2019 Annual Report of O_2 Slovakia, s.r.o.

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O_2 Czech Republic, a.s.

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O_2 is the largest operator in the Czech market. It provides voice, online and data services to customers ranging from households, through small and medium enterprises to the large corporations.

O_2 always offers state-of-the-art technologies. Currently, it is preparing for the arrival of the 5G networks and it was the first to test them in real environment. O_2 is simultaneously the largest provider of Internet to households and companies offering it for 99 % of addresses. The fixed line connection works best in combination with the O_2 Smart Box modem, which has been developed by O_2. Its O_2 TV service makes it the largest operator of online television broadcasting in the Czech Republic. O_2 bought many exclusive sports rights for its customers so it offers the most attractive sports content in the Czech market.

The company counts among the biggest players in the area of hosting and cloud services, as well in the area of managed services and ICT. Since the trends in the telecommunication sector have been significantly changing, O_2 is also focusing on developing and offering other than traditional telecommunication services. These include, for example, financial services such as insurance of devices, travel insurance in the mobile or solution for electronic record-keeping of sales called O_2 eKasa. Through its corporate O_2 Foundation, it concentrates on development of children and young people. It has been a long-term supporter of the Line for Hearing and Sight Impaired (Linka pre nepočujúcich a nevidiacich), Safety Line (Linka bezpečia) and the Elderly Line (Linka pre seniorov). Within the O_2 Smart School (O_2 Chytrá škola) program, it helps teachers and parents to teach children how to use the Internet in a safe and reasonable way. Within its long-term social campaign, Freedom is No Commonplace (Sloboda nie je samozrejmosť), O_2 reminds of the important moments of the second half of the 20th century.

O_2 Slovakia, s.r.o.

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.

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 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.

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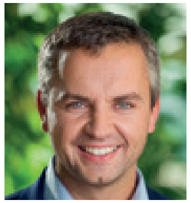
Company Management

Vedenie spoločnosti



Peter Gažík
Chief Executive Officer of O2 Slovakia

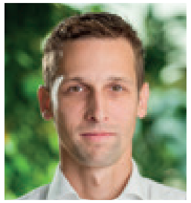
He has held the position of the Chief Executive Officer of O_2 Slovakia since 1 June 2015. During the period 2011 – 2014, he was engaged in O_2 in the position of a Public Affairs Director and then he cooperated with O_2 as a consultant in the field of regulatory affairs, being responsible for relations 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 acted as the Chief Financial Officer since 1 May 2012 until 31 December 2019. 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 from 1 December 2018 to 31 May 2019 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.

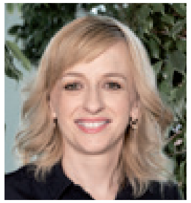


Igor Tóth
Marketing Director

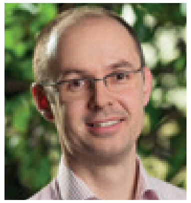
Igor Tóth has rich experience in the area of marketing and he has been working with O_2 already since 2008. Previously, he held in O_2 the position of the Head of Commercial Marketing Department being responsible for managing marketing activities in the segment of residential as well as business customers. 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.



Jana Sekerová
Human Resources Director



Tomáš Masár
Business Strategy and Development Director

Juraj Eliáš
Networks Director

Milan Morávek
Sales and Customer Service Director

Jana Sekerová has held the position of the Human Resources Director since 1 June 2019. She was engaged with O_2 since 2008 at the Finance Department, where for the past 7 years prior to assuming her new position, she had acted as the Head of the Controlling Department. Moreover, in the period 2012 – 2013 she was also the financial manager for TESCO Mobile. Before joining O_2, she worked for PricewaterhouseCoopers Slovakia as an auditor for companies mainly from the energy and foodstuffs industries.

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 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 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.

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Supervisory Board Members

2019 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

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

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. Prior to 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 chairman 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 on, 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. Before 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, s.r.o.

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$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.

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Peter Gažík about 2019

Peter Gažík about 2019

Peter Gažík
Chief Executive Officer of O_2 Slovakia

Dear friends,

the past year 2019 was for the O_2 brand mainly a year of intensified contact with customers. It is with great pleasure that I can say that what we introduced to our customers last year transformed us not only into a fully-fledged innovative telecommunication operator, but also diversified the scope of our offer. Already in February we were entering a new, for us an unknown industry, namely the market of electronic cash registers with online connection to the Financial Directorate's system. Although the transfer to the online eKasa registers was perceived in Slovakia very sensitively, against the competitive solutions of long-term suppliers of devices we fared more than well. In March, we were to complete a several-year's process of entire transition to an innovative system of assisted self-service. This is the reason we are able to serve the customers in our shops considerably faster. Last year, we also introduced a new flagstaff among our shops. In Bratislava's Aupark shopping centre on the area of 170 square meters the customers will find, besides a bigger capacity, also the widest portfolio of exhibited hardware and accessories along with the latest design. The shop has also a self-service zone where customers can use computers with the Moje O_2 application and handle a majority of their requests themselves or with the help of an assistant. We put more emphasis also on the sale of hardware, when in three campaigns over the year we were offering customers two and/or three devices at the price of one to their postpaid plans. In the summer, our hardware portfolio was expanded also by the exceptional O_2 Smartbox modem bringing to the households an even better wifi signal, but also a unique design, weather station or connection of security sensors and risk detectors and controlling of electrical appliances by means of the application. In the summer, we also thought of the customers of the prepaid card O_2 Voľnosť and innovated its data proposition. Also this year, our customers could get free of charge data with us. This time, the aim was not only to test our 4G network available to more than 97 % of people, but the reward in form of 5 GB was related also to the use of the Moje O_2 mobile application. We also gave away data within our CSR campaign Don't Be a Pirate (Nebuď pirát), in which we were teaching people to drive without using the mobile phone. It was one of the most significant campaigns of last year in the Slovak marketing, which received many awards in various creative competitions. But this was by means no end to our activities in the area of social responsibility. Quite the opposite, in order to support the idea of focused driving, we limited the advertising space on motorways and main roads. In addition to preventing our advertising from distracting the attention of drivers, we also reduced visual smog, as well as our ecological footprint on the environment by saving plastic and paper used for their production. Like every year, also in 2019 we focused our support on children's physical activities with the O_2 Matej Tóth Sports Academy. Last year, as many as 40 primary grammar schools around Slovakia got the special sports academies program. And also together with our Fair Foundation, we supported many projects concentrating especially on the 30^{th} anniversary of the Velvet Revolution, so we would support and fortify the idea of liberty that our company has been built on. The most important thing, however, happened in November. We enriched our product portfolio with a new type of a postpaid plan, which besides unlimited calls, messages and data packages includes, according to its amount, also access to the paid content of premium services such as HBO GO, Tidal Music or online subscription for dailies such as SME and Denník N and E, as well as to our service O2 TV. We are the only operator to have such a type of postpaid plan on our offer, which significantly differentiates us from our competition and enables us to bring the customers a visible value already in the price of a postpaid plan. We closed the last year with our customer base up by 121 thousand SIM cards and with growing financial indicators, as well as having defended the title Operator of the Year 2019 in the survey of the expert magazine Techbox already for the eleventh consecutive time. For the future, this shows us that the steps we took in 2019, proved correct and we can thus fully concentrate on what lies ahead of us in 2020.

Thank you for your trust

Peter Gažík

Calendar of Significant Events of 2019

Calendar of Significant Events of 2019

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. In January 2020, to the ten awards we added also our eleventh title for 2019.

