.

Trade and other receivables

All trade receivables from wholesale telecommunications services, international interconnection charges and fixed national interconnection charges were also transferred into CETIN. All trade receivables relating to spun off contracts as at 31 May 2015 are reported as a part of discontinued operations.

Equity

The reported equity of CETIN in the consolidated financial statements of the Company for the year ended 31 December 2015 represents the difference between the total equity of the Company as at 31 December 2014 after deducting equity components of the Company defined in the opening balance sheet of the Company as at 1 January 2015. It also applies that the reported equity of CETIN equals to the equity of the Company to be spun off, as defined in the separation project as at 1 January 2015, before the revaluation of CETIN assets.

Trade and other liabilities

Liabilities of CETIN are formed by directly assignable items of wholesale sales of telecommunications services, international interconnection charges and fixed national interconnection charges. Furthermore, trade and other liabilities contain un-invoiced supplies, accruals and other liabilities as of 31 May 2015, which relate to demerged agreements or fixed assets.

In relation to the spin off, new business relations were established as of 1 January 2015 with the company CETIN by a virtue of the purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Company.

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

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Group is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

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

The subject of RAO agreement is the 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). Total cost for the period June to December 2015 was approximately CZK 2,450 mil.

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

CETIN enables the Group 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 Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for the period June to December was approximately CZK 540 mil.

The Company assessed some of the newly concluded agreements between the Company and CETIN as lease agreements – Optical Fibre Lease Agreement, Agreement on Provision of Data Centre Services, Commercial Lease Agreements and Commercial Sub-lease Agreements. The aggregate future minimum lease payments (with the Company as a lessee) arising from these agreements are as follows:

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases	221	789	190

PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

In CZK million	For the five months ended 31 May 2015	Year ended 31 December 2014
Revenues	8,153	18,878
Expenses	(4,930)	(10,821)
Earnings before depreciation and amortization (EBITDA)	**3,223**	**8,057**
Depreciation and amortisation	(1,045)	(7,374)
Impairment loss	-	(6)
Operating profit	2,178	677
Financial result	(2)	(4)
Profit before tax	2,176	673
Corporate income tax	(454)	(190)
Profit after tax from discontinued operations	**1,722**	**483**
Earnings per share for discontinued operations (CZK) – basic	6	2

Effect of disposal on the financial position	31 May 2015	31 December 2014
Property, plant and equipment and intangible assets	31,962	32,234
Goodwill	9,005	9,005
Inventories	20	27
Trade and other receivables	1,702	1,443
Other financial receivables	65	167
Cash and cash equivalents	1,970	55
Total assets	**44,724**	**42,931**
Shareholders equity*	38,277	36,666
Trade and other payables	4,157	4,118
Deferred tax liability	2,290	2,147
Total equity and liabilities	**44,724**	**42,931**

Cash flows from Discontinued operations	For the five months ended 31 May 2015	Year ended 31 December 2014**
Net cash flows from operating activities	2,705	8,057
Net cash flows from investing activities	(790)	(1,986)
Net increase/(decrease) for cash and cash equivalents for the period	**1,915**	**6,071**

* Shareholders equity as at 31 December 2014 includes part of the equity amounting to CZK 36,660 million, which due to the separation of the Company has been transferred to CETIN, and an item arising from the consolidation of subsidiaries in an amount of CZK 6 million.

Shareholders equity as at 31 May 2015 includes, inter alia, the consolidated profit for the period of January to May 2015 of the Group CETIN amounting to CZK 1,722 million, an item arising from consolidation of subsidiaries in an amount of CZK 5 million and corrections of booking of the demerger accounted in accordance with accounting principles against the equity amounting to CZK 120 million.

** Resulted increase of cash and cash equivalents is only hypothetical, since reverse distribution of cash and cash equivalents as at 1 January 2014 between continuing and discontinued operations is difficult and is based on many assumptions. Cash flows from operating activities are based on EBITDA, adjusted for significant non-monetary transactions, changes in working capital are not taken into account.

5 Revenue and costs

Revenues **In CZK million**	**Year ended** **31 December 2015**	**Year ended** **31 December 2014**
Revenues from voice services	16,881	17,859
Revenues from data services	10,427	10,166
Revenues from ICT Services	1,942	1,719
Other telecommunication revenues	8,135	7,628
Total	37,385	37,372
Other income	394	331

Other income contains own work capitalized which amounts to CZK 217 million (2014: CZK 201 million).

Revenues from related parties are disclosed in Note 24.

Expenses **In CZK million**	**Year ended** **31 December 2015**	**Year ended** **31 December 2014**
Supplies	(19,420)	(18,933)
Staff costs	(3,692)	(3,851)
External services	(4,143)	(6,002)
Provisions for bad debts and inventories	(40)	(246)
Other expenses	(342)	(538)
Total expenses	(27,637)	(29,570)

Supplies include mainly these types of costs: interconnection and roaming expenses, cost of goods sold, subdeliveries, commissions and other cost of sales.

The Group does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Group during 2015 and 2014. As a result of the restructuring process the Group incurred restructuring costs of CZK 124 million during the year ended 31 December 2014 (2014: CZK 457 million), including redundancy payments of CZK 124 million (2014: CZK 432 million). Restructuring costs in 2014 are including costs from discontinued operations (see Note 4).

Restructuring costs are included in staff costs.

Statutory auditor's fees during the year ended 31 December 2015 reached CZK 9 million (2014: CZK 12 million - including costs from discontinued operations).

Purchases from related parties are disclosed in Note 24.

6 Finance income and costs

In CZK million	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Finance income		
Interest income	4	4
Gain on fair value adjustments of financial instruments (net)	-	4
Other finance income	4	10
Total finance income	8	18
Finance costs		
Interest expenses	(90)	(63)
Foreign exchange loss (net)	(39)	(18)
Other finance costs	(45)	(37)
Loss on fair value adjustments of financial instruments (net)	(1)	-
Total finance costs	(175)	(118)

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

7 Income tax

In CZK million	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Total income tax expense is made up of:		
Current income tax charge	1,322	935
Deferred income tax (credit)/charge (Note 18)	39	55
Income tax	1,361	990

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 2015	Year ended 31 December 2014
Profit before tax	6,438	4,505
Income tax charge calculated at the weighted average statutory rate (Note 18)	1,270	887
Not taxable income	(6)	(1)
Expenses not deductible for tax purposes	67	30
Tax losses not included in deferred tax	-	27
Special tax for regulated business for O2 Slovakia, s.r.o.	36	47
Tax related to prior periods	(6)	-
Taxes on income	1,361	990
Effective tax rate	21%	22%

As at 31 December 2015 the total amount of provisions for current income taxes is CZK 1,285 million (2014: CZK 1,621 million), advances paid for income taxes is CZK 1,040 million (2014: CZK 1,322 million), the net deferred tax liability is CZK 60 million (2014: CZK 2,151 million), the net deferred tax asset is CZK 323 million (2014: CZK 313 million).

8 Earnings per share

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

Continuing operations

	31 December 2015	31 December 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	5,077	3,515
Basic earnings per share (CZK)	16	11

Discontinued operations

	31 December 2015	31 December 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	1,722	483
Basic earnings per share (CZK)	6	2

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

The General Meeting approved on 8 December 2015 the ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

9 Dividends and other distribution

In CZK million	31 December 2015	31 December 2014
Dividends declared (including withholding tax)	4,103	5,682
Total declared distribution	4,103	5,682

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2015. Approval of the 2015 profit and the decision regarding the amount of any dividend payment for the 2015 financial year will take place at the Annual General Meeting.

The approval of the 2014 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 28 April 2015 (2013: 25 June 2014). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 13 per share from the 2014 profit were payable on 28 May 2015 (2013: CZK 18).

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

In CZK	Year ended 31 December 2015	Year ended 31 December 2014
Dividend per share (nominal value of CZK 10 as at 31 December 2015, Note 23)	13	18
Total distribution per share	13	18

10 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2015					
Opening net book amount	9,372	17,147	8,797	884	36,200
Transferred to CETIN at 1 January 2015	(8,211)	(17,079)	(6,021)	(332)	(31,643)
Additions	50	20	930	292	1,292
Disposals	(19)	(1)	(111)	(12)	(143)
Reclassifications and currency differences	(44)	(32)	40	3	(33)
Depreciation charge	(76)	(2)	(734)	(207)	(1,019)
Impairment charge	(2)	-	(14)	-	(16)
Closing net book amount	1,070	53	2,887	628	4,638
At 31 December 2015					
Cost	2,145	60	13,622	5,227	21,054
Accumulated depreciation and impairment allowance	(1,075)	(7)	(10,735)	(4,599)	(16,416)
Net book amount	1,070	53	2,887	628	4,638

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2014					
Opening net book amount	9,893	21,557	9,532	875	41,857
Additions	183	459	1,527	468	2,637
Disposals	(4)	-	(9)	-	(13)
Reclassifications and currency differences	32	(4)	33	(11)	50
Depreciation charge	(732)	(4,865)	(2,279)	(448)	(8,324)
Impairment charge	-	-	(7)	-	(7)
Closing net book amount	9,372	17,147	8,797	884	36,200
At 31 December 2014					
Cost	20,638	104,538	79,437	6,827	211,440
Accumulated depreciation and impairment allowance	(11,266)	(87,391)	(70,640)	(5,943)	(175,240)
Net book amount	9,372	17,147	8,797	884	36,200

The net book amount of Property, plant and equipment as at 31 December 2015 includes CZK 816 million of construction in progress (2014: CZK 1,152 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

No property, plant and equipment were pledged as at 31 December 2015 and 31 December 2014.

No borrowing costs were capitalized during the years 2015 and 2014.

The Group did not recognise any assets held for sale as at 31 December 2015 and 31 December 2014.

In 2015, the Group achieved a total gain from the sale of the fixed assets amounting to CZK 15 million (2014: CZK 24 million) and total losses of CZK 12 million (2014: CZK 11 million).

Property, plant and equipment in amount of CZK 31,643 million as at 1 January 2015 were transferred to spun off part CETIN on 31 May 2015. See Note 4 for further details.

11 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2015						
Opening net book amount	13,448	5,891	2,972	3,596	369	26,276
Transferred to CETIN at 1 January 2015	(9,005)	(14)	(577)	-	-	(9,596)
Additions	-	432	1,565	-	-	1,997
Reclassifications and currency differences	-	(7)	(48)	(12)	49	(18)
Amortisation charge	-	(678)	(874)	(871)	(78)	(2,501)
Impairment charge	-	-	(11)	-	-	(11)
Closing net book amount	4,443	5,624	3,027	2,713	340	16,147
At 31 December 2015						
Cost	4,443	10,269	23,493	3,729	590	42,524
Accumulated amortisation and impairment allowance	-	(4,645)	(20,466)	(1,016)	(250)	(26,377)
Net book amount	4,443	5,624	3,027	2,713	340	16,147
At 31 December 2014						
Opening net book amount	13,499	2,473	3,518	-	518	20,008
Additions	-	3,925	1,173	3,742	12	8,852
Reclassifications and currency differences	-	7	(5)	1	(2)	1
Amortisation charge	-	(514)	(1,641)	(147)	(110)	(2,412)
Impairment charge	(51)	-	(73)	-	(49)	(173)
Closing net book amount	13,448	5,891	2,972	3,596	369	26,276
At 31 December 2014						
Cost	13,495	9,870	26,340	3,743	692	54,140
Accumulated amortisation and impairment allowance	(47)	(3,979)	(23,368)	(147)	(323)	(27,864)
Closing net book amount	13,448	5,891	2,972	3,596	369	26,276

The net book amount of intangible assets as at 31 December 2015 includes CZK 1,775 million of construction in progress (2014: CZK 1,080 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Intangible assets in amount of CZK 9,596 million as at 1 January 2015 were transferred to spun off part CETIN on 31 May 2015. See Note 4 for further details.

Goodwill

Goodwill of CZK 4,315 million resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill initially recognized at CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million, and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

Due to a revision of IFRS 3, IAS 36 and IAS 38 the Group ceased amortisation of the previously recognized goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 was eliminated with a corresponding decrease in the cost of goodwill (CZK 767 million). From the year ending 31 December 2005 onwards, goodwill is classified as an asset with an indefinite useful life, which has been tested annually for the impairment, as well as when there are indications of impairment.

As at 31 December 2015 and 31 December 2014 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project of the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company from 2012.

Part of the goodwill in the amount of CZK 9,005 million attributable to the spun off part of the business was in accordance with IAS 36 transferred in 2015 to CETIN. See Note 4 for further details.

The Group performed impairment tests, which did not result in any impairment losses of goodwill, in 2015 and 2014. The impairment test involves a determination of the recoverable amount for the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Group internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 4 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the four-year period are extrapolated using appropriate growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan and growth rates, include the trend of the gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

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

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

Estimated growth rate – the forecast of the market and regulatory environment, where the Group conducts its principal business, is the basis for determination of the value assigned to the estimated growth rate. The Group uses growth rate between -1% and 0% (2014: -1% and 0%).

Discount rate – discount rates reflect the management's estimate of the risk specific to the cash generating unit. Weighted average cost of capital (WACC) forms the basis for the determination of the pre-tax discount rate. This rate is calculated using the capital asset pricing model (CAPM), the Group also uses relevant data taken from independent financial analysts as a benchmark.

The Group has no other intangible asset with indefinite useful life except for goodwill.

Goodwill on WiFi acquisitions

Goodwill in the amount of CZK 51 million was recognised by the subsidiary Internethome, s.r.o. following acquisition of network infrastructure, customer base and the related assets and liabilities from local providers of WiFi Internet access. Goodwill arose on acquisitions performed till the year 2012. There were no acquisitions in subsequent years. The goodwill resulted from a comparison of the present value of the purchase price in the amount of CZK 299 million and the fair value of net assets acquired of CZK 248 million.

In 2014 was based on results of performed impairment review test the goodwill fully impaired. The entity Internethome, s.r.o. disposed in 2015 majority of the operations the goodwill was related to. In accordance with IAS 36 the attributable part of the goodwill was disposed and included in the carrying amount of the operation when determining the gain or loss on disposal.

Licences

Acquired licences represent the rights to operate cellular networks which are technologically neutral. Group uses following standards for operating cellular networks in the Czech Republic and Slovakia: GSM (Global System for Mobile Communication, the second generation technology), UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Details of individual licences are described in Note 22.

Carrying value of licences:

In CZK million	31 December 2015	31 December 2014
GSM 900 licence	16	114
GSM 1800 licence	13	92
GSM extension	432	-
CDMA 450 licence	10	14
UMTS licence	1,520	1,769
LTE licence	2,558	2,724
GSM and UMTS licence – the Slovak Republic	83	93
LTE licence – the Slovak Republic	982	1,085
Licence 3,7GHz TDD – the Slovak Republic	10	-
Total	5,624	5,891

No borrowing costs were capitalized during the years 2015 and 2014.

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.

Valuable rights

The Group decided in 2014 on exercising the option under the license agreement, based on which the Group is using the O2 brand until 31. January 2019 in the Czech Republic and Slovakia. By exercising the option, the Group purchased O2 brand recognized within intangible assets as at 31. December 2015 in net book amount CZK 2,713 million (2014: CZK 3,596 million).

12 Inventories

In CZK million	31 December 2015	31 December 2014
Telecommunication material	94	73
Goods	628	397
Total	722	470

The inventories stated above are net of an allowance of CZK 95 million (2014: CZK 51 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 3,336 million (2014: CZK 2,864 million).

In 2015 and 2014, the Group had no inventories pledged as a security for liabilities.

13 Receivables and other non – current assets

In CZK million	**31 December 2015**	**31 December 2014**
Trade receivables from third parties (net)	5,143	6,512
Group trade receivables	365	36
Prepayments	541	490
Other debtors (net)	89	152
Indirect taxes	18	3
Derivative financial instruments	-	1
Total receivables	6,156	7,194

Trade receivables and other debtors are stated net of bad debt provision of CZK 3,098 million (2014: CZK 3,736 million).

Receivables from related parties are disclosed in Note 24.

			Not impaired but overdue			
Trade receivables In CZK million	**Carrying amount**	**Neither Impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2015	5,574	5,122	361	28	18	2
At 31 December 2014	6,596	3,877	364	10	4	5

Bad debt provisions In CZK million	
At 1 January 2014	3,946
Additions	1,669
Retirements/amount paid	(1,879)
At 31 December 2014	3,736
Additions	1,710
Transferred to CETIN (Note 4)	(20)
Write-off of receivables	(738)
Retirements	(1,590)
At 31 December 2015	3,098

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.

In CZK million	**31 December 2015**	**31 December 2014**
Trade and other receivables – non-current	66	48
Prepayments	204	516
Total other non-current assets	270	564

Trade and other non-current receivables contained restricted cash of CZK 29 million (2014: CZK 29 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

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

In CZK million	**31 December 2015**	**31 December 2014**
Gross amounts of trade receivables from third parties	1,204	1,237
Amounts that are set off	(361)	(527)
Net amounts of trade receivables from third parties	843	710

14 Cash and cash equivalents

In CZK million	**31 December 2015**	**31 December 2014**	**Interest rate**
Cash at current bank accounts and other cash equivalents	1,185	237	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	785	3,019	Floating
Total cash and cash equivalents	1,970	3,256	
- of which restricted cash	(432)	-	
Cash and cash equivalents included in cash flow statement	1,538	3,256	

Restricted cash represents cash intended for payment for the license to use radio frequencies allocated to the Company by Czech Telecommunication Office (CTO). The cash is as of 31 December 2015 deposited on an escrow account held on behalf of the Company and will be released to CTO in 2016 according to the concluded agreement. In accordance with IFRS, the Company reports the cash in balance sheet statement as at 31 December 2015 as cash and cash equivalents and in cash flow statement as cash flow from investing activities.

As at 31 December 2015 and 2014, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2015, cash and cash equivalents of the Group amounted to CZK 1,970 million (2014: CZK 3,256 million) of which CZK 1,538 million (2014: CZK 474 million) were due within 1 month and CZK 0 million (2014: CZK 2,782 million) were due for more than 1 month.

At 31 December 2015, the Group had available equivalent of CZK 9,662 million (2014: CZK 961 million) of undrawn committed facilities.

As at 31 December 2015 and 2014 no cash and cash equivalents were pledged.

15 Trade and other payables

In CZK million	31 December 2015	31 December 2014
Trade creditors	6,686	7,852
Tax and social security liability	586	730
Other deferred revenue	72	582
Prepaid cards	495	322
Employee wages and benefits	451	484
Other creditors	101	165
Total current trade and other payables	8,391	10,135
Trade creditors	39	42
Other creditors	21	60
Other long-term deferred revenue	34	53
Other non-current liabilities	94	155

Payables to related parties are disclosed in Note 24.

As at 31 December 2015 and 2014, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

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

In CZK million	31 December 2015	31 December 2014
Gross amounts of trade creditors	1,563	1,594
Amounts that are set off	(361)	(527)
Net amounts of trade creditors	1,202	1,067

16 Financial debts

In CZK million	31 December 2015	31 December 2014
Debt in local currency	2,970	7,000
Accrued interest	-	4
Financial derivative instruments	1	-
Other financial debt	10	-
Total financial debt	2,981	7,004
Repayable:		
Within one year	11	4,004
Between one and five years	2,970	3,000
Total financial debt	2,981	7,004

On 16 December 2015 the Company entered into term facility agreement up to CZK 12 billion with maturity of 5 years. This loan was provided by Komerční banka, a.s. (acting as an agent), Česká spořitelna, a.s., Československá obchodní banka, a.s., Raiffeisenbank a.s., UniCredit Bank Czech Republic and Slovakia, a.s., Citibank Europe plc. and Tatra banka, a.s.

The interest rate is PRIBOR plus a margin amounting 0,60%. The Company uses the loan to refinance former debt and for general corporate purposes.

Loans are not secured over any assets of the Group.

17 Financial instruments

Financial instruments by category

The following table shows the carrying amounts of classes of financial assets and liabilities split to respective financial instruments categories.

At 31 December 2015

In CZK million	**Loans and receivables**	**Assets at fair value through profit and loss**	**Total**
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,663	-	5,663
Cash and cash equivalents	1,970	-	1,970
Total	7,633	-	7,633

	Other financial liabilities at amortised cost	**Liabilities at fair value through profit and loss**	**Total**
Financial liabilities			
Financial debts	2,980	-	2,980
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	6,847	-	6,847
Derivative financial instruments	-	1	1
Total	9,827	1	9,828

At 31 December 2014

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	6,748	-	6,748
Derivative financial instruments	-	1	1
Cash and cash equivalents	3,256	-	3,256
Total	10,004	1	10,005

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	7,004	-	7,004
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liabilities)	8,119	-	8,119
Total	15,123	-	15,123

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to internal information about counterparty default rates profile:

In CZK million	31 December 2015	31 December 2014
Trade receivables		
Group 1	2,663	1,577
Group 2	1,982	2,030
Group 3	477	270
Total unimpaired trade receivables	5,122	3,877
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody´s):		
A1	124	3
A2	474	156
Baa1	571	1
Baa2	-	60
Ba1	-	2
	1,169	222

Counterparties without external credit rating:		
Intragroup	785	3,019
	785	3,019
Cash in hand and other cash equivalents	16	15
Total cash and cash equivalents	1,970	3,256
Derivative financial assets		
Intragroup	-	1
	-	1

Group 1 – end customers monitored in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.

Group 2 – Dealers and other business partners

Group 3 – Roaming partners

18 Deferred income taxes

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

Short-term and long-term deferred taxes were calculated for the year 2015 at statutory rate 19% for the Czech Republic (2014: 19%) and 22% for the Slovak Republic (2014: 22%).

In CZK million	2015	2014
At 1 January	1,838	2,318
Charged /(credited) to Profit or loss from continuing operations (Note 7)	39	55
Charged /(credited) to Profit or loss from discontinued operations	143	(539)
Transferred to CETIN (Note 4)	(2,290)	-
Foreign exchange translation reserve	7	(4)
Other changes	-	8
At 31 December	(263)	1,838

In 2015 a deferred tax asset in O2 Slovakia, s.r.o. amounting to CZK 302 million (2014: CZK 302 million) was recognized resulting mainly from the difference between the accounting net book value and the tax net book value of fixed assets.

The following amounts, determined after offsetting, are shown in the consolidated balance sheet:

In CZK million	31 December 2015	31 December 2014
Deferred tax assets	(631)	(745)
Deferred tax liabilities	368	2,583
Total	(263)	1,838

The deferred tax asset includes CZK 331 million (2014: CZK 511 million) recoverable in less than twelve months and CZK 300 million (2014: CZK 234 million) recoverable after more than twelve months. The deferred tax liability includes CZK 130 million (2014: CZK 678 million) to be settled in less than twelve months and CZK 238 million (2014: CZK 1,905 million) to be settled in more than twelve months.

The net deferred tax is determined by these components:

In CZK million	**Consolidated balance sheet**		**Consolidated profit or loss**	
	2015	**2014**	**2015**	**2014**
Temporary differences relating to:				
Tax losses	-	-	-	33
Property, plant and equipment and intangible assets	70	2,104	(2,034)	(452)
Trade receivables, inventories and other differences	(333)	(266)	(67)	(65)
Deferred tax liability transferred to CETIN (Note 4)	-	-	2,290	-
Foreign currency differences	-	-	(7)	-
Total	(263)	1,838	182	(484)
- from continuing operations			39	55
- from discontinued operations			143	(539)

19 Provisions for liabilities and charges

In CZK million	Asset retirement obligation	Regulatory and court decisions	Other provisions	Total
At 1 January 2014	-	21	22	43
Additions during the year	267	40	64	371
Utilised during the year	-	(11)	(10)	(21)
At 31 December 2014	**267**	**50**	**76**	**393**
Additions during the year	-	20	105	125
Utilised during the year	-	(11)	(40)	(51)
Transferred to CETIN (Note 4)	(267)	-	(47)	(314)
At 31 December 2015	**-**	**59**	**94**	**153**
Short-term provisions 2014	31	35	76	142
Long-term provisions 2014	236	15	-	251
	267	**50**	**76**	**393**
Short-term provisions 2015	-	37	94	131
Long-term provisions 2015	-	22	-	22
	-	**59**	**94**	**153**

Provisions transferred to CETIN amount to CZK 314 million. See Note 4 for further details. The most significant provision transferred to CETIN was recognized by the Group in 2014 for estimated cost of dismantling and removing assets and restoring sites amounting to CZK 267 million. The reason for recognition of a provision was a substantial increase in the estimate of the present value of future costs of dismantling and removing assets and restoring sites in connection with the network sharing project.

