# O2 in 1Q 2019: upgrade of mobile data packages and continuous $O_2$ TV base growth; higher investments into pro-growth areas led to lower net income and EBITDA growth

10 May 2019

- **Number of $O_2$ TV monthly subscribers and those watching television on internet or via our application increased by almost half year-on-year; thus O2 registers already 889 thousand active accesses.**
- **Substantial interest in attractive exclusive sport content and successful proposition of $O_2$ Spolu bundled packages for families, groups of friends and entrepreneurs were the key drivers of the growth.**
- **O2 expanded its Internet HD proposition with a new generation of 5G wireless technology in 3.7 GHz band. At the end of March 2019, O2 had 811 thousand customers of its technology agnostic broadband internet.**
- **Consolidated revenue went up 0.5% year-on-year to CZK 9.2 billion in the first quarter 2019, with improving fixed revenue year on year trend.**
- **Consolidated EBITDA grew by over 11% to CZK 2.9 billion, higher investments into growth areas led to a 7% decline in consolidated net income to CZK 1.2 billion.**

*"In the first quarter of 2019, we continued bringing many innovations to our customers. Since February, we have been offering new FREE tariffs with a larger portion of data without a price increase. By aggregation of several frequency bands, in Kolín, we launched a mobile network with a theoretical speed of up to 1 Gbps, which is the next step of preparation for 5G. Our new $O_2$ Smart Booster will extend the Wi-Fi signal from the $O_2$ Smart Box smart modem to longer distances, making it the ideal solution for family houses, large apartments and business buildings,"* comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *"We continue to promote successful $O_2$ Spolu bundled packages. This also helped us to increase number of customers of our monthly $O_2$ TV tariffs by more than 25 thousand in the first three months of this year."*

*"Our investments in the last year of which a substantial part was directed to our network, led to an increase in depreciation hence a year-on-year decline in net income in the first quarter of 2019,"* explains Tomáš Kouřil, the company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and adds: *"The year-on-year EBITDA growth confirms that our decision to invest into growth areas has been strategically correct."*

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## Overview of key events in the first quarter 2019

O2 has expanded the **availability of its broadband Internet** using **wireless technology**. It commenced offering customers residing out of fast cable connectivity reach a **new generation of 3.7 GHz wireless Internet**, bringing them home broadband Internet speeds of up to 250/25 Mbps that were previously available only through cable.

Since February, O2 has been offering new **FREE tariffs**. For all customers who opt for a special two-year offer, O2 provides **double the data package** for the same price. The new FREE tariff portfolio is designed **for both new and existing customers** who can switch to them from existing tariffs.

As a part of the **preparation for the arrival of fifth-generation networks**, O2 was the first in the Czech Republic to cover the entire city of Kolín with the **currently the fastest internet**. The technology enables **data transfers with theoretical speeds of up to 1 Gbps**, which is ten times faster than the conventional 4G LTE network. These speeds can be achieved by **aggregation of several frequency bands**[1] and complementation **with 4x4 MIMO and 256QAM technologies**. O2 customers who would enjoy the fastest connection in Kolín, they need a **smartphone** with **LTE Cat 16+ and higher**.

Since April, O2 has been offering **$O_2$ Smart Booster**. It **extends the fast Wi-Fi** from $O_2$ Smart Box device even further, making it the **ideal solution for family houses, large apartments and business buildings**. As with all devices from the $O_2$ smart modem family, the **$O_2$ Smart Booster can be controlled easily with the O2 Smart Box app**. O2 Smart Booster set up is very easy. In addition, the **Mesh feature** enables customers to connect more $O_2$ Smart Boosters and cover very large spaces with Wi-Fi network.

## Operating overview

### Mobile segment

Thanks to the successful proposition of **$O_2$ Spolu bundled packages** and continuing popularity of **new $O_2$ Data tariffs**, the **total number of mobile registered customers**[2] reached 5,563 thousand at the end of March 2019. The number of **mobile contract customers** was at 3,509 thousand, while the number of mobile prepaid customers stood at 2,055 thousand.