February

During the Valentine's Day week, O_2 was adding to the customers who were buying a Huawei P20 Lite smartphone with the Gold or Platinum O_2 Paušál plan also a second smartphone as a gift. In addition, the customers also got a discount on another O_2 postpaid plan or O_2 Data worth EUR 5 per month. In February, O_2 announced its entry into the electronic cash register market. The O_2 eKasa system is based on the experience from the Czech Republic as well as from Croatia. In addition to the complete cash register solution, POS terminal and printer, the operator provides also an automatic data network connection.

March

In March, O2 updated its systems, which, for example, resulted in a faster customer service in the shops. With this step O2 finished the process of complete transition to an innovative system of assisted self-service.

April

In early April, within its Responsible Data Use initiative, the O_2 operator launched the Don't Be a Pirate campaign designed to alert the general public about the dangers of using telephones behind the steering wheel. In the campaign, O_2 motivates drivers to drive responsibly by rewarding them with data. They could download the free O_2 Extra Bonuses application, in which the operator integrated the Sygic navigation enhanced by the monitoring of speed limits and telephone display touches while driving. Moreover, as part of its Responsible Data Use initiative, O_2 has not been placing billboards or bigboards along expressways since February, as they negatively impact the drivers' concentration while driving.

May

In May and June, O_2 customers could get a second Huawei device when buying 4 different Huawei phones (P30 Pro, P30, P30 Lite and P Smart) as part of the 1 + 1 offer only for an initial payment of EUR 2 when using a special 24-month bonus. They could get a second telephone to their new or existing O_2 Paušál or O_2 Data plans this conveniently. O_2 thinks also about the risks of damaging all newly purchased smartphones. Each O_2 customer who, from 3 May, purchased a new device with the O_2 Poistka service can receive free insurance from O_2 against accidental damage, destruction or theft for one month. The insurance can be concluded for 25 months, while the service is free of any commitments.

This year, already for the third time O_2 and the Olympic winner Matej Tóth are

jointly bringing the O_2 Matej Tóth Sports Academy around Slovakia – a project aimed at gross motor activities of children in primary grammar schools. The project is aimed at motivating children to do sports and creating a positive attitude to movement, thanks to a comprehensive and sophisticated methodology developed not only by coaches, but also by a child psychologist or physiotherapist of Matej Tóth. At the end of May, O_2 opened a new shop in the Aupark shopping centre in Bratislava. Moving the existing store in Aupark to the new premises allowed O_2 to open its most modern and at the same time the largest shop with a sales area of as much as 170 m². It also has the widest portfolio of exhibited hardware and accessories and is able to handle the largest number of customers among all stores. The shop has a self-service zone with computers and the self-service Moje O_2 application available for customers, where they can handle most of their requests themselves without the help of an assistant, who is however always available when needed.

As in other shops, also in the newly opened shop O_2 will use the services of the award-winning Slovak IT company Pygmalios, which is dedicated to analyzing customer behaviour in real time. The analytical data from Pygmalios help O_2, among other areas, to scale the store space so that its capacity is fully used and customers are able to move around it intuitively already from their very first entry.

July

At the beginning of July, O_2 introduced new data packages for customers of the O_2 Voľnosť prepaid card. Customers currently using data can receive up to double the volume of data for the same amount, and as a matter of novelty they can choose even a weekly data package. Moreover, for everyone who likes the daily data O_2 is adding a new daily volume of 1 GB for just € 1. Starting from 9 July, O_2 has rewarded its customers for using the Moje O_2 mobile application. Not only do the customers have an overview and complete management of their mobile profile in one application, but they could also get up to 5 GB of free data.

Since July O_2 has been offering the new O_2 customers Internet na doma with an external antenna, a new solution for a better wifi and smart home functions. O_2 Smart box is not only a modem, but can also be the heart of a smart household. Besides connecting security sensors and risk detectors or controlling appliances via the application, it is also a great design piece with a built-in weather station and display of the current time.

September

On 20 September, O_2 opened its 3 selected shops in Bratislava, Banská Bystrica and Košice earlier so that those interested in the latest iPhones could come and get their favourite devices at the same time as anywhere else around the world. Depending on the selected O_2 Paušál, they could also use a bonus from € 48 to € 288 for the new iPhones.

November

At the beginning of November, O_2 presented its new offer of O_2 Smart Paušál plans at the livestream conference O_2 Smart Talks. These plans already naturally include unlimited calls, SMS and MMS. In addition, postpaid customers will also receive large amounts of data for selected applications, plus subscriptions for premium applications such as HBO GO, Tidal and SME and Denník N and Denník E daily newspapers. O_2 Smart Paušál is available in five alternatives starting from €15.

Together with the new O_2 Paušál plans, O_2 introduced also a special offer of devices when by the end of January 2020 the customers, in addition to the selected smartphones could get also a second and/ or in one case also a third device for no monthly payments. These devices could be obtained by new and also existing customers for any O_2 Smart Paušál, O_2 Paušál or O_2 Data. As a matter of tradition, also in 2019, O_2 was reminding

Calendar of Significant Events of 2019

that freedom was not commonplace. This time, O_2 launched a large online campaign through influencers on social networks to reach young people, who most need to be emphasized the true importance of the values of freedom and democracy, as a majority of them have not experienced the life before the Velvet Revolution already. In addition, on the occasion of the 30th anniversary of the Velvet Revolution, the O_2 Fair Foundation launched a special grant program Freedom is No Commonplace (Sloboda nie je samozrejmosť), where it supported projects explaining to young people the essence and importance of the Velvet Revolution in an innovative form. Supported were projects in the fields of education and media, civic activism, literature, theatre and film production, computer games and virtual reality.

#sloboda nie je samozrejmosť

December

By the end of 2019, the O_2 4G LTE network covered already 97.4% of people in Slovakia. Our own 2G network was available to more than 99.7% of people.

7

Portfolio

O_2 SMART Paušál

After seven years, the exceptionally successful plan O_2 Paušál evolved into the form of new O_2 SMART Paušál plans. Each of them brings the customers unlimited calls, SMS and MMS. Customers may use large volumes of data, additional data for favourite applications, subscription for digital services included in the plan's price and a device bonus.

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 and equal prices of calls and SMS messages to all networks and at all times to the market. 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

With the O2 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 1GB of data for EUR 1.

O_2 Internet na doma

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 O_2 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.

O_2 eKasa

The certified cash register system O_2 eKasa represents a comprehensive easy-to-use solution for business. Customers may choose between a desktop or a compact version. Besides a cash register solution, customers automatically get also a connection to the Internet.

8

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 the company was honoured also 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 the overall fair approach to business.

Don’t Be a Pirate

In April 2019, O_2 launched the “Don’t Be a Pirate” campaign (Nebuď pirát), which is aimed at making the general public aware of the danger of using telephones behind the steering wheel. The campaign was then joined by approximately 20 influencers, who expressed their views on this topic and tried to use their influence in order to show the young people that using the telephone behind the steering wheel was one of the most frequent reasons for traffic accidents. In the campaign, O_2 motivates drivers to drive responsibly by rewarding them in form of data through a free-of-charge application O_2 Extra Benefits, into which the operator integrated the Sygic navigation enhanced by the monitoring of speed limits and telephone display touches while driving. The campaign is a part of the Responsible Data initiative aimed at

reminding and inspiring the public to use mobile telephones and data responsibly. According to the last year's survey by the Kantar agency, since April the campaign recorded up to 60% young drivers. As much as 97% of young drivers evaluated the campaign positively and a half of them said that the campaign influenced their habits in using the telephone behind the steering wheel. According to the survey, nearly 70% of young drivers had a feeling that the campaign positively impacted the behaviour of drivers. As much as 88% of young people also stated that such society-wide projects helped improve the life in Slovakia.

