Press release

O2 in 2018: substantial growth of O2 TV and mobile base and continuous strong financial performance supported by record high investments

29 January 2019

- **Number of O_2 TV customers subscribed for any of M, L or XL monthly tariffs and those watching television on the web or in application increased by over 34% year-on-year; thus O2 registers already 758 thousand active accesses.**
- **Number of mobile contract customers grew by 165 thousand in 2018. Total mobile customer base increased by 2% to 5.038 million.**
- **Substantial interest in attractive exclusive sport content and successful proposition of O_2 Spolu bundled packages for families, groups of friends and entrepreneurs are the key drivers of the growth.**
- **O2 completed complex transformation program of its IT systems, which among other things simplifies customer service in all shops and other service channels.**
- **Consolidated revenue went up 0.8% year-on-year to CZK 38 billion in 2018, EBITDA grew by over 6% to CZK 11.2 billion.**

"From my point of view, we had a very successful year. We brought many new products to our customers and improved the existing ones. Since summer, we have been offering the most attractive TV content on the market and it has been in a record demand. Our digital O_2 TV, as well as mobile services, is part of the O_2 Spolu tariff packages, which are used by an increasing number of families, groups of friends and entrepreneurs. This contributed to the number of customers of our traditional monthly O_2 TV tariffs increasing by more than 60 thousand in 2018 and the number of mobile contract customers by 165 thousand," comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *"Our sales performance growth is all the more valuable, as we delivered it along with a successful completion of the largest IT transformation project in the company's history. In the future, it will enable us to further develop My O_2 self-care application and will fundamentally change the way we develop new products and serve our customers."*

"From the financial point of view, the 2018, and mainly its second half, was a year of the highest investments since the company's spin-off in 2015. On top of investments into the exclusive sport rights and IT transformation, we continued investing in further improvement of our own network in Slovakia," explains Tomáš Kouřil, the company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and adds: *"Thus, the majority of our investments in 2018 was directed into pro-growth areas."*

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Overview of key events in the fourth quarter

As the **next step towards 5G**, **in mid-November**, O2 began offering a **new generation of mobile home internet** using **3.7 GHz band** with up to 100 Mb/s speed to the customers living out of reach of fixed broadband network. In addition to locations with low-speed fixed network, the new technology is suitable also for new buildings where a telephone line is not available. Along with **higher real speeds**, 5G home broadband internet will bring also **unlimited data volumes** as well as **higher capacity**, allowing for example HD video playback or seamless O_2 TV watching.

On 22 November, **O2, as the first operator in the world**, launched the **AR Wi-Fi function**. Customers with AR enabled handsets can **measure the reach of their home network through augmented reality**. Once the current version of O2 Smart Box is turned on, they just select "Measure Wi-Fi coverage" in the "Wi-Fi and network" menu. Then, a window is displayed in the application, where a real-time image is captured by the camera. A field of virtual balls is displayed on the smartphone or tablet display, where the colour of the balls indicates the quality of Wi-Fi coverage.

Operating overview

Mobile segment

Thanks to the successful proposition of **O_2 Spolu bundled packages** for families, groups of friends and entrepreneurs and popularity of **new O_2 Data tariffs** with 4 GB to 20 GB data volumes, the **total number of mobile customers increased** by 2% in 2018 to 5,038 thousand. **Mobile contract** base grew by 165 thousand, i.e. 4.8% to 3,594 thousand at the end of 2018. At the year end, O2 had 1,444 thousand mobile prepaid customers.

In O2 network, smartphones represent close to 70% of handsets and over a half of total handsets support LTE technology.

Fixed segment

The number of **O_2 TV** tariffs customers provided over O2 fixed line (IPTV) as well as over internet connection from any provider (OTT), reached **335 thousand** as at 31 December 2018. Of that, over 40 thousand households subscribed for the increasingly popular complementary **MULTI service**, which enables customers to watch TV on multiple TV sets at once. Customers are granted up to 4 free of charge licenses to each tariff enabling them to watch the complete O_2 TV content on the web or in mobile applications. About 420 thousand viewers used this opportunity on a regular basis in 2018, including customers of O_2 TV Sport Pack package. As of 2018 year-end O2 registered already **758 thousand** O_2 TV **active accesses**.

Slovakia

O2 Slovakia keeps recording increasing demand for its O2 Pausal mobile tariffs portfolio with improved data volume limits. As of 31 December 2018, the total customer base reached 2,028 thousand, which represents a 4.7% year on year growth. Contract base increased by 11.2% to reach 1,270 thousand and it represented 62.6% of total base, up by 3.7 percentage points year-on-year.

