

In the first half 2017, O2 increased revenue by 1.4%, net profit grew over 3%

28 July 2017

- Consolidated revenue reached CZK 18.5 billion, up 1.4%. Higher revenue from O2 TV, mobile data and Slovakia continued to be the key growth drivers
- Net profit grew by 3% to CZK 2.6 billion in the first half 2017, operating profit EBITDA increased slightly to CZK 5.1 billion.
- O2 newly offers O2 Spolu (O2 Together) tariff, which as the first in the market brings families, friends and small entrepreneurs flexible bundle of up to 4 SIMs with unlimited voice and SMS, mobile data and digital TV in one package
- Following the recent auction of 3.7 GHz spectrum O2 keeps the most spectrum among all operators suitable for further development of WTTx and 5G
- Number of mobile contract customers in the Czech Republic grew by 68 thousand year-on-year, by close to 90 thousand in Slovakia.

O2 Czech Republic today reports its unaudited operating and financial results for the first half 2017. Consolidated figures include results of all daughter companies.

"I am pleased that our broadband home internet offer, which is available to 99% households in the country, is well accepted among our customers" comments Tomáš Budník, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: "In the second half, we will intensify investments into our own network expansion in Slovakia aiming to reduce dependency on national roaming and consequently improve our future profitability. In addition we will continue in 4G network rollout in order to satisfy increasing customers' demand for mobile data. "

"Financial services were the fastest growing area in the first half of 2017. Revenue in this area reached close to CZK 80 million, confirming our successful proposition. In the second half, we will support instalment handsets sales in Slovakia by additional working capital funding," amends Tomáš Kouřil, company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and continues: "We manage to extend period we can use O2 brand by another three years until January 2022. We will continue to be a member of the Telefónica Group's partnership program. In connection with this extension, we have to pay a prepayment of about CZK 900 million by the end of this year."

Operating overview

In line with its strategy focused on package offering for smaller customer groups, since May 2017, O2 as the only operator in the market has been selling O₂ Spolu tariff, which offers families, groups of friends and small entrepreneurs a flexible combination of up to four SIM cards with unlimited calling and SMS, mobile data package (3 to 10 GB per SIM card) and digital TV in one package. Within a few weeks from the launch this tariff has become very popular among the customers.

Mobile segment

As of 30 June 2017, total number of mobile customers reached **4.903** million, up by 0.1% year-on-year. The number of **contract customers** increased by **2.1%** year-on-year reaching **3.366 million**. They represented already 68.7% of the mobile customer base, up by 1.3 percentage point. Number of prepaid customers reached 1.537 million.

Helped by broadband network rollout and tariff proposition with increased data package mobile data traffic increased more than by 80%. Number of internet in handset service went up by one third year-on-year to 2.222 million.

Already close to 60% of handsets in O2 network is a smartphone and 39% of them supports LTE technology. Number of customers with LTE smartphone and with USIM card, which supports the new technology, reached close to 990 thousand at the end of June.

Fixed segment

Number of **O₂ TV** service customers provided on O2 fixed line (IPTV) as well as on internet connection from any provider (OTT) reached **225 thousand** and as at 30 June 2017, up by 3.5% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already over **34 thousand** customers subscribed for this service and thus O2 can show off with **close to 260 thousand** active set top boxes. Thousands of viewers also enjoyed watching O₂ TV Sport with a 24 hours access. For CZK 69 fee they gain an access to the most attractive sporting events. O₂ TV Sport for a day can also subscribed anyone at the **O₂ TV Free** channel, which is available in terrestrial broadcasting via **HbbTV application**.

Number of **xDSL fixed internet** customers reached 752 thousand at the end of June 2017. Thanks to internet speed increase through installation of remote DSLAMs, the share of customers enjoying VDSL technology on total xDSL base reached already close to 70%. For households with insufficient internet speeds over xDSL, O2 has been offering an unlimited 4G LTE wireless connection since March. Combining both technologies, O2 covers 99% of all addresses in the Czech Republic. And customers like and demand Home Internet, which is confirmed by fact, that at the end of the first half, over 770 thousand of them subscribed for this service.

Total number of **fixed voice lines** reached 654 thousand at the end of June 2017.

Slovakia

Number of **mobile customers in Slovakia** increased by 3.5% year-on-year to **1.903** million, of which contract base grew 8.5% to 1.108 million. Their share in total base increased by 2.7 percentage point to 58.2%.