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. Other provisions consist mainly of provision for restructuring costs and costs related to termination of lease in office building.

A provision for regulatory and court decisions is made for legal proceedings involving the Group (see Note 20).

20 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2015 no major proceeding was closed, so majority of the proceedings in which the Company is involved, has been lasting for more than 5 years without any decision in merit. Major legal disputes and other proceedings relating to the Company are described below.

I. ÚOHS (Office for Protection of Economic Competition)

i. Administrative proceeding on alleged abuse of dominant position on fix broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting so called "preliminary investigation" since November 2008 to determine whether the Company had abused its dominant position in the broadband market. The Company cooperated with the Office while repeatedly stating and proving that it had not held a dominant position in the market and, as such, no abuse could have been committed. Although the extent of information and documents required by the Office during more than a two-year long investigation grew immensely, the Company was never allowed to inspect the file to check its content and control how the information was interpreted by the Office. In the light of the above, the Company requested for court protection by legal action filed to the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from the continuation of the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation has to be stopped immediately. This verdict was later confirmed by Supreme Administrative Court in September 2011. The Office reacted by opening official administrative proceeding on dominant position on fix broadband market by ADSL technology in March 2011. The Company filed its statement proving that the Office incorrectly defines relevant market on which Company would allegedly hold dominant position and moreover even abuse it. Company's statement about strong competition between technological platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly confirmed by the Czech Telecommunication Office and European Commission. The Company also provided the Office with numerous documents proving that all steps of the Company were correct. More records are continuously filed into the file. The Company cannot estimate when the proceeding will be closed due to extreme length and volume of information. The Office hasn´t issued any decision not even during 2015 despite the fact the Company provides the Office with all necessary facts and information. By the end of 2015 the Office asked the Company for other information and it´s obvious that the Office is still inquiring the case. Neither in the case of financial statements for previous years nor in the case of this financial statements it was not possible to make a reliable estimate, whether this administrative proceeding would have any financial impact, eventually in which amount neither when this proceeding will be terminated.

ii. Proceeding for CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over the penalty of CZK 81.7 million imposed in December 2003 on the Company in the proceeding on the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office for returning the penalty including interests. Although the principal was returned by the Office, before it was decided on the returning of interests, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. After all in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty and returned the case back to the Office where the Office should in compliance with law justify the penalty in relation to the judged period. Despite the objections of the Company regarding insufficient background, the Office issued a new decision imposing to the Company a fine CZK 91.9 million. The Company perceives such decision as an impermissible reprisal from the Office and filed a legal action including the proposal for suspension of the payment of the penalty during the court proceeding. The Regional court in Brno decided on suspension of the payment but by its decision from 23 October 2014 surprisingly dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But the Supreme Administrative Court by its decision from 15 April 2015 returned the case back to the Regional court in Brno, which, bound by the legal opinion, cancelled the Office´s decision on 11 September 2015. The Office returned the paid penalty back to the Company, but filled cassation complaint again. The Supreme Administrative Court hasn´t take the decision on the complaint yet. Because of the ongoing dispute, the Company records the returned penalty as at 31 December 2015 as a liability in the financial statements.

II. Disputes with AUGUSTUS spol. s r.o. company

The Company reached obvious turnaround in disputes with AUGUSTUS company in favor of the Company. The Company now concentrates on reclaiming unjust enrichment from the AUGUSTUS. Originally AUGUSTUS spol. s r.o. had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK 183 million with interests. AUGUSTUS spol. s r.o. claimed that the Company had illegally terminated the contract for the issue and distribution of phone cards signed for an open period of time. Based on the decision of the High Court in Prague, in August 2006, the Company paid a sum of CZK 83 million plus relevant interests (total of CZK 139 million). Later on, we could see a positive turn in the proceeding in favour of the Company when the Supreme Court based on the Company's appeal cancelled the previous verdicts in June 2009 and the Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed this dismissal in August 2011. In reaction to this, the Company filed a lawsuit against AUGUSTUS spol. s r.o. to return the amount of CZK 139 million. The Municipal Court in Prague granted the claim in September 2011. AUGUSTUS spol. s r.o. filed an appeal but wasn´t successful. Meanwhile it turned out that at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company is taking all legal steps to secure the property and to avoid additional losses. Municipal court in Prague declared bankruptcy of AUGUSTUS in November 2012 because of obvious inability to cover all its debts. High court in Prague confirmed the bankruptcy of AUGUSTUS company in May 2013. The Company is the major creditor with the highest filed and confirmed claim. The Municipal court in Prague issued the decision on partial distribution of the assets of AUGUSTUS company on 13 October 2015, where the Company was granted by the amount of CZK 32 million, which shall be paid after legal force of the decision. But the AUGUSTUS company filed the appeal, which remains unresolved.

III. CNS a.s. – dispute on CZK 19.8 milion

In 2009, the employees of CNS a.s., dealing with the development and updates of IT applications and the employees of Telefónica O2 Business Solutions, spol. s r.o. were having negotiations over the potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project was never materialised. CNS a.s. filed in August 2010 a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million for not signing any contract. The Company regards this claim as fabricated and the amount evidently exaggerated which can be demonstrated by the fact that in accordance with the annual profit and loss statement 2009, CNS a.s. generated a yearly profit of less than CZK 5.5 million. Municipal court in Prague fully dismissed the legal action in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. High court in Prague later confirmed that there wasn´t any contract concluded between CNS and the Company and therfore there is no claim of CNS from the contractual relationship. High court only ordered to Municipal court in Prague to decide on possible claims of CNS arising from the precontractual liability, however the court file does not contain any evidence regarding such claims. Just before the last oral hearing CNS announced to the court in October 2014 that they allegedly transfer all their “claims” to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement. The Company protested against this obvious attempt of CNS to avoid to cover the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – dispute on CZK 4 billion

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The lawsuit has not been heard by the Court yet. The court has already started the proceeding in the matter and further oral hearings took place during the year 2013, including the hearings of witnesses and experts. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court. But neither its framework neither the exact wording of the question to the expert is yet not known.

V. ČESKÉ RADIOKOMUNIKACE – dispute on CZK 3.1 billion

The legal action for CZK 3.1 billion filed by company ČESKÉ RADIOKOMUNIKACE (ČRa) was delivered to the Company in October 2012. The plaintiff states that the Company allegedly caused the damage by abusing of dominant position on “xDSL market”, which supposedly impact ČRa´s ability to reach “equitable position on retail xDSL market”. The claimed sum is calculated as a difference between hypothetical price of the part of the business and the real price for which the part of the business was actually sold to T-Mobile Czech Republic, a.s. back in 2009. The Company considers the legal action as purely artificial claim and this was also communicated to the court in the statement. On 7 February 2013, the Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. CRa filed an extraordinary appeal but it was declined by the Supreme court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, where all evidence on paper was proceeded. Further hearing is scheduled on March 2016. The court should decide on the question of the revisional expert opinion.

VI. TELECONSULT INTERNATIONAL - dispute on CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. New evidence did not bring any finding in favor of the plaintiff. The court issued the decision on the hearing held on 14 January 2016, where the vast majority of the claim was dismissed and the Company shall receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was granted only by the amount CZK 1.7 million, which represents the difference between the volume of the minutes measured by both parties in May 1998. The Company will fill the appeal against this part of the decision.

VII. Vodafone Czech Republic a.s. – dispute on CZK 384.7 million

The legal action of Vodafone Czech Republic a.s. claiming CZK 384,691,000 was delivered to the Company on 2 April 2015. The legal action is grounded on alleged breach of the rules of the competition related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after only two page notice claiming this amount was delivered to the Company. According to the Company the whole claim is purely artificial case, which sole purpose was to damage the Company by the medialization. Vodafone Czech Republic a.s. claims that hasn´t reached 200 000 customers of xDSL internet services and therefore has lost the profit. The Company provided the court with its statement pointing out of the groundless of the claim. The oral hearing wasn´t ordered yet.

VIII. Legal actions on invalidity of the item No. 7 General meeting held on 28 April 2015 (approval of the spin off)

The Company registers two legal actions of shareholders, who claim the declaration of invalidity of the resolution of the general meeting held on 28 April 2015 to the item No. 7 (Discussion over and approval of the spin off the part of the Company with the creation of new company). These legal actions were filed by Ing. Tomáš Hájek and Pinara Ponava, s.r.o. company. The Company considers these actions as groundless and filed to the court its statement pointing out relevant facts. The oral hearing hasn´t been ordered yet.

IX. The criminal proceeding lead according to the Act No. 418/2011 Coll.

The criminal proceeding has been initiated with the Company as the corporation. The Company was accused of committing crimes which were allegedly committed between 2010 and 2013, in connection with the public tender for metropolitan network and digitization of documents for self-government in city of Přerov. The resolution contains other additional 22 acts related to other accused in other cases, but these are not related to the Company at all. The Police did not even describe how the Company could commit the crime. The Company filed the complaint to the Supreme Public Prosecutor´s Office on 7 September 2015 but the decision hasn´t been made yet. The criminal proceeding is at an early stage and does not limit participation of the Company in public tenders or exercise of the regular business.

The Group is involved in other legal disputes. The aggregate value of all these disputes not closed with a verdict in 2015 totals to nearly CZK 42 million. The statement of Total comprehensive income takes into account all these disputes, however, individual risks of these minor disputes are insignificant.

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

The Group is convinced that all litigation risk has been appropriately reflected in the financial statements.

21 Commitments

The aggregate future minimum lease payments (the Group as a lessee) and future incomes (the Group as a lessor) originating from non-cancellable operating leases are reported in comparative period including discontinued operations.

	31 December 2015		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	660	1,628	486
Operating leases - lessor	11	4	-

Contractual obligations with CETIN are separately states in Note 4.

In CZK million	31 December 2014 Less than 1 year	 1 to 5 years	 Over 5 years
Operating leases - lessee	1,307	2,669	2,839
Operating leases - lessor	123	45	2

The total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2015 were CZK 854 million (2014: CZK 1,586 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2015 amounted to CZK 455 million (2014: CZK 734 million). The majority of contracted amounts relates to the telecommunication networks and service contracts.

22 Service concession arrangements

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

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

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

The Company provides mobile services of electronic communications in the 900 and 1,800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 7 February 2016 and newly until 22 October 2024, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignment from the CTO and valid until 30 June 2029, in the 2,100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

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

Provision of electronic communications services in the Slovak Republic

O2 Slovakia, s.r.o. provides services of electronic communications by the means of a public mobile electronic communications network in the 900, 1,800 and 2,100 MHz frequency bands under GSM, LTE and UMTS standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 7 September 2026 and in the 800 and 1,800 MHz frequency bands under GSM and LTE standard on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 31 December 2028 (for 800 MHz frequency band) and until 7 September 2026 (for 1,800 MHz frequency band).

O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., provides services of electronic communications by the means of a wireless technology operated in the 3.7 GHz frequency band on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 31 December 2024.

Imposition of obligations related to the provision of the Universal Service

During 2015, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

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

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

23 Share capital and reserves

	31 December 2015	31 December 2014
Nominal value per ordinary registered share (CZK)	10	87
Number of shares – fully paid-up	310,220,057	315,648,092
Nominal value per ordinary registered share (CZK)	100	870
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	27,461

On 28 April 2015, the General Meeting approved as part of the separation project of the Company (Note 4) decrease of nominal value of ordinary registered shares and cancellation of the treasury shares. No distribution was paid out to shareholders of the Company as a result of the decision.

CZK 23,887 million related to decrease of nominal value of ordinary shares (excluding treasury shares) was transferred to other capital funds. Remaining decrease of share capital in amount of CZK 472 million relates to nominal value of cancelled treasury shares with the carrying amount of CZK 1,596 million. Difference between nominal value and carrying value of cancelled treasury shares in amount of CZK 1,124 million was settled against share premium.

The legal effect of the decrease of nominal value of registered ordinary shares and the cancellation of treasury shares took place on the date when it was recorded in the Commercial Register, which was on 1 June 2015.

Shareholdings in the Company were as follows:

	31 December 2015	31 December 2014
PPF Arena 2 B.V.	73.8%	73.1%
PPF A3 B.V.	10.3%	10.1%
O2 Czech Republic a.s. (treasury shares)	-	1.7%
Other shareholders	15.9%	15.1%

Capital management

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

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

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

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

There are no other specific objectives.

Standalone equity structure as at 31 December 2015 and 2014:

In CZK million	**31 December 2015**	**31 December 2014**
Share capital	3,102	27,461
Treasury shares	-	(1,596)
Share premium	11,894	19,349
Funds and reserves	8	6,450
Retained earnings from previous years	657	743
Net income for current year	4,711	3,963
Total	**20,372**	**56,370**

The funds in 2014 included a reserve fund of CZK 6,442 million. The Board of Directors shall decide on the creation of, contribution to, use of or the dissolution of the Reserve Fund, unless the law or Articles of Association provide that such decision in the specific context comes under the authority of the General Meeting.

Treasury share transactions consist of transfer of unpaid dividends related to treasury shares to retained earnings of CZK 71 million (2014: CZK 97 million).

24 Related party transactions

Companies PPF Arena 2 B.V. and PPF A3 B.V., through which Mr. Petr Kellner controls the Company since 28 January 2014, are part of 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's reach spans from Europe to Russia, the USA and across Asia.

As the settlement of the sale of the Company was held at the end of January 2014 related parties transactions were identified for the period of January 2014 with a group of former owner Telefónica and from February to December 2014 with the PPF Group.

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 assets balances are tested for the impairment at the balance sheet date, and neither allowance nor write-off were incurred.

The comparative information in this note is reported including discontinued operations (see Note 4).

The following transactions were carried out with related parties:

I. Parent company:

Statement of total comprehensive income In CZK million	Year ended 31 December 2015	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014
a) Sales of services and goods	-	27	-
b) Purchases of services and goods	-	-	3
c) Royalty fees	-	-	51

The total amount of dividend paid in 2015 to parent company was CZK 3,417 million (2014: CZK 4,723 million).

II. Other related parties – PPF Group, Telefónica Group and joint ventures:

Balance sheet In CZK million	31 December 2015	31 December 2014
a) Receivables	365	36
b) Payables	1,193	103
c) Financial derivative instruments	(1)	1
d) Cash equivalents (Note 14)	785	3,019

Statement of total comprehensive income In CZK million	Year ended 31 December 2015	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014
a) Sales of services and goods	461	161	70
b) Dividend income	4	5	-
c) Purchases of services and goods	6,686	576	109
d) Management fees	35	95	35
e) Interest income	4	2	1
f) Gain/Loss on fair value adjustments of financial instruments (net)	(1)	7	-

Capital expenditures in 2015 were realized only with CETIN. The Company sold assets in amount of CZK 112 million to CETIN and bought assets in amount of CZK 95 million from CETIN.

As mentioned above in General Information, the Company has acquired 100% ownership in O2 IT Services, s.r.o. from PPF Group on 29 May 2015.

From January to May 2015 O2 IT Services s.r.o. was fully owned by PPF, a.s. All related transactions between the Company and O2 IT Services s.r.o. for this period are reported in transactions with related parties for the year 2015.

For the period January – May 2015, the separated part of CETIN (more information in Note 2) was under control of the Company. Sales and purchase with the related parties shown above therefore include only transactions for the period of June - December 2015. All significant contracts concluded with CETIN are described in Note 4.

III. Other related parties

a) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

In CZK million	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Salaries and other short-term benefits	30	78
Personal indemnification insurance	1	1
Total	31	79

As a result of the spin off as at 1 June 2015 four members of the management left the Board of Directors and the Supervisory Board: Petr Slováček, Martin Vlček, Michal Frankl and Vladimír Mlynář.

b) Loans to related parties

No loans were provided to members of Board of Directors and Supervisory Board in 2015 and 2014.

No loans were provided by the Group to related parties.

25 Subsidiaries, associates and joint ventures

As at 31 December 2015

	Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Full consolidation
2.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access	Full consolidation
3.	O2 Family, s.r.o. (formerly Bonerix s.r.o.)	100%	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
4.	O2 TV s.r.o.	100 %	1	Czech Republic	Digital television	Full consolidation
5.	O2 IT Services s.r.o.	100 %	90	Czech Republic	Information technology services	Full consolidation
6.	Bolt Start Up Development a.s..	100 %	52	Czech Republic	Startup fund	Full consolidation
7.	O2 Business Services, a.s.	100%	82	Slovak Republik	Mobile telephony, internet and data transmission services	Full Consolidation
Associates						
8.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services	Not consolidated
9.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services	Not consolidated (in bankruptcy)
10.	TapMedia s.r.o.	20%	15	Czech Republic	Mobile applications development	Not consolidated
Joint ventures						
11.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Equity method

* The Company recognised provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

As a result of the spin-off as at 1 June 2015 the subsidiaries CZECH TELECOM Germany GmbH a CZECH TELECOM Austria GmbH were transferred into CETIN Group.

As at 31 December 2014

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.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services	Full consolidation
4.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access	Full consolidation
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services	Full consolidation
Associates						
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services	Not consolidated
7.	AUGUSTUS, spol. s r.o. (in bancrupcy)	40%	-	Czech Republic	Auction sales and advisory services	Not consolidated
Joint ventures						
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services	Equity method

* The Company recognised as at 31 December 2014 provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

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

In CZK million	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Total revenue	242	195
Operating income before depreciation and amortization (OIBDA)	8	69
Profit for the year	6	64

In CZK million	**31 December 2015**	**31 December 2014**
Total assets	128	76
Equity	21	24

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

26 Post balance sheet events

Drawdown of long-term loan facility

The Company drawdown on 20 January 2016 a long-term loan facility in amount of CZK 4 billion in accordance with the concluded term facility agreement (Note 16). By the end of January 2016 the Company have utilized in total CZK 7 billion from the long-term facility agreement.

Share buyback

The Company started its share buyback program on regulated market on 28 January 2016.

Demerger of parent company PPF Arena 2 B.V.

The demerger of parent company PPF Arena 2 B.V. came into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. ceased to exist a new successor companies PPF Telco B.V. and PPF Infrastructure B.V. emerged. All shares of the Company were transferred to PPF Telco B.V. PPF Group owns 100% of PPF Telco B.V.

These events have no impact on the financial statements for the year ended 31 December 2015.

Other

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2015.

O2 CZECH REPUBLIC A.S.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Translation note

This version of the financial statements is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over this translation.

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GENERAL INFORMATION

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

The majority shareholder of the Company as at 31 December 2015 was PPF Arena 2 B.V. („PPF“).

The Company is the largest integrated telecommunications provider in the Czech market providing fully converged services.

The number of employees employed by the Company amounted in average to 3,005 in 2015 (2014: 4,352).

The Company’s shares are traded on the Prague Stock Exchange.

The financial statements were approved for issue by the Company’s Board of Directors on 10 February 2016.

Sale to PPF Group

The agreement between Telefónica S.A. (Telefónica) and PPF Group to sell 65.9% of the Company’s shares was approved by the European Commission in mid-January 2014 and was closed on 28 January 2014.

The transaction involved all the Company’s interests including O2 Slovakia, s.r.o. (former Telefónica Slovakia, s.r.o.). Both companies are allowed to trade under the O2 brand. Both joined Telefónica's Partners Programme, an initiative offering partner operators the opportunity to benefit from Telefónica's scale and cooperate on key business areas.

PPF Group’s current share in the Company is 84.1% as at 31 December 2015 (83.2% as at 31 December 2014).

Separation of the Company

On 1 June 2015, the Company was divided through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. ("CETIN") where Infrastructure and Wholesale division was demerged. In line with the Czech legislation (“Zákon o přeměnách“) the decisive date of separation is 1 January 2015. The date when the Company lost control over spun off business in accordance with International Financial Reporting Standards (IFRS), was 1 June 2015.

The financial information of the spun off part of the Company presented in the financial statements of the Company are, in accordance with the IFRS 5, reported as *Discontinued Operations*. Details are provided in Note 4.

The financial assistance

The financial assistance, which was approved by General Meeting on 17 December 2014, was not utilised and expired in 2015.

Changes in subsidiaries and other financial investments

During the year ended 31 December 2015, the Company has incorporated two new subsidiaries, O2 TV s.r.o. and Bolt Start Up Development a.s. (former Sargantos management a.s.)

The Company has also created a branch in Slovakia to promote the sale of fixed telecommunication services. The branch, O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., is not a legal entity.

Additionally, the Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF, a.s. on 29 May 2015. In accordance with its accounting policy, the investment is recorded at cost.

In addition, on 8 December 2015, the Company's General Meeting has approved a non-monetary contribution of Professional Services Division into O2 IT Services s.r.o. The monetary contribution was registered in Comercial Register on 1 January 2016.

Change of name of subsidiaries

The subsidiary Bonerix s.r.o. changed its name to O2 Family, s.r.o., with effect from 1 June 2015. Business activities remain the same.

The newly incorporated subsidiary Sargantos management a.s. changed its name to Bolt Start Up Development a.s. with effect from 7 January 2016. This subsidiary opened startup accelerator BOLT, which supports unique innovative technological projects.

Startup accelerator

The Company has decided to grant the access to unique technologies by launching the new BOLT startup accelerator on 1 January 2015. In contrast to existing startup funds, the main focus is on provision of long-term support and existing infrastructure with a broad customer and sales base. Selected projects are primarily those connected to the Company´s activities. All investments are made and operated by a newly incorporated subsidiary Bolt Start Up Development a.s.

Share buyback

The General Meeting approved on 8 December 2015 the ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

Following the above, the Board of Directors of the Company decided on 23 December 2015 to realize first phase of share buyback – up to 4% of total amount of ordinary shares can be acquired for a maximum period of 2 years.

Restructuring

During the year 2015, the Company continued on its journey of organisational transformation following the goal of operating efficiency in all areas of its business. To this end, the Company implemented the next phase of its restructuring programme focused on the simplification of the organisation structure, reducing the number of and streamlining of applications and systems in use, and on process optimisation.

INDEPENDENT AUDITORS‘ REPORT TO THE SHAREHOLDERS OF O2 CZECH REPUBLIC A.S.

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

Independent Auditor's Report to the Shareholders of O2 Czech Republic a.s.

We have audited the accompanying financial statements of O2 Czech Republic a.s., prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as of 31 December 2015, 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 the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about O2 Czech Republic a.s. is set out in Note "General Information" to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of O2 Czech Republic a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of O2 Czech Republic a.s. as of 31 December 2015, 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.

Other Information

Other information is defined as information (other than the financial statements and our auditor's report) included in the annual report. The statutory body is responsible for the other information. In connection with our audit of the financial statements, our responsibility is to report on the other information.

O2 Czech Republic a.s. has not prepared an annual report as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Prague
10 February 2016

Signed by

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

Signed by

Petr Škoda
Partner
Registration number 1842

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2015 In CZK million	Notes	Year ended 31 December 2015	Restated* year ended 31 December 2014
Revenues	5	30,683	31,272
Other income from non-telecommunication services and activation of fixed assets	5	428	407
Expenses	5	(23,385)	(25,509)
Earnings before depreciation and amortization (EBITDA)		**7,726**	**6,170**
Depreciation and amortisation	10, 11	(2,695)	(2,593)
Impairment loss	10, 11	(27)	(146)
Operating profit		5,004	3,431
Finance income	6	880	934
Finance costs	6	(218)	(219)
Profit before tax		5,666	4,146
Corporate income tax	7	(955)	(672)
Profit from continuing operations		**4,711**	**3,474**
Profit after tax from discontinued operations	4	1,733	489
Profit		**6,444**	**3,963**
Total comprehensive income, net of tax		**6,444**	**3,963**
Profit attributable to:			
Equity holders of the Company	8	4,711	3,963
Equity holders of CETIN		1,733	-
Total comprehensive income attributable to:			
Equity holders of the Company		4,711	3,963
Equity holders of CETIN		1,733	-
Earnings per share (CZK) from continuing operations – basic**	8	15	11

* Amounts shown in comparatives do not correspond to the financial statements for the year ended 31 December 2014. The reason for that is the spin off of the Company as of 1 June 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 4.

