

## After step increase in 2015, in first quarter 2016 O2 slightly increased operating profit; new activities compensate traditional revenue decline

26 April 2016

- Following 25% growth in 2015, in the first quarter O2 slightly increased EBITDA
- Revenue reached CZK 9.031 billion, net profit CZK 1.244 billion
- O2 compensates pressure on revenue mainly in roaming and the corporate segment through new activities
- In January O2 launched unlimited fixed voice tariffs
- In addition, O2 enters TV/media broadcasting market with international presence
- In Slovakia, O2 expanded its activities into fixed services
- Dividend for 2015 of CZK 16 per share will be paid out on 19 May

O2 today announced its operating and financial results for the **first quarter 2016**. Consolidated figures include the results of subsidiaries, including O2 Slovakia.

Despite increasing pressure mainly in roaming and corporate segment, O2 succeeded in maintaining operating profitability at last year level. It strengthened its position in **digital O2 TV, mobile data and Slovakia**. In the future O2 intends invest into new growth areas.

*“Following the mobile revolution in 2013, now we offer also unlimited calls from fixed lines to all networks to our customers. Thanks to acquisition of the latest broadcasting van, we offer media production to our partners in the Czech Republic as well as in neighbouring countries.”*, says Tomáš Budník, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic *“Through the new activities we will compensate negative impact of EU roaming regulation and long-term unsustainable price trends in the corporate segment”*, he adds.

*“Revenue from O2 TV grew by close to 80% in March. This puts a room for additional investments into acquisition of sport content. It is still true that 2016 remains for us a year with higher investments into the areas with a future growth potential”*, adds Tomáš Kouřil, company’s Chief Financial Officer and Vice-Chairman of the Board of Directors and continues *“We will continue investing into IT transformation to shorten time-to-market. In Slovakia our investments will relate to our entry to fixed market and mobile LTE network rollout”*.

## Operating overview

### **Mobile segment**

As of the end of March 2016, mobile services provided by O2 were used by a total of 4.888 million customers. The number of **contract customers** increased by 0.2% year-on-year reaching **3.274 million**. Thus they represent already 67% of the mobile customer base, up by 1.8 percentage point. Number of **prepaid customers** reached 1.614 million customers.

Helped by LTE network rollout, tariff proposition with increased data package and simplification of data limit recharge, mobile data traffic increased by 56% year-on-year. Number of internet in handset service went up by 14% year-on-year to 1.591 million. Every other mobile handset is already a smartphone and one of five supports LTE technology. Number of customers with LTE smartphone and with USIM card, which supports the new technology, reached 564 thousand at the end of March and continues to grow.

### **Fixed segment**

Number of digital television **O2 TV** service provided on O2 fixed line reached **206 thousand** at the end of March. Up by 9.3% year-on-year. The whole customer base has been already migrated to new tariffs which have been offered since 1 July 2015. Unique features (time shift, recording etc.), and also own O2 Sport channel with multidimension drive increasing demand for digital television. The **O2 TV mobile application**, which enables watching favourite TV channels on portable devices, has been downloaded close to **700,000 times**.

Number of xDSL fixed internet customers reached **790,000** at the end of March 2016. Thanks to internet speed increase through installation of remote DSLAMs, the share of customers enjoying VDSL technology on total xDSL base reached already 58%, up by 9 percentage points. During the first quarter 2016, O2 improved internet speed for as many as 40 thousand households.

**Fixed voice** area has been showing declining trend. Therefore, in January 2016 the company introduced two new tariffs, which bring unlimited calls to all mobile and fixed networks in the Czech Republic and to most called international destinations. Customers no more need to count called minutes and they do not pay any lease line fee. Total number of fixed voice lines reached 803 thousand at the end of March 2016.

