

O2's net profit grows over 50% to hit CZK 2.3bn.

29 July 2015

- Consolidated operating revenue stabilised year-on-year reaching CZK 18.393bn
- EBITDA grew 32.4 percent year-on-year to CZK 4.825bn
- Net profit climbed 54 percent to CZK 2.325bn
- Also the new O2 confirmed its ability to generate strong free cash flow (CZK 3.668bn in 1H 2015)
- Revenue from mobile data services improved by 6.6 percent year-on-year

O2 today announced its operating and financial results for the **first half of 2015**, following the company's separation. Consolidated figures include the results of subsidiaries, including O2 Slovakia. The results for the whole reporting period exclude the results of Česká telekomunikační infrastruktura (CETIN).

Thanks to a strong focus on quality and the value of the customer base, the company has managed to maintain its position on the shrinking telecommunications market.

"These are the first presented results following the company's separation into the separate companies O2 and CETIN. We have succeeded in stabilising revenues and in increasing our operating profit EBITDA. We are capable of generating free cash flow in excess of our net profit. That serves to confirm our belief that the separation was a step in the right direction and that it will bring future value for our customers and shareholders alike," said Tomáš Budník, CEO of O2 Czech Republic, delivering an assessment of the first half-year.

O2's total **consolidated operating revenue** stabilised year-on-year at **CZK 18.393 billion**. **EBITDA** increased by 32.4% year-on-year. **Net profit** reached **CZK 2.3 billion**, marking a 54% increase. **Mobile data** and **O2 Slovakia** remain the two key growth areas.

Operating overview

As of the end of June 2015, **mobile services provided by O2** were used by a total of **4.945 million customers**. The number of **contract customers** remained flat year-on-year at **3.252 million**. The segment of **prepaid services** recorded a decrease to **1.693 million** customers. As many as two-thirds of the company's customers now use one of the FREE tariffs.

O2 customers are demonstrating a growing appetite for smartphones, with the proportion of the devices within the O2 network continuing to increase. In the first half-year, the proportion of smartphones within the O2 network rose year-on-year by five percentage points to **43.7%**, while **more than one fourth of these devices** support **LTE** networks. In terms of smartphone operating systems used within the O2 network, Android is clearly dominating with a share of 74.2%. The proportions of the remaining operating systems in use are as follows: iOS – 9.4%, Windows Phone – 7.1%, Blackberry – 1.4%. The proportion of smartphones running the Symbian operating system decreased by 12.4 percentage points year-on-year to 6.6%.

The development of mobile broadband is closely followed by rising **demand for mobile internet access**. At the end of the first half-year, number of small screens reached more than **1.5m**, giving a year-on-year increase of 14%. Revenue from mobile data services thus increased by 6.6% year-on-year.

The digital television service **O₂ TV** and fixed internet both continue to manifest positive trends in terms of customer numbers. With the new O2 Sport channel in preparation and given the attraction of O₂ TV's unique functionalities, the service subscription level reached almost **190,000** households in June and the number of subscribers continues to grow. The **O₂ TV Go** application, which enables the watching of TV channels on portable devices, has been downloaded as many as **350,000 times**.

The number of fixed internet customers reached 799,000 at the end of June, after a year-on-year increase of 1.1%, with a net additions of 5,000 customers over the first half-year. Of the total number of customers, 51% already use VDSL technology.

Financial overview

Total consolidated operating revenue reached CZK 18.393 billion in the first half-year, marking a year-on-year decrease of 0.3%. Yet in the first half-year 2014¹ operating revenues declined by almost 9%. **Fixed business operating revenue** decreased by 8% year-on-year to CZK 5.739 billion. O2 TV remains the main growth area, while voice services show a decreasing trend. **Operating revenue** in the **mobile segment** increased by 1.1% to CZK 9.505 billion.

EBITDA increased year-on-year by **32.4%** to **CZK 4.825 billion**. The **EBITDA margin** reached a solid 26.2%, after a year-on-year increase of 6.5 percentage points.

O2 Slovakia remains one of the key growth areas. **Revenues** for the first half-year reached **EUR 117.3 million**, marking a year-on-year **increase of 14.1%**. In effect, the results achieved in Slovakia contributed a full 17% to the group's total revenue. The total number of customers in Slovakia reached **1.711 million**, representing a year-on-year **increase of 6.4%**. **EBITDA** increased year-on-year by **20.2%** to **EUR 40.8 million**.

KEY FINANCIAL AND OPERATING INDICATORS

Financial indicators for the Group

Financial indicators	H1 2015	H1 2014 (pro forma)	Year-on-year change
Operating revenue	CZK 18.393bn	CZK 18.439bn	- 0.3%
Total operating costs	CZK 13.625bn	CZK 14.643bn	- 7.0%
EBITDA	CZK 4.825bn	CZK 3.643bn	+ 32.4%
EBITDA margin	26.2%	19.8%	+ 6.5 p.p.

Operating indicators – Czech Republic

Number of mobile service customers	Q2 2015	Q2 2014	Year-on-year change
Contract customers	3.252m	3.253m	0%

¹ Original O2, incl. revenue from CETIN

Prepaid customers	1.693m	1.807m	- 6.3%
Total	4.945m	5.060m	- 2.3%

Smartphones	Q2 2015	Q2 2014	Year-on-year change
Smartphone penetration within the O2 network	43.7%	38.1%	+ 5.6 p.p.