Financial overview

Total consolidated operating revenue reached **CZK 18.487 billion** in the first half 2017, up 1.4% year-on-year. **Operating revenue in the Czech Republic** totalled CZK 15.135 billion, representing a 0.2% year on year growth. **Fixed business** operating revenue declined by 5.3% year-on-year to CZK 5.350 billion, and O₂ TV revenue with 11.4% growth remain the key growth area. **Mobile operating revenue** reported a 3.5% growth to CZK 9.785 billion. The year on year decline of voice and SMS/MMS revenue slowed down and was more than compensated by mobile data and hardware revenue uptake. Financial services (hardware & travel insurance, electronic sales recording solutions) were the fastest growing business, with overall revenue of CZK 76 million in the first half of 2017.

In **Slovakia**, revenue reached CZK 3.466 billion, up 8.0% year-on-year. **Revenue** denominated in euros **improved by 9.1%** to EUR 129 million. Similarly to the Czech Republic, higher data and hardware revenue were the key drivers.

EBITDA increased by **0.8%** year-on-year to **CZK 5.093 billion** in the first half 2017. In the Czech Republic, it grew 0.5% to CZK 3.962 billion, while Slovakia reported a 1.7% increase to CZK 1.131 billion. **Net profit improved by 3.2%** year-on-year reaching **CZK 2.632 billion**.

O2 brand license extension till January 2022

O2 Czech Republic **extended the O2 brand license** period for an already agreed fee **by another three years** on top of current period ending January 27, 2019, i.e. newly **till January 27, 2022**. Moreover, it **extended the Partnership agreement** with Telefónica till the same date. Furthermore, the Company will be entitled to **extend the O2 brand license by another five years**, i.e. until January 27, 2027, while the total price for the O2 brand will be reduced. A **prepayment of about CZK 900 million**, which the Company has to make by 2017 year end, is the **condition** for O2 brand license and Partnership agreement **extension** until January 27, 2022.

KEY FINANCIAL AND OPERATING INDICATORS

Financial indicators for the Group

Financial indicators	1H 2017	1H 2016	Year-on-year change
Operating revenue	CZK 18,487 mil.	CZK 18,223 mil.	+ 1.4 %
- CZ mobile revenue	CZK 9,785 mil.	CZK 9,453 mil.	+ 3.5 %
- CZ fixed revenue	CZK 5,350 mil.	CZK 5,651 mil.	- 5.3 %
- SK revenue	CZK 3,466 mil.	CZK 3,208 mil.	+ 8.0 %
Total costs	CZK 13,420 mil.	CZK 13,208 mil.	+ 1.6 %
- of which operating costs	CZK 3,984 mil.	CZK 3,820 mil.	+ 4.3 %
EBITDA	CZK 5,093 mil.	CZK 5,053 mil.	+ 0.8 %
<i>EBITDA margin</i>	27.5 %	27.7 %	- 0.2 p. p.
Net profit	CZK 2,632 mil.	CZK 2,552 mil.	+ 3.6 %

Operating indicators – Czech Republic

Number of mobile customers	30 June 2017	30 June 2016	Year-on-year change	
			Relative	Absolute
Contract customers	3,366m	3.298m	+ 2.1 %	+ 68k
Prepaid customers	1,537m	1.600m	- 3.9 %	- 63k
Total	4,903m	4.898m	+ 0.1 %	+ 5k
ARPU	CZK 290	CZK 286	+ 1.5 %	

Number of fixed service customers	30 June 2017	30 June 2016	Year-on-year change	
			Relative	Absolute
O ₂ TV (IPTV and OTT)	225k	217k	+3.5%	+8k
xDSL	752k	782k	-3.8%	-30k
VDSL	521k	468k	+11.3%	+83k
Fixed voice lines	654k	760k	-14.0%	-106k

Smartphones	30 June 2017	30 June 2016	Year-on-year change
Smartphone penetration within the O2 network	59.4%	51.8%	+7.6 p.p.
LTE smartphone penetration within the O2 network	38.5%	24.9 %	+13.6 p. p.

Operating indicators – Slovakia

Number of mobile customers	30 June 2017	30 June 2016	Year-on-year change	
			Relative	Absolute
Contract customers	1.108m	1.021m	+8.5%	+87k
Prepaid customers	795k	817k	-2.7%	-22k
Total	1.903m	1.838m	+3.5%	+65k

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 2017 prepared according to International Financial Reporting Standards. These results fully include the results of O2 Slovakia group (including O2 Business Solutions), O2 IT Services and other subsidiaries.

