Česká telekomunikační infrastruktura a.s.

Consolidated Half-Yearly Report 2018

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 2018

Telecommunications market in the Czech Republic

The telecommunications market was stabilised in the first half of 2018. The mobile market is experiencing robust expansion of network capacity and density. CETIN continued increasing the speed of its fixed network connections, newly offering access speed of up to 1 Gbps.

The development of regulation and associated legislation

In the first half of 2018, the Czech Telecommunication Office ("CTO") concluded the analyses and the process of imposing measures in the relevant markets for wholesale services with local access at a fixed location and services with central access at a fixed location for mass-market products and the analysis of the market for wholesale high quality data services. The Company remains designated as having significant market power and complies with regulatory obligations imposed on the Company as a result of these analyses and measures. This involves the obligation to provide access to the relevant markets of call termination at a fixed location, markets of physical and broadband access to the infrastructure, and the leased lines market under the terms and conditions set by the remedy decisions.

The discussion on the review of the European regulatory framework for electronic communications has also advanced in the first half of 2018. The proposal consolidates several applicable directives forming a regulatory framework into a single "code" with which the European Commission intends to promote competitive environment, encourage investment in electronic communication and set relationships among individual regulatory bodies.

State policy and support of high-speed Internet access

Due to the inquiry of the European Commission, no subsidies were paid out in the first half of 2018 for deploying high-speed networks from the Operational Programme Enterprise and Innovations for Competitiveness to projects that applied for support in the first call by the Ministry of Industry and Trade of the Czech Republic at the end of March 2017.

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

Business activities of the Company

CETIN Group comprises Česká telekomunikační infrastruktura a.s. and its subsidiaries CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, CETIN Finance B.V. and CETIN služby s.r.o. CETIN does not operate a branch or other part of business establishment abroad. A predominant share of Company's services in the first half of 2018 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 subsidiary CETIN služby s.r.o. did not engage in business activities in the first half of 2018.

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

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

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

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

The Company's revenues and profits in the first half of 2018 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.

An intensification of cooperation with T-Mobile Czech Republic a.s. and Vodafone Czech Republic a.s. needs to be mentioned as well. The successful development of these business relationships, and thus provision of wholesale electronic communications services to all major retail telecommunications operators in the Czech Republic, confirms the fact that the Company is a successful independent wholesale operator.

Commented financial results

This section provides comments on the financial results of CETIN Group in the first half of 2018. For detailed information, see the Interim consolidated Financial Statements for the financial year ended on 30 June 2018 in the following sections of this Half-yearly Report.

Revenues, costs and profit

The total revenues of the CETIN Group amounted to CZK 9.9 billion in the first half of 2018. Total operating costs reported by CETIN Group were CZK 6.3 billion, with the major part represented by cost of sales in the international transit segment. CETIN Group reported a total of CZK 0.6 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 3.8 billion in the first half of 2018, with the predominant part of the profit coming from the national network services segment. CETIN Group's profit after tax amounted to CZK 1.2 billion in the first half of 2018.

Fixed tangible assets

Reduced by depreciation and other adjustments during the year, the net value of land, buildings and equipment required for the operations of the Company was CZK 48.4 billion as of 30 June 2018.

Cash and debt

In 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 bonds are admitted to trading at Irish Stock Exchange. In case of CETIN Finance B.V. defaulting on the bond related liabilities, CETIN will be obliged to meet the liabilities as a guarantor. The foreign exchange risk of the bonds is hedged using derivatives. The first tranche (CZK 3 billion) has been repaid in December 2017.

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

For detailed information on loans and bonds, see Note 13 of the Notes to the Financial Statements included herein.

Profit distribution and other payments to shareholders

The General Meeting held on 7 June 2018 decided on the distribution of the unconsolidated profit of the Company for 2017. The contribution to the social fund was CZK 3.4 million and the dividend was CZK 2.72 billion. The first instalment in the amount of CZK 2.0 billion was paid on 12 June 2018.

