Česká telekomunikační infrastruktura a.s.

Consolidated Half-Yearly Report 2017

Contents

Note:

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

Business overview

Factors affecting business activities and results in the first half of 2017

Telecommunications market in the Czech Republic

The telecommunications market was stabilised in the first half of 2017. The consolidation of mobile networks of CETIN and T-Mobile Czech Republic a.s. continued progressing and the LTE signal coverage has been extended to almost 98% of the population. An auction for 3.7 GHz mobile network bands took place, with four operators gaining spectrum, while 1 800 MHz and 2 600 MHz frequencies have been refarmed between the existing operators. CETIN continued increasing the speed of its fixed network connections, offering up to 250 Mbps access since May 2017.

Development of regulation and associated legislation

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

In the first half of 2017, the CTO concluded the analyses of relevant markets for wholesale services with local access at a fixed location and services with central access at a fixed location for mass-market products and the analysis of the market for wholesale high quality access provided at a fixed location. These analyses have been notified with the European Commission. The Company remains designated as having significant market power.

The Act on reduction of costs of deploying high-speed electronic communications networks was adopted in June 2016. The act transposes the Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks, which is aimed at facilitating the sharing of the existing physical network architecture among electronic communications networks operators and the construction of new infrastructure. The act is effective as of the end of July 2017.

At the European level, a set of directives and regulations to review the regulatory framework for electronic communications continued being discussed. The proposal consolidates several applicable directives with the goal to promote competitive environment and encourage investment in electronic communications. Furthermore, it proposes establishing BEREC as a separate European regulatory agency for electronic communications.

State policy and support of high-speed Internet access

At the end of March 2017, the Ministry of Industry and Trade of the Czech Republic issued a first call of the programme of subsidies for deploying high-speed networks in areas that currently have no high-speed access to the Internet. This is part of the Operational Programme Enterprise and Innovations for Competitiveness that is financed by European Union structural funds.

In May 2017, the government approved an Action plan of measures facilitating the planning and construction of electronic communications networks, which aims to remove administrative and financial barriers to the construction of high-speed communications networks.

Business activities of the Company

CETIN Group comprises Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, and CETIN Finance B.V. CETIN does not operate a branch or other part of business establishment abroad. On 11 May 2017 was incorporated a subsidiary CETIN služby s.r.o. (company registration number 06095577). A predominant share of Company's services in 2016 was provided through communications networks and related assets in the Czech Republic. The subsidiaries in Germany and Austria allow the Company to operate its point of presence abroad for provision of international transit services to foreign operators. The subsidiary CETIN Finance B.V., based in the Netherlands, was used to issue Eurobonds and secure funding for the Company.

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

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

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

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

The Company's revenues and profits in the first half of 2017 were mainly generated from three major contracts with O2 Czech Republic a.s.: a contract on the provision of mobile network services, a contract on access to the public fixed-line telecommunication network, and a contract on the provision of data centre services. The contracts represent a long-term obligation on the part of O2 Czech Republic a.s. to use the Company's services and the commitment of the Company to the agreed service levels and their improvement.

Commented financial results

This section provides comments on the financial results of CETIN Group in the first half of 2017. For detailed information, see the Interim consolidated Financial Statements for the financial year ended on 30 June 2017 in the following sections of this Half-yearly Report.

Revenues, costs and profit

The total revenues of the CETIN Group amounted to CZK 10.3 billion in the first half of 2017. Total operating costs reported by CETIN Group were CZK 6.4 billion, with the major part represented by cost of sales in the international transit segment. CETIN Group reported a total of CZK 0.5 billion of payroll costs. Other significant cost items were the property leases, maintenance and operation and network operating and maintenance expenses.

The operating profit before impairment loss, interest, tax, depreciation and amortization (EBITDA) amounted to CZK 3.9 billion in the first half of 2017, with the predominant part of the profit coming from the national network services segment. CETIN Group's profit after tax amounted to CZK 1.4 billion in the first half of 2017.

Fixed tangible assets

Reduced by depreciation and other adjustments during the year, the net value of land, buildings and equipment required for the operations of the Company was CZK 48.6 billion as of 30 June 2017.

