2018 Annual Report of O_2 Slovakia, s.r.o.

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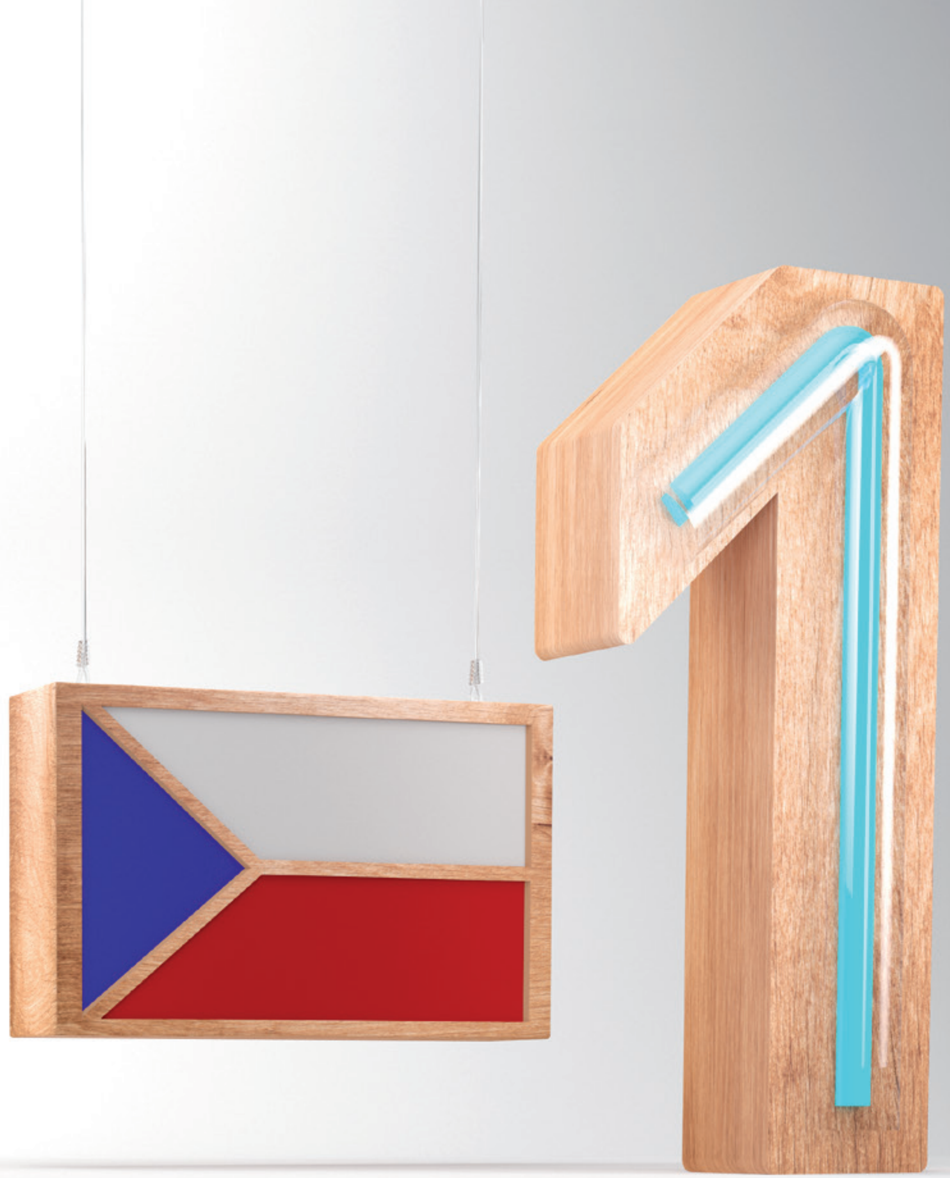


O_2 Czech Republic, a.s.

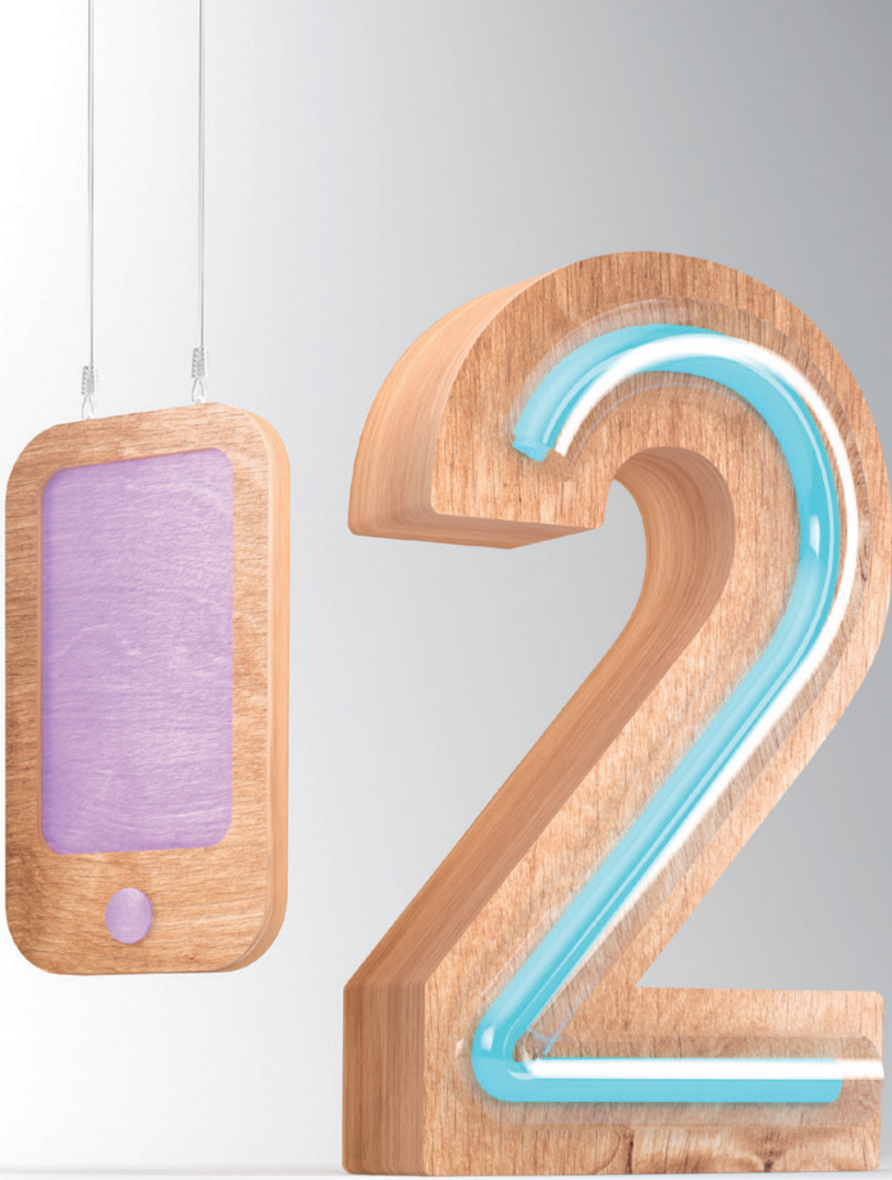
O_2 Czech Republic, a.s.

The O_2 Czech Republic Group consists of O_2 Czech Republic a.s. (O_2 CZ) and several other subsidiaries. The ownership rights of O_2 CZ in the subsidiaries are exercised by the company's Board of Directors.

O_2 CZ is the largest provider of telecommunication services in the Czech market. Currently, it provides services by means of nearly eight million mobile and fixed lines, which makes it one of the leading providers of fully convergent services in Europe. O_2 CZ offers its mobile customers in Czech Republic the latest technologies such as HSPA+ and LTE.

The O_2 brand does not mean for customers only telecommunications. O_2 is able to satisfy even the most demanding requirements of customers also in the area of ICT and offer them services of housing, hosting and cloud services in data centres with a total area of 7,300 square meters. These data centres were the only ones in the Czech Republic and Central Europe to obtain the TIER III level certification.

The O_2 TV service makes O_2 simultaneously the largest operator of online TV broadcasting in the Czech Republic.



O_2 Slovakia, s.r.o.

O_2 came to the market in February 2007 as the third operator. From the beginning of its operation, it has been bringing revolutionary solutions, open communication and fairness for all customers alike. With its simple product portfolio, it has been systematically trying to change the rules of mobile communication. The values of fairness, simplicity and transparency are the values, which according to the operator should even transcend business. Therefore, it is trying to promote them also across the whole society. It counts among the most popular employers engaging itself through its Fair Foundation also in the area of corporate social responsibility. It regularly wins the Operator of the Year award in an independent customer opinion poll. O_2 is QMS quality certified according to the ISO 9001 standard, which guarantees a high level of quality of services including their constant improvement. It also holds the ISO 27001 certificate aimed at information security management.

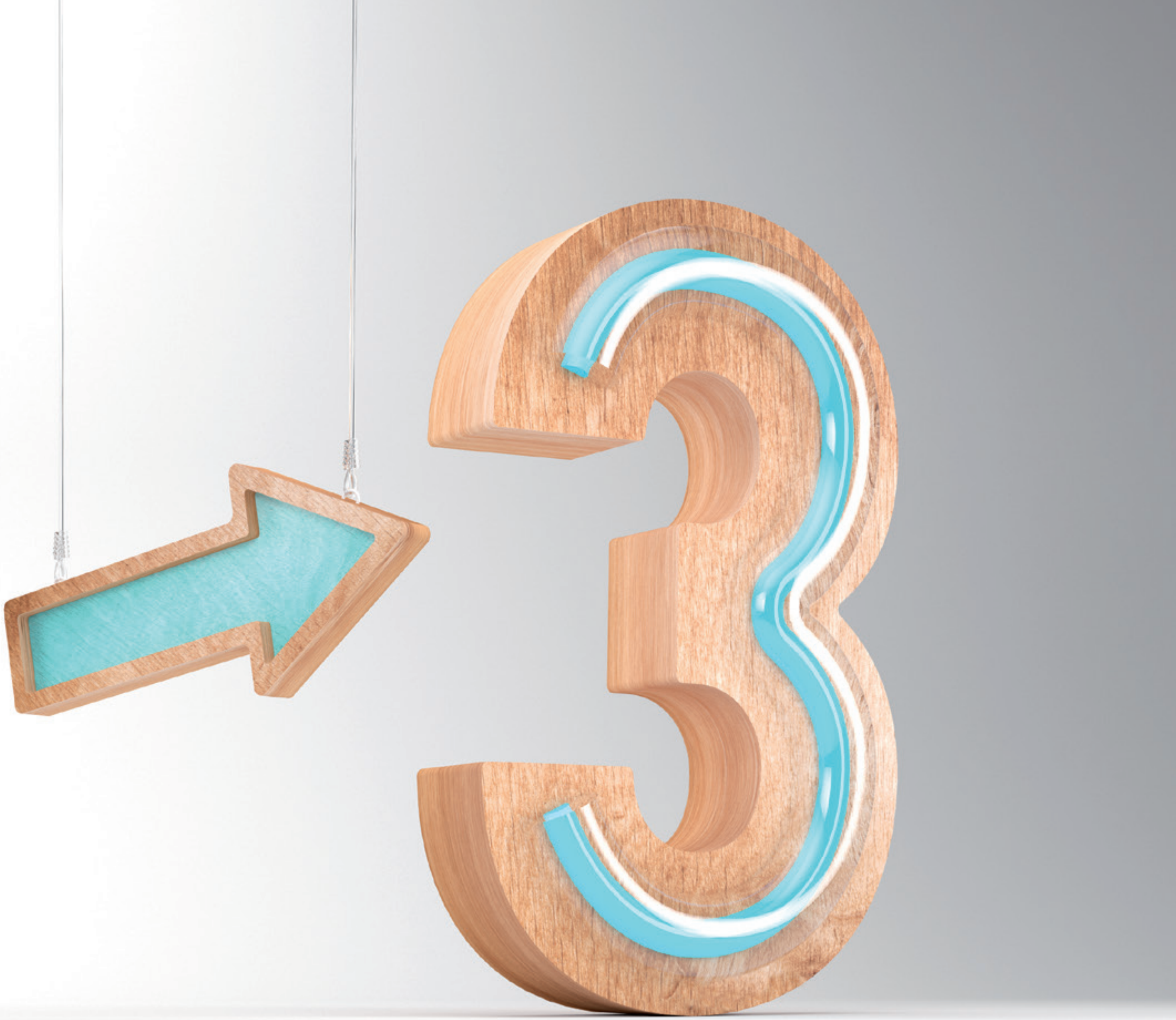
O_2 Business Services

The telecommunication operator O_2 Business Services is a 100% subsidiary of O_2 Slovakia. It was established in 2015 by spinning off the corporate division of O_2 Slovakia into a separate company for the purpose of increasing efficiency and flexibility of telecommunication services for corporate customers.

Tesco mobile

Tesco Mobile is a partner product of TESCO STORES SR, a.s. and O_2 Slovakia, s.r.o. The sale is performed in the Tesco's sales network and the reliability of services provided is ensured by the use of the O_2 Slovakia network. Tesco Mobile was introduced to the telecommunication market in December 2009 and since then it has followed its successful operation in the United Kingdom of Great Britain and Northern Ireland and in Ireland. Currently, it operates also in the Czech Republic. In Slovakia, Tesco Mobile is primarily concentrated on provision of prepaid services.

TESCO mobile



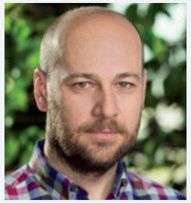
Company Management

Peter Gažík
Chief Executive Officer of O_2 Slovakia

He has held the position of the Chief Executive Officer of O_2 Slovakia since 1 June 2015. During the period 2011 – 2014, he was engaged in O2 in the position of a Public Affairs Director and then he cooperated with O_2 as a consultant in the field of regulatory affairs, being responsible for relations with partner, state institutions and the regulator. In this period, he was simultaneously dedicated to start ups and support of innovative projects in Neulogy as a Business Development and Innovations Director. Peter Gažík studied linguistics and political science at the Comenius University in Bratislava as well as at the London School of Economics.

Martin Klímek
Chief Financial Officer

Martin Klímek has acted as the Chief Financial Officer since 1 May 2012. Previously, he held the position of the Planning and Controlling Director in Telefónica Czech Republic. He joined Telefónica CZ (Eurotel Prague at that time) in as early as 2002 gradually holding the positions of a Financial Reporting Manager and Director of Controlling for Residential Segment. Before, he worked for 4 years in PriceWaterhouseCoopers in Prague where Eurotel Prague was precisely one of his accounts.

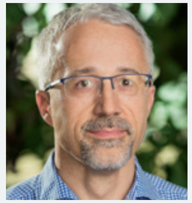


Dávid Durbák
Legal Affairs Director and since 1 December simultaneously appointed to manage Human Resources

Dávid Durbák graduated from the Faculty of Law of the Comenius University in Bratislava in 2001. He started his professional career in Slovak Telekom, a. s., at the Department for Regulatory Affairs where he spent 4 years being responsible for providing legal support to the company in proceedings with state authorities, mainly representing the company in several proceedings before the Antimonopoly Office of the Slovak Republic. In the same position, he was also in charge of evaluation of the company's new product development.

Igor Tóth
Marketing Director

Igor Tóth has rich experience in the area of marketing and he has been working with O_2 already since 2008. Previously, he held in O_2 the position of the Head of Commercial Marketing Department being responsible for managing marketing activities in the segment of residential as well as business customers. Before this position, his area of responsibility included marketing acquisitions, loyalty, retention and marketing survey. In 2011, he took an internship as a customer experience analyst at the Head Office of Telefónica Europe in London. Before joining O_2, he was engaged in the field of marketing survey in T-Mobile. Igor Tóth also acts an external lecturer at the Faculty of Management of the Comenius University.
He became the Marketing Director on 1 July 2015.



Ján Vanovčan
Information Systems Director

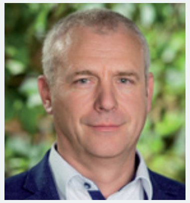
Ján studied software engineering specialized in artificial intelligence. After holding various IT positions in healthcare, insurance industry and SW development for telecommunication operators, since 2000 he held the consulting architect post in Logica. As a consultant, he worked on projects for Slovak telecommunication operators but also in Hungary, Czech Republic and UK. He joined O_2 Slovakia in 2007 as Integration and Architecture Manager to be later promoted to the position of the Head of this department. Ján designed and manage several projects in O_2 Slovakia in the area of CRM, integration of systems and electronic channels.

