

O2 reports successful first half. Helped by family packages as well as TV rights for best sport matches

27 July 2018

- In the first half O2 Czech Republic announced an acquisition of the rights for the UEFA Champions League, domestic ice-hockey and football leagues. Thus, only O2 customers will be able to watch all the most popular sport matches in the Czech Republic.
- Number of O2 TV customers increased by 11% year-on-year; thus O2 registers already 287 thousand active set top boxes.
- O2 Spolu bundled packages containing O2 TV tariffs were the key drivers of the new customers' growth.
- Consolidated revenue went up 0.6% year-on-year to CZK 18.6 billion in the first half 2018, EBITDA grew by 5.6% to CZK 5.4 billion.
- The Annual General Meeting approved 2017 dividend payment and distribution of a part of the share premium of CZK 4 per share.

"In the first half, we have been focusing on proposition of favourable packages bundling mobile services, fixed internet and our digital television. Moreover, we improved this offer for the future by acquisition of the most attractive sport content – the first Czech football league (Fortuna League) and the UEFA Champions football League. We will broadcast the content in a unique multi-dimension, which provides customers with an ability to select from multiple matches, up to 7 days' time shift, and pause or replay key moments. In addition to watching on a TV set, we offer the whole O2 TV content also on PCs, handset or tablets," comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *"In line with our customers' needs, we introduced a new portfolio of O2 Data tariffs with substantially higher data volumes, and quintupled data volumes for students and youth without price increase. For prepaid customers, we revived GO proposition."*

"Despite a continuous pressure on revenue from our traditional services, in the first half, we have been able to stabilise top line year on year thanks to the successful new proposition," explains Tomáš Kouřil, company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and adds: *"In line with our plans from the beginning of the year, in the second half, we will intensify our investments in the Czech Republic. These are directed mainly into already communicated exclusive sport content acquisition and transformation of information systems. In Slovakia, we will keep investing into further improvement of our network,"* continues Tomáš Kouřil and closes: *"At the beginning of July, we paid out over CZK 6 billion to our shareholders in distribution of dividends for 2017 and of a part of the share premium."*

Operating overview

Mobile segment

O2 continues recording customers' demand for O2 Spolu packages, which bring families, group of friends and small entrepreneurs flexible bundles of up to 4 SIMs with unlimited voice and SMS, mobile data (3GB to 10 GB per SIM card), digital television O2 TV and/or Internet HD in one package. This has helped to increase the number of mobile contracts as well as O2 TV customers. In May, O2 added new O2 Data tariffs with 4 GB to 20 GB data volumes to its proposition. These tariffs are designed not only for browsing on small screens, but also on tablets and notebooks. These tariffs, together with O2 Spolu packages, continuous customers' upsell to rich data tariffs and growing number of mobile home broadband internet customers contributed to over 120% year-on-year mobile data consumption growth.

In O2 network, smartphones represent already two thirds of handsets and 51% of smartphones support LTE technology. 91% of customers with LTE handset have already replaced their SIM card with a new one supporting the technology.

Fixed segment

The number of **O2 TV** customers provided over O2 fixed line (IPTV) as well as over internet connection from any provider (OTT) reached **250 thousand** as at 30 June 2018. A complementary **MULTI service**, which enables customers to watch TV on multiple TV sets at once has become very popular. Over **37 thousand** customers have already subscribed for this service, and thus O2 already registers **287 thousand** active set top boxes.

In the course of the first half, O2 announced acquisition of several exclusive broadcasting rights for the most popular sports. The prestigious UEFA Champions League will be exclusively broadcasted in O2 TV from 2018 till 2021. From 2018/2019 season till 2023, only O2 TV subscribers will be able to watch all matches of the ice-hockey Tisport League, including play off and finals. O2 TV Sport holds the rights for three matches per week, while two ice hockey league matches per week will be broadcasted by ČT Sport (Czech TV) channel, which is included in all O2 TV tariffs. Thanks to the new contract, in next four seasons, for the first time ever O2 TV will be offering all matches of the football Fortuna League exclusively.