Cash and debt

On 6 December 2016, CETIN's subsidiary, CETIN Finance B.V. issued Eurobonds in the total amount of CZK 7.9 billion and EUR 625 million, with maturities of 1 year (CZK 3 billion), 5 years (EUR 625 million), and 7 years (CZK 4.9 billion). The foreign exchange risk of the Eurobonds is hedged using derivatives.

On 13 June 2017 the Company has obtained a revolving credit line in the total amount of CZK 675 million, that is available in case of temporary and short-term cash needs.

Profit distribution and other payments to shareholders

The General Meeting held on 8 June 2017 decided on the distribution of the available part of the unconsolidated profit of the Company for 2016. The contribution to the social fund was CZK 3.4 million and the dividend was CZK 143.5 million. The General Meeting further decided on the distribution of the dividend of CZK 113.5 million of retained earnings from previous years. The dividends were paid on 14 June 2017.

Capital expenditure

In the first half of 2017, CETIN Group acquired fixed assets in the amount of CZK 1.6 billion. These investments were mainly channelled into the development of the telecommunication infrastructure. The main investment projects included the continued modernisation of the fixed-line network with FTTC technology, deployment of the 4G/LTE mobile network, and consolidation of existing 2G/3G mobile networks in a network shared with T-Mobile Czech Republic a.s.

Cash flows

The net cash flow from operating activities of CETIN Group amounted to CZK 3.1 billion in the first half of 2017. The cash flows used in investment activities amounted to CZK 1.0 billion, mainly comprising investments in network infrastructure development of CZK 1.7 billion and income from sale of buildings of CZK 0.7 billion. The cash flows used in financing activities consisted of the dividend payments of CZK 0.3 billion and outlays of CZK 0.3 billion related to hedging of Eurobonds foreign exchange risk.

In total, the net cash position of CETIN Group in the first half of 2017 has increased by CZK 1.5 billion, banked in term deposits. The cash flows from CETIN Group's operating activities of CZK 3.9 billion were thus used for investment in the telecommunications infrastructure development and for cash accumulation with regard to the Eurobonds due in December 2017.

Outlook for the forthcoming period

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

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

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

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

Statement by the persons responsible for the half-yearly report

Petr Slováček, Vice-chairman of the Board of Directors of Česká telekomunikační infrastruktura a.s.

and

Michal Frankl, member of the Board of Directors of Česká telekomunikační infrastruktura a.s.

hereby state that, to the best of their knowledge, the consolidated half-yearly report gives a true and fair view of the financial situation, business and the results of the Company and the undertakings included in the consolidation as a whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

Petr Slováček

Vice-chairman of the Board of Directors

Michal Frankl

member of the Board of Directors

Appendix:

Interim consolidated financial statements

Česká telekomunikační infrastruktura a.s.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARD IAS 34 INTERIM FINANCIAL REPORTING

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CONSOLIDATED STATEMEMT OF TOTAL COMPREHENSIVE INCOME

In CZK million	**Note**	**For the period ended**	
		30 June 2017	**30 June 2016**
Revenues		10,173	10,078
Other income from non-telecommunication services		92	103
Expenses		(6,379)	(6,272)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**3,886**	**3,909**
Depreciation and amortisation		(2,061)	(2,094)
Impairment loss		(23)	-
Operating profit (*EBIT*)		**1,802**	**1,815**
Finance income		84	280
Finance costs		(155)	(197)
Profit before tax		1,731	1,898
Corporate income tax	5	(349)	(379)
Profit for the period		**1,382**	**1,519**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation differences		(1)	-
Gains / (losses) on valuation differences from cash flow hedges	13	158	-
Related deferred tax		(29)	-
Other comprehensive income, net of tax		**128**	**-**
Total comprehensive income, net of tax		**1,510**	**1,519**
Profit attributable to:			
Equity holders of the Company		1,382	1,519
Total comprehensive income attributable to:			
Equity holders of the Company		1,510	1,519