Freedom is No Commonplace

On the occasion of the 30^{th} anniversary of the Velvet Revolution, O_2 again remembered November 89 already for the fourth time with a special online campaign ran by means of the influencers in the social networks entitled "A Country We Don't Want to Go Back to" (Krajina, do ktorej sa nechceme vrátiť") that Czechoslovakia was before 1989. The target group were mainly young people, for whom it is the most important to emphasize the true significance of the values of freedom and democracy, since a majority of them did not get to experience the life before the Velvet Revolution. Within the campaign O_2 asked the traveller and vlogger PPPeter to travel this time not in space but in time. In his vlog, he went to Slovakia 30 years back and so alerted about many situations that were common practice in the period of socialism, but today the young people might find them absurd. Within the campaign, on 17 November influencers such as Gogo, Sajfa, Vec, Mlady.s, Joe Trendy, Čoje or Babsy Jagušak and others gave through their social media answer to the question: "Why wouldn't you want to go back to Czechoslovakia before November 89?" On the occasion of the 30th anniversary of the Velvet Revolution, the O_2 Fair Foundation opened a special grant program Freedom is No Commonplace, where it supported projects explaining to the young people the essence and importance of the Velvet Revolution in an innovative form. Supported were projects in the fields of education and media, civic activism, literature, theatre and film production, computer games and virtual reality. Also this year, O_2 dedicated a special comics issue of its Sóda magazine to the supported projects and information on the Velvet Revolution, which was distributed in trains, buses as well as various institutions.

O2 supported also the origination of a series of four comic books entitled the Velvet Comics (Nežný komiks). In an original way it shows the happening and the events of November ´89 or the series "Fetishes of the Velvet Revolution" (Fetiše nežnej revolúcie), which presents a captivating summary of the given period in a 5-episode series.

White Crow

Last year O_2 continued in the partnership with 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 Matej Tóth Sports Academy

The children's lack of movement or their uncontrollable spending of time on a mobile telephone, which are the nowadays' phenomena, is something that not only many parents are concerned about, but also O_2. Therefore, for several years already it has been bringing to the Slovak schools the O_2 Matej Tóth Sports Academy.

Further 40 primary grammar schools around Slovakia gained for the current school year Academies aimed to build a positive relation and motivation of children towards sports through gross motor exercises. This year, as many as 239 schools from all over Slovakia enrolled in the competition for the O_2 Matej Tóth Sports Academy, obtaining together over 160,000 votes. The competition could be organized thanks to the platform dobravec.o2.sk. In three years from its establishment, the Academy counts already more than 2,500 children doing sports in more than hundred schools around Slovakia. The success and quality of the Academy is also confirmed by the fact that this year it obtained the partnership of the Slovak Olympic and Sports Committee.

This year, the O_2 MTSA brings also other innovations such as cooperation with the Zest for Life project (Chuť žiť), which promotes prevention, assistance and education in the issue of food intake which often occurs already at a very young age.

Display Busters

In O_2 we are also dedicated to the topic of (no) use of technologies by children and in this connection we supported the publishing of the book Display Busters (Krotitelia displejov) dealing with the challenges that today's parents are faced with in connection with the world of digital technologies. It gives the parents practical advice on how to teach children to manage the digital world without the technologies taking from them more than giving them. In her book, the author points also at the fact that one of the most important factors in educating towards a responsible use of technology are precisely the motor activities of children.

Support of Permanent Sustainability

O_2 strives to put emphasis on environmental protection, therefore it stopped using plastic bottles in its offices and shops, saving as many as 160,000 PET bottles a year. In 2019, O_2 cancelled bigboards and billboards along express roads, not only because they distract the drivers, but also due to ecological reasons. For 2019, this lead to saving of 2 tons of plastic and 215 kg of paper. Customers have also the possibility to sign all contracts biometrically, i.e. paperlessly. Our goal is to make our events meet a certain ecological standard.

Corporate Culture

O_2 is also guided by the values of fairness, transparency and openness into the company, so that they would become a natural part of the corporate culture. According to the ECHO Employee Survey ran by IPSOS, up to 92% of employees perceive O2 as a good employer and 84% of employees are proud to be part of the company. The engagement index ranges annually around 86%.

O_2 supports engagement of employees in volunteering activities, within the regular or expert volunteering and each year we strengthen the community spirit by the Employee Grant Program of the Fair Foundation that our employees can join. Blood donation has been commonplace for us for several years now, and we engage employees in financial and other various collections, such as organizing the traditional charity flea market or clothing swap before Christmas. We make the effort to encourage our employees to sustainability by raising awareness in the form of lectures and workshops on zero waste households and slow fashion in cooperation with the Živica association. In 2019, we organized already the third year of an unconventional employee development program called Mindpark, which is a kind of “startup in the safe environment of a corporation”. Employees who joined the program had the opportunity to work on something that was not directly related to their job description, develop their creativity and improve in activities that they haven’t had the opportunity to try until now. This year, Mindpark produced 3 projects dedicated to development of a volunteer platform, energy consumption optimization and a platform for sharing sports activities among colleagues.

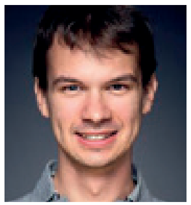
O_2 Fair Foundation

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 2019, the Fair Foundation launched a special grant program Freedom is No Commonplace, which served to support projects aimed at passing on the legacy of November 89 and the values of freedom and democracy to the young generation on the occasion of the 30th anniversary of the Velvet Revolution. The Foundation supported up to 13 creative projects with the total amount of EUR 40,000. The supported projects address the topic of freedom from different perspectives and in various forms. The supported projects came from the fields of education and media, civic activism, literature, theatre and film production, computer games and virtual reality, which are the closest to today's young people. The projects included the documentary Ask Your Parents about 89, the V_elvet R_evolution virtual reality, the Vivat Sloboda (Vivat Freedom) computer game, the online project of the Slovak National Gallery, educational magazines of Denník N, the online course zmudri.sk and the happening of the Faculty of Arts of the Comenius University in Bratislava.
- The Foundation keeps supporting long-term projects such as O_2 Fun School with Daniel Hevier (O_2 Radostná škola Daniela Heviera), Socrates Institute (Sokratov inštitút) or European Explorers' Night (Európska noc výskumníkov).
- Within the employee grant, this year the O_2 Fair Foundation supported 35 projects in the total amount of EUR 60,000.

Board of Trustees of O_2 Fair Foundation



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 2019

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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 2019, 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 2019, 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.

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 2019 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.

5 February 2020
Bratislava, Slovak Republic

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 2019

in thousands of EUR	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment (net)	9	209,913	136,972
Non-current intangible assets (net)	10	53,510	54,762
Capitalized contract acquisition costs and contract assets	11	6,991	5,715
Investment in subsidiaries	6	6,934	6,934
Investment in joint venture	6	3	3
Non-current receivables	15	19,807	20,794
Deferred tax asset	12	3,203	3,378
TOTAL NON-CURRENT ASSETS		300,361	228,558
Current assets			
Inventories	13	8,830	8,454
Trade receivables and other financial receivables	15	87,749	79,408
Loans provided	16	1,000	1,000
Capitalized contract acquisition costs and contract assets	11	108	123
Cash and cash equivalents		31,221	10,260
Prepaid expenses		1,574	3,085
TOTAL CURRENT ASSETS		130,482	102,330
TOTAL ASSETS		430,843	330,888
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		53,148	50,775
TOTAL EQUITY	17	166,671	166,791
LIABILITIES			
Non-current liabilities			
Other non-current liabilities	18	54,298	2,478
TOTAL NON-CURRENT LIABILITIES		54,298	2,478
Current liabilities			
Trade payables and other financial liabilities	19	83,169	83,229
Current income tax liability		1,959	3,293
Loans received	16	117,775	67,000
Deferred revenues	20	6,971	8,097
TOTAL CURRENT LIABILITIES		209,874	161,619
TOTAL LIABILITIES		264,172	164,097
TOTAL EQUITY AND LIABILITIES		430,843	330,888