## Financial overview

**Total consolidated operating revenue** reached **CZK 9.031 billion** in the first quarter 2016, down 1.3% year-on-year. **Operating revenue in the Czech Republic** totalled CZK 7,463 billion, representing a 1.7% decline. Fixed business operating revenue decreased by 2.2% year-on-year

to CZK 2.828 billion, while mobile operating revenue were 1.4% lower reaching CZK 4.635 billion.

**EBITDA** increased by **5.3%** year-on-year to **CZK 2.503 billion**.

**Slovakia** continues to deliver positive financial performance. **Revenues** reached **CZK 1.614 billion**, marking a year-on-year increase of 0.3% (+2.5% in euros).

## **KEY FINANCIAL AND OPERATING INDICATORS**

### **Financial indicators for the Group**

Financial indicators	Q1 2016	Q1 2015	Year-on-year change
Operating revenue	CZK 9.031bn	CZK 9.151bn	- 1.3%
Total costs	CZK 6.660bn	CZK 6.709bn	-0.7%
- of which operating costs	CZK 1.978bn	CZK 1.981bn	-0.2%
EBITDA	CZK 2.503bn	CZK 2.378bn	+5.3%
EBITDA margin	27.7%	26.0%	+ 1.7 p.p.
Net profit	CZK 1.244bn	CZK 1.070bn	+16.2%

### **Operating indicators – Czech Republic**

Number of mobile service customers	Q1 2016	Q1 2015	Year-on-year change
Contract customers	3.274m	3.269m	+0.2%
Prepaid customers	1.614m	1.744m	- 7.5%
Total	4.888m	5.013m	- 2.5%
ARPU	CZK 284	CZK 280	+1.4%

Number of fixed service customers	Q1 2016	Q1 2015	Year-on-year change
O2 TV	206k	188k	+9.3%

<b>O2 TV application (number of downloads)</b>	Close to 600k	300k	
<b>xDSL</b>	790k	801k	-1.3%
<b>VDSL</b>	455k	395k	+15.3%
<b>Fixed voice lines</b>	803k	906k	-11.4%

<b>Smartphones</b>	<b>Q1 2016</b>	<b>Q1 2015</b>	<b>Year-on-year change</b>
<b>Smartphone penetration within the O2 network</b>	50.4%	41.6%	+8.8 p.p.

**In this section we present and comment in detail on the unaudited consolidated financial results of O2 Czech Republic a. s. for January to March 2016 prepared according to International Financial Reporting Standards. These results fully include the results of O2 Slovakia (including O2 Business Solutions), O2 IT Services and other subsidiaries.**

### **Consolidated Financial Results**

**Consolidated operating revenue** reached CZK 9,031 million in the first quarter 2016, down by 1.3%. This performance has been driven by slightly higher mobile customers' spend thanks to the company's focus on customer value, growing mobile data and O2 TV revenue and continuous revenue growth in Slovakia. These partially compensated lower revenue from voice and fixed data services, which have been impacted by continuous price pressures in the corporate segment.

**Operating revenue in the Czech Republic** reached CZK 7 463 million, marking a 1.7% year-on-year decline. **Fixed operating revenue** declined by 2.2% year-on-year reaching CZK 2,828 million, driven by 70% growth in O2 TV revenue, which did not fully compensate decline in voice and data revenue. **Mobile operating revenue** were CZK 4,635 million, reporting a 1.4% year-on-year decline. This performance has been impacted largely by lower traditional voice and messaging revenue in corporate segment, while contract residential revenue continued growing, largely data revenue.

**Revenue in Slovakia** reached CZK 1,614 million in the first quarter 2016, growing by 0.3% year-on-year (+2.5% in local currency).

**Total consolidated expenses<sup>1</sup>** went down by 0.7% year-on-year to CZK 6,660 million, of which operating expenses declined by 0.2% year-on-year helped largely by lower IT & Network maintenance expenses. Personnel expenses (excluding restructuring costs) increased by 14.9% year-on-year largely due to headcount growth on the back of acquisition of O2 IT Services in the second quarter 2015, set up of O2 Business Solutions in Slovakia and employees' insourcing in the Czech Republic as well as in Slovakia. The total Group headcount reached 4,178 personnel at the end of March 2016. At the same time, costs of sales increased by 1.0% year-on-year in the first quarter 2016 thanks to lower costs of services as well as lower commercial costs.