Slovakia

O2 Slovakia keeps recording increasing demand for its smartphone portfolio. As of 30 June 2018, the LTE smartphone penetration reached 52.5%. Thanks to the 4G LTE network expansion, growing LTE smartphone penetration and continuous customers' demand for tariffs with higher data volumes mobile data consumption went up 89% year-on-year in the first half 2018.

Financial overview

Total consolidated operating revenue reached **CZK 18,599 million** in the first half of 2018, up 0.6% year-on-year. **Operating revenue in the Czech Republic** were flat at **CZK 15,114 million**. **Mobile operating revenue** reported a 1.9% growth to CZK 9,968 million despite a negative impact of the European roaming regulation and continuous decline in voice, SMS and MMS revenue. These were more than compensated by growing mobile data and hardware sales revenue. **Fixed business** operating revenue declined by 3.8% year-on-year to

CZK 5,146 million, as lower revenue from traditional voice and data services was not fully compensated by growing O₂ TV revenue.

In **Slovakia**, total **operating revenue improved by 9%** to EUR 141 million. The year-on-year growth in Czech koruna (CZK) has been negatively impacted by strengthening CZK against EUR. Thus denominated in Czech koruna the operating revenue reached CZK 3,597 million, up 3.8% 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 **5.6%** year-on-year to **CZK 5,378 million** in the first half of 2018 thanks to the savings in majority of cost categories. In the Czech Republic, EBITDA grew by 3.3% to CZK 4,091 million, while Slovakia reported a 13.6% increase to CZK 1,285 million (+19.3% to EUR 50.4 million). Consolidated **net profit** in the first six months of 2018 **improved by 5.4%** year-on-year reaching **CZK 2,776 million**.

KEY FINANCIAL INDICATORS OF THE GROUP

Financial indicators	1H 2018	1H 2017	Year-on-year change
Operating revenue	CZK 18,599 mil.	CZK 18,487 mil.	+ 0.6 %
- CZ mobile revenue	CZK 9,968 mil.	CZK 9,785 mil.	+ 1.9 %
- CZ fixed revenue	CZK 5,146 mil.	CZK 5,350 mil.	- 3.8 %
- SK revenue	CZK 3,597 mil.	CZK 3,466 mil.	+ 3.8 %
Total costs	CZK 13,254 mil.	CZK 13,420 mil.	- 1.2 %
- of which operating costs	CZK 4,042 mil.	CZK 4,166 mil.	- 3.0 %
EBITDA	CZK 5,378 mil.	CZK 5,093 mil.	+ 5.6 %
EBITDA margin	28.9 %	27.5 %	+ 1.4 p. p.
Net profit	CZK 2,776 mil.	CZK 2,632 mil.	+ 5.4 %

In this section we present and comment in detail on the unaudited consolidated financial results of O2 Czech Republic a.s. for January to June 2018 prepared according to International Financial Reporting Standards. These results include the results of O2 Slovakia group (including O2 Business Solutions), O2 IT Services and other subsidiaries.

New standard IFRS 15 - Revenue from contracts with customers

In accordance with International Financial Reporting Standards (IFRS), O2 Czech Republic Group (O2 Group) adopted new standard IFRS 15 - Revenue from contracts with customers, and applies it when preparing its 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 significant 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 with customers.

O2 Group management decided to adopt IFRS 15 using the cumulative effect method as of 1 January 2018, recognising the cumulative effect of applying 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 revenue and capitalisation of costs to obtain contracts, O2 Group booked total 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 first half of 2018 reached CZK 47 million. Detailed information on the IFRS 15 impact on other selected consolidated financial indicators in the first half 2018 is provided at [O2 web pages](#) (see Facts & Figures).