Capital expenditure

In the first half of 2018, CETIN Group acquired fixed assets in the amount of CZK 1.7 billion. These investments were mainly channelled into the development of the telecommunication infrastructure. The main investment projects included the continued modernisation of the fixed-line network with FTTC, FTTH and FTTB technologies, increasing mobile network capacity and density and upgrading outdated technologies.

Cash flows

The net cash flow from operating activities of CETIN Group amounted to CZK 3.6 billion in the first half of 2018. The cash flows used in investment activities amounted to CZK 1.9 billion, mainly comprising investments in network infrastructure development of CZK 1.9 billion. The cash flows used in financing activities consisted of the dividend payments of CZK 2.0 billion and proceeds of CZK 0.2 billion related to hedging of Eurobonds foreign exchange risk.

In total, the net cash position of CETIN Group in the first half of 2018 has decreased by CZK 1.0 billion. The cash flows from CETIN Group's operating activities were thus used mainly for investment in the telecommunications infrastructure development and for dividend payment.

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 continue maintaining its 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 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 suitable locations and projects. The Company will continue to invest substantially in further development of the 4G/LTE mobile network.

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 its performance to be in line with the trend of the first half of 2018. The continued decline of demand for fixed-line voice services in a part of the domestic market will be partly compensated by the growth in other segments of the market and by growing revenue from data services and mobile network services. The continued competitive pressure on margins in the international voice transit market will be compensated in the medium term by entering markets in new regions and a new operating model of cooperation with international operators.

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	Michal Frankl
Vice-chairman of the Board of Directors	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 2018

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

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CONSOLIDATED STATEMEMT OF TOTAL COMPREHENSIVE INCOME

		For the period ended	
In CZK million	**Note**	**30 June 2018**	**30 June 2017**
Revenues		9,924	10,173
Other income from non-telecommunication services		112	92
Expenses		(6,273)	(6,379)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)		**3,763**	**3,886**
Depreciation and amortisation		(2,095)	(2,061)
Impairment loss		(7)	(23)
Operating profit (*EBIT*)		**1,661**	**1,802**
Finance income		3	84
Finance costs		(231)	(155)
Profit before tax		1,433	1,731
Corporate income tax	5	(265)	(349)
Profit for the period		**1,168**	**1,382**
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	226	158
Related deferred tax		(43)	(29)
Other comprehensive income, net of tax		**183**	**128**
Total comprehensive income, net of tax		**1,351**	**1,510**
Profit attributable to:			
Equity holders of the Company		1,168	1,382
Total comprehensive income attributable to:			
Equity holders of the Company		1,351	1,510

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
In CZK million	**Note**	**30 June 2018**	**31 December 2017**
ASSETS			
Property, plant and equipment	7	48,392	48,807
Intangible assets	8	1,405	1,396
Other assets	10	445	363
Non-current assets		**50,242**	**50,566**
Inventories	9	69	52
Receivables, including derivative	10	3,109	3,219
Income tax receivable		1	73
Cash and cash equivalents	11	754	843
Current assets		**3,933**	**4,187**
Non-current assets held for sale		**12**	**18**
Total assets		**54,187**	**54,771**
EQUITY AND LIABILITIES			
Share capital		3,102	3,102
Reserves	13	569	386
Other funds		14,620	14,620
Retained earnings		1,168	2,725
Total equity		**19,459**	**20,833**
Long-term financial debts	13	21,043	20,734
Deferred tax liability		6,106	6,098
Non-current provisions for liabilities and charges	14	389	395
Non-current other liabilities, including derivative	12	1,352	1,555
Non-current liabilities		**28,890**	**28,782**
Short-term financial debts	13	166	21
Trade and other payables	12	5,558	5,041
Income tax liability		36	2
Provisions for liabilities and charges	14	78	92
Current liabilities		**5,838**	**5,156**
Total liabilities		**34,728**	**33,938**
Total equity and liabilities		**54,187**	**54,771**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2018		**3,102**	**(3)**	**389**	**14,620**	**2,725**	**20,833**
Profit for the period		-	-	-	-	1,168	1,168
Other comprehensive income		-	-	183	-	-	183
Total comprehensive income		**-**	**-**	**183**	**-**	**1,168**	**1,351**
Dividends declared	6	-	-	-	-	(2,720)	(2,720)
Other distribution	6	-	-	-	-	(5)	(5)
As at 30 June 2018		**3,102**	**(3)**	**572**	**14,620**	**1,168**	**19,459**

