

## **O2 in Q3 2019: Number of O<sub>2</sub> TV, home broadband as well as mobile customers grew. O<sub>2</sub> Spolu convergent packages, newly also with unlimited mobile data, helped the growth.**

1 November 2019

- **Number of O<sub>2</sub> TV customers grew by one third year-on-year, hence the base grew by close to 100 thousand.**
- **Almost two thirds of the customers activated a new mobile tariff in O<sub>2</sub> Spolu bundled package containing also O<sub>2</sub> TV and home broadband service, while one third of them opted for unlimited data tariff.**
- **Broadband Internet HD base grew by 21 thousand year-on-year and reached 830 thousand.**
- **Consolidated revenue went up 1.4% year-on-year to CZK 28.6 billion in the first nine months of 2019, with growth reported both in the Czech Republic and Slovakia.**
- **Consolidated EBITDA grew by close to 12% to CZK 9.3 billion; increased investments in the past years led to a close to 5% decline in consolidated net income to CZK 4 billion; its decline has been decelerating.**

*“Our results show, that the decision to offer customers home broadband internet, O<sub>2</sub> TV and mobile tariffs in O<sub>2</sub> Spolu packages was right. Currently, 70 percent of our customers activate new mobile tariff in a package, and a third of them choose a tariff with unlimited data,”* comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *“In the already rich sports content offering, we have newly included the English Premier League, confirming O<sub>2</sub> TV’s position as a TV platform offering the best sports and movie content in one place. With a 100 thousand year-on-year customers’ increase and a dynamic increase in web and app watching, O<sub>2</sub> TV belongs to one of our fastest growing services.”*

*“High investments in 2018 increased depreciation charge and diluted our net profit in 2019,”* explains Tomáš Kouřil, the company’s Chief Financial Officer and Vice-Chairman of the Board of Directors and adds: *“We directed our investments into pro-growth areas in which together with our new commercial proposition it contributes to further growth. Our EBITDA increased, the net profit already shows improving trend, our strategy works.”*

## Overview of key events in the third quarter 2019

On September 16, O2 started offering **NEO mobile tariffs with unlimited data**, in which customers may choose the speed of the connection to fit their needs. At the same time, O2 **substantially increased data packages in improved FREE+ tariffs with unlimited voice services**. O2 **quintupled the data package** in the mobile tariff **FREE+ Gold** to **60GB** and thus offers the lowest price per gigabyte on the market. **The best offer** through which the customers can get **the new tariffs** including unlimited tariffs is within the **O<sub>2</sub> Spolu bundled packages**. These packages enable individuals, families and larger groups to flexibly combine different services. Moreover, O2 adds the **best sports content** to all customers of O<sub>2</sub> Spolu bundled packages and until the summer of 2020 also a **premium HBO channel** free of charge.

Digital television **O<sub>2</sub> TV** has further strengthened its sports content. In addition to the complete Czech football Fortuna League, UEFA Champions League and ice hockey Tipsport league, O2 acquired a **new Premier Sport channel** that will broadcast hundreds of live matches from the world's most prestigious football league – the **English Premier League**. In addition to the English Premier League, the new TV station will also bring two other British Islands leagues – the English Championship, i.e. the second highest English league, and the Scottish Premiership.

For the tennis fans, O2 has **extended the television rights for the full WTA tennis tour** for **another three seasons**, i.e. until 2022. O<sub>2</sub> TV Tennis, the only tennis channel in the Czech Republic, will continue to bring **all live events from the WTA tournaments** and thanks to unique **multidimension** even **concurrent matches**.

## Operating overview

### Mobile segment

Thanks to the successful proposition of **O<sub>2</sub> Spolu bundled packages** and continuing popularity of **tariffs with higher data packages**, the **total number of mobile registered customers**<sup>1</sup> reached 5,617 thousand at the end of September 2019. The number of **mobile contract customers** was at 3,215 thousand, the number of mobile prepaid customers stood at 1,963 thousand, while the number of M2M services reached 439 thousand.

In O2 network, smartphones represent 75% of handsets and 64% of total handsets support LTE technology. The larger portion of data volumes included in FREE tariffs along with customers' interest in O<sub>2</sub> Data tariffs with a monthly data volume of 4 to 20 GB and 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 in handsets.

### Fixed segment

The number of **O<sub>2</sub> TV** tariffs customers provided over O2 fixed line (IPTV) as well as over internet connection from any provider (OTT), reached **406 thousand** as at 30 September 2019, including households subscribed for complementary **MULTI service**, which enables

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<sup>1</sup> Since 1Q 2019, it has comprised mobile customers who have generated revenue for the past 13 months and has excluded Internet HD mobile customers using 4G LTE and WTTx wireless technologies; comparable data for the previous period have been adjusted.

customers to watch TV on multiple TV sets at once. During the first nine months of 2019, the number of O<sub>2</sub> TV customers increased by 70 thousand.