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In CZK million	Note	As at 30 June 2017	As at 31 December 2016
ASSETS			
Property, plant and equipment	7	48,634	49,092
Intangible assets	8	1,299	1,341
Other assets	10	451	129
Non-current assets		**50,384**	**50,562**
Inventories	9	36	42
Receivables, including derivative	10	3,072	3,148
Income tax receivable		416	-
Short term deposits in the bank	13	1,500	-
Cash and cash equivalents	11	406	378
Current assets		**5,430**	**3,568**
Non-current assets held for sale		**12**	**681**
Total assets		**55,826**	**54,811**
EQUITY AND LIABILITIES			
Share capital		3,102	3,102
Reserves	13	107	(21)
Other funds		14,620	14,620
Retained earnings		1,388	263
Total equity		**19,217**	**17,964**
Long-term financial debts	13	21,132	21,635
Deferred tax liability		5,963	5,955
Non-current provisions for liabilities and charges	14	308	317
Non-current other liabilities, including derivative	12	1,432	976
Non-current liabilities		**28,835**	**28,883**
Short-term financial debts	13	3,167	3,016
Trade and other payables	12	4,514	4,823
Income tax liability		1	59
Provisions for liabilities and charges	14	92	66
Current liabilities		**7,774**	**7,964**
Total liabilities		**36,609**	**36,847**
Total equity and liabilities		**55,826**	**54,811**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2017

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2017		**3,102**	**(1)**	**(20)**	**14,620**	**-**	**263**	**17,964**
Profit for the period		-	-	-	-	-	1,382	**1,382**
Other comprehensive income		-	(1)	129	-	-	-	**128**
Total comprehensive income		**-**	**(1)**	**129**	**-**	**-**	**1,382**	**1,510**
Dividends paid		-	-	-	-	-	(257)	**(257)**
As at 30 June 2017		**3,102**	**(2)**	**109**	**14,620**	**-**	**1,388**	**19,217**

For the period ended 30 June 2016

V CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Reserve fund to Financial assistance	Retained earnings	Total
As at 1 January 2016		**3,102**	**(1)**	**-**	**10,779**	**32,200**	**1,945**	**48,025**
Profit for the period		-	-	-	-	-	1,519	**1,519**
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**1,519**	**1,519**
Transfers		-	-	-	-	-		
Dividends paid		-	-	-	-	-	(1,830)	**(1,830)**
Distribution of other capital funds		-	-	-	(11,481)	-	-	**(11,481)**
Interim dividends		-	-	-	-	-	-	-
As at 30 June 2016		**3,102**	**(1)**	**-**	**(702)**	**32,200**	**1,634**	**36,233**

CONSOLIDATED STATEMENT OF CASH FLOWS

In CZK million	Note	For the period ended 30 June 2017	30 June 2016
Profit for the year		1,382	1,519
Non-cash adjustments for:			
Depreciation and amortisation		2,061	2,094
Impairment loss		23	-
Profit on sale of property, plant and equipment		(31)	(25)
Net finance revenues		155	(94)
Foreign exchange losses (net)		(83)	4
Other non-cash adjustments		6	25
Tax expense		349	379
Operating cash flow before working capital changes		**3,862**	**3,902**
Working capital adjustments:			
Change in trade and other receivables		(28)	(176)
Change in inventories		6	24
Change in trade and other payables		42	(219)
Change in provisions		17	66
Cash flows from operating activities		**3,899**	**3,597**
Income tax paid		(836)	(380)
Net cash flow from operating activities		**3,063**	**3,217**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(1,685)	(1,454)
Proceeds from sales of property, plant and equipment and intangible assets		693	44
Net cash used in investing activities		**(992)**	**(1,410)**
Cash flows from financing activities			
Interest paid		-	(306)
Interest received		-	283
Costs related to the issue of bonds		(55)	-
Repayments of loans		-	-
Grant/Repayment of loan		-	(1,150)
Bonds Issue		-	-
Net proceeds from settlement of derivatives		4	-
Cash collateral placed due to derivatives transactions	10	(235)	-
Distribution of other capital funds paid		-	-
Short term deposits	13	(1,500)	-
Dividends paid	6	(257)	-
Net cash used in financing activities		**(2,043)**	**(1,173)**
Net increase in cash and cash equivalents	11	**28**	**634**
Cash and cash equivalents at beginning of year		378	656
Cash and cash equivalents at the period end	11	**406**	**1,290**

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The Company has the form of a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Olšanská 2681/6, Praha 3, 130 00, Czech Republic.