**Earnings before interest, depreciation and amortization (EBITDA)** increased by 5.3% year-on-year to CZK 2,503 million in the first quarter 2016. This performance has been helped also by one-off income of CZK 92 million related to the administrative court's decision on termination

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<sup>1</sup> Costs of sales and operating expenses

of the proceedings regarding fine by the Antimonopoly Office. **EBITDA margin** reached solid 27.7% in the first quarter 2016, up by 1.7 p.p. year-on-year.

**Depreciation and amortization charges** went down by 10.9% year-on-year reaching CZK 885 million. **Consolidated net income** increased by 16.2% year-on-year to CZK 1,244 million in the first quarter 2016, largely due to growing EBITDA, lower depreciation and amortisation and net financial expenses, which more than compensated higher income tax charge.

**Consolidated CapEx** reached CZK 457 million in the first quarter 2016, up by 47.9% year-on-year. Higher CapEx was driven largely by investments related to IT transformation (upgrade, consolidation and implementation of IT and systems) aiming at simplification of systems and processes. The company also continued investing in its core network management, and acquisition of latest broadcasting van, which will enable it to provide TV and media production to partners in the Czech Republic as well as in surrounding countries. In Slovakia investments were directed into 3G and 4G networks' capacity enhancement and upgrade of billing and CRM systems. Thus, the Group CapEx to revenue reached 5.1% in the first quarter 2016.

**The consolidated free cash flow**<sup>2</sup> reached CZK 5,759 million in 2015, up by 18.9% year-on-year (-10.8% to CZK 1,795 in the fourth quarter).

**The consolidated financial debt** amounted to CZK 7 billion at the end of March 2016. During the first quarter 2016 the company drew second loan tranche of CZK 4 billion of total loan framework of up to CZK 12 billion. At the same time, **cash and cash equivalents** reached CZK 5,749 million. Thus, **net debt**<sup>3</sup> to **EBITDA** reached 0.12 as at the end of March 2016.

### **CZ Mobile Business Overview**

The company continued focusing on value proposition for its residential customers through its FREE tariffs to maintain high quality and loyalty of its customers. In corporate contract base, the company continues focusing on maintaining its leading position by addressing the needs of these customers with the commitment to be the innovation leader in the Czech mobile market. While contract residential revenue continue growing, due to competitive pressures revenue in corporate segment keep declining. However the company's strategy is positively reflected in growth of average revenue per customer (ARPU), which improved by 1.4% year-on-year in the first quarter 2016, and lower churn (-0.4 percentage point to 1.6%).

The demand for mobile data continued to grow largely thanks to improved proposition in the company's tariffs with extended data package and simplification data package recharge in data limit exhaustion. Total mobile data traffic increased by as much as 56% year-on-year in the first

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<sup>2</sup> Net cash flow from operating activities plus Net cash used in investing activities minus Acquisition of treasury shares

<sup>3</sup> Gross debt less cash

quarter 2016. The growth has been also supported by the company's ongoing support of smartphone sales via instalment model, while keeping the best price guarantee proposition for the bestselling smartphones. As a result, **data revenue**<sup>4</sup> went up by 13.1% year-on-year in the first quarter 2016. **Internet in handset** base grew by 14.0% year-on-year to 1,591 thousand at the end of March 2016. **Smartphone penetration**<sup>5</sup> grew further, reaching 50.4% at the end of March 2016, up by 8.8 percentage points year-on-year. In the first quarter 2016, smartphones accounted for 81% of all new phones sales of which 99% of them were **LTE smartphones**. At the end of March 2016, LTE smartphones accounted to 21.7% of all handsets in O2 network, respectively 43.1% of all smartphones. Number of LTE customers<sup>6</sup> reached 564 thousand as of 31 March 2016.