In O2 network, smartphones represent close to 75% of handsets and 60% of total handsets support LTE technology.

The larger portion of data volumes included in FREE tariffs along with customers' interest in $O_2$ Data tariffs with a monthly data volume of 4 to 20 GB and with an increase in the number of customers with a 4G LTE-enabled smartphone contributed to a 25% year-on-year increase in mobile data usage generated in handsets. Again, data transmissions were clearly dominated by video.

[1] LTE 800 FDD, LTE 1,800 FDD, LTE 2,100 FDD, LTE 2,600 FDD

[2] 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.

While the number of SMS sent continued to decline during the first quarter, the volume of data transmitted in communication via so-called messengers increased - the most popular are Snapchat, WhatsApp and Facebook Messenger.

**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 **361 thousand** as at 31 March 2019. Of that, 45 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 entire $O_2$ TV content on the web or in mobile applications. Close to 530 thousand viewers used this opportunity on a regular basis in the first quarter 2019, including customers of $O_2$ TV Sport Pack package. As of the end of March 2019 O2 registered close to **890 thousand $O_2$ TV active accesses**[3].

Number of **broadband internet customers**[4] over cable as well as the wireless technology reached in total 811 thousand as of 31 March 2019.

**Slovakia**

O2 Slovakia keeps recording increasing demand for its O2 Pausal mobile tariffs portfolio. As of 31 March 2019, the total customer base reached 2,048 thousand. Contract base amounted to 1,296 thousand and it represented 63.3% of total base, up by 3.4 percentage points year-on-year.

## Financial overview

**Total consolidated operating revenue** reached **CZK 9,249 million** in the first quarter 2019, up 0.5% year-on-year. **Operating revenue in the Czech Republic** declined slightly by 0.3% to **CZK 7,469** million, as a 0.4% growth of **mobile revenue** to CZK 4,851 million did not fully compensate a 1.5% year-on-year decline in **fixed revenue** to CZK 2,618 million. Mobile data, financial services and $O_2$ TV were the key revenue growth drivers.

In **Slovakia,** total **operating revenue improved by 2.9%** to EUR 72 million in the first quarter 2019. In Czech koruna (CZK) the operating revenue reached CZK 1,839 million, up 4.1% 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 **11.5%** year-on-year to **CZK 2,906 million** in the first quarter 2019, thanks to the higher revenue, its better profitability, savings in majority of costs and a positive impact of the new IFRS 16 accounting standard. In the Czech Republic, EBITDA grew by 10.4% to CZK 2,191 million, while Slovakia reported a 16.3% increase to CZK 723 million (+15% to EUR 28 million). Consolidated **EBITDA margin improved** by 3.1 percentage points to 31.4% in the first quarter 2019.

[3] IPTV/ OTT including MULTI, web and mobile apps accesses
[4] Fixed (xDSL, fiver), wireless (4G LTE, WTTx)

Consolidated **net profit declined by 7%** year-on-year reaching **CZK 1,236 million** in the first quarter 2019 as higher investments into growth areas in 2018 led to depreciation & amortisation growth.

## KEY FINANCIAL INDICATORS OF THE GROUP

| Financial indicators | 1Q 2019 | 1Q 2018 | Year-on-year change |
|---|---|---|---|
| **Operating revenue** | CZK 9,249 mil. | CZK 9,189 mil. | +0.5 % |
| **- CZ mobile revenue** | CZK 4,851 mil. | CZK 4,831 mil. | +0.4 % |
| **- CZ fixed revenue** | CZK 2,618 mil. | CZK 2,658 mil. | -1.5 % |
| **- SK revenue** | CZK 1,839 mil. | CZK 1,767 mil. | +4.1 % |
| **Total costs** | CZK 6,353 mil. | CZK 6,604 mil. | -3.8 % |
| **- of which operating costs** | CZK 1,900 mil. | CZK 2,005 mil. | -5.3 % |
| **EBITDA** | CZK 2,906 mil. | CZK 2,606 mil. | +11.5 % |
| ***EBITDA margin*** | *31.4 %* | *28.3 %* | *+3.1 p. p.* |
| **Net profit** | CZK 1,236 mil. | CZK 1,329 mil. | -7.0 % |