Number of **broadband internet customers**<sup>2</sup> over cable as well as wireless technology reached in total 830 thousand as at 30 September 2019. During the first nine months of 2019, their number increased by 21 thousand.

## Slovakia

O2 Slovakia keeps recording increasing demand for its O<sub>2</sub> Pausal mobile tariffs portfolio. As at 30 September 2019, the **total active customer base** reached 2,116 thousand. The contract base amounted to 1,361 thousand and it represented 64.3% of the total base, up by 2.5 percentage points year-on-year.

## Financial overview

**Total consolidated operating revenue** reached **CZK 28,615 million** in the first three quarters of 2019, up 1.4% year-on-year, with growing revenue in all segments. **Operating revenue in the Czech Republic** improved by 1.2% to **CZK 23,129 million**, thanks to the 1.2% growth in fixed revenue to CZK 8,123 million and a 1.2% year-on-year growth of **mobile revenue** to CZK 15,006 million. Mobile data, financial services and O<sub>2</sub> TV were the key revenue growth drivers.

In **Slovakia**, total **operating revenue improved by 2.0%** to EUR 220 million in the first three quarters of 2019. In Czech koruna (CZK) the operating revenue reached CZK 5,665 million, up 2.6% 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 **11.7%** year-on-year to **CZK 9,318 million** in the first three quarters of 2019, thanks to the higher revenue, savings in majority of costs and a positive impact of the new IFRS 16 accounting standard. In the Czech Republic, EBITDA grew by 10.7% to CZK 7,022 million, while Slovakia reported a 16.5% increase to CZK 2,326 million (+15.9% to EUR 91 million). Consolidated **EBITDA margin improved** by 3.0 percentage points to 32.6% in the first three quarters of 2019.

Consolidated **net profit decreased by 4.6%** year-on-year reaching **CZK 4,023 million** in the first three quarters of 2019 as higher investments into growth areas in 2018 led to depreciation & amortisation growth. These investments already positively contributed to the financial results in the third quarter 2019 standalone with net income decline slowed to -1.5%.

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<sup>2</sup> Fixed (xDSL, fiber), wireless (4G LTE, WTTx).

## **KEY FINANCIAL INDICATORS OF THE GROUP**

<b>Financial indicators</b>	<b>9M 2019</b>	<b>9M 2018</b>	<b>Year-on-year change</b>
<b>Operating revenue</b>	CZK 28,615 mil.	CZK 28,209 mil.	+1.4%
- CZ mobile revenue	CZK 15,006 mil.	CZK 14,822 mil.	+1.2%
- CZ fixed revenue	CZK 8,123 mil.	CZK 8,027 mil.	+1.2%
- SK revenue	CZK 5,665 mil.	CZK 5,524 mil.	+2.6%
<b>Total costs</b>	CZK 19,379 mil.	CZK 19,950 mil.	-2.9%
- of which operating costs	CZK 5,700 mil.	CZK 6,065 mil.	-6.0%
<b>EBITDA</b>	CZK 9,318 mil.	CZK 8,342 mil.	+11.7 %
<b><i>EBITDA margin</i></b>	32.6 %	29.6 %	+3.0 p. p.
<b>Net profit</b>	CZK 4,023 mil.	CZK 4,217 mil.	-4.6 %

**In this section, we present and comment in more detail on the unaudited consolidated financial results for the nine months ended 30 September 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 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 the case where 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 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 recognises the depreciation of usage rights and interest expense of lease liabilities, instead of operating costs (included in EBITDA) reported before.

In the first nine months of 2019, a positive consolidated EBITDA effect of IFRS 16 amounted to CZK 570 million and a negative consolidated net income impact reached CZK 29 million. Detailed information on the IFRS 16 impact on other selected consolidated financial indicators in the first nine months of 2019 is provided at [O2 web pages](#) (see Facts & Figures).