The total **mobile customer base** reached 4,888 thousand at the end of March 2016. The number of **contract customers** increased 0.2% year-on-year, reaching 3,274 thousand. In the first quarter their number increased by 37 thousand. The number of **prepaid customers** reached 1,614 thousand at the same date. The share of contract customers in total mobile customer base reached 67.0% at the end of March 2016, up by 1.8 p.p. year-on-year.

The blended monthly average **churn rate** went down by 0.4 percentage point year-on-year reaching all times low level of 1.6% in the first quarter 2016. Contract churn was only 0.6% in the first quarter 2016, down by 0.6 percentage point year-on-year. Monthly average churn rate in prepaid was 3.5%, representing a 0.1 percentage point decline year-on-year.

**Total mobile ARPU** was CZK 284 in the first quarter 2016, up by 1.4% year-on-year, as voice and SMS market price pressures have been compensated by growing quality of the customer base and higher data spend. **Contract ARPU** improved slightly by 0.1% year-on-year to CZK 369, while **prepaid ARPU** declined by 1.0% year-on-year to CZK 113 in the first quarter 2016.

Total **mobile operating revenue** in the Czech Republic were CZK 4,635 million in the first quarter 2016, representing a 1.4% year-on-year decline. At the same time, **mobile service revenue** went down by 1.5% to CZK 4,334 million. Continuous competitive pressures in corporate segment leading to lower voice and messaging revenue were the key drivers for this decline. On the other hand, higher residential spend led to data revenue growth. **Mobile originated voice revenue** declined by 7.7% year-on-year to CZK 2,171 million in the first quarter 2016, while **messaging (SMS & MMS) revenue** were 13.6% lower due to lower effective per unit price and lower number of sent SMS. **Data revenue** increased by 13.1% year-on-year to CZK 1,165 million. **Terminated revenue** (interconnection) went up by 2.4% year-on-year to CZK 553 million, largely helped by higher incoming voice and SMS traffic. **Hardware revenue** increased by 1.5%.

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<sup>4</sup> Excluding SMS and MMS

<sup>5</sup> Smartphones as % of total handsets base

<sup>6</sup> Customer with LTE smartphone and LTE SIM

## **CZ Fixed Business Overview**

In the highly competitive and declining market the company reported solid commercial and financial performance in all key areas. This has been helped by continuous growth of VDSL and O<sub>2</sub> TV customers. Continuous migration of the existing ADSL customers to the VDSL service, growth of O<sub>2</sub> TV base with new features, customers' migration to new O<sub>2</sub> TV tariffs, popularity of own O<sub>2</sub> Sport channel with exclusive content and proposition of O<sub>2</sub> TV Air M product, which enables O<sub>2</sub> TV service to all households in the Czech Republic with an internet connection from any provider, helped to decelerate fixed broadband ARPU dilution, increase O<sub>2</sub> TV ARPU and stabilize churn at low level.

The total number of **fixed voice lines** declined by 11.4% year-on-year reaching 803 thousand at the end of March 2016.

The number of **xDSL accesses** reached 790 thousand at the end of March 2016. The share of the high speed VDSL accesses kept growing to 58%. In respect of VDSL, 455 thousand customers (+15.3% year-on-year) have already subscribed for the service. The total number of **O<sub>2</sub> TV customers** (provided over internet connection from O<sub>2</sub>) reached 206 thousand at the end of March 2016, up 9.3% year-on-year. Mobile application O<sub>2</sub> TV, which enables watching the channels on mobile devices, regularly uses 120 thousand customers. In addition, 30 thousand customers subscribed for Multiroom service, enabling watching TV at home on the second set-top-box. Close to 850 restaurants, pubs and bars offer live exclusive sport events through Sport cinema project.