Financial overview

Total consolidated operating revenue reached **CZK 37,996 million** in 2018, up 0.8% year-on-year. **Operating revenue in the Czech Republic** declined slightly by 0.2% to **CZK 30,713** million, as a 1.6% growth of **mobile revenue** to CZK 20,311 million did not fully compensate a 3.6% year-on-year decline in **fixed revenue** to CZK 10,402 million. Mobile data, financial services, O_2 TV and hardware & accessories sales revenue were the key revenue growth drivers, more than compensating continuous decline in traditional voice, data and SMS/MMS revenue.

In **Slovakia,** total **operating revenue improved by 7.9%** to EUR 292 million. The year-on-year growth in Czech koruna (CZK) was negatively impacted by strengthening CZK against EUR. Thus, denominated in Czech koruna the operating revenue reached CZK 7,485 million, up 5% year-on-year. Similarly to the Czech Republic, higher data and hardware sales revenue were the key growth drivers.

Consolidated earnings before depreciation and amortisation **EBITDA** improved by **6.2%** year-on-year to **CZK 11,163 million** in 2018, thanks to the higher revenue, savings in majority of costs and a positive impact of the new IFRS 15 accounting standard. In the Czech Republic, EBITDA grew by 5.1% to CZK 8,507 million, while Slovakia reported a 9.9% increase to CZK 2,655 million (+12.8% to EUR 104 million). Consolidated **EBITDA margin improved** by 1.5 percentage points to 29.4% in 2018.

Consolidated **net profit** in 2018 **declined by 2.5%** year-on-year reaching **CZK 5,448 million** as higher investments into sport rights, transformation of IT system and network in Slovakia led to depreciation & amortisation growth. A one-off net profit from the sale of the stake in Taxify owned through Bolt Start Up Development subsidiary, which improved the financial income and net profit in the 2017 by approximately CZK 60 million, also contributed to the year on year net profit decline.

KEY FINANCIAL INDICATORS OF THE GROUP

Financial indicators	FY 2018	FY 2017	Year-on-year change
Operating revenue	CZK 37,996 mil.	CZK 37,709 mil.	+0.8 %
- CZ mobile revenue	CZK 20,311 mil.	CZK 19,993 mil.	+1.6 %
- CZ fixed revenue	CZK 10,402 mil.	CZK 10,785 mil.	-3.6 %
- SK revenue	CZK 7,485 mil.	CZK 7,128 mil.	+5.0 %
Total costs	CZK 26,981 mil.	CZK 27,310 mil.	-1.2 %
- of which operating costs	CZK 8,198 mil.	CZK 8,240 mil.	-0.5 %
EBITDA	CZK 11,163 mil.	CZK 10,513 mil.	+6.2 %
EBITDA margin	*29.4 %*	*27.9 %*	*+1.5 p. p.*
Net profit	CZK 5,448 mil.	CZK 5,587 mil.	-2.5 %

In this section, we present and comment in more detail on the unaudited consolidated financial results for the year ended December 31, 2018 of O2 Czech Republic a.s. prepared in accordance with the International Financial Reporting Standards.

New standard IFRS 15 - Revenue from contracts with customers

In accordance with the International Financial Reporting Standards (IFRS), O2 Czech Republic Group (O2 Group) adopted the new standard IFRS 15 - Revenue from contracts with customers, and applied it to the 2018 financial statements. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The adoption of the new standard will result in changes in the financial statements of O2 Group primarily in respect of the timing of revenue recognition and in respect of capitalisation of costs of obtaining contracts.

O2 Group management decided to adopt IFRS 15 using the cumulative effect method as of 1 January 2018, recognising the cumulative effect of applying the new standard as an adjustment to the opening balance of equity (retained earnings) as at the date of initial application. As a result of the front-loading of revenue and capitalisation of costs to obtain contracts, O2 Group booked an adjustment (net of tax) to the opening balance of equity at 1 January 2018 of CZK 627 million.

The positive effect of IFRS 15 standard adoption on the consolidated net income for the full year of 2018 reached CZK 152 million. Detailed information on the IFRS 15 impact on other selected consolidated financial indicators in the first nine months 2018 is provided at O2 web pages (see Facts & Figures).

Consolidated Financial Results

Consolidated operating revenue increased by 0.8% year-on-year to reach CZK 37,996 million in 2018. Thanks to the customers' interest in family and group O_2 Spolu packages, new mobile tariffs with an increased data volumes, and higher O_2 TV base driven by new exclusive TV content, mobile data revenue and digital TV revenue kept growing. Hardware & accessories revenue and revenue from financial services also maintained an increase. In addition, strong performance in Slovakia positively contributed to the consolidated revenue. Similarly to the Czech Republic, also in Slovakia, mobile data and hardware revenue were the key growth drivers. Growth in the aforementioned revenue compensated for negative impact of European roaming regulation and declining revenue from traditional voice and data services.