Individual financial statements for the year ended 31 December 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

in thousands of EUR	Note	31 December 2019	31 December 2018
REVENUES	21	295,359	290,295
PPE capitalized		3,010	2,894
Costs of goods sold and services provided	22	(146,428)	(159,800)
Depreciation and amortization	8, 9	(36,579)	(27,144)
Amortisation of capitalised contract acquisition costs	11	(5,519)	(4,089)
Personnel costs	23	(26,264)	(24,417)
Other expenses	24	(4,916)	(4,269)
Losses from impairment of financial assets	15	(3,530)	(3,066)
OPERATING PROFIT		75,133	70,404
Financial costs	25	(3,955)	(1,446)
Financial income	25	215	318
Financial costs (net)		(3,740)	(1,128)
PROFIT BEFORE TAX		71,393	69,276
Income tax expense	26	(18,245)	(18,501)
PROFIT AFTER TAX		53,148	50,775
Other comprehensive income for the period		–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		53,148	50,775

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

in thousands of EUR	Share capital	Legal reserve fund and other funds	Retained earnings from previous periods	Total equity
BALANCE AS AT 1 JANUARY 2018	103,203	10,320	47,186	160,709
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
BALANCE AS AT 1 JANUARY 2019	103,203	10,320	53,268	166,791
Dividends	–	–	(53,268)	(53,268)
Total comprehensive income for the period	–	–	53,148	53,148
BALANCE AS AT 31 DECEMBER 2019	103,203	10,320	53,148	166,671

Individual financial statements for the year ended 31 December 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	31 December 2019	31 December 2018
Profit/loss from ordinary activities before income tax	71,393	69,276
Cash flows from operating activities		
Depreciation of property, plant and equipment and amortization of intangible assets	36,579	27,144
Change in value adjustment to receivables and write-off of receivables	4,543	3,914
Change in accruals and deferrals	385	468
Interest expense	3,460	983
Gain/loss on sale of non-current assets	22	56
Equity and deferred tax adjustment due to application of IFRS 15	–	3,154
Effect of changes in working capital		
Change in receivables from operations	(10,637)	(30,023)
Change in payables from operations	(12,937)	(9,644)
Change in inventories	(376)	(823)
Interest paid	(2,209)	(983)
Income tax paid and levy on business in regulated industries	(19,404)	(17,180)
NET CASH FLOWS FROM OPERATING ACTIVITIES	70,819	46,342
Cash flows from investing activities		
Acquisition of property, plant and equipment	(21,308)	(29,365)
Acquisition of non-current intangible assets	(26,004)	(10,108)
Proceeds from sale of property, plant and equipment	(54)	(34)
Short-term loans provided to subsidiary	–	(500)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(47,366)	(40,007)
Cash flows from financing activities		
Dividends paid	(2,492)	–
Loans received	–	(5,186)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(2,492)	(5,186)
NET INCREASE OF CASH AND CASH EQUIVALENTS	20,961	1,151
Cash and cash equivalents at the beginning of the accounting period	10,260	9,109
Cash and cash equivalents at the end of the accounting period	31,221	10,260

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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 2019 amounted in average to 704, in 2018 it was 679 employees. The number of employees as at 31 December 2019 was 718, thereof 9 managers (as at 31 December 2018 it was 691, thereof 9 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 2019 to 31 December 2019.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUE

These financial statements have been prepared as at 31 December 2019 and for the year then ended and were prepared and authorized for issue by the Company's statutory representatives on 4 February 2020.

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 2018, i.e., for the preceding accounting period, were approved by the Annual General Meeting on 25 February 2019.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

THE COMPANY'S BODIES

EXECUTIVE OFFICERS

Ing. Martin Klímek (from 2 May 2012 until 31 December 2019)

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

Shareholder structure is as follows:

	As at 31 December 2019 (in thousands of EUR)	Share and voting rights (%)	As at 31 December 2018 (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 2019

1. 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 2019 are held indirectly by Mr. Petr Kellner, through companies within PPF Group that is controlled by Mr. Petr Kellner. The PPF Group in 2019 consisted namely of following companies:

- PPF A3 B.V.
- PPF Telco B.V.
- PPF CYPRUS MANAGEMENT Ltd

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 in 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:

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Leasing

The company is the lessee of the technology location premises. Some of the contracts are of indefinite duration. For the purpose of determining the amount of the lease obligation under IFRS 16, the Company estimates the useful life of such contracts. The lifetime of contracts is derived from the average lifetime of similar fixed-term contracts, on average 9 years.

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 2,915 thousand (2018: EUR 2,475 thousand).

Sensitivity analysis of Assets retirement obligation (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 2019 would increase or decrease the provision for the dismantling of the facilities (ARO) in the following amounts:

	31 December 2019	
in thousands of EUR	Increase	Decrease
Discount rate +/– I p.p.	(1 210)	2 282
Dismantling costs +/– 10%	297	(297)

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 26,218 thousand (2018: EUR 22,118 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 amortization 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 amortization period was further specified by the product and the sales channel that received the contract. Amortization 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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES

In addition to the impact of the new IFRS 16, described in Note 7. The new standards and interpretations, the accounting policies set out below have been consistently applied in all periods presented in the financial statements.

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.

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 19	5 to 50	straight-line
Brand	5	20	straight-line
Other valuable rights	2 to 19	5 to 50	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.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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 g)). 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	4 to 88	1 to 25	straight-line
Technology and office equipment	2 to 18	6 to 50	straight-line
Optical networks	11 to 35	3 to 9	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 2019

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 g) Impairment.

d) Leases – IFRS 16

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company considers a contract to be a lease if it meets all of the following criteria:

- there is an identified asset, whether explicit or implicit, and
- the lessee obtains substantially all economic benefits from the use of the identified asset, and the lessee has
- the right to control the use of the identified property.

This accounting method shall apply to contracts concluded after 1 January 2019.

The Company applied the exemption and applied the new IFRS 16 to all contracts it concluded prior to 1 January 2019 and identified them as leases under IAS 17 and IFRIC 4 (grandfather the definition of lease on transition). This means that it does not reassess leases classified under IAS 17 and whether they meet the new definition of leases under IFRS 16.

Upon initial recognition and subsequent revaluation of a lease that includes a lease and a non-lease component, the Company allocates the contractually agreed consideration to each lease component on a pro rata basis, if agreed separately, and based on the total value of the non-lease components if agreed separately. The Company recognizes separately the leasing and non-leasing components of land and real estate leases.

i. Assets leased (the Company as Lessee)

The Company recognizes the right-of-use assets and lease obligations at the commencement of the lease. The initial value of the right to use the property is determined as the sum of the initial value of the lease obligation, the rental payments made before or on the commencement date of the lease, the initial direct cost to the lessee less any lease incentives received. The Company has a liability for dismantling or restoring the leased asset after the lease term and therefore creates a provision under IAS 37 described in Part 3 (iii).
In determining the lease term, the length of the agreed lease term as well as the possibility of its early termination or termination are considered or the possibility of extending the contract. In assessing the likelihood of exercising the option to extend or prematurely terminate the lease term, the Company takes into account all relevant facts and circumstances that provide economic incentives to exercise (non-exercise) those options. The period by which the contract can be renewed (or the period following the possibility to terminate the contract prematurely) is included in the lease term only if the Company is sufficiently certain that the extension will be exercised.