Total **fixed operating revenue** reached CZK 2,828 million in the first quarter 2016, down by 2.2% year-on-year as higher O<sub>2</sub> TV and ICT revenue did not fully compensate lower voice and data revenue. Decline of **revenue from voice services** decelerated thanks to migration of customers to new unlimited tariffs with higher value. In the first quarter 2016, these revenue went down 9.6% year-on-year to CZK 690 million, while in full 2015, the decline was close to 15%. **Internet & broadband revenue (incl. O<sub>2</sub> TV)** increased in total by 3.2% year-on-year to CZK 1,277 million in the first quarter 2016. 74.3% growth of revenue from O<sub>2</sub> TV (to CZK 216 million) was the key growth driver, which more than compensated lower fixed internet revenue. **ICT revenue** went up by 1.7% year-on-year to CZK 411 million in the first quarter 2016.

## **Slovakia**



O2 Slovakia group<sup>7</sup> continues to be one of the O2 group's key growth drivers, which represented 18% of the consolidated revenue and 22% of EBITDA in the first quarter 2016. O2 Slovakia group managed to keep growth in all commercial and financial results despite the strong competition. In addition to mobile services, the O2 group focuses also on development of fixed services largely for corporate and public sector customers in Slovakia. During the first quarter 2016 O2 Business Services offered already the full portfolio of its services.

**Total number of mobile customers** reached 1,821 thousand at the end of March 2016, posting a 7.0% year-on-year growth. The customer base increased by 12 thousand in the first quarter, solely driven by contract base. Number of **contract customers** grew by 14.5% year-on-year reaching 997 thousand at the end of March 2016 (+27 thousand in the first quarter), while the **number of prepaid customers** decreased by 0.9% year-on-year to 823 thousand. The customer mix quality keeps improving and share of contract customers on total base in Slovakia reached 54.8% at the end of March 2016, up by 3.6 percentage point year-on-year. O2 Slovakia again recorded increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which reached 50.7% at the end of March 2016, up by 5.2 percentage points year-on-year.

In terms of financial performance, the **total operating revenue** in Slovakia grew 0.3% year-on-year reaching CZK 1,614 million (+2.5% in local currency), fuelled by customer growth, improving customer mix, refreshed portfolio of mobile phones leading growing hardware revenue and higher data revenue. **EBITDA** in O2 Slovakia went up by 2.2% year-on-year to CZK 554 million (+4.4% in local currency), resulting in growing EBITDA margin of 34.4% in the first quarter 2016, up by 0.6 percentage point year-on-year.

**Total mobile ARPU** in Slovakia reached CZK 250 (EUR 9.2) in the first quarter 2016, while **contract ARPU** was CZK 340 (EUR 12.6) and **prepaid ARPU** reached CZK 150 (EUR 5.6).

## **Other relevant events**

### **Distribute of O2 Slovakia 2015 profit**

O2 Czech Republic as the sole participant exercising the powers vested to the general meeting of O2 Slovakia approved distribution of O2 Slovakia share on 2015 profit in the amount of EUR 41.1 million (~CZK 1.1 billion) from the part of 2015 profit to the sole participant, O2 Czech Republic.

## **Results of general meeting**

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<sup>7</sup> including O2 Business Services, a. s.

The Annual General Meeting of O2 Czech Republic was held on 19 April 2016 in Prague.

The supreme body of the company approved the regular (unconsolidated) and consolidated financial statements of the company for the year 2015 prepared under the International Financial Reporting Standards (IFRS). Both sets of financial statements were recommended for approval by the Board of Directors of the company, reviewed by the Supervisory Board and audited by the audit firm KPMG Česká republika Audit, who gave both sets of financial statements its unqualified statement.

The General Meeting further approved the distribution of the company's unconsolidated 2015 profit and part of unconsolidated retained earnings from the previous years as a dividend in the total amount of CZK 4,964 million. A dividend of CZK 16 before tax will be paid to each share with a nominal value of CZK 10 and a dividend of CZK 160 before tax will be paid to the share with a nominal value of CZK 100. The date of record for the dividend payment, the pay out of which shall be carried out by Česká spořitelna, shall be 19 April 2016. The dividend shall be payable on 19 May 2016.

