O2 Czech Republic –
January to December 2014 Financial Results

February 11, 2015

O2 Czech Republic a. s. announces its audited financial results for January to December 2014. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of O2 Slovakia s.r.o. and other smaller operating companies.

Operational highlights of 2014

- **We maintain our position in a declining market:**
  - **Revenues in telecommunication industry remain under strong pressure due to severe competition and price pressure**
  - **Mobile contract base growth of 1.8%** year-on-year in the Czech Republic, sound growth of 10.8% in Slovakia
  - **Smartphone penetration in the Czech Republic growing to almost 40%**, up by 5.3 percentage points year-on-year, driving growth of mobile data traffic
  - **VDSL accesses growing** by 16.1% year-on-year, helping to manage fixed broad band ARPU dilution and low churn
  - **O_2 TV customer base growth continues**, driven by new features reaching close to 184 thousands customers (18% year-on-year growth and 28 thousands net adds in 2014)
  - **Fixed accesses disconnections decelerated compared to the previous periods**, having declined by 5.6% year-on year
- **Consolidated operating revenue** reaching CZK 44,689 million, down by 5.4% year-on-year (-3.8% year-on-year excluding the impact of MTR cuts)
- **OIBDA** declined by 13.4% year-on-year, impacted by top-line pressure in the Czech Republic, partly offset by OPEX reduction, with OIBDA margin[1] reaching 35.8%
- **Total cash flow dominated by the strategic acquisition of LTE spectrum in both countries and payment for O2 brand.** Consolidated adjusted free cash flow[2] is down by 21.3% year-on-year
- **Data[3]** remain the key driver of growth in mobile business
- **O2 Slovakia** with sustained commercial momentum further increasing its contribution to the Group financial performance
- **2013 guidance** delivered[4]
- **4G LTE service roll out** is under way using newly acquired spectrum in both Czech and Slovakia auctions, with network sharing helping acceleration while saving Capex

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[1] OIBDA/Operating revenue
[2] Excluding payments for LTE spectrum and payment for O2 brand
[3] Excluding SMS and CDMA
[4] Group Operating Revenue still declining but improving y-o-y trend -5.4% in 2014 compared with -6.5% y-o-y growth in 2013. Group Capex in 2014 CZK 3.8bn up to the 2013 level of CZK 5.7bn. Excluding investments into spectrum license and O2 brand. Increasing proportion of investments into growth areas (mobile data, LTE and new technologies/businesses).

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Consolidated Financial Results

Consolidated operating revenue[5] reached CZK 44,689 million, down by 5.4% year-on-year in 2014. The revenue would have declined by 3,8% **excluding the MTR cuts impact** (last change in the Czech Republic in Q3 2013 from CZK 0.41 to CZK 0.27 per minute, in Slovakia in Q3 2013 from EURc 3.18 to EURc 1.23 per minute). In the fourth quarter, the revenue year-on-year decline decelerated compared to the previous quarters reaching -0.5% (-9.6% in the first quarter, -8.3% in the second and -3.2% in the third) in line with the Company's guidance. This performance has been helped by the improving spend trend as well as the effect of MTR reduction, which has already passed in the second half of the year.

Fixed operating revenue in the Czech Republic reached CZK 19,597 million, declining by 3.7% year-on-year in 2014, showing a stabilized trend of operating revenue quarter-on-quarter.

Mobile operating revenue in the Czech Republic were CZK 19,277 million, reporting 11.6% year-on-year decline in 2014, largely driven by the intensified competitive pressures with decline in traditional voice and messaging revenue, as well as further impact of the MTR cuts. **Excluding the MTR cuts impact**, mobile operating revenue would go down by 10.2% year-on-year. On the other hand, the Company continues to benefit from its data-centric proposition, with **data revenue**[6] growth of 16.7% year-on-year reaping the benefits of the introduction of data centric tariffs in 2013.

Revenue in Slovakia reached EUR 224 million, growing by 17% year-on-year excluding the MTR impact, the revenue growth denominated in CZK currency was 14.3% year-on-year.