Mária Rapanová
Human Resources Director (until 30 November 2018)

Mária Rapanová started her professional carrier as a Human Resources Manager in a private IT company, holding the same position later also in Komerční banka Bratislava. In the next period, she worked as a manager for T-Mobile (originally Eurotel) and Slovak Telekom. Here, since 2005 she managed the Training and Development Department and was responsible for training and development of more than 6,000 employees of the company. She joined O_2 Slovakia in November 2008 and was in charge of training and development. Since 2010, she managed the Human Resources Operative Services Department and represented O_2 in several important Human Resources projects of the European Group of Telefónica, such as creation of the Joint Services Department for employees in Ireland. She has held the position of the Human Resources Director since 1 June 2013.

Tomáš Masár
Business Strategy and Development Director

Tomáš Masár studied at the Faculty of Management of the Comenius University in Bratislava and investment banking at the Paris Assas II University in Paris. His career started with Citibank London, later Citibank Private Bank in Geneva and ČSOB in Prague. Since 2006, he has worked in the telecommunication business, first in Eurotel CZ and later in Telefónica O_2 CZ where he was dedicated to business development as well as to the project of establishment of the third mobile operator in Slovakia. He stayed in Slovakia to manage the Project Office and strategic projects in O_2 Slovakia. From 2008, he was in charge of marketing product department, roaming and inter-operator relations (interconnect). Since 1 July 2012, he has been responsible for the strategic development of our company and search for new business opportunities.



Juraj Eliáš
Networks Director

Juraj Eliáš joined O_2 from O_2 Business Services, where he held the position of the Technical Director. In 1988, he completed his studies at the Electrotechnical Faculty of the Slovak Technical University in Bratislava. He started his career in telecommunications in the Telecommunications Research Institute in Banská Bystrica, gaining further experience in the field of IT in Agrobanka Prague, Isternet, which was later bought by Euroweb. Since 2002, he was engaged in Nextra and following the acquisition by GTS Slovakia he acted as the Technical Director. His priority is to build a robust, reliable and simultaneously safe network, which will ensure quality converged mobile and fixed services for the needs of O_2 and O_2 Business Services, i.e. all customers starting with households, including smaller business and ending with corporations and state administration.

Milan Morávek
Sales and Customer Service Director

Milan Morávek has served as the Sales and Customer Service Director since May 2018. He has rich experience in sales in the areas of FMCG and in telecommunications. At the age of 21, he started out in Coca-Cola. He joined O_2 from the position of the Residential Sales Director at Telekom, where for 8 years he went through various areas in the Sales Department and since 2013 he was in charge of the entire residential sales. Milan Morávek got his bachelor's degree in Corporate Management & Economy at the University of Seattle. He got his MBA in finance and marketing at the Open University Business School in UK.

2018 Supervisory Board Members

The Supervisory Board consists of three members and its role is to, besides other activities, oversee the activities of executive officers, inspect the accounting books and submit at least once a year a report of its activities to the General Assembly.

Jindřich Fremuth

Member of Supervisory Board of O_2 Slovakia, s.r.o.
Chief Executive Officer of O_2 Czech Republic, a.s.

Jindřich Fremuth has been engaged in O_2 since 2009. Prior to assuming the position of the Chief Executive Officer of O_2 CZ at the beginning of 2018 he lead the Commercial Division which includes also management of relations with residents, business and corporate customers as well as product development and marketing. Before joining O_2, he worked as a consultant in the consulting company McKinsey&Company where he was focusing on technologies and telecommunications. He became a member of the Supervisory Board of O_2 Slovakia on 10 January 2018.

Michal Gajdzica

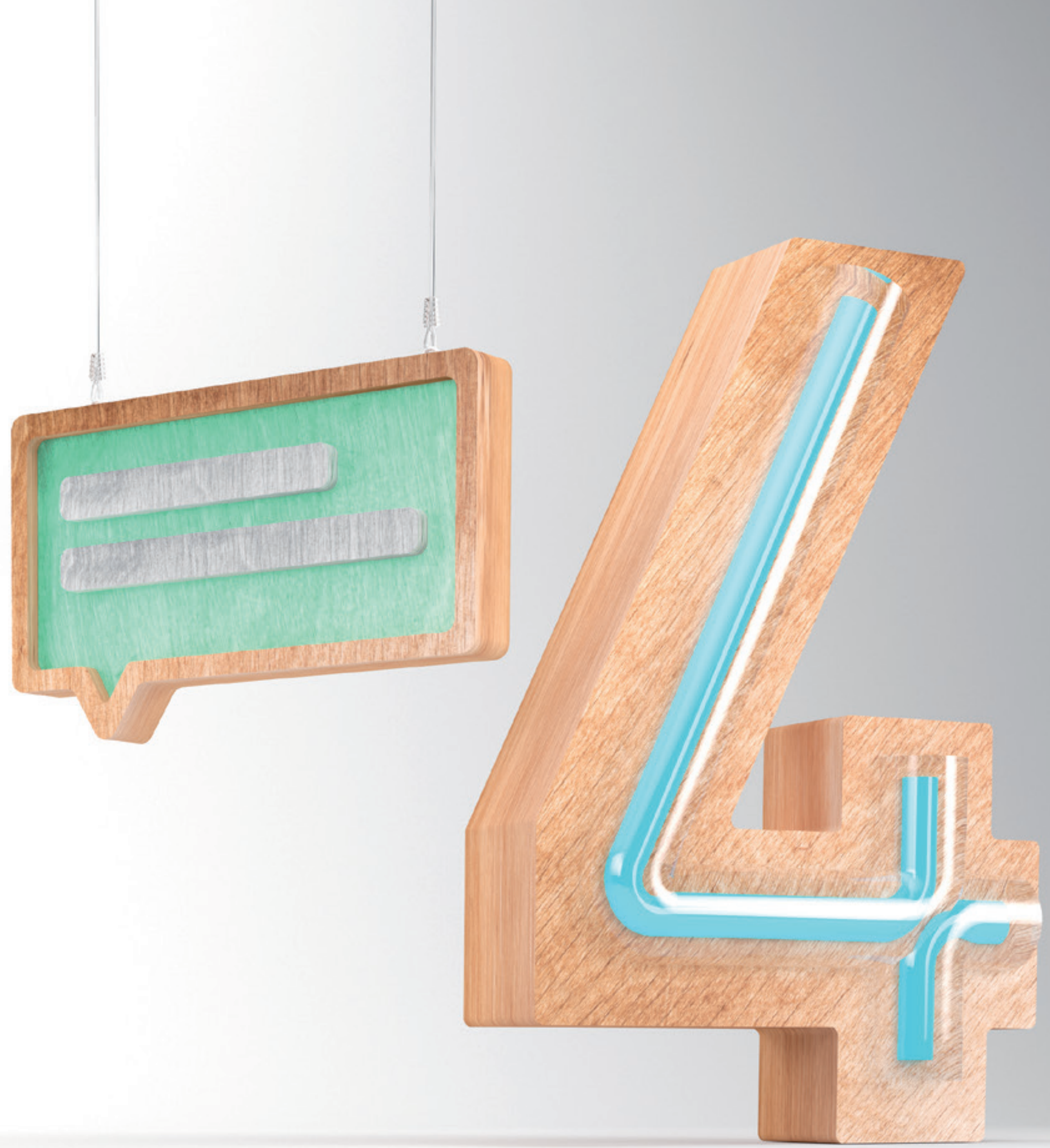
Member of Supervisory Board of O_2 Slovakia, s.r.o.

Michal Gajdzica graduated from the Faculty of Management at the Comenius University in Bratislava. Later he was dedicated to trading in capital markets for several years. Throughout the majority of his career, he worked as an analyst and consultant in financial planning and strategic consulting for private and public sectors. Prior to joining O_2, he worked for SkyToll as its Chief Financial Officer. He has been engaged in O_2 CZ as the Head of Internal Audit and Risk Management since 2014.

Jan Bechyně

Member of Supervisory Board of O_2 Slovakia

Jan has been dedicated to finance throughout his entire life. After graduating from the College of Economy, he held several positions starting with the financial manager in Unilever and ending with the Head of Financial Controlling in O_2 Czech Republic. In the companies O_2 IT Services, O_2 Family and O_2 TV he acts as a representative of the parent company O_2 Czech Republic and performs the function of the Executive Officer. He has served as a member of the Supervisory Board of O_2 Slovakia since 1 November 2017.



Peter Gažík about 2018

Peter Gažík
Chief Executive Officer of O_2 Slovakia

Dear friends,

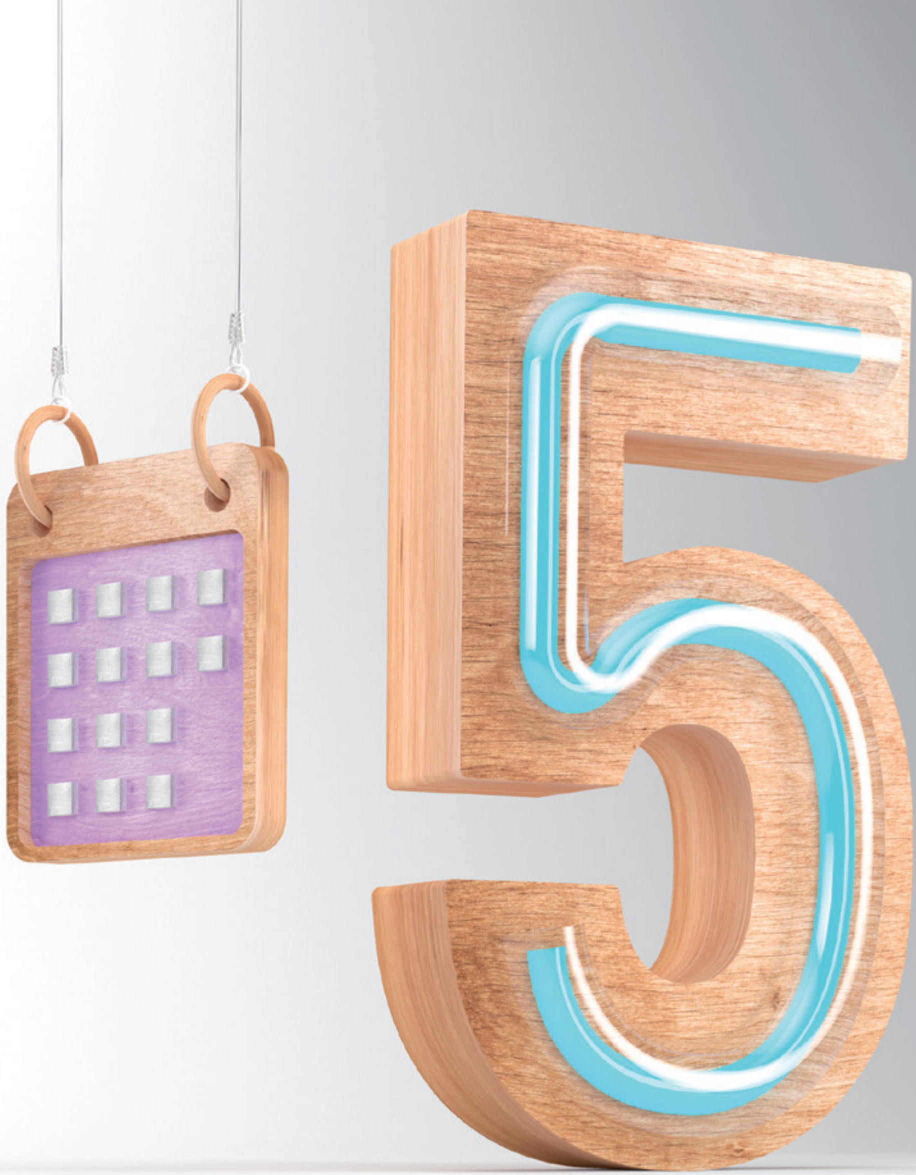
the year 2018 really meant a lot for the O_2 brand in Slovakia. We confirmed our market position, and we can no longer think of ourselves as a newcomer. Our presence is felt already for the second decade in the milestones we achieved precisely last year. The most important asset of O_2 are our customers and in 2018 we witnessed the arrival of the 2 millionth customer, which I consider an extraordinary success in the market conditions of the telecommunication segment. The second, no less important, milestone of 2018 was the fact that throughout the year we kept ahead of our competition in building the 4G LTE network, which at the end of the year covered as much as 96% of the population.

The construction of a large 4G infrastructure has been logically reflected also in our product direction in the past year. Already at the beginning of the year, we brought fixed Internet with unlimited data also on our 4G network. Customers tested the quality and coverage of our 4G network with 5 GB of free data they received from us in the months May to June. At the same time, we were teaching our customers how to get 4G data into their phones and we added extra data for them as well. The entire data proposition culminated in September, when we automatically added data to customers of the two highest tariffs of the O_2 Paušál plan and up to 5 times the original volume. However, we would not be O_2 if we were just introducing new products to our customers and building networks. On the contrary, our company is made up of people and we all live together in an environment we feel we need to improve. This was also the focus of our activities in the framework of the operator's social responsibility and our Fair Foundation. Together with the Olympics winner Matej Tóth, last year we opened 40 academies in primary grammar schools, where we want to teach children how to do sports correctly and with joy. With the help of our Fair Foundation and its grants amounting up to EUR 128 thousand, we supported educational projects around Slovakia. At the same time, by means of internal grants we enabled our employees to help improve the conditions in the immediate surroundings of their place of residence through local associations.

As a confident and responsible company, we realize that in order to improve the conditions in Slovakia it is not enough just to take a fair approach to our products or help within the CSR activities. It is also important for us to voice our opinion aloud, not only on economic topics, where we focus mainly on transparency and fairness in the market, but also on important society-wide topics. For the third time already, we prepared a campaign for the Day of the Fight for Freedom and Democracy, which aims to commemorate the values and the legacy of 17 November. Our past campaigns for this commemorative day count among the most successful and most appreciated ones not only in Slovakia but also abroad. All these activities we brought last year, not only for our customers, form a mosaic of what O_2 is all about. We are no longer just a mobile operator, but rather a confident company with its values of fairness and transparency going beyond the boundaries of the telecommunications market. It still applies that it is our customers who determine who we become. And so I am pleased to say that we are aligned with them. As a feedback to our steps also in 2018, we received the most votes in the independent poll „TECHBOX of the Year 2018", in which the readers vote also in the category of the best operator in Slovakia. And this happened already the 10th time in a row.

Thank you for your trust

Peter Gažík



Calendar of Significant Events of 2018

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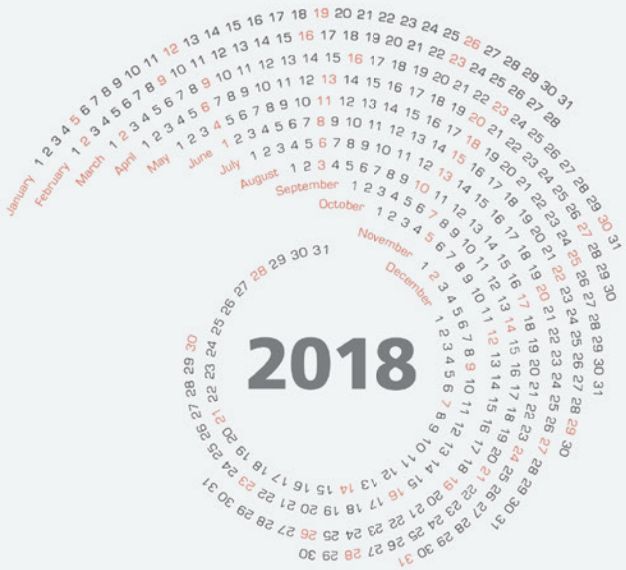
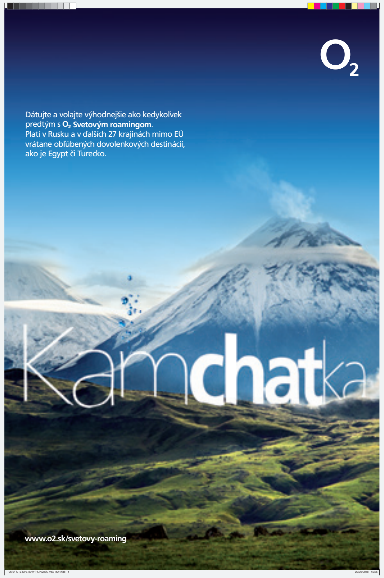


January

O$_2$ maintained its long-term leading position in customer experience by its already tenth consecutive win in the independent poll “TECHBOX of the Year 2018”, in which the readers vote also in the category of the best operator in Slovakia for the previous year.

February

In February 2018, O$_2$ added another tariff to the portfolio of its Internet na doma (Home Internet), which is also available to customers in the 4G network coverage. Like other Internet na doma tariffs, this



tariff does not limit the customer in the volume of data. In February, O$_2$ brought its customers also a new service of more convenient calling and data called O$_2$ World Roaming, which is valid in 28 countries outside the EU. This allows the customers to call at € 0.5 per outgoing minute and at € 0.5 for incoming minute of call and also use up to 50 MB of data included in the price of € 5.