The majority shareholder of the Company as at 30 June 2017 is PPF Infrastructure B.V. (part of the PPF Group).

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

The interim consolidated financial statements are not audited.

2. BASIS OF PREPARATION

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2016.

They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

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

Use of estimates, assumptions and judgements

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

Significant estimates and judgements made by the Group in accordance with application of Group's accounting policies are consistent with estimates and assumptions used for annual consolidated financial statements for the year ended 31 December 2016.

Seasonality

There is no seasonality in telecommunication segment. The Group´s telecommunication business is not considered seasonal.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim consolidated financial statements are consistent with all principles used for the annual financial statements for the year ended 31 December 2016, except for the reclassification of own work capitalised described below.

The accounting policy for reporting income tax during the accounting period is described in Note 5.

As of 1 January 2017, the Group started to report the own work capitalised (salary costs) as an item decreasing expenses in the statement of comprehensive income for a more faithful presentation of the Group's revenues and expenses. In accordance with IAS 8, the Group reclassified some items in the statement of comprehensive income for the comparable period.

The table below shows changes in the individual lines of the statement of comprehensive income which were reclassified (the affected items only).

In CZK million	**The period ended 30 June 2017 (before change)**	**Reclassification**	**The period ended 30 June 2017 (after change)**
Other income from non-telecommunication services	311	(208)	103
Expenses	(6,480)	208	(6,272)
Total	-	-	-

New IFRS not effective as at 30 June 2017 (includes standards applicable to the Group)

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

IFRS 9 - Financial instruments

During the year 2014 standard IFRS 9 was amended, which consists requirements for:

I. classification and measurement of financial assets and financial liabilities,
II. impairment methodology and
III. hedge accounting.

As at 1 January 2018, effective date, the original IAS 39 Financial Instruments: Recognition and Measurement will be replaced.

In terms of classification and valuation, the number of financial asset categories was reduced compared to IAS 39, and all reported financial assets are subsequently measured at amortised cost or fair value under IFRS 9.

Although the Group cannot estimate what financial instruments it will hold in the future, the Group does not expect any impact on the classification or measurement of financial assets and financial liabilities when applying to the current position as at 30 June 2017.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model. In general, entities account for either the 12-month expected credit losses or the expected credit losses over the lifetime depending on whether there has been a significant increase in credit risk since initial accounting (simplified approach). The Group expects to use a simplified approach to report expected credit losses over the lifetime for its trade receivables. However, it does not expect a significant impact on the amount of trade receivables impairment losses in the statement of comprehensive income.

The hedge accounting requirements have been changed to closely align accounting with risk management. The Standard permits the entity to choose between the application of IFRS 9 to hedge accounting and the continued application of IAS 39 to all hedging relationships, as macroeconomic accounting is not solved in the current form of the Standard. The Group expects that the application of IFRS 9 to hedge accounting will have no impact on the Group's current hedging relationship.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework that regulates the accounting/revenue recognition and thus supersedes IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The purpose is to create a common revenue standard for all industries, thus defining the requirements for revenue recognition from contracts with customers.

The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a five-step model.

The Group is still in the process of quantifying the implications of this standard, however expects the following areas of impact:

I. Financial component

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

Currently, the Group recognises the part of installation fees associated with network construction as a deferred revenue over the contract duration. Because these are long-term contracts and installation fees are paid by the customer at the beginning of the contractual period when the service is promised, the time value of the money must be reflected. The financial component of such transactions will be reflected by using the interest rate derived from the theoretical curve which would show how much the Group would borrow on the bond market.

