

The new mobile, TV and internet tariffs helped O2 to a record customer growth in 2019

27 January 2020

- The new O₂ TV tariffs bring customers dozens of channels including the best sport content. This contributed to the O₂ TV tariff customers growth by over 100 thousand to 443 thousand at the end of December.
- In 2019, O2 boosted data packages in FREE+ tariffs, which led to over 50% decline in per gigabyte price in the most demanded tariffs.
- One third of new mobile customers opt for new NEO mobile tariffs with unlimited data.
- Thanks to the higher availability of broadband internet, the Internet HD base grew by 26 thousand year-on-year to 835 thousand.
- Consolidated revenue went up 2% year-on-year to CZK 38.8 billion in 2019, with growth reported both in the Czech Republic and Slovakia mainly thanks to mobile data and O₂ TV.
- Consolidated EBITDA grew by 13% to CZK 12.6 billion; despite higher depreciation charge due to increased investments in previous years, the consolidated net income reached CZK 5.5 billion, flat year-on-year.

“In 2019, we improved the offer of all our key services. In addition to unlimited mobile tariffs, we introduced new home broadband internet and O₂ TV tariff portfolio. Growing customer base across all services confirms that the decision we made was right. O₂ Spolu bundled packages continue supporting the growth,” comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 on the results and adds: *“O₂ TV number of customers showed the highest growth. Customers often subscribe for our IPTV to avoid worries with switching to DVB-T2. Thus, we have recorded the strongest customer base growth in the last quarter.”*

“Investments in 2018 were directed into pro-growth areas which led to EBITDA growth in 2019,” states Tomáš Kouřil, O2’s Chief Financial Officer and Vice-Chairman of the Board of Directors and adds: *“These investments increased depreciation charge and negatively impacted our net profit, which also showed an improving positive trend during the year. Our strategy works.”*

Overview of key events in the fourth quarter of 2019

On 1 November, O2 started offering **improved O₂ TV and home broadband internet** proposition via simple uncommitted tariffs. Home Internet tariffs also include the basic free of charge **O₂ TV Modrá (Blue)** tariff, which includes 34 channels (22 HD) and solves for customers worries with switching to DVB-T2.

For the first time after four years, when O2 significantly invested in premium sports content, it changed its O₂ TV tariff portfolio. The basic **O₂ TV Bronzová (Bronze)** offers cross-sectional mix of 63 channels (27 HD) including O₂ TV Sport. The tariff **O₂ TV Stříbrná (Silver)** contains 101 channels (45 HD) including O₂ TV Tennis, O₂ TV Football, Premier Sport and other film, series, documentary, children and sports programs. The top tariff **O₂ TV Zlatá (Golden)** is the best choice for the most demanding viewers and contains all HBO channels including HBO OD/GO, other premium film channels, the package Svět (*World*) with foreign language channels or variety of adult channels.

Since mid-October, owners of new Samsung TV sets produced in 2016 or later can watch O₂ TV via Samsung TV application. Customers can enjoy the same features they are used to from the standard O₂ TV or mobile application.

Operating overview

Mobile segment

Thanks to the continuous popularity of the **tariffs with higher data packages**, new **O₂ NEO tariffs with unlimited data packages** and customers' interest in bundling of mobile tariffs with other services in **O₂ Spolu packages**, the **total number of mobile registered customers**¹ reached 5,858 thousand at the end of December 2019. The number of **contract customers** reached 3,249 thousand, the number of mobile prepaid customers was 1,965 thousand, while the number of M2M SIMs stood at 644 thousand as at 31 December 2019.

In O2 network, smartphones represent close to 77% of handsets and more than two thirds of total handsets support LTE technology. The larger portion of data volumes included in FREE+, O₂ NEO and O₂ Data tariffs combined with an increase in the number of customers with a 4G LTE-enabled smartphone contributed to a 30% year-on-year increase in mobile data usage generated by handsets.