April

In late April, O$_2$, in cooperation with Matej Tóth, opened already the second year of the Matej Tóth Sports Academy.

Calendar of Significant Events of 2018

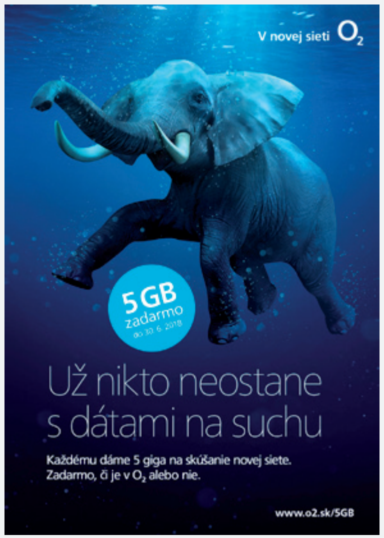
O$_2$ became a general partner of the academies and within the Dobrá vec (Good Cause) platform, it helped to create sports academies in another 40 primary grammar schools, for free for the entire school year. The aim of the academies is to teach children how to do sports correctly and with joy based on their own sophisticated methodology.

May

From May to June, all O$_2$ customers were able to verify that the new 4G network from O$_2$ was available, fast and reliable with a free activation of 5 GB bonus data. New customers could get it straight during SIM card activation.

July

In July, the winners of the grant program of O$_2$ Fair Foundation for 2018 were announced. The financial aid totalling € 128,000 was last year distributed among 18 ambitious projects aiming to bring a positive change. The third edition of the O$_2$ Foundation Foundation's call for proposals called for projects aimed at a positive change, under the headline „If you want to change something, start with us“. In July, O$_2$ was inviting the customers to its stores. In order for the customer to be able to fully use the 4G LTE network, besides a 4G smartphone and its proper configuration, they also need a 4G SIM card. During the summer, O$_2$ was helping them with the settings. For a good 4G SIM card setup, they could get up to 5GB of data for free, and for those who also bought a 4G device directly in the store, O$_2$ had an extra gift.

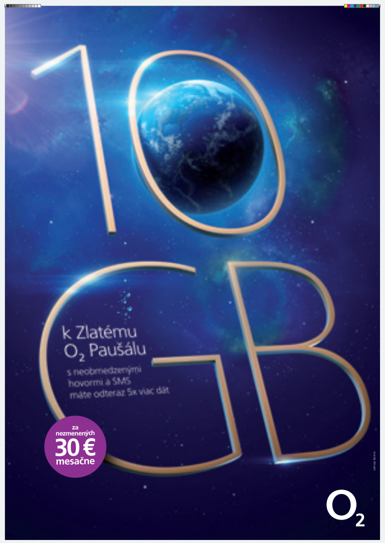


August

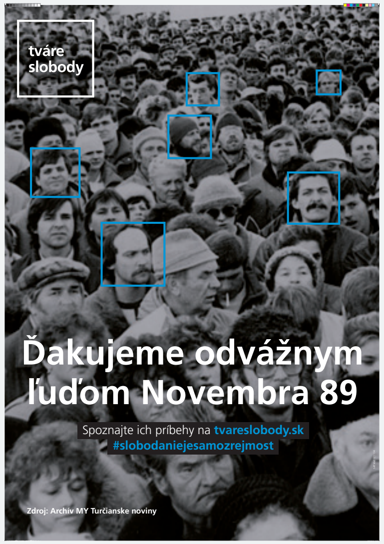
O$_2$ increased the volume of data in the Internet na doma service packages designed for households and businesses. Starting from 21 August, customers with this service can use unlimited volume of data in all O$_2$ Internet na doma packages.

September

Since September 2018, the customers of the Golden and Platinum O$_2$ Paušál could enjoy a big benefit. O$_2$ automatically increased the volume of data for all existing and new customers of these plans up to five times the original volume. All this without changing the prices of both plans, so as a result the customers will have unlimited calls and



SMS in the EU, 10 or 25 GB volume of data and an attractive device bonus up to € 312. If customers do not use the bonus, they get additional 5 GB of data in both plans. Customers in Slovakia could buy the first new iPhones only in O_2, which made a midnight sale for the brand's fans. O_2 has on its offer all the alternatives of the iPhone Xs and iPhone Xs Max models in all colours. The O_2 Paušál customers could reduce their price with an attractive bonus of up to € 312. From the end of September, O_2 customers can pay for their purchases in the App Store, Apple Music, iTunes or iBooks directly from their mobile account. The service was made available automatically to all of the operator's customers, whether pre-paid or post-paid. Such payment method is fast and safe and no credit card is required. O_2 reached another significant milestone in its 11-year history. Already in the first half of September, the mobile operator exceeded the threshold of two million customers. O_2's 2 millionth active customer became the owner of the already upgraded Golden O_2 Paušál.

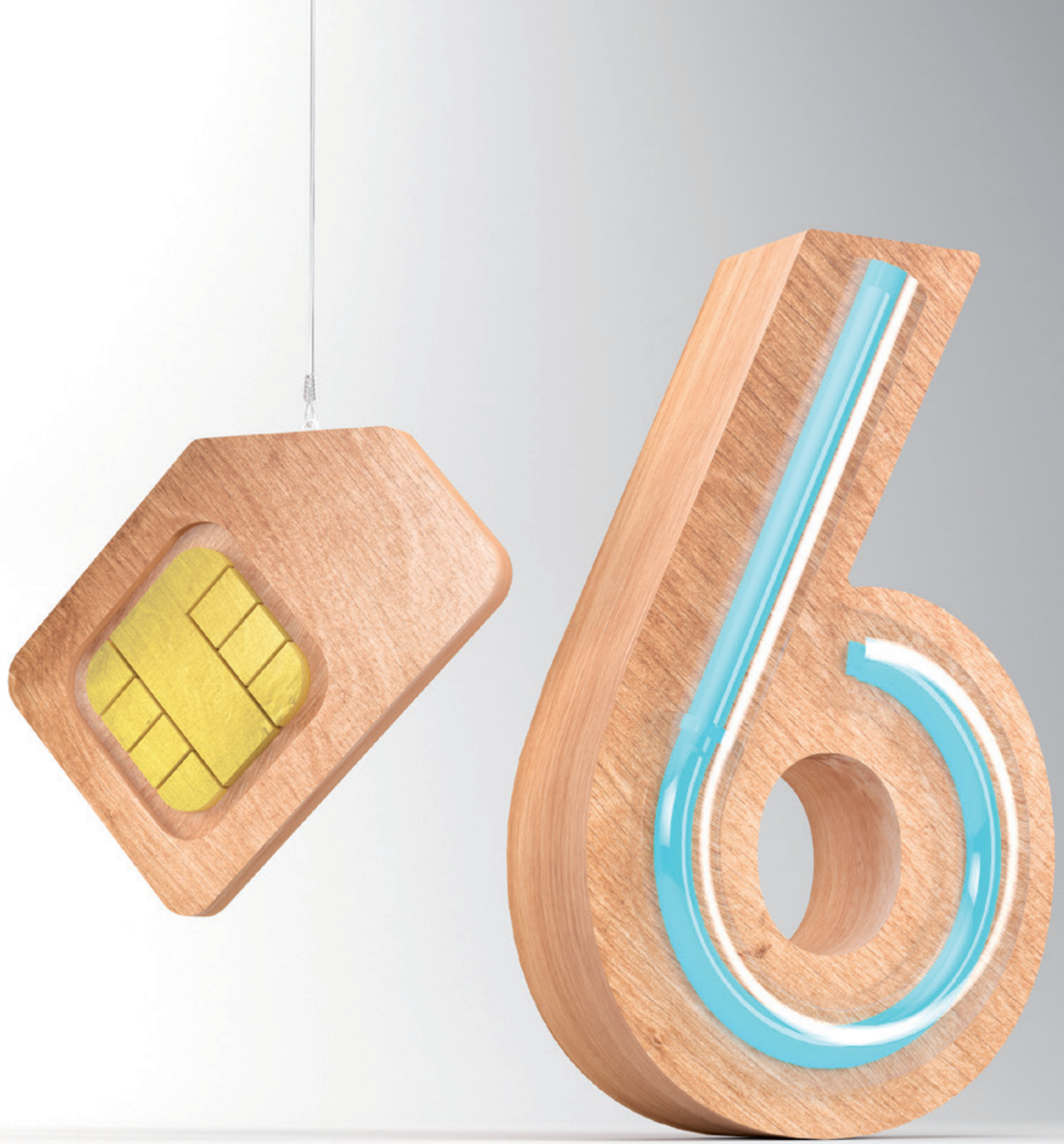


November

After a year, O_2 again commemorated the Day of Fight for Freedom and for Democracy with an unconventional campaign, in which it thanked the heroes under the tribunes, i.e. those who had the courage to go out in the streets and stand in the squares back in 1989. Other nearly 30 entities joined the public thank you.

December

At the end of 2018, O_2's 4G LTE network covered already 96% of people in Slovakia. Its own 2G network was available to as much as 99.3% of people.



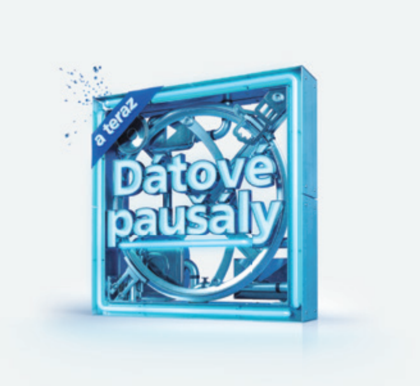
Portfolio

O_2 Paušál

O2 Paušál was introduced in 2012 and since then it has been constantly upgraded. It is a non-committed plan including prepaid minutes or unlimited calls (starting from € 20 a month), unlimited SMS, prepaid data up to 30 GB and a device bonus. Customers may choose from four colour alternatives of O_2 Paušál.

O_2 Dáta

The offer of O_2 Data plans is designed for customers with a large data and a lower SMS and voice consumption. The O_2 Data plans are built on significantly higher volumes of data, whereas the price of calls and SMS is driven by the actual consumption of customers. Thanks to a bonus, customers may choose with their plan a device at a convenient price.

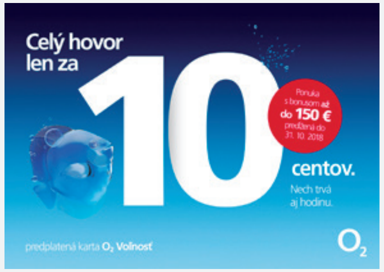


O_2 Fér

O_2 Fér is a revolutionary product that brought the "no commitment" principle to the market and equal prices of calls and SMS messages to all networks and at all times. All this without any regular fees or catches in small print. With O_2 Fér, it does not matter whether customers pay for services by means of an invoice or they recharge their credit. In both cases, they use the plan enjoying the same benefits.

O_2 Voľnosť (Freedom)

With the O_2 Voľnosť prepaid card, the customers do not need to count the minutes and may call as much as they want. The entire call to all networks costs only 10 cents, even if it lasted an hour. The SMS is charged 5 cents and they also have a monthly data package or daily data.



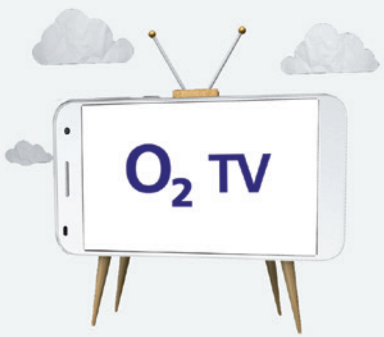
O_2 Internet na doma (O2 Home Internet)

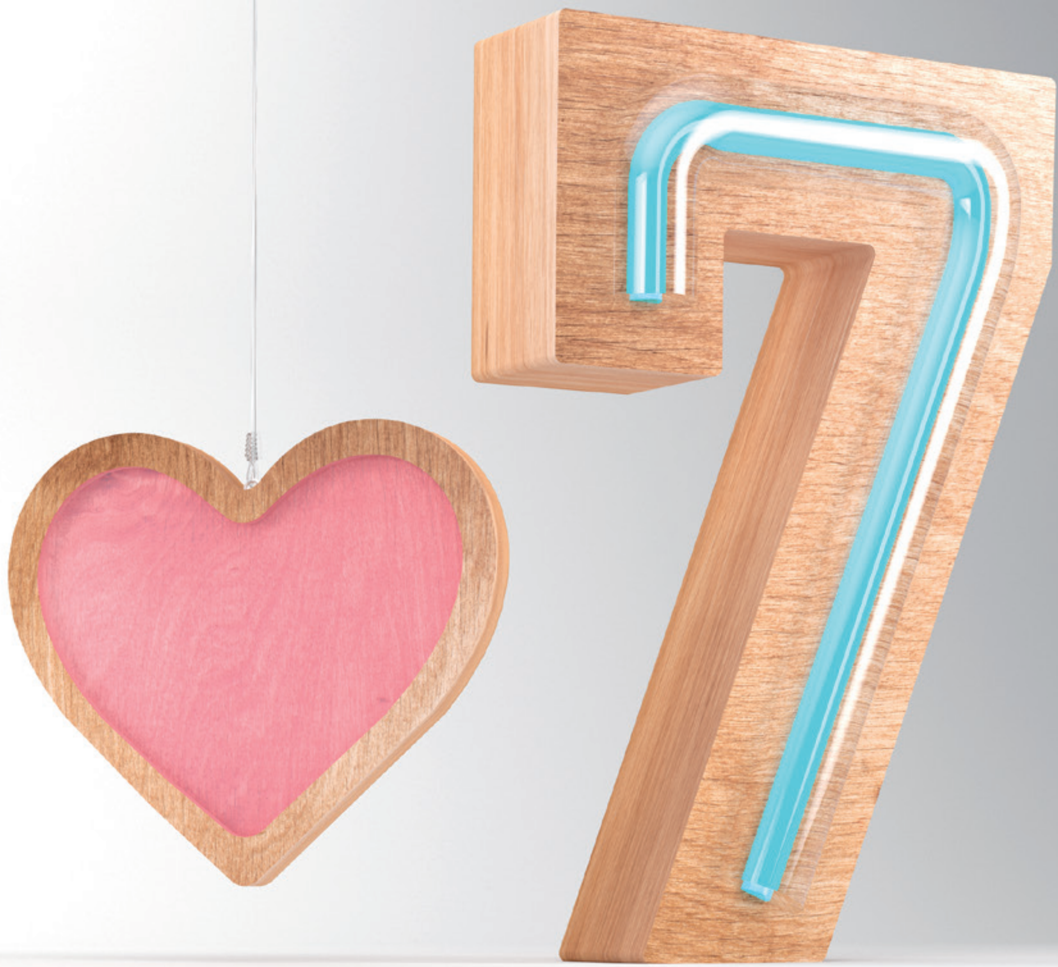
O2 Internet na doma is a wireless Internet connection designed for households and companies. It involves the use of LTE TDD technology on the frequency range of 3.5 GHz and 3.7 GHz allowing to provide customers with speed and experience similar to metallic networks without the necessity to dig for cables. O_2 Internet na doma brings a high transmission speed, stable connection without outages or impact of the weather and an easy free-of-charge installation. In three alternatives Blue, Silver and Gold Home Internet, priced from EUR

15 to EUR 30, the product offers unlimited browsing at the speed ranging from 5 Mbps to 128 Mbps. Once of the volume of data transmitted within the month reaches 500 GB the maximum transmission speed falls to 2 Mbps for download and 1 Mbps for upload and the customer does not pay any additional fees for further data.

O_2 TV

The digital television O2 TV gives the customers a possibility to enjoy more than 70 TV channels. The O_2 TV service is available for four devices and different TV channels may be watched on several devices at the same time. Customers may use the comfort of the digital television with the recording and stop function, or the option to watch live broadcasting or re-playing shows during up to seven days after its broadcasting. The packages of home O_2 TV including a set-top-box that customers can choose from are the following: Blue, Silver and Gold O_2 TV priced from EUR 15 per month. For watching television on their handsets, the customers may activate O_2 TV v mobile (Mobile O_2 TV) with over 30 TV channels at the price of EUR 5 per month. For using O_2 TV, customers need to activate O_2 Internet na doma (O2 Home Internet) and to get O_2 TV v mobile (Mobile O_2 TV) they need to have any invoiced plan from O_2.





Social Responsibility

O_2 counts among those companies that have the courage to voice their opinion also in society-wide topics not directly related with business. It perceives corporate responsibility as its integral part without hesitating to step up for the values of fairness and transparency and promote them also outside of the realm of its business. Precisely these values represent the key pillars of the company that are encoded in its corporate culture and the company builds on them also in its social responsibility strategy.