The Group has continued in its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. **Total consolidated operating expenses** went down by 4.4% year-on-year to CZK 28,570 million in 2014. Personnel expenses (excluding restructuring costs) declined by 8.4% year-on-year as the Company continued in its restructuring programme focused on building more lean and flexible organizational structure. The total Group headcount[7] has been further optimised to reach 4,788 personnel at the end of December 2014, representing 13% year-on-year reduction. The Company also continues to benefit from further simplification of its business model.

Comparable Operating income before depreciation and amortization (OIBDA)[8] decreased by 9.5% year-on-year, when the **comparable OIBDA margin** reached 36.8% in 2014, down by 1.7 pp year-on-year. **Reported OIBDA** in 2014 reached CZK 16,010 million, with OIBDA margin of 35.8%, down 3.3 pp year-on-year[9]. In the fourth quarter of 2014, reported OIBDA was CZK 4,205 million. OIBDA margin in the fourth quarter of 2014 reached 36.2%, on the back of the focus on efficiency agenda as well as growing profitability in Slovakia.

Depreciation and amortization charges went down by 2.7% year-on-year reaching CZK 10,736 million in 2014. **Consolidated net income** excluding restructuring costs in 2013 and

[5] Figures are shown net of inter-segment charges between fixed and mobile businesses
[6] Excluding SMS and CDMA revenue
[7] Excluding the headcount of Bonerix, the Group subsidiary
[8] OIBDA excluding restructuring costs in2013 and 2014 and network sharing compensation in 2013
[9] Extraordinary income of CZK 643m from network sharing in Q4 2013

2014 and one-off network sharing compensation in 2013 declined by 17.8% year-on-year in 2014 (-20.3%[8] in the fourth quarter), while the **reported net income** amounted to CZK 3,998 million (CZK 967 million in the fourth quarter).

Consolidated CapEx reached CZK 11,490 million in 2014. This amount includes acquisition costs of LTE spectrum in both Czech Republic and Slovakia and also capitalised cost of the O2 brand. Excluding these extraordinary costs, consolidated CapEx reached CZK 3,822 million, down by 32.6% year-on-year. The Company continued to focus on efficient investments into growth areas. In mobile segment these included largely extending LTE using the new spectrum, mobile network sharing deployment, further capacity expansion and improvement of the quality of mobile broadband network, in line with the growing demand for mobile data services. Additionally, in fixed business the Company directed its investments into capacity enhancements of its fixed broadband networks by VDSL expansion.

Consolidated free cash flow adjusted for extraordinary items[10] was positive in 2014 at CZK 8,605 million, representing 21.3% year-on-year decline. Total free cash flow in the period was dominated by the payment for the strategic acquisition of LTE spectrum in the Czech Republic and Slovakia for the amount of CZK 3.9 billion and furthermore payment for O2 brand in the amount of CZK 3.7 billion. **The consolidated financial debt** amounted to CZK 7 billion at the end of December 2014, due to a new term loan in the amount of CZK 4 billion for settlement of liabilities to Telefónica group. At the same time, **cash and cash equivalents** reached CZK 3.3 billion at the end of the period, following the payment for the LTE spectrum and 2013 dividend payment.

[10] Excluding network sharing compensation in 2013, payments for LTE spectrum and brand fee in 2014

CZ Mobile Business Overview

The Company continued building on data centric platform brought about by the unlimited tariffs. The fact that the whole consumer contract base has already migrated to the new platform represents a foundation for future propositions to these customers. In business contract base, the Company continues focusing on maintaining its leading position by addressing the needs of its business customers with the commitment to be the innovation leader in the Czech mobile market.

The demand for mobile internet continued to grow largely thanks to improved proposition in the Company's tariffs with extended data package, and the Company's ongoing support of smartphone sales via introduction of instalment model, while keeping the best price guarantee proposition for the bestselling smartphones. This newly comprises also the iPhone, which the Company is now offering to its customers in a balanced partnership with Apple. As a result, **data revenue**[11] went up by 16.7% year-on-year in 2014. **Small screen base**[12] at the end of December 2014 grew by 17.1% year-on-year. **Smartphone penetration**[13] grew further, reaching 39.8% at the end of December 2014, up by 5.3 percentage point year-on-year. In the fourth quarter, smartphones accounted for about 77% of all new phones sales and 61% of them were LTE smartphones.