Fixed segment

The number of customers of any **O₂ TV** tariff provided over O2 fixed line (IPTV) as well as over internet connection from any provider (OTT), reached **443 thousand** as at 31 December 2019 including customers subscribed for monthly prepaid **O₂ TV Sport Pack online and O₂ TV HBO and Sport Pack tariffs**. Prepaid tariffs can be easily activated and paid by payment cards and can be cancelled at any time after 30 days. During 2019, the number of O₂ TV customers increased by 106 thousand.

¹ Since 1Q 2019, it comprises mobile customers who have generated revenue for the past 13 months and excludes Internet HD mobile customers using 4G LTE and WTTx wireless technologies; comparable data for the previous period have been adjusted.

Number of **broadband internet customers**² served via cable as well as via wireless technology reached in total **835 thousand** as at 31 December 2019 and their number increased by 26 thousand in 2019.

Slovakia

O2 Slovakia keeps showing an increasing demand for its mobile tariff portfolio, which has been expanded by O₂ Smart Paušál mobile tariffs since November 2019. These tariffs include unlimited voice services, messaging as well as high data packages for selected mobile applications. As at 31 December 2019, the **total active customer base** reached **2,149 thousand**. The contract base amounted to 1,390 thousand and it represented 64.7% of the total mobile base, up by 2.1 percentage points year-on-year.

Financial overview

Total consolidated operating revenue reached **CZK 38,760 million** in 2019, up **2.0%** year-on-year, with growing revenue in all segments. **Operating revenue in the Czech Republic** improved by 2.1% to **CZK 31,347 million**, thanks to the 3.5% growth in **fixed revenue** to CZK 11,136 million and a 1.3% year-on-year growth of **mobile revenue** to CZK 20,211 million. Mobile data, financial services, O₂ TV and hardware sales were the key revenue growth drivers.

In **Slovakia**, total **operating revenue improved by 2.0%** to EUR 298 million in 2019. In Czech koruna (CZK) the operating revenue reached CZK 7,647 million, up 2.2% year-on-year. Similarly to the Czech Republic, higher mobile data revenue was the key growth driver.

Consolidated earnings before depreciation and amortisation EBITDA improved by 13.0% year-on-year to **CZK 12,619 million** in 2019, thanks to the higher revenue, flat year-on-year total costs and a positive impact of the new IFRS 16 accounting standard. In the Czech Republic, EBITDA grew by 11.8% to CZK 9,513 million, while Slovakia reported an 18.7% increase to CZK 3,152 million (+18.6% to EUR 123 million). Consolidated **EBITDA margin** improved by 3.2 percentage points to **32.6%** in 2019.

Consolidated **net profit increased by 0.2%** year-on-year reaching **CZK 5,460 million** in 2019. Positive impact of investments into growth areas in 2018 combined with the new product offer and successful Christmas campaign positively contributed to the financial results in the fourth quarter 2019 with a 16.7% year-on-year net income growth.

² Fixed (xDSL, fiber), wireless (4G LTE, WTTx).

KEY FINANCIAL INDICATORS OF THE GROUP

Financial indicators	FY 2019	FY 2018	Year-on-year change
Operating revenue	CZK 38,760 mil.	CZK 37,996 mil.	+2.0%
- CZ mobile revenue	CZK 20,211 mil.	CZK 19,956 mil.	+1.3%
- CZ fixed revenue	CZK 11,136 mil.	CZK 10,757 mil.	+3.5%
- SK revenue	CZK 7,647 mil.	CZK 7,485 mil.	+2.2%
Total costs	CZK 26,211 mil.	CZK 26,981 mil.	-2.9%
- of which operating costs	CZK 7,665 mil.	CZK 8,198 mil.	-6.5%
EBITDA	CZK 12,619 mil.	CZK 11,163 mil.	+13.0 %
<i>EBITDA margin</i>	32.6 %	29.4 %	+3.2 p. p.
Net profit	CZK 5,460 mil.	CZK 5,448 mil.	+0.2 %

In this section, we present and comment in more detail on the unaudited consolidated financial results of O2 Czech Republic a.s. for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards.