For a long time, O_2 has been highlighting the importance of freedom in its various aspects and fighting disinformation and hoaxes spreading online, which it considers a dangerous phenomenon. The basic pillars of the social responsibility strategy of O_2 includes, besides the fair approach to all customers, also an open relation to employees and a careful selection of suppliers with the aim of excluding from the supplier chain businesses with affairs or dubious practices.

- For these efforts in 2018 the company was honoured with the Via Bona Slovakia award in the category Fair Player in the Market, namely for the "courage to open sensitive social topics" and for an overall fair approach to business.
- On the occasion of the 50th anniversary of Czechoslovakia's occupation in August 1968, O_2 commemorated these events that had a significant impact on freedom. The topic was addressed in the special weekend reading of the Sóda magazine and supported commemorating activities under the Spýtaj sa vašich (Ask Your Parents) project and the Cvernovka Foundation.
- "17 November – Freedom is not Commonplace": Also this year the companies O_2 Slovakia and O_2 Czech Republic commemorated 17 November and the message of the Day of Fight for Freedom and Democracy, namely third time in a row. The main theme of this year was to thank the heroes under the tribunes, i.e. those who had the courage to go out in the streets and stand on the squares. In phase one of the campaign, through the website www.tvareslobody.sk more than 70 unique stories were gathered in which people remembered their stories from the squares. Within the campaign, nearly 90,000 commemorative SMS messages were sent to inhabitants of those towns where gatherings were held in the squares in 1989. The SMS messages alerting about crossing the borders, which was a criminal offense before November 1989, were sent to

more than 50,000 customers of the operator. When going to an unsecured foreign site, the operator's customers got a warning about a "virtual iron curtain", this time in form of a thank you. A special thank you to the heroes of November 1989 was expressed also by a common song "Tváre slobody" (Faces of Freedom) by Ultrazvuk band represented by the musicians Vec and Tono S. Nearly 30 entities – companies, organizations and media reacted to the call of O_2 and joined the public thank you.

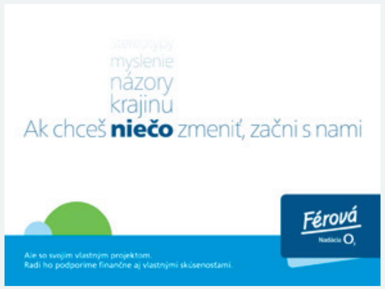
- ast year O_2 became again the partner of Biela vrana (White Crow), which honours the bold and brave individuals, who promoted a positive change in their surroundings. Also this is the way, O_2 supports fairness and heroism in everyday life.
- O_2 launched the Dobrá vec (Good Cause) platform. Thanks to the platform, primary grammar schools could get the possibility to organize one of the O_2 Matej Tóth Sports Academies in their school. The aim of these academies is general physical training of children.

In secondary grammar schools we organized a roadshow aimed to motivate young people, through ambassadors such as Strike, Tomi Kid Kovács or Strapo, not to be afraid to walk their own path and follow their dreams.

- O_2 issued a special samizdat edition of the Sóda magazine, which stressed the importance of freedom of press and media. This edition came out on the Press Freedom Day – 3 May.
- O_2 tries to put emphasis on the environment also that is why it stopped using plastic bottles in its offices and stores. This will mean a saving of as many as 160,000 PET bottles per year. Customers have the possibility to sign all agreements biometrically, so it is paperless.

O_2 Fair Foundation

The O_2 Fair Foundation was established in 2014 to support projects aspiring to change Slovakia for the better and make it more educated, innovative and open.

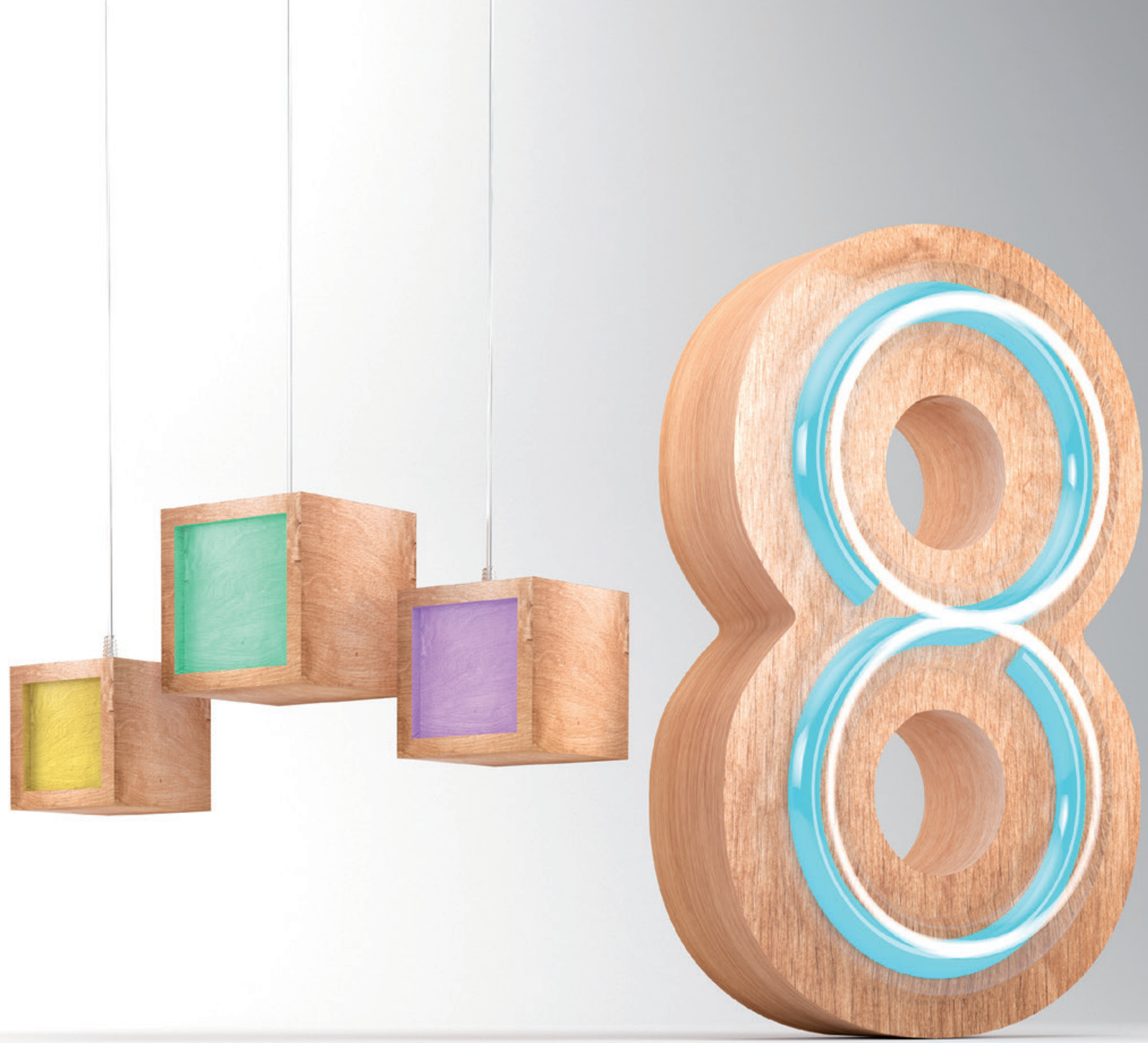


It supports projects in the following areas:

- Educating young people and forming their critical thinking
- Support of young people's employment
- Support of innovations, creative ideas and young entrepreneurs

- Support of human rights and the values of freedom, democracy, humanity, fairness, transparency and development of critical thinking)

In 2018 it supported as many as 18 ambitious projects with the amount of nearly EUR 128,000, including Radostná škola s Danielom Hevierom (Fun School with Daniel Hevier), Sokratov inštitút (Socrates Institute), Noc výskumníkov (Explorers' Night), iKids, DofE, Fond pre investigatívnu žurnalistiku (Investigative Journalism Fund), Spýtaj sa vašich (Ask Your Parents) or the project Generácia 3.0 of the Pontis Foundation. Within the employee grant, the foundation donated EUR 30,000 to projects in which O_2 employees are engaged and which are mostly focused on enhancement of communities.



Sponsoring

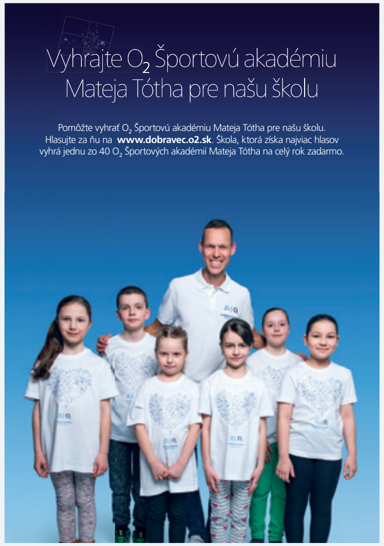
O_2 ŠPORTOVÁ AKADÉMIA
MATEJA TÓTHA

Sponzoring

For O2 sponsoring is an opportunity to help project which help improve the conditions in the society. O_2 has been dedicated to development of children and youth for a longer time now, therefore this year it introduced the O_2 Dobrá vec (Good Cause) platform, which covers two key projects – the O_2 Matej Tóth Sports Academy for primary grammar school children and the motivational roadshow "Moja story, tvoja story" (My Story Can Be Your Story) for secondary grammar school students. The schools had the opportunity to enrol in the competition at www.dobravec.o2.sk and then they were collecting the votes from their supporters. The result was a national activity; from April to June 2018 it was joined by nearly 400 schools that received more than 430 thousand votes.

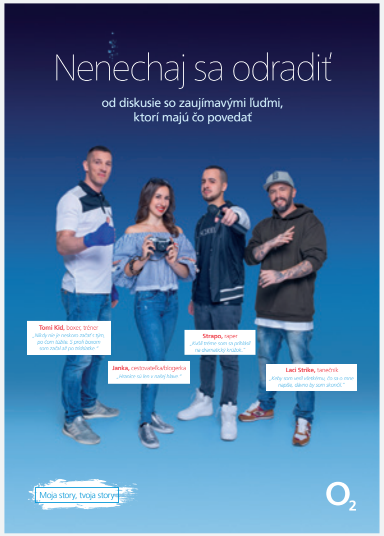
O_2 Matej Tóth Sports Academy

Already in 2017, the Olympic winner and world champion Matej Tóth started together with O_2 the national children project for supporting children's healthy physical activities – Matej Tóth Sports Academy. In 2018, O_2 became the general partner of this project. As many as 40 primary grammar schools from around Slovakia received a grant for this sports program lead by Matej Tóth and his professional team. The academy offers a quality leisure activity in form of activity clubs at the first level of primary grammar schools. Using a well-designed methodology and trained coaches provides the children with the general basics of sports but also motivation and positive relation to physical movement.



Roadshow: "My Story Can Be Your Story"

A motivational roadshow designed for secondary grammar schools. Its aim is to motivate students by means of strong ambassadors (boxer Tomi KID, dancer Laci Strike, rapper Strapo and blogger Janka Travelhacker) not to be afraid to walk their own path. In 24 schools across Slovakia, each of the ambassadors presented their own story about how important it was to persevere and not to give up even though the journey to reaching the goal is not always easy. This unique format pulls the students in the discussion and they openly ask about topics that capture their interest and are up-to-date for them.



O_2 ŠPORTOVÁ AKADÉMIA
MATEJA TÓTHA

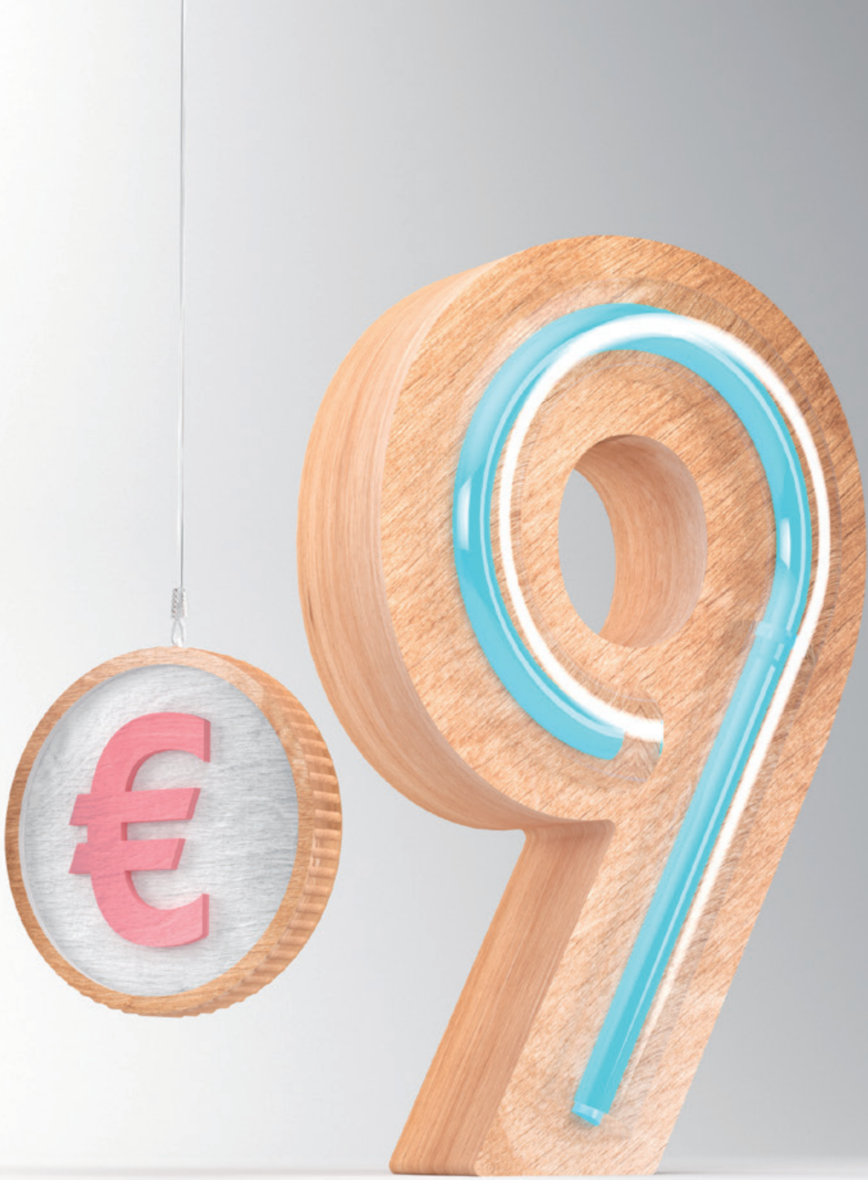
Experience Future

Also in 2018, O_2 decided to support the young talents and start-ups thanks to the partnership of the technological and innovation conference FutureNow. For business customers, O_2 prepared an exceptional pre-conference entitled Experience Future – 24 hours earlier, where they had a chance to experience the best from the FutureNow conference exclusively a day earlier.

Biela noc (White Night)

Since art is a form of communication how to perceive the real world, how not to only live in the virtual online environment, in 2018 O_2 decided to partner with the largest festival of contemporary art in Slovakia – White Night in Bratislava. On the last September weekend, Bratislava was enlivened by art, unique installations and light objects. One of them was also the special 3D projection The Ocean, which the event organizer prepared in cooperation with O_2. The result was a monumental 3D "stingray" floating over the Bratislava's Main Square. The projection was a continuation of the campaign and communication related to the 4G network size. The event was attended by approximately 170 thousand visitors.

Report of Independent Auditor and Individual Financial Statements compiled under International Financial Reporting Standards in the Version Adopted by the European Union as at 31 December 2018



KPMG Slovensko spol. s r. o.
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Internet www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Owner and Directors of O2 Slovakia, s.r.o.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of O2 Slovakia, s.r.o. („the Company"), which comprise the statement of financial position as at 31 December 2018, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Statutory Body for the Financial Statements

The statutory body is responsible for the preparation of the 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 control as statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

KPMG Slovensko spol. s r.o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie auditora: 96
Licence number of statutory auditor: 98

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by statutory body.
- Conclude on the appropriateness of statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements, mentioned above, does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting, and, based on the work undertaken in the course of the audit of the financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2018 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the financial statements.

31 January 2019
Bratislava, Slovak Republic

Slovenská komora audítorov
SKAU
Č. licencie 96
KPMG
Slovensko spol. s r.o.

