

In the first quarter 2017, O2 increased revenue by 2%, net profit grew 3%

28 April 2017

- Consolidated revenue reached CZK 9.2 billion, up 2.1%. Higher revenue from O2 TV, mobile data and Slovakia were the key growth drivers
- Net profit grew by 3% to CZK 1.3 billion in the first quarter 2017, operating profit EBITDA increased to CZK 2.5 billion.
- O2's home internet is now available to 99% of Czech households
- At the beginning of the year, O2 added new O2 TV Tennis to its sport dedicated channels portfolio
- O2 newly offers its sport content via free-to-air O2 TV Free channel terrestrial broadcasting; the complete content and favourite functions are available via HbbTV technology
- Number of mobile contract customers in the Czech Republic grew by 3% year-on-year, by close to 10% in Slovakia.

O2 Czech Republic today reports its unaudited operating and financial results for the first quarter 2017. Consolidated figures include results of all daughter companies.

"In the first quarter 2017, again, we brought several new propositions to our customers. Unlimited home internet is now available to 99% households in the country," comments Tomáš Budník, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *"We provide selected sport content via new O2 TV Free channel, which is distributed through terrestrial free-to-air broadcasting. Through HbbTV technology, our customers can access complete content and all favourite functions, like time shift."*

"Our financial results through 2017 will be negatively impacted by European regulation. That's why I am glad that customers' interest in our services led to revenue and profitability growth," amends Tomáš Kouřil, company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and continues: *"In April, we have been able to arrange new funding. We benefited from current favourable conditions to finance future company's need."*

Operating overview

Mobile segment

As of 31 March 2017, total number of mobile customers reached **4.924** million, up by 0.7% year-on-year. The number of **contract customers** increased by **3.0%** year-on-year reaching **3.372 million**. They represented already 68.5% of the mobile customer base, up by 1.5 percentage point. Number of prepaid customers reached 1.552 million customers.

Helped by broadband network rollout and tariff proposition with increased data package mobile data traffic increased by two thirds. Number of internet in handset service went up by 15% year-on-year to 1.824 million.

Already 58% of handsets in O2 network is already a smartphone and 36% supports LTE technology. Number of customers with LTE smartphone and with USIM card, which supports the new technology, reached over 930 thousand at the end of March.

Fixed segment

Number of **O2 TV** service customers provided on O2 fixed line as well as on internet connection from any provider reached **222 thousand** (IPTV and OTT) as at 31 March 2017, up by 5% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already over **34 thousand** customers subscribed for this service and thus O2 can show off with **over 255 thousand** active set top boxes. At the beginning of January 2017, O2 added to its sport dedicated channels proposition new O2 TV Tennis channel, which offers the customers exclusively all tournaments of WTA women's series, as well as 14 men's ATP tournaments. Thanks to focus on Czech players track, O2 TV Tennis immediately ranked among the most watched sport channels in O2 TV offer. During the first quarter 2017, O2 expanded distribution of its sport content with new O2 TV Free channel broadcasted via free-to-air terrestrial with exclusive content and favourite functions available via HbbTV technology for a daily fee.

The customers also like watching **O2 TV** via **internet and mobile application, or in restaurants**. By the end of March 2017, restaurants, pubs and bars offering O2 TV service increased already to over 1,200. Number of viewers, who actively watch O2 TV via internet and mobile application, continues growing and in March 2017 these means of watching TV were already used by over **425 thousand** watchers.

Number of **xDSL fixed internet** customers reached 764 thousand at the end of March 2017. Thanks to internet speed increase through installation of remote DSLAMs, the share of customers enjoying VDSL technology on total xDSL base reached already 66%. For households with insufficient internet speeds over xDSL, O2 has been offering an unlimited 4G LTE wireless connection since March. Combining both technologies, O2 covers 99% of all addresses in the Czech Republic.

Total number of **fixed voice lines** reached 677 thousand at the end of March 2017.

Slovakia

Number of **mobile customers in Slovakia** increased by 3.9% year-on-year to **1,892** thousand, of which contract base grew 9.4% to 1,091 thousand. Their share in total base increased by 2.9 percentage point to 57.7%.