For the period ended 30 June 2017

In CZK million	Note	Share capital	Foreign exchange translation reserve	Hedging reserve	Other capital funds	Retained earnings	Total
As at 1 January 2017		**3,102**	**(1)**	**(20)**	**14,620**	**263**	**17,964**
Profit for the period		-	-	-	-	1,382	1,382
Other comprehensive income		-	(1)	129	-	-	128
Total comprehensive income		**-**	**(1)**	**129**	**-**	**1,382**	**1,510**
Dividends declared	6	-	-	-	-	(257)	(257)
As at 30 June 2017		**3,102**	**(2)**	**109**	**14,620**	**1,388**	**19,217**

CONSOLIDATED STATEMENT OF CASH FLOWS

In CZK million	**Note**	**For the period ended 30 June 2018**	**30 June 2017**
Profit for the year		1,168	1,382
Non-cash adjustments for:			
Depreciation and amortisation		2,095	2,061
Impairment loss		7	23
Profit on sale of property, plant and equipment		(28)	(31)
Net finance revenues		151	155
Foreign exchange losses (net)		77	(83)
Other non-cash adjustments		16	6
Tax expense		265	349
Operating cash flow before working capital changes		**3,751**	**3,862**
Working capital adjustments:			
Change in trade and other receivables		(114)	(28)
Change in inventories		(17)	6
Change in trade and other payables		232	42
Change in provisions		(20)	17
Cash flows from operating activities		**3,832**	**3,899**
Income tax paid		(193)	(836)
Net cash flow from operating activities		**3,639**	**3,063**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(1,924)	(1,685)
Proceeds from sales of property, plant and equipment and intangible assets		28	693
Net cash used in investing activities		**(1,896)**	**(992)**
Cash flows from financing activities			
Interest paid		-	-
Interest received		-	-
Costs related to the issue of bonds		-	(55)
Repayments of loans		-	-
Grant/Repayment of loan		-	-
Bonds Issue		-	-
Other financial transactions		6	4
Cash collateral placed due to derivatives transactions	10	162	(235)
Distribution of other capital funds paid		-	-
Short term deposits	13	-	(1,500)
Dividends paid	6	(2,000)	(257)
Net cash used in financing activities		**(1,832)**	**(2,043)**
Net increase in cash and cash equivalents	11	**(89)**	**28**
Cash and cash equivalents at beginning of year		843	378
Cash and cash equivalents at the period end	11	**754**	**406**

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 2018 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 2017.

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 2017.

Seasonality

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Group adopted new accounting standards IFRS 15 Revenues from contracts with customers a IFRS 9 Financial instruments which are valid from 1 January 2018. All other 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 2017.

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

IFRS 9 - Financial instruments

Adoption of the new standard did not affect the consolidated financial statements of the Group significantly.

IFRS 15 - Revenue from Contracts with Customers

The Group performed an analysis and adopted the new standard.

The Group recognizes 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. As of 30 June 2018 the Group presents an increase in revenues from provided services of CZK 9 million and interest expense of CZK 15 million from customer's financing.

The Group selected the modified cumulative retrospectvie transition method to adopt the new standard. As the effect of adoption of the new standard was not significant, the Group did not recognised any adjustment to the opening balance of retained earnings as of 1 January 2018.

New IFRS not effective as at 30 June 2018 (includes standards applicable to the Group)

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 16	Leases	1 January 2019

IFRS 16 Leases

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

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

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

The Group currently prepares and defines IT solution of IFRS 16 implementation project, the completion is planned for the second half of 2018. Before completing the full IT solution, the quantitative impact of the new standard can not be reliably estimated.