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ľuboš Vančo
License SKAU No. 745

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in thousands of EUR	Note	31 December 2018	31 December 2017
Non-current assets			
Property, plant and equipment (net)	9	136 972	117 366
Non-current intangible assets (net)	10	54 762	58 593
Capitalized contract acquisition costs and contract assets	11	669	–
Investment in subsidiaries	6	6 934	6 934
Investment in joint venture	6	3	3
Non-current receivables	15	20 794	16 508
Deferred tax asset	12	3 378	5 496
TOTAL NON-CURRENT ASSETS		223 512	204 900
Current assets			
Inventories	13	8 454	7 631
Trade receivables and other financial receivables	15	79 408	57 284
Loans provided	16	1 000	500
Capitalized contract acquisition costs and contract assets	11	5 169	–
Cash and cash equivalents		10 260	9 109
Prepaid expenses		3 085	1 810
TOTAL CURRENT ASSETS		107 376	76 334
TOTAL ASSETS		330 888	281 234
EQUITY			
Share capital		103 203	103 203
Legal reserve fund and other funds		10 320	10 320
Impact of new standards application		2 493	–
Retained earnings		50 775	47 186
TOTAL EQUITY	17	166 791	160 709
LIABILITIES			
Non-current liabilities			
Other non-current liabilities	18	2 478	2 316
TOTAL NON-CURRENT LIABILITIES		2 478	2 316
Current liabilities			
Trade payables and other financial liabilities	19	83 229	83 428
Current income tax liability		3 293	3 428
Loans received	16	67 000	25 000
Deferred revenues	20	8 097	6 353
TOTAL CURRENT LIABILITIES		161 619	118 209
TOTAL LIABILITIES		164 097	120 525
TOTAL EQUITY AND LIABILITIES		330 888	281 234

The notes on pages 10 to 44 are an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	Note	31 December 2018	31 December 2017
REVENUES	21	290 295	269 653
PPE capitalized		2 894	2 563
Costs of goods sold and services provided	22	(159 800)	(151 661)
	8, 9	(27 144)	(27 552)
Depreciation and amortization	11	(4 089)	–
Amortisation of capitalised contract acquisition costs	23	(24 417)	(21 991)
Personnel costs	24	(4 269)	(4 417)
Other expenses	15	(3 066)	(2 587)
OPERATING PROFIT		70 404	64 009
Financial costs	25	(1 446)	(1 044)
Financial income	25	318	705
Financial costs (net)		(1 128)	(339)
PROFIT BEFORE TAX		69 276	63 670
Income tax expense	26	(18 501)	(16 484)
PROFIT AFTER TAX		50 775	47 186
Other comprehensive income for the period		–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		50 775	47 186

The notes on pages 10 to 44 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	Share capital	Legal reserve fund and other funds	Retained earnings from previous periods	Total equity
BALANCE AS AT 1 JANUARY 2017	103 203	9 287	41 705	154 195
Contribution to legal reserve fund	–	1 033	(1 033)	–
Dividends	–	–	(40 672)	(40 672)
Total comprehensive income for the period	–	–	47 186	47 186
BALANCE AS AT 31 DECEMBER 2017	103 203	10 320	47 186	160 709
Balance as at 1 January 2018	103 203	10 320	47 186	160 709
Contribution to legal reserve fund	–	–	–	–
Dividends	–	–	(47 186)	(47 186)
Impact of new standards application	–	–	2 493	2 493
Total comprehensive income for the period	–	–	50 775	50 775
BALANCE AS AT 31 DECEMBER 2018	103 203	10 320	53 268	166 791

The notes on pages 10 to 44 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	31 DECEMBER 2018	31 DECEMBER 2017
Profit/loss from ordinary activities before income tax	69 276	63 670
Cash flows from operating activities		
Depreciation of property, plant and equipment and amortization of intangible assets	27 144	27 552
Change in value adjustment to receivables and write-off of receivables	3 914	2 623
Change in accruals and deferrals	468	(207)
Interest expense	983	357
Gain/loss on sale of non-current assets	56	13
Equity and deferred tax adjustment due to application of IFRS 15	3 154	–
Effect of changes in working capital		
Change in receivables from operations	(30 023)	(47 217)
Change in payables from operations	(9 644)	20 196
Change in inventories	(823)	(3 619)
Interest paid	(983)	(357)
Income tax paid and levy on business in regulated industries	(17 180)	(9 801)
NET CASH FLOWS FROM OPERATING ACTIVITIES	46 342	53 210
Cash flows from investing activities		
Acquisition of property, plant and equipment	(29 365)	(39 379)
Acquisition of non-current intangible assets	(10 108)	(6 719)
Proceeds from sale of property, plant and equipment	(34)	2
Short-term loans provided to subsidiary	(500)	–
Repayment of short-term loans from the parent company	–	2 400
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(40 007)	(43 696)
Cash flows from financing activities		
Dividends paid	–	(40 672)
Acquisition of non-current financial assets	–	(3 900)
Loans received	(5 186)	25 000
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(5 186)	(19 572)
NET INCREASE OF CASH AND CASH EQUIVALENTS	1 151	(10 058)
Cash and cash equivalents at the beginning of the accounting period	9 109	19 167
Cash and cash equivalents at the end of the accounting period	10 260	9 109

The notes on pages 10 to 44 are an integral part of these financial statements.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION ABOUT THE COMPANY

REPORTING ENTITY

O2 Slovakia, s.r.o. ("the Company") is a limited liability company established on 18 November 2002. The Company was incorporated into the Commercial Register of the District Court Bratislava, Section s.r.o., file 27882/B on 12 December 2002.

The Company's registered office is in Bratislava, Einsteinova 24, Slovak Republic, registration number 35848863, tax registration number 2020216748.

The Company is part of O2 Czech Republic group ("the Group"). The parent company is O2 Czech Republic a.s., Za Brumlovkou 266/2, 140 22 Prague 4 – Michle, the Czech Republic.

The majority shareholder of the parent company in 2018 were companies within PPF Group controlled by Mr. Petr Kellner.

The Company belongs to the leading telecommunication operators in the Slovak market providing phone, data and multimedia services via a public mobile phone network.

The Company is entitled to conduct its business under the brand name O2 for a period of three years till 27 January 2022. The Company is incorporated in the partnership program of the Telefónica Group which enables the partner telecommunication operators to draw economic benefits from the extent of the Telefónica Group and to co-operate in key business areas.

NUMBER OF EMPLOYEES

The number of employees employed by the Company in 2018 amounted in average to 679, in 2017 it was 637 employees.

The number of employees as at 31 December 2018 was 691, thereof 8 managers (as at 31 December 2017 it was 660, thereof 8 managers).

INFORMATION ON UNLIMITED LIABILITY

The Company is not a partner with unlimited liability in other entities according to Article 56 (5) of the Commercial Code.

LEGAL REASON FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared as ordinary financial statements in accordance with Article 17 (6) and Article 17a (2) of the Act No. 431/2002 Coll. on Accounting as amended for the accounting period from 1 January 2018 to 31 December 2018.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUE

These financial statements have been prepared as at 31 December 2018 and for the year then ended and were prepared and authorized for issue by the Company's statutory representatives on 31 January 2019.

These financial statements can be amended until their approval by the general meeting.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR THE PRECEDING ACCOUNTING PERIOD

The financial statements of the Company as at 31 December 2017, i.e., for the preceding accounting period, were approved by the Annual General Meeting on 23 March 2018.

THE COMPANY'S BODIES

EXECUTIVE OFFICERS

Ing. Martin Klímek (from 2 May 2012)

Mgr. Dávid Durbák (from 4 June 2014)

Mgr. Peter Gažík (from 1 June 2015)

SUPERVISORY BOARD

Ján Bechyně (from 1 November 2017)

Ing. Jindřich Fremuth (from 10 January 2018)

Mgr. Michal Gajdzica (from 21 March 2018)

SHAREHOLDER STRUCTURE

Structure is as follows:

	As at 31 December 2018 (in thousands of EUR)	Share and voting rights (%)	As at 31 December 2017 (in thousands of EUR)	Share and voting rights (%)
O2 Czech Republic a.s.	103 203	100	103 203	100
Total	103 203	100	103 203	100

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

INFORMATION ABOUT THE ULTIMATE PARENT

The Company is part of O2 Czech Republic group ("the Group"). The parent company is O2 Czech Republic a.s., Za Brumlovkou 266/2, 140 22 Prague 4 – Michle, the Czech Republic.

The majority share (81.06%) of voting rights in parent company in 2018 are held by Mr. Petr Kellner, through companies within PPF Group that is controlled by Mr. Petr Kellner. The PPF Group in 2018 consisted namely of following companies:

- PPF A3 B.V.
- PPF Telco B.V.
- PPF CYPRUS MANAGEMENT Ltd (on 28 November 2018, ANTHIAROSE LIMITED was changed to PPF CYPRUS MANAGEMENT LIMITED)

The consolidated financial statements are prepared by O2 Czech Republic a.s. The consolidated financial statements are available at the registered office of the parent company and at the City court in Prague, the Czech Republic.

The companies mentioned above belong into PPF Group N.V. The consolidated financial statements of PPF Group N.V. are available at the registered office of the company, at Strawinskylaan 933, 1077 XX Amsterdam, the Netherlands.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS/EU).

3 BASIS OF PREPARATION

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

i. Basis of measurement

The financial statements have been prepared on the historical cost basis.

ii. Functional and presentation currency

The Company´s functional currency is euro. The financial statements are presented in the euro and all amounts are presented in thousands of euro, unless otherwise indicated.

iii. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS/EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In connection with future activities the Company makes estimates and assumptions. Actual results may differ from those estimated. Information about estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in the following section:

The estimated provision for disposal of the facilities – Assets retirement obligation (ARO)
The Company is obliged to remove the base stations and their technical equipment, if they put an end to their use. Provision for removal was determined based on the cost of the removal (for single base), which the Company will have to make to meet its commitments to environmental protection in the context of removing the base and putting them in their original condition. The provision is determined on the basis of current costs, which are extrapolated into future years using the best available estimate of dealing with this obligation. The liability is discounted at the risk-free interest rate. This estimate is reviewed annually and the provision is adjusted accordingly, while the value of assets is also adjusted. The Company estimates the useful life of their stations ranges from 45 to 90 years. The provision for disposal of the facilities (ARO) was recognized in the amount of EUR 2,475 thousand (2017: EUR 1,921 thousand).

Sensitivity analysis of Assets retirement provision (ARO)
Change in the discount rate by 1 percentage point and change in the costs for removing the base by 10% compared to the original estimates used as at 31 December 2018 would increase or decrease the provision for the dismantling of the facilities (ARO) in the following amounts:

Sensitivity analysis has been estimated based on year-end balances and the actual results of these estimates may vary in the future.

The Company expects that the total costs of dismantling the facilities and putting leased sites to their original condition will be at the end of their useful life in the total amount of EUR 22,118 thousand (2017: EUR 17,548 thousand) in future prices.

Future events and their impact cannot be determined with a certainty. Similarly, accounting estimates require review and estimates used for preparation of the financial statements are adjusted when new circumstances arise, or new information and experience is available, or when the business environment in which the Company operates changes. Actual results may differ from those estimated.

Sales commissions as incremental contract acquisition costs
The amortisation period (useful life) for capitalized incremental costs of obtaining a contract was set as the expected average time that the customer will use the Company's services. This amortisation period was further specified by the product and the sales channel that received the contract. Amortisation periods are revised and reassessed regularly with respect to the development of business activities, trends in the telecommunications sector and the structure of business channels.

	31 December 2018	
in thousands of EUR	Increase	Decrease
Discount rate +/– l p.p.	(998)	1 861
Dismantling costs +/– 10%	247	(225)

4 SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Transactions in foreign currencies are translated to the functional currency (euro) at the foreign exchange rate of the European Central Bank ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in profit or loss.

b) Non-current intangible assets

i. Recognition and measurement

Intangible assets acquired by the Company have a finite useful life and are measured at cost less accumulated amortization and any accumulated impairment losses (see accounting policy f)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed intangible assets includes cost of materials, direct labor and production overheads.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it, increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, are recognized in profit or loss when incurred.

iii. Amortization

Amortization is calculated from the acquisition cost of the asset.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of intangible assets.

iv. Impairment review

Impairment review of non-current intangible assets is performed in a similar manner as for property, plant and equipment described in the accounting policy c) iv. below.

The estimated useful life, amortization method and amortization rate are set out for individual groups of non-current intangible assets, as provided in the table below:

	Estimated useful life in years	Annual rate of amortization in %	Amortization method
Software	2 to 7	14 to 50	straight-line
Brand	4	25	straight-line
Other valuable rights	2 to 19	5 to 50	straight-line
Other intangible assets	4	25	straight-line

Where the use of non-current intangible assets is determined by a contract (e.g. brand) or by an official decision (license), useful life shall be determined according to the validity of the contract or official decision.

Amortization methods and useful lives, as well as residual values, are reassessed at the reporting date and adjusted if appropriate.

c) Property, plant and equipment

i. **Recognition and measurement**

Items of property, plant and equipment are initially measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy f)). Cost includes expenditure that is directly attributable to the acquisition of the asset and also the initial estimate of costs related to future dismantle of telecommunication transmitters and bringing of rented locations into original conditions after the end of useful life. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net in profit or loss.

ii. **Subsequent expenditure**

The Company recognizes in the carrying amount of an item of property or plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. Expenditure on repairs or maintenance of property and equipment incurred to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred.

iii. **Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated.

The estimated useful life, depreciation method and depreciation rate are set out for individual groups of property, plant and equipment as follows:

	Estimated useful life in years	Annual rate of depreciation in %	Depreciation method
Buildings	10 to 55	2 to 10	straight-line
Technology and office equipment	2 to 15	7 to 50	straight-line
Optical networks	13 to 35	3 to 8	straight-line
Other property, plant and equipment	2 to 10	10 to 50	straight-line

Depreciation methods and useful lives, as well as residual values, are reassessed at the reporting date and adjusted if appropriate.

In the event of a temporary diminution in the value in use of a non-current tangible asset, an impairment provision equal to the difference between its value in use and net book value is recognized.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

iv. Impairment review

Factors considered important, as part of an impairment review, include the following:

- technological advancements;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business;
- obsolescence of products.

When the Company determines that the carrying value of non-current assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on the Company´s estimates of projected net discounted cash flows expected to result from that asset, including eventual disposition. The estimated impairment could prove insufficient if the analysis overestimated the cash flows or conditions change in the future. For further details refer to note f) Impairment.

d) Leases

i. Assets leased (the Company as Lessee)

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance lease. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

ii. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

iii. Assets leased (the Company as Lessor)

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

e) Financial instrumentse

i. Non-derivative financial assets and liabilities – recognition and derecognitione

The Company initially recognizes loans and receivables on the date when they are originated.

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

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized costs using the effective interest method.

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

ii. Non-derivative financial assets – measurement

The Company classifies financial assets into the following categories: financial assets at amortized cost, financial assets at fair value with fair value gains or losses recognized in other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL). The classification depends on business model for managing the asset and the asset's contractual cash flow characteristics. From the above mentioned categories the Company has only financial assets at amortized cost in the reported periods.

Financial asset is measured at amortized cost if both conditions are met: it is not classified as FVTPL and the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii. Non-derivative financial liabilities – measurement

The Company classifies its financial liabilities according to contractual relations bound to them and depending on the purpose which the Company's management concluded a contract with. The Company has only financial assets at amortized cost in the reported periods (loans, trade payables and other financial liabilities).

The Company's management determines the classification at initial recognition and reassesses it at each reporting date. The initial measurement is at fair value less transaction costs directly attributable to acquisition of a specific financial liability and subsequently stated at amortized carrying amount determined using the effective interest rate method. Profit or loss resulting from financial liabilities is recognized in the statement of profit or loss.

Financial liabilities are classified as short-term if the Company does not have an unconditional right to settle the liability in more than 12 months after the reporting date.

LOANS

Interest-bearing loans are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the loan on an effective interest rate basis.

TRADE AND OTHER PAYABLES

Trade and other payables are recognized initially at fair value. Subsequent to initial recognition they are stated at amortized cost.

f) Impairment

FINANCIAL ASSETS

Financial assets at amortized cost and contract assets are considered to be impaired base on expected credit losses. The Company has not any financial asset at FVOCI.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as expected lifetime credit losses. There is an exception for the following financial assets where 12-month expected credit losses are recognized: non-current bank loans and deposits in banks where the credit risk from initial recognition did not significantly increase.

Significant increase of credit risk

When making the assessment of whether there has been a significant increase in credit risk since initial recognition and estimating the expected credit losses, the Company considers appropriate and relevant information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed risk assessment, including information on possible future developments.

The Company assumes that the credit risk of financial assets has increased significantly if the maturity of the financial asset exceeds 30 days.