Change in the reporting and accounting for financial services

Since June 2017, there has been a change in the reporting and accounting for financial services. Till May 2017, hardware and travel insurance revenues were reported within the mobile segment (mobile terminated) by the net method (i.e. revenues less costs of service). Since June 2017, these revenues are reported using the gross method (within the new separate category "financial services") and the relevant costs of service are recognized in the mobile costs of service. The reporting change also applies to revenues from electronic sales recording (fiscalization). Till May 2017, revenue from fiscalization services and from sale of related hardware were reported within fixed segment (ICT: fiscalization services, hardware revenue: fiscalization hardware sales). Since June 2017, these revenues have been reported within in mobile segment (financial services: fiscalization services, hardware revenue: fiscalization hardware sales). Additionally, in June 2017, a retrospective adjustment (restatement) in accounting for financial services for January to May 2017. The 2016 figures have not been restated due to immateriality.

This change was reflected in fixed and mobile segment results for the second quarter of 2017, but had no impact on earnings before depreciation, amortization (EBITDA).

Consolidated Financial Results

Consolidated operating revenue reached CZK 18,487 million, up 1.4% year-on-year in the first half 2017, while in the second quarter they improved 0.85 to CZK 9,263 million. Growing mobile data and hardware revenue in both countries and higher O₂ TV revenue were the key growth drivers. They more than compensated lower mobile voice and fixed data revenue and lower roaming revenue due to EU regulation.

Operating revenue in the Czech Republic reached CZK 15,135 million, marking a 0.2% year-on-year growth (-0.4% to CZK 7,608 million in the second quarter). **Fixed operating revenue** declined by 5.3% year-on-year reaching CZK 5,350 million in the first half, as 11.4% growth in O₂ TV revenue did not fully compensate lower fixed voice revenue and decline in date revenue. **Mobile operating revenue** were CZK 9,785 million in the first half, reporting a 3.5% year-on-year growth, as lower voice and messaging revenue were more than compensated by 16.1% growth of data revenue and 12.8% increase in hardware & accessories revenue. **Revenue in Slovakia**¹ reached CZK 3,466 million the first half 2017, by 8.0% higher year-on-year (+8.8% to CZK 1,736 million in the second quarter). Revenue in euros improved 9.1% to EUR 129 million in the first half, and 10.8% to EUR 65 million in the second quarter.

¹ O2 Slovakia and O2 Business Services

Total consolidated expenses² went up 1.6% year-on-year to CZK 13,420 million in the first half. While in the Czech Republic they were flat year on year, Slovakia reported an 11.3% growth. The year on year comparison has been positively impacted by outsourcing of about 1,000 employees of call centres and franchise shops in 2016. As a result, commissions were by 20.0% lower, costs of external call centres were reduced by 71.2% and IT costs by 6.9%. At the same time, higher headcount led to an 8.9% growth in the personal costs. Costs of sales grew slightly 0.5% year-on-year in the first half 2017 as above mentioned savings in commissions were higher than growth of hardware & accessories cost, in line with growing revenue.

Earnings before interest, depreciation and amortization (EBITDA) increased by 0.8% year-on-year to CZK 5,093 million. In the Czech Republic it reached CZK 3,962 million, up 0.5%, while Slovakia reported a 1.7% growth to CZK 1,131 million (+2.7% to EUR 242 million). Consolidated **EBITDA margin** thus reached 27.5%.

Consolidated net income increased by 3.2% year-on-year to CZK 2,632 million in the first half 2017.

Consolidated capital expenditures (CapEx) reached CZK 1,232 million in the first half 2017, up 9.2% year-on-year and its share of revenue was 6.7%. A 42.2% CapEx growth in Slovakia to CZK 357 million was behind higher group CapEx, while in the Czech Republic they declined slightly by 0.3% to CZK 875 million, where investments related to IT transformation and investments to mobile core network were the main CapEx areas. In Slovakia investments were directed into 2G network expansion, capacity and quality enhancement to reduce dependency on national roaming and consequently improve our future profitability. In addition, O2 Slovakia continued investing in 4G LTE network coverage expansion to satisfy growing customers' demand for mobile data. In the first half, it newly covered 330 localities across Slovakia with this technology and is on track to meet its year-end target of at least 80% coverage. At the same time, at the end of June 2017 it covered the smallest towns with broadband wireless LTE internet using 3.5 GHz spectrum (LTE TDD technology), which is used mainly for digital O2 TV television and Home Internet services.