Operating revenue in the Czech Republic reached CZK 30,713 million in 2018, marking a 0.2% year-on-year decrease. **Mobile operating revenue** reached CZK 20,312 million, reporting a 1.6% year-on-year growth, as a 7% and 13% decline in voice revenue and messaging revenue respectively were more than compensated by a 11% growth of data revenue, 18% increase in hardware & accessories revenue and 37% uptake in revenue from financial services. **Fixed operating revenue** declined by 3.6% year-on-year reaching CZK 10,401 million in 2018. By a quarter higher O_2 TV revenue did not fully compensate lower voice revenue (due to continuous fixed-to-mobile voice substitution) and the continuous stagnation of internet revenue. **Revenue in Slovakia**[1] reached CZK 7,485 million,

[1] O2 Slovakia and O2 Business Services

up by 5% year-on-year. As the CZK strengthened against EUR[2] in the last twelve months, the revenue growth in Czech koruna was slower than in euros. In local currency, the revenue improved by 7.9% to EUR 292 million.

Total consolidated expenses[3] went down 1.2% year-on-year to CZK 26,981 million in 2018. In the Czech Republic they declined by 1.9%, Slovakia reported a 2.7% growth, in line with higher revenue and overall business growth. Costs of sales were 1.5% lower year-on-year as lower fixed costs of services (-3.5%) and positive IFRS 15 impact in commissions more than compensated higher hardware & accessories cost related to the growing revenue. Mobile costs of service (+1.3%) were negatively impacted by higher roaming costs, which the company has to pay to its wholesale international partners for its customers using roaming services abroad. Operating expenses were reduced by 0.5% year-on-year as close to 3% growth in personal costs due to insourcing of customer care staff was more than compensated by savings in external call centres costs and other operating costs.

Earnings before interest, depreciation and amortization (EBITDA) improved by 6.2% year-on-year to CZK 11,163 million in 2018. In the Czech Republic EBITDA grew 5.1% reaching CZK 8,507 million, while Slovakia reported a 9.9% uptake to CZK 2,655 million. In euros, EBITDA in Slovakia went up by 12.8% to EUR 104 million. Thus, consolidated **EBITDA margin** improved by 1.5 percentage point year-on-year reaching 29.4% in 2018. EBITDA margin grew in the Czech Republic (+1.4 percentage point to 27.7%) as well in Slovakia (+1.6 percentage points to 35.5%.

Consolidated net income reached CZK 5,448 million in 2018, down by 2.5% year-on-year. This limited decline was impacted by a 6.7% growth in depreciation and amortisation charge driven by higher investments into growth areas (sport content, own network in Slovakia). In addition, net income in 2018 was negatively impacted by amortisation of cost to obtain contract due to the adoption of new IFRS 15 standard. A one-off net profit from the sale of the stake in the Estonian company Taxify owned through Bolt Start Up Development subsidiary, which improved the financial income in the fourth quarter of 2017 by about CZK 60 million, also contributed to the year on year net profit decline.

Consolidated capital expenditures (CapEx) reached CZK 4,417 million in 2018, broadly flat compared to 2017, and the share of CapEx to revenue 11.6%.

Investments in Slovakia reached CZK 1,144 million in 2018, down by 13.3% year-on-year and CapEx to revenue declined by 3.2 percentage points year-on-year to 15.3%. Investments were directed mainly into own 2G network coverage expansion with the aim to reduce dependency on national roaming, which reflected positively in growing operational profitability. In addition, O2 Slovakia also continued investing into 4G LTE network rollout and capacity improvement of the backbone and transmission networks with the aim to capture the growing customers' demand for mobile data.

In the Czech Republic, CapEx reached CZK 3,280 million in 2018 and CapEx to revenue share was at 10.6%. Investments related to the IT transformation, which was completed during the fourth quarter, was among the main CapEx areas. In the third quarter, O2 booked

[2] The following CZK/EUR FX rates have been used: 26.33 in 2017, and 25.64 in 2018
[3] Cost of sales, operating expenses and Internal expenses capitalized in fixed assets

investments into the acquisition of UEFA Champions League broadcasting rights, domestic ice hockey Tipsport league and Czech football Fortuna league. On top of that, there were investments in O2 brand shops redesign.