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 a provider of interconnection between international operators, earning a small margin on the difference between the units of traffic purchased and sold.

II. The financial risk exposure of the international transit business is significantly lower compared to the core business of the Group. The impact of the potential impairment of carrying value of assets related to the international transit business is marginal as the international transit business is 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 2018	**Domestic services**	**International transit**	**Total reportable segments**	**Reconciling items**	**Group**
In CZK million					
Revenues	5,761	4,163	9,924	-	9,924
Other income from non-telecommunication services	-	-	-	112	112
Total costs	(2,127)	(4,034)	(6,161)	(112)	(6,273)
Earnings before impairment loss, interest, tax, depreciation and amortization (*EBITDA*)	**3,634**	**129**	**3,763**	**-**	**3,763**
Total depreciation and amortization	(2,076)	(19)	(2,095)	-	(2,095)
Impairment charge	(7)		(7)	-	(7)
Operating income (EBIT)	**1,551**	**110**	**1,661**	**-**	**1,661**
Net financial income					(228)
Profit before tax					1,433
Corporate income tax					(265)
Profit for the period					**1,168**
Capital expenditure (Fixed assets additions)	**1,697**	**-**	**1,697**	**-**	**1,697**
As at 30 June 2018					
Total assets	**53,077**	**1,110**	**54,187**	**-**	**54,187**
Trade and other payables	4,696	862	5,558	-	5,558
Other liabilities	29,170	-	29,170	-	29,170
Total liabilities	**33,866**	**862**	**34,728**	**-**	**34,728**

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**

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 2018 these revenues are CZK 5,011 million (30 June 2017: CZK 5,123 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 2018**	**Period ended** **30 June 2017**
Czech Republic	6,075	6,144
Germany	661	1,171
Slovakia	393	363
Other EU countries	1,709	1,047
Switzerland	565	917
Other Non-EU countries	521	531
Total revenues	**9,924**	**10,173**

5. INCOME TAX

In CZK million	**Period ended** **30 June 2018**	**Period ended** **30 June 2017**
Total income tax expense is made up of:		
Current income tax charge	300	371
Deferred income tax credit	(35)	(22)
Income Tax	265	349

Deferred tax was calculated at a 19% tax rate (valid for Czech Republic) as at 30 June 2018 and 30 June 2017.

6. DIVIDEND DISTRIBUTION

In CZK million	**The period ended** **30 June 2018**	**The period ended** **30 June 2017**
Dividends from the profit (approved)	2,720	257
Distribution of other capital funds (approved)	5	-
Total	2,725	257

Approval of 2017 profit and the dividend distribution was made at the General Meeting, held on 7 June 2018 (for 2016 profit: 8 June 2017). The first instalment in the amount of CZK 2,000 million was paid on 12 June 2018.

7. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2018 the Group acquired property, plant and equipment in the amount of CZK 1,509 million (for the period ended 30 June 2017: CZK 1,434 million) and disposed assets in residual value CZK 216 million (for the period ended 30 June 2017: CZK 678 million).

8. INTANGIBLE ASSETS

During the period ended 30 June 2018 the Group acquired intangible assets in the amount of CZK 188 million (for the period ended 30 June 2017: CZK 147 million) and disposed assets in residual value CZK 5 million (for the period ended 30 June 2017: CZK 0 million).

During the period ended 30 June 2018 the Group reported impairment of assets in the amount of CZK 7 million (for the period ended 30 June 2017: CZK 23 million).

9. INVENTORIES

As at 30 June 2018 the Group recognized inventories impairment provision in amount of CZK 7 million (as at 31 December 2017: CZK 7 million).

