

O2 Czech Republic – January to June 2014 Financial Results

August 1, 2014

O2 Czech Republic a. s. announces its unaudited financial results for January to June 2014. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of O2 Slovakia s.r.o. and other smaller operating companies.

Operational highlights of the first half of 2014

- **We maintain our position on the market with worsening year-on-year dynamics:**
 - **FREE Tariffs** now covering the whole consumer contract mobile customer base
 - Modest **mobile contract base growth of 2.5%** year-on-year in the Czech Republic, solid growth of 15.7% in Slovakia
 - **Smartphone penetration in the Czech Republic growing above 38%**, up by 7.7 percentage points year-on-year, driving growth of mobile data traffic
 - **VDSL accesses growing** by 26.2% year-on-year, helping to manage fixed broad band ARPU dilution and low churn
 - **O₂ TV customer base growth continues**, driven by new features reaching more than 171 thousands customers (20% year-on-year growth and 15 thousands net adds)
 - **Fixed accesses disconnections remain in line with previous periods**, having declined by 7.1% year-on year
- **Consolidated operating revenues** reaching CZK 21,773 million, down by 8.9% year-on-year (-6.1% year-on-year excluding the impact of MTR cuts)
- **OIBDA** declined by 12% year-on-year, impacted by top-line pressure in the Czech Republic, partly offset by OPEX reduction, with OIBDA margin¹ reaching 34.8%
- **Total cash flow dominated by the strategic acquisition of LTE spectrum in both countries.** Consolidated free cash flow excluding the acquisition of LTE spectrum down by 24.8%
- **Non-SMS data** remain the key driver of growth in mobile business
- **O2 Slovakia** with sustained commercial momentum further increasing its contribution to the Group financial performance
- **4G LTE service roll out** is under way using newly acquired spectrum in both Czech and Slovakia auctions, with network sharing helping acceleration while saving Capex

¹ OIBDA/Operating revenues

Consolidated Financial Results

Consolidated operating revenues² reached CZK 21,773 million, down by 8.9% year-on-year in the first half of 2014. The revenues would have declined by 6.1% **excluding the MTR cuts impact** (last change in the Czech Republic in Q3 2013 from CZK 0.41 to CZK 0.27 per minute, in Slovakia in Q3 2013 from EURc 3.18 to EURc 1.23 per minute).

Fixed operating revenues in the Czech Republic reached CZK 9,667 million, declining by 5.1% year-on-year in the first half of the 2014, showing a stabilized trend of operating revenues quarter-on-quarter.

Mobile operating revenues in the Czech Republic were CZK 9,447 million, reporting 15.9% year-on-year decline in the first half of 2014, largely driven by the intensified competitive pressures with decline in traditional voice and messaging revenues, as well as further impact of the MTR cuts. **Excluding the MTR cuts impact**, mobile operating revenues would go down by 13.2% year-on-year. On the other hand, the Company continues to benefit from its data-centric proposition, with **non-messaging data revenues** (excluding CDMA) growth of 25.6% year-on-year reaping the benefits of the introduction of data centric tariffs in 2013.

Revenues in Slovakia reached EUR 103 million, growing by 14.0% year-on-year excluding the MTR impact, the revenue growth denominated in CZK currency was 7.6% year-on-year.

The Group has intensified its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. **Total consolidated operating expenses** went down by 7.4% year-on-year to CZK 14,178 million in the first half of 2014. Personnel expenses (excluding restructuring costs) declined by 11.2% year-on-year as the Company continued in its restructuring programme focused on building a lean and flexible organizational structure. The total Group headcount³ has been further optimised to reach 5,055 personnel at the end of June 2014, representing 11% year-on-year reduction. The Company also continues to benefit from further simplification of its business model.