Consolidated Financial Results

Consolidated operating revenue reached CZK 18,599 million in the first half 2018, up 0.9% year-on-year. Thanks to the customers' interest in the new packages and tariffs, mobile data and O₂ TV revenue kept growing. Hardware & accessories revenue and revenue from financial services also increased. 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 15,114 million in the first half of 2018, marking a 0.1% year-on-year decrease. **Mobile operating revenue** was CZK 9,968 million in the first half of 2018, reporting a 1.9% year-on-year growth, as lower voice and messaging revenue were more than compensated by close to 12% growth of data revenue, close to 30% increase in hardware & accessories revenue and 49% growth in revenue from financial services. **Fixed operating revenue** declined by 3.8% year-on-year reaching CZK 5,148 million in the first half. The 12% growth in O₂ TV revenue did not fully compensate lower voice revenue (due to continuous fixed-to-mobile voice substitution) and the continuous decline in data and internet revenue. **Revenue in Slovakia**¹ reached CZK 3,597 million, up by 3.8% year-on-year. As the CZK

¹ O2 Slovakia and O2 Business Services

strengthened against EUR² in the last twelve months, the revenue growth in Czech koruna was slower than in euros. In local currency, the revenue improved by 9.0% to EUR 141.1 million.

Total consolidated expenses³ went down 1.2% year-on-year to CZK 13,254 million in the first half of 2018. In the Czech Republic they declined by 1.3%, Slovakia reported a 0.9% decrease. Costs of sales were 0.6% lower year-on-year as lower fixed costs of services and positive IFRS 15 impact in commissions more than compensated higher hardware & accessories cost growth (in line with growing revenue). Mobile costs of service were negatively impacted also 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 3.0% year-on-year as a 2.5% growth in personal costs due to insourcing of customer care staff was more than compensated by savings in rentals and external call centres costs.

Earnings before interest, depreciation and amortization (EBITDA) improved by 5.6% year-on-year to CZK 5,378 million in the first half of 2018. In the Czech Republic EBITDA grew 3.3% reaching CZK 4,091 million, while Slovakia reported a substantial 13.6% growth to CZK 1,285 million. In euros, EBITDA in Slovakia went up by 19.3% to EUR 50.4 million. Consolidated **EBITDA margin** thus reached 28.9% in the first half 2018, up by 1.4 percentage point year-on-year, with EBITDA margin in the Czech Republic growing by 0.9 percentage point to 27.1% and in Slovakia even by 3.1 percentage points to 35.7%.

Consolidated net income increased by 5.4% year-on-year to CZK 2,776 million in the first half of 2018.

Consolidated capital expenditures (CapEx) reached CZK 1,365 million in the first half of 2018, representing a 10.8% year-on-year growth. Their share on revenue reached 7.3% in the first half of 2018 compared with 6.7% in the same period in 2017. A 20.5% CapEx growth in Slovakia to CZK 430 million was the key driver for higher group CapEx, with CapEx to revenue growing by 1.7 percentage points to 12.0%. Investments in Slovakia were directed mainly into own 2G network quality enhancement and coverage expansion with the aim to reduce dependency on national roaming, which is already reflected in growing operating profitability. In addition, O2 Slovakia continued investing into expansion 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 went up by 6.8% year-on-year to CZK 935 million in the first half 2018 and CapEx to revenue share increased by 0.4 percentage points to 6.2%. Investments related to the IT transformation were the main CapEx categories driving year on year growth. In addition, investments were spent in redesign of the O2 brand shops.

The consolidated free cash flow⁴ reached CZK 2,028 million in the first half of 2018, down 7.1% year-on-year. The decline has been driven mainly by investments into profitable hardware instalment sales in Slovakia, which led to higher long term receivables.

The consolidated financial debt⁵ amounted to CZK 11,690 million as at 30 June 2018 compared with CZK 10,486 million at the end of 2017. In the course of the first half, the

² The following CZK/EUR FX rates have been used: 26.55 in 2Q 2017, 26.78 in 1H 2017, 25.60 in 2Q 2018 and 25.50 in 1H 2018

³ Cost of sales, operating expenses and Internal expenses capitalized in fixed assets

⁴ Net cash flow from operating activities plus Net cash used in investing activities

⁵ Long term and short term

company drew CZK 1.2 billion of the revolving loan (out of CZK 5 billion capacity) to cover investments and working capital funding in Slovakia. At the end of June 2018, **cash and cash equivalents** reached CZK 7,322 million compared with CZK 4,088 million as at 31 December 2017. Cash balance growth was driven by accumulation for 2017 dividend and part of share premium distribution (CZK 6,332 million before tax in total), which commenced on 4 July 2018. Thus, **net debt⁶ to EBITDA** remained low and reached 0.4 at the end of June 2018.