The consolidated free cash flow³ reached CZK 2,182 million in the first half 2017, up by 7.6% year-on-year, largely due to a 14.8% decline in Net cash used in investing activities.

The consolidated financial debt amounted to CZK 10,478 million at the end June 2017. During the second quarter O2 successfully underwritten new funding (Schuldschein) in the total amount of CZK 3.5 billion. (CZK 3 billion and EUR 20 million) with maturity of 5 and 7 years, which it will use for general corporate purposes. At the same time, **cash and cash equivalents** reached CZK 2,884 million, as in June 2017 the company paid out 2016 dividend and part of

² Costs of sales, operating expenses and Internal expenses capitalized in fixed assets

³ Net cash flow from operating activities plus Net cash used in investing activities

the share premium in the total amount of CZK 6,394 million before tax. Thus, **net debt⁴ to EBITDA** reached 0.72.

CZ Mobile Business Overview

In the first half 2017, demand for mobile data continued to grow largely thanks to customers' upsell to tariffs with higher data limit and simplification of data package recharge in data limit exhaustion. Since mid of June, the company improved its mobile tariffs with more paid data packages for individuals as well as in O₂ Spolu bundles. In addition to 99% 4G LTE network coverage, the growth has been also supported by the company's ongoing support of LTE smartphone sales. As a result, **data revenue⁵** went up by 16.1% year-on-year. **Smartphone penetration⁶** grew further, reaching 59.4% at the end June 2017, up by 7.6 percentage points year-on-year. LTE smartphones accounted already to 38.5% of all handsets in O₂ network (up 13.6 percentage points year-on-year).

The total **mobile customer base** reached 4,903 thousand at the end of June 2017, up 0.1% year-on-year. The number of **contract customers** increased 2.1% year-on-year, reaching 3,366 thousand. The number of **prepaid customers** reached 1,537 thousand. The share of contract customers in total mobile customer base reached 68.7%, up by 1.3 percentage points year-on-year.

The blended monthly average **churn rate** reached 1.7% in the first half 2017. Contract churn was only 1.0%, while monthly average churn rate in prepaid was 3.3%.

Total mobile average revenue per customer (**ARPU⁷**) was CZK 290 in the first half 2017, up by 1.5% year-on-year, as voice and SMS market pricing pressures and negative effect of new roaming regulation have been compensated by growing quality of the customer base and higher data spend. **Contract ARPU** improved by 0.7% year-on-year to CZK 372, while **prepaid ARPU** declined by 3.3% year-on-year to CZK 113.

Total **mobile operating revenue** in the Czech Republic were CZK 9,785 million in the first half 2017, representing a 3.5% year-on-year growth, while in the second quarter they went up 4.0% to CZK 5,013 million. **Mobile service revenue** went up by 2.8% and 3.4% in the first half and second quarter respectively, fuelled by 16.1% growth of **data revenue**, which more than compensated lower voice and messaging revenue. Revenue from financial services (hardware and travel insurance and fiscalisation) reached CZK 76 million in the first half 2017. Hardware & accessories sales revenue improved 12.8% year-on-year.

⁴ Gross debt less cash

⁵ Excluding SMS and MMS

⁶ Smartphones as % of total handsets base

⁷ Outgoing revenue (voice, SMS & MMS, data) + termination revenue + M2M revenue over average number of customers

CZ Fixed Business Overview

Number of **O₂ TV** service customers provided on O2 fixed line (IPTV) as well as on internet connection from any provider (OTT) reached **225 thousand** as at 30 June 2017, up by 3.5% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already over **34 thousand** customers subscribed for this service and thus O2 can show off with **over 260 thousand** active set top boxes.

The number of **xDSL accesses** reached 754 thousand at the end of June 2017. As a result of continuous installation of remote DSLAMs the high speed VDSL accesses is used already by almost 70% of households (521 thousand, up 11.3% year-on-year).

The total number of **fixed voice lines** declined by 14.0% year-on-year reaching 654 thousand at the end of June 2017, on the back on continuing fixed to mobile voice substitution.

Total **fixed operating revenue** reached CZK 5,350 million in the first half 2017, down by 5.3% year-on-year, while in the second quarter they were 8.1% lower reaching CZK 2,594 million. An 11.4% growth in O₂ TV revenue did not fully compensate lower voice revenue and continuous decline in data revenue.