Financial overview

Total consolidated operating revenue reached **CZK 9.224 billion** in the first quarter 2017, up 2.1% year-on-year. **Operating revenue in the Czech Republic** totalled CZK 7.528 billion, representing a 0.9% growth. **Fixed business** operating revenue declined by 2.6% year-on-year to CZK 2.756 billion, as 12% growth of O₂ TV revenue and close to 50% increase in hardware revenue driven by successful sales of solutions for electronic sales reporting did not fully compensate lower voice and data revenue. **Mobile operating revenue** reported 3% growth to CZK 4.772 billion. The year on year decline of voice revenue slowed down and was compensated by mobile data and hardware revenue uptake. In **Slovakia**, revenue reached CZK 1.730 billion, a 7.2% year-on-year growth. **Revenue** denominated in euros **improved by 7.3%** to EUR 64 million. Similarly to the Czech Republic, higher data and hardware revenue were the key drivers.

EBITDA increased by **1.2%** year-on-year to **CZK 2.533 billion** in the first quarter 2017. **Net profit improved by 3.4%** year-on-year reaching **CZK 1.286 billion**.

KEY FINANCIAL AND OPERATING INDICATORS

Financial indicators for the Group

Financial indicators	1Q 2017	1Q 2016	Year-on-year change
Operating revenue	CZK 9,224 mil.	CZK 9,031 mil.	+ 2.1 %
- CZ mobile revenue	CZK 4,772 mil.	CZK 4,635 mil.	+ 3.0 %
- CZ fixed revenue	CZK 2,756 mil.	CZK 2,828 mil.	- 2.6 %
- SK revenue	CZK 1,730 mil.	CZK 1,613 mil.	+ 7.2 %
Total costs	CZK 6,719 mil.	CZK 6,595 mil.	+ 1.9 %
- of which operating costs	CZK 2,077 mil.	CZK 1,978 mil.	+ 5.0 %
EBITDA	CZK 2,533 mil.	CZK 2,503 mil.	+ 1.2 %
EBITDA margin	27.5 %	27.7 %	- 0.2 p. p.
Net profit	CZK 1,286 mil.	CZK 1,244 mil.	+ 3.4 %

Operating indicators – Czech Republic

Number of mobile customers	31 Mar 2017	31 Mar 2016	Year-on-year change	
			Relative	Absolute
Contract customers	3,372m	3,274m	+ 3.0 %	+ 98k
Prepaid customers	1,552m	1,614m	- 3.8 %	- 62k
Total	4,924m	4.888m	+ 0.7 %	+ 36k
ARPU	CZK 288	CZK 284	+ 1.7 %	

Number of fixed service customers	31 Mar 2017	31 Mar 2016	Year-on-year change	
			Relative	Absolute
O ₂ TV	222k	211k	+5.0%	+11k
O ₂ TV application and web (number of viewers)	cca. 430k	cca. 330k		
xDSL	764k	790k	-3.3%	-26k
VDSL	514k	455k	+12.9%	+59k
Fixed voice lines	677k	803k	-15.7%	-126k

Smartphones	31 Mar 2017	31 Mar 2016	Year-on-year change
Smartphone penetration within the O ₂ network	58.1%	50.4%	+7.7 p.p.
LTE smartphone penetration within the O ₂ network	35.6%	21.7%	+13.7 p. p.

Operating indicators – Slovakia

Number of mobile customers	31 Mar 2017	31 Mar 2016	Year-on-year change	
			Relative	Absolute
Contract customers	1.091m	998m	+9.4%	+93k
Prepaid customers	801k	823k	-2.7%	-22k
Total	1.892m	1.821m	+3.9%	+71k

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 2017 prepared according to International Financial Reporting Standards. These results fully include the results of O2 Slovakia group (including O2 Business Solutions), O2 IT Services and other subsidiaries.

Consolidated Financial Results

Consolidated operating revenue reached CZK 9,224 million in, up 2.1% year-on-year in the first quarter 2017. Growing mobile data and hardware revenue in both countries and higher O2 TV revenue were the key growth drivers. They more than compensated lower mobile voice and fixed data revenue and lower roaming revenue due to EU regulation.

Operating revenue in the Czech Republic reached CZK 7,528 million, marking a 0.9% year-on-year growth. **Fixed operating revenue** declined by 2.6% year-on-year reaching CZK 2,756 million in 2016, driven by 12.4% growth in O2 TV revenue and 49% increase in hardware revenue, which did not fully compensate lower fixed voice revenue and continuous decline in data revenue. **Mobile operating revenue** were CZK 4,772 million, reporting a 3% year-on-year growth, as lower voice and messaging revenue were more than compensated by 15.3% growth of data revenue. Hardware & accessories revenue growth also supported improvement. **Revenue in Slovakia**¹ reached CZK 1,730 million the first quarter 2017, by 7.2% higher year-on-year (+7.3% to EUR 64 million).