II. Costs of obtaining a contract

Sales commissions and other third party acquisition costs resulting directly from securing contracts with customers are currently expensed when incurred. IFRS 15 will require these costs of acquiring contracts to be recognised as an asset when incurred, to be expensed over the associated contract period. Now, the Group identifies one group of rewards for concluding a new contract. We expect the total amount of such rewards to be immaterial.

III. Transition

The Group expects minor changes from the transition to IFRS 15, so it applies either a cumulative or a retrospective method with practical exceptions. The Group continues to carry out a detailed assessment of the impact of IFRS 15 and expects to present additional financial statements before the application of IFRS 15.

IFRS 16 – Leases

The new standard IFRS 16 Leases replaces all existing IFRS leases requirements for both leases and lessors.

IFRS 16 introduces an integrated accounting standard for leases accounting from the lessee's point of view, both for operating and financial leases. Based on new standard requirements, the lessee must recognise long term asset (right of use), which results from the possibility to use leased asset and liability representing the obligation to pay for lease. The Standard contains exceptions for short term leases and low value leases. From the lessor´s point of view the Standard does not contain fundamental changes compared to the current version. It continues to report operational and financial leasing.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16.

The Group is currently assessing concrete impacts of the new standard. Because the Group has a significant position as a lessee (especially the leasing of sites for telecommunication technology and non-residential premises) so it expect a significant impact in the form of an increase in lease commitments and approximately the same increase in fixed assets associated with the capitalization of rights to use the leased property in the statement of financial position.

Increase in lease liabilities will lead to a corresponding increase in net debt.

Going forward depreciation and interest expenses are recognised instead of costs for long-term leases in the statement of comprehensive income. It will lead in improvement of EBITDA.

The Company plans to adopt the new standard on the required effective date.

4. SEGMENT INFORMATION

The Group recognises two main operating segments:

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

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

I. The nature of the international transit business is fundamentally different from the core business of the Group. In the case of the core business, the Company is selling services of its own network infrastructure in the Czech wholesale telecommunication market. In the case of the international transit business, the Group acts as an intermediary between international operators, earning a small margin on the difference between the units of traffic purchased and sold.

II. The financial risk exposure of the international transit business is significantly lower compared to the core business of the Group. The impact of the potential impairment of carrying value of assets related to the international transit business is marginal as the international transit business is capital light.

III. Discrete financial information is available for the international transit business and the management assesses its performance and makes decisions about the resources to be allocated to this segment separately, with no impact on the core business of the Group.

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

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

Period ended 30 June 2017	Domestic services	International transit	Total reportable segments	Reconciling items	Group
In CZK million					
Revenues	5,779	4,394	10,173	-	10,173
Other income from non-telecommunication services	-	-	-	92	92
Total costs	(2,074)	(4,213)	(6,287)	(92)	(6,379)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**3,705**	**181**	**3,886**	**-**	**3,886**
Total depreciation and amortization	(2,034)	(27)	(2,061)	-	(2,061)
Impairment charge	(23)	-	(23)	-	(23)
Operating income (EBIT)	**1,648**	**154**	**1,802**	**-**	**1,802**
Net financial income					(71)
Profit before tax					1,731
Corporate income tax					(349)
Profit for the period					**1,382**
Capital expenditure (Fixed assets additions)	**1,577**	**4**	**1,581**	**-**	**1,581**
As at 30 June 2017					
Total assets	**54,335**	**1,491**	**55,826**	**-**	**55,826**
Trade and other payables	3,194	1,320	4,514	-	4,514
Other liabilities	32,095	-	32,095	-	32,095
Total liabilities	**35,289**	**1,320**	**36,609**	**-**	**36,609**

Period ended 30 June 2016	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Group**
In CZK million					
Revenues	5,817	4,261	10,078	-	10,078
Other income from non-telecommunication services	-	-	-	103	103
Total costs	(2,086)	(4,083)	(6,169)	(103)	(6,272)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**3,730**	**179**	**3,909**	**-**	**3,909**
Total depreciation and amortization	(2,067)	(27)	(2,094)	-	(2,094)
Impairment charge	-	-	-	-	-
Operating income (EBIT)	**1,663**	**152**	**1,815**	**-**	**1,815**
Net financial income					83
Profit before tax					1,898
Corporate income tax					(379)
Profit for the period					**1,519**
Capital expenditure (Fixed assets additions)	**1,288**	**11**	**1,299**	**-**	**1,299**
As at 31 December 2017					
Total assets	**53,532**	**1,279**	**54,811**	**-**	**54,811**
Trade and other payables	4,006	817	4,823	-	4,823
Other liabilities	32,024	-	32,024	-	32,024
Total liabilities	**36,030**	**817**	**36,847**	**-**	**36,847**