Comparable Operating income before depreciation and amortization (OIBDA)⁴ decreased by 11.6% year-on-year, when the **Comparable OIBDA margin** reached 36.4% in the first half of 2014, down by 1.1 pp year-on-year. **Reported OIBDA** in the first half of 2014 reached CZK 7,581 million, with OIBDA margin of 34.8%, down 1.2 pp year-on-year. OIBDA margin in the second quarter of 2014 reached 36.7%, same as in the second quarter of last year, on the back of the focus on efficiency agenda as well as growing profitability in Slovakia

Depreciation and amortization charges went down by 4.4% year-on-year reaching CZK 5,275 million in the first half of 2014. **Consolidated net income excluding restructuring costs** declined by 22.6% year-on-year, while the **reported net income** amounted to CZK 1,776 million.

Consolidated CapEx reached CZK 5,546 million in the first half of 2014. This amount includes acquisition costs of LTE spectrum in both Czech Republic and Slovakia. Excluding the LTE spectrum acquisition costs, consolidated CapEx reached CZK 1,637 million, down by 25.8% year-on-year. The Company continued to focus on efficient investments into growth areas. In mobile

² Figures are shown net of inter-segment charges between fixed and mobile businesses

³ Excluding the headcount of Bonerix, the Group subsidiary

⁴ OIBDA excluding restructuring costs

business these included largely extending LTE using the new spectrum, mobile network sharing deployment, further capacity expansion and improvement of the quality of mobile broadband network, in line with the growing demand for mobile data services. Additionally, in fixed business the Company channelled its investments into capacity enhancements of its fixed broadband networks by VDSL expansion.

Consolidated free cash flow excluding the acquisition of LTE spectrum was positive at CZK 3,492 million, representing 24.8% year-on-year decline in the first half of 2014. Total free cash flow in the period was dominated by the payment for the strategic acquisition of LTE spectrum in the Czech Republic and Slovakia for the amount of CZK 3,908 million. **The consolidated long-term financial debt** amounted to CZK 3,000 million at the end of June 2014, with no change compared to the end of 2013. At the same time, **cash and cash equivalents** reached CZK 3,478 million at the end of the period, following the payment for the LTE spectrum.

CZ Mobile Business Overview

The Company continues to build on the data centric platform brought about by the FREE Tariffs. The fact that the whole consumer contract base is migrated to the new platform represents a foundation for future propositions to these customers. In business contract base, the Company continues in defending its leading position by addressing the needs of its business customers with the commitment to be the innovation leader in the Czech mobile market.

The demand for mobile internet continued to grow largely thanks to improved proposition in the Company's tariffs with extended data package, and the Company's ongoing support of smartphone sales via introduction of instalment model, and keeping the best price guarantee proposition for the bestselling smartphones. This newly comprises also the iPhone, which the Company is now offering to its customers in a balanced partnership with Apple. As a result, **non-messaging data revenues** (excluding CDMA) went up year-on-year by 25.6% in the first half of 2014. **Small screen base**⁵ at the end of June 2014 grew by 37.4% year-on-year. **Smartphone penetration**⁶ grew further, reaching 38.1% at the end of June 2014, up by 7.7 percentage point year-on-year.

The total **mobile customer base** reached 5,060 thousand at the end of June 2014. Total net additions amounted to negative 42 thousand, driven by the movements in the prepaid base. The number of **contract customers** grew by 2.5% year-on-year, reaching 3,253 thousand. The number of **prepaid customers** reached 1,807 thousand at the end of June 2014, down by 5.3% year-on-year as a result of the ongoing migration to contract segment and the transition to MVNO's.

The blended monthly average **churn rate** reached 2.2% in the first half of 2014. Contract churn was at 1.3%. Monthly average churn rate in prepaid was 3.9% in the first half of 2014.

In terms of usage, total **mobile traffic**⁷ carried by our customers in the Czech Republic reached 5,744 million minutes in the first half of 2014, up by 11.9% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all FREE tariffs and in the FREE CZ Tariff also unlimited all net voice calling.