Total consolidated expenses² went up 1.9% year-on-year to CZK 6,719 million. While in the Czech Republic, they were broadly flat year on year, Slovakia reported a 10.2% growth. The year on year comparison has been positively impacted by outsourcing of about 1,000 employees of call centres and franchise shops in 2016. As a result, commissions were by 22.1% lower, costs of external call centres were reduced by 74.3% and IT costs by 6.8%. At the same time, higher headcount led to an 11.5% growth in the personal costs. Costs of sales grew slightly 1.1% year-on-year in the first quarter 2017 as above mentioned savings in commissions were not fully compensated by higher cost of hardware & accessories sold, in line with growing revenue.

Earnings before interest, depreciation and amortization (EBITDA) increased by 1.2% year-on-year to CZK 2,533 million. In the Czech Republic it reached CZK 1,970 million, up 1.1%, while Slovakia reported a 1.5% growth to CZK 562 million (+1.6% to EUR 20.8 million). Consolidated **EBITDA margin** thus reached 27.5%.

Consolidated net income increased by 3.4% year-on-year to CZK 1,286 million in the first quarter 2017.

Consolidated CapEx reached CZK 453 million in the first quarter 2017, down 0.8% year-on-year and its share of revenue was at 4.9%. The main CapEx areas continued to be investments

¹ O2 Slovakia and O2 Business Solutions

² Costs of sales, operating expenses and Internal expenses capitalized in fixed assets

related to IT transformation. In Slovakia investments were directed into 2G network capacity and quality enhancement and 4G LTE network coverage expansion.

The consolidated free cash flow³ reached CZK 628 million in the first quarter 2017, up by 29.2% year-on-year, largely due to a 37.3% decline in Net cash used in investing activities.

The consolidated financial debt amounted to CZK 8,979 million at the end March 2017. At the same time, **cash and cash equivalents** reached CZK 6,516 million, as the company continued accumulating cash for 2016 dividend and part of the share premium distribution. Thus, **net debt**⁴ to EBITDA reached 0.24.

CZ Mobile Business Overview

Also in the first quarter 2017, demand for mobile data continued to grow largely thanks to customers' upsell to tariffs with higher data limit and simplification of data package recharge in data limit exhaustion. In addition to 99% 4G LTE network coverage, the growth has been also supported by the company's ongoing support of LTE smartphone sales. As a result, **data revenue**⁵ went up by 15.3% year-on-year. **Smartphone penetration**⁶ grew further, reaching 58.1% at the end March 2017, up by 7.7 percentage points year-on-year. LTE smartphones accounted already to 35.6% of all handsets in O2 network (up 13.9 percentage points year-on-year).

The total **mobile customer base** reached 4,924 thousand at the end of March 2017, up 0.7% year-on-year. The number of **contract customers** increased 3% year-on-year, reaching 3,372 thousand. The number of **prepaid customers** reached 1,552 thousand. The share of contract customers in total mobile customer base reached 68.5%, up by 1.5 p.p. year-on-year.

The blended monthly average **churn rate** reached 1.7% in the first quarter 2017. Contract churn was only 0.9%, while monthly average churn rate in prepaid was 3.5%.

Total mobile ARPU⁷ was CZK 288 in, up by 1.7% year-on-year, as voice and SMS market price pressures and negative effect of new roaming regulation have been compensated by growing quality of the customer base and higher data spend. **Contract ARPU** improved by 0.6% year-on-year to CZK 371, while **prepaid ARPU** declined by 2.2% year-on-year to CZK 111.

Total **mobile operating revenue** in the Czech Republic were CZK 4,772 million in the first quarter 2017, representing a 3% year-on-year growth. **Mobile service revenue** went up by 2.1%, fuelled by **higher data revenue**, which more than compensated lower voice and messaging revenue. Hardware & accessories revenue improved 15.3% year-on-year.