10. RECEIVABLES AND OTHER ASSETS

In CZK million	**30 June 2018**	**31 December 2017**
Trade receivables from third parties (net)	1,910	1,856
Receivables with related parties (Note 17)	924	1,082
Prepayments	156	96
Tax receivables for indirect taxes	125	155
Derivative financial assets	191	-
Advance payments	89	76
Cash collateral placed due to derivatives transactions (Note 13)	144	306
Other debtors (net)	15	11
Total receivables and other assets	**3,554**	**3,582**

Trade receivables and other debtors are stated net of bad debt provision of CZK 68 million (31 December 2017: CZK 53 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 13. 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 2018	31 December 2017
Cash at bank accounts and other cash equivalents	53	114
Cash at bank accounts and other cash equivalents (inter-company)	701	729
Total cash and cash equivalents	**754**	**843**

The item Cash at bank accounts and other cash equivalents includes the balance of bank accounts of the Special Partnership Accounts of CZK 44 million (31 December 2017: CZK 38 million). These are partnerships with other business parties founded for a specific purpose, where the Group is in a leading role.

As at 30 June 2018, the Group had available uncommitted undrown credit line in amount of CZK 500 million (as at 31 December 2017, the Group had available committed undrown credit line in amount of CZK 500 million) and undrawn uncommitted revolving facility up to CZK 175 million (as at 31 December 2017: CZK 175 million).

12. TRADE AND OTHER PAYABLES

In CZK million	30 June 2018	31 December 2017
Trade creditors	5,064	4,626
VAT, other taxes and social security liability	93	87
Other deferred revenue	203	137
Employee wages and benefits	183	182
Other creditors	15	9
Trade and other payables - current	**5,558**	**5,041**
Financial derivatives	-	308
Other deferred revenue - non-current	1,352	1,247
Other non-current liabilities, including derivative	**1,352**	**1,555**

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 fiber long-term rentals.

13. FINANCIAL ASSETS AND LIABILITIES

Bonds Issued

In CZK million					30 June 2018	
Date of issue	Maturity	ISIN	Interest rate	Currency	Nominal value	Net carrying value
6 December 2016	6 December 2021	XS1529934801	1.423	EUR	16,263	16,349
6 December 2016	6 December 2023	XS1529936335	1.250	CZK	4,866	4,860
Total					**21,129**	**21,209**

In CZK million					31 December 2017	
Date of issue	Maturity	ISIN	Interest rate	Currency	Nominal value	Net carrying value
6 December 2016	6 December 2021	XS1529934801	1.423	EUR	15,963	15,928
6 December 2016	6 December 2023	XS1529936335	1.250	CZK	4,866	4,827
Total					**20,829**	**20,755**

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	2018
The fair value of the effective part of cash flow hedges at 1 January	480
Deferred tax asset/(liability) arising from revaluation gains and losses at 1 January	(91)
Total balance at 1 January	**389**
Net profit/(loss) from the change in the fair value of a hedge instruments for the period	
Cross currency swap	484
Accumulated net profit/(loss) arising from cash flow hedges for the period recognised through profit or loss	
Cross currency swap	(258)
Tax effect of cash flow hedges for the period	(43)
The fair value of the effective part of cash flow hedges at 30 June	706
Deferred tax asset/(liability) arising from revaluation gains and losses at 30 June	(134)
Total balance at 30 June	**572**

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 2018					
	Level 1	Level 2	Level 3	Fair value	Carrying amount	Difference
Financial assets						
Cash and cash equivalents	-	-	754	754	754	-
Receivables and other finanacial asset (excluding derivatives)	-	-	3,363	3,363	3,363	-
Financial liabilities						
Bonds (inc. accruals)	-	21,443	-	21,443	21,209	234
Trade and other payables	-	-	5,558	5,558	5,558	-

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

The fair value of bonds 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 2018			Fair value As at 31 December 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Positive fair values of financial derivative instruments	-	191	-	-	-	-
Negative fair values of financial derivative instruments	-	-	-	-	308	-

The fair value of financial derivative instruments has been calculated by discounting the expected future cash flows using common market interest rates as at 30 June 2018 and 31 December 2017.