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

## New standard IFRS 16 - Leases

The new IFRS 16 - Leases is mandatory for annual 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 the case where the O2 Czech Republic Group (the O2 Group) is the lessee, it accounts for the right to use the asset, which represents its right to use the underlying asset and for 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 have not been adjusted. Thus, as of 1 January 2019, it newly recognises assets and liabilities mainly from operating leases of stores, office and technical buildings, vehicles, office equipment, and in Slovakia also from rental of telecommunication technologies. The nature of these related costs has changed; the O2 Group newly recognizes the depreciation of usage rights and interest expense of lease liabilities, instead of operating costs (included in EBITDA) reported before.

For the first quarter 2019 the positive consolidated EBITDA effect of IFRS 16 amounted to CZK 193 million and a negative consolidated net income impact reached CZK 12 million. Detailed information on the IFRS 16 impact on other selected consolidated financial indicators in the first quarter 2019 is provided at O2 web pages (see Facts & Figures).

## Consolidated Financial Results

**Consolidated operating revenue** increased by 0.5% year-on-year to reach CZK 9,249 million in the first quarter 2019. Thanks to the customers' interest in the family and group $O_2$ Spolu packages, the new mobile tariffs with an increased data volumes, and growing $O_2$ TV base, mobile data revenue and digital TV revenue kept growing. Revenue from financial services also maintained an increase. In addition, positive performance in Slovakia positively contributed to the consolidated revenue. Similarly to the Czech Republic, mobile data were the key growth driver in Slovakia as well. Growth in the aforementioned revenue compensated for declining revenue from traditional voice and data services.

**Operating revenue in the Czech Republic** reached CZK 7,469 million, marking a 0.3% year-on-year decrease. **Mobile operating revenue**[5] reached CZK 4,851 million, reporting a 0.4% year-on-year growth, as a 3% growth of voice revenue, 2% increase of data revenue and a 14.7% increase in revenue from financial services more than compensated 10.5% decline in messaging revenue and 7.8% lower hardware & accessories sales revenue.
**Fixed operating revenue** decline slowed down to a 1.5% year-on-year decrease to CZK 2,618 million in the first quarter 2019. Over 30% higher $O_2$ TV revenue did not fully compensate lower voice revenue (due to continuous fixed-to-mobile voice substitution) and limited

[5] Since 1Q 2019 revenue from wireless technology (4G LTE and WTTx) of Internet HD product 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.

internet revenue erosion. **Revenue in Slovakia**[6] reached CZK 1,839 million, up by 4.1% year-on-year. In local currency, the revenue improved by 2.9% to EUR 71.6 million.

**Total consolidated expenses**[7] went down 3.8% year-on-year to CZK 6,354 million in the first quarter 2019. Excluding the impact of the new IFRS 16 standard they would have declined 0.9% year-on-year. In the Czech Republic they decreased by 4%, Slovakia reported a 2.1% decline. Costs of sales were 3.2% lower year-on-year as lower fixed costs of services (-8.1%) more than compensated slightly higher mobile costs of service (+1.4%) due to mobile network rollout in the Czech Republic. Operating expenses were reduced by 5.3% year-on-year, while excluding the impact of the new IFRS 16 standard they would have grown by 2.3%, driven mainly by a 4% growth in personal costs due to insourcing of customer care staff, which was not fully compensated by savings in other operating costs.

**Earnings before interest, depreciation and amortization (EBITDA)** improved by 11.5% year-on-year to CZK 2,906 million in the first quarter 2019. Excluding the impact of the new IFRS 16 standard EBITDA would have gone up by 4.1% year-on-year to CZK 2,713 million. In the Czech Republic EBITDA grew 10.4% reaching CZK 2,191 million (+3.4% excluding IFRS 16 impact), while Slovakia reported a 16.3% uptake to CZK 723 million (+7.6% excluding IFRS 16 impact). Thus, the consolidated **EBITDA margin** reached 31.4% in the first quarter 2019. In the Czech Republic it amounted to 29.3% and in Slovakia to 39.3%.