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

Revenues from one customer from segment Domestic services and International transit represent more than 10% of Group's revenues. For the period ended 30 June 2017 these revenues are CZK 5,123 million (30 June 2016: CZK 5,205 million).

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

Revenues **In CZK million**	**Period ended** **30 June 2017**	**Period ended** **30 June 2016**
Czech Republic	6,144	6,089
Germany	1,171	1,437
Slovakia	363	314
Other EU countries	1,047	1,074
Switzerland	917	844
Other Non-EU countries	531	320
Total revenues	**10,173**	**10,078**

5. INCOME TAX

In CZK million	**Period ended** **30 June 2017**	**Period ended** **30 June 2016**
Total income tax expense is made up of:		
Current income tax charge	371	451
Deferred income tax credit	(22)	(72)
Income Tax	349	379

Deferred tax was calculated at a 19% tax rate (valid for Czech Republic) as at 30 June 2017 and 30 June 2016.

6. DIVIDEND DISTRIBUTION

In CZK million	**The period ended** **30 June 2017**	**The period ended** **30 June 2016**
Dividends from the profit (approved)	257	1,830
Distribution of other capital funds (approved)	-	11,481
	257	13,311

Approval of 2016 profit and the dividend distribution was made at the General Meeting, held on 8 June 2017 (for 2015 profit: 30 June 2016).

7. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2017 the Group acquired property, plant and equipment in the amount of CZK 1 434 million (for the period ended 30 June 2016: CZK 1 122 million) and disposed assets in residual value CZK 678 million (for the period ended 30 June 2016: CZK 8 million).

Part of the disposed assets was the building of the Company's Head Office, which was recognised as an asset held for sale in the consolidated statement of financial position as at 31 December 2016.

8. INTANGIBLE ASSETS

During the period ended 30 June 2017 the Group acquired intangible assets in the amount of CZK 147 million (for the period ended 30 June 2016: CZK 167 million) and disposed assets in residual value CZK 0 million (for the period ended 30 June 2016: CZK 0 million).

During the period ended 30 June 2017 the Group reported impairment of assets in the amount of CZK 23 million (for the period ended 30 June 2016: CZK 0 million).The impairment loss relates mainly to intangible assets that the Group identified as unnecessary in connection with the ongoing implementation of the new ERP.

9. INVENTORIES

As at 30 June 2017 the Group recognised inventories impairment provision in amount of CZK 7 million (as at 31 December 2016: CZK 12 million).

10. RECEIVABLES AND OTHER ASSETS

In CZK million	**30 June 2017**	**31 December 2016**
Trade receivables from third parties (net)	1,595	1,640
Receivables with related parties (Note 17)	1,115	1,117
Prepayments	191	94
Tax receivables for indirect taxes	107	124
Derivative financial assets	-	10
Advance payments	122	123
Cash collateral placed due to derivatives transactions (Note 13)	390	155
Other debtors (net)	3	14
Total receivables and other assets	**3,523**	**3,277**

Trade receivables and other debtors are stated net of bad debt provision of CZK 34 million (31 December 2016: CZK 29 million).

Receivables from related parties are disclosed in Note 17.

Cash collateral placed represents the one – side collateral of derivative transactions of the Group, see Note 12. Cash collateral placed results from Group’s obligation to place the cash collateral to the derivative transaction counterparty and for the period of the derivative transaction, where the amount of collateral is calculated from nominal and fair value of the financial derivative. Amount of collateral placed is regularly updated.