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

BALANCE SHEET

As at 31 December 2015

In CZK million	Notes	31 December 2015	31 December 2014
ASSETS			
Property, plant and equipment	10	2,622	34,052
Intangible assets	11	13,974	23,894
Investment in subsidiaries and equity accounted investees	25	6,474	6,347
Other non-current assets	13	262	509
Non-current assets		**23,332**	**64,802**
Inventories	12	598	377
Receivables	13	5,580	6,836
Cash and cash equivalents	14	1,728	3,209
Current assets		**7,906**	**10,422**
Total assets		**31,238**	**75,224**
EQUITY AND LIABILITIES			
Ordinary shares	23	3,102	27,461
Treasury shares	23	-	(1,596)
Share premium		11,894	19,349
Retained earnings, funds and reserves		5,376	11,156
Total equity		**20,372**	**56,370**
Long-term financial debts	16	2,970	3,000
Deferred tax liability	18	60	2,149
Non-current provisions for liabilities and charges	19	22	251
Non-current other liabilities	15	121	155
Non-current liabilities		**3,173**	**5,555**
Short-term financial debts	16	756	4,242
Trade and other payables	15	6,800	8,792
Income tax liability	7	31	127
Provisions for liabilities and charges	19	106	138
Current liabilities		**7,693**	**13,299**
Total liabilities		**10,866**	**18,854**
Total equity and liabilities		**31,238**	**75,224**

The financial statements were approved by the Board of Directors on 10 February 2015 and were signed on its behalf by:

Tomáš Budník
Chief Executive Officer
Chairman of the Board of Directors

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

In CZK million	Notes	Share capital	Share premium	Treasury shares	Equity settled share based payments reserve	Funds	Retained earnings	Total
At 1 January 2014		**27,461**	**19,349**	**(1,596)**	**38**	**6,450**	**6,328**	**58,030**
Profit for the year		-	-	-	-	-	3,963	3,963
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**3,963**	**3,963**
Capital contribution and other transfers		-	-	-	(38)	-	-	(38)
Distribution declared in 2014	9	-	-	-	-	-	(5,682)	(5,682)
Treasury share transactions	23	-	-	-	-	-	97	97
At 31 December 2014		**27,461**	**19,349**	**(1,596)**	**-**	**6,450**	**4, 706**	**56,370**
Profit for the year		-	-	-	-	-	4,711	4,711
Net profit attributable to shareholders of CETIN (from Discontinued Operations)		-	-	-	-	-	1,733	1,733
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**6,444**	**6,444**
Distribution declared in 2015	9	-	-	-	-	-	(4,103)	(4,103)
Treasury share transactions	23	-	-	-	-	-	71	71
Cancellation of treasury shares		(472)	(1,124)	1,596	-	-	-	-
Other movements		-	-	-	-	-	(17)	(17)
Distribution of profit and other distribution to CETIN shareholders relating to spin off project		(23,887)	(6,331)	-	-	(6,442)	(1,733)	(38,393)
At 31 December 2015		**3,102**	**11,894**	**-**	**-**	**8**	**5,368**	**20,372**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax from continuing operations		5,666	4,146
Profit before tax from discontinued operations		2,187	678
Profit before tax		**7,853**	**4,824**
Non-cash adjustments for:			
Dividends received		(874)	(925)
Depreciation	10	1,604	7,951
Amortisation	11	2,135	2,013
Impairment loss		27	152
Profit on sale of property, plant and equipment and intangible assets		(17)	(11)
Net interest cost		84	75
Foreign exchange losses/(gains) (net)		31	18
Fair value changes		1	(3)
Change in provisions and allowances		149	299
Other non-cash operations		42	45
Operating cash flow before working capital changes		**11,035**	**14,438**
Working capital adjustments:			
Increase/(decrease) in trade and other receivables		(243)	(716)
Decrease/(increase) in inventories		(309)	94
Increase/(decrease) in trade and other payables		557	(1,512)
Cash flows from operating activities		**11,040**	**12,304**
Interest paid		(124)	(64)
Interest received		6	4
Income tax paid		(1,174)	(1,460)
Net cash flow from operating activities		**9,748**	**10,784**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,455)	(2,388)
Purchase of intangible assets		(1,084)	(8,121)
Proceeds from sales of property, plant and equipment and intangible assets		141	572
Cash purchase of financial investments		(98)	-
Dividends received		874	1,826
Repayment of loans		48	83
Provision of loans		(96)	-
Movement of restricted cash		(432)	-
Net cash used in investing activities		**(2,102)**	**(8,028)**
Cash flows from financing activities			
Proceeds from borrowings		3,000	4,000
Repayment of borrowings		(7,000)	-
Proceeds/repayments of borrowings		454	(1,802)
Distribution of CETIN's cash	4	(1,965)	-
Dividends paid		(4,033)	(5,585)
Net cash used in financing activities		**(9,544)**	**(3,387)**
Net increase/(decrease) in cash and cash equivalents		**(1,898)**	**(631)**
Cash and cash equivalents at beginning of year	14	3,209	3,844
Effect of foreign exchange rate movements on cash and cash equivalents		(15)	(4)
Cash and cash equivalents at the year end	14	1,296	3,209

ACCOUNTING POLICIES

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A The principle of reporting the comparative information

Unless specifically stated, any reported comparative information related to financial position as at 31 December 2014 (balance sheet and equity movements) are shown inclusive of discontinued operations. The financial information (statement of Total comprehensive income) for the year ended 31 December 2014 are reported without discontinued operation.

B 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) and all applicable IFRSs adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

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

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

The financial statements were prepared under the historical cost convention except for non-current assets held for sale, financial derivatives, share-based payments and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS required the Company to use certain critical accounting estimates. It also required estimates be used in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 Use of estimates, assumptions and judgements.

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

The Company is integrated telecommunications operator, offering a comprehensive range of both fixed and mobile voice, data and internet services. The Company reports its operating segments according to these two main areas of services, i.e. fixed and mobile segment. For further detail refer to Note 3.

Adoption of new or revised IFRS standards and interpretations (includes standards and interpretations applicable for the Company)

For financial statements for the year ended 31 December 2015 the Company takes into account annual revisions 2010 to 2012 and 2011 to 2013, the purpose of which is to eliminate inconsistency and specify some formulations.

Annual revision 2010 to 2012 contains amendments of following standards:

IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 8 Operating Segments
IFRS 13 Fair Value Measurement
IAS 16 Property, Plant and Equipment
IAS 24 Related Party Disclosures
IAS 38 Intangible Assets

Annual revision 2011 to 2013 contains amendments of following standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 3 Business Combinations
IFRS 13 Fair Value Measurement
IAS 40 Investment Property

New IFRS not effective as at 31 December 2015 (includes standards applicable for 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**
IAS 1	Presentation of financial statements	1 January 2016
IAS 16 and IAS 38	Property, plant and equipment and Intangible assets	1 January 2016
IAS 27	Equity method in the separate financial statements	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 11	Joint arrangements	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment entities: Exemptions to consolidation	1 January 2016
IFRS 10 and IAS 28	Consolidated financial statements, Disclosure of interests in other entities and Investments in Associates and joint ventures	1 January 2016
IFRS 15	Revenues from contracts with customers	1 January 2018
IFRS 9	Financial instruments - classification and measurement	1 January 2018

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

C Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in 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 recognized in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. Such balances of monetary items are translated at period-end exchange rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

D Property, plant and equipment

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

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

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises every expenditure up to the customers' premises, including the cost of contractors, materials, 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.

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 balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income, i.e. 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
Freehold buildings	up to 56
Cable and other related plant	10 to 41
Exchanges and related equipment	up to 26
Other fixed assets	up to 26

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

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

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

E Intangible assets

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

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

Intangible assets with an indefinite useful life are not amortised. They are subject to the regular impairment tests (see Note 11).

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

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 balance sheet together with the corresponding accumulated amortisation (for amortised assets only). All gains or losses arising in this respect are recognised in net operating income, i.e. 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.

F Estimated useful lives of tangible and intangible assets

The Company regularly assesses net book values and useful lives of assets as of each balance sheet date. In connection with the sale of the Group to PPF in 2014 the assessment of carrying values and useful lives, which is in line with International Financial Reporting Standards, was carried out by an external expert. Taking into account expert's appraisal, the Company has decided to reflect changes of useful lives as of 1 January 2015 (change in estimates). The above stated relates to both, continuing operations and discontinued operations.

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

	Year	Extension of
Buildings in the ownership of the Company	Up to 40	Up to 16 years
Cable and other related plant	10 to 25	Up to 16 years
Exchanges and related equipment	Up to 25	Up to 1 year
Other fixed assets	Up to 20	Up to 6 years
Software and valuable rights	3 to 8	Up to 4 years

The impact on depreciation and amortization in the financial statements arising from the extension of the useful lives of the tangible and intangible assets was CZK 413 mil. for the continuing operations for the year ended 31 December 2015 and CZK 1,962 mil. for the discontinued operations in the period between January and May 2015. Quantification of the impact of extension of useful lives on depreciation and amortization in future periods is impracticable.

G Discontinued operations

As stated above in General Information, in accordance with national legislation, the Company was split into two separate accounting units with effective date 1 January 2015. In accordance with the International Financial Reporting Standards, the date when the control over the spun off part ceased was 1 June 2015. Under IFRS 5, financial indicators relating to company CETIN for the period from January to May 2015, or as of 31 May 2015 respectively, are classified in the financial statements for the year ended 31 December 2015 as *Discontinued operations*.

New business relations between O2 and CETIN

In connection with the spin off, new business relations with CETIN 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 a significant item of interconnection costs for the Company. More information is provided in Note 4.

H Non-current assets classified as held for sale

The Company classifies separately in the balance sheet a non-current asset (or disposal group) 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 Company 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 in 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 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.

I Impairment of assets

Property, plant and equipment and other assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least on an annual basis for goodwill and for intangibles with an indefinite useful life and for intangibles not yet in use. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's 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 (except for the Goodwill impairment loss) only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss in the period in which the reversal occurs.

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.

J Investments and other financial assets

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss and are included in current assets. During 2015 and 2014, the Company did not hold any financial assets in this category.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. During 2015 and 2014, the Company did not hold any investments in this category.

The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis, as required under IAS 39.

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

Impairment of financial assets

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

(1) Assets carried at amortized costs

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

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

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

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

De-recognition of financial assets

A financial asset is de-recognised when:

a) the rights to receive cash flow from the asset have expired,

b) the Company retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

c) the Company has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

K Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or 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.

L 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.

M 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.

N 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 (adjusted for negative deposits). Bank overdrafts are shown within borrowings in current liabilities section of the balance sheet.

O Financial debt

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

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

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

P Current and deferred income taxes

Income tax expense represents both current and deferred tax, 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.

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

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

The 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. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill.

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.

Q Employee benefits

A 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. Company has no further payment obligations once the contributions have been paid. The contribution expense is charged to profit or loss in the same period as the related salary expense. The Company also makes contributions to defined supplementary pension insurance schemes operated by external pension funds. These contributions are charged to profit or loss in the period to which the contributions relate. The Company has no further payment obligations once the contributions have been paid.

B Redundancy and severance payments

Employees whose employment was terminated before term citing statutory reasons are entitled for redundancy and severance payment. The Company recognizes 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.

C 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 constructive obligation.

R Provisions

Provisions are recognised when the Company has either 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, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

S Revenue and expenses

Revenue, shown net of Value Added Tax and any discounts, 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. Commission payments to dealers for activations, various marketing promotions and other activities are included in the costs of sales for the period.

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.

Voice, data and internet
Revenues from voice, data and internet services entail tariff fee plus a variable rate. Both wireline and wireless traffic is recognized as revenue as service is provided.

Revenues from prepaid cards
Revenues arising from prepaid call card are deferred until the customer uses the credit on the card to pay for the relevant calls or other services. Revenue from prepaid cards is recognised at the time of usage of airtime and other services or upon expiration of the card.

Equipment sales and sale of other goods
Revenue from the sale of telephone equipment and other goods is recognised at the time of sale i.e. when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are thus recognized when the product or service is delivered to the distributor or to the end customer. Losses arising from sale of handsets due to discount are recognised at the date of sale.

Information and communication technology and construction contracts
Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the provided service.

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

Roaming revenues
The mobile segment derives roaming revenue as a result of airtime and other services used by the mobile segment's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled net on a regular basis. Revenue is recognised when services are provided.

Interconnection revenues
Interconnection revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but terminate in or transit the Company's network. These revenues are recognised in profit or loss at the time when the call is received in the Company's network. The Company pays a proportion of the call revenue it collects from its customers to the other domestic and foreign operators' for the calls and other traffic originating in the Company's network, which use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled net on a regular basis.

Gross and net revenue recognition
In assessing whether revenue should be recognised gross, i.e. with separate disclosure of costs to arrive at gross profit, or on a net basis, the Company considers whether a transaction is considered to meet conditions of an agency arrangement. In such cases, the revenue is recognised only at the amount of the commission received/realised. The Company may enter agency relationship when providing premium SMS, audiotex or other services.

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

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

T 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.

U Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, bank balances, investments, receivables, payables, borrowings and derivatives. Detailed figures are described in Note 17.

V Offsetting financial instruments

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

W **Accounting for derivative financial instruments and hedging activities**

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

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

Changes in the fair value of derivatives that are designated and qualify 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 qualify as cash flow hedges and that are highly effective are recognized 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 revenue 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 recognized 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 recognized in profit or loss when the committed or forecasted transaction ultimately is recognized 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.

X Investments in subsidiaries, joint ventures and associated undertakings

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

In relation to its interest in a joint arrangement, the Company recognises joint ventures that are recorded at cost less an allowance for diminution in value.

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

Equity investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

No consolidation of subsidiaries or associates has been performed as these financial statements are presented on a stand-alone basis. In accordance with the requirements of the Act on Accounting, the Company prepares consolidated financial statements in accordance with IFRS.

Y Transactions under common control

Business combination under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory

Investments acquired in business combinations under common control are recognized in the stand-alone financial statements of the Company at acquisition price.

Z Change in accounting policy

No significant changes in accounting policies were applied in 2015 and 2014.

AA Operating profit

Operating profit is defined as profit before financial results and taxes and represents profit from the business operations. 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.

NOTES TO THE FINANCIAL STATEMENTS

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1 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, debt taken on to finance its business and net investment in foreign operations as a result of ordinary business. 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 (such as forward and swap contracts) 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 under approved policies. The Board of Directors provides written principles for overall risk management. In line with these principles, policies exist for specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

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

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

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

The Company primarily hedges the balance sheet foreign currency exposure, mainly net payables in EUR or USD. Only plain-vanilla instruments are currently used for hedging this kind of exposure.

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

In CZK million	Notional principal amount		Fair value	
	2015	2014	2015	2014
Foreign exchange contracts	399	333	(1)	1

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

In CZK million	Effect on profit before tax 2015	2014
FX risk		
Value at Risk*	(47)	(48)
Stress testing*	(169)	(246)

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

FX risk used stress scenario represents the immediate loss caused by one-off change in the foreign exchange rate by 6% in an unfavourable direction.

The following table illustrates the comprehensive quantitative data about the Company´s exposure to currency risk.

	31 December 2015			
In CZK million	**CZK**	**EUR**	**USD**	**Other**
Financial assets				
Cash and cash equivalents	1,102	610	16	-
Trade and other receivables (excluding prepayments and indirect taxes)	4,286	750	33	56
Total financial assets	5,388	1,360	49	56
Financial liabilities				
Financial debts	3,131	595	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,100	1,317	179	36
Derivative financial instruments	-	-	1	-
Total financial liabilities	7,231	1,912	180	36

In CZK million	31 December 2014 CZK	EUR	USD	Other
Financial assets				
Cash and cash equivalents	2,145	993	71	-
Trade and other receivables (excluding prepayments and indirect taxes)	4,416	1,950	7	69
Derivative financial instruments	-	1	-	-
Total financial assets	6,561	2,944	78	69
Financial liabilities				
Financial debts	7,004	238	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	3,883	3,046	140	40
Total financial liabilities	10,887	3,284	140	40

(ii) Interest rate risk

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

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The cash assets and short term debt are currently maintained on floating rates while long term debt instruments could be maintained on both floating and fixed rates. The Company may sometimes use interest rate swaps and forward rate agreements to manage a mix of fixed and variable interest rates.

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

In CZK million	Effect on profit before tax 31 December 2015	31 December 2014
IR risk		
Stress testing*	(13)	(6)

* IR risk used stress scenario represents immediate one-off change of interest rates along the whole yield curve by 1% in an unfavorable direction. The calculation of unfavourable impact on Company within a 12 month time frame (due to an increase of interest cost or decrease of interest income) is made on a semi-annually basis based on approved cash-flow forecast.

(b) 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 quickly liquid instruments), and committed credit facilities arranged with banks.

The Company is particularly focused on the liquidity profile within the time horizon of the next 12 months considering projected cash flow from operations and maturity structure of both debt obligations and financial investments. The balance between the funding continuity and flexibility is managed through maintaining the option to use bank overdrafts or bilateral credit lines.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payments. Values include projections of future interests.

At 31 December 2015 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	12	36	3,192	-
Cash-pooling and other intragroup borrowings	755	-	-	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	4,844	728	45	15
Derivative financial instruments	1	-	-	-
Financial guarantees	15	138	117	-
Total	5,627	902	3,354	15

At 31 December 2014 **In CZK million**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5years**
Interest bearing loans and borrowings	4,026	284	3,047	-
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,300	1,707	96	6
Financial guarantees	31	122	-	-
Total	9,357	2,113	3,143	6

(c) Credit risk

Credit risk concentration, with respect to trade accounts receivable, is limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic and the Slovak Republic. Although the Company does not currently foresee a dramatically higher credit risk associated with these receivables, the repayment is significantly impacted by the financial stability of a particular national economy.

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers wishing to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the resulting into the non-significant Company's exposure to bad debts. The maximum exposure is the carrying amount as disclosed in Note 13. There is no significant concentration of credit risk within the Company.

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents, available for sale investments 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 the Credit Management Unit and is based on three main activities:

a) monitoring of accounts receivables: regular monitoring of payment moral of existing customers and monitoring and analysing of the receivable aging structure (internal and external indicators of any potential bad debts). Those activities are processed in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.
b) prevention: scoring of new customers – checking procedures (integrated Black Lists, Solus Debtors Register, other information), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers) for the purchase of our products, collateral security (deposits, receivables insurance, bill of exchange, pledge of real estate, bank guarantee etc.).
c) collection process: Credit Management cooperates with Customer Care on the setting up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care unit; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

See Note 17 for quantitative disclosures on credit risk.

(d) Fair value estimation

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

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

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

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 2015 and 31 December 2014, the Company held only foreign currency forward and swap contracts classified as Level 2 financial instruments measured at fair value.

During the reporting period ending 31 December 2015 and 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair values of the derivative financial instruments reflect estimates based on calculations performed using the Company's own discounted cash flows models (using market rates).

Carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with variable interest rate.

2 Use of estimates, assumptions and judgements

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

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

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

(1) Income taxes and deferred taxes

The Company creates a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-non-deductible/non-taxable items are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made (See Note 7 and Note 18).

(2) Property, plant and equipment, intangible assets and goodwill

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 D Property, plant and equipment and Note E 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 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 (see Note 11).

The Company tests goodwill for an impairment at each reporting date. However goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation to which the goodwill relates. In accordance with the requirement of IAS 36, goodwill is tested annually for its recoverable amount, as well as when there are indications of impairment (see Note 11).

(3) Provisions and contingent liabilities

As set out in Note 20 the Company is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. 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 19). 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 13 Receivables and other non-current assets.

3 Segment information

Segments recognised by the Company are as follows:

- Czech Republic:
  - fixed segment – telecommunication and data services using fixed network and WiFi infrastructure, ICT services provided by the Company
  - mobile segment – mobile telecommunication and data services provided by the Company
- Discontinued operations – separately reported segment relating to CETIN (spun off entity), which provides wholesale services using its own fixed and mobile infrastructure

The operating results of all segments are regularly controlled and reviewed by the chief operating decision maker who holds the power to make decisions about resource allocation to the segment and to assess its performance.

In 2015, in relation to the spin off of the Company (as described above in the part General Information), the Company adopted the following changes in monitoring segment information:

a) the original fixed and mobile segments of the Company continue to be monitored only to the level of gross margin, whereas these indicators are reported, managed and reviewed at the level of the entire Company. These facts are reflected in the segment statement below, where indirect costs are aggregated and presented for the entire Company;

b) due to a change in the organisation structure relating to spin off of the Company, a separate segment is reported concerning the spun-off part of the Company as Discontinued operations. The relevant information for the previous period was restated.

Inter-segment pricing rates in 2015 and 2014 were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators.

Year ended 31 December 2015 In CZK million	Czech Republic		Discontinued Operations	Elimination Continuing vs Discontinued operations *	Total
	Fix	Mobile			
Revenues	11,484	19,199			
Cost of Sales (CoS)	(7,294)	(9,459)			
Gross margin	4,190	9,740			
Other income from non-telecommunication services and activation of fixed assets	428				
Other costs excluding CoS	(6,632)				
Earnings before depreciation and amortization (EBITDA)	7,726				
Revenues	30,683		7,959	(4,558)	34,084
Other income from non/telecommunication services and activation of fixed assets	428		193	-	621
Total income	31,111		8,152	(4,558)	34,705
Total costs	(23,385)		(4,919)	4,558	(23,746)
Earnings before depreciation and amortization (EBITDA)	7,726		3,233	-	10,959
Depreciation and amortization	(2,695)		(1,044)	-	(3,739)
Impairment loss	(27)		-	-	(27)
Operating profit	5,004		2,189	-	7,193
Interest expense	(90)		-	-	(90)
Interest income	6		-	-	6
Other financial income/(expense)	746		(2)	-	744
Net financial income	662		(2)	-	660
Profit before tax	5,666		2,187	-	7,853
Corporate income tax	(955)		(454)	-	(1,409)
Profit for the period	**4,711**		**1,733**	**-**	**6,444**
Assets (excl. Goodwill)	26,795		-	-	26,795
Goodwill	4,443		-	-	4,443
Total Assets	**31,238**		**-**	**-**	**31,238**
Trade and other payables	(6,800)		-	-	(6,800)
Other liabilities	(4,066)		-	-	(4,066)
Total liabilities	**(10,866)**		**-**	**-**	**(10,866)**
Fixed assets additions	**2,714**		**807**	**-**	**3,521**

* Column *Elimination Continuing vs Discontinued operations* represents amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) from the period January to May 2015 (further comments under point G of the part Accounting policies above and also in Note 4)

Restated** year ended 31 December 2014 In CZK million	Czech Republic Fix	Czech Republic Mobile	Czech Republic	Discontinued Operations	Elimination Continuing vs Discontinued operations ***	Total
Revenues	11,952	19,320				
Cost of Sales (CoS)	(7,490)	(9,038)				
Gross margin	4,462	10,282				
Other income from non/telecommunication services and activation of fixed assets			407			
Other costs excluding (CoS)			(8,981)			
Earnings before depreciation and amortization (EBITDA)			6,170			
Revenues			31,272	18,297	(10,712)	38,857
Other income from non/telecommunication services and activation of fixed assets			407	551	(116)	842
Total income			31,679	18,848	(10,828)	39,699
Total costs			(25,509)	(10,796)	10,828	(25,477)
Earnings before depreciation and amortization (EBITDA)			6,170	8,052	-	14,222
Depreciation and amortization			(2,593)	(7,371)	-	(9,964)
Impairment loss			(146)	(6)	-	(152)
Operating profit			3,431	675	-	4,106
Interest expense			(64)	-	-	(64)
Interest income			6	-	-	6
Other financial income/(expense)			773	3	-	776
Net financial income			715	3	-	718
Profit before tax			4,146	678	-	4,824
Corporate income tax			(672)	(189)	-	(861)
Profit for the period			**3,474**	**489**	**-**	**3,963**
Assets (excl. Goodwill)			27,850	33,926	-	61,776
Goodwill			4,443	9,005	-	13,448
Total Assets			**32,293**	**42,931**	**-**	**75,224**
Trade and other payables			(4,666)	(4,126)	-	(8,792)
Other liabilities			(7,917)	(2,145)	-	(10,062)
Total liabilities			**(12,583)**	**(6,271)**	**-**	**(18,854)**
Fixed assets additions			**8,091**	**2,008**	**-**	**10,099**

** Amounts shown in comparatives do not correspond to the financial statements for the year ended 31 December 2014. The reason for that is the spin off of the Company as of 1 June 2015 and adjustments to reflect Continuing and Discontinued Operations were made in comparatives. More information is provided in Note 4.