14. PROVISIONS

In CZK million	Asset retirement obligation	Other provisions	Total
As at 1 January 2018	367	120	**487**
Additions during the year	-	33	**33**
Utilised during the year	(16)	(37)	**(53)**
As at 30 June 2018	**351**	**116**	**467**
As at 1 January 2017	226	157	383
Additions during the year	-	34	34
Utilised during the year	(9)	(8)	(17)
As at 30 June 2017	**217**	**183**	**400**

In CZK million	Asset retirement obligation	Other provisions	Total
As at 30 June 2018			
Short-term provisions	30	48	78
Long-term provisions	321	68	389
	351	**116**	**467**
As at 31 December 2017			
Short-term provisions	40	52	92
Long-term provisions	327	68	395
	367	**120**	**487**

The Group recognized a provision for estimated cost of dismantling and removing assets and restoring sites of CZK 351 million (31 December 2017: CZK 367 million). Scenarios of future costs based on management estimation, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of future decommissioning of assets.

Other provisions include a provision for redundancy cost of CZK 15 million (31 December 2017: CZK 20 million). Other provisions for which the expected timing of payments is not certain are expected to be utilised within the next twelve months from the balance sheet date.

15. CONTINGENT LIABILITIES

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

16. COMMITMENTS

Capital expenditure contracted but not yet recognized in the financial statements as at 30 June 2018 amounted to CZK 524 million (31 December 2017: CZK 805 million). The majority of contracted amounts relates to telecommunication networks and service contracts.

17. 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 recognized.

The following transactions were carried out with related parties:

a) Transactions with related parties

In CZK million	Volume of mutual transactions		Assets/Liabilities as at	
	Period ended 30 June 2018	Period ended 30 June 2017	30 June 2018	31 December 2017
Sale of services				
Other companies in PPF Group	5,093	5,194	950	1,082
of which: O2 Czech Republic a.s.	5,011	5,123	922	1,061
Purchase of services				
Other companies in PPF Group	227	231	56	152
of which: O2 Czech Republic a.s.	110	118	28	138
Positive fair value of derivatives				
Other companies in PPF Group	-	-	191	-
Negative fair value of derivatives				
Other companies in PPF Group	-	-	-	308
Nominal value of derivatives				
Other companies in PPF Group	-	-	14,429	14,429
Cash equivalents				
Other companies in PPF Group	-	-	701	729
Dividend payable				
Shareholders	-	-	720	-

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 2018, capital expenditures from related parties amounted to CZK 0 million (30 June 2017: CZK 2 million).

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

	Period ended 30 June 2018	Period ended 30 June 2017
Remuneration in CZK million		
Board of directors	10	10
Supervisory board	-	-
Key management	17	16
Number of members		
Board of directors	3	3
Supervisory board	3	3
Key management	11	9

No loans were provided to members of the Board of Directors and Supervisory Board as at 30 June 2018 and 30 June 2017.

18. SUBSIDIARIES

As at 30 June 2018

	Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	CETIN Finance B.V.	100%	56	Netherlands	Financial services	Full consolidation
4.	CETIN služby s.r.o.	100%	*-	Czech Republic	Other services	Full consolidation

*200 ths CZK

As at 31 December 2017

	Subsidiaries	Group's interest	Cost of investment in CZK million	Country of incorporation	Activity	Method of consolidation
1.	CZECH TELECOM Germany GmbH	100%	10	Germany	Data transmission services	Full consolidation
2.	CZECH TELECOM Austria GmbH	100%	6	Austria	Data transmission services	Full consolidation
3.	CETIN Finance B.V.	100%	56	Netherlands	Financial services	Full consolidation
4.	CETIN služby s.r.o.	100%	*-	Czech Republic	Other services	Full consolidation

*200 ths CZK

19. 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 2018.

The interim consolidated financial statements were approved by the Board of Directors on 21 August 2018 and signed on behalf of the Company:

Petr Slováček
Vice-Chairman of the Board

Michal Frankl
Member of the Board