**Consolidated net income** reached CZK 1,236 million in the first quarter 2019, down by 7% year-on-year. Excluding the impact of the new IFRS 16 standard net income would have declined by 6% year-on-year to CZK 1,250 million. This decline was driven mainly by a 21.8% growth in depreciation and amortisation charge driven by higher investments into growth areas in 2018.

**Consolidated capital expenditures** (CapEx) reached CZK 474 million in the first quarter 2019, down by 12.7% year-on-year, and their share to consolidated revenue was 5.1%.

Investments in Slovakia grew by 6.1% year-on-year reaching CZK 210 million and CapEx to revenue grew slightly by 0.2 percentage points to 11.4%. Investments 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 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 264 million in the first quarter 2019, representing a 23.5% year-on-year decline and CapEx to revenue share was at only 3.5%. IT upgrade was the main CapEx areas. On top of that, there were investments in O2 brand shops redesign.

**The consolidated free cash flow**[8] reached CZK 703 million in the first quarter 2019, up 54.5% year-on-year. A 57.5% year-on-year growth in net cash from operating activities helped by a positive working capital changes and IFRS 16 impact were the key free cash flow

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[6] O2 Slovakia and O2 Business Services; The following CZK/EUR FX rates have been used: 25.40 in 1Q 2018, and 25.68 in 1Q 2019

[7] Cost of sales, operating expenses and Internal expenses capitalized in fixed assets

[8] Free cash flow = Net cash flow from operating activities plus Net cash used in investing activities; since 1Q 2019 interest paid (including interest expense of lease liabilities) as well as interest received included in Net cash used in financing activities, while until 4Q 2018 they were included in Net cash flow from operating activities; comparable data for the previous period have been adjusted.

growth contributor, which more than compensated a 60.1% increase in net cash used in investing activities due to higher cash purchase of non-current assts related to higher investments in the second half of 2018. Base on the IFRS 16, 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 16.7 % year-on-year.

**The consolidated financial debt**[9] amounted to CZK 10,520 million as at 31 March 2019, broadly same compared with the 2018 year end. At the end of March 2019, **cash and cash equivalents** reached CZK 2,952 million compared with CZK 2, 475 million as at 31 December 2018. Thus, **net debt**[10] **to EBITDA** reached 0.7 at the end of March 2019.

## Slovakia

Thanks to the 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 the first quarter 2019, O2 Slovakia group[11] 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 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, 25% of consolidated EBITDA[12] and 27% of consolidated net income in the first quarter 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 96.4% of the Slovak population at the end of March 2019, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of customers increased by 5.3% year-on-year to 2,048 thousand. The share of mobile contract customer base in the total base reached 63.3% at the end of the first quarter 2019, up 3.4 percentage points year-on-year.

## Other relevant facts

### O2 Czech Republic has successfully raised new loan financing of EUR 160 million

On 18 April 2019, O2 Czech Republic placed promissory loan notes (Schuldschein) for a total of EUR 160 million across 4 tranches.

- 5-year floating/fixed rate tranches were priced at EURIBOR/mid-swap + 120bps
- 7-year floating/fixed rate tranches were priced at EURIBOR/mid-swap + 140bps

### O2 Czech Republic Board of Directors approved 2018 dividend proposal and partial share premium distribution in total amount of CZK 21 per share

The Board of Directors of O2 Czech Republic (the „Company") approved the 2018 dividend proposal in the total amount of CZK 5,274 million, which represents CZK 17 before tax per

[9] Long term and short term (excluding Lease liability)
[10] Gross debt (excluding Lease liability) less cash/EBITDA (excluding IFRS impact) for the last 12 months
[11] including O2 Business Services, a. s. (100% subsidiary of O2 Slovakia)
[12] 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

share with the nominal value of CZK 10 and CZK 170 before tax per share with a nominal value of CZK 100. This represents 98% of the unconsolidated net profit for 2018. The Company's Board of Directors proposes to allocate the remaining part of the net profit for 2018 (CZK 84 million) to the retained earnings.