Acting on the proposal by the Supervisory Board and recommendation of the Audit Committee, the General Meeting appointed the auditor KPMG Česká republika Audit, s.r.o., as the company's statutory auditor for 2016.

At the conclusion of its meeting the General Meeting approved the amendment to the company's Articles of Association. In connection with the ongoing legislative change in the Consumer Credit Act the subject of company's business activity "consumer credit providing and mediation" was modified. The subject of company's business activity has also been extended to insurance mediation. Other approved changes only formally update amend parts of the Articles of Association, particularly with regard to the amendment of laws, possibly in order to more closely align the wording of the Articles of Association with applicable laws.

**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 is the largest provider of telecommunications services in the Czech market. Currently it operates almost eight million mobile and fixed lines, which ranks it to one of the leading provider of fully convergent services in Europe. To its mobile customers O2 offers state-of-the-art HSPA+ and LTE technologies. For customers, O2 brand does not mean just telecommunications. O2 is capable to meet also the most demanding requests also in ICT area and provide them housing, hosting and cloud services in data centres with total area 7,300 square metres. These data centres are the only ones in the Czech Republic and Central Europe to have TIER III certification. The company is also, with its O2 TV, the largest IP TV provider in the Czech Republic.

All amounts in CZK million

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>Jan – Mar 2016</b>	<b>Jan – Mar 2015</b>
Operating revenue	9,031	9,151
Non-operating revenue	17	21
<b>Revenue</b>	<b>9,048</b>	<b>9,172</b>
Internal expenses capitalized in fixed assets	65	42
Cost of sales	(4,682)	(4,728)
Operating expenses	(1,978)	(1,981)
Other operating income/(expenses)	50	(127)
<b>EBITDA</b>	<b>2,503</b>	<b>2,378</b>
<b>EBITDA margin</b>	<b>27.7%</b>	<b>26.0%</b>
Depreciation and amortization	(885)	(993)
Impairment reversal/(loss)	(18)	-
<b>Operating Income</b>	<b>1,600</b>	<b>1,384</b>
Net financial income (expense)	(15)	(51)
Results attributed to joint venture	(5)	2
<b>Income before tax</b>	<b>1,580</b>	<b>1,336</b>
Income tax	(336)	(265)
<b>Net Income</b>	<b>1,244</b>	<b>1,070</b>

All amounts in CZK million

<b>CONSOLIDATED BALANCE SHEET</b>	<b>31.3.2016</b>	<b>31.12.2015</b>
<b>Non-current assets</b>	<b>20,907</b>	<b>21,420</b>
- Intangible assets	15,715	16,147
- Property, plant and equipment and investment property	4,617	4,638
- Long-term financial assets and other non-current assets	271	312
- Deferred tax assets	304	323
<b>Current assets</b>	<b>13,213</b>	<b>8,848</b>
- Inventories	673	722
- Trade and other receivables	6,791	6,156
- Cash and cash equivalents	5,749	1,970
<b>Total assets</b>	<b>34,120</b>	<b>30,268</b>
<b>Equity</b>	<b>19,316</b>	<b>18,344</b>
<b>Non-current Liabilities</b>	<b>7,126</b>	<b>3,146</b>
- Long-term financial debt	6,973	2,970
- Deferred tax liabilities	74	60
- Non-current provisions for liabilities and charges	19	22
- Non-current other liabilities	60	94
<b>Current Liabilities</b>	<b>7,678</b>	<b>8,778</b>
- Short-term financial debt	11	11
- Trade and Other payables	7,230	8,391
- Current income tax payable	256	245
- Provisions for liabilities and charges	181	131
<b>Total Equity and Liabilities</b>	<b>34,120</b>	<b>30,268</b>