*** Column Elimination Continuing vs Discontinued operations represents hypothetical amount of purchases and sales of the Company from new business relations with the spun off part CETIN (Discontinued operations) for the year 2014 (further comments under point G of the part Accounting policies above and also in Note 4).

Capital expenditures comprise additions to property, plant and equipment and intangible assets.

4 Discontinued operation

On 13 March 2015, the Board of Directors of the Company approved a separation project of the Company through a spin off with a formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). On 28 April 2015, the General Meeting approved the separation of the Company. The decisive date of the separation is 1 January 2015, in accordance with the national legislation. From the perspective of the International Financial Reporting Standards the date when the Company cease the control over the spun off part CETIN is 1 June 2015.

The legal effect of the separation and formation of CETIN took place on the date when it was recorded in the Commercial Register, which happened on 1 June 2015. As a result of the separation a part of assets and liabilities in the amount of CZK 36,660 million has been transferred to CETIN, in particular fixed public communications network, physical infrastructure of public mobile communications network, data centres, all relevant evidence and relevant contracts, rights and obligations necessary for the future independent operations of the new company. In total 1,174 employees assigned to the Infrastructure and Wholesale division were also transferred to CETIN.

At the time of the separation an equal share exchange ratio was determined. One share in CETIN was assigned to all equity holders of the Company for each share of the Company that they held on the date of registration of the spin off in the Commercial Register.

CETIN represents a separate business activity – Infrastructure and Wholesale division. CETIN's main activity is operating fixed and mobile networks. The term network is meant as a multiservice-access, aggregate and backbone infrastructure, which mediates access of operators’ customers to their fixed and mobile voice, data and video services.

Accounting items relating to the spun off company were identified based on the relation to the Infrastructure and Wholesale division in the way it was defined in the separation project, and mainly represent property and equipment and relating assets and liabilities of the Infrastructure and Wholesale division.

Tangible and intangible assets

All tangible and intangible assets relating to access, aggregation and transmission infrastructure of the fixed and mobile telecommunications network were transferred into CETIN. The actual determination was based on an analysis of the fixed asset register, where individual asset cards were aggregated based on technological units, and consequently definitely determined as to whether they relate to the operations of the Company or those of CETIN.

Financial investments

Financial investments in the companies CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH, which are used by the Infrastructure and Wholesale division for the wholesale data transmission (transit) were transferred into CETIN.

Inventories

The directly identifiable items of material that related to tangible assets were transferred into CETIN.

Trade and other receivables

All trade receivables from wholesale telecommunications services, international interconnection charges and fixed national interconnection charges were also transferred into CETIN. All trade receivables relating to spun off contracts as at 31 May 2015 are reported as a part of discontinued operations.

Equity

The reported equity of CETIN in the financial statements of the Company for the year ended 31 December 2015 represents the difference between the total equity of the Company as at 31 December 2014 after deducting equity components of the Company defined in the opening balance sheet of the Company as at 1 January 2015. It also applies that the reported equity of CETIN equals to the equity of the Company to be spun off, as defined in the separation project as at 1 January 2015, before the revaluation of CETIN assets.

Trade and other liabilities

Liabilities of CETIN are formed by directly assignable items of wholesale sales of telecommunications services, international interconnection charges and fixed national interconnection charges. Furthermore, trade and other liabilities contain un-invoiced supplies, accruals and other liabilities as of 31 May 2015, which relate to demerged agreements or fixed assets.

In relation to the spin off, new business relations were established as of 1 January 2015 with the company CETIN by a virtue of the purchase of fixed line and mobile telecommunications services and other services. These services are provided based on concluded wholesale agreements and represent an important item of interconnection costs for the Company.

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

a) mobile network services agreement

The subject of agreement is the provision of a service of coverage by mobile CDMA, 2G, 3G and LTE signal in the Czech Republic. The agreement also contains arrangements about development, operation and maintenance of the network, transfer capacity of the network, new services, extension of new services and collocation. The agreement is concluded for a period of 30 years. The Company is obliged to use the services for a period of 7 years for an annual fixed payment of CZK 4.4 billion. The amount of remuneration (fixed fee) does not change for the first 7 years, two years before the expiration of this term, negotiations on price for the next period begin.

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

The subject of RAO agreement is the 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). Total cost for the period June to December 2015 was approximately CZK 2,450 mil.

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

CETIN enables the Company 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 Company will pay one-off expenses for establishment, speed change, relay or relocation of the end point and regular monthly fees for provided sections based on transfer speed. The total cost for the period June to December was approximately CZK 540 mil.

The Company assessed some of the newly concluded agreements between the Company and CETIN as lease agreements – Optical Fibre Lease Agreement, Agreement on Provision of Data Centre Services, Commercial Lease Agreements and Commercial Sub-lease Agreements. The aggregate future minimum lease payments (with the Company as a lessee) arising from these agreements are as follows:

In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases	221	789	190

PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

In CZK million	For the five months ended 31 May 2015	Year ended 31 December 2014
Revenues	8,152	18,848
Expenses	(4,919)	(10,796)
Earnings before depreciation and amortization (EBITDA)	**3,233**	**8,052**
Depreciation and amortisation	(1,044)	(7,371)
Impairment loss	-	(6)
Operating profit	2,189	675
Financial result	(2)	3
Profit before tax	2,187	678
Corporate income tax	(454)	(189)
Profit after tax from discontinued operations	**1,733**	**489**
Earnings per share for discontinued operations (CZK) – basic	6	2

Effect of disposal on the financial position	31 May 2015	31 December 2014
Property, plant and equipment and intangible assets	31,952	32,220
Goodwill	9,005	9,005
Inventories	20	27
Trade and other receivables	1,702	1,461
Other financial receivables	81	166
Cash and cash equivalents	1,965	52
Total assets	**44,725**	**42,931**
Shareholders equity*	38,277	36,660
Trade and other payables	4,161	4,126
Deferred tax liability	2,287	2,145
Total equity and liabilities	**44,725**	**42,931**

Cash flows from Discontinued operations	For the five months ended 31 May 2015	Year ended 31 December 2014**
Net cash flows from operating activities	2,701	8,052
Net cash flows from investing activities	(788)	(1,983)
Net increase/(decrease) for cash and cash equivalents for the period	**1,913**	**6,069**

* Shareholders equity as at 31 December 2014 includes part of the equity amounting to CZK 36,660 million, which due to the separation of the Company has been transferred to CETIN. Shareholders equity as at 31 May 2015 includes, inter alia, the consolidated profit for the period of January to May 2015 of the company CETIN amounting to CZK 1,733 million and corrections of booking of the demerger accounted in accordance with accounting principles against the equity amounting to CZK 120 million.

** Resulted increase of cash and cash equivalents is only hypothetical, since reverse distribution of cash and cash equivalents as at 1 January 2014 between continuing and discontinued operations is difficult and is based on many assumptions. Cash flows from operating activities are based on EBITDA, adjusted for significant non-monetary transactions, changes in working capital are not taken into account.

5 Revenues and costs

Revenues **In CZK million**	**Year ended** **31 December 2015**	**Year ended** **31 December 2014**
Revenues from voice services	12,585	13,765
Revenues from data services	9,977	9,711
Revenues from ICT services	1,887	1,720
Other telecommunication revenues	6,234	6,076
Total revenues	30,683	31,272
Other income	428	407

Other income contains own work capitalized which amounts to CZK 169 million (2014: CZK 184 million)

Revenues from related parties are disclosed in Note 24.

Expenses **In CZK million**	**Year ended** **31 December 2015**	**Year ended** **31 December 2014**
Supplies	(16,753)	(16,527)
Staff costs	(3,030)	(3,376)
External services	(3,349)	(4,927)
Provisions for bad debts and inventories	4	(197)
Other expenses	(257)	(482)
Total expenses	(23,385)	(25,509)

Supplies include mainly these types of costs: interconnection and roaming expenses, cost of goods sold, sub-deliveries, commissions and other cost of sales.

The Company does not participate in any pension plans.

A restructuring plan covering both employees and members of management was approved and subsequently implemented by the Company during 2015 and 2014. As a result of the restructuring process, the Company incurred restructuring costs of CZK 124 million during the year ended 31 December 2015 (2014: CZK 457 million) including redundancy payments of CZK 124 million (2014: CZK 432 million). Restructuring costs in 2014 are including costs from discontinued operations (see Note 4)

Restructuring costs are included in staff costs.

Statutory auditor's fees during the year ended 31 December 2015 reached CZK 7 million (2014: CZK 10 million – including costs from discontinued operations).

Purchases from related parties are disclosed in Note 24.

6 Finance income and costs

In CZK million	Year ended 31 December 2015	Year ended 31 December 2014
Finance income		
Interest income	6	6
Gain on fair value adjustments of financial instruments (net)	0	7
Other finance income	874	921
Total finance income	880	934
Finance costs		
Interest expenses	(90)	(64)
Foreign exchange loss (net)	(31)	(18)
Loss on fair value adjustments of financial instruments (net)	(1)	-
Other finance costs	(96)	(137)
Total finance costs	(218)	(219)

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

Other finance income contains dividend from the subsidiaries O2 Slovakia, s.r.o. of CZK 849 million (2014: CZK 912 million) and O2 Family s.r.o. of CZK 21 million (2014: CZK 0 million) and associated company První certifikační autorita, a.s. of CZK 4 million (2014: CZK 5 million)

7 Income tax

In CZK million	Year ended 31 December 2015	Year ended 31 December 2014
Total income tax expense is made up of:		
Current income tax charge	900	717
Deferred income tax credit (Note 18)	55	(45)
Income tax	955	672

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 2015	Year ended 31 December 2014
Profit before tax	5,666	4,146
Income tax charge calculated at the statutory rate of 19%	1,077	788
Not taxable income	(167)	(174)
Expenses not deductible for tax purposes	51	58
Tax related to prior periods	(6)	-
Taxes on income	955	672
Effective tax rate	17%	16%

As at 31 December 2015 the total amount of provisions for current income taxes is CZK 906 million (2014: CZK 1,449 million), advances paid for income taxes is CZK 875 million (2014: CZK 1,322 million), the net deferred tax liability is CZK 60 million (2014: CZK 2,149 million).

8 Earnings per share

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

Continuing operations

	31 December 2015	31 December 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	4,711	3,474
Basic earnings per share (CZK)	15	11

Discontinued operations

	31 December 2015	31 December 2014
Weighted number of ordinary shares outstanding (thousands)	310,220	310,220
Net profit attributable to shareholders (in CZK million)	1,733	489
Basic earnings per share (CZK)	6	2

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

On 8 December 2015 the General Meeting of the Company approved ordinary share acquisition program for the next 5 years. Up to 31,022,005 ordinary shares can be acquired for a maximum price of CZK 297 per share.

9 Dividends and other distribution

In CZK million	31 December 2015	31 December 2014
Dividends declared (including withholding tax)	4,103	5,682
Total declared distribution	4,103	5,682

Dividends include withholding tax on dividends paid by the Company to its shareholders. There has been no interim dividend paid in respect of 2015. Approval of the 2015 profit and the decision regarding the amount of any dividend payment for the 2015 financial year will take place at the Annual General Meeting.

The approval of the 2014 profit and its distribution as a dividend for this financial year was agreed at the Annual General Meeting on 28 April 2015 (2013: 25 June 2014). Pursuant to the decision of the Annual General Meeting, the dividend in the amount of CZK 13 per share from the 2014 profit were payable on 28 May 2015 (2013: CZK 18).

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

In CZK	Year ended 31 December 2015	Year ended 31 December 2014
Dividend per share (nominal value of CZK 10 as at 31 December 2015, see Note 23)	13	18
Total distribution per share	13	18

10 Property, plant and equipment

In CZK million	Land, buildings and construction	Ducts, cables and related plant	Communication technology and related equipment	Other fixed assets	Total
At 31 December 2015					
Opening net book amount	8,479	17,111	7,614	848	34,052
Transferred to CETIN at 1 January 2015	(8,211)	(17,079)	(6,007)	(332)	(31,629)
Additions	1	-	670	269	940
Disposals	(19)	(1)	(101)	(2)	(123)
Reclassifications	(1)	(31)	61	(23)	6
Depreciation charge	(10)	-	(416)	(182)	(608)
Impairment charge	(2)	-	(14)	-	(16)
Closing net book amount	237	-	1,807	578	2,622
At 31 December 2015					
Cost	865	-	10,890	4,989	16,744
Accumulated depreciation and impairment allowance	(628)	-	(9,083)	(4,411)	(14,122)
Net book amount	237	-	1,807	578	2,622

At 31 December 2014					
Opening net book amount	8,970	21,519	8,241	833	39,563
Additions	152	459	1,366	454	2,431
Disposals	(4)	-	(5)	-	(9)
Reclassifications	24	(5)	16	(10)	25
Depreciation charge	(663)	(4,862)	(1,997)	(429)	(7,951)
Impairment charge	-	-	(7)	-	(7)
Closing net book amount	8,479	17,111	7,614	848	34,052
At 31 December 2014					
Cost	19,354	104,497	76,783	6,618	207,252
Accumulated depreciation and impairment allowance	(10,875)	(87,386)	(69,169)	(5,770)	(173,200)
Net book amount	8,479	17,111	7,614	848	34,052

The net book amount of Property, plant and equipment as at 31 December 2015 includes CZK 546 million of construction in progress (2014: CZK 910 million). The assets under construction are spread over all disclosed categories of property, plant and equipment following their nature.

No property, plant and equipment were pledged as at 31 December 2015 and 31 December 2014.

No borrowing costs were capitalized during the years 2015 and 2014.

The Company did not recognise any assets held for sale as at 31 December 2015 and 31 December 2014.

In 2015, the Company achieved a total gain from the sale of the fixed assets amounting to CZK 15 million (2014: CZK 21 million) and total losses of CZK 5 million (2014: CZK 10 million).

Property, plant and equipment in amount of CZK 31,629 million as at 1 January 2015 were transferred to spun-off part CETIN on 31 May 2015. See Note 4 for further details.

11 Intangible assets

In CZK million	Goodwill	Licences	Software	Valuable rights	Customer portfolio	Total
At 31 December 2015						
Opening net book amount	13,448	4,713	2,657	3,061	15	23,894
Transferred to CETIN at 1 January 2015	(9,005)	(14)	(577)	-	-	(9,596)
Additions	-	442	1,226	-	106	1,774
Disposals	-	-	-	-	-	-
Reclassification	-	12	(37)	-	25	-
Amortisation charge	-	(594)	(736)	(742)	(15)	(2,087)
Impairment charge	-	-	(11)	-	-	(11)
Closing net book amount	4,443	4,559	2,522	2,319	131	13,974
At 31 December 2015						
Cost	4,443	9,022	21,872	3,197	149	38,683
Accumulated amortisation and impairment allowance	-	(4,463)	(19,350)	(878)	(18)	(24,709)
Net book amount	4,443	4,559	2,522	2,319	131	13,974
At 31 December 2014						
Opening net book amount	13,448	2,373	3,038	-	11	18,870
Additions	-	2,808	1,111	3,742	7	7,668
Disposals	-	-	-	(545)	-	(545)
Reclassification	-	-	(13)	-	-	(13)
Amortisation charge	-	(468)	(1,406)	(136)	(3)	(2,013)
Impairment charge	-	-	(73)	-	-	(73)
Closing net book amount	13,448	4,713	2,657	3,061	15	23,894
At 31 December 2014						
Cost	13,448	8,591	25,022	3,197	18	50,276
Accumulated amortisation and impairment allowance	-	(3,878)	(22,365)	(136)	(3)	(26,382)
Net book amount	13,448	4,713	2,657	3,061	15	23,894

The net book amount of intangible assets as at 31 December 2015 includes CZK 1,628 million of construction in progress (2014: CZK 994 million). The assets under construction are spread over all disclosed categories of intangible assets following their nature.

Intangible assets in amount of CZK 9,596 million as at 1 January 2015 were transferred to spun-off part CETIN on 31 May 2015. See Note 4 for further details.

Goodwill

Goodwill of CZK 4,315 million resulted from the acquisition of the remaining 49% ownership interest in Eurotel Praha spol. s r.o. (Eurotel). The goodwill is presented in the standalone financial statements of the Company since the effective date of merger with Český Telecom, a.s. The goodwill initially recognized of CZK 14,087 million resulted from a comparison of the cost of a business combination of CZK 29,215 million and the fair value of net assets acquired of CZK 15,128 million. Until 31 December 2004, the goodwill had been amortised on a straight line basis over a period of 20 years and assessed for an indication of impairment at each balance sheet date.

Due to a revision of IFRS 3, IAS 36 and IAS 38 the Company ceased amortisation of the previously recognized goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 was eliminated with a corresponding decrease in the cost of goodwill (CZK 767 million). From the year ending 31 December 2005 onwards, goodwill is classified as an asset with an indefinite useful life which has been tested annually for the impairment, as well as when there are indications of impairment.

As at 31 December 2015 and 31 December 2014 Goodwill contained CZK 128 million related to the take-over of assets as a part of the project of the merger of Telefónica O2 Business Solutions spol. s r.o., a subsidiary company, into the Company from 2012.

Part of the goodwill in the amount of CZK 9,005 million attributable to the spun off part of the business was in accordance with IAS 36 transferred in 2015 to CETIN. See Note 4 for further details.

The Company performed impairment tests, which did not result in impairment losses of goodwill in 2015 and 2014. The impairment test involves a determination of the recoverable amount of the czech cash-generating unit, which corresponds to the value in use.

Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Company internal perspective. Value in use is derived from the cash flow budgets, which are based on the medium-term business plan for a period of 4 years, have been approved by the management and are the most recent at the time of the impairment test. The business plan is based on past experience, as well as on future market trends. Further, the business plan is based on general economic data derived from macroeconomic and financial studies. Cash flows beyond the four-year period are extrapolated using appropriate growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The assumptions, on which the management has based its business plan and growth rates, include the trend of gross domestic product, interest rates, nominal wages, average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and the discount rates.

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

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

Estimated growth rate – the forecast of the market and regulatory environment, where the Company conducts its principal business, is the basis for determination of the value assigned to the estimated growth rate. The Company uses growth rate between -1% and 0% (2014: -1% and 0%).

Discount rate – discount rates reflect the management's estimate of the risk specific to the cash generating unit. Weighted average of cost of capital (WACC) forms the basis for the determination of the pre-tax discount rate. This rate is calculated using the capital asset pricing model (CAPM), the Company also uses relevant data taken from independent financial analysts as a benchmark.

The Company has no other intangible asset with indefinite useful life except for goodwill.

Licences

Acquired licences represent the rights to operate cellular networks which are technologically neutral. Group uses following standards for operating cellular networks in the Czech Republic and Slovakia: GSM (Global System for Mobile Communication, the second generation technology), UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Details of individual licences are described in Note 22.

Carrying value of licences:

In CZK million	31 December 2015	31 December 2014
GSM 900 licence	16	114
GSM 1800 licence	13	92
GSM extension	432	-
CDMA 450 licence	10	14
UMTS licence	1,520	1,769
LTE licence	2,558	2,724
Licence 3,7GHz TDD – the Slovak Republic	10	-
Total	4,559	4,713

No borrowing costs were capitalized during the years 2015 and 2014.

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

Valuable rights

The Company decided in 2014 on exercising the option under the license agreement, based on which the Company is using the O2 brand until 31 January 2019 in the Czech Republic. By exercising the option, the Company purchased O2 brand recognized within intangible assets as at 31 December 2015 in net book amount CZK 2,319 million (2014: CZK 3,061 million).

12 Inventories

In CZK million	31 December 2015	31 December 2014
Telecommunication material	80	63
Goods	518	314
Total	598	377

The inventories stated above are net of an allowance of CZK 90 million (2014: CZK 44 million), reducing the value of the inventories to their net realisable value. The amount of inventories recognised as an expense is CZK 2,294 million (2014: CZK 2,140 million).

In 2015 and 2014, the Company had no inventories pledged as a security for liabilities.

13 Receivables and other non-current assets

In CZK million	31 December 2015	31 December 2014
Trade receivables from third parties (net)	4,182	5,688
Group trade receivables	666	414
Prepayments	513	441
Other debtors (net)	218	292
Indirect taxes	1	-
Derivative financial instruments	-	1
Total receivables	5,580	6,836

Trade receivables and other debtors are stated net of a bad debt provision of CZK 2,829 million (2014: CZK 3,534 million).

Receivables from related parties are disclosed in Note 24.

			Not impaired but overdue			
Trade receivables In CZK million	**Carrying amount**	**Neither impaired nor overdue**	Less than 90 days	90 and 180 days	180 and 360 days	More than 360 days
At 31 December 2015	4,907	4,399	149	9	17	-
At 31 December 2014	6,150	3,868	247	3	-	-

Bad debt provisions **In CZK million**	
At 1 January 2014	3,755
Additions	1,615
Retirements/amount paid	(1,836)
At 31 December 2014	3,534
Additions	1,564
Transferred to CETIN (Note 4) at 31 May 2015	(20)
Write-off of receivables	(659)
Retirements/amount paid	(1,590)
At 31 December 2015	2,829

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.

In CZK million	31 December 2015	31 December 2014
Trade and other receivables – non-current	59	48
Prepayments	203	461
Total other non-current assets	262	509

Trade and other non-current receivables contained restricted cash of CZK 29 million (2014: CZK 29 million) resulting to the Company, as small payment services provider, from the legal requirements of the regulator Czech National Bank.

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

In CZK million	31 December 2015	31 December 2014
Gross amounts of trade receivables from third parties	407	1,244
Amounts that are set off	(265)	(512)
Net amounts of trade receivables from third parties	142	732

14 Cash and cash equivalents

In CZK million	31 December 2015	31 December 2014	Interest rate
Cash at current bank accounts and other cash equivalents	961	190	Floating
Cash at current bank accounts and other cash equivalents (inter-company)	767	3,019	Floating
Total cash and cash equivalents	1,728	3,209	
- of which restricted cash	(432)	-	
Cash and cash equivalents included in cash flow statement	1,296	3,209	

Restricted cash represents cash intended for payment for the license to use radio frequencies allocated to the Company by Czech Telecommunication Office (CTO). The cash is as of 31 December 2015 deposited on an escrow account held on behalf of the Company and will be released to CTO in 2016 according to the concluded agreement. In accordance with IFRS, the Company reports the cash in balance sheet statement as at 31 December 2015 as cash and cash equivalents and in cash flow statement as cash flow from investing activities.

As at 31 December 2015 and 2014, cash and cash equivalents of the Group comprised interest bearing deposits with the maximum maturity of three months.

As at 31 December 2015, cash and cash equivalents of the Company amounted to CZK 1,728 million (2014: CZK 3,209 million) of which CZK 1,296 million (2014: CZK 427 million) were due within 1 month and CZK 0 million (2014: CZK 2,782 million) were due for more than 1 month.

In July 2015 the Company started to use cash-pooling with a subsidiary O2 Family, s.r.o., which allows the Company to effectively manage its financial resources. The interest rate is derived from 1M PRIBOR interest rate. In 2015 and 2014, the Company was using also cash-pooling with a subsidiary O2 Slovakia, s.r.o. (see Note 16) with interest rate dependent on 1M EURIBOR interest rate.

At 31 December 2015, the Company had available equivalent of CZK 9,600 million (2014: CZK 897 million) of undrawn committed facilities.