Default

The Company considers a financial asset to be in default if it is unlikely that the borrower meets its obligations to the Group in full without undertaking any steps like realization of the security (if available); or the borrower is overdue for more than 90 days.

Expected credit losses

Expected credit losses are determined as a weighted probability estimate of credit losses at the present value of all cash outflows. They are discounted at the effective interest rate of the financial asset.

All impairment losses are recognized in profit or loss and reflected in an allowance account against receivables.

NON-FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets, including property, plant and equipment (see accounting policy c) iv), intangible assets (see accounting policy c) iv), inventories (see accounting policy g)) and deferred tax assets (see accounting policy m)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

g) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Acquisition cost includes the purchase price and related costs (transport costs, customs duty, commissions, etc.). Any discounts and rebates received decrease the cost of inventories.

Slow moving and obsolete inventories are written down for any impairment of value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write down or loss occurred.

The cost of inventory is based on the weighted average principle.

h) Prepaid expenses and accrued income

Prepaid expenses and accrued income are presented in accordance with the matching principle in terms of substance and time.

The Company recognizes the accrual accounts in accordance with the principle of expenses and revenues in the period to which they belong in terms of substance and time, these are the anticipation and transition accrual items.

Prepaid expenses comprise mainly performance ordered from the Company's suppliers and providers and these relate to future periods in terms of substance and time. Upon delivery of a service these will be recognized in cost of services provided or cost of goods.

i) Accrued expenses and deferred income

Accrued expenses and deferred income are presented in accordance with the matching principle in terms of substance and time. Deferred income includes mainly customer's credit for prepaid services.

j) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company recognizes provision for decommissioning of transmitter stations, provision for untaken holiday and provision for litigations.

k) Revenues

Revenues from own services and goods are stated net of Value Added Tax, discounts and deductions (rebates, bonuses, early payment discounts, credit notes etc.). Revenues are recognized at the date of delivery of goods or provision of services. They are measured at fair value of the consideration received or receivable if this amount can be estimated reliably.

Revenues from services are recognized in the accounting period when rendered in proportion to the stage of completion of the service. The stage of completion is assessed by reference to proportion of services rendered to the overall extent of agreed services.

Depending on the tariff, customers may use a defined extent of telecommunication services during the billing period. The unused extent of services is not transferred to the following periods except for data transfer service, where unused data can be transferred to the following period.

In assessing whether revenues should be recognized gross (i.e. with separate disclosure of costs) or on a net basis, the Company considers the following indicators of gross reporting:

a) the Company is the primary obligor in the arrangement,
b) the Company has general inventory risk,
c) the Company has price latitude,
d) the Company changes the product or provides additional services,
e) the Company has discretion in supplier selection,
f) the Company is involved in the determination of product or service specifications,
g) the Company has credit risk,
h) the Company has the ability to set the terms of the transaction,
i) the Company has the managerial control over the transaction.

The relative weight of each indicator is considered when concluding which revenue accounting treatment to use. If the Company enters into a relation characterized by representation or mediation (agent relationship), the revenue is recognized in its net value, i.e. at the amount of a margin or commission.

The main activity of the Company is sale of telecommunication services to end customers, other operators and sale of mobile phones and accessories.

Voice services, SMS and data

Revenues from billed telecommunication services are invoiced to customers on a monthly basis and are recognized in the period of using the service regardless of the date of invoicing. Revenues from prepaid services are recognized in the period of using the service regardless of the date of charging credit.

Sale of mobile phones and accessories

Revenues from sale of mobile phones and accessories are recognized at the date of sale to a distributor or end customer. Resulting losses from sale at a discount are recognized at the date of sale to a distributor or end customer.

Premium SMS

Revenues from SMS enabling payment via mobile phones for goods and services provided by third parties, are recognized net in the form of commission for the services provided.

Connection fees

Revenues from connection fees arise from phone calls started in the network of another domestic or foreign operator, but finished or transferred via the Company's network. These revenues are recognized at the time of accepting such a phone call in the Company's network. The same approach is also applied for SMS and MMS.

l) Finance costs and finance income

Finance costs and finance income comprise mainly from:

- bank charges,
- interest income, and
- foreign currency gains and losses.

Interest income is recognized in profit or loss as they accrue, using the effective interest method.

Foreign currency gains and losses on financial assets and liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

m) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

i. Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities, in a specific cases.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii. Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes or interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

n) Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

5. DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and / or disclosure purposes based on the following methods:

i. Trade receivables and other financial receivables

The fair value of trade and other financial receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. Fair values of loans are calculated by discounting future cash flows using effective interbank rates. For received loans with a remaining maturity of less than three months, it is reasonable to regard their book value as approximate fair value.

6. INVESTMENTS

The Company has a 50% share in the company Tesco Mobile Slovakia, s.r.o.

which is joint venture of the Company and Tesco Stores SR, a.s. Share capital of the company is EUR 5 thousand. Financial statements of the company Tesco Mobile Slovakia, s.r.o. for 2018 were not available as at the date of preparation of these financial statements. Loss for 2017 amounted to EUR (15) thousand. Retained earnings from previous years amounted to EUR 67 thousand as at 31 December 2018.

The Company established new company O2 Business Services, a.s. on 3 December 2015, in which the Company has 100% share. Share capital of EUR 25 thousand was fully paid, equity is of EUR 398 thousand as at 31 December 2018. The Company records equity investment and capital funds investment in total sum of EUR 6,928 thousand. The Company assessed the potential impairment of investment and reached the conclusion that the investment is not impaired.

In 2014 the Company established foundation „Férová nadácia" at cost of EUR 6.6 thousand.

7 NEW STANDARDS AND INTERPRETATIONS

For the financial statements as at 31 December 2018, the Company adopted IFRS 9 Financial Instruments that did not have a material effect on the financial statements and the Standard IFRS 15 Revenue from contracts with customers that had material impact on the financial statements. Its implementation and impact are described below.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The new standard IFRS 15 introduces a comprehensive model for customer contracts revenue recognition. From the effective date of 1 January 2018, IFRS 15 replaced the following standards and interpretations for revenue recognition:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC 31 Revenue – Barter Transactions Involving Advertising Services

IFRS 15 relates to revenues from contracts with customers. Per IFRS 15, the customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities, in exchange for consideration. The new standard creates a single model for revenue recognition from contracts with customers. The core principle underlying the new model - revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. This new standard for revenue recognition contains more normative guidelines:

- Whether the contract (combination of contracts) contain more than one specified good or service; if so, when and how the goods or services should be separated.
- Whether the transaction price, allocated to the each perfomance obligation, and related revenue should be recognized over a period of time or at a point in time. Under IFRS 15, the entity should recognize revenue when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Unlike IAS 18, the new standard does not contain separate instructions for the sale of goods and the provision of services. The new standard requires an entity to assess whether the proceeds

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should be recognized over time or at a point of time regardless of whether the proceeds relate to the sale of goods or the provision of services.

- Whether the transaction price contains variable considerations, how these variable considerations will affect the value and timing of revenue recognition. The concept of variable considerations is widely understood – the transaction price is considered to be variable due to discounts, rebates, refunds, credit, price reductions, incentives, performance bonuses, fines and contingent liabilities.
- When the contract acquisition costs can be capitalized.

IMPACT OF IFRS 15 ADOPTION

Adoption of the new standard as at 1 January 2018 had material impact on the financial statements, in particular as regards the timing of revenue recognition and capitalization of the contract acquisition costs.

The timing of revenue recognition and the classification of the Company's revenue as a service provided or the sale of equipment is affected by the allocation of the transaction price to more performance obligations. Due to the current business models, using this standard, most of revenues are recognized earlier, in the form of revenues from the sale of equipment.

The Company chose IFRS 15 modified cumulative retrospective approach, which means that prior year comparatives were adjusted only for contracts that have not been completed prior to 1 January 2018.

The cumulative effect of initially applying IFRS 15 was recognized as an adjustment to the opening balance of retained earnings. Prior year comparatives were not adjusted.

The effect of the initial IFRS 15 application on equity as of 1 January 2018 is shown in the table below:

in thousands of EUR	Impact of IFRS 15 application
Retained earnings	
Contract acquisition costs capitalisation	2 974
Multiple supplies of telecommunication services and devices	181
Deferred tax	(662)
IMPACT AS AT 1 JANUARY 2018	2 493

The following table reflects the impact of IFRS 15 on the statement of financial position as at 31 December 2018.

Below the impact on statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is presented.

Impact on the statement of financial position as at 31 December 2018

in thousands of EUR	After IFRS 15 adoption	Adjustment	Before IFRS 15 adoption
ASSETS			
Capitalized contract acquisition costs and contract assets	669	(669)	–
Deferred tax asset	3 378	(176)	3 202
TOTAL NON-CURRENT ASSETS	223 512	(845)	222 667
Capitalized contract acquisition costs and contract assets	5 169	(5 169)	–
TOTAL CURRENT ASSETS	107 376	(5 169)	102 207
TOTAL ASSETS	330 888	(6 014)	324 874
EQUITY			
Retained earnings	50 775	(2 121)	48 654
Impact of new standards adoption	2 493	(2 493)	–
TOTAL EQUITY	166 791	(4 614)	162 177
LIABILITIES			
TOTAL NON-CURRENT LIABILITIES	2 478	–	2 478
TOTAL CURRENT LIABILITIES	161 619	(1 400)	160 219
TOTAL LIABILITIES	164 097	(1 400)	162 697
TOTAL EQUITY AND LIABILITES	330 888	(6 014)	324 874

Impact on statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

in thousands of EUR	After IFRS 15 adoption	Adjustment	Before IFRS 15 adoption
Revenue	290 295	25	290 270
Costs	(159 800)	(6 798)	(166 598)
Amortisation of incremental contract acquisition costs	(4 089)	4 089	–
OPERATING PROFIT	70 404	(2 685)	67 719
Profit before tax	69 276	(2 685)	66 591
Income tax	(18 501)	564	(17 937)
PROFIT AFTER TAX	50 775	(2 121)	48 654

NEW SIGNIFICANT ACCOUNTING POLICIES AND THEIR IMPACT AND CHANGE FROM PREVIOUS ONES ARE DESCRIBED BELOW.

i) Multiple supplies of telecommunication services and devices

The standard requires to recognize revenues at the time of the transfer of the goods or service to customers at value of considerations the Company expects to receive in exchange for the goods or services supplied. The standard introduces the detailed disclosures of revenue, provides guidance on transactions that have not previously been specifically addressed (e.g. significant customers' rights, principal vs. agent considerations etc.). The standard also details the requirements for multiple components accounting.

According to the previous accounting and reporting framework, the Company recognized revenue for certain multiple deliveries of telecommunication services and telecommunication equipment in the business segment in accordance with the „Contingent revenue cap" that was applied to these types of contracts and represented the reallocation of contract revenue depending on the deliveries made. For corporate contracts, it is usual provide on preferential terms for the purchase of telecommunication equipment over the life of the contract. The impact on equity as at 1 January 2018 due to a change in recognition of revenues from contracts with corporate customers that have not been completed at the date of adoption of the standard, is an increase of EUR 143 thousand.

Commitments to deliver distinct goods or services are defined in the Standard as performance obligation. The Company provides telecommunication services, which are offered separately and represent separate performance obligation. Most of the goods and services that are sold together under one package represent a separate performance obligations if the customer can also benefit from them separately.

In accordance with the requirements of the new standard, the transaction price is allocated to separate performance obligations under the contract in proprotion to those stand-alone selling prices of goods and services. Stand-alone selling price is the price at which the Company sells promised good or service to its customers in a stand-alone business. The Company considers its price for goods and services in price list for stand-alone selling prices.

The Company recognizes revenue when control of goods and services passes to the customer. The Company considers whether performance obligations are satisfied over time or at a point in time. Most services are provided over time as the customer benefits from these services during the delivery of the service.

The Company concludes contracts with customers with individual terms and, therefore, considers the contract terms individually.

ii) Sales commissions: capitalized contract acquisition costs

Capitalized incremental costs of obtaining a contract are mainly commissions from an external trading channel and costs associated with setting up a service that are directly attributable to contract acquisition and are incremental. These are recognized in statement of financial position – line capitalized contract acquisition costs and are amortised on a straight-line basis. Amortisation is recognized in the line Amortisation of capitalized contract costs in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018. Amortisation period is set as the expected average duration of the contracts, depending on the product and the sales channel (from 21 to 30 months).

According to the accounting standards applicable in the previous period, all commissions paid to intermediaries for activation, service provision, marketing and other activities were included in the cost of sales for the period and recognized in profit or loss - line Costs of goods sold and services provided.

iii) Change of classification of accrued income

The Company, in line with the requirements of IFRS 15, has changed the classification of accrued income and prepaid card revenue from customers and recognize them as short-term contractual obligations.

8 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and have not been applied in preparing the financial statements. The following standards will have an impact on the Company's financial statements. The Company plans to adopt new standards, amendments to standards and interpretations when they become effective.

IFRS 16 LEASES

(Effective for annual periods beginning on or after 1 January 2019)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognize a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

The Company expects that the Standard will have material impact on the financial statements as it will require the Company to disclose in its statement of financial position assets and liabilities in respect of operating leases in which the Company is the lessee.

The Company will recognize a new asset (Right-of-use) and a lease liability from lease of administrative and sales premises and land on which transmitters for telecommunication signal distribution are located.

There will be a change in recognition of expenses related to leases. The Company will recognize depreciation of Right-of-use and interest on the lease liability. Prior to Standard implementation, the Company recognized operating lease expenses on a straight-line basis over the life of the lease and recognized asset and liability only to ensure the matching of lease payments and expense recognition.

The Company does not expect that the new Standard, when initially applied, will have material impact on its finance leases.

Based on the information available at the date of preparation of these financial statements, the Company estimates that as at 1 January 2019, both additional assets and liabilities of EUR 38 million will be recognized. The depreciation of Right-of-use is estimated at EUR 6 million and additional interest costs of EUR 1 million for the year 2019. The impact on the profit for the year 2019 is estimated at EUR 0.5 million (reduction of profit after tax).

The Company chose IFRS 16 modified retrospective and will have recognized assets equal to recognized lease liabilities as at 1 January 2019. Prior year comparatives won't be adjusted.

The Company also decided to simplify definition of lease contracts - lease contracts that were concluded prior to 1 January 2019 and were initially identified as Leases under IAS 17 and IFRIC 4.

The Company has elected not to recognize assets and liabilities for leases with a lease term of 12 months or less and accounting of these leases remains unchanged.

The Company has also elected for an exemption for low value assets and accounting of these leases remains unchanged.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

9. PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR	Buildings	Optical networks	Technologies and office equipment	Other assets	Acquisition of property, plant and equipment	Total
Acquisition cost/Conversion cost						
Balance as at 1 January 2017	46 891	2 520	97 845	489	34 008	181 755
Additions	1 908	–	9 212	0	28 540	39 659
Disposals	201	–	5 412	8	925	6 546
Transfers	1 514	21	4 631	–	(6 166)	–
BALANCE AS AT 31 DECEMBER 2017	50 112	2 542	106 276	481	55 457	214 868
Balance as at 1 January 2018	50 112	2 542	106 276	489	55 457	214 868
Additions	4 016	155	12 733	8	16 587	33 499
Disposals	125	–	12 872	6	–	13 003
Transfers	4 088	12 605	10 911	16	(27 619)	–
BALANCE AS AT 31 DECEMBER 2018	58 091	15 301	117 047	507	44 424	235 364
Accumulated depreciation						
Balance as at 1 January 2017	18 959	323	68 261	421	310	88 273
Additions	2 540	73	9 466	12	2 655	14 746
Disposals	151	–	5 358	8	–	5 516
BALANCE AS AT 31 DECEMBER 2017	21 348	395	72 369	425	2 965	97 502
Balance as at 1 January 2018	21 348	395	72 369	425	2 965	97 502
Additions	2 692	371	11 562	14	(870)	13 769
Disposals	100	–	12 774	6	–	12 879
BALANCE AS AT 31 DECEMBER 2018	23 940	767	71 157	433	2 095	98 392
Impairment losses						
Balance as at 1 January 2017	–	–	–	–	680	680
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	(680)	(680)
BALANCE AS AT 31 DECEMBER 2017	–	–	–	–	0	0
Balance as at 1 January 2018	–	–	–	–	0	0
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
BALANCE AS AT 31 DECEMBER 2018	–	–	–	–	0	0
Carrying amount						
As at 1 January 2017	27 933	2 198	29 585	68	33 018	92 802
AS AT 31 DECEMBER 2017	28 765	2 146	33 907	57	52 491	117 366
As at 1 January 2018	28 765	2 146	33 907	57	52 491	117 366
AS AT 31 DECEMBER 2018	34 151	14 534	45 890	66	42 329	136 972

Property, plant and equipment do not include any separate, individually significant items. The Company does not record any property, plant and equipment which are not utilized, except for property, plant and equipment in acquisition.