The right-of-use assets is depreciated on a straight-line basis over the lease term from the commencement of the lease to its termination. If the lease involves a transfer of ownership or a purchase option, the right-of-use assets is depreciated on a straight-line basis over the useful life of the asset. Depreciation begins on the date of commencement of the lease. The assessment of possible impairment of the right-of-use assets is carried out in a similar way to the assessment of impairment of property, plant and equipment as described in accounting policy (b) iv. above.

The lease obligation is initially measured on the date when the leased asset is made available to the lessee (the lease commencement date). Leases are initially measured at the present value of the lease payments over the lease term that were not paid at the initial measurement using the discount rate, which is the incremental borrowing rate. Lessee's incremental borrowing rate was determined based on available financial information relating to the Company. Subsequent revaluation of the lease obligation is made in the event of a change in the terms of the contract (e.g. a change in the lease term due to the option to extend or prematurely terminate the contract, change in rental payment based on a change in the index or rate used to determine payments, change in the assessment of the probability of a purchase option enforcement, etc.). Any subsequent reassessment of the lease obligation will also affect the measurement of the right-of-use asset. If this would lead to a negative value of the right-of-use asset, the remaining impact is recognized with an impact on profit or loss (so the resulting right-of-use asset will be recognized at nill). During the accounting period, the Company did not account for the revaluation of the lease obligation due to the above changes.

The Company has exercised an optional exemption and does not report the right-of-use asset or lease obligation in lease contracts where the value of the leased assets is clearly less than EUR 5,000. The estimated value of assets is based on the assumption that they are new assets. If the value of the asset cannot be reliably determined, the optional exemption is not applied to such lease.

In the statement of financial position, the Company recognizes the right-of-use assets under tangible fixed assets, machinery and equipment and lease liabilities under current and long-term payables. In addition, the Company recognized lease transactions in the cash flow statement as follows:

- principal payments relating to lease obligations in cash flow from financing activities,
- interest payments on lease obligations under cash flow from operating activities (interest requirements are applied here in accordance with IAS 7),
- payments for short-term rental, lease of small assets and payments of variable parts of rent that are not included in the measurement of lease obligations under cash flow from operating activities.

e) Leases – IAS 17 (applies for comparable period)

i. Leased assets (Company as a lessee)

Leases under conditions in which the Company assumes all significant risks and rewards of ownership of the assets are classified as finance leases. At initial recognition, leased assets are measured at the lower of fair value or present value of minimum lease payments. After initial recognition, assets are accounted for in accordance with the accounting policies applicable to that type of asset.

Other leases are classified as operating leases and leased assets are not recognized in the statement of financial position of the Company.

ii. Rent payments

Operating lease payments are recognized in profit or loss on a straight-line basis over the agreed lease term. Lease incentives are recognized as an integral part of the total rental cost over the lease term. Minimum lease payments are allocated between finance costs and the reduction of the outstanding liability under a finance lease. Financial costs are allocated to each period during the lease term so as to ensure a constant interest rate on the remaining value of the liability.

f) Financial instruments

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

The Company initially recognizes loans and receivables on the date when they 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. Subsequently 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 through 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 categories, the Company only records assets measured at amortized cost in the reporting periods.

Financial assets are measured at amortized cost unless they are designated as FVTPLs and are held under a business model to collect contractual cash flows and their respective contractual terms and conditions provide for the emergence of cash flows that are exclusively principal and interest payments.

iii. Non-derivative financial liabilities – measurement

The Company classifies its financial liabilities according to related contractual relations and depending on the purpose which the Company's management concluded a contract for. 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.

g) 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 h)) and deferred tax assets (see accounting policy n)) 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.

h) 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.

i) 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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

j) 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.

k) 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.

l) 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 is exposed to 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 is exposed to credit risk,
h) the company has the option to set the terms of the transaction
i) the Company manages 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.

m) 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.

n) Income tax

Income tax (expense) comprises current and deferred tax. Current tax and deferred taxes are recognized in profit or loss except to the extent that they 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 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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

o) 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 2019 were not available as at the date of preparation of these financial statements. Profit for 2018 amounted to EUR 11 thousand. Retained earnings from previous years amounted to EUR 82 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 1,051 thousand as at 31 December 2019. 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

The following standards and interpretations have been applied for annual periods beginning on or after 1 January 2019:

IFRS 16 LEASING

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Company applied the new standard from 1 January 2019 through a modified retrospective approach without modifying comparable data. At the date of initial application, the Company recognized a lease liability for leases initially classified as an operating lease in accordance with IAS 17 at the present value of future payments discounted using the rates of the individual contractual obligations. At the same time, the right-of-use asset was measured at the amount equal to the amount of the lease obligation, adjusted for the amount of any prepayments or accruals of lease payments relating to the lease, recognized in the statement of financial position immediately before the date of initial application.

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).

In particular, the introduction of the new standard had an impact on the previously recognized operating lease. The standard eliminated the dual tenant accounting model under IAS 17, eliminating the distinction between operating

leases and finance leases. Under IFRS 16, a contract is a lease or includes a lease if it conveys the right to control the use of the identified asset for a period of time for consideration. In such contracts, the new model requires the lessee to recognize the right of use asset and the lease obligation. The right-of-use asset is depreciated and the liability bears interest. As of 1 January 2019, the Company used an average weighted discount rate (determined as an incremental lessee's borrowing rate) of 2.11% to measure lease liabilities (determining the present value of lease payments) that were previously recognized as operating leases. The transition to IFRS 16 did not affect the initial amount of retained earnings as at 1 January 2019.

Due to the initial application of IFRS 16, the Company has applied the following exceptions in accordance with IFRS 16:

– apply a uniform discount rate to sets of leasing contracts with similar characteristics,
– short-term rents, similarly to low value rents, within operating expenses recognized evenly over the lease term,
– fails to take into account the initial direct costs incurred by the lessee at the initial recognition of the right to use assets, made use of the possibility of reassessment on the basis of current facts (e.g., when assessing whether the lease contains the possibility of extension or early termination).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Lease commitments that were not recognized in the statement of financial position as at 31 December 2018 agreed to lease obligations at 1 January 2019 are set out in the following table:

in thousands of EUR	Impact of IFRS 15
Unrecognized operating lease liability as at 31 December 2018	58,863
Operating lease liabilities bearing interest at 2.11% as at 1 January 2019 - the date of initial application	53,010
Small property leases recognized on a straight-line basis over the lease term	117
LEASE LIABILITY RECOGNIZED AS AT 1 JANUARY 2019	52,893

Further information regarding accounting policies for leases is described in Note 4. d) IFRS 16 - Leases.

i. Company as a lessee

The company leases business premises, offices and premises for technology for the propagation of telecommunication signal.

Lease contracts are concluded for a period of 0 to 30 years.

An overview of the right to use assets under IFRS 16 Leasing recognized in property, plant and equipment is shown in the following table:

in thousands of EUR	BTS	Buildings	Vehicles	Total
As at 1 January 2019	–	–	–	–
IFRS 16 impact	43,445	9,035	413	52,893
Additions	14,241	1,494	–	15,735
Depreciation	6,687	2,304	223	9,214
Disposal	–	109	–	109
AS AT 31 DECEMBER 2019	50,999	8,135	171	59,305

An overview of lease liabilities by residual maturity is shown in the following table:

in thousands of EUR	31 December 2019
Less than 1 year	8,978
1 to 5 years	28,068
More than 5 years	23,132
	60,178

The following table summarizes the lease-related transactions recognized in profit or loss:

in thousands of EUR	31 December 2019
Interest expense	1,251
Variable rental costs not included in the measurement of lease obligations	585
Rental costs of small tangible assets less of short-term rental costs of small tangible assets	115

Interest expense on lease obligations is recognized as part of the financial expense in the statement of profit or loss and other comprehensive income.