Total mobile ARPU in the first half of 2014 was CZK 284, down by 15.8% year-on-year, impacted largely by the MTR cuts and price pressures in the market. Excluding the impact of the MTR cuts, total ARPU would have declined by 12.9%. **Contract ARPU** went down by 15.8% year-on-year reaching CZK 379 in the first half of 2014. **Prepaid ARPU** decreased by 22.3% year-on-year to CZK 117.

Total **mobile operating revenues** were CZK 9,447 million in the Czech Republic, representing year-on-year decline of 15.9% in the first half of 2014. At the same time, **mobile gross service revenues** went down by 15.5% year-on-year to reach CZK 8,724 million. Continuous competitive pressures mainly in business segment leading to lower spend together with MTR cuts were the key drivers for the decline. Excluding the impact of mobile termination rate cuts, mobile gross service revenues would decline by 12.6% year-on-year. **Mobile originated voice revenues** declined by 22.2% year-on-year to CZK 4,999 million, while **messaging (SMS & MMS) revenues** were 35.6% lower due to lower effective per unit price. **Terminated revenues** went down by 13% year-on-year to CZK 1,001 million, largely impacted by MTR cuts not fully compensated by higher incoming traffic.

⁵ Customer base using mobile internet in handsets

⁶ Smartphones as % of total handsets base

⁷ Inbound and outbound, including roaming abroad, excluding inbound roaming

CZ Fixed Business Overview

In the highly competitive and declining market in the first half of 2014 the Company reported continued downturn of the customer base as well as the revenues. The declining trend is stabilised via the proposition of its VDSL service and O₂ TV to the broadband retail customer base, as well as via growth of voice wholesale revenues. Continuous migration of the existing ADSL customers to the VDSL service and O₂ TV with added features such as multiscreen access (O₂ TV Go Multiscreen) including replay of up to 30 hours of any channel are helping the Company to manage fixed broadband ARPU dilution and sustain low churn.

The total number of **fixed accesses** declined by 7.1% year-on-year reaching 1,337 thousand at the end of June 2014, with 52 thousand net losses during the period.

The number of **xDSL accesses** reached 914 thousand at the end of June 2014, the share of the high speed VDSL accesses has increased. In respect of VDSL, 391 thousand customers (+26.2% year-on-year) have already subscribed for the upgraded service. The total number of **O₂ TV customers** exceeded 171 thousand at the end of the period, up 20% year-on-year thanks to maintained popularity of the O₂ TV launched in 2013.

Total **fixed operating revenues** reached CZK 9,667 million in the first half of 2014, down by 5.1% year-on-year. **Revenues from voice retail services** continued in trend and fell by 21.2% year-on-year, in line with the performance of previous periods, reaching CZK 1,858 million, due to continuing fixed telephony line losses. **Voice wholesale revenues** improved by 18.7% year-on-year to CZK 2,646 million. **Internet & broadband revenues (incl. O₂ TV)** declined by 8.3% year-on-year to CZK 2,838 million, resulting from competitive ARPU pressures and slight decline in xDSL customer base, compensated by the combination of migration of customers to VDSL, as well as growing O₂ TV customer base. **Total ICT revenues** went down by 14.4% year-on-year in the first half of 2014 to CZK 880 million.

Slovakia

O2 Slovakia continues to be one of Group's key growth drivers and managed to achieve solid commercial and financial performance in the first half of 2014 despite the strong competition. **Total number of customers** reached 1,608 thousand at the end of June 2014, posting a 12.6% year-on-year growth. The customer base increased by nearly 69 thousand in the first half of 2014, with majority of net adds in contract customer base. The **number of contract customers** grew by 15.7% year-on-year reaching 821 thousand at the end of June 2014 (47 thousand net adds in the first half of 2014), while the **number of prepaid customers** increased by 9.5% year-on-year ending up at 787 thousand. Share of contract customers in Slovakia was 51% of the total customer base at the end of June 2014, up by 1.4 percentage point year-on-year.