The total **mobile customer base** reached 5,069 thousand at the end of December 2014. The number of **contract customers** grew by 1.8% year-on-year, reaching 3,294 thousand. The number of **prepaid customers** reached 1,775 thousand at the end of December 2014, down by 4.9% year-on-year as a result of the ongoing migration to contract segment and the transition to MVNO's.

The blended monthly average **churn rate** reached 2.1% in 2014 (1.8% in the fourth quarter). Contract churn was at 1.1% (0.9% in the fourth quarter). Monthly average churn rate in prepaid was 3.8% (3.6% in the fourth quarter).

In terms of usage, total **mobile traffic**[14] carried by our customers in the Czech Republic reached 11,532 million minutes in 2014, up by 7.0% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all tariffs and unlimited all net voice calling in some tariffs.

Total mobile ARPU in 2014 was CZK 287, down by 11.9% year-on-year, impacted largely by the MTR cuts and price pressures in the market. In the fourth quarter alone, total mobile ARPU went down by 5.8% year-on-year. Excluding the impact of the MTR cuts, total ARPU would have declined by 10.4% and 5.8% in 2014 and the fourth quarter of 2014 respectively. **Contract ARPU** went down by 12.7% year-on-year reaching CZK 378 in 2014 (-7.7% to CZK 373 in the fourth quarter). **Prepaid ARPU** decreased by 15.7% year-on-year to CZK 122 (-4.8% to CZK 128 in the fourth quarter).

Total **mobile operating revenue** were CZK 19,277 million in the Czech Republic, representing year-on-year decline of 11.6% in 2014 (-5.1% year-on-year to CZK 4,967 million in the fourth quarter). At the same time, **mobile gross service revenue** went down by 11.8% year-on-year to reach CZK 17,583 million (-5.7% year-on-year to CZK 4,404 million in the fourth quarter). Continuous competitive pressures mainly in business segment leading to lower spend together with MTR cuts were the key drivers for the decline. Excluding the impact of mobile termination

[11] Excluding SMS and CDMA revenue
[12] Customer base using mobile internet in handsets
[13] Smartphones as % of total handsets base
[14] Inbound and outbound, including roaming abroad, excluding inbound roaming

rate cuts, mobile gross service revenue would decline by 10.3% year-on-year. **Mobile originated voice revenue** declined by 17.6% year-on-year to CZK 9,958 million, while **messaging (SMS & MMS) revenue** were 28.6% lower due to lower effective per unit price. **Terminated revenue** went down by 5.4% year-on-year to CZK 2,100 million, largely impacted by MTR cuts not fully compensated by higher incoming traffic. As the MTR cut impact passed since the third quarter, terminated revenue went up by 1.7% year-on-year in the fourth quarter.

CZ Fixed Business Overview

In the highly competitive and declining market the Company reported continued downturn of the customer base as well as the revenue in 2014. Nevertheless, the declining trend has further decelerated via the proposition of the VDSL service, O_2 TV to the broadband retail customer base, as well as via growth of voice wholesale revenue. Continuous migration of the existing ADSL customers to the VDSL service, and O_2 TV with added features such as multiscreen access (O2 TV Go Multiscreen) including replay of up to 30 hours of any channel, are helping the Company to decelerate fixed broadband ARPU dilution and sustain low churn.

The total number of **fixed accesses** declined by 5.6% year-on-year reaching 1,312 thousand at the end of December 2014, with 77 thousand net losses during the period. In the fourth quarter, net losses further decelerated compared to the previous quarters.

The number of **xDSL accesses** reached 922 thousand at the end of December 2014, with positive net additions of 7 thousand in the fourth quarter. The share of the high speed VDSL accesses continued to grow. In respect of VDSL, 420 thousand customers (+16.1% year-on-year) have already subscribed for the upgraded service. The total number of **O_2 TV customers** reached 184 thousand at the end of the period, up 18% year-on-year thanks to maintained popularity of the new O_2 TV launched in 2013.

