

## O2 Czech Republic – January to September 2014 Financial Results

November 12, 2014

O2 Czech Republic a. s. announces its unaudited financial results for January to September 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 the first nine months of 2014

- **We maintain our position in a difficult market:**
  - **Mobile contract base growth of 2.7%** year-on-year in the Czech Republic, sound growth of 13.6% in Slovakia
  - **Smartphone penetration in the Czech Republic growing to almost 40%**, up by 7.6 percentage points year-on-year, driving growth of mobile data traffic
  - **VDSL accesses growing** by 20.2% year-on-year, helping to manage fixed broad band ARPU dilution and low churn
  - **O<sub>2</sub> TV customer base growth continues**, driven by new features reaching close to 180 thousands customers (21% year-on-year growth and 22 thousands net adds in the first nine months of 2014)
  - **Fixed accesses disconnections decelerated compared to the previous periods**, having declined by 6.4% year-on year
- **Consolidated operating revenues** reaching CZK 33,071 million, down by 7.0% year-on-year (-4.9% year-on-year excluding the impact of MTR cuts)
- **OIBDA** declined by 10.6% year-on-year, impacted by top-line pressure in the Czech Republic, partly offset by OPEX reduction, with OIBDA margin<sup>1</sup> reaching 35.7%
- **Total cash flow dominated by the strategic acquisition of LTE spectrum in both countries.** Consolidated free cash flow excluding the acquisition of LTE spectrum down by 23.5% year-on-year
- **Data<sup>2</sup>** remain the key driver of growth in mobile business
- **O2 Slovakia** with sustained commercial momentum further increasing its contribution to the Group financial performance
- **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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<sup>1</sup> OIBDA/Operating revenues

<sup>2</sup> Excluding SMS and CDMA

### **Consolidated Financial Results**

**Consolidated operating revenues**<sup>3</sup> reached CZK 33,071 million, down by 7.0% year-on-year in the first nine months of 2014. The revenues would have declined by 4.9% **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 third quarter, the revenues year-on-year decline decelerated compared to the previous two quarters reaching -3.2% (-9.6% in the first quarter and -8.3% in the second quarter) 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 Czech Republic in the third quarter.

**Fixed operating revenues in the Czech Republic** reached CZK 14,593 million, declining by 4.3% year-on-year in the first nine months of the 2014, showing a stabilized trend of operating revenues quarter-on-quarter.

**Mobile operating revenues in the Czech Republic** were CZK 14,310 million, reporting 13.7% year-on-year decline in the first nine months of 2014, largely driven by the intensified competitive pressures with decline in traditional voice and messaging revenues, as well as further impact of the MTR cuts. **Excluding the MTR cuts impact**, mobile operating revenues would go down by 11.9% year-on-year. On the other hand, the Company continues to benefit from its data-centric proposition, with **data revenues**<sup>4</sup> growth of 20.4% year-on-year reaping the benefits of the introduction of data centric tariffs in 2013.

**Revenues in Slovakia** reached EUR 161 million, growing by 15.1% year-on-year excluding the MTR impact, the revenue growth denominated in CZK currency was 10.8% 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 5.6% year-on-year to CZK 21,342 million in the first nine months of 2014. Personnel expenses (excluding restructuring costs) declined by 9.9% year-on-year as the Company continued in its restructuring programme focused on building more lean and flexible organizational structure. The total Group headcount<sup>5</sup> has been further optimised to reach 4,973 personnel at the end of September 2014, representing 10% 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)**<sup>6</sup> decreased by 10.2% year-on-year, when the **comparable OIBDA margin** reached 36.8% in the first nine months of 2014, down by 1.3 pp year-on-year. **Reported OIBDA** in the first nine months of 2014 reached CZK 11,805 million, with OIBDA margin of 35.7%, down 1.4 pp year-on-year. In the third quarter of 2014, reported OIBDA was CZK 4,224 million. OIBDA margin in the third quarter of 2014 reached 37.4%, similar to the second quarter 2014, on the back of the focus on efficiency agenda as well as growing profitability in Slovakia.

**Depreciation and amortization charges** went down by 5.2% year-on-year reaching CZK 7,896 million in the first nine months of 2014. **Consolidated net income excluding**

<sup>3</sup> Figures are shown net of inter-segment charges between fixed and mobile businesses

<sup>4</sup> Excluding SMS and CDMA revenues

<sup>5</sup> Excluding the headcount of Bonerix, the Group subsidiary

<sup>6</sup> OIBDA excluding restructuring costs

**restructuring costs** declined by 17.0% year-on-year (-5.7% in the third quarter), while the **reported net income** amounted to CZK 3,031 million (CZK 1,254 million in the third quarter).