New standard IFRS 16 – Leases

The new IFRS 16 – Leases is mandatory for accounting periods beginning on or after 1 January 2019 and replaces all existing IFRS lease requirements for both the lessees and the lessors. IFRS 16 provides a single balance sheet accounting model for leases. In case when the O2 Czech Republic Group (the O2 Group) is the lessee, it recognises the right-to-use asset, which represents its right to use the underlying asset, and the liability under the lease, which expresses the obligation to pay the lease payments.

The O2 Group has adopted the new IFRS 16 using a modified retrospective method. Comparable data for the previous period has not been adjusted. Thus, as of 1 January 2019, it newly recognises assets and liabilities mainly arising from operating leases of stores, office and technical buildings, vehicles, office equipment, and in Slovakia also from rent of telecommunication technologies. The nature of these related costs has changed; the O2 Group newly recognises the depreciation of usage rights and interest expense of lease liabilities, instead of operating costs (included in EBITDA) reported before.

The positive consolidated EBITDA effect of IFRS 16 amounted to CZK 787 million and a negative consolidated net income impact reached CZK 45 million for the full year of 2019. Detailed information on the IFRS 16 impact on other selected consolidated financial indicators in 2019 is provided at [O2 web pages](#) (see Facts & Figures).

Consolidated Financial Results

Consolidated operating revenue increased by 2.0% year-on-year to reach CZK 38,760 million in 2019. Thanks to the customers' interest in the family and group O₂ Spolu packages, that include the new mobile tariffs with an increased data volume and unlimited data tariffs, and growing O₂ TV base, mobile data revenue and digital TV revenue kept growing. Revenue from financial services also kept increasing. In addition, growth in Slovakia positively contributed to the consolidated revenue. The key growth driver in Slovakia were mobile data. Growth in the aforementioned revenue compensated for declining revenue from traditional voice services.

Operating revenue in the Czech Republic reached CZK 31,347 million, marking a 2.1% year-on-year growth. **Fixed operating revenue** grew by 3.5% year-on-year to CZK 11,136 million in 2019. Again, more than 20% year-on-year higher revenue from O₂ TV contributed the most to this growth. Thanks to the broadband internet base growth, related revenue grew year-on-year for third consecutive quarter. Thus, the fixed internet & O₂TV revenue grew by 6.1% year-on-year in 2019. Along with sales of broadband Internet HD and O₂ TV services, an increase in set top boxes, modems as well as TV sets in the fourth quarter continued and contributed to 80.1% year-on-year hardware sales revenue growth. Revenue growth in the aforementioned areas more than compensated the continuous decline of voice revenue, which was 12.3% lower year-on-year.

Mobile operating revenue³ reached CZK 20,211 million, reporting a 1.3% year-on-year growth, as a 15.0% increase of data revenue and a 17.9% increase in revenue from financial services more than compensated a 6.6% decline in voice revenue, a 12.8% decrease of messaging revenue and by 2.1% lower hardware & accessories sales revenue.

Revenue in Slovakia⁴ reached CZK 7,647 million, up by 2.2% year-on-year. In local currency, the revenue improved by 2.0% to EUR 298 million.

Total consolidated expenses⁵ went down 2.9% year-on-year to CZK 26,211 million in 2019. Excluding the impact of the new IFRS 16 standard, they would have been broadly flat year-on-year. In the Czech Republic, expenses decreased by 1.8% (+0.6% excluding IFRS 16 impact), Slovakia reported a 6.8% decline (-1.7% excluding IFRS 16 impact). Costs of sales were 1.2% lower year-on-year as 4% lower fixed costs of services and a 1.0% year-on-year decline of the commercial costs more than compensated slightly higher mobile costs of service (+0.8%) related to the rollout of the broadband internet wireless technology in the Czech Republic. Operating expenses were reduced by 6.5% year-on-year, while excluding the impact of the new IFRS 16 standard they would have grown by 1.0%, driven mainly by a 0.4% growth in personal costs, which have, however, declined in the third and fourth quarter due to the headcount reduction. There was also a slight increase in utilities consumption costs, rentals and bad debt provisions.