Total **fixed operating revenue** reached CZK 19,597 million in 2014, down by 3.7% year-on-year. In the fourth quarter alone, the decline slowed down reaching -2.2%. **Revenue from voice retail services** continued in trend and fell by 20.6% year-on-year, in line with the performance of previous periods, reaching CZK 3,509 million, due to continuing fixed telephony line losses. **Voice wholesale revenue** improved by 23.6% year-on-year to CZK 5,857 million. **Internet & broadband revenue (incl. O_2 TV)** declined by 7.5% year-on-year to CZK 5,603 million, resulting from competitive ARPU pressures and only slight year-on-year growth in xDSL customer base, partially compensated by the combination of migration of customers to VDSL, as well as growing O_2 TV customer base. **Total ICT revenue** went down by 20.5% year-on-year to CZK 1,726 million in 2014.

Slovakia
O2 Slovakia continues to be one of Group's key growth drivers and managed to achieve solid commercial and financial performance in 2014 despite the strong competition. **Total number of customers** reached 1,684 thousand at the end of December 2014, posting 9.4% year-on-year growth. The customer base increased by 145 thousand in 2014, with majority of net adds in contract customer base. The **number of contract customers** grew by 10.8% year-on-year reaching 858 thousand at the end of December 2014 (84 thousand net adds in 2014), while the **number of prepaid customers** increased by 7.9% year-on-year reaching 826 thousand. Share of contract customers in Slovakia reached 51% of the total customer base at the end of December 2014, up by 0.7 percentage point year-on-year.

In terms of financial performance, the **total operating revenue** of O2 Slovakia in local currency grew 7.9% year-on-year reaching EUR 224 million in 2014. Excluding the impact of MTR cuts, the growth rate would be 17%, fuelled by customer growth, refreshed portfolio of mobile phones, improving customer mix and the focus on acquiring higher value customers both in residential and small and medium enterprises. At the same time, **OIBDA** of O2 Slovakia went up by 0.7% year-on-year to EUR 71 million, resulting in a 31.5% OIBDA margin. **Total ARPU** in Slovakia exceeded EUR 9.8 in 2014 (EUR 10.7 when excluding the impact of MTR cuts). **Contract ARPU** reached EUR 13.3, while **prepaid ARPU** was at EUR 6.0. Total Capex of O2 Slovakia in 2014 represented 32% of revenues (10% in 2013).

Outlook for 2015
In 2015, the Company will closely monitor customers' needs in a challenging macro environment which can impact their consumption patterns. Company strengths include unique fixed and mobile broadband based products and services including bundled proposition, new O2TV, ICT and digital services with a pro-growth opportunity.

The Company will keep focusing on further improvement of the customer relationship area via additional investments into the optimisation and improvement of its systems and processes, building on the benefits enabled by unlimited tariffs. These initiatives shall lead to lower number of customers' complaints, negative and repeated calls, consequently improving their experience and satisfaction, which belongs to the Company's top priorities also in 2015. In line with its strategy to protect its customer base and to mitigate the negative impact of highly competitive market environment on customers' spend, the Company will focus on active execution of the customer value management. In corporate segment, it will aim at increasing the number of exclusive customers to maintain its strong position in this area, also supported by development and promotion of ICT & Digital services (cloud, security, M2M). The Company believes that this strategy will help mitigating dependence on one-off projects, secure sustainable revenue and grow profitable business.

Furthermore, the Company will continue enhancing its fixed broadband proposition with additional expansion of the upgraded VDSL network coverage through selective FTTN investment, to strengthen its market position. The Company will continue deploying its LTE network in the newly acquired spectrum to drive new propositions to customers and maintain its competitiveness in the mobile broadband market, and also implementing the new extended network sharing agreement to drive further internal efficiencies.

O2 Slovakia will continue in its successful fair and transparent commercial proposition targeting higher value customer segments. Own 3G and LTE network will continue to grow also in

Slovakia. This should result in solid subscribers' growth, helping to increase the market share. At the same time, O2 Slovakia will stay focused on further improvement of its financial performance through lean operation, to compensate increased competitive pressures.