In terms of financial performance, the **total operating revenues** of O2 Slovakia in local currency grew 0.8% year-on-year reaching EUR 103 million in the first half of 2014. Excluding the impact of MTR cuts, the growth rate would be 14.0%, fuelled by customer growth, refreshed proposition, improving customer mix and the focus on acquiring higher value customers both in residential and small and medium enterprises. At the same time, **OIBDA** of O2 Slovakia went up by 8.3% year-on-year to EUR 34 million, resulting in a healthy 33% OIBDA margin. Year-on-year growth of total operating revenues and OIBDA were 7.6% (15.9% when denominated in CZK). **Total ARPU** in Slovakia reached EUR 9.8 in the first half of 2014 (EUR 11.2 when excluding the impact of MTR cuts). **Contract ARPU** reached EUR 13.3, while **prepaid ARPU** was at EUR 6.0.

Attachment:

The consolidated balance sheet and income statement of O2 Czech Republic prepared in accordance with International Financial Reporting Standards.

Contacts

Investor Relations
O2 Czech Republic a.s.
investor_relations@o2.cz
t +420 271 462 076

About O2 Czech Republic

O2 Czech Republic is the largest integrated telecommunications provider in the Czech market, trading under the O2 brand. At present the Company operates close to eight million mobile and fixed accesses, which places it among the market leaders in fully converged services in Europe. To the users of mobile services in the Czech Republic O2 offers state-of-the-art HSPA+ and LTE technology. O2 has the most comprehensive proposition of voice and data services in the Czech Republic and actively exploits the growth potential of its various business lines, especially ICT. O2 data centres, with total floor area of 7,300 square metres, rank O2 among the leaders in hosting, cloud and managed services. O2 data centres are the only centres in the Czech Republic and in the Central Europe with TIER III certification. With the O2 TV the Company is also the largest IPTV service provider in the Czech Republic. The Company is present on the mobile market in Slovakia since 2007, through its 100% subsidiary O2 Slovakia. In January 2014, O2 Czech Republic became a member of the Czech investment group PPF.

About PPF Group

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF's reach spans from Europe to Russia, the USA and across Asia. PPF Group owns assets of EUR 20.9 billion (as at 31 December 2013).

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	Jan – Jun 2014	Jan – Jun 2013
Operating revenues	21,773	23,905
Other recurring revenues	69	50
Revenues	21,842	23,955
Internal expenses capitalized in fixed assets	275	274
Operating expenses	(14,178)	(15,307)
Other operating income/(expenses)	(368)	(334)
Gain on sale of fixed assets	14	31
Impairment reversal/(loss)	(4)	(5)
OIBDA	7,581	8,615
OIBDA margin	34,8%	36,0%
Depreciation and amortization	(5,275)	(5,517)
Operating Income	2,306	3,098
Net financial income (expense)	(46)	(86)
Results attributed to joint venture	3	(6)
Income before tax	2,262	3,007
Income tax	(486)	(614)
Net Income	1,776	2,393

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30.6.2014	31.12.2013
Non-current assets	62,638	62,460
- Intangible assets	10,095	6,509
- Goodwill	13,496	13,499
- Property, plant and equipment and investment property	38,535	41,857
- Long-term financial assets and other non-current assets	163	178
- Deferred tax assets	349	417
Current assets	10,690	11,489
- Inventories	473	536
- Trade and other receivables	6,737	7,001
- Current tax receivable	1	1
- Short-term financial investments	1	62
- Cash and cash equivalents	3,478	3,890
Total assets	73,328	73,950
Equity	51,798	55,749
Non-current Liabilities	5,558	5,825
- Long-term financial debt	3,000	3,000
- Deferred tax liabilities	2,482	2,735
- Long-term Provisions	11	26
- Other long-term liabilities	65	65
Current Liabilities	15,972	12,376
- Short-term financial debt	4	4
- Trade and Other payables	8,064	10,328
- Current income tax payable	117	155
- Short-term provisions and other liabilities	7,786	1,889
Total Equity and Liabilities	73,328	73,950