The consolidated free cash flow[4] reached CZK 4,714 million in 2018, up 20% year-on-year. 37.4% year-on-year decline in net cash used in investing activities due to lower cash outflow for purchase of non-current assets was the key free cash flow growth contributor. The decline in net cash used in investing activities more than compensated negative working capital changes and higher paid interest and income.

The consolidated financial debt[5] amounted to CZK 10,499 million as at 31 December 2018, broadly same compared with the end of 2017. At the end 2018, **cash and cash equivalents** reached CZK 2,475 million compared with CZK 4,088 million as at 31 December 2017. Thus, **net debt**[6] **to EBITDA** reached 0.72 at the end of 2018.

Slovakia

Thanks to the continuous investments into own mobile network, which belongs to the most developed and most affordable in Slovakia, combined with an attractive commercial proposition with increased data volumes, in 2018, O2 Slovakia group[7] reported continuous growth of the customer base, increase of share of contract customers with higher spend, which led to the increase of average revenue per customer. This resulted in substantial improvement of its financial performance. O2 Slovakia group kept contributing positively to the O2 Group's financial results as it represented 20% of the consolidated revenue, 24% of consolidated EBITDA[8] and 23% of consolidated net income in 2018. In addition to the mobile services proposition for residential and SME customers, O2 Slovakia offers wireless home internet and digital O_2 TV television in LTE TDD network on 3.5 GHz and 3.7 GHz spectrums as well as in own 4G LTE network. Through its subsidiary O2 Business Services, it also provides a comprehensive portfolio of fixed and mobile services for corporate and public sector customers.

O2 Slovakia continued recording increasing demand for its smartphone portfolio. This was reflected in growing smartphone and LTE handset penetrations. Thanks to the 4G LTE network coverage expansion, which was available for 96% of the Slovak population at the 2018 year-end, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of customers increased by 4.7% year-on-year to 2,028 thousand. Mobile contract customer base grew by 11.2% year-on-year to 1,270 thousand and their share in the total base reached 62.6% at the end of 2018, up 3.7 percentage points year-on-year.

Average revenue per customer (ARPU) grew by 3.5% to EUR 10 in 2018 (+0.7% to CZK 255).

[4] Net cash flow from operating activities plus Net cash used in investing activities
[5] Long term and short term
[6] Gross debt less cash
[7] including O2 Business Services, a. s. (100% daughter company of O2 Slovakia)
[8] Lower operational profitability in the Czech Republic compared to Slovakia due to inclusion of fixed and mobile network charge by CETIN into cost of service

Attachment:

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

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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	**January – December 2018**	**January – December 2017**
Operating revenue	37,996	37,709
Non-operating revenue	91	77
Revenue	**38,087**	**37,786**
Internal expenses capitalized in fixed assets	335	347
Cost of sales	(19,119)	(19,417)
Operating expenses	(8,198)	(8,240)
Other operating income/(expenses)	58	37
EBITDA	**11,163**	**10,513**
EBITDA margin	***29.4 %***	***27.9 %***
Depreciation and amortization	(3,573)	(3,348)
Amortization of cost to obtain contract	(455)	-
Impairment reversal/(loss)	(27)	(7)
Operating profit	**7,108**	**7,158**
Net financial income (expense)	(194)	(59)
Results attributed to joint venture	2	(1)
Profit before tax	**6,916**	**7,098**
Income tax	(1,468)	(1,511)
Profit	**5,448**	**5,587**

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	31 December 2018	31 December 2017
Non-current assets	**25,190**	**23,411**
- Intangible assets	17,164	16,815
- Property, plant and equipment and investment property	6,130	5,636
- Incremental costs to obtain contract	678	-
- Long-term financial assets and other non-current assets	916	744
- Non-current contract asset	134	-
- Deferred tax assets	168	216
Current assets	**10,940**	**11,431**
- Inventories	906	824
- Trade and other receivables	7,067	6,519
- Tax receivable	81	-
- Current contract asset	411	-
- Cash and cash equivalents	2,475	4,088
Total assets	**36,130**	**34,842**
Equity attributable to owners of the parent	15,225	15,475
Non-controlling stake	-	-
Total equity	**15,225**	**15,475**
Non-current Liabilities	**12,083**	**10,887**
- Non-current financial debt	10,461	10,448
- Deferred tax liabilities	484	270
- Non-current provisions for liabilities and charges	66	53
- Non-current contract liability	81	-
- Non-current other liabilities	991	116
Current Liabilities	**8,822**	**8,480**
- Short-term financial debt	38	38
- Trade and Other payables	7,975	8,209
- Current income tax payable	116	139
- Current contract liability	610	-
- Provisions for liabilities and charges	83	94
Total Equity and Liabilities	**36,130**	**34,842**