³ Net cash flow from operating activities plus Net cash used in investing activities

⁴ Gross debt less cash

⁵ Excluding SMS and MMS

⁶ Smartphones as % of total handsets base

⁷ Outgoing revenue (voice, SMS & MMS, data) + termination revenue + M2M revenue over average number of customers

CZ Fixed Business Overview

Number of **O₂ TV** service customers provided on O2 fixed line as well as on internet connection from any provider reached **222 thousand** (IPTV and OTT) as at 31 March 2017, up by 5% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already over **34 thousand** customers subscribed for this service and thus O2 can show off with **over 255 thousand** active set top boxes.

The number of **xDSL accesses** reached 764 thousand at the end of March 2017. As a result of continuous installation of remote DSLAMs the high speed VDSL accesses is used already by two thirds of households.

The total number of **fixed voice lines** declined by 15.7% year-on-year reaching 67 thousand at the end of March 2017.

Total **fixed operating revenue** reached CZK 2,756 million in the first quarter 2017, down by 2.6% year-on-year as 12.4% growth in O₂ TV revenue and 49% higher revenue from hardware sales helped by successful sales of solutions for electronic sales reporting did not fully compensate lower voice revenue and continuous decline in data revenue.

Slovakia

O2 Slovakia group⁸ reported customers' growth and solid financial performance also in the first quarter 2017, despite the strong competition in Slovak market and negative roaming regulation impact. Thus it positively contributes to the group's financial results representing 189% of the consolidated revenue and 22% of EBITDA. In addition to mobile services for residential and SME customers, it also focuses on development and proposition of services for corporate and public sector customers via O2 Business Solutions.

Total number of mobile customers reached 1,892 thousand at the end of March 2017, posting a 3.9% year-on-year growth. This growth was driven solely by **contract** additions. Their number grew by 9.4% year-on-year reaching 1,091 thousand at the end of March, while the **number of prepaid customers** reached 801 thousand. Thus the customer mix quality keeps improving and share of contract customers on total base in Slovakia reached 57.7%, up by 2.9 percentage point year-on-year.

O2 Slovakia continued recording increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which reached 56.9% as at 31 March 2017, up by 6.2 percentage points year-on-year. LTE handset penetration was at 37.4%. As a result mobile data revenue grew 20% year-on-year. Contract customers who subscribe for any of O₂

⁸ including O2 Business Services, a. s. (100% daughter company of O2 Slovakia)

Paušál, O₂ Fér or O₂ Data tariffs, pay only EUR 2 upfront fee when buying new handset and remaining part of the handset cost in instalments. Thanks to this new proposition, hardware revenue increased 29% year-on-year.

Total operating revenue in Slovakia increased 7.2% year-on-year reaching CZK 1,730 million in the first quarter 2017 (+7.3% to EUR 64 million). Excluding roaming the revenue growth in euro would be +9% helped by customer growth, improving customer mix, new mobile handsets sales instalment model leading to higher hardware revenue and higher data revenue. **EBITDA** in Slovakia was 1.5% higher year-on-year reaching CZK 562 million in the first quarter 2017 (+1.6% to EUR 20.8 million), resulting in 32.5% EBITDA margin. Excluding O2 Business Solutions, EBITDA in euros would improve by 1.7% and EBITDA margin would reach 33.6%.

Total mobile ARPU in Slovakia in the first quarter reached CZK 252 (EUR 9.3), while **contract ARPU** was CZK 340 (EUR 12.6) and **prepaid ARPU** reached CZK 146 (EUR 5.4).

Other relevant facts

Distribution of part of O2 Slovakia 2016 net 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 2016 profit in the amount of EUR 40.7 million (~CZK 1.1 billion) from the part of 2016 profit to the sole participant, O2 Czech Republic.

Distribution of O2 Slovakia 2016 profit will be part of 2017 profit of the parent company, O2 Czech Republic.

Proposal by the Board of Directors on 2016 dividend and distribution of part of share premium

The Board of Directors of O2 Czech Republic approved **the 2016 dividend proposal** in the total amount of CZK 5,274 million, which represents **CZK 17** before tax **per each share** with the nominal value of CZK 10 and CZK 170 before tax per share with the nominal value of CZK 100. This represents 98% of unconsolidated net profit for 2016. The Board of Directors proposes to allocate remaining part of 2016 unconsolidated net profit for 2016 (CZK 112 million) to the retained earnings from previous years.

On top of the regular dividend, the Board of Directors **proposes distribution of part of the share premium** in the amount of up to CZK 1,241 million, which means **CZK 4** before tax **per each share** with the nominal value of CZK 10 and CZK 40 before tax per share with the nominal value of CZK 100.