The following table summarizes the transactions associated with the lease recognized in the statement of cash flows:

in thousands of EUR	31 December 2019
Total payment for rent	9,701

During the accounting period, lease payments relating to principal are recognized in the amount of EUR 8,450 thousand as cash flows from financial activities in the statement of cash flows. Interest payments related to lease liabilities in the amount of EUR 1,251 thousand are recognized as cash flows from operating activities in the statement of cash flows.

8 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AS AT 31 DECEMBER 2019

As of 31 December 2019, several new standards, amendments to standards and interpretations have not yet been effective and have been applied in the preparation of these financial statements. The Company expects that none of them will have an impact on the Company's financial statements.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

9. PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR	Buildings	Optical networks	Technologies and office equipment	Other assets	Right-of-use asset	Acquisition of property, plant and equipment	Total
Acquisition cost/Conversion cost							
Balance as at 1 January 2018	50,112	2,542	106,276	481	–	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	15,302	117,048	499	–	44,425	235,364
Balance as at 1 January 2019	58,091	15,302	117,048	499	52,893	44,425	288,258
Additions	2,844	–	6,468	–	15,626	20,200	45,138
Disposals	131	266	7,144	9	–	–	7,550
Transfers	5,830	3,993	11,449	5	–	(21,277)	–
BALANCE AS AT 31 DECEMBER 2019	66,634	19,029	127,821	495	68,519	43,348	325,846
Accumulated depreciation							
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	766	71,157	433	–	2,095	98,392
Balance as at 1 January 2019	23,940	766	71,157	433	–	2,095	98,392
Additions	2,810	1,166	10,595	28	9,213	924	24,736
Disposals	121	–	7 066	9	–	–	7,196
BALANCE AS AT 31 DECEMBER 2019	26,629	1,932	74,686	452	9,213	3,019	115,932
Carrying amount							
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	136,970
As at 1 January 2019	34,151	14,534	45,890	66	52,893	42,329	189,863
AS AT 31 DECEMBER 2019	40,005	17,095	53,135	43	59,306	40,328	209,912

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 2019 (as at 31 December 2018: nil).

The Company does not have any restricted rights to property, plant and equipment as at 31 December 2019 (as at 31 December 2018: nil).

INSURANCE

The Company's non-current assets are insured within the O_2 Group for damage caused by theft and natural disaster.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 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	49,521	71,665	19,689	3,943	144,818
Balance as at 1 January 2019	49,520	71,666	19,689	3,943	144,818
Additions	–	4,840	1,900	3,468	10,208
Disposals	–	5	–	–	5
Transfers	32	3,378	–	(3,410)	–
BALANCE AS AT 31 DECEMBER 2019	49,552	79,879	21,589	4,001	155,021
Accumulated depreciation					
Balance as at 1 January 2018	13,413	49,021	14,570	133	77,137
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
Balance as at 1 January 2019	16,874	53,887	19,296	–	90,057
Additions	3,502	5,599	2,135	225	11,461
Disposals	–	5	–	–	5
BALANCE AS AT 31 DECEMBER 2019	20,376	59,481	21,431	225	101,513
Carrying amount					
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
Balance as at 1 January 2019	32,646	17,780	394	3,943	54,762
BALANCE AS AT 31 DECEMBER 2019	29,176	20,399	159	3,776	53,510

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 2019

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 2019	31 December 2018
Telecommunication licence	Acquisition cost	49,520	49,520
	Carrying amount	29,177	32,646
CRM system	Acquisition cost	31,822	19,948
	Carrying amount	9,768	2,234
Brand	Acquisition cost	21,589	19,689
	Carrying amount	158	394

LIEN

No lien has been established on non-current intangible assets as at 31 December 2019 (as at 31 December 2018: nil).

The Company does not have any restricted rights to non-current intangible assets as at 31 December 2019 (as at 31 December 2018: nil).

INSURANCE

See note 9 Property, plant and equipment.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 acquistion costs	4,089
AS AT 31 DECEMBER 2018	5,682
AS AT 1 JANUARY 2019	5,682
Capitalization of contract acquistion costs	6,736
Amortization of contract acquistion costs	5,516
AS AT 31 DECEMBER 2019	6,902

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	31 December 2019	31 December 2018
Current contract assets	108	123
Non-current contract assets	89	33
Total contract assets	197	156

Capitalized contract acquisition costs and contract assets recognized in statement of financial position in the amount of EUR 108 thousand (current) and EUR 6,991 thousand (non-current).

12 DEFERRED TAX ASSET

in thousands of EUR	31 December 2019	31 December 2018
DEFERRED TAX ASSET AT THE BEGINNING OF THE PERIOD	3,378	5,496
Change in statement of profit or loss	(175)	(1,456)
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	3,203	3,378

The deferred tax assets are represented by the following items:

in thousands of EUR	31 December 2019	31 December 2018
Property, plant and equipment and non-current intangible assets	(3,598)	(1,755)
Receivables	1,449	1,064
Inventories	10	10
Liabilities	5,225	4,007
Other	117	51
TOTAL DEFERRED TAX ASSET	3,203	3,378
Part realizable in 12 months	7,533	6,224
Part realizable later than in 12 months	(4,330)	(2,846)
TOTAL DEFERRED TAX ASSET	3,203	3,378

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. Deferred tax rate applied to temporary differences relating to corporate income tax pursuant to Act 595/2003 Coll. on Income Tax is 21% (2018: 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.

13. INVENTORIES

in thousands of EUR	31 December 2019	31 December 2018
Material	532	577
Merchandise	8,298	7,877
TOTAL INVENTORIES	8,830	8,454

The Company recognized a provision for slow moving material and merchandise in total amount of EUR 49 thousand (2018: EUR 49 thousand).

No lien has been established on inventories as at 31 December 2019 (as at 31 December 2018: nil).

In 2019, material in the amount of EUR 1,455 thousand, merchandise in the amount of EUR 45,811 thousand were recognized as expenses (in 2018: material in the amount of EUR 1,694 thousand, merchandise in the amount of EUR 49,594 thousand).

14. FINANCIAL INSTRUMENTS ACCORDING TO CATEGORIES

31 December 2019 (in thousands of EUR) Assets according to statement of financial position	Amortized cost	Nominal value	Total
Trade receivables, loans and other financial receivables	88,749	–	88,749
Cash and cash equivalents	–	31,221	31,221
TOTAL ASSETS ACCORDING TO STATEMENT OF FINANCIAL POSITION	88,749	31,221	119,970

31 December 2019 (in thousands of EUR) Liabilities according to the statement of financial position	Amortized cost	Total
Trade payables and other financial liabilities	137,467	137,467
Income tax liability	1,959	1,959
Loans received	117,775	117,775
TOTAL LIABILITIES ACCORDING TO THE STATEMENT OF FINANCIAL POSITION	257,201	257,201

31 December 2018 (in thousands of EUR) Assets according to the statement of financial position	Amortized cost	Nominal value	Total
Trade receivables, loans and other financial receivables	80,408	–	80,408
Cash and cash equivalents	–	10,260	10,260
TOTAL ASSETS ACCORDING TO THE STATEMENT OF FINANCIAL POSITION	80,408	10,260	90,668

31 December 2018 (in thousands of EUR) Liabilities according to the statement of financial position	Amortized cost	Total
Trade payables and other financial liabilities	85,707	85,707
Income tax liability	3,293	3,293
Loans received	67,000	67,000
TOTAL LIABILITIES ACCORDING TO THE STATEMENT OF FINANCIAL POSITION	156,000	156,000