The Company does not lease its property, plant and equipment to third parties.

PLEDGED ASSETS

No pledge has been established on property, plant and equipment as at 31 December 2018 (as at 31 December 2017: none).

The Company does not have any restricted rights to property, plant and equipment as at 31 December 2018 (as at 31 December 2017: none).

INSURANCE

The Company's property, plant and equipment is insured against damages caused by theft and natural disaster.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. NON-CURRENT INTANGIBLE ASSETS

in thousands of EUR	Licences	Software and valuable rights	Brand	Acquisition of intangibles	Total
Acquisition cost/Conversion cost					
Balance as at 1 January 2017	48 499	53 691	19 689	4 737	126 617
Additions	59	5 282	–	3 788	9 130
Disposals	–	14	–	–	14
Transfers	589	3 377	–	(3 967)	–
BALANCE AS AT 31 DECEMBER 2017	49 148	62 335	19 689	4 559	135 731
BALANCE AS AT 1 JANUARY 2018	49 148	62 335	19 689	4 559	135 731
Additions	–	5 773	–	3 638	9 412
Disposals	–	324	–	–	324
Transfers	372	3 882	–	(4 254)	–
BALANCE AS AT 31 DECEMBER 2018	49 520	71 666	19 689	3 943	144 819
Accumulated depreciation					
BALANCE AS AT 1 JANUARY 2017	10 027	44 806	9 845	–	64 678
Additions	3 387	4 230	4 725	133	12 475
Disposals	–	14	–	–	14
BALANCE AS AT 31 DECEMBER 2017	13 413	49 021	14 570	133	77 139
BALANCE AS AT 1 JANUARY 2018	13 413	49 021	14 570	133	77 139
Additions	3 460	5 190	4 725	–	13 375
Disposals	–	324	–	133	457
BALANCE AS AT 31 DECEMBER 2018	16 874	53 887	19 296	–	90 057
Carrying amount					
BALANCE AS AT 1 JANUARY 2017	41 824	4 026	9 844	6 244	61 938
BALANCE AS AT 31 DECEMBER 2017	39 129	12 627	5 119	1 717	58 593
Balance as at 1 January 2018	39 129	12 627	5 119	1 717	58 593
BALANCE AS AT 31 DECEMBER 2018	32 646	17 780	394	3 943	54 762

The Company does not have any non-current intangible assets which are not utilized in meeting its objectives, except for non-current intangible assets in acquisition.

The Company does not lease its non-current intangible assets to third parties.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Non-current intangible assets include a telecommunication license acquired in years 2006, 2014 and 2016, key system and a brand summarized as follows:

in thousands of EUR		31 December 2018	31 December 2017
	Acquisition cost	49 520	49 148
Telecommunication licence	Carrying amount	32 646	35 735
	Acquisition cost	19 948	18 231
CRM system	Carrying amount	2 234	2 602
	Acquisition cost	19 689	19 689
Brand	Carrying amount	394	5 119

LIEN

No lien has been established on non-current intangible assets as at 31 December 2018 (as at 31 December 2017: none).

The Company does not have any restricted rights to non-current intangible assets as at 31 December 2018 (as at 31 December 2017: none).

INSURANCE

See note 9 Property, plant and equipment.

11. CAPITALIZED CONTRACT ACQUISITION COSTS AND CONTRACT ASSETS

Capitalized contract acquisition costs are mostly commissions paid to external intermediaries directly attributable to customers (see New standards and interpretations).

in thousands of EUR	Impact of IFRS 15
AS AT 1 JANUARY 2018	3 154
Capitalization of contract acquistion costs	6 617
Amortization of contract acquisition costs	4 089
AS AT 31 DECEMBER 2019	5 682

Contract asset is Company's right to consideration in exchange for goods or services that the Company already transferred to a customer and has not yet invoiced.

These are contracts with customers where sale of subsidized telecommunication equipment is attached to the supply of telecommunication services.

The contract asset is then result of relocation of contract revenues from telecommunication services provided and recognized during the life of the contract to revenues from sale of the subsidized equipment at the point in time.

in thousands of EUR	2018	2017
Current contract assets	123	140
Non-current contract assets	33	41
TOTAL CONTRACT ASSETS	156	181

Capitalized contract acquisition costs and contract assets recognized in statement of financial position amounted to EUR 5,169 thousand (current) and EUR 669 thousand (non-current).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

12. DEFERRED TAX ASSET

in thousands of EUR	2018	2017
DEFERRED TAX ASSET AT THE BEGINNING OF THE PERIOD	5 496	7 425
Change in statement of profit or loss	(1 456)	(1 929)
there of: effect of a change in tax rate	–	–
Change in prior year profit	(662)	–
there of: effect of a change of accounting method	(662)	–
DEFERRED TAX ASSET AT THE END OF THE PERIOD	3 378	5 496

The deferred tax assets are represented by the following items:

in thousands of EUR	31 December 2018	31 December 2017
Property, plant and equipment and non-current intangible assets	(1 755)	(549)
Receivables	1 064	883
Inventories	10	10
Liabilities	4 007	5 026
Other	51	126
TOTAL DEFERRED TAX ASSET	3 378	5 496
Part realizable in 12 months	6 224	5 999
Part realizable later than in 12 months	(2 846)	(503)
TOTAL DEFERRED TAX ASSET	3 378	5 496

The Company has offset deferred tax assets and liabilities because there is a legally enforceable right to offset current tax assets against current tax liabilities, which relate to the same tax authority. Deferred taxes are calculated using currently enacted tax rates expected to apply in the period in which the asset is realized or the liability settled. Tax rate applicable for temporary differences is 21% (2017: 21%).The total deferred tax asset contains also the deferred tax liability from the special tax on business in the regulated sectors.

From 1 January 2017, the time limit of Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries ceased to be effective. Therefore, the Company recorded deferred tax liability for the special levy on business in regulated industries resulting from adjustments to the Company's profit or loss according to Decree of the Finance Ministry of the Slovak Republic No. MF / 011053 / 2006-72 from 15 February 2016, as amended on 19 December 2006 by Decree of the Ministry of Finance of the Slovak Republic No. MF / 026217/2006. To calculate the deferred tax on a special levy on business in regulated industries, the Company uses the expected coefficient of the share of the revenues from the regulated activity to the total revenues of the Company and the applicable tax rates expected to apply in the period in which the liability is settled.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13. INVENTORIES

in thousands of EUR	31 December 2018	31 December 2017
Material	577	573
Merchandise	7 877	7 058
TOTAL INVENTORIES	8 454	7 631

The Company recognized a provision for slow moving material and merchandise in total amount of EUR 49 thousand (2017: EUR 49 thousand).

No lien has been established on inventories as at 31 December 2018 (as at 31 December 2017: none).

Material in amount of EUR 1,694 thousand, merchandise in amount of EUR 49,594 thousand was recognized as an expense in 2018 (in 2017: material in amount of EUR 1,419 thousand, merchandise in amount of EUR 41,017 thousand).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14. FINANCIAL INSTRUMENTS ACCORDING TO CATEGORIES

31 December 2018 (in thousands of EUR) Assets according to Statement of financial position	Amortized cost	Nominal value	TOTAL
Trade receivables and other financial receivables	80 408	–	80 408
Cash and cash equivalents	–	10 260	10 260
	80 408	10 260	90 668

31 December 2018 (in thousands of EUR) Liabilities according to Statement of financial position	Amortized cost	TOTAL
Trade payables and other financial liabilities	83 229	83 229
Income tax liability	3 293	3 293
Loans received	67 000	67 000
	153 522	153 522

31 December 2017 (in thousands of EUR) Assets according to Statement of financial position	Amortized cost	Nominal value	Total
Trade receivables and other financial receivables	57 784	–	57 784
Cash and cash equivalents	–	9 109	9 109
	57 784	9 109	66 893

31 December 2017 (in thousands of EUR) Liabilities according to Statement of financial position	Amortized cost	Total
Trade payables and other financial liabilities	83 428	83 428
Income tax liability	3 428	3 428
Loans received	25 000	25 000
	111 856	111 856

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. TRADE AND OTHER FINANCIAL RECEIVABLES

in thousands of EUR	31 December 2018	31 December 2017
Receivables	87 811	65 279
Impairment provision	(8 403)	(7 995)
NET RECEIVABLES	79 408	57 284

in thousands of EUR	31 December 2018	31 December 2017
Receivables not impaired	16 183	24 237
Receivables impaired	71 628	41 042
TOTAL RECEIVABLES	87 811	65 279

Ageing structure of receivables not impaired:

in thousands of EUR	31 December 2018	31 December 2017
Not past due	14 329	23 920
Overdue less than 90 days	1 648	181
Overdue less than 180 days	77	9
Overdue less than 365 days	106	92
Overdue more than 365 days	23	35
TRADE RECEIVABLES NOT IMPAIRED	16 183	24 237

Ageing structure of receivables impaired:

in thousands of EUR	31 December 2018	31 December 2017
Not past due	59 211	30 685
Overdue less than 90 days	4 549	3 435
Overdue less than 180 days	1 364	637
Overdue less than 365 days	1 785	1 051
Overdue more than 365 days	4 719	5 233
TOTAL RECEIVABLES IMPAIRED	71 628	41 042

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Ageing structure of impairment provision:

in thousands of EUR	31 December 2018	31 December 2017
Not past due	1 637	1 136
Overdue less than 90 days	365	243
Overdue less than 180 days	733	450
Overdue less than 365 days	1 530	945
Overdue more than 365 days	4 139	5 222
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8 403	7 995

Movements in the impairment provision:

in thousands of EUR	31 December 2018	31 December 2017
At the beginning of the period	7 995	8 160
Write-offs	2 658	2 751
Impairment loss in the statement of profit or loss	3 066	2 586
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8 403	7 995

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The non-current receivables consist of trade receivables from financing the sold hardware to customers in the form of monthly repayments in the amount of EUR 20,794 thousand (2017: EUR 16,508 thousand).

The Company's experience with receivables collection is reflected in creation of the impairment provision. The Company's management believes that there are no other risks that would impair receivables in excess of created impairment provision.

Receivables of the Company are covered with a combination of bank guarantees, blank promissory notes and received collaterals as summarized below (at fair value):

in thousands of EUR	31 December 2018	31 December 2017
Combination of bank guarantees and blank promissory note	1 335	9 156
Collaterals received	2 128	1 875
TOTAL SECURED RECEIVABLES	3 463	11 031

Credit risks and currency risks to which the Company is exposed and impairment provisions to trade receivables and other financial receivables are described in note 27.

Receivables are not secured by a lien or any other form of security as at 31 December 2018 (as at 31 December 2017: none).

The Company does not have any restricted rights to receivables.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

16. LOANS PROVIDED AND RECEIVED

in thousands of EUR	Interest rate	Maturity	31 December 2018	31 December 2017
Loans provided				
O2 Business Services, a. s.	6M EURIBOR p. a. + 1,47 %	30 April 2019	1 000	500
TOTAL LOANS PROVIDED			1 000	500

in thousands of EUR	Interest rate	Maturity	31 December 2018	31 December 2017
Loans received				
O2 Czech Republic a.s.	6M EURIBOR p. a. + 1,42 %	30 April 2019	67 000	25 000
TOTAL LOANS RECEIVED			67 000	25 000

The Company has loan facilities agreed with parent company and various banks according to the following summary:

in thousands of EUR	31 December 2018	31 December 2017
Slovenská sporiteľňa a. s.	5 000	5 000
Citibank Europe plc, foreign bank branch	–	–
O2 Czech Republic a.s.	90 000	40 000
TOTAL AGREED LOAN FACILITY	95 000	45 000

The Company provided a credit limit to O_2 Business Services subsidiary in the amount of EUR 5,000 thousand.

Should the 6M EURIBOR interest rate will be negative with respective interest expense be also negative, the companies O2 Slovakia, s.r.o., O2 Czech Republic a.s. and O_2 Business Services, a.s. will apply so called „Zero Floor", which means that provided loan will be charged zero interest plus agreed margin.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. EQUITY

SHARE CAPITAL

Total authorized and issued share capital of the Company amounts to EUR 103,203 thousand as at 31 December 2018 (as at 31 December 2017: EUR 103,203 thousand). The share capital is fully paid up. Shareholder's share represents rights and responsibilities of shareholders.

LEGAL RESERVE FUND

According to the Commercial Code the Company is obliged to create a legal reserve fund in the minimum amount of 5% of net profit (annually) and up to a maximum of 10% of share capital. As at 31 December 2018 the balance of legal reserve fund is EUR 10,230 thousand (as at 31 December 2017: EUR 10,230 thousand). No mandatory contribution to the legal reserve fund is required, as the legal reserve fund has already attained the maximum limit stipulated in the legislation. Distribution of the legal reserve fund can be made for covering of the Company's losses only.

DISTRIBUTION OF ACCOUNTING PROFIT REPORTED IN THE PRECEDING ACCOUNTING PERIOD

The sole shareholder decided on payment of dividend in the amount of EUR 47,186 on 21 March 2018.
Dividends for 2017 were paid to the sole shareholder on 9 May 2018.

The Company generated a profit in the amount of EUR 50,775 thousand for 2018 and the sole shareholder will decide on its distribution.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18. OTHER NON-CURRENT LIABILITIES

in thousands of EUR	31 December 2018	31 December 2017
Social fund	44	11
Liabilities from leasing and other payables	5	384
Provision for base stations' removal	2 429	1 921
TOTAL NON-CURRENT LIABILITIES	2 478	2 316

OUT OF IT SOCIAL FUND

The social fund liabilities are presented among payables towards employees and moved during the period as follows:

in thousands of EUR	Social fund
Balance as at 1 January 2017	39
Creation	82
Drawing	110
Release	–
Balance as at 31 December 2017	11
Balance as at 1 January 2018	11
Creation	152
Drawing	119
Release	–
Balance as at 31 December 2018	44

The social fund is used to satisfy social, health and other needs of employees.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

19. TRADE AND OTHER FINANCIAL LIABILITIES

in thousands of EUR	31 December 2018	31 December 2017
Trade payables	44 898	36 079
Unbilled supplies	30 542	39 981
Tax liabilities (except for income tax)	3 657	3 545
Employees	3 676	3 359
Other	456	464
TOTAL CURRENT LIABILITIES	83 229	83 428

Ageing structure of current liabilities:

in thousands of EUR	31 December 2018	31 December 2017
Not past due	78 974	83 060
Overdue less than 180 days	4 126	266
Overdue less than 365 days	85	56
Overdue more than 365 days	45	47
TOTAL CURRENT LIABILITIES	83 229	83 428

The structure of liabilities according to their maturity is presented in note 27, part Liquidity risk.

Trade payables and other financial liabilities are not secured by a lien or any other form of security.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

20. CONTRACTUAL OBLIGATIONS

Contractual obligation is the Company's obligation to deliver goods or provide services for which the Company has already received the consideration from the customer. Contractual obligations include a commitment to prepaid telecommunication service customers on prepaid cards. The revenue is recognized when the call or data transfer is made, other services are provided or expiry of the card's life and associated prepaid credit.

in thousands of EUR	2018	2017
Current Contractual obligations	8 097	6 353
Non-current Contractual obligations	–	–
TOTAL CONTRACTUAL OBLIGATIONS	8 097	6 353

As at 1 January 2018, the Company recognized revenue from contractual obligations in the amount of EUR 6,353 thousand.

In the following year, the Company expects to recognize revenue from contractual obligations in the amount of EUR 8,097 thousand.

21. REVENUES

in thousands of EUR	2018	2017
Revenue from sale of services	229 739	220 421
Revenue from sale of merchandise	57 817	46 778
Other revenue	2 739	2 454
REVENUE TOTAL	290 295	269 653

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. EXTERNAL PURCHASES

in thousands of EUR	2018	2017
Telecommunication services	54 208	55 314
Merchandise sold	49 594	41 017
Dealer commissions	13 617	17 572
Marketing costs	10 017	9 339
Outsourcing of services within the Group and from external suppliers	10 181	9 448
Lease	9 046	8 243
Energy consumption	3 166	2 628
Repairs of property, plant and equipment	3 094	2 023
Other	6 876	6 077
TOTAL EXTERNAL PURCHASES	159 800	151 661

Expenses related to audit of financial statements in the year ended 31 December 2018 amounted to EUR 30 thousand (2017: EUR 30 thousand).

KPMG Slovensko, spol. s r.o. was appointed on 12 February 2018 as an independent auditor for the period ended 31 December 2018.

Expenses related to tax advisory provided by the independent auditor were in the year ended 31 December 2018 in the amount of EUR 10 thousand (2017: EUR 10 thousand). The independent auditor did not provide any other services.