The proposed dividend and share premium distribution **payment date** is **June 9, 2017**, while those who will be shareholders on **May 10, 2017** will be entitled for exercising the right to dividend and share premium distribution.

Whereas the company's assets include also treasury shares, no dividend and amount related to the distribution of the share premium will be paid to the company.

The proposal has been acknowledged by the Supervisory Board and will be subject to a vote at the General Meeting to be held on May 10, 2017, where the shareholders of the company will be deciding on its adoption.

O2 Czech Republic has successfully underwritten a new loan of CZK 3.5 billion

On April 4, 2017, O2 Czech Republic successfully executed new funding ("Schuldschein") in the total amount of CZK 3.5 billion (CZK 3.0 billion and EUR 20 million).

The company benefited from favourable market conditions and will use the funding with maturity of 5 and 7 years for general corporate purposes. Société Générale and Unicredit Bank acted as arrangers underwriting this transaction. The total investors' offer exceeded the targeted amount several times.

The Board of Directors convened the General meeting to 10 May 2017

The Board of Directors of O2 Czech Republic convened the Regular General meeting to be held on 10 May 2017 at 2:00 p.m. in hotel TOP HOTEL Praha, Blažimská 1781/4, 149 00 Praha 4 – Chodov.

Proposed agenda of the Regular General Meeting

- 1) Opening
- 2) Approval of Rules of Procedure of the General Meeting, election of the chairman of the General Meeting, the minutes clerk, minutes verifiers and persons to count the votes
- 3) The Board of Directors' Report on the Company's Performance and the status of its assets (integral part of the 2016 Annual Report), a summary explanatory report concerning certain matters set out in the company's 2016 Annual Report, conclusions of the 2016 Report on Relations
- 4) Presentation of the Supervisory Board's surveillance activities including information on the Report on Relations review
- 5) Approval of the company's 2016 Financial Statements
- 6) Decision on the distribution of company's profit for 2016 and share premium
- 7) Appointment of an auditor to conduct mandatory audit of the company in 2016
- 8) Election of the Supervisory Board member
- 9) Approval of the Supervisory Board member's Executive Service Agreement
- 10) Conclusion

Invitation to the Regular General Meeting including draft resolutions to individual items of the agenda and other information for the shareholders is available at the company's web page <https://www.o2.cz/spolecnost/en/general-meetings/?yr=2017>.

Attachment:

Consolidated balance sheet and income statement of O2 Czech Republic prepared in accordance with International Financial Reporting Standards (all amounts in million CZK).

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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

CONSOLIDATED INCOME STATEMENT	Jan – Mar 2017	Jan – Mar 2016
Operating revenue	9,224	9,031
Non-operating revenue	23	17
Revenue	9,247	9,048
Internal expenses capitalized in fixed assets	91	65
Cost of sales	(4,733)	(4,682)
Operating expenses	(2,077)	(1,978)
Other operating income/(expenses)	5	50
EBITDA	2,533	2,503
EBITDA margin	27.5 %	27.7 %
Depreciation and amortization	(870)	(885)
Impairment reversal/(loss)	(1)	(18)
Operating profit	1,662	1,600
Net financial income (expense)	(17)	(15)
Results attributed to joint venture	1	(5)
Profit before tax	1,646	1,580
Income tax	(360)	(336)
Profit	1,286	1,244

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	31. 3. 2017	31. 12. 2016
Non-current assets	21,781	22,071
- Intangible assets	16,194	16,515
- Property, plant and equipment and investment property	5,031	5,075
- Long-term financial assets and other non-current assets	334	231
- Deferred tax assets	222	250
Current assets	13,730	11,235
- Inventories	824	624
- Trade and other receivables	6,340	6,434
- Tax receivable	50	40
- Cash and cash equivalents	6,516	4,137
Total assets	35,511	33,306
Equity attributable to owners of the parent	18,542	17,504
Non-controlling stake	1	1
Total equity	18,543	17,505
Non-current Liabilities	7,360	7,382
- Long-term financial debt	6,978	6,976
- Deferred tax liabilities	184	170
- Non-current provisions for liabilities and charges	54	57
- Non-current other liabilities	144	179
Current Liabilities	9,608	8,419
- Short-term financial debt	2,002	1
- Trade and Other payables	7,415	8,254
- Current income tax payable	15	8
- Provisions for liabilities and charges	176	156
Total Equity and Liabilities	35,511	33,306