15. TRADE AND OTHER FINANCIAL RECEIVABLES

in thousands of EUR	31 December 2019	31 December 2018
Receivables	95,977	87,811
Impairment provision	(8,228)	(8,403)
NET RECEIVABLES	87,749	79,408

in thousands of EUR	31 December 2019	31 December 2018
Receivables not impaired	6,039	16,183
Receivables impaired	89,939	71,628
TOTAL RECEIVABLES	95,978	87,811

Ageing structure of receivables not impaired:

in thousands of EUR	31 December 2019	31 December 2018
Not past due	3,183	14,329
Overdue less than 90 days	2,407	1,648
Overdue less than 180 days	368	77
Overdue less than 365 days	57	106
Overdue more than 365 days	24	23
TRADE RECEIVABLES NOT IMPAIRED	6,039	16,183

Ageing structure of receivables impaired:

in thousands of EUR	31 December 2019	31 December 2018
Not past due	78,863	59,211
Overdue less than 90 days	3,851	4,549
Overdue less than 180 days	899	1,364
Overdue less than 365 days	2,062	1,785
Overdue more than 365 days	4,265	4,719
TOTAL RECEIVABLES IMPAIRED	89,940	71,628

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Ageing structure of impairment provision:

in thousands of EUR	31 December 2019	31 December 2018
Not past due	1,229	1,637
Overdue less than 90 days	344	365
Overdue less than 180 days	627	733
Overdue less than 365 days	1,861	1,530
Overdue more than 365 days	4,167	4,139
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8,228	8,404

Movements in the impairment provision:

in thousands of EUR	31 December 2019	31 December 2018
At the beginning of the period	8,403	7,995
Write-offs	3,306	2,658
Impairment loss in the statement of profil or loss	3,530	3,066
IMPAIRMENT PROVISION AT THE END OF THE PERIOD	8,627	8,403

The total value of impairment provisions at the end of 2019 also includes provision for long-term receivables in the amount of EUR 399 thousand.

Long-term receivables consist mainly of trade receivables arising from the financing of hardware sold to end customers in the form of monthly installments in the amount of EUR 19,807 thousand (2018: EUR 20,794 thousand).

The Company's experience in recovering receivables is reflected in the created provision. The Company's management believes that there are no other risks that would reduce the value of receivables beyond the impairment provision.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Company's receivables are covered by a combination of bank guarantees, blank promissory notes and collateral received as shown in the following table (at fair values):

in thousands of EUR	31 December 2019	31 December 2018
Combination of bank guarantees and blank promissory note	1,070	1,335
Collaterals received	1,277	2,128
TOTAL SECURED RECEIVABLES	2,347	3,463

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

As at 31 December 2019, receivables are not secured by a lien (as at 31 December 2018: nil).

The Company does not have any restricted rights to receivables.

16. LOANS PROVIDED AND RECEIVED

in thousands of EUR	Interest rate	Maturity	31 December 2019	31 December 2018
Loans provided				
O2 Business Services, a. s.	„6M EURIBOR p.a. + 1.75%“	30 April 2020	1,000	1,000
TOTAL LOANS PROVIDED			1,000	1,000

in thousands of EUR	Interest rate	Maturity	31 December 2019	31 December 2018
Loans received				
O2 Czech Republic a.s.	„6M EURIBOR p.a. + 1,70%“	30 April 2020	117,775	67,000
TOTAL LOANS RECEIVED			117,775	67,000

The Company has established a credit line with the parent company and with several banks according to the following overview:

in thousands of EUR	31 December 2019	31 December 2018
Slovenská sporiteľňa, a.s.	5,000	5,000
O2 Czech Republic a.s.	200,000	90,000
TOTAL AGREED LOAN FACILITY	205,000	95,000

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 be negative with respective interest expense also negative, the companies O_2 Slovakia, s.r.o., O_2 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.

17. EQUITY

SHARE CAPITAL

Total authorized and issued share capital of the Company amounts to EUR 103,203 thousand as at 31 December 2019 (as at 31 December 2018: 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 2019 the balance of legal reserve fund is in the amount of EUR 10,230 thousand (as at 31 December 2018: EUR 10,230 thousand). The Company has reached the maximum amount of legal reserve fund creation. The legal reserve fund may only be used to cover the Company's losses.

DISTRIBUTION OF ACCOUNTING PROFIT REPORTED IN THE PRECEDING ACCOUNTING PERIOD

The sole shareholder decided to pay dividends in the amount of EUR 50,775 thousand on 25 February 2019 and EUR 2,493 thousand on 27 June 2019. Dividends for 2018 were settled with the sole shareholder by agreement on offsetting mutual receivables dated 6 May 2019 and payment on 8 July 2019.

In 2019, the Company generated a profit of EUR 53,148 thousand and its distribution will be decided by a single shareholder.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. OTHER NON-CURRENT LIABILITIES

in thousands of EUR	31 December 2019	31 December 2018
Social fund	94	44
Liabilities from leasing and other payables	51,290	5
Provision for base stations' removal	2,914	2,429
TOTAL NON-CURRENT LIABILITIES	54,298	2,478

Lease liabilities and other payables include lease liabilities in the amount of EUR 51,250 (2018: nil) arising from the application of the new IFRS 16.

OUT OF WHICH: SOCIAL FUND

The social fund liability is recognized as a payable to employees and its movements during the accounting period were as follows:

in thousands of EUR	Social fund
Balance as at 1 January 2018	11
Creation	152
Drawing	119
Release	–
BALANCE AS AT 31 DECEMBER 2018	44
Balance as at 1 January 2019	44
Creation	182
Drawing	132
Release	–
BALANCE AS AT 31 DECEMBER 2019	94

According to the Social Fund Act, the social fund is used for social, health and other needs of employees.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. TRADE AND OTHER FINANCIAL LIABILITIES

in thousands of EUR	31 December 2019	31 December 2018
Trade payables	36,792	44,898
Unbilled supplies	30,491	30,542
Leasing liabilities	8,978	–
Tax liabilities (except for income tax)	2,942	3,657
Employees	3,450	3,676
Other	516	456
TOTAL CURRENT LIABILITIES	83,169	83,229

Ageing structure of current liabilities:

in thousands of EUR	31 December 2019	31 December 2018
Not past due	82,471	78,974
Overdue less than 180 days	463	4,126
Overdue less than 365 days	95	85
Overdue more than 365 days	140	45
TOTAL CURRENT LIABILITIES	83,169	83,229

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.

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	31 December 2019	31 December 2018
Current Contractual obligations	6,971	8,097
Non-current Contractual obligations	–	–
TOTAL CONTRACTUAL OBLIGATIONS	6,971	8,097

As at 1 January 2019, the Company recognized revenue from contractual obligations in the amount of EUR 8,097 thousand.

In the following year, the Company expects to recognize revenue in the amount of EUR 6,971 thousand in respect of contractual obligations from prepaid but not yet delivered services.

21. REVENUES

in thousands of EUR	2019	2018
Revenue from sale of services	235,750	229,739
Revenue from sale of merchandise	56,274	57,817
Other revenue	3,335	2,739
REVENUE TOTAL	295,359	290,295

22. EXTERNAL PURCHASES

in thousands of EUR	2019	2018
Telecommunication servieces	48,045	54,208
Merchandise sold	45,811	49,594
Dealer commissions	16,355	13,617
Marketing costs	9,827	10,017
Outsourcing of services within the Group and from external suppliers	10,179	10,181
Lease	702	9,046
Energy consumption	4,403	3,166
Repairs of property, plant and equipment	3,318	3,094
Legal and consulting services	1,892	1,972
Other	5,896	4,904
Total external purchases	146,428	159,800

Expenses related to audit of financial statements in the year ended 31 December 2019 amounted to EUR 34 thousand (2018: EUR 30 thousand).