These expenses are included among Other external purchases.

23. PERSONNEL COSTS

in thousands of EUR	2018	2017
Wages and salaries	18 439	15 916
Social security	5 978	6 075
TOTAL PERSONNEL COSTS	24 417	21 991

24. OTHER EXPENSES

in thousands of EUR	2018	2017
Fees paid to the Group	171	936
Fees to Telecommunication Office for frequencies	3 721	3 151
Other	377	330
TOTAL OTHER EXPENSES	4 269	4 417

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

25. FINANCE INCOME AND FINANCE COSTS

in thousands of EUR	2018	2017
Interest expense	983	357
Exchange rate losses	274	571
Other financial expenses	190	116
TOTAL FINANCIAL EXPENSES	1 446	1 044

in thousands of EUR	2018	2017
Interest income	24	28
Exchange rate gains	294	677
TOTAL FINANCIAL INCOME	318	705

26. TAX EXPENSES AND RECONCILIATION OF THE EFFECTIVE TAX RATE

in thousands of EUR	2018	2017
Deferred tax	1 456	1 928
Special levy on business in regulated industries	4 163	3 291
Current tax	12 882	11 265
TOTAL TAX ESPENSES	18 501	16 484

In accordance with Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries and on Amendments and Supplements to certain laws in the wording of Act No. 440/2012 Coll., the Company considers itself a regulated legal person. Consequently, the Company is obliged to pay a special levy provided that its profit for the accounting period exceeds EUR 3 000 thousand (deductible amount).

The levy is determined on the basis of the latest known profit before tax adjusted according to Decree of the Finance Ministry of the Slovak Republic No. MF/011053/2006-72 from 15 February 2016, as amended on 19 December 2006 by Decree of the Ministry of Finance of the Slovak Republic No. MF/026217/2006 and multiplied by the coefficient determined as the proportion of revenues generated from activities in the regulated area (in the field of electronic communications under a general authorization or an individual right to use numbers or frequencies) to the total revenue of the Company. The rate of levy is 0.00726 (Act No. 235/2012 Coll. – article 6) paid on a monthly basis.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	2018	2017
Profit before tax	69 276	63 670
Theoretical tax of 21%	14 548	13 371
Special levy on business in regulated industries	4 163	3 291
Tax rate change	–	–
Permanent differences	(210)	(178)
TOTAL TAX EXPENSES	18 501	16 484

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to various financial risks due to its activities. The Company's overall risk management focuses on unpredictability of financial markets and economic environment and pursues to minimize potential adverse impacts on the Company's financial results.

Financial instruments include cash, a capital instrument of another accounting entity, any arrangement entitling to gain or binding to provide cash or another financial asset or any arrangement entitling or binding to exchange financial assets and liabilities.

The main risks arising from financial instruments used by the Company are market risk, credit risk and liquidity risk. The financial department is responsible for financial risk management based on rules approved by the parent company.

Market risk management

The market risk represents risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in market prices. The market risk includes currency, interest rate and other price risks.

Currency risk

The currency risk represents the risk of fluctuations in fair value of future cash flows of a financial instrument due to changes in foreign exchange rates.

The Company is exposed to movements in the American Dollar, Czech Crown and reserve currency created by the International Monetary Fund XDR (Special Drawing Rights) which represents a minimum risk in connection with the position of these currencies on the total amount of liabilities/assets. Consequently, no sensitivity analysis was performed.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Overview of financial receivables in foreign currencies translated at the foreign exchange rate as at 31 December 2018 to EUR is as follows:

in thousands of EUR	USD	XDR	Celkom
Not past due	2	243	245
Overdue less than 180 days	–	660	660
Overdue less than 365 days	–	23	23
Overdue more than 365 days	–	9	9
TOTAL CURRENT RECEIVABLES	2	936	938

Overview of financial liabilities in foreign currencies translated at the foreign exchange rate as at 31 December 2018 to EUR is as follows:

in thousands of EUR	CZK	GDP	USD	XDR	Celkom
Not past due	(208)	(10)	(73)	(158)	(449)
Overdue less than 180 days	(1)	–	–	(1 975)	(1 976)
Overdue less than 365 days	–	–	–	(31)	(31)
Overdue more than 365 days	–	–	–	(4)	(4)
TOTAL CURRENT LIABILITIES	(209)	(10)	(73)	(2 169)	(2 460)

Interest rate risk

Revenues, expenses and operating cash flows of the Company are not significantly affected by changes in market interest rates.

In June 2016, the Company entered into an agreement on revolving with parent company O2 Czech Republic, a.s. As of 31 December 2018 the balance of drawn loan was EUR 67,000 thousand (2017: EUR 25,000 thousand). The Company was granted a credit line up to the amount of EUR 90,000 thousand.

As of 2 June 2016 the Company entered into an agreement on revolving with subsidiary O2 Business Services, a.s. As of 31 December 2018 the balance of drawn loan was EUR 1,000 thousand (2017: EUR 500 thousand). The Company was granted a credit line up to the amount of EUR 5,000 thousand.

The Company's management considers the risk of significant fluctuations in the interest rate of this loan as insignificant and therefore, no sensitivity analysis with respect to interest rate changes was performed.

The Company's management does not use hedging instruments to manage the risk of variable interest rate.

Other price risks

Other price risks arise in the case of financial instruments, for example, due to changes in prices of commodities or shares. The Company is not exposed to any significant price risk.

Credit risk

Credit risk represents the risk that one party to a financial instrument causes financial loss to another party by failing to fulfil an obligation.

The Company is exposed to credit risk resulting from its operating activities. The Company’s rules for credit risk management define maturity and limits for individual partners. The Company decreases the credit risk of partners by using bank guarantees or blank promissory notes.

Concentration of credit risk in connection with trade receivables is limited due to the Company’s large client base. Additionally, if the client fails to pay the outstanding amount for provided services even after follow-up notices, the Company limits outgoing calls to the client and subsequently the provision of services is interrupted.

The Company uses bad debt provision matrix to estimate expected credit losses from receivables that consist of small balances due from large number of customers.

Allowances rates are calculated using the „roll rate“ method based on the probability that the receivable falls through the stages of the delinquency until its write-off.

Percentage losses are based on actual credit losses over the previous six years. They are adjusted for the expected revenue from the sale of receivables.
The Company usually sells receivables that are more than 1 year but less than 2 years overdue.

Credit risk and impairment of receivables for significant receivables is assessed individually.

The summary of the ageing structure of short-term receivables is disclosed in Note 15. Receivables which were overdue as at the reporting date without impairment are kept from creditworthy partners with good payment discipline. On the basis of past experience with payment discipline of these contractual partners the Company’s management is convinced that no impairment of these receivables is necessary.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

LIQUIDITY RISK

The liquidity risk represents risk that the Company will have difficulties in fulfilling obligations relating to financial liabilities which are settled using cash or other financial assets.

The Company's rules to decrease liquidity risk define the level of cash, cash equivalents and credit facilities which the Company has at its disposal, so as to be able to fulfil its obligations in time and to full extent.

The table below shows financial liabilities of the Company, based on undiscounted cash flows taking into account the earliest possible dates when the Company may be required to pay off these liabilities.

in thousands of EUR	31 December 2018	31 December 2017
Without maturity		
Maturity up to 180 days	143 759	95 992
Maturity up to 365 days	9 763	15 864
Maturity more than 365 days	2 478	2 316
TOTAL LIABILITIES	156 001	114 172

The summary of the Company's financial liabilities includes in the maturity bucket up to 180 days a loan received from the parent company in the amount of EUR 67,000 thousand.

The difference between the available assets and liabilities is covered by the possibility of extending the loan from the parent company. The provided credit line can be drawn up to EUR 90,000 thousand.

The table below shows information about the Company's expected maturity of non-derivative financial assets. The table was prepared based on undiscounted contractual maturity of financial assets including interest income from these assets.

in thousands of EUR	31 December 2018	31 December 2017
Without maturity	10 260	9 109
Maturity up to 180 days	66 502	45 955
Maturity up to 365 days	32 963	11 866
Maturity more than 365 days	6 861	16 471
TOTAL RECEIVABLES AND CASH AND CASH EQUIVALENTS	116 585	83 401

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL ASSETS AND LIABILITIES OFFSETTING

The following financial assets were subject to offsetting, master netting agreements and similar agreements enabling offsetting:

in thousands of EUR	31 December 2018	31 December 2017
Trade and other receivables prior to offsetting	81 474	57 586
Gross offset amount	(2 066)	(302)
TRADE AND OTHER RECEIVABLES AFTER OFFSETTING	79 408	57 284

The following financial liabilities were subject to offsetting, master netting agreements and similar agreements enabling offsetting:

in thousands of EUR	31 December 2018	31 December 2017
Trade and other payables prior to offsetting	85 295	83 730
Gross offset amount	(2 066)	(302)
TRADE AND OTHER PAYABLES AFTER OFFSETTING	83 229	83 428

The Company records no financial assets and financial liabilities which would be subject to offsetting agreements and which were not offset in the balance sheet.

Capital risk management

The Company is not subject to external capital requirements.

The primary objective of the Company's capital management is to ensure support of its business activities and maximize the shareholder value, taking into account guidelines of the parent company. In 2018, no changes were carried out in objectives, principles and procedures.

The capital structure of the Company consists of the shareholder's equity which includes share capital, reserve fund and retained earnings from previous periods. The Company's management manages the capital measured with equity of EUR 166,791 thousand as at 31 December 2018 (EUR 160,709 thousand as at 31 December 2017).

The Company may adjust the profit share paid to the shareholder or refund part of the capital to the shareholder in order to maintain or adjust the capital structure. The Company ensures capital management in co-operation with the parent company.

Fair value estimation

The carrying amount of each class of the Company's financial instruments approximates their fair value. The carrying amount of trade receivables, less provisions for bad and doubtful receivables, the carrying amount of other trade financial payables, loans and borrowings as well as the carrying amount of liabilities approximates their fair value. In the case of short-term receivables and payables the impact on their present value is insignificant.

28 RELATED PARTY TRANSACTIONS

IDENTITY OF RELATED PARTIES

Related parties of the Company are related companies within the group as well as their statutory bodies, directors, executive directors.

Parent company is O2 Czech Republic a.s. In 2018 the majority shareholder of the parent company were companies within PPF Group controlled by Mr. Petr Kellner (detail in Note 1, part Information about the ultimate parent).

All related party transactions were conducted under normal market conditions. The balances of receivables and payables are not interest bearing, not secured and payments are expected in cash or in form of offsetting.

Balances of financial assets are reviewed for impairment as at the reporting date. No value adjustment was recorded due to impairment.

Receivables, payables, expenses and revenues with related parties are disclosed in the following tables:

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. TRANSACTIONS WITH THE PARENT COMPANY

Assets and liabilities from transactions with the parent company are stated in the following overview:

in thousands of EUR	31 December 2018	31 December 2017
Acquired merchandise and property, plant and equipment	387	2 353
Trade and other receivables	2 434	1 168
Provided short-term loans	67 000	25 000
Trade payables	3 554	3 644

The Company realized the following transactions with the parent company:

in thousands of EUR	31 December 2018	31 December 2017
Sales of merchandise and services	966	1 214
Purchase of services	11 125	11 784
Financial income	–	–
Financial expenses	914	303

As at 31 December 2018 the Company paid dividends to the parent company for 2017 in the amount of EUR 47,186 thousand.

2. TRANSACTIONS WITH SUBSIDIARY

Assets and liabilities from transactions with subsidiary are stated in the following overview:

in thousands of EUR	31 December 2018	31 December 2017
Shares in companies	6 927	6 927
Acquisition of merchandise and property, plant and equipment	–	350
Trade and other receivables	1662	215
Provided short-term loans	1000	500
Trade payables	499	156

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Company realized the following transactions with subsidiary:

in thousands of EUR	31 December 2018	31 December 2017
Sales of merchandise and services	1 757	844
Purchase of services	1 472	629
Finance income	24	27

3. TRANSACTIONS WITH OTHER RELATED PARTIES

Assets and liabilities from transactions with other related parties within the PPF Group and Tesco Mobile Slovakia, s.r.o. are stated in the following overview:

in thousands of EUR	31 December 2018	31 December 2017
Shares in companies	3	3
Trade and other receivables	586	21
Trade payables	2 339	2 471

Selected assets and liabilities from transactions with other related parties within the PPF Group and Tesco Mobile Slovakia, s.r.o. are stated in the following overview:

in thousands of EUR	31 December 2018	31 December 2017
Sales of merchandise and services	3 747	3 556
Purchase of merchandise and services	11 119	11 470

The list of companies from the PPF Group which the Company realized transactions in 2018 with, includes the following companies: Česká telekomunikační infrastruktura a.s., Home Credit Slovakia, a.s., Telenor (08/2018).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. INFORMATION ON INCOME AND REMUNERATION OF KEY MANAGEMENT MEMBERS

Among key management members, 9 in total (2017: 9) are members of the executive management of the Company.

in thousand EUR	2018	2017
Short-term employee benefits	1 454	1 343
TOTAL	1 454	1 343

30. CONTINGENT LIABILITIES

LITIGATIONS AND CLAIMS

The Company is not a participant in any litigations or claims except for ordinary business litigations. No significant adverse impact of litigations on the Company's financial position, results of operating activities or cash flows is expected.

UNCERTAINTIES IN TAX LEGISLATION

As many areas of the Slovak tax law have not been sufficiently tested in practice, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. Management of the Company is not aware of any circumstances that may give rise to a future material expense in this respect.

OTHER FINANCIAL LIABILITIES

As at 31 December 2018 the Company has contingent financial liabilities in the amount of EUR 252 thousand (31 December 2017: EUR 2,699 thousand) which they committed to provide to its customers after all conditions are met.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

31. OPERATING LEASE

The Company leases cars, office, retail and technological premises under operating leases, where the terms range from 1 to 30 years, and land and roofs for base stations.

The table below shows the total minimum lease payments resulting from irrevocable operating leases:

in thousands of EUR	31 December 2018	31 December 2017
Lease due within one year	6 387	6 014
Lease due from one to five years	20 516	17 124
Lease due over five years	15 547	11 445
TOTAL LEASE	42 450	34 583

The Company has also concluded lease agreements for indefinite periods in addition to those summarized in the table above. The lease payable from these contracts in the following year is summarized below:

in thousands of EUR	31 December 2018	31 December 2017
Lease due within one year	1 589	1 019
TOTAL LEASE	1 589	1 019

Total minimum lease payments under operating leases for land, buildings and equipment presented in 2018 as expense amounted to EUR 7,420 thousand (2017: EUR 6,817 thousand). These lease contracts may include a condition of restoring the leased assets at the end of the lease term.

The Company estimates the current value of future costs of liquidation and dismantling, taking into consideration changes in network infrastructure.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

32. INVESTMENT AND OTHER COMMITMENTS

in thousands of EUR	31 December 2018	31 December 2017
Investment and other commitments contracted but not included in the financial statements yet	13 889	11 557
TOTAL INVESTMENT AND OTHER COMMITMENTS	13 889	11 557

These commitments mainly relate to building of a telecommunication network, optical transfer network and exchange of equipment in sales points.

By purchase of a license for frequencies in 800 and 1800 MHz bands the Company committed to the Regulatory Authority for Electronic Communications and Postal Services to cover 25% of the area of the Slovak Republic with LTE signal till the end of 2015, 50% of the area till the end of 2017 and 70% of the area till the end of 2018. As at the end of 2018 the Company covered more than 95% of the area.

33. SUBSEQUENT EVENTS

No events with a material impact on the true and fair presentation of facts subject to the accounting occurred after 31 December 2018.

31 January 2019

Mgr. Peter Gažík
Chief Executive Officer

Ing. Martin Klímek
Chief Financial Officer

KPMG Slovensko spol. s r. o.
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Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language

Appendix to the Independent Auditors' Report issued on the Annual Report

pursuant to Article 27 (6) of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit")

To the Owners and Directors of O2 Slovakia, s.r.o.:

We have audited the financial statements of O2 Slovakia, s.r.o. ("the Company") as of 31 December 2018 presented in the appendix of the accompanying Annual Report. We have issued an independent auditors' report on the financial statements on 31 January 2019 with the following wording:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of O2 Slovakia, s.r.o. ("the Company"), which comprise the statement of financial position as at 31 December 2018, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Statutory Body for the Financial Statements

The statutory body is responsible for the preparation of the 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 control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

31 January 2019
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ľuboš Vančo
License SKAU No. 745

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Report of the Company, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the financial statements, in our opinion:

- the information given in the Annual Report for the year 2018 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

5 June 2019
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Slovenská komora audítorov
SKAU
č. licencie 96
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Responsible auditor:
Ľuboš Vančo
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