**Consolidated CapEx** reached CZK 6,436 million in the first nine months of 2014. This amount includes acquisition costs of LTE spectrum in both Czech Republic and Slovakia. Excluding the LTE spectrum acquisition costs, consolidated CapEx reached CZK 2,528 million, down by 26.7% 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 excluding the acquisition of LTE spectrums** was positive at CZK 5,708 million, representing 23.5% year-on-year decline in the first nine months of 2014. 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 3,908 million. **The consolidated long-term financial debt** amounted to CZK 3,000 million at the end of September 2014, with no change compared to the end of 2013. At the same time, **cash and cash equivalents** reached CZK 5,698 million at the end of the period, following the payment for the LTE spectrum. The Company continued accumulating cash for 2013 dividend payment scheduled for the fourth quarter of 2014.

### **CZ Mobile Business Overview**

The Company continued building on the data centric platform brought about by the FREE 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 in defending 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 revenues**<sup>7</sup> went up by 20.4% year-on-year in the first nine months of 2014. **Small screen base**<sup>8</sup> at the end of September 2014 grew by 25.6% year-on-year. **Smartphone penetration**<sup>9</sup> grew further, reaching 39.6% at the end of June 2014, up by 7.6 percentage point year-on-year. In the third quarter, smartphones accounted for about 70% of all new phones sales and more than half of them were LTE smartphones.

The total **mobile customer base** reached 5,052 thousand at the end of September 2014. Total net losses amounted to 50 thousand in the first nine months of 2014, driven by the movements in the prepaid base. The number of **contract customers** grew by 2.7% year-on-year, reaching 3,280 thousand. The number of **prepaid customers** reached 1,772 thousand at the end of September 2014, down by 5.7% 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 the first nine months of 2014 (1.9% in the third quarter). Contract churn was at 1.1% (0.9% in the third quarter). Monthly average churn rate in prepaid was 3.9% in the first nine months and third quarter of 2014.

In terms of usage, total **mobile traffic**<sup>10</sup> carried by our customers in the Czech Republic reached 8,628 million minutes in the first nine months of 2014, up by 9.1% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all FREE tariffs and in the FREE CZ Tariff also unlimited all net voice calling.

**Total mobile ARPU** in the first nine months of 2014 was CZK 286, down by 13.8% year-on-year, impacted largely by the MTR cuts and price pressures in the market. In the third quarter alone, total mobile ARPU went down by 9.4% year-on-year. Excluding the impact of the MTR cuts, total ARPU would have declined by 11.7% and 9.4% in the first nine months and the third quarter of 2014 respectively. **Contract ARPU** went down by 14.2% year-on-year reaching CZK 380 in the first nine months of 2014 (-10.9% to CZK 382 in the third quarter). **Prepaid ARPU** decreased by 18.8% year-on-year to CZK 120 (-11.3% to CZK 124 in the third quarter).

Total **mobile operating revenues** were CZK 14,310 million in the Czech Republic, representing year-on-year decline of 13.7% in the first nine months of 2014 (-9.1% year-on-year to CZK 4,864 million in the third quarter). At the same time, **mobile gross service revenues** went down by

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<sup>7</sup> Excluding SMS and CDMA revenues

<sup>8</sup> Customer base using mobile internet in handsets

<sup>9</sup> Smartphones as % of total handsets base

<sup>10</sup> Inbound and outbound, including roaming abroad, excluding inbound roaming

13.7% year-on-year to reach CZK 13,179 million (-9.8% year-on-year to CZK 4,456 million in the third 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 rate cuts, mobile gross service revenues would decline by 11.7% year-on-year. **Mobile originated voice revenues** declined by 19.9% year-on-year to CZK 7,504 million, while **messaging (SMS & MMS) revenues** were 31.7% lower due to lower effective per unit price. **Terminated revenues** went down by 7.8% year-on-year to CZK 1,532 million, largely impacted by MTR cuts not fully compensated by higher incoming traffic. As MTR cut impact passed in the third quarter, terminated revenues went up by 3.8% year-on-year in the 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 revenues in the first nine months of 2014. Nevertheless, the declining trend has further decelerated via the proposition of the VDSL service and O<sub>2</sub> TV to the broadband retail customer base, as well as via growth of voice wholesale revenues. Continuous migration of the existing ADSL customers to the VDSL service, and O<sub>2</sub> 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 manage fixed broadband ARPU dilution and sustain low churn.

The total number of **fixed accesses** declined by 6.4% year-on-year reaching 1,322 thousand at the end of September 2014, with 67 thousand net losses during the period. In the third quarter, net losses decelerated compared to the previous two quarters.

The number of **xDSL accesses** reached 915 thousand at the end of September 2014, with positive net additions in the third quarter. The share of the high speed VDSL accesses continued to grow. In respect of VDSL, 404 thousand customers (+20.2% year-on-year) have already subscribed for the upgraded service. The total number of **O<sub>2</sub> TV customers** exceeded 178 thousand at the end of the period, up 20.9% year-on-year thanks to maintained popularity of the new O<sub>2</sub> TV launched in 2013.