As at 31 December 2015 and 2014 no cash and cash equivalents were pledged.

15 Trade and other payables

In CZK million	31 December 2015	31 December 2014
Trade creditors	5,502	6,871
Tax and social security liability	463	655
Other deferred revenue	88	565
Prepaid cards	313	151
Employee wages and benefits	364	414
Other creditors	70	136
Total trade and other payables	6,800	8,792

In CZK million	31 December 2015	31 December 2014
Trade creditors	39	42
Other creditors	21	60
Other long-term deferred revenue	61	53
Other non-current liabilities	121	155

Payables to related parties are disclosed in Note 24.

As at 31 December 2015 and 31 December 2014, other non-current liabilities were made up primarily of deposits placed by recharging partners for prepaid cards and liabilities with due date in more than 12 months.

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

In CZK million	**31 December 2015**	**31 December 2014**
Gross amounts of trade creditors	355	1,588
Amounts that are set off	(265)	(512)
Net amounts of trade creditors	90	1,076

16 Financial debts

In CZK million	**31 December 2015**	**31 December 2014**
Debt in local currency	2,970	7,000
Intragroup cash-pooling (Note 24)	710	238
Other intragroup borrowings	45	-
Accrued interest	-	4
Financial derivative instruments	1	-
Total financial debt	3,726	7,242
Repayable:		
Within one year	756	4,242
Between one and five years	2,970	3,000
Total financial debt	3,726	7,242

On 16 December 2015 the Company entered into term facility agreement up to CZK 12 billion with maturity of 5 years. This loan was provided by Komerční banka, a.s. (acting as an agent), Česká spořitelna, a.s., Československá obchodní banka, a.s., Raiffeisenbank a.s., UniCredit Bank Czech Republic and Slovakia, a.s., Citibank Europe plc. and Tatra banka, a.s.

The interest rate is PRIBOR plus a margin amounting 0,60%. The Company uses the loan to refinance former debt and for general corporate purposes.

The Company uses cash-pooling with subsidiaries O2 Family, s.r.o. and O2 Slovakia, s.r.o. (see Note 14).

Borrowings are not secured over any assets of the Company.

17 Financial instruments

The following table shows the carrying amounts of classes of financial assets and liabilities split to respective financial instruments categories.

At 31 December 2015

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	5,125	-	5,125
Cash and cash equivalents	1,728	-	1,728
Total	6,853	-	6,853

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	3,725	-	3,725
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liability)	5,632	-	5,632
Derivative financial instruments	-	1	1
Total	9,357	1	9,358

At 31 December 2014

In CZK million	Loans and receivables	Assets at fair value through profit and loss	Total
Financial assets			
Trade and other receivables (excluding prepayments and indirect taxes)	6,442	-	6,442
Derivative financial instruments	-	1	1
Cash and cash equivalents	3,209	-	3,209
Total	9,651	1	9,652

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
Financial liabilities			
Financial debts	7,242	-	7,242
Trade and other payables (excluding deferred revenue, prepaid cards, employee benefits and tax and social security liabilities)	7,109	-	7,109
Total	14,351	-	14,351

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to internal information about counterparty default rates profile:

In CZK million	31 December 2015	31 December 2014
Trade receivables		
Group 1	2,901	1,574
Group 2	999	2,025
Group 3	499	269
Total unimpaired trade receivables	4,399	3,868
Cash at bank and short-term bank deposits		
Counterparties with external credit rating (Moody´s):		
A1	104	-
A2	292	117
Baa1	557	1
Baa2	-	60
Ba1	-	2
	953	180
Counterparties without external credit rating:		
Intragroup	767	3,019
	767	3,019
Cash in hand and other cash equivalents	8	10
Total cash and cash equivalents	1,728	3,209
Derivative financial assets		
Intragroup	-	1
	-	1

Group 1 – end customers monitored in the integrated system solution for scoring, maintenance and collection of receivables called RMCA.

Group 2 – Dealers and other business partners

Group 3 – Roaming partners

18 Deferred income taxes

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

Short-term and long-term deferred taxes were calculated at 19% for both years 2015 and 2014.

In CZK million	2015	2014
At 1 January	2,149	2,733
Charged /(credited) to Profit or loss from continuing operations (Note 7)	55	(45)
Charged /(credited) to Profit or loss from discontinued operations	143	(539)
Transferred to CETIN (Note 4)	(2,287)	-
At 31 December	60	2,149

The following amounts, determined after offsetting, are shown in the balance sheet:

In CZK million	31 December 2015	31 December 2014
Deferred tax assets	(289)	(432)
Deferred tax liabilities	349	2,581
Total	60	2,149

The deferred tax asset includes CZK 118 million (2014: CZK 403 million) recoverable in less than twelve months and CZK 171 million (2014: CZK 29 million) recoverable after more than twelve months. The deferred tax liability includes CZK 129 million (2014: CZK 678 million) to be settled in less than twelve months and CZK 220 million (2014: CZK 1,903 million) to be settled in more than twelve months.

The deferred tax is determined by these components:

In CZK million	Balance sheet		Profit or loss	
	2015	2014	2015	2014
Temporary differences relating to:				
Property, plant and equipment and intangible assets	256	2,367	(2,111)	(526)
Trade receivables, inventories and other differences	(196)	(218)	22	(58)
Deferred tax liability transferred to CETIN (Note 4)	-	-	2,287	-
Total	60	2,149	198	(584)
- from continuing operations			55	(45)
- from discontinued operations			143	(539)

19 Provisions for liabilities and charges

In CZK million	**Asset retirement obligation**	**Regulatory and court decisions**	**Other provisions**	**Total**
At 1 January 2014	-	21	17	38
Additions during the year	267	40	64	371
Utilized during the year	-	(11)	(9)	(20)
At 31 December 2014	**267**	**50**	**72**	**389**
Additions during the year	-	19	81	100
Utilized during the year	-	(11)	(36)	(47)
Transferred to CETIN (Note 4)	(267)	-	(47)	(314)
At 31 December 2015	**-**	**58**	**70**	**128**
Short-term provisions 2014	31	35	72	138
Long-term provisions 2014	236	15	-	251
	267	**50**	**72**	**389**
Short-term provisions 2015	-	36	70	106
Long-term provisions 2015	-	22	-	22
	-	**50**	**70**	**128**

Provisions transferred to CETIN amount to CZK 314 million. The most significant provision transferred to CETIN was recognized by the Company in 2014 for estimated cost of dismantling and removing assets and restoring sites amounting to CZK 267 million. The reason for recognition of a provision is a substantial increase in the estimate of the present value of future costs of dismantling and removing assets and restoring sites in connection with the network sharing project. 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.

Other provisions for which the expected timing of payments is not certain are expected to be utilized within the next twelve months from the balance sheet date. Other provisions consist mainly of provision for restructuring costs and costs related to termination of lease in office building.

A provision for regulatory and court decisions is made for legal proceedings involving the Company (see Note 20).

20 Contingencies and litigations

The Company is involved in a number of legal disputes arising from standard business interactions. Throughout the year 2015 no major proceeding was closed, so majority of the proceedings in which the Company is involved, has been lasting for more than 5 years without any decision in merit. Major legal disputes and other proceedings relating to the Company are described below.

I. ÚOHS (Office for Protection of Economic Competition)

i. Administrative proceeding on alleged abuse of dominant position on fix broadband market

The Office for the Protection of Economic Competition (ÚOHS) has been conducting so called "preliminary investigation" since November 2008 to determine whether the Company had abused its dominant position in the broadband market. The Company cooperated with the Office while repeatedly stating and proving that it had not held a dominant position in the market and, as such, no abuse could have been committed. Although the extent of information and documents required by the Office during more than a two-year long investigation grew immensely, the Company was never allowed to inspect the file to check its content and control how the information was interpreted by the Office. In the light of the above, the Company requested for court protection by legal action filed to the Regional Court in Brno. In December 2010, the Regional Court in Brno preliminarily banned the Office from the continuation of the preliminary investigation and, in February 2011, issued a verdict stating that the preliminary investigation has to be stopped immediately. This verdict was later confirmed by Supreme Administrative Court in September 2011. The Office reacted by opening official administrative proceeding on dominant position on fix broadband market by ADSL technology in March 2011. The Company filed its statement proving that the Office incorrectly defines relevant market on which Company would allegedly hold dominant position and moreover even abuse it. Company's statement about strong competition between technological platforms such as xDSL, cable and WiFi in the Czech Republic was repeatedly confirmed by the Czech Telecommunication Office and European Commission. The Company also provided the Office with numerous documents proving that all steps of the Company were correct. More records are continuously filed into the file. The Company cannot estimate when the proceeding will be closed due to extreme length and volume of information. The Office hasn´t issued any decision not even during 2015 despite the fact the Company provides the Office with all necessary facts and information. By the end of 2015 the Office asked the Company for other information and it´s obvious that the Office is still inquiring the case. Neither in the case of financial statements for previous years nor in the case of this financial statements it was not possible to make a reliable estimate, whether this administrative proceeding would have any financial impact, eventually in which amount neither when this proceeding will be terminated.

ii. Proceeding for CZK 91.9 million

In December 2009, the Regional Court in Brno cancelled the decision of the Office over the penalty of CZK 81.7 million imposed in December 2003 on the Company in the proceeding on the alleged abuse of the dominant position in the fixed voice services market. As a consequence of the dismissal, the Company asked the Office for returning the penalty including interests. Although the principal was returned by the Office, before it was decided on the returning of interests, the Supreme Administrative Court had in the meantime cancelled the verdict of the Regional Court in Brno and returned the case (for the third time) back to the Regional Court in Brno. After all in March 2011 the Regional Court in Brno cancelled the decision regarding the penalty and returned the case back to the Office where the Office should in compliance with law justify the penalty in relation to the judged period. Despite the objections of the Company regarding insufficient background, the Office issued a new decision imposing to the Company a fine CZK 91.9 million. The Company perceives such decision as an impermissible reprisal from the Office and filed a legal action including the proposal for suspension of the payment of the penalty during the court proceeding. The Regional court in Brno decided on suspension of the payment but by its decision from 23 October 2014 surprisingly dismissed the legal action filed by the Company. While the decisions of the regional courts in administrative cases are legally enforceable by the moment of delivery, the Company was required to pay the penalty to the Office in November 2014. But the Supreme Administrative Court by its decision from 15 April 2015 returned the case back to the Regional court in Brno, which, bound by the legal opinion, cancelled the Office´s decision on 11 September 2015. The Office returned the paid penalty back to the Company, but filled cassation complaint again. The Supreme Administrative Court hasn´t take the decision on the complaint yet. Because of the ongoing dispute, the Company records the returned penalty as at 31 December 2015 as a liability in the financial statements.

II. Disputes with AUGUSTUS spol. s r.o. company

The Company reached obvious turnaround in disputes with AUGUSTUS company in favor of the Company. The Company now concentrates on reclaiming unjust enrichment from the AUGUSTUS. Originally AUGUSTUS spol. s r.o. had sued the Company for an alleged loss of profit in the period from 1995 to 2001 in the amount of CZK 183 million with interests. AUGUSTUS spol. s r.o. claimed that the Company had illegally terminated the contract for the issue and distribution of phone cards signed for an open period of time. Based on the decision of the High Court in Prague, in August 2006, the Company paid a sum of CZK 83 million plus relevant interests (total of CZK 139 million). Later on, we could see a positive turn in the proceeding in favour of the Company when the Supreme Court based on the Company's appeal cancelled the previous verdicts in June 2009 and the Municipal Court in Prague ultimately dismissed the lawsuit in April 2010. The High Court finally confirmed this dismissal in August 2011. In reaction to this, the Company filed a lawsuit against AUGUSTUS spol. s r.o. to return the amount of CZK 139 million. The Municipal Court in Prague granted the claim in September 2011. AUGUSTUS spol. s r.o. filed an appeal but wasn´t successful. Meanwhile it turned out that at least CZK 94 million had been transferred to third parties based on agreements with the statutory representative. The Company is taking all legal steps to secure the property and to avoid additional losses. Municipal court in Prague declared bankruptcy of AUGUSTUS in November 2012 because of obvious inability to cover all its debts. High court in Prague confirmed the bankruptcy of AUGUSTUS company in May 2013. The Company is the major creditor with the highest filed and confirmed claim. The Municipal court in Prague issued the decision on partial distribution of the assets of AUGUSTUS company on 13 October 2015, where the Company was granted by the amount of CZK 32 million, which shall be paid after legal force of the decision. But the AUGUSTUS company filed the appeal, which remains unresolved.

III. CNS a.s. – dispute on CZK 19.8 milion

In 2009, the employees of CNS a.s., dealing with the development and updates of IT applications and the employees of Telefónica O2 Business Solutions, spol. s r.o. were having negotiations over the potential collaboration relating to the operation of data boxes. However, no agreement was signed between the parties and, due to commercial reasons, the project was never materialised. CNS a.s. filed in August 2010 a legal action against the Company for the compensation of damage and lost profit worth CZK 137.2 million for not signing any contract. The Company regards this claim as fabricated and the amount evidently exaggerated which can be demonstrated by the fact that in accordance with the annual profit and loss statement 2009, CNS a.s. generated a yearly profit of less than CZK 5.5 million. Municipal court in Prague fully dismissed the legal action in December 2012. CNS a.s. filed an appeal but only in extent of CZK 19.8 million. High court in Prague later confirmed that there wasn´t any contract concluded between CNS and the Company and therfore there is no claim of CNS from the contractual relationship. High court only ordered to Municipal court in Prague to decide on possible claims of CNS arising from the precontractual liability, however the court file does not contain any evidence regarding such claims. Just before the last oral hearing CNS announced to the court in October 2014 that they allegedly transfer all their "claims" to the company NAMARA INVESTMENT PARTNERS. This company was established in London only 14 days before this announcement. The Company protested against this obvious attempt of CNS to avoid to cover the costs of the proceedings in unsuccessful case.

IV. VOLNÝ, a.s. – dispute on CZK 4 billion

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against the Company for an amount exceeding CZK 4 billion for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by the Company on the fix broadband market. The Company replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The lawsuit has not been heard by the Court yet. The court has already started the proceeding in the matter and further oral hearings took place during the year 2013, including the hearings of witnesses and experts. Last hearing took place in February 2014 where the court indicated that the revision expert opinion could be considered by the court. But neither its framework neither the exact wording of the question to the expert is yet not known.

V. ČESKÉ RADIOKOMUNIKACE – dispute on CZK 3.1 billion

The legal action for CZK 3.1 billion filed by company ČESKÉ RADIOKOMUNIKACE (ČRa) was delivered to the Company in October 2012. The plaintiff states that the Company allegedly caused the damage by abusing of dominant position on "xDSL market", which supposedly impact ČRa´s ability to reach "equitable position on retail xDSL market". The claimed sum is calculated as a difference between hypothetical price of the part of the business and the real price for which the part of the business was actually sold to T-Mobile Czech Republic, a.s. back in 2009. The Company considers the legal action as purely artificial claim and this was also communicated to the court in the statement. On 7 February 2013, the

Municipal Court in Prague interrupted the proceedings pending the end of the administrative proceedings led by the Office for the Protection of Economic Competition. After the Company appealed, the High Court in Prague changed the decision in June 2013 and ordered to continue in the proceedings. CRa filed an extraordinary appeal but it was declined by the Supreme court on 29 April 2014. Therefore the court will have to deal with the merit without waiting for the outcome of the proceedings led by the Office. The oral hearing took place in October and November 2014 and January 2015, where all evidence on paper was proceeded. Further hearing is scheduled on March 2016. The court should decide on the question of the revisional expert opinion.

VI. TELECONSULT INTERNATIONAL - dispute on CZK 55 million

The Supreme Court cancelled the previous decisions in the dispute, where the Company already succeeded in the past. Although the reasons were mainly of the procedural and formal ground, the Municipal court in Prague is obliged to go through all evidence again. The plaintiff as a former operator of the audiotex lines claims that the Company allegedly caused the damages (lost profit) between May – October 1998. New evidence did not bring any finding in favor of the plaintiff. The court issued the decision on the hearing held on 14 January 2016, where the vast majority of the claim was dismissed and the Company shall receive roughly 97% of the costs of the proceedings from the plaintiff. TELECONSULT was granted only by the amount CZK 1.7 million, which represents the difference between the volume of the minutes measured by both parties in May 1998. The Company will fill the appeal against this part of the decision.

VII. Vodafone Czech Republic a.s. – dispute on CZK 384.7 million

The legal action of Vodafone Czech Republic a.s. claiming CZK was delivered to the Company on 2 April 2015. The legal action is grounded on alleged breach of the rules of the competition related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after only two page notice claiming this amount was delivered to the Company. According to the Company the whole claim is purely artificial case, which sole purpose was to damage the Company by the medialization. Vodafone Czech Republic a.s. claims that hasn´t reached 200 000 customers of xDSL internet services and therefore has lost the profit. The Company provided the court with its statement pointing out of the groundless of the claim. The oral hearing wasn´t ordered yet.

VIII. Legal actions on invalidity of the item No. 7 General meeting held on 28 April 2015 (approval of the spin off)

The Company registers two legal actions of shareholders, who claim the declaration of invalidity of the resolution of the general meeting held on 28 April 2015 to the item No. 7 (Discussion over and approval of the spin off the part of the Company with the creation of new company). These legal actions were filed by Ing. Tomáš Hájek and Pinara Ponava, s.r.o. company. The Company considers these actions as groundless and filed to the court its statement pointing out relevant facts. The oral hearing hasn´t been ordered yet.

IX. The criminal proceeding lead according to the Act No. 418/2011 Coll.

The criminal proceeding has been initiated on 31 August 2015 with the Company as the corporation. The Company was accused of committing crimes which were allegedly committed between 2010 and 2013, in connection with the public tender for metropolitan network and digitization of documents for self-government in city of Přerov. The resolution contains other additional 22 acts related to other accused in other cases, but these are not related to the Company at all. The Police did not even describe how the Company could commit the crime. The Company filed the complaint to the Supreme Public Prosecutor´s Office on 7 September 2015 but the decision hasn´t been made yet. The criminal proceeding is at an early stage and does not limit participation of the Company in public tenders or exercise of the regular business.

The Company is involved in other legal disputes. The aggregate value of all these disputes not closed with a verdict in 2015 totals to nearly CZK 42 million. The statement of Total comprehensive income takes into account all these disputes, however, individual risks of these minor disputes are insignificant.

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

The Company is convinced that all litigation risk has been appropriately reflected in the financial statements.

21 Commitments

The aggregate future minimum lease payments (the Company as a lessee) and future incomes (the Company as a lessor) originating from non-cancellable operating leases are reported in comparative period including discontinued operations.

	31 December 2015		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	519	1,359	293
Operating leases - lessor	11	4	-

Contractual obligations with CETIN are separately stated in Note 4.

	31 December 2014		
In CZK million	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Operating leases - lessee	1,087	2,341	2,611
Operating leases - lessor	122	39	-

The total minimum lease payments relating to operating leasing of property, plant and equipment recognized as an expense in 2015 were CZK 589 million (2014: CZK 1,353 million).

Capital expenditure contracted but not yet included in the financial statements as at 31 December 2015 amounted to CZK 383 million (2014: CZK 674 million). The majority of contracted amounts relates to the telecommunication networks and service contracts.

22 Service concession arrangements

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

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

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

The Company provides mobile services of electronic communications in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication (GSM) standard and LTE standard (Long Term Evolution) on the basis of radio frequency assignment from the CTO valid until 7 February 2016 and newly until 22 October 2024, in the 800, 1800 a 2600 MHz frequency bands under GSM and LTE standard on the basis of radio frequency assignment from the CTO valid until 30 June 2029, in the 2100 MHz frequency band under the Universal Mobile Telecommunications System (UMTS) standard on the basis of radio frequency assignment from the CTO valid until 1 January 2022 and in the 450 MHz frequency band using technology CDMA2000 (Code Division Multiple Access - CDMA), where is provided broadband mobile access to Internet on the basis of radio frequency assignment from the CTO valid until 7 February 2018.

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

Provision of electronic communications services in the Slovak Republic

O2 Business Services Slovakia, organizačná zložka O2 Czech Republic a.s., provides services of electronic communications by the means of a wireless technology operated in the 3.7 GHz frequency band on the basis of individual authorization from the Regulation Office of the Slovak Republic and valid until 31 December 2024.

Imposition of obligations related to the provision of the Universal Service

During 2015, the Company provided the following selective services under CTO imposed obligations to provide Universal Service:

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

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

23 Share capital and reserves

	31 December 2015	31 December 2014
Nominal value per ordinary registered share (CZK)	10	87
Number of shares – fully paid-up	310,220,057	315,648,092
Nominal value per ordinary registered share (CZK)	100	870
Number of shares – fully paid-up	1	1
Ordinary shares (in CZK million)	3,102	27,461

On 28 April 2015, the General Meeting approved as part of the separation project of the Company (Note 4) decrease of nominal value of ordinary registered shares and cancellation of the treasury shares. No distribution was paid out to shareholders of the Company as a result of the decision.

CZK 23,887 million related to decrease of nominal value of ordinary shares (excluding treasury shares) was transferred to other capital funds. Remaining decrease of share capital in amount of CZK 472 million relates to nominal value of cancelled treasury shares with the carrying amount of CZK 1,596 million. Difference between nominal value and carrying value of cancelled treasury shares in amount of CZK 1,124 million was settled against share premium.

The legal effect of the decrease of nominal value of registered ordinary shares and the cancellation of treasury shares took place on the date when it was recorded in the Commercial Register, which was on 1 June 2015.

Shareholdings in the Company were as follows:

	31 December 2015	31 December 2014
PPF Arena 2 B.V.	73.8%	73.1%
PPF A3 B.V.	10.3%	10.1%
O2 Czech Republic a.s. (treasury shares)	-	1.7%
Other shareholders	15.9%	15.1%

Capital management

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

The Company’s objectives when managing its capital are:

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

The investment strategy in the respect of managing the capital of the Company is to focus its investment activities on areas with a high growth potential, such as the development and improvement of fixed and mobile broadband internet and data networks, mobile services, ICT solutions for corporations and for the public sector, and further expansion and development of mobile services (including data) in the Slovak Republic. IT systems renewal and upgrade are among other investment activities aiming to simplify and improve processes that will lead to improved operating efficiency.

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

There are no other specific objectives.

Equity structure as at 31 December 2015 and 2014:

In CZK million	31 December 2015	31 December 2014
Share capital	3,102	27,461
Treasury shares	-	(1,596)
Share premium	11,894	19,349
Funds and reserves	8	6,450
Retained earnings from previous years	657	743
Net income for current year	4,711	3,963
Total	**20,372**	**56,370**

The funds in 2014 included a reserve fund of CZK 6,442 million. The Board of Directors shall decide on the creation of, contribution to, use of or the dissolution of the Reserve Fund, unless the law or Articles of Association provide that such decision in the specific context comes under the authority of the General Meeting.

Treasury share transactions consist of transfer of unpaid dividends related to treasury shares to retained earnings of CZK 71 million (2014: CZK 97 million).

24 Related party transactions

Companies PPF Arena 2 B.V. and PPF A3 B.V., through which Mr. Petr Kellner controls the Company since 28 January 2014, are part of 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's reach spans from Europe to Russia, the USA and across Asia.

As the settlement of the sale of the Company was held at the end of January 2014 related parties transactions were identified for the period of January 2014 with a group of former owner Telefónica and from February to December 2014 with the PPF Group.

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 assets balances are tested for the impairment at the balance sheet date.

The comparative information in this note is reported including discontinued operations (see Note 4).

The following transactions were carried out with related parties:

I. Parent company:

Statement of total comprehensive income In CZK million	Year ended 31 December 2015	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014
a) Sales of services and goods	-	27	-
b) Purchases of services and goods	-	-	3
c) Royalty fees	-	-	51

The total amount of dividend paid in 2015 to parent company was CZK 3,417 million (2014: CZK 4,723 million).