11. CASH AND CASH EQUIVALENTS

In CZK million	30 June 2017	31 December 2016
Cash at bank accounts and other cash equivalents	59	113
Cash at bank accounts and other cash equivalents (inter-company)	338	265
Others	9	-
Total cash and cash equivalents	**406**	**378**

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 40 million (31 December 2016: CZK 43 million). These are partnerships with other business parties founded for a specific purpose, where the Group is in a leading role.

As at 30 June 2017, the Group had available committed undrown credit line in amount of CZK 500 million (as at 31 December 2016: CZK 0 million) and uncommitted undrown credit line in amount of CZK 125 million (as at 31 December 2016: CZK 0 million).

12. TRADE AND OTHER PAYABLES

In CZK million	30 June 2017	31 December 2016
Trade creditors	4,148	4,456
VAT, other taxes and social security liability	77	78
Other deferred revenue	123	98
Employee wages and benefits	159	168
Other creditors	7	23
Trade and other payables - current	**4,514**	**4,823**
Financial derivatives	292	24
Other deferred revenue - non-current	1,140	952
Other non-current liabilities, including derivative	**1,432**	**976**

Payables to related parties are disclosed in Note 17.

Other non-current liabilities were made up primarily of deferred revenues from installation fees related to optical fibre long-term rentals.

13. FINANCIAL ASSETS AND LIABILITIES

Short term deposits in the bank

Since 2017 the Group deposits available cash in short term deposits in the bank in accordance the with expected cash needs of the Group.

In CZK million			**30 June 2017**	
Date of deposit	Maturity	Currency	Nominal value	Net carrying value
14 June 2017	29 November 2017	CZK	500	500
14 June 2017	29 November 2017	CZK	500	500
14 June 2017	29 November 2017	CZK	300	300
14 June 2017	29 November 2017	CZK	200	200
Total			**1,500**	**1,500**

Bonds Issued

In CZK million				**30 June 2017**	
Date of issue	Maturity	ISIN	Currency	Nominal value	Net carrying value
6 December 2016	6 December 2017	XS1529936251	CZK	3,000	3,001
6 December 2016	6 December 2021	XS1529934801	EUR	16,372	16,445
6 December 2016	6 December 2023	XS1529936335	CZK	4,866	4,853
Total				**24,238**	**24,299**

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

Hedge accounting

The Group applies hedge accounting upon a cash flow hedges since December 2016.

Gains and Losses from revaluation arising from Cash Flow Hedges

In CZK million	**2017**
The fair value of the effective part of cash flow hedges at 1 January	(24)
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	4
Total balance at 1 January	**(20)**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period	
Cross currency swap	(284)
Accumulated net profit/(loss) arising from cash flow hedges for the period recognised through profit or loss	
Cross currency swap	442
Tax effect of cash flow hedges for the period	(30)
The fair value of the effective part of cash flow hedges at 30 June	134
Deferred tax asset/(liability) arising from revaluation gains and losses at 30 June	(26)
Total balance at 30 June	**108**

Fair values of financial instruments

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

In CZK million	**30 June 2017**					
	Level 1	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**	**Difference**
Financial assets						
Cash and cash equivalents	-	-	406	406	406	-
Term deposits	-	-	1,500	1,500	1,500	-
Receivables (excluding derivatives)	-	-	3,294	3,294	3,294	-
Other financial assets	-	-	451	451	451	-
Financial liabilities						
Bonds (incl. accruals)	-	24,611	-	24,611	24,299	312
Trade and other payables	-	-	4,514	4,514	4,514	-

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

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

Financial instruments in fair value

In CZK million	**Fair value As at 30 June 2017**			**Fair value As at 31 December 2016**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Positive fair values of financial derivative instruments	-	-	-	-	10	-
						-
Negative fair values of financial derivative instruments	-	292	-	-	24	-

The fair value of financial derivative instruments has been calculated by discounting the expected future cash flows using common market interest rates as at 30 June 2017 and 31 December 2016.