Total **fixed operating revenues** reached CZK 14,593 million in the first nine months of 2014, down by 4.3% year-on-year. In the third quarter alone, the decline slowed down reaching -2.6%. **Revenues from voice retail services** continued in trend and fell by 20.8% year-on-year, in line with the performance of previous periods, reaching CZK 2,706 million, due to continuing fixed telephony line losses. **Voice wholesale revenues** improved by 21.1% year-on-year to CZK 4,230 million. **Internet & broadband revenues (incl. O<sub>2</sub> TV)** declined by 7.9% year-on-year to CZK 4,221 million, resulting from competitive ARPU pressures and slight year-on-year decline in xDSL customer base, partially compensated by the combination of migration of customers to VDSL, as well as growing O<sub>2</sub> TV customer base. **Total ICT revenues** went down by 18.3% year-on-year to CZK 1,268 million in the first nine months of 2014.

### **Slovakia**

O2 Slovakia continues to be one of Group's key growth drivers and managed to achieve solid commercial and financial performance in the first nine months of 2014 despite the strong competition. **Total number of customers** reached 1,638 thousand at the end of September 2014, posting 11.3% year-on-year growth. The customer base increased by nearly 100 thousand in the first nine months of 2014, with majority of net adds in contract customer base. The **number of contract customers** grew by 13.6% year-on-year reaching 840 thousand at the end of September 2014 (66 thousand net adds in the first nine months of 2014), while the **number of prepaid customers** increased by 9.0% year-on-year reaching 798 thousand. Share of contract customers in Slovakia was over 51% of the total customer base at the end of September 2014, up by 1.0 percentage point year-on-year.

In terms of financial performance, the **total operating revenues** of O2 Slovakia in local currency grew 3.7% year-on-year reaching EUR 161 million in the first nine months of 2014. Excluding the impact of MTR cuts, the growth rate would be 15.1%, fuelled by customer growth, refreshed proposition, 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 4.1% year-on-year to EUR 51 million, resulting in a 32% OIBDA margin. **Total ARPU** in Slovakia exceeded EUR 9.8 in the first nine months of 2014 (EUR 10.8 when excluding the impact of MTR cuts). **Contract ARPU** reached EUR 13.3, while **prepaid ARPU** was at EUR 6.1.

**Attachment:**

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 20.9 billion (as at 31 December 2013).

All amounts in CZK million

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>Jan – Sep 2014</b>	<b>Jan – Sep 2013</b>
Operating revenues	33,071	35,579
Other recurring revenues	99	75
<b>Revenues</b>	<b>33,170</b>	<b>35,654</b>
Internal expenses capitalized in fixed assets	395	452
Operating expenses	(21,342)	(22,614)
Other operating income/(expenses)	(392)	(329)
Gain on sale of fixed assets	18	51
Impairment reversal/(loss)	(44)	(8)
<b>OIBDA</b>	<b>11,805</b>	<b>13,206</b>
<i>OIBDA margin</i>	<i>35.7%</i>	<i>37.1%</i>
Depreciation and amortization	(7,896)	(8,331)
<b>Operating Income</b>	<b>3,909</b>	<b>4,875</b>
Net financial income (expense)	(73)	(119)
Results attributed to joint venture	5	(6)
<b>Income before tax</b>	<b>3,841</b>	<b>4,750</b>
Income tax	(810)	(1,007)
<b>Net Income</b>	<b>3,031</b>	<b>3,743</b>



All amounts in CZK million

<b>CONSOLIDATED BALANCE SHEET</b>	<b>30.9.2014</b>	<b>31.12.2013</b>
<b>Non-current assets</b>	<b>60,867</b>	<b>62,460</b>
- Intangible assets	9,595	6,509
- Goodwill	13,496	13,499
- Property, plant and equipment and investment property	37,268	41,857
- Long-term financial assets and other non-current assets	164	178
- Deferred tax assets	344	417
<b>Current assets</b>	<b>12,424</b>	<b>11,489</b>
- Inventories	341	536
- Trade and other receivables	6,384	7,001
- Current tax receivable	0	1
- Short-term financial investments	1	62
- Cash and cash equivalents	5,698	3,890
<b>Total assets</b>	<b>73,291</b>	<b>73,950</b>
<b>Equity</b>	<b>53,057</b>	<b>55,749</b>
<b>Non-current Liabilities</b>	<b>5,434</b>	<b>5,825</b>
- Long-term financial debt	3,000	3,000
- Deferred tax liabilities	2,362	2,735
- Long-term Provisions	7	26
- Other long-term liabilities	65	65
<b>Current Liabilities</b>	<b>14,799</b>	<b>12,376</b>
- Short-term financial debt	2	4
- Trade and Other payables	7,127	10,328
- Current income tax payable	171	155
- Short-term provisions and other liabilities	7,500	1,889
<b>Total Equity and Liabilities</b>	<b>73,291</b>	<b>73,950</b>