II. Other related parties – Company´s subsidiaries, associates and joint ventures:

Balance sheet In CZK million	31 December 2015	31 December 2014
a) Receivables	505	378
b) Short-term loans provided	137	143
c) Payables	518	92
d) Short term intragroup cash-pooling liability (Note 16)	710	238
e) Other short-term intragroup borrowings (Note 16)	45	-

Profit or loss In CZK million	Year ended 31 December 2015	Year ended 31 December 2014
a) Sales of services and goods	1,391	1,409
b) Dividend income	874	920
c) Purchases of services and goods	513	114
d) Interest income	2	3
e) Interest costs	-	1

As at 31 December 2015 the Company provided a short-term loan of CZK 200 million (2014: CZK 248 million) to Internethome, s.r.o. The loan bears a floating interest based on 1M PRIBOR. The loan conditions are based on the arm´s length principle.

The Company performed the impairment test of its investment and loan in subsidiary Internethome, s.r.o. as of 31 December 2015. The test involves a determination of the recoverable amount as the present value of future cash flows which are expected to be derived from Internethome, s.r.o. operations. Based on the result of the test the investment and loan in subsidiary was impaired by CZK 231 million (2014: CZK 177 million) in total, of which CZK 72 million (2014: CZK 72 million) was recorded against investment and CZK 159 million (2014: CZK 105 million) against loan.

As at 31 December 2015 the Company provided a short-term loan of CZK 50 million (2014: CZK 0 million) to O2 TV s.r.o. and short-term loan of CZK 46 million (2014: CZK 0 million) to O2 IT Services s.r.o. The loans conditions are based on the arm´s length principle.

There were no other impairment allowances to related party in 2015 or 2014.

As mentioned above in General Information, the Company has acquired 100% ownership in O2 IT Services s.r.o. from PPF Group on 29 May 2015. All transactions since June 2015 with O2 IT Services s.r.o. are reported in transactions with Other related parties – Company's subsidiaries, associates and joint ventures. Transactions made before June 2015 are reported in transactions with Other related parties – PPF Group and Telefónica Group.

The Company acquired fixed assets from subsidiary Internethome, s.r.o. in amount of CZK 106 million (2014: CZK 7 million) and in amount of CZK 15 million from subsidiary O2 IT Services s.r.o.

Except for above mentioned transactions, the Company sold in 2014 valuable right to O2 brand in Slovakia to O2 Slovakia, s.r.o.

III. Other related parties – PPF Group and Telefónica Group:

Balance sheet In CZK million	31 December 2015	31 December 2014
a) Receivables	161	36
b) Payables	1,043	103
c) Financial derivative instruments	(1)	1
d) Cash equivalents (Note 14)	767	3,019

Statement of total comprehensive income In CZK million	Year ended 31 December 2015	For the period from 1 February to 31 December 2014	For the period from 1 January to 31 January 2014
a) Sales of services and goods	210	161	70
b) Purchases of services and goods	6,299	559	109
c) Management fees	35	95	35
d) Gain on fair value adjustments of financial instruments (net)	(1)	7	-
e) Interest income	4	2	1

For the period January – May 2015, the separated part of CETIN (more information in Note 4) was under control of the Company. Sales and purchase with the related parties shown above therefore include only transactions for the period of June - December 2015. All significant contracts concluded with CETIN are described in Note 4.

Capital expenditures in 2015 were realized only with CETIN. The Company sold assets in amount of CZK 112 million to CETIN and bought assets in amount of CZK 95 million from CETIN.

IV. Other related parties

a) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

In CZK million	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and other short-term benefits	30	78
Personal indemnification insurance	1	1
Total	31	79

As a result of the spin off as at 1 June 2015 four members of the management left the Board of Directors and the Supervisory Board: Petr Slováček, Martin Vlček, Michal Frankl and Vladimír Mlynář.

b) Loans to members of Board of Directors and Supervisory Board

No loans were provided to members of Board of Directors and Supervisory Board in 2015 and 2014.

No loans were provided by the Company to related parties.

25 Subsidiaries, associates and joint ventures

As at 31 December 2015

	Subsidiaries	**Company's interest**	**Cost of investment in CZK million**	**Country of incorporation**	**Activity**
1.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
2.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access
3.	O2 Family, s.r.o. (formerly Bonerix s.r.o.)	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
4.	O2 TV s.r.o.	100 %	1	Czech Republic	Digital television
5.	O2 IT Services s.r.o.	100 %	90	Czech Republic	Information technology services
6.	Bolt Start Up Development a.s.	100 %	52	Czech Republic	Startup fund
	Associates				
7.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
8.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services
	Joint ventures				
9.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

* The Company recognized provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

As a result of splitting off as at 1 June 2015 the subsidiaries CZECH TELECOM Germany GmbH a CZECH TELECOM Austria GmbH were transferred into CETIN Group.

As at 31 December 2014

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.	O2 Slovakia, s.r.o.	100%	6,116	Slovak Republic	Mobile telephony, internet and data transmission services
4.	Internethome, s.r.o.	100%	72*	Czech Republic	Provision of WiFi internet access
5.	Bonerix s.r.o.	100%	200	Czech Republic	Mobile telephony, internet and data transmission services
Associates					
6.	První certifikační autorita, a.s.	23%	9	Czech Republic	Certification services
7.	AUGUSTUS, spol. s r.o. (in bankruptcy)	40%	-	Czech Republic	Auction sales and advisory services
Joint ventures					
8.	Tesco Mobile ČR s.r.o.	50%	6	Czech Republic	Mobile virtual network operator for prepaid services

* The Company recognised as at 31 December 2014 provision for impairment of CZK 72 million for investment in Internethome, s.r.o.

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

In CZK million	Period 01-12/2015	Period 01-12/2014
Total revenue	242	195
Operating income before depreciation and amortization (OIBDA)	8	69
Profit for the year	6	64

In CZK million	31 December 2015	31 December 2014
Total assets	128	76
Equity	21	24

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

26 Post balance sheet events

Drawdown of long-term loan facility

The Company drawdown on 20 January 2016 a long-term loan facility in amount of CZK 4 billion in accordance with the concluded term facility agreement (Note 16). By the end of January 2016 the Company have utilized in total CZK 7 billion from the long-term facility agreement.

Share buyback

The Company started its share buyback program on regulated market on 28 January 2016.

Demerger of parent company PPF Arena 2 B.V.

The demerger of parent company PPF Arena 2 B.V. came into effect on 23 January 2016. As a result of the demerger, PPF Arena 2 B.V. ceased to exist a new successor companies PPF Telco B.V. and PPF Infrastructure B.V. emerged. All shares of the Company were transferred to PPF Telco B.V. PPF Group owns 100% of PPF Telco B.V.

These events have no impact on the financial statements for the year ended 31 December 2015.

Other

There were no other events which occurred subsequent to the balance sheet date and which would have a material impact on the financial statements as at 31 December 2015.

08

OTHER **INFORMATION** FOR SHAREHOLDERS AND INVESTORS

OTHER INFORMATION FOR SHAREHOLDERS AND INVESTORS

BASIC INFORMATION

Corporate name:	O2 Czech Republic a.s.
Registered seat:	Prague 4-Michle, Za Brumlovkou 266/2, postal code 140 22
Corporate ID:	60193336
Tax ID:	CZ60193336
Date of incorporation:	16 December 1993
Legally existing from:	1 January 1994
Legal form:	joint-stock Company
Commercial court:	Prague Municipal Court
Commercial court record number:	Section B, File 2322

TRADING IN O2 CZ SHARES IN 2015

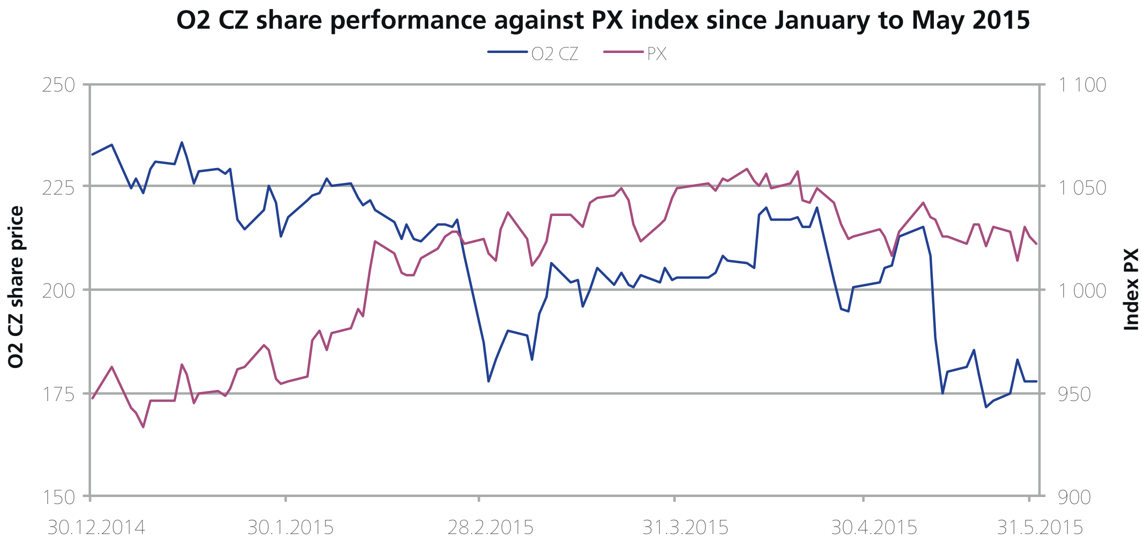
	2015	2014
Number of shares (in millions) [1]	310.2	310.2
Net profit/(loss) per share (in CZK) [2]	15	13
Highest share price (in CZK) [3]	261.0	315.9
Lowest share price (in CZK) [3]	69.2	208,.0
Share price at the end of period (in CZK) [3]	251.0	233.0
Market capitalisation (in billion CZK) [3]	77.9	73.5

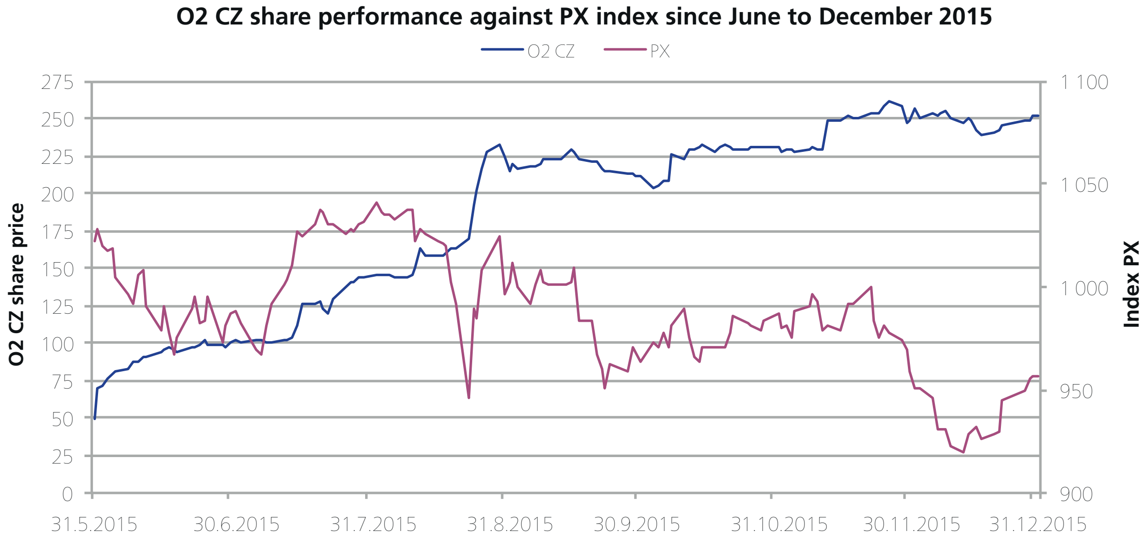
[1] Weighted average number of ordinary shares in issue during the period
[2] Unconsolidated net profit under IFRS
[3] Source: Prague Stock Exchange

In 2015, the Company once again ranked among the most important companies on the Czech capital market in terms of market capitalization and trading volumes. The total volume of trades in Company shares on the Prague Stock Exchange (PSE) was CZK13.9 billion, compared with CZK 15.5 billion in 2014. The average daily trading volume in 2015 reached CZK 57.1 million. Trading in Company shares measured by the total volume of shares traded, made up 8.3% of all trades on the PSE stock market. In 2015 the Company shares confirmed the position of the fourth most traded issue on the PSE, same as in the previous year. Market capitalisation as at 30 December 2015 (the last trading day on the PSE in 2015) was CZK 77.9 billion, which ranked O2 CZ in the fifth place on the PSE stock market overall, and in the third place among companies with a primarily listing on the PSE.

From 2 January until 27 May 2015, O2 CZ shares were traded prior to the separation of the Company. On 28 and 29 May 2015, trading in O2 CZ shares was suspended. From 1 June 2015, trading in shares was resumed after the separation. From the beginning of the year until 27 May 2015, the O2 CZ share price went down 23.8% to CZK 177.60, while the PX index (the main PSE index) grew 7.9% over the same period to 1,021.8 points. The reason was primarily the uncertainty regarding the possible provisioning of financial assistance to the majority shareholder PPF Arena 2 B.V., and uncertainty related to the separation of the Company. The deletion of O2 CZ from the MSCI index also impacted negatively on the share price.

For the trading day of 1 June 2015, the PSE set the reference price of O2 CZ shares at CZK 49.40. By the end of 2015, the share price increased fivefold to CZK 251.00, while the PX index fell 6.4% to 956.3 points. The sharp increase in the price of O2 CZ shares after the separation was driven by the better-than-expected financial results and the implementation of key projects to support the Company's sales and operations, which increased the fundamental value of the Company. The Company released its new long-term dividend policy (90%–110% of net profit) and debt target (up to 1.5 times net debt to EBITDA). Effective from the day close of 30 November 2015, O2 CZ shares were added back in the MSCI Czech Republic index.





Dividend

At the Annual General Meeting held on 22 April 2013 in Prague, the shareholders approved a dividend payment from a part of the profit for 2012 and a part of the retained earnings from previous years in the total amount of CZK 6.41 billion i.e. CZK 20 before tax per share of nominal value CZK 87 and CZK 200 before tax per share of nominal value of CZK 870. The record day for the payment of dividends was set to 14 October 2013, and the disbursement date 10 November 2013.

At the Annual General Meeting held on 25 June 2014 in Prague, the shareholders approved a dividend payment from a part of the profit for 2013 and a part of the retained earnings from previous years in the total amount of CZK 5.7 billion, i.e. CZK 18 before tax per share of nominal value CZK 87 and CZK 180 before tax per share of nominal value of CZK 870. The record day for the payment of dividends was set to 27 October 2014, and the disbursement date 26 November 2014.

At the Annual General Meeting held on 28 April 2015 in Prague, the shareholders approved a dividend payment from a part of the profit for 2014 and a part of the retained earnings from previous years in the total amount of CZK 4.1 billion, i.e. CZK 13 before tax per share of nominal value CZK 87 (before separation) and CZK 130 before tax per share of nominal value of CZK 870 (before separation). The record day for the payment of dividends was 28 April 2015, and the disbursement date was set by shareholders to 28 May 2015.

Dividend policy

On 19 October 2015, the Company communicated its new long-term dividend policy. In the following periods, the Board of Directors of O2 CZ intends to make proposals to the General Meeting to pay out dividends in the amount of 90%–110% of net unconsolidated profit.

Acquisition of treasury shares by the Company

On top of regular dividend payment, the Company also announced its intention to continue the share buyback programme. On 8 December 2015, the O2 CZ General Meeting passed a resolution in which it consented to the Company acquiring treasury shares, subject to the following conditions:

a) The maximum number of shares that may be acquired by the Company: 31,022,005 ordinary booked shares of the Company, while the nominal value of each share as of the day of adoption of this resolution is CZK 10

b) Allowed acquisition period: 5 years commencing on the day of adoption of this resolution

c) Minimum acquisition share price: CZK 10

d) Maximum acquisition share price: CZK 297

e) Maximum total acquisition price of all shares, which the Company can acquire based on this resolution: CZK 8 billion.

The resolution substituted an earlier consent to acquisition of the Company shares passed by the General Meeting on 19 April 2012.

On 23 December 2015, the Company announced it planned to acquire the first batch of treasury shares it is allowed to acquire by decision of the General Meeting on the European regulated market under the share buyback programme and through a securities trader (the possibility to decide in the future to acquire additional shares subject to limits set by decision of the General Meeting under a specific programme remains unaffected).

Following from the above, the Board of Directors of the Company decided on 23 December 2015 to implement the share buyback programme on the regulated market (Programme), subject to the following conditions:

a) the goal of the Programme is to optimise the capital structure of the Company;

b) the maximum acquisition price under the Programme will not exceed the lower of the following two limits: the maximum acquisition price set in accordance with Article 5(1) of Commission (EC) Regulation 2273/2003, and the maximum purchase price for which the Company can acquire individual shares according to the resolution of the General Meeting;

c) the lowest acquisition price of shares acquired under the Programme will not exceed the minimum price the Company can pay for individual shares according to the resolution of the General Meeting;

d) the daily volume of shares acquired under the Programme will not exceed the average daily trading volume in Company shares on the regulated market in November 2015, the month preceding the month of publication of the terms and conditions of the Programme;

e) the Programme allows the Company to acquire shares to the limit of 4% of the total number of ordinary shares issued by the Company;

f) the duration of the Programme is limited to 2 years, or by the reaching of the limit set forth in e).

The Company engaged WOOD & Company Financial Services, a.s., a licensed securities broker, to execute the Programme on its behalf.

Following the announcement of the mandate given to WOOD & Company Financial Services, a.s. to purchase Company shares, which was made on 23 December 2015, O2 CZ confirmed that WOOD & Company Financial Services, a.s. would start acquiring Company shares on the regulated market as part of the share buyback programme approved by the Company's Board of Directors on 23 December 2015.

The buyback of shares on the regulated market organised by the Prague Stock Exchange commended on 28 January 2016, subject to terms and conditions published in connection with the approval of the Programme on 23 December 2015, with the stipulation that the daily volume of shares acquired under the Programme would not exceed the average daily trading volume in Company shares on the regulated market in November 2015, i.e. 130,525 shares of the Company.

The Company may suspend or terminate the Programme before the expiration of the two-year period of the Programme. The Company will always publish any extraordinary circumstances, as well as any other ways of acquiring treasury shares outside the Programme.

DETAILS OF PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS WHICH HAVE A SIGNIFICANT BEARING ON THE BUSINESS AND WHICH THE COMPANY IS DEPENDENT ON

1) Patents and licences

The Company is not aware of any dependence of its business on the rights to use a patent or patents of specific persons. The use of technology is always subject to a contract relationship with the vendor who is liable for any violations of industrial or intellectual property rights.

O2 CZ has licence agreements for the following software products: operating systems (Microsoft, Oracle and Hewlett-Packard), workstation software (Microsoft), and CRM SW licences (IBA). O2 Group also uses in its business dealings in the Czech Republic and Slovakia the O2 brand based on a licence agreement (from O2 Holdings Ltd.). O2 CZ has been allocated spectrum licence by the CTO, which represent the rights to operate UMTS, GSM, CDMA and LTE mobile networks. O2 Slovakia has been allocated mobile licences to operate GSM, UMTS and LTE mobile networks.

2) Industrial and commercial contracts

O2 CZ maintains a diverse portfolio of technology suppliers. The main objective of the Company with respect to the contracted suppliers was to have competition on the supply side. All principal technology supply contracts are awarded by tender; from September 2015, all technology procurement is organised via the PROebiz electronic system.

In June 2015, so after the separation of the Company, CETIN became the principal supplier to the Company, with more than a 70% share of the Company's total procurement volume. Other major suppliers of technologies and related services were: IMPROMAT-COMPUTER, DATASYS, NESS Czech, DNS, Cleverlance Enterprise Solutions, Alcatel-Lucent Czech, Oracle Czech, IBM Česká republika, ALEF NULA, Simac Technik ČR and Nokia Solutions and Networks.

3) Financing contracts

A detailed report of the Company's financial debts as at 31 December 2015, and information about financing contracts, can be found in section 7 (Financial statements for the year ended 31 December, Note 16 to the Financial statements) of the Annual Report.

As at 31 December 2015, O2 CZ had no overdue obligations from loan contracts.

Request of the majority shareholder for provision of financial assistance

On 13 October 2014, O2 Czech Republic a.s. received a request from the majority shareholder, the company PPF Arena 2 B.V. for provision of financial assistance in the form of a loan with the primary purpose of partial repayment of the acquisition bank loan, which PPF Arena 2 B.V. used to for the acquisition of the majority stake in O2 Czech Republic a.s.

The General Meeting of O2 CZ held on 17 December 2014 approved that O2 CZ may provide financial assistance to PPF Arena 2 B.V. in the form of a loan up to a total amount of principal CZK 24.8 billion for the purpose of settling part of the acquisition loan provided to PPF Arena 2 B.V. by a syndicate of banks, and potential funding of purchases of additional shares of O2 CZ, under conditions set in the Report of the Board of Directors approved on 18 November 2014.

In connection with the approval of the separation project, and the related change in the circumstances on the part of O2 CZ, the Board of Directors decided on 27 February 2015 to call off negotiations of the possibility of financial assistance. On 31 May 2015, PPF Arena 2 B.V. announced it would request financial assistance only from CETIN.

INVESTMENTS

O2 Group investments in the last two accounting periods (in CZK mil.):

	2015	2014[1]
O2 Czech Republic	2,714	8,091
O2 Slovakia	530	1,914
Other subsidiaries and consolidation adjustments	47	(523)
Total	3,291	9,482

[1] Excluding discontinued operations

All main investments were implemented within the Czech Republic and Slovakia and were funded from own capital.

A significant change occurred in the portfolio of O2 CZ's investments in connection with the separation of the Company. Investments in the fixed access network, physical infrastructure of the mobile telecommunications network and data centres have passed to CETIN, while O2 CZ invests primarily in the mobile network platform for core and value added services, IP network and critical billing and customer service IT systems.

In the area of IT, investments were directed primarily at the streamlining and optimisation of key IT systems, to reduce the number and complexity of the application environment and save operating and development costs. In 2015, a new prepaid billing system was successfully implemented; prepaid customers were at the same time migrated to a new prepaid CRM system. A project to consolidate fixed and mobile billing for contract customers and a project to replace the CRM platform for contract customers were started. In 2015, a project to consolidate systems for the delivery of mobile and fixed access services into one platform was also started.

In the network area, O2 CZ started investing in the modernisation of individual network platforms in connection with the transition to LTE and packet voice. Investments in the capacity and throughput of the data and IP networks, to allow for higher access speeds for data customers, in line with the growing volume of data traffic.

The O_2 TV platform received a major investment, together with the development of the digital television products, including content and broadcasting rights to sports programming. A part of the overall investment went into a project of an in-house television studio and the launch of O_2 Sport, a new television channel.

In the area of IT and networks, significant investments were made in the completion of network and IT infrastructures of O2 CZ and CETIN.

The investment volume in the area of customer solutions reflected the customer projects that were being implemented; however, projects in the field of data connectivity and ICT still represented a major investment area.

In 2015 in Slovakia, most of the investment activity was in the area of development of proprietary 3G and 4G networks, acquisition of licences for the 3.5 GHz and 3.7 GHz frequency spectrum and the development of customer platforms.

FEES CHARGED BY AUDITORS IN THE ACCOUNTING PERIOD

Costs related to activities of the external auditor KPMG Česká republika Audit, s.r.o. for O2 Group in 2015 were as follows:

- Consolidated whole (O2 Group)

Type of service	Fee in CZK mil.
Audit	9
Other audit-related consultancy	3
Other services	3
Total	15

- Parent company (O2 CZ)

Type of service	Fee in CZK mil.
Audit	7
Other audit-related consultancy	3
Other services	3
Total	13

RATING

As at 31 December 2015, O2 Group did not have a corporate rating.