Slovakia

Thanks to the continuous investments into own mobile network combined with an attractive commercial proposition, O2 Slovakia group⁷ reported a solid growth of the customer base, increase of its value and substantial improvement of its financial performance in the first half of 2018. Thus it keeps positively contributing to the O2 Group's financial results as it represents 19% of the consolidated revenue and 24% of consolidated EBITDA. In addition to mobile services proposition for residential and SME customers, O2 Slovakia has been offering wireless home internet and digital O₂ TV television in LTE TDD network on 3.5 GHz and 3.7 GHz spectrums as well as in own 4G LTE network. For the latter one, O2 Slovakia continued in coverage expansion, which reached close to 94% of the Slovak population as of 30 June 2018. 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 has been reflected in growing smartphone penetration, which reached 64.1% as at 30 June 2018. LTE handset penetration was at 52.5% and 91.6% of customers with LTE handset have also LTE SIM card. Thanks to the 4G LTE network coverage expansion, growth in LTE handset penetration and increasing customers' demand for tariffs with higher data package, the number of mobile internet users improved by 12.1% year-on-year to over 1 million. Data traffic went up by 89% year-on-year in the first half of 2018.

Total operating revenue in Slovakia increased by 3.8% year-on-year to CZK 3,597 million in the first half of 2018. Revenue in euros increased by 9% to EUR 141.1 million, largely fuelled by a 12% year-on-year growth in data revenue and 27% uptake in hardware and accessories sales revenue. **EBITDA** in Slovakia grew by 13.6% year-on-year reaching CZK 1.285 million (+19.3% to EUR 50.4 million). As a result, EBITDA margin reached 35.7% in the first half of 2018, up 3.1 percentage points year-on-year.

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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⁶ Gross debt less cash

⁷ including O2 Business Services, a. s. (100% daughter company of O2 Slovakia)

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 – June 2018	January – June 2017
Operating revenue	18,599	18,487
Non-operating revenue	30	29
Revenue	18,629	18,516
Internal expenses capitalized in fixed assets	171	182
Cost of sales	(9,383)	(9,436)
Operating expenses	(4,042)	(4,166)
Other operating income/(expenses)	3	(3)
EBITDA	5,378	5,093
EBITDA margin	28.9%	27.5%
Depreciation and amortization	(1,575)	(1,672)
Amortization of cost to obtain contract	(214)	-
Impairment reversal/(loss)	(8)	-
Operating profit	3,581	3,421
Net financial income (expense)	(83)	(52)
Results attributed to joint venture	3	(3)
Profit before tax	3,501	3,366
Income tax	(725)	(734)
Profit	2,776	2,632

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30 June 2018	31 Dec 2017
Non-current assets	23,957	23,411
- Intangible assets	16,756	16,815
- Property, plant and equipment and investment property	5,744	5,636
- Incremental costs to obtain contract	582	-
- Long-term financial assets and other non-current assets	727	744
- Non-current contract asset	148	-
- Deferred tax assets	180	216
Current assets	15,389	11,431
- Inventories	838	824
- Trade and other receivables	6,818	6,519
- Current contract asset	24	-
- Tax receivable	387	-
- Cash and cash equivalents	7,322	4,088
Total assets	39,346	34,842
Equity attributable to owners of the parent	12,605	15,475
Non-controlling stake	(2)	-
Total equity	12,603	15,475
Non-current Liabilities	12,338	10,887
- Long-term financial debt	11,662	10,448
- Deferred tax liabilities	441	270
- Non-current provisions for liabilities and charges	53	53
- Non-current other liabilities	182	116
Current Liabilities	14,405	8,480
- Short-term financial debt	28	38
- Trade and Other payables	14,161	8,209
- Current income tax payable	128	139
- Current contract liability	9	-
- Provisions for liabilities and charges	79	94
Total Equity and Liabilities	39,346	34,842