On 28 August 2019, KPMG Slovensko, spol. s r.o. was appointed as an independent auditor for the period ended 31 December 2019.

In the year ended 31 December 2019, expenses related to tax advisory provided by the independent auditor were in the amount of EUR 10 thousand (2018: EUR 10 thousand).

The independent auditor did not provide any other services.

These expenses are included among Legal and consultancy services.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

23. PERSONNEL COSTS

in thousands of EUR	2019	2018
Wages and salaries	19,921	18,439
Social security	6,343	5,978
Total personnel costs	26,264	24,417

24. OTHER EXPENSES

in thousands of EUR	2019	2018
Fees paid to the Group	487	171
Fees to Telecommunication Office for frequencies	4,217	3,721
Other	212	377
Total other expenses	4,916	4,269

25. FINANCE INCOME AND FINANCE COSTS

in thousands of EUR	2019	2018
Interest expense	3,460	983
Exchange rate losses	226	274
Other financial expenses	269	190
Total financial expenses	3,955	1,447

in thousands of EUR	2019	2018
Interest income	35	24
Exchange rate gains	180	294
Total financial income	215	318

26. TAX EXPENSES AND RECONCILIATION OF THE EFFECTIVE TAX RATE

in thousands of EUR	2019	2018
Deferred tax	175	1,456
Special levy on business in regulated industries	3,180	4,163
Current tax	14,890	12,882
Total tax espenses	18,245	18,501

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.

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 2006, 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 (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.

in thousands of EUR	2019	2018
Profit before tax	71,393	69,276
Theoretical tax of 21%	14,993	14,548
Special levy on business in regulated industries	3,180	4,163
Permanent differences	72	(210)
Total tax expenses	18,245	18,501

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 and therefore no sensitivity analysis was performed.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Overview of financial receivables in foreign currencies translated at the exchange rate as at 31 December 2019 to EUR is as follows:

in thousands of EUR	XDR	Total
Not past due	434	434
Overdue less than 180 days	185	185
Overdue less than 365 days	18	18
Overdue more than 365 days	50	50
TOTAL CURRENT RECEIVABLES	687	687

Overview of financial liabilities in foreign currencies translated at the foreign exchange rate as at 31 December 2019 to EUR is as follows:

in thousands of EUR	CZK	USD	XDR	Total
Not past due	130	1,089	644	1,863
Overdue less than 180 days	1	–	197	198
Overdue less than 365 days	–	–	102	102
Overdue more than 365 days	–	–	44	44
TOTAL CURRENT LIABILITIES	131	1,089	986	2,207

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, the balance of drawn loan was in the amount of EUR 117,775 thousand (2018: EUR 67,000 thousand). The Company was granted a credit line up to the amount of EUR 200,000 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 2019, the balance of drawn loan was EUR 1,000 thousand (2018: EUR 1,000 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.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 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.

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 liquidity risk mitigation policy defines the level of cash, cash equivalents and credit resources available to the Company to enable meeting its obligations in a timely manner.

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 2019	31 December 2018
Without maturity		
Maturity up to 180 days	195,697	143,759
Maturity up to 365 days	7,206	9,763
Maturity more than 365 days	54,298	2,478
Total liabilities	257,201	156,000

In the category Maturity within 180 days, the financial liabilities of the Company include received loan from the parent company in the amount of EUR 117,775 thousand. The distinction between available assets and liabilities is covered by the possibility of extending the parent company's loan. The provided credit line can be drawn up to the amount of EUR 200,000 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 2019	31 December 2018
Without maturity	31,221	10,260
Maturity up to 180 days	69,223	61,820
Maturity up to 365 days	27,104	28,154
Maturity more than 365 days	19,807	20,794
TOTAL RECEIVABLES AND CASH AND CASH EQUIVALENTS	147,355	121,028

Financial assets and liabilities offsetting

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

in thousands of EUR	31 December 2019	31 December 2018
Trade and other receivables prior to offsetting	89,070	81,474
Gross offset amount	(1,321)	(2,066)
TRADE AND OTHER RECEIVABLES AFTER OFFSETTING	87,749	79,408

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

in thousands of EUR	31 December 2019	31 December 2018
Trade and other payables prior to offsetting	84,490	85,295
Gross offset amount	(1,321)	(2,066)
TRADE AND OTHER PAYABLES AFTER OFFSETTING	83,169	83,229

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 2019, there were no changes 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 in the amount of EUR 166,671 thousand as at 31 December 2019 (as at 31 December 2018: EUR 166,791 thousand).

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 case of short-term receivables and payables the impact on their present value is insignificant.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.
The parent company is O2 Czech Republic a.s. In 2019, 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 on arms-length basis. 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 2019

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 2019	31 December 2018
Acquired merchandise and property, plant and equipment	1,730	387
Trade and other receivables	4,110	2,434
Provided short-term loans	117,775	67,000
Trade payables	4,203	3,554

The Company realized the following transactions with the parent company:

in thousands of EUR	31 December 2019	31 December 2018
Sales of merchandise and services	1,730	966
Purchase of services	11,469	11,125
Financial expenses	2,122	914

As at 31 December 2019 the Company paid dividends to the parent company for 2018 in the amount of EUR 53,267 thousand.

2. TRANSACTIONS WITH SUBSIDIARY

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

in thousands of EUR	31 December 2019	31 December 2018
Shares in companies	6,927	6,927
Acquisition of merchandise and property, plant and equipment	9	–
Trade and other receivables	1,409	1,662
Provided short-term loans	1,000	1,000
Trade payables	594	499

The Company realized the following transactions with subsidiary:

in thousands of EUR	31 December 2019	31 December 2018
Sales of merchandise and services	1,968	1,757
Purchase of services	2,847	1,472
Finance income	35	24

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 2019	31 December 2018
Shares in companies	3	3
Trade and other receivables	534	586
Trade payables	2,382	2,339

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	2019	2018
Sales of merchandise and services	3,505	3,747
Purchase of merchandise and services	12,493	11,119

The list of companies from the PPF Group which the Company realized transactions in 2019 with, includes the following companies: Česká telekomunikační infrastruktura a.s., and Telenor.

29. INFORMATION ON INCOME AND REMUNERATION OF KEY MANAGEMENT MEMBERS

Among key management members, 9 in total (2018: 9) are members of the executive management of the Company.

in thousands of EUR	2019	2018
Short-term employee benefits	1,469	1,454
TOTAL	1,469	1,454

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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. The probability of imposing an additional tax will be reduced only when there are precedents or official interpretations by the tax authority. The management of the Company is not aware of any circumstances that would incur significant costs for the Company.

Other financial liabilities

As at 31 December 2019 the Company has contingent financial liabilities in the amount of EUR 255 thousand (31 December 2018: EUR 252 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 2019

31. INVESTMENT AND OTHER COMMITMENTS

in thousands of EUR	31 December 2019	31 December 2018
Investment and other commitments contracted but not included in the financial statements yet	10,108	13,889
Total investment and other commitments	10,108	13,889

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

32. SUBSEQUENT EVENTS

No events with a material impact on the true and fair presentation of facts subject to the accounting occurred after 31 December 2019.

4 February 2020

Mgr. Peter Gažík
Chief Executive Officer and Managing Director

Mgr. David Durbak
Director of Legal Affairs and Managing Director

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<u>Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language</u>

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 2019 presented in the appendix of the accompanying Annual Report. We have issued an independent auditors' report on the financial statements on 5 February 2020 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 2019, 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 2019, 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, KPMG

including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

5 February 2020
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 2019 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.

11 March 2020
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