CONTACTS FOR INSTITUTIONAL INVESTORS AND SHAREHOLDERS

Investor Relations

Tel.:	+420 271 462 076, +420 271 462 169
Fax:	+420 271 463 566
E-mail:	investor_relations@o2.cz
Internet:	https://www.o2.cz/spolecnost/en/investor-relations/
Address:	O2 Czech Republic a.s. Za Brumlovkou 266/2 140 22 Prague 4

09

DECLARATION

OF PERSONS RESPONSIBLE
FOR THE ANNUAL REPORT

DECLARATION OF PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

Tomáš Budník, Chairman of the Board of Directors and Chief Executive Officer of O2 Czech Republic a.s.

and

Tomáš Kouřil, Vice-chairman of the Board of Directors and director of Finance Division of O2 Czech Republic a.s.

hereby declare that, to their best knowledge, the consolidated Annual Report gives a true and faithful reflection of the financial situation, business and the results of the Company and its consolidated whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

Tomáš Budník
Chairman of the Board of Directors
and Chief Executive Officer

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

In Prague on 10 February 2016

REPORT
ON RELATIONS

REPORT ON RELATIONS

BETWEEN THE CONTROLLING PERSON AND CONTROLLED PERSON AND BETWEEN THE CONTROLLED PERSON AND PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON FOR THE ACCOUNTING PERIOD OF 2015

The Company: O2 Czech Republic a.s., with its registered seat at Prague 4 – Michle, Za Brumlovkou 266/2, Postal code 140 22, Identification No.: 601 93 336, registered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 2322 (the Company or O2 CZ or also as O2 Czech Republic) is obliged to elaborate a so-called report on relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person for the accounting period of 2015 pursuant to Sec 82 et seq. of the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives, as amended (the "Report on Relations" and the "Business Corporations Act", respectively).

During the accounting period, specifically as of 1 June 2015, the Company separated by spin-off with the formation of a new company Česká telekomunikační infrastruktura a.s. The separation of the Company is described in a separate section of the Report on Relations (see point 2).

REPORT ON RELATIONS FOR THE PERIOD FROM 1 JANUARY 2015 TILL 31 DECEMBER 2015

Controlling person: Ing. Petr Kellner

Born on: 20 May 1964
Residence: Vrané nad Vltavou, Březovská 509, Praha-západ, Postal code 252 45

Mr Petr Kellner became the person with a stake enabling to control the Company on 28 January 2014. In the period from 31 December 2014 till 27 February 2015, Mr Kellner indirectly controlled an 83.16% share in the voting rights of the Company; in the period from 27 February 2015 till 31 May 2015, Mr Kellner indirectly controlled an 83.27% share in the voting rights of the Company; in the period from 1 June 2015 till 11 August 2015 Mr Kellner indirectly controlled an 84.73% share in the voting rights of the Company; in the period from 12 August 2015 till 1 December 2015, Mr Kellner indirectly controlled an 84.91% share in the voting rights of the Company; and in the period from 2 December 2015 till 31 December 2015, Mr Kellner indirectly controlled an 84.06% share in the voting rights of the Company. Petr Kellner is a controlling person of the Company through PPF Arena 2 B.V. and PPF A3 B.V. acting in concert with respect to the Company.

After closing the 2015 accounting period, on 29 January 2016, the Company received a notification that the separation of PPF Arena 2 B.V. came into effect as of 23 January 2016. As a result of the separation, PPF Arena 2 B.V. was wound up and two new successor companies were formed, while the newly formed PPF Telco B.V. became the owner of all shares of the Company which had originally been owned by PPF Arena 2 B.V. PPF Telco B.V. is a wholly owned subsidiary of the PPF Group. Since the event occurred after the 2015 year-end, the fact is not taken into consideration in this Report on Relations.

1. Structure of relations between the controlling person and the Company and between the Company and persons controlled by the same controlling person

PPF Arena 2 B.V. and PPF A3 B.V., through which Mr Petr Kellner is a controlling person of the Company, are members of the PPF Group.

PPF Group controlled by Mr Petr Kellner is an international investment group consisting, as of the date of this Report, of several hundred entities. It is the most important Czech investment group and one of the most important Central European investment groups, controlling sector-diversified companies internationally operating in more than a dozen markets from the Czech Republic, across the countries in Central and Eastern Europe, all the way to the key markets in South-East Asia and the United States. The companies are active especially in the markets of consumer financing (Home Credit Group), commercial banking (Air Bank), corporate and investment banking (PPF Banka), insurance (PPF Life Insurance), real estate (PPF Real Estate Holding) or telecommunications (Česká telekomunikační infrastruktura a.s. and an investment in O2 Czech Republic).

PPF Group has its corporate ownership and controlling structure located in the Netherlands: PPF Group N.V. with its registered seat in Amsterdam. PPF Group N.V. is the key holding company of the PPF Group, where all strategic decisions are adopted which influence the exercise of control of the whole group. In each of the business areas where the PPF Group is active and which it considers to be strategic (banking, financial services, real estate management, telecommunications, biotechnology, agriculture, etc.), specific sub-holding structures are typically established addressing the specific matters relating to the business area in question and the entities concerned. Special purpose vehicles (SPV) are used within these structures, which reflect the specificities of the entities within the PPF Group, in particular from the perspective of their acquisition financing and transaction history.

According to information provided by PPF a.s., an overview of entities controlled directly or indirectly by the same controlling person, Mr Petr Kellner, was compiled, including additional data on their structure. The overview is attached as Appendix 1 to the Report on Relations.

In relation to the Company and its separation the PPF Group declared on its website (www.ppf.eu) that from the PPF Group perspective (and its controlled persons) the Company is considered as financial investment and PPF Group did not interfere with the business management of the Company.

2. Role of the Company and separation of the Company

Role of the Company

The Company is in the position of an independent telecommunications operator providing primarily electronic communications services through fixed and mobile networks within the territory of the Czech Republic, and, through a wholly owned subsidiary, also in Slovakia, where it provides electronic communications services through mobile networks. If negotiated, the Company also provides services of electronic communications to persons within the PPF Group.

Separation of the Company

On 13 March 2015, following a thorough analysis and a feasibility study, the Board of Directors of O2 CZ approved the separation of the Company by spin-off and the formation of the new company. For such purpose, the Board of Directors prepared and approved a separation project, including the related accounting documents. On the same day, the separation of the Company was approved also by the Supervisory Board of the Company. On 28 April 2015, the General Meeting approved the separation of the Company. The Decisive Date of the separation was set for 1 January 2015. The separation became legally effective as of the date of record of the separation in the Commercial Register on 1 June 2015.

As a result of the separation, Česká telekomunikační infrastruktura a.s. (CETIN) was formed as a new company. A defined part of the equity of O2 CZ was transferred to the new company. The spun-off part included all assets and debts associated with the Infrastructure and Wholesale Division. The newly formed company thus assumed:

i. the fixed public communication network, in particular transmission systems, switching or routing equipment and other means, including elements of the network that are not active, which enable transmission of signals along wires, radio, optical and other electromagnetic means in the fixed network,

ii. physical infrastructure of the mobile public communications network except for core parts of the network, data centres,

iii. all documentation (content of physical and electronic archives and databases, plans, designs, building permits, agreements, etc.),

iv. relevant contracts and rights and obligations arising thereunder, which are necessary for the future independent business of CETIN.

In consequence of the spin-off, a total of 1,174 employees, who had been organ of the Infrastructure and Wholesale Division, were transferred to CETIN as of 1 June 2015.

Also transferred to CETIN in consequence of the spin-off was the ownership interest in two subsidiaries CZECH TELECOM Germany GmbH and CZECH TELECOM Austria GmbH. Ownership interests in the remaining subsidiaries stayed in the Company.

In connection to the spin-off, the Company reduced its registered capital from CZK 27,461,384,874 to CZK 3,102,200,670 as of 1 June 2015. The nominal value of each share at the original nominal value of CZK 87 decreased to CZK 10, and the nominal value of the share at the existing nominal value of CZK 870 decreased to CZK 100. Within the framework of the registered capital reduction, all treasury shares (5,428,035 units), which the Company owned prior to the separation, were cancelled.

The reduction in the registered capital and the cancellation of treasury shares did not cause any change in the actual mutual proportions of shares of individual shareholders of the Company. The reduction in the share capital had no immediate impact on the rights of shareholders. The purpose of the share capital reduction was to optimise the equity capital structure in the Company after the separation in such a manner so that the equity recognised in the opening balance sheet of the Company would not be lower than the registered capital, and so that the Company would have sufficient funds in the future, which are not assigned to a specific purpose, and so that the shareholders would be able to decide more flexibly on the distribution of these funds in the future.

As of 1 June 2015, the Company and CETIN, are operating as independent companies, where CETIN is in the position of a supplier to the Company regarding some of the types of performances. As of the same date, the corporate bodies, business management and managerial control and governance of both companies were separated including security, information and control systems. There are no extraordinary relations between the Company and its subsidiaries on the one hand, and CETIN and other PPF Group companies on the other, that could contradict the purpose of the separation and the independence resulting thereof..

Effective on 1 June 2015, contracts were concluded between the Company and CETIN which govern their mutual relations (an overview of these contracts can be found in part 5 of this Report).

3. Method and means of control

Mr Petr Kellner controls the Company through PPF Arena 2 B.V. and PPF A3 B.V. holding the majority of shares in the Company and, as a result, having the majority share in voting rights.

Exercising the majority share in the voting rights is the fundamental means enabling the control of the Company. Another means of control, which is exercised in the Company, are requests which PPF Arena 2 B.V., as the qualified shareholder, made ad hoc to the Board of Directors of the Company in the form of procedures explicitly presumed by the law. In the 2015 accounting period, a request of the qualified shareholder was made to amend the agenda of the General Meeting of 28 April 2015 with the election of Supervisory Board members and approval of the agreement on execution of the office of a Supervisory Board member.

As noted at the end of point 1 above, PPF Group (which, for the purposes of this Report, includes also the person who controls the Group, as disclosed in Appendix 1 to the Report on Relations) declared that it did not interfere with the business management of the Company and is not a dominant person ("řídící osoba") in relation to the Company pursuant to Section 79 of the Business Corporations Act.

4. Overview of negotiations pursuant to Sec 82(2)(d) of the Business Corporations Act

In the 2015 accounting period, the Company did not pursue any negotiations at the initiative or in the interest of the controlling person or persons controlled by the same controlling person concerning the Company's assets exceeding 10% of the Company's share capital determined according to the last financial statements.

In the previous accounting period of 2014, at the request of PPF Arena 2 B.V., the Company held negotiations relating to analysis and approval of financial assistance in the form of a loan from the Company, with a principal of up to CZK 24.8 billion. The negotiations mainly involved a feasibility study of the financial assistance and a report on the financial assistance (dated 18 November 2014 which was made available to shareholders), involvement of external advisors (as also stated in the report on financial assistance) and assembly and organization of the General Meeting of the Company which took place on 17 December 2014 and at which provision of financial assistance was approved. In the accounting period of 2014, the Company incurred costs totalling CZK 8.8 million in relation to the preparation of financial assistance approval, for which costs the Company has been reimbursed by the PPF Group in the first half of 2015, based on legal obligations assumed in writing. As a result, the Company did not incur any loss as it did not bear the costs itself. Moreover, after a significant change in the circumstances on the part of the Company, in particular in connection with the preparation of the separation of the Company, on 27 February 2015 the Board of Directors decided to terminate the negotiations relating to the financial assistance. In a press release of 31 May 2015, PPF Group made a statement that it did not plan to ask the Company for financial assistance.

5. Overview of mutual agreements

In the 2015 accounting period, the following agreements existed or were concluded between the Company on the one hand, and the controlling person or persons controlled by the same controlling person on the other:

- Framework agreement on the terms and conditions of providing mobile electronic communications services; *contractual party:* PPF a.s., *description of performance:* the Company provides, to the contractual partner, and other entities, electronic communication services in mobile telecommunications networks and supplies mobile phones and accessories under contracted terms and conditions.
- Agreement on the provision of a voice solution, *contractual party:* PPF a.s., *description of performance:* the Company provides, to the contractual partner, and other entities, electronic communication services in fixed access telecommunications networks under contracted terms and conditions.
- Framework agreement on the provision of telecommunication, managed services and other services, *contractual party:* Air Bank a.s., *description of performance:* the Company provides, to the contractual partner, electronic communication services, managed services and other related services under contracted terms and conditions.
- Implementing agreement on the provision of WAN services, *contractual party:* Air Bank a.s., description of service: the Company provides, to the contractual partner, telecommunication services of WAN access and connection under contracted terms and conditions.
- Implementing agreements on the provision of hosting services *contractual party:* Air Bank a.s., description of service: the Company provides, to the contractual partner, hosting services including WAN connection and access under contracted terms and conditions.
- Agreement on the provision of Bulk SMS Connector service, *contractual party:* Air Bank a.s., description of service: the Company provides, to the contractual partner, a service of bulk text messaging from customer applications to the networks of mobile and fixed access operators, including foreign networks, and provides also the functionality for managing SMS messages.
- Agreement on the provision of public electronic communication services, *contractual party:* Home Credit International, a.s., *description of performance:* the Company provides, to the contractual partner, voice and data services under contracted terms and conditions.
- Framework agreement on the terms and conditions of service of mobile electronic communications, *contractual party:* Bestsport Arena, a.s. (renamed Bestsport, a.s. in 2015), *description of performance:* the Company provides, to the contractual partner, electronic communication services in mobile telecommunications networks and supplies mobile phones and accessories under contracted terms and conditions.
- Agreement on the provision of public electronic communication services, *contractual party:* Bestsport Arena, a.s. (renamed Bestsport, a.s. in 2015), *description of performance:* the Company provides, to the contractual partner, voice and data services under contracted terms and conditions.
- Agreement on the provision of services, *contractual party:* PPF a.s., *description of performance:* the agreement is to supply a service of management and internal audit support (the contract passed to CETIN after the separation of the Company, which, from 1 June 2015 is no longer a contractual party).
- Agreement on the provision of information technology services, *contractual party:* PPF IT Services s.r.o. [1], *description of performance:* O2 CZ buys services of IT traffic, IT infrastructure support and application support.
- Future contracts, *contractual party:* PPF IT Services s.r.o.[1], *description of performance:* PPF IT Services s.r.o. undertakes to act as subcontractor for selected public contracts of O2 CZ.
- Lease agreements, *contractual party:* PPF IT Services s.r.o.[1], *description of performance:* lease or sub-lease of commercial space from O2 CZ.
- Non-disclosure and confidentiality agreements, *contractual party:* PPF IT Services s.r.o.[1], *description of performance:* rules of non-disclosure and confidentiality of some information in relation to business negotiations between the contractual parties.
- Agreement on the provision of support services, *contractual party:* PPF IT Services s.r.o.[1], *description of performance:* provision of selected support services to PPF IT Services s.r.o.

[1] As of 29 May 2015, the 100% share in PPF IT Services s.r.o. was transferred from PPF a.s. to O2 CZ (the agreements concerning the transfer of the share are disclosed further in this overview). The company was subsequently renamed O2 IT Services s.r.o.

- Data processing agreements, *contractual party:* PPF IT Services s.r.o.[1], *description of performance:* terms and conditions for the processing of personal and other information between the parties subject to privacy laws.
- Framework agreement to transfer an interest in PPF IT Services s.r.o., *contractual party:* PPF a.s., *description of performance:* the seller PPF a.s. and the buyer O2 Czech Republic undertake to enter into a contract to transfer 100% in PPF IT Services s.r.o., with the stipulation of selected terms and condition of the transfer of the ownership interest.
- Agreement to transfer an interest in PPF IT Services s.r.o., *contractual party:* PPF a.s., *description of performance:* transfer of a 100% interest of PPF a.s. in PPF IT Services s.r.o. to O2 Czech Republic.
- Framework agreement on payment and bank services, *contractual party:* PPF banka a.s., *description of performance:* the agreement sets up a credit limit and opens bank accounts in CZK, EUR and USD for the Company.
- Framework agreement on the provision of event management services, *contractual party:* Public Picture & Marketing a.s., *description of performance:* the contractual partner provides to the Company the services of event planning and organisation, promotional services for various target groups, in various scope, subject to the needs and brief of the Company: Below the Line services, loyalty programmes, organisation of conferences, training, lectures and one-off events.
- Framework agreement on the provision or agency of Travel Desk services, *contractual party:* Public Picture & Marketing a.s., *description of performance:* the contractual party provides to the Company a package of services which include flight booking, accommodation booking, visa arrangement, car hire booking, reporting.
- Agreement on cooperation in the financing of purchases of goods from O2, *contractual party:* Home Credit a.s., *description of performance:* the agreement lays down the rules of granting interest-free loans to persons who have a contract with O2 CZ for services of electronic communications, to purchase mobile hardware from O2 CZ and its franchises, as well as cooperation in promoting such loans and recruitment of clients.
- Agreement to use the arena name and other cooperation, *contractual party:* Bestsport Arena, a.s. (renamed Bestsport, a.s. in 2015), *description of performance:* the agreement is to grant a right to the Company to name the arena and use it for its commercial and marketing purposes as the general and titular partner of the arena, and for the promotion of the brand, logo, products and services of the Company on the outside and inside of the arena, and ticket sales for events in the arena.
- Cost reimbursement agreement *contractual party:* PPF Group N.V., *description of performance:* the agreement contains an undertaking of the contractual partner to reimburse the Company for its expenditure in connection with the preparation of the approval of financial assistance for PPF Arena 2 B.V. or with the syndicated loan.
- Mobile Network Services Agreement; *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* mobile network services agreement for CETIN to grant to O2 CZ access to Radio Access Network and the functionality of this mobile network, and the undertaking of CETIN to operate and maintain the 2G, 3G, LTE and CDMA networks, consolidate 2G and 3G networks and roll out the LTE network.
- Non-Disclosure Agreement; *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* application of the confidentiality rules to the contents of the Mobile Network Services Agreement between CETIN and the Company in the course of cooperation with T Mobile Czech Republic a.s.
- Last mile access agreement: *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* data services according to the new reference offer with termination in regional capitals.
- Agreement on access to the public fixed telecommunications network; *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* agreement based on a reference offer, for access to the network in the terminal point, access to the public telephone services and fixed broadband access in the network of CETIN.
- Agreement on the interconnection of the fixed communications network of CETIN and the public mobile communications network of O2 CZ, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* provision of electronic communication services and activities to subscribers connected to third party networks and other users, interconnection and maintenance of interconnected infrastructure of the partners' public telecommunications networks.

- Service Agreement, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* entering into discount agreements with roaming partners on behalf of O2 CZ.
- Agreement on the provision of services of data centres, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* data centre capacity leases in CETIN data centres.
- Co-location agreements for specific locations, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* granting of co-location space and services of physical co-location in specific locations.
- Agreement on the provision of Carrier services , *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* data services Carrier ATM Access;
- Agreement on the provision of billing for wholesale services, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* billing for wholesale services of O2 CZ.
- Lease agreements, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* lease or sub-lease of office space in the ownership of CETIN.
- Agreements on the provision of support services from CETIN to O2 CZ / from O2 CZ to CETIN, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* temporary provision of support services on mutual basis.
- Agreement on termination of international voice traffic, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* transit of international voice traffic originated in the mobile and fixed access network of O2 CZ, including traffic originated in the network of O2 Slovakia.
- Agreement on the lease of optical fibres, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* optical fibre lease.
- Agreement on the provision of technology housing services, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* lease of space in CETIN technology centres to house O2 CZ technology O2 CZ.
- Agreements to purchase assets of O2 CZ by CETIN and of CETIN by O2 CZ, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* finalize the asset ownership between the two companies.
- Services Agreement on Signalling and GRX / IPX, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* CETIN provides SCCP and diameter signalling, GRX/S8 payload mobile data exchange.
- Framework agreement on the terms and conditions of service of mobile electronic communications, *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* the Company provides, to the contractual partner, and other entities, electronic communication services in mobile telecommunications networks and supplies mobile phones and accessories under contracted terms and conditions.
- Agreement on the terms and conditions of supply of Microsoft products; *contractual party:* Česká telekomunikační infrastruktura a.s. (CETIN), *description of performance:* the agreement provides for a transfer of Microsoft licences, which O2 CZ acquired prior to 31 May 2015, to CETIN.
- Lease agreement; *contractual party:* BESTSPORT akciová společnost (renamed B2S Servisní a.s. in 2015); *description of performance:* commercial lease in the O2 Arena, expanded scope of marketing and commercial activities from the scope of the agreement to rename the arena from 4 February 2008.
- Agreement on cooperation in the provision Extra karta, *contractual party:* Home Credit a.s., *description of performance:* rules for the design, promotion and sale of Extra karta, a joint product of the two contractual partners.
- Cooperation agreements, *contractual party:* Home Credit a.s., *description of performance:* provision of information by O2 CZ to Home Credit a.s. subject to the customer's consent and in connection with the analysis of the creditworthiness of applicants for Home Credit a.s. loans.
- Agreement cooperation, *contractual party:* PPF a.s. and Česká telekomunikační infrastruktura s.r.o.; *description of performance:* the cooperation relates to Česká telekomunikační infrastruktura in connection with the record of the separation of O2 Czech Republic in the Commercial Register.

As far as the controlled person is concerned, the value of the performance under the above agreements was in all cases corresponding to the price and quality of services provided on the market by the third persons or to the third persons. Further details of the agreements cannot be disclosed with respect to the necessity of safeguarding the business secret and the agreed confidentiality obligation.

6. Assessment of whether the Company incurred any damage and assessment of its settlement pursuant to Sec 71 and Section 72 of the Business Corporations Act

All agreements described in point 5 of this Report on Relations were concluded under the terms and conditions standard in business relations; likewise, all services supplied or received under these agreements were provided under the terms and conditions standard in the business relations and the Company incurred no damage as a result of these agreements. The payment of costs relating to the analysis and approval of the financial assistance in 2014 was described in point 4 of this Report.

7. Conclusion

The separation of the Company into two companies independent of each other was probably the most significant event of 2015. In connection with the preparation and execution of the separation, the Company and its subsidiaries were strictly separated (in particular their business management and managerial control) not only from CETIN but also from other PPF Group companies. There are no privileged relationships between these companies that could contradict the purpose of the separation and the independence of the companies resulting thereof. All relationships are reflected in the relevant agreements executed under standard business terms and conditions.

The Board of Directors declares that, based on assessment of the role of the Company towards the controlling person and persons controlled by the same controlling person, the Company had no special benefits or disadvantages/risks resulting from the relations between the Company and the controlling person or persons controlled by the same controlling person. The Company incurred no damage that should be compensated according to Sections 71 and 72 of Business Corporations Act.

The Company Board of Directors declares that in the process of collecting and verifying information for the purpose of this Report on Relations it made an adequate effort and the conclusions in this Report have been formulated with thorough consideration and all information presented herein is considered by the Board of Directors to be accurate and complete.

In Prague 8 February 2016

O2 Czech Republic a.s.