Earnings before interest, depreciation and amortisation (EBITDA) improved by 13.0% year-on-year to CZK 12,619 million in 2019. Excluding the impact of the new IFRS 16, standard EBITDA would have gone up by 6.0% year-on-year to CZK 11,832 million. In the Czech Republic, EBITDA grew by 11.8% reaching CZK 9,513 million (+5.5% excluding IFRS 16 impact), while Slovakia reported an 18.7% increase to CZK 3,152 million (+9.4% excluding IFRS 16 impact). Thus, the consolidated **EBITDA margin** reached 32.6% in 2019. In the Czech Republic, it amounted to 30.3% and in Slovakia to 41.2%.

Consolidated net income reached CZK 5,460 million in 2019, up by 0.2% year-on-year. Excluding the impact of the new IFRS 16 standard, net income would have increased by 1.1% year-on-year to CZK 5,505 million. Investments into growth areas in 2018 positively contributed to net income growth. At the same time, they were reflected in depreciation and amortisation charge year-on-year growth, which slowed down in the second half of the year.

Consolidated capital expenditures (CapEx) reached CZK 2,432 million in 2019, down by 45.0% year-on-year, and their share to consolidated revenue was 6.3%.

Investments in Slovakia decreased by 13.8% year-on-year reaching CZK 987 million and CapEx to revenue declined by 2.4 percentage points to 12.9%. Network investments represented almost 80% of all investments in Slovakia in 2019. They continued to be directed mainly into own 2G network coverage expansion with the aim to reduce dependency on national roaming. O2 Slovakia also continued investing into 4G LTE and wireless WTTx

³ Since 1Q 2019, revenue from wireless technology (4G LTE and WTTx) of Internet HD product has been reported in the fixed segment, while till 4Q 2018 it was included in the mobile operating revenue; comparable data for the previous period have been adjusted.

⁴ O2 Slovakia and O2 Business Services; The following CZK/EUR FX rates were used: 25.64 in FY 2018, and 25.67 in FY 2019.

⁵ Cost of sales, operating expenses and Internal expenses capitalised in fixed assets.

networks rollout and capacity improvement of the backbone and transmission networks with the aim to meet customers' growing demand for mobile data.

In the Czech Republic, CapEx reached CZK 1,445 million in 2019, representing a 55.9% year-on-year decline. CapEx to revenue share decreased by 6.0 percentage points to mere 4.6%. IT systems upgrade and network investments related to the development of new services were the main CapEx areas. On top of that, there were investments in new sports rights.

The consolidated free cash flow⁶ reached CZK 6,991 million in 2019, up 42.7% year-on-year. A 29.4% year-on-year growth in net cash from operating activities helped by a positive working capital changes and IFRS 16 impact, which were the key free cash flow growth contributors, more than compensated a 6.3% increase in net cash used in investing activities. These were higher due to higher cash purchase of non-current assets related to higher investments in the second half of 2018 and paid mainly in the first half of 2019. In the second half of 2019, the net cash used in investing activities decreased by 11.0% year-on-year. Since 2019, interest paid (including interest expense on lease liabilities) has been included in net cash used in financing activities, while until 2018 it was included in net cash flow from operating activities. Comparable data for 2018 has been adjusted.

Based on the IFRS 16 standard, payments of lease liabilities are included in Net cash used in financing activities, while till 2018, they were included in net cash from operating activities. Excluding IFRS 16 impact, free cash flow would grow by 26.6% year-on-year.

The consolidated financial debt⁷ amounted to CZK 14,596 million as at 31 December 2019 compared with CZK 10,499 million at the 2018 year-end. The CZK 4,097 million growth relates to the promissory loan notes (Schuldschein) placement for a total of EUR 160 million across 4 tranches executed in April 2019. At the end of December 2019, **cash and cash equivalents** reached CZK 5,989 million compared with CZK 2,475 million as at 31 December 2018. Thus, **net debt to EBITDA**⁸ reached 0.68 multiple at the end of December 2019.