On top of the regular dividend, the Company's Board of Directors proposes a distribution of a 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 July 4, 2019, while those who will be shareholders on June 4, 2019 will be entitled to exercise the right to the dividend and the share premium distribution.

The Company holds treasury shares. The Company will not be entitled to the dividend payment and the amount related to the distribution of the share premium. Thus, the final total amount paid to the shareholders will depend on the actual number of treasury shares held by the Company as of June 4, 2019.

The proposal has been acknowledged by the Supervisory Board and will be subject to a vote at the Annual General Meeting to be held on June 4, 2019, where the shareholders of the Company will be deciding on its adoption. The proposal will also form a part of the invitation to the Annual General Meeting. The invitation will be published in due course as required by the law.

## 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 – March 2019** | **January – March 2018** |
|---|---|---|
| Operating revenue | 9,249 | 9,198 |
| Non-operating revenue | 12 | 18 |
| **Revenue** | **9,261** | **9,216** |
| Internal expenses capitalized in fixed assets | 82 | 86 |
| Cost of sales | (4,535) | (4,685) |
| Operating expenses | (1,900) | (2,005) |
| Other operating income/(expenses) | (2) | (6) |
| **EBITDA** | **2,906** | **2,606** |
| ***EBITDA margin*** | ***31.4 %*** | ***28.3 %*** |
| Depreciation and amortization (including amortization of right-of-use asset) | (1,123) | (772) |
| Amortization of cost to obtain contract | (127) | (105) |
| Impairment reversal/(loss) | (7) | (5) |
| **Operating profit** | **1,649** | **1,724** |
| Net financial income (expense) | (81) | (45) |
| Results attributed to joint venture | (1) | 2 |
| **Profit before tax** | **1,569** | **1,681** |
| Income tax | (333) | (352) |
| **Profit** | **1,236** | **1,329** |

*All amounts in CZK million*

| CONSOLIDATED BALANCE SHEET | 31 March 2019 | 31 December 2018 |
|---|---|---|
| **Non-current assets** | **28,939** | **25,190** |
| - Intangible assets | 16,700 | 17,164 |
| - Property, plant and equipment and investment property | 6,134 | 6,130 |
| - Right-of-use assets | 4,285 | - |
| - Incremental costs to obtain contract | 687 | 678 |
| - Long-term financial assets and other non-current assets | 852 | 916 |
| - Non-current contract asset | 121 | 134 |
| - Deferred tax assets | 160 | 168 |
| **Current assets** | **11,866** | **10,940** |
| - Inventories | 996 | 906 |
| - Trade and other receivables | 7,400 | 7,067 |
| - Tax receivable | 119 | 81 |
| - Current contract asset | 399 | 411 |
| - Cash and cash equivalents | 2,952 | 2,475 |
| **Total assets** | **40,805** | **36,130** |
| Equity attributable to owners of the parent | 16,465 | 15,225 |
| Non-controlling stake | - | - |
| **Total equity** | **16,465** | **15,225** |
| **Non-current Liabilities** | **15,504** | **12,083** |
| - Non-current financial debt | 10,464 | 10,461 |
| - Deferred tax liabilities | 480 | 484 |
| - Non-current provisions for liabilities and charges | 66 | 66 |
| - Non-current contract liability | 80 | 81 |
| - Non-current lease liability | 3,610 | - |
| - Non-current other liabilities | 804 | 991 |
| **Current Liabilities** | **8,836** | **8,822** |
| - Short-term financial debt | 56 | 38 |
| - Trade and Other payables | 7,296 | 7,975 |
| - Current income tax payable | 146 | 116 |
| - Current lease liability | 709 | - |
| - Current contract liability | 551 | 610 |
| - Provisions for liabilities and charges | 78 | 83 |
| **Total Equity and Liabilities** | **40,805** | **36,130** |