The Company expects that mobile non-SMS data revenue and revenue in Slovakia will stay the key top line growth drivers in 2015. In this operational environment, the Company will maintain its effort on further OpEx efficiencies in all areas of its operation via realisation of the transformation program to protect its solid profitability. The efficiency agenda in 2015 will include further headcount optimization by means of building leaner and more efficient organisational structure with increasing span of control. In addition, the Company will continue in consolidation and optimization of its call centres, reduction and simplification of its product portfolio aiming at lowering the number of processes. Additional costs savings shall be realised via focus on on-line activities, largely in sales and customer related areas. The Company is confident that the above mentioned measures will help it to maintain best-in-class profitability despite pressures on the revenue performance.

In respect of CapEx, the Company will continue to direct its investments primarily into the upgrade and expansion of its fixed and mobile broadband networks and capabilities' improvement of the mobile broadband networks. Investments will be targeted mainly into the deployment of the new generation 4G network, to sustain competitiveness and deliver future revenue growth.

<u>Attachment:</u>

The consolidated balance sheet and income statement of O2 Czech Republic prepared in accordance with International Financial Reporting Standards.

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About O2 Czech Republic

O2 Czech Republic is the largest integrated telecommunications provider in the Czech market, trading under the O2 brand. At present the Company operates close to eight million mobile and fixed accesses, which places it among the market leaders in fully converged services in Europe. To the users of mobile services in the Czech Republic O2 offers state-of-the-art HSPA+ and LTE technology. O2 has the most comprehensive proposition of voice and data services in the Czech Republic and actively exploits the growth potential of its various business lines, especially ICT. O2 data centres, with total floor area of 7,300 square metres, rank O2 among the leaders in hosting, cloud and managed services. O2 data centres are the only centres in the Czech Republic and in the Central Europe with TIER III certification. With the O2 TV the Company is also the largest IPTV service provider in the Czech Republic. The Company is present on the mobile market in Slovakia since 2007, through its 100% subsidiary O2 Slovakia. In January 2014, O2 Czech Republic became a member of the Czech investment group PPF.

About PPF Group

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF's reach spans from Europe to Russia, the USA and across Asia. PPF Group owns assets of EUR 24 billion (as at 30 June 2014).

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	**Jan – Dec 2014**	**Jan – Dec 2013**
Operating revenues	44,689	47,252
Other recurring revenues	151	134
Revenues	**44,840**	**47,386**
Internal expenses capitalized in fixed assets	525	601
Operating expenses	(28,570)	(29,875)
Other operating income/(expenses)	(629)	313
Gain on sale of fixed assets	24	62
Impairment reversal/(loss)	(180)	(11)
OIBDA	**16,010**	**18,477**
OIBDA margin	**35,8%**	**39,1%**
Depreciation and amortization	(10,736)	(11,032)
Operating Income	**5,274**	**7,445**
Net financial income (expense)	(104)	(175)
Results attributed to joint venture	8	(6)
Income before tax	**5,178**	**7,264**
Income tax	(1 180)	(1 569)
Net Income	**3,998**	**5,695**

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	31.12.2014	31.12.2013
Non-current assets	**63,370**	**62,460**
- Intangible assets	12,828	6,509
- Goodwill	13,448	13,499
- Property, plant and equipment and investment property	36,200	41,857
- Long-term financial assets and other non-current assets	581	178
- Deferred tax assets	313	417
Current assets	**10,920**	**11,489**
- Inventories	470	536
- Trade and other receivables	7,170	7,001
- Current tax receivable	-	1
- Short-term financial investments	24	61
- Cash and cash equivalents	3,256	3,890
Total assets	**74,290**	**73,949**
Equity	**54,153**	**55,749**
Non-current Liabilities	**5,557**	**5,825**
- Long-term financial debt	3,000	3,000
- Deferred tax liabilities	2,151	2,735
- Long-term Provisions	251	26
- Other long-term liabilities	155	64
Current Liabilities	**14,580**	**12,375**
- Short-term financial debt	4,004	4
- Trade and Other payables	8,155	10,327
- Current income tax payable	299	155
- Short-term provisions and other liabilities	2,122	1,889
Total Equity and Liabilities	**74,290**	**73,949**