Slovakia

Thanks to the continuous investments into expansion of the services portfolio and their quality improvement, in 2019, O2 Slovakia group⁹ 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 by 3.0% year-on-year. O2 Slovakia introduced new mobile tariffs offer O₂ Smart Paušál at the beginning of November. These tariffs include unlimited voice services and messaging as a matter of course. Furthermore, customers were granted large data packages for selected applications as well as subscription to premium applications such as HBO GO, Tidal or selected daily news. O₂ Smart Paušál is available in five variants starting at EUR 15. O2 Slovakia also introduced a new improved offer of phones together with the new O₂ Paušál tariff. The offer could be used by both new and existing customers of O₂ Smart Paušál, O₂ Paušál or O₂ Data.

⁶ Free cash flow = Net cash flow from operating activities plus Net cash used in investing activities.

⁷ Long term and short term (excluding Lease liability).

⁸ Gross debt (excluding Lease liability) less cash/EBITDA for the last 12 months.

⁹ Including O2 Business Services, a. s. (100% subsidiary of O2 Slovakia).

This resulted in yet another improvement of the financial performance. Thus, O2 Slovakia group keeps contributing positively to the O2 Group's financial results as it represented 20% of the consolidated revenue and 25% of the consolidated EBITDA¹⁰ and of the consolidated net income in 2019.

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 97.4% of the Slovak population at the end of December 2019, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of customers increased by 6.0% year-on-year to 2,149 thousand. The share of mobile contract customer base in the total base reached 64.7% at the end of December 2019, up 2.1 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.

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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 providers 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 customer requests in the ICT area and provide them housing, hosting and cloud services in data centres with total area of 7,300 square metres. These data centres are the only ones in the Czech Republic and Central Europe to have TIER III certification. With its O₂ TV, the company is also the largest IPTV provider in the Czech Republic.

¹⁰ The operational profitability in the Czech Republic is lower compared to Slovakia due to inclusion of fixed and mobile network charge by CETIN into cost of service.

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	Jan – Dec 2019	Jan – Dec 2018
Operating revenue	38,760	37,996
Non-operating revenue	78	91
Revenue	38,838	38,087
Internal expenses capitalised in fixed assets	349	335
Cost of sales	(18,895)	(19,119)
Operating expenses	(7,665)	(8,198)
Other operating income/(expenses)	(8)	58
EBITDA	12,619	11,163
EBITDA margin	32.6 %	29.4 %
Depreciation and amortisation (including amortisation of right of use asset)	(4,797)	(3,573)
Amortisation of cost to obtain contract	(555)	(455)
Impairment reversal/(loss)	(26)	(27)
Operating profit	7,241	7,108
Net financial income (expense)	(358)	(194)
Share of profit/(loss) of investments accounted for using the equity method	2	2
Profit before tax	6,885	6,916
Income tax	(1,425)	(1,469)
Profit	5,460	5,448

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	31 December 2019	31 December 2018
Non-current assets	28,006	25,190
- Intangible assets	15,457	17,164
- Property, plant and equipment and investment property	6,171	6,130
- Right-of-use assets	4,094	-
- Incremental costs to obtain contract	766	678
- Long-term financial assets and other non-current assets	1,226	916
- Non-current contract asset	129	134
- Deferred tax assets	163	168
Current assets	14,674	10,940
- Inventories	987	906
- Trade and other receivables	7,247	7,067
- Current tax receivable	81	81
- Current contract asset	354	411
- Cash and cash equivalents	5,989	2,475
- Asset held-for-sale	16	-
Total assets	42,680	36,130
Equity attributable to owners of the parent	14,163	15,225
Non-controlling stake	14	-
Total equity	14,177	15,225
Non-current Liabilities	12,192	12,083
- Non-current financial debt	7,530	10,461
- Deferred tax liabilities	511	484
- Non-current provisions for liabilities and charges	74	66
- Non-current contract liability	56	81
- Non-current lease liability	3,475	-
- Non-current other liabilities	546	991
Current Liabilities	16,311	8,822
- Short-term financial debt	7,066	38
- Trade and Other payables	7,853	7,975
- Current income tax payable	66	116
- Current lease liability	693	-
- Current contract liability	514	610
- Provisions for liabilities and charges	119	83
Total Equity and Liabilities	42,680	36,130