14. PROVISIONS

In CZK million	Asset retirement obligation	Other provisions	Total
As at 1 January 2017	226	157	383
Additions during the year	-	34	34
Utilised during the year	(9)	(8)	(17)
Change in estimate	-	-	-
As at 30 June 2017	**217**	**183**	**400**
As at 1 January 2016	229	8	237
Additions during the year	4	72	76
Utilised during the year	(2)	(8)	(10)
Change in estimate	-	-	-
As at 30 June 2016	**231**	**72**	**303**

In CZK million	Asset retirement obligation	Other provisions	Total
As at 30 June 2017			
Short-term provisions	29	63	92
Long-term provisions	188	120	318
	217	**183**	**400**
As at 31 December 2016			
Short-term provisions	29	37	66
Long-term provisions	197	120	317
	226	**157**	**383**

The Group recognised a provision for estimated cost of dismantling and removing assets and restoring sites of CZK 217 million (31 December 2016: CZK 226 million). Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future decommissioning of assets.

Other provisions include a provision for redundancy cost of CZK 26 million (31 December 2016: CZK 31 million). Other provisions for which the expected timing of payments is not certain are expected to be utilised within the next twelve months from the balance sheet date.

14. CONTINGENT LIABILITIES

In October 2016, the European Commission (EC) initiated a formal phase of an investigation in respect of Network sharing agreement between O2 Czech Republic, the Company and T-Mobile Czech Republic. Its objective is to review if the mutual cooperation does not harm free business competition in the Czech market and so there are no obstructions to innovations in contrary to EU antitrust rules. The Company fully cooperates with EC during the investigation and there is no specific conclusion from EC about free business competition rules violation as at interim consolidated financial statement date.

15. COMMITMENTS

Capital expenditure contracted but not yet recognised in the financial statements as at 30 June 2017 amounted to CZK 532 million (31 December 2016: CZK 544 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

16. RELATED PARTY TRANSACTIONS

The Group is 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 Group's reach spans from Europe to Russia, the USA and across Asia.

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

The following transactions were carried out with related parties:

a) Transactions with related parties

	Volume of mutual transactions		Assets/Liabilities as at	
In CZK million	**Period ended 30 June 2017**	**Period ended 30 June 2016**	**30 June 2017**	**31 December 2016**
Sale of services				
Other companies in PPF Group	5,194	5,299	1,115	1,272
of which: O2 Czech Republic a.s.	5,123	5,205	1,097	1,096
Purchase of services				
Other companies in PPF Group	231	213	193	246
of which: O2 Czech Republic a.s.	118	123	162	170
Loans provided including interest – financial assistance				
Shareholders of the Company	-	281	-	-
Positive fair value of derivatives				
Other companies in PPF Group	-	-	-	10
Negative fair value of derivatives				
Other companies in PPF Group	-	-	292	24
Nominal value of derivatives				
Other companies in PPF Group	-	-	14,429	15,627
Cash equivalents				
Other companies in PPF Group	-	-	338	262
Short-term deposits				
Other companies in PPF Group	-	-	1,500	-

Receivables and payables relating to the sale and purchase of goods and services are included in trade receivables and payables described in Note 10 and 12.

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

For the period ended 30 June 2017, capital expenditures from related parties amounted to CZK 2 million (30 June 2016: CZK 8 million).

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

	Period ended 30 June 2017	Period ended 30 June 2016
Remuneration in CZK million		
Board of directors	10	10
Supervisory board	-	-
Key management	16	16
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	9	9

No loans were provided to members of the Board of Directors and Supervisory Board as at 30 June 2017 and 30 June 2016.

16. SUBSIDIARIES

As at 30 June 2017

	Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	CETIN Finance B.V.	100%	68	Netherlands	Financial services	Full consolidation
4.	CETIN služby s.r.o.	100%	*-	Czech Republic	Other services	Full consolidation

*200 ths CZK

As at 31 December 2016

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

17. MATERIAL SUBSEQUENT EVENTS

After the date of the interim consolidated financial statements there are no events with significant impact to the interim consolidated financial statements as at 30 June 2017.

The interim consolidated financial statements were approved by the Board of Directors on 22 August 2017 and signed on behalf of the Company:

Petr Slováček
Chief Executive Officer
Vice-Chairman of the Board

Michal Frankl

Member of the Board