### **Consolidated Financial Results**

**Consolidated operating revenue** increased by 1.4% year-on-year to reach CZK 28,615 million in the first nine months of 2019. Thanks to the customers' interest in the family and group O<sub>2</sub> Spolu packages, the new mobile tariffs with an increased data volume, and growing O<sub>2</sub> 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 23,129 million, marking a 1.2% year-on-year growth. **Mobile operating revenue**<sup>3</sup> reached CZK 15,006 million, reporting a 1.2% year-on-year growth, as a 12.8% increase of data revenue and a 14.4% increase in revenue from financial services more than compensated a 5.0% decline in voice revenue, a 11.9% decrease of messaging revenue and by 1.9% lower hardware & accessories sales revenue. **Fixed operating revenue** grew by 1.2% year-on-year to CZK 8,123 million in the first three quarters of 2019. Again, close to 20% year-on-year higher revenue from O<sub>2</sub> TV contributed the most to this growth. Thanks to the broadband Internet HD base's growth, the

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<sup>3</sup> 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.

relevant revenue increased year-on-year for second consecutive quarter. Thus, the fixed internet & O<sub>2</sub>TV revenue grew by 5.6% year-on-year in the first nine months of 2019. Together with sales of broadband Internet HD and O<sub>2</sub> TV services, a strong increase of set top boxes and modems sales continued and contributed to 35.1% year-on-year revenue growth from the hardware sales. Revenue growth in the aforementioned areas more than compensated the continuous decline of voice revenue, which was 12.5% lower year-on-year. **Revenue in Slovakia**<sup>4</sup> reached CZK 5,665 million, up by 2.6% year-on-year. In local currency, the revenue improved by 2.0% to EUR 220.4 million.

**Total consolidated expenses**<sup>5</sup> went down 2.9% year-on-year to CZK 19,379 million in the first nine months of 2019. Excluding the impact of the new IFRS 16 standard, they would have been flat year-on-year. In the Czech Republic, they decreased by 2.2% (+0.2% excluding IFRS 16 impact), Slovakia reported a 5.1% decline (-0.5% excluding IFRS 16 impact). Costs of sales were 1.5% lower year-on-year as lower fixed costs of services (-4.9%) and a 2.9% year-on-year decline of the commercial costs more than compensated slightly higher mobile costs of service (+1.7%) related to the rollout of the wireless technology of the broadband internet in the Czech Republic. Operating expenses were reduced by 6.0% year-on-year, while excluding the impact of the new IFRS 16 standard they would have grown by 1.2%, driven mainly by a 1.5% growth in personal costs, which has, however, slowed down in the third quarter due to the headcount reduction. There was also a slight increase in utilities consumption costs and bad debt provisions.

**Earnings before interest, depreciation and amortisation (EBITDA)** improved by 11.7% year-on-year to CZK 9,318 million in the first nine months of 2019. Excluding the impact of the new IFRS 16, standard EBITDA would have gone up by 4.9% year-on-year to CZK 8,748 million. In the Czech Republic, EBITDA grew by 10.7% reaching CZK 7,022 million (+4.3% excluding IFRS 16 impact), while Slovakia reported a 16.5% increase to CZK 2,326 million (+8.1% excluding IFRS 16 impact). Thus, the consolidated **EBITDA margin** reached 32.6% in the first three quarters of 2019. In the Czech Republic, it amounted to 30.4% and in Slovakia to 41.1%.

**Consolidated net income** reached CZK 4,023 million in the first nine months of 2019, down by 4.6% year-on-year. Excluding the impact of the new IFRS 16 standard, net income would have declined by 3.9% year-on-year to CZK 4,052 million. This decline was driven mainly by a 16.8% growth in depreciation and amortisation charge driven by higher investments into the exclusive sport rights, further improvement of own network in Slovakia and IT transformation in 2018. Depreciation and amortisation charge growth slowed down to 6.0% in the third quarter and net income decreased only by 1.5% (-0.5% excluding IFRS 16 impact) in the last quarter.

**Consolidated capital expenditures** (CapEx) reached CZK 1,726 million in the first nine months of 2019, down by 49.3% year-on-year, and their share to consolidated revenue was 6.0%.

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<sup>4</sup> O2 Slovakia and O2 Business Services; The following CZK/EUR FX rates were used: 25.57 in 9M 2018, and 25.70 in 9M 2019.

<sup>5</sup> Cost of sales, operating expenses and Internal expenses capitalised in fixed assets.

Investments in Slovakia grew by 3.1% year-on-year reaching CZK 751 million and CapEx to revenue grew by 0.1 percentage points to 13.2%. Network investments represented almost 80% of all investments in Slovakia in the first nine months of 2019. 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 and wireless WTTx networks 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 975 million in the first nine months of 2019, representing a 63.6% year-on-year decline and CapEx to revenue share was at only 4.2%. IT systems upgrade and network investments related to the development of the new services were the main CapEx areas. On top of that, there were investments in new sports rights.

**The consolidated free cash flow<sup>6</sup>** reached CZK 4,696 million in the first nine months of 2019, up 31.9% year-on-year. A 24.4% 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 11.7% increase in net cash used in investing activities 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. The net cash used in investing activities decreased by 11.0% year-on-year in the third quarter of 2019.

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 16.6% year-on-year.