Slovakia

O2 Slovakia group⁸ reported customers' and financial growth in the first half 2017. Thus it positively contributes to the group's financial results representing 19% of the consolidated revenue and 22% of EBITDA. In addition to mobile services for residential and SME customers, O2 Slovakia started offering wireless home internet and digital O₂ TV television using LTE TDD technology on 3.5 GHz and 3.7 GHz spectrum. It also provides services for corporate and public sector customers via O2 Business Services.

Total number of mobile customers reached 1,903 thousand at the end of June 2017, posting a 3.5% year-on-year growth. This growth was driven solely by **contract** additions. Their number grew by 8.5% year-on-year reaching 1,108 thousand at the end of June, while the **number of prepaid customers** reached 795 thousand. Thus the customer mix quality kept improving and share of contract customers on total base in Slovakia reached 58.2%, up by 2.7 percentage point year-on-year.

O2 Slovakia continued recording increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which reached 58.7% as at 30 June 2017, up by 5.7 percentage points year-on-year. LTE handset penetration was at 40%. This led to a 14% growth in internet in handset customers to 897 thousand, so mobile internet revenue improved 37% year-on-year.

⁸ including O2 Business Services, a. s. (100% daughter company of O2 Slovakia)

Total operating revenue in Slovakia increased 8.0% year-on-year reaching CZK 3,466 million in the first half 2017 and CZK 1,736 million in the second quarter, up by 8.8% (+9.1% and +10.8% to EUR 125 and EUR 64 million in the first half and second quarter respectively). Excluding roaming⁹ the revenue growth in euro would be +10% helped by customer growth, improving customer mix, new mobile handsets sales instalment model leading to higher hardware revenue and higher data revenue. **EBITDA** in Slovakia was 1.7% higher year-on-year reaching CZK 1,131 million in the first half 2017, while in the second quarter it grew 2.0% to CZK 569 million. (+2.7% to EUR 42.2 million in the first half and +3.8% in the second quarter), resulting in 32.6% EBITDA margin (32.8% in the second quarter). Excluding O2 Business Services, EBITDA in euros would improve by 2.3% and EBITDA margin would reach 33.8%.

Total mobile ARPU in Slovakia in the first half reached CZK 252 (EUR 9.4), while **contract ARPU** was CZK 339 (EUR 12.7) and **prepaid ARPU** reached CZK 148 (EUR 5.5).

Attachment:

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

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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.

⁹ Abroad as well as incoming

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	Jan – June 2017	Jan – June 2016
Operating revenue	18,487	18,223
Non-operating revenue	29	29
Revenue	18,516	18,252
Internal expenses capitalized in fixed assets	182	149
Cost of sales	(9,436)	(9,388)
Operating expenses	(4,166)	(3,969)
Other operating income/(expenses)	(3)	9
EBITDA	5,093	5,053
EBITDA margin	27.5 %	27.7 %
Depreciation and amortization	(1,672)	(1,657)
Impairment reversal/(loss)	-	(116)
Operating profit	3,421	3,280
Net financial income (expense)	(52)	(39)
Results attributed to joint venture	(3)	(5)
Profit before tax	3,366	3,236
Income tax	(734)	(683)
Profit	2,632	2,553

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30 June 2017	31 Dec 2016
Non-current assets	21,726	22,071
- Intangible assets	16,044	16,515
- Property, plant and equipment and investment property	5,023	5,075
- Long-term financial assets and other non-current assets	427	231
- Deferred tax assets	232	250
Current assets	9,945	11,235
- Inventories	778	624
- Trade and other receivables	6,282	6,434
- Tax receivable	1	40
- Cash and cash equivalents	2,884	4,137
Total assets	31,671	33,306
Equity attributable to owners of the parent	13,100	17,504
Non-controlling stake	4	1
Total equity	13,104	17,505
Non-current Liabilities	10,801	7,382
- Long-term financial debt	10,457	6,976
- Deferred tax liabilities	216	170
- Non-current provisions for liabilities and charges	45	57
- Non-current other liabilities	83	179
Current Liabilities	7,766	8,419
- Short-term financial debt	20	1
- Trade and Other payables	7,500	8,254
- Current income tax payable	51	8
- Provisions for liabilities and charges	195	156
Total Equity and Liabilities	31,671	33,306