Appendix 1 – List of companies directly or indirectly controlled by the same controlling person

Controlling person: Ing. Petr Kellner

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
AB 1 B.V.	56007043	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 2 B.V.	57279667	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 3 B.V.	58435425	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 4 B.V.	34186049	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 5 B.V.	34192873	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 6 B.V.	58435956	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
AB 7 B.V.	57279241	Netherlands	Person controlled by the same controlling person through an ownership interest		Air Bank a.s.
Accord Research, s.r.o.	290 48 974	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Air Bank a.s.	29045371	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Airline Gate 1 s.r.o.	02973081	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
ALCAMORA LIMITED	HE 290 379	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ALMONDSEY LIMITED	HE 291 856	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ALRIK VENTURES LIMITED	HE 318 488	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED
ANTHEMONA LIMITED	HE 289 677	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Comcity Office Holding B.V.
ANTHIAROSE LIMITED	HE 224463	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
ARANCIATA a.s.	27621707	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 1 December 2015	WAIPA ENTERPRISES LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Areál Ďáblice s.r.o.	03762939	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 2 February 2015	Office Star Nine s.r.o.
Art Office Gallery a.s.	24209627	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
ASTAVEDO LIMITED	HE 316 792	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Autotým, s.r.o.	3040836	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Lab N.V.
B2S Servisní, a.s.	19013825	Czech Republic	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Bavella B.V.	52522911	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Bestsport Services, a.s. v likvidaci	24215171	Czech Republic	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Bestsport, a.s.	24214795	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
BORACORA LIMITED	HE 251 936	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC. FIGERA LIMITED
Boryspil Project Management Ltd.	34999054	Ukraine	Person controlled by the same controlling person through an ownership interest		Pharma Consulting Group Ltd.
Bucca Properties Ltd.	1377468	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		BORACORA LIMITED
Capellalaan (Hoofddorp) B.V.	58391312	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
CAPERTON HOLDINGS LIMITED	HE 173 977	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Corvus Services Limited
Celestial Holdings Group Limited	1471389	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
CF Commercial Consulting (Beijing) Limited	78860280-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
CITY TOWER Holding a.s.	02650665	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
CITY TOWER, a.s.	271 03 251	Czech Republic	Person controlled by the same controlling person through an ownership interest		CITY TOWER Holding a.s.
CJSC "Intrust NN"	1065259035896	Russian Federation	Person controlled by the same controlling person through an ownership interest		STINCTUM HOLDINGS LIMITED
CJSC "Investments trust"	1037739865052	Russian Federation	Person controlled by the same controlling person through an ownership interest		FELISTON ENTERPRISES LIMITED
Click Credit s.r.o.	29378401	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 31 August 2015	Home Credit B.V.
Codar Invest B.V.	27278985	Netherlands	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Comcity Office Holding B.V.	64411761	Netherlands	Person controlled by the same controlling person through an ownership interest	From 26 October 2015	PPF Real Estate Holding B.V.
Corvus Services Limited	1061050	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
Czech Equestrian Team a.s.	019 52 684	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest		SUNDOWN FARMS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
CZECH TELECOM Austria GmbH	229578s	Austria	Person controlled by the same controlling person through an ownership interest		Česká telekomunikační infrastruktura a.s.
CZECH TELECOM Germany GmbH	HRB 51503	Federal Republic of Germany	Person controlled by the same controlling person through an ownership interest		Česká telekomunikační infrastruktura a.s.
Česká telekomunikační infrastruktura a.s.	040 84 063	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF A4 B.V.
DADRIN LIMITED	HE 321 173	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED
De Reling (Droten) B.V.	58164235	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
DELIFLEX LIMITED	HE 221 768	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Different Money s.r.o.	035 70 967	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit Lab N.V.
DONMERA LIMITED	HE 204 966	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 1 December 2015	PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
DOUSAVI LIMITED	HE 331 420	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
Eastern Properties B.V.	58756566	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Easy Dreams Company Limited	304583265	Vietnam	Person controlled by the same controlling person through an ownership interest	Until 8 February 2015	Home Credit International a.s.
ELDORADO LICENSING LIMITED	HE 144 889	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		LLC Eldorado
ELTHYSIA LIMITED	HE 290 356	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
ENADOCO LIMITED	HE 316 486	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
ETO LICENSING LIMITED	HE 179 386	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		FACIPERO INVESTMENTS LIMITED
EusebiusBS (Arnhem) B.V.	58169778	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
FACIPERO INVESTMENTS LIMITED	HE 232 483	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Favour Ocean Limited	1065678	Hong Kong	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
FAYDE INVESTMENTS LIMITED	HE 310 390	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
FELISTON ENTERPRISES LIMITED	HE 152674	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
FERRYMAT HOLDINGS LIMITED	HE 313289	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
FIGERA LIMITED	HE 251 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Fodina B.V.	59400676	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Foreign Insurance Closed Joint Stock Company "PPF Insurance"	806000245	Belarus	Person controlled by the same controlling person through an ownership interest		SEPTUS HOLDING LIMITED, TALPA ESTERO LIMITED, RHASKOS FINANCE LIMITED, SYLANDER CAPITAL LIMITED, ENADOCO LIMITED, ASTAVEDO LIMITED
GABELLI CONSULTANCY LIMITED	HE 160 589	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
GALIO INVESTMENTS LIMITED	HE 310 260	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
Garco Group B.V.	34245884	Netherlands	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC.
Gen Office Gallery a.s.	24209881	Czech Republic	Person controlled by the same controlling person through an ownership interest		Office Star Eight a.s.
German Properties B.V.	61008664	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
GIM Invest Co Limited	109594	Jersey	Person controlled by the same controlling person through an ownership interest	Until 11 December 2015	PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
GLANCUS INVESTMENTS INC.	1396023	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
GRACESPRING LIMITED	HE 208 337	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Grandview Resources Corp.	1664098	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
Guangdong Home Credit Financing Guarantee Co., Ltd	76732894-1	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
HC Asia N.V.	34253829	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
HC Broker, s.r.o.	29196540	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit a.s.
HC Consumer Finance Philippines, Inc	CS 201301354	Philippine Republic	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.
HC Insurance Services s.r.o.	1487779	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
HC Philippines Holding B.V.	35024270	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Hofplein Offices (Rotterdam) B.V.	64398064	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 23 October 2015	PPF Real Estate Holding B.V.
Home Credit a.s.	26978636	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Asia Limited	890063	Hong Kong	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Home Credit B.V.	34126597	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Financial Holding B.V.
Home Credit Business Management (Tianjin) Co., Ltd.	67596220-8	People’s Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
Home Credit Consumer Finance (China) Co., Ltd	63606746-2	People’s Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Egypt Trade S.A.E.	50614	Egypt	Person controlled by the same controlling person through an ownership interest		HC Philippines Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
HOME CREDIT EUROPE PLC	7744459	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Home Credit India B.V.	52695255	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
HOME CREDIT INDIA FINANCE PRIVATE LIMITED	U65910HR1997 PTC047448	Republic of India	Person controlled by the same controlling person through an ownership interest		Home Credit India B.V.
Home Credit Indonesia B.V.	52695557	Netherlands	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
Home Credit International a.s.	60192666	Czech Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Lab N.V.	52695689	Netherlands	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit Slovakia, a.s.	36234176	Slovak Republic	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Home Credit US Holding, LLC	5467913	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Home Credit US, LLC	5482663	United States of America	Person controlled by the same controlling person through an ownership interest		Home Credit US Holding
Home Credit Vietnam Finance Company Limited	0307672788	Vietnam	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
HOPAR LIMITED	HE 188 923	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
Chelton Properties Limited	1441835	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
INTELCES s.r.o.	03495663	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
JARVAN HOLDINGS LIMITED	HE 310 140	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
JH Media Services Plus s.r.o.	04002423	Czech Republic	Person controlled by the same controlling person through an ownership interest	From 18 December 2015	Bestsport, a.s.
Johan H (Amsterdam) B.V.	58163239	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Joint Stock Company "Gorod Molodogo Pokolenija"	1027700473756	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
Joint Stoct Company "Sibzavod Centre"	1035501017221	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Trust - Invest
JONSA LIMITED	HE 275 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited FIGERA LIMITED
JSC Yugo - Vostochnaya promyshlennaya companiya "KARTONTARA"	1037700008895	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
JSC Home Credit Kazakhstan	70-700-1910-AO	Kazakhstan	Person controlled by the same controlling person through an ownership interest		HC Asia N.V.
KARMION HOLDINGS LIMITED	HE 312 004	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Karperstraat (Amsterdam) B.V.	58163883	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Karta Realty Limited	MC 167710	Cayman Islands	Person controlled by the same controlling person through an ownership interest	Until 2 November 2015	VELTHEMIA LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Langen Property B.V.	61012777	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
LINDUS Real s.r.o.	29139309	Czech Republic	Person controlled by the same controlling person through an ownership interest		LINDUS SERVICES LIMITED
LINDUS SERVICES LIMITED	HE 281 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Prague Entertainment Group B.V.
LLC Alfa South	1077760158618	Russian Federation	Person controlled by the same controlling person through an ownership interest		GRACESPRING LIMITED
LLC Alians R	1086627000635	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED
LLC Almondsey	1127747228190	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC Bonus Center Operations	1127746491861	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
LLC BRAMA	1107746950431	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Bryanskii Torgovij Centr-Invest	1063250034385	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Collect Credit	36726094	Ukraine	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
LLC DELTA	5077746981637	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 26 May 2015	STEPHOLD LIMITED
LLC Delta Com	1137746330358	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Charlie Com
LLC EASTERN PROPERTIES RUSSIA	1137746929836	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V.
LLC El Logistic	1020201302472	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 22 May 2015	TAPADEO LIMITED
LLC Eldomarket	1045002950354	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Eldorado FACIPERO INVESTMENTS LIMITED
LLC Eldorado	5077746354450	Russian Federation	Person controlled by the same controlling person through an ownership interest		FACIPERO INVESTMENTS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Ellin	1021601767395	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Invest Realty
LLC ERKO	1044702180863	Russian Federation	Person controlled by the same controlling person through an ownership interest		Joint Stock Company "Gorod Molodogo Pokolenija"
LLC Fantom	1053001163302	Russian Federation	Person controlled by the same controlling person through an ownership interest		FAYDE INVESTMENTS LIMITED
LLC Financial Innovations	1047796566223	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
LLC Home Credit & Finance Bank	1027700280937	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V. Home Credit International a.s.
LLC Home Credit Insurance	1027739236018	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
LLC Home Credit Online	1157746587943	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 30 June 2015	Home Credit Lab N.V.
LLC HOMER SOFTWARE HOUSE	35364346	Ukraine	Person controlled by the same controlling person through an ownership interest		REDLIONE LIMITED Home Credit B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Charlie Com	1137746330336	Russian Federation	Person controlled by the same controlling person through an ownership interest		ALMONDSEY LIMITED LLC Almondsey
LLC ICC Klokovo	1127746186501	Russian Federation	Person controlled by the same controlling person through an ownership interest	Was not been member of the group from 1 February 2015 until 29 December 2015	LLC Rutar Invest
LLC In Vino	1052309138628	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Alfa South
LLC IN VINO - ANAPA - 2	1072301000200	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC IN VINO HOLDING
LLC IN VINO HOLDING	7734565173	Russian Federation	Person controlled by the same controlling person through an ownership interest		UNDERTREA HOLDINGS LIMITED
LLC In Vino Natukhaevskoe	1052309081880	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC IN VINO HOLDING
LLC Invest Realty	1057746212666	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Eldorado FACIPERO INVESTMENTS LIMITED
LLC K-Development	1077760004629	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC KEPS	1127746190604	Russian Federation	Person controlled by the same controlling person through an ownership interest		GALIO INVESTMENTS LIMITED
LLC Kvartal Togliatti	1056320172567	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
LLC LB Orel	1135749000793	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC EASTERN PROPERTIES RUSSIA LLC LB Voronezh
LLC LB Voronezh	1133668033872	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC EASTERN PROPERTIES RUSSIA LLC LB Orel
LLC Logistics - A	1115048002156	Russian Federation	Person controlled by the same controlling person through an ownership interest		ELTHYSIA LIMITED FIGERA LIMITED
LLC Logistika - Ufa	1150280069477	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 18 November 2015	TAPADEO LIMITED
LLC Microfinance organization Home Credit Express	1027700280640	Russian Federation	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
LLC Mitino Sport City	1107746473383	Russian Federation	Person controlled by the same controlling person through an ownership interest		MICROLIGHT TRADING LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC PPF Life Insurance	1027739031099	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
LLC PPF Real Estate Russia	1057749557568	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
LLC RAV Agro	1073667022879	Russian Federation	Person controlled by the same controlling person through an ownership interest		Bavella B.V. Grandview Resources Corp.
LLC RAV Agro Orel	1115741001496	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC RAV Agro Penza	1115802001765	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC RAV Agro Pro	1033600135557	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro LLC RAV Molokoprodukt
LLC RAV Molokoprodukt	1083627001567	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro Bavella B.V. Grandview Resources Corp.
LLC RAV Myasoproduct	111366805110	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 23 December 2015	Bavella B.V. Grandview Resources Corp.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC RAV Myasoproduct - Orel	1,13575E+12	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Molokoprodukt
LLC RAV Niva	1023601232522	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC RAV Niva Orel	1113668051090	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro
LLC Razvitie	1155009002609	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 15 June 2015	VELTHEMIA LIMITED
LLC Regional Real Estate	1137746217950	Russian Federation	Person controlled by the same controlling person through an ownership interest		PPF REAL ESTATE LIMITED
LLC Rentol	1027700403500	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Eldorado FACIPERO INVESTMENTS LIMITED
LLC ROKO	5107746049329	Russian Federation	Person controlled by the same controlling person through an ownership interest		JONSA LIMITED
LLC ROST Agro	1103601000030	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC RAV Agro

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Ruskij Val	1057749715759	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 1 February 2015	LLC DELTA
LLC Rutar Invest	1137746325640	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 29 December 2015	STEPHOLD LIMITED
LLC Skladi 104	5009049271	Russian Federation	Person controlled by the same controlling person through an ownership interest		GABELLI CONSULANCY LIMITED
LLC Skolkovo Gate	1137746214979	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 2 July 2015	Trigon II B.V.
LLC Sotio	1117746901502	Russian Federation	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Sotio	EIN 35-2424961	United States of America	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
LLC Spectrum	1097746356806	Russian Federation	Person controlled by the same controlling person through an ownership interest		NIDALEE HOLDING LIMITED
LLC Stabilnost	5087746280200	Russian Federation	Person controlled by the same controlling person through an ownership interest	Until 21 December 2015	VELTHEMIA LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Strata	7702765300	Russian Federation	Person controlled by the same controlling person through an ownership interest		VELTHEMIA LIMITED
LLC Stroyinvest	1056320172611	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Kvartal Togliatti
LLC TGK - Trilogy	1155027001030	Russian Federation	Person controlled by the same controlling person through an ownership interest	From 23 July 2015	LLC PPF Real Estate Russia
LLC TK Donskoe	1056102003715	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Trust - Invest
LLC Torgovij complex Lipetskiy	1074823001593	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Tower	1117746550020	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED
LLC Trade center "Permskiy"	1087746243694	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Eldorado FACIPERO INVESTMENTS LIMITED
LLC Trust - Invest	1057746391306	Russian Federation	Person controlled by the same controlling person through an ownership interest		JARVAN HOLDINGS LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
LLC Uhrozhay	1063627011910	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC Yug
LLC Yug	1083627001567	Russian Federation	Person controlled by the same controlling person through an ownership interest		LLC LB Voronezh
LONGORIA a.s.	27630188	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 1 December 2015	WAIPA ENTERPRISES LIMITED
LvZH (Rijswijk) B.V.	58163999	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Mapleridge Development Limited	1668985	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
MARAFLEX LIMITED	HE 203 470	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 18 December 2015	Maraflex s.r.o.
Maraflex s.r.o.	2415852	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
MICROLIGHT TRADING LIMITED	HE 224 515	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
MIDATANER a.s.	29055768	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 1 December 2015	WAIPA ENTERPRISES LIMITED
Millennium Tower (Rotterdam) B.V.	56261330	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
MINIFLEX LIMITED	HE 221 915	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
MOETON a.s.	27864561	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
Monheim Property B.V.	61012521	Netherlands	Person controlled by the same controlling person through an ownership interest		German Properties B.V.
Monchyplein (Den Haag) B.V.	58163603	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
Montería, spol. s r.o.	27901998	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF FO Management B.V.
Moranda, a.s.	28171934	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Mystery Services s.r.o.	24768103	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
NACUDU LIMITED	HE 254 166	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Net Gate s.r.o.	247 65 651	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
NIDALEE HOLDING LIMITED	HE 310 150	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		KARMION HOLDINGS LIMITED FIGERA LIMITED
O2 Czech Republic a.s.	60193336	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Arena 2 B.V. PPF A3 B.V.
Office Star Eight a.s.	27639177	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED
Office Star Five, spol. s r.o.	27639185	Czech Republic	Person controlled by the same controlling person through an ownership interest		TENACITY LIMITED
Office Star Nine, spol. s r. o.	27904385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF PROPERTY LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Office Star Two, spol. s r.o.	27639169	Czech Republic	Person controlled by the same controlling person through an ownership interest		TENACITY LIMITED
OJSC Home Credit Bank	807000056	Belarus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
ORIBASE Pharma SAS	499 824 670	Francie	Person controlled by the same controlling person through an ownership interest		PPF Capital Partners Fund B.V.
PACHATA LIMITED	HE 188 914	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Pharma Consulting Group Ltd.	34529634	Ukraine	Person controlled by the same controlling person through an ownership interest		HOPAR LIMITED FIGERA LIMITED
Pompenburg (Rotterdam) B.V.	58163506	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
PPF a.s.	25099345	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF A3 B.V.	61684201	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF A4 B.V.	63365391	Netherlands	Person controlled by the same controlling person through an ownership interest	From 22 May 2015	PPF Group N.V.
PPF Advisory (CR) a.s.	25792385	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF ADVISORY (RUSSIA) LIMITED	HE 276 979	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Advisory (UK) Limited	5539859	United Kingdom of Great Britain and Northern Ireland	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF ADVISORY (UKRAINE) LIMITED	HE 162 172	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Arena 1 B.V.	59009187	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Arena 2 B.V.	59029765	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Arena 1 B.V.
PPF Art a.s.	63080672	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF banka a.s.	47116129	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Financial Holding B.V.
PPF Capital Partners Fund B.V.	55003982	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF CO 1 B.V.	34275402	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF CO 2 B.V.	34275486	Netherlands	Person controlled by the same controlling person through an ownership interest	Until 31 December 2015	PPF Group N.V.
PPF CO 3 B.V.	34360935	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Financial Consulting s.r.o.	24225657	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
PPF Financial Holdings B.V.	61880353	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF FO Management B.V.	34186296	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Holdings S.á r.l.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF GATE a.s.	27654524	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Group N.V.	33264887	Netherlands	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner PPF Holdings B.V.
PPF Healthcare N.V.	34308251	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF Holdings B.V	34186294	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Holdings S.á r.l.
PPF Holdings S.á r.l.	B 186335	Luxembourg	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
PPF HOME CREDIT IFN S.A.	23668948	Romania	Person controlled by the same controlling person through an ownership interest	Until 22 October 2015	Home Credit B.V.
PPF Partners 1 GP Limited	49291	Guernsey	Person controlled by the same controlling person through an ownership interest		PPF Partners Limited
PPF Partners a.s. v likvidaci	28515064	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF Partners Limited	49292	Guernsey	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF PROPERTY LIMITED	HE 189 164	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC. FIGERA LIMITED
PPF Real Estate Holding B.V.	34276162	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF REAL ESTATE LIMITED	HE 188 089	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF Real Estate s.r.o.	27638987	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF reality a.s.	29030072	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
PPF RUSSIA LIMITED	HE 172 467	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
PPF SECRETARIAL LIMITED	HE 340 708	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	From 12 February 2015	PPF SERVICES LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
PPF SERVICES LIMITED	HE 92432	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Prague Entertainment Group B.V.	63600757	Netherlands	Person controlled by the same controlling person through an ownership interest	From 26 July 2015	PPF Group N.V.
PT Home Credit Indonesia	03.193.870.7-021.000	Republic of Indonesia	Person controlled by the same controlling person through an ownership interest		Home Credit Indonesia B.V.
Public Picture & Marketing a.s.	25667254	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF a.s.
RAVENSBOURNE LIMITED	HE 188 284	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Real Estate Russia B.V.	63458373	Netherlands	Person controlled by the same controlling person through an ownership interest	From 5 June 2015	PPF Real Estate Holding B.V.
REDLIONE LIMITED	HE 178 059	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
REPIENO LIMITED	HE 282 866	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. GLANCUS INVESTMENTS INC.

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
Retail Star 22, spol. s r.o.	24132161	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
Retail Star 3, spol. s r.o.	24120031	Czech Republic	Person controlled by the same controlling person through an ownership interest	Until 23 September 2015	PPF Real Estate Holding B.V.
RHASKOS FINANCE LIMITED	HE 316 591	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
RobbyNet s.r.o.	014 08 437	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Ruconfin B.V.	55391176	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF banka a.s.
RYAZAN INVESTORS COMPANY LIMITED	HE 180 968	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		GLANCUS INVESTMENTS INC.
RYAZAN SHOPPING MALL LIMITED	HE 180 951	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		RYAZAN INVESTORS COMPANY LIMITED
Saint World Limited	1065677	Hong Kong	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
SALEMONTO LIMITED	HE 161 006	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		BORACORA LIMITED
JSC Bank Home Credit	513-1900-AO (UI)	Kazakhstan	Person controlled by the same controlling person through an ownership interest		LLC Home Credit & Finance Bank
SEPTUS HOLDING LIMITED	HE 316 585	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
Settembre Holdings Limited	1449898	British Virgin Islands	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
Seven Assets Holding B.V.	58163050	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Shenzhen Home Credit Financial Service Co., Ltd.	79663852-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Favour Ocean Limited
Shenzhen Home Credit Number One Consulting Co., Ltd.	66417425-7	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited
Sichuan Home Credit Financing Guarantee Co., Ltd.	66046758-9	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Home Credit Asia Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
SILINE CONSULTING LIMITED	HE 281 961	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
SILLERUD LIMITED	HE 224 392	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited
Slovak Trade Company, s.r.o.	36659 061	Slovak Republic	Person controlled by the same controlling person through an ownership interest		SILINE CONSULTING LIMITED
SOTIO a.s.	24662623	Czech Republic	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
Sotio Medical Research (Beijing) Co. Ltd	1100004102 83022	People's Republic of China	Person controlled by the same controlling person through an ownership interest		Sotio N.V.
Sotio N.V.	34302290	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
Standish Holdings Ltd.	1870560	British Virgin Islands	Person controlled by the same controlling person through an ownership interest	From 28 April 2015	PPF Real Estate Holding B.V.
STEPHOLD LIMITED	HE 221 908	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
STINCTUM HOLDINGS LIMITED	HE 177 110	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		SALEMONTO LIMITED
SUNDOWN FARMS LIMITED	HE 310 721	Republic of Cyprus	Person controlled by the same controlling person acting in concert through an ownership interest		Vixon Resources Limited Chelton Properties Limited
Sundown s.r.o.	242 60 479	Czech Republic	Person controlled by the same controlling person acting in concert through an ownership interest		SUNDOWN FARMS LIMITED
SYLANDER CAPITAL LIMITED	HE 316 597	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
TALPA ESTERO LIMITED	HE 316 502	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Home Credit B.V.
TANAINA HOLDINGS LIMITED	HE 318 484	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		TOLESTO LIMITED
TANFORD LIMITED	HE 167 324	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Ing. Petr Kellner
TAPADEO LIMITED	HE 341 777	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	From 15 April 2015	KARMION HOLDINGS LIMITED FIGERA LIMITED

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
TELISTAN LIMITED	HE 341 864	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	From 24 March 2015	Eastern Properties B.V.
TENACITY LIMITED	HE 180 866	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
TIMEWORTH HOLDINGS LTD.	HE 187 475	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
TOLESTO LIMITED	HE 322 834	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V. FIGERA LIMITED
Trigon Berlin B.V.	55440916	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Trigon II B.V.	56068948	Netherlands	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
TROMSON ENTERPRISES LIMITED	233665	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		PPF Group N.V.
UNDERTREA HOLDINGS LIMITED	HE 221 285	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited

Company	ID/Reg.no.	Incorporated in	Method and means of control	Note	Interest through
UNILEAVE LIMITED	HE 179 204	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		ANTHIAROSE LIMITED
VALMARIE HOLDINGS LIMITED	HE 300 697	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Corvus Services Limited
VELTHEMIA LIMITED	HE 282 891	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		REPIENO LIMITED
Vítězné náměstí a.s.	28511441	Czech Republic	Person controlled by the same controlling person through an ownership interest		PPF Real Estate Holding B.V.
Vixon Resources Limited	144 18 84	British Virgin Islands	Person controlled by the same controlling person acting in concert through an ownership interest		Ing. Petr Kellner (jednáním ve shodě)
WAIPA ENTERPRISES LIMITED	HE 213 047	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest	Until 1 December 2015	PPF Real Estate Holding B.V.
Wilhelminaplein (Rotterdam) B.V.	59494034	Netherlands	Person controlled by the same controlling person through an ownership interest		Seven Assets Holding B.V.
WOODBERRY LIMITED	HE 181 999	Republic of Cyprus	Person controlled by the same controlling person through an ownership interest		Celestial Holdings Group Limited