**The consolidated financial debt<sup>7</sup>** amounted to CZK 14,669 million as at 30 September 2019 compared with CZK 10,499 million at the 2018 year-end. The CZK 4,170 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 September 2019, **cash and cash equivalents** reached CZK 4,297 million compared with CZK 2,475 million as at 31 December 2018. Thus, **net debt<sup>8</sup> to EBITDA** reached 0.9 at the end of September 2019.

## Slovakia

Thanks to the continuous investments into expansion of the services portfolio and their quality improvement, in the first nine months of 2019, O2 Slovakia group<sup>9</sup> 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 more than 3.0% year-on-year. 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

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<sup>6</sup> Free cash flow = Net cash flow from operating activities plus Net cash used in investing activities; since 1Q 2019 interest paid (including interest expense on lease liabilities) has been included in Net cash used in financing activities, while until 4Q 2018 it was included in Net cash flow from operating activities; comparable data for the previous period have been adjusted.

<sup>7</sup> Long term and short term (excluding Lease liability).

<sup>8</sup> Gross debt (excluding Lease liability) less cash/EBITDA (excluding IFRS impact) for the last 12 months.

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

represented 20% of the consolidated revenue, 25% of consolidated EBITDA<sup>10</sup> and 26% of consolidated net income in the first nine months of 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 97.2% of the Slovak population at the end of September 2019, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of customers increased by 5.7% year-on-year to 2,116 thousand. The share of mobile contract customer base in the total base reached 64.3% at the end of September 2019, up 2.5 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).

### **Contacts**

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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 O<sub>2</sub> TV, the company is also the largest IPTV provider in the Czech Republic.

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<sup>10</sup> 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

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>Jan – Sep 2019</b>	<b>Jan – Sep 2018</b>
Operating revenue	28,615	28,209
Non-operating revenue	51	46
<b>Revenue</b>	<b>28,666</b>	<b>28,255</b>
Internal expenses capitalised in fixed assets	254	255
Cost of sales	(13,933)	(14,140)
Operating expenses	(5,700)	(6,065)
Other operating income/(expenses)	31	37
<b>EBITDA</b>	<b>9,318</b>	<b>8,342</b>
<b>EBITDA margin</b>	<b>32.6 %</b>	<b>29.6 %</b>
Depreciation and amortisation (including amortisation of right of use asset)	(3,493)	(2,531)
Amortisation of cost to obtain contract	(406)	(330)
Impairment reversal/(loss)	(12)	(8)
<b>Operating profit</b>	<b>5,407</b>	<b>5,473</b>
Net financial income (expense)	(285)	(133)
Share of profit/(loss) of investments accounted for using the equity method	1	7
<b>Profit before tax</b>	<b>5,123</b>	<b>5,347</b>
Income tax	(1,100)	(1,130)
<b>Profit</b>	<b>4,023</b>	<b>4,217</b>

All amounts in CZK million

<b>CONSOLIDATED BALANCE SHEET</b>	<b>30 September 2019</b>	<b>31 December 2018</b>
<b>Non-current assets</b>	<b>28,015</b>	<b>25,190</b>
- Intangible assets	15,889	17,164
- Property, plant and equipment and investment property	6,223	6,130
- Right-of-use assets	4,100	-
- Incremental costs to obtain contract	730	678
- Long-term financial assets and other non-current assets	818	916
- Non-current contract asset	121	134
- Deferred tax assets	134	168
<b>Current assets</b>	<b>12,732</b>	<b>10,940</b>
- Inventories	892	906
- Trade and other receivables	7,137	7,067
- Current tax receivable	38	81
- Current contract asset	352	411
- Cash and cash equivalents	4,297	2,475
- Asset held-for-sale	16	-
<b>Total assets</b>	<b>40,747</b>	<b>36,130</b>
Equity attributable to owners of the parent	12,879	15,225
Non-controlling stake	16	-
<b>Total equity</b>	<b>12,895</b>	<b>15,225</b>
<b>Non-current Liabilities</b>	<b>19,250</b>	<b>12,083</b>
- Non-current financial debt	14,604	10,461
- Deferred tax liabilities	512	484
- Non-current provisions for liabilities and charges	66	66
- Non-current contract liability	61	81
- Non-current lease liability	3,476	-
- Non-current other liabilities	531	991
<b>Current Liabilities</b>	<b>8,602</b>	<b>8,822</b>
- Short-term financial debt	65	38
- Trade and Other payables	7,199	7,975
- Current income tax payable	43	116
- Current lease liability	718	-
- Current contract liability	500	610
- Provisions for liabilities and charges	77	83
<b>Total Equity and Liabilities</b>	<b>40,747</b>	<b>36,130</b>