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 2015 prepared according to International Financial Reporting Standards. These results fully include the results of O2 Slovakia s.r.o. and other subsidiaries and exclude results of Česká telekomunikační infrastruktura, a.s. (CETIN). Figures for 2014 are based on pro-forma basis.

Consolidated Financial Results

Consolidated operating revenue reached CZK 18,393 million in 1H 2015, down by 0.3% year-on-year. In 2Q 2015 operating revenue declined by 0.3% to CZK 9,241 million. This performance has been helped by the improving spend trend thanks to Company's focus on customer value and growing data revenue in mobile segment, strong mobile hardware sales and continuous revenue growth in Slovakia.

Fixed operating revenue in the Czech Republic reached CZK 5,739 million, down by 8.0% year-on-year, on the back continuous voice revenue decline, while O2 TV revenue remain the key growth area in the fixed segment.

Mobile operating revenue in the Czech Republic were CZK 9,505 million in 1H 2015, reporting 1.1% year-on-year growth, impacted by intense competitive pressures with decline in traditional voice and messaging revenue, which were more than offset by uptake in data and hardware revenue.

Revenue in Slovakia reached EUR 117.3 million in 1H 2015, growing by 14.1% year-on-year, the revenue growth denominated in CZK currency was 14.3% year-on-year to CZK 3,226 million.

The Group has continued in its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. **Total consolidated operating**

expenses² went down by 7.0% year-on-year to CZK 13,625 million (-4.4% to CZK 6,915 million in 2Q 2015), of which operating expenses declined by 23.4% year-on-year in 1H 2015 helped by simplified operating model and vendor contracts renegotiation. Personnel expenses (excluding restructuring costs) declined by 6.4% year-on-year as the Company continued in its restructuring programme focused on building more lean and flexible organizational structure. The total Group headcount³ reached 3,461 personnel at the end of June 2015. At the same time, costs of sales increased by 2.4% year-on-year due to higher hardware costs in line with growing revenue.

Earnings before interest, depreciation and amortization (EBITDA) increased by 32.4% year-on-year to CZK 4,825 million in 1H 2015, while in 2Q 2015 it reached CZK 2,448 million, up by 15.8% year-on-year. This performance has been driven by stable revenue, focus on efficiency agenda, growing profitability in Slovakia and lower base in 1Q 2014. **EBITDA margin** reached solid 26.2% in 1H 2015, up by 6.5 p.p. year-on-year (+3.7 p.p. to 26.5% in 2Q 2015).

Depreciation and amortization charges went up by 6.9% year-on-year reaching CZK 1,775 million. **Consolidated net income** increased by 54.1% year-on-year to CZK 2,325 million in 1H 2015, largely due to growing EBITDA which more than offset higher depreciation and amortisation, higher net financial expenses and higher income tax charge. In 2Q, the net profit reached CZK 1,255 million, up by 24.9% year-on-year.

Consolidated CapEx reached CZK 1,025 million in 1H 2015. On fully comparable basis⁴ CapEx increased by 37.1% year-on-year. Investments were directed largely in upgrade and consolidation of IT and systems aiming at simplification of systems and processes. The Company also invested into the upgrade of network management, control and administration and into billing systems upgrade.

The consolidated free cash flow⁵ reached CZK 3,668 million in 1H 2015, up by 134% year-on-year (+135% in 2Q 2015 to CZK 2,429).

The consolidated financial debt amounted to CZK 7 billion at the end of June 2015, the same amount as at 2014 year end. At the same time, **cash and cash equivalents** reached CZK 2,964 million.

² Costs of sales and operating expenses

³ Excluding the headcount of Bonerix, the Group subsidiary

⁴ Excluding acquisition costs of LTE spectrum in both Czech Republic and Slovakia in 1Q 2014.

⁵ 1H/2Q 2014 excluding settlement of liabilities with former majority shareholder; 1H/2Q 2015 including positive funding with CETIN through working capital (CZK ~1 billion)

CZ Mobile Business Overview

The Company continued in its strategy to focus on value proposition through its data centric tariffs to maintain high quality and loyalty of its customers. In business contract base, the Company continues focusing on maintaining 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 data continued to grow largely thanks to improved proposition in the Company's tariffs with extended data package. Total mobile data traffic increased by as much as 40% year-on-year in 1H 2015. The growth has been also supported by the Company's ongoing support of smartphone sales via instalment model, while keeping the best price guarantee proposition for the bestselling smartphones. As a result, **data revenue**⁶ went up by 6.6% year-on-year in 1H 2015. **Small screen base**⁷ grew by 14.0% year-on-year to 1.5 million at the end of June 2015. **Smartphone penetration**⁸ grew further, reaching 43.7% at the end of June 2015, up by 5 percentage points year-on-year. In 1H 2015, smartphones accounted for about 78% of all new phones sales and 94% of them were LTE smartphones. At the end of March 2015 LTE smartphones accounted to 27% of all smartphones in O2 network. Number of LTE customers⁹ reached 272 thousand as of 30 June 2015.

The total **mobile customer base** reached 4,945 thousand at the end of June 2015. The number of **contract customers** was flat year-on-year, reaching 3,252 thousand. The number of **prepaid customers** reached 1,693 thousand at the end of June 2015. The share of contract customers in total mobile customer base reached 65.8% at the end of 1H 2015, up by 1.5 p.p. year-on-year.

The blended monthly average **churn rate** reached 2.0% in 1H 2015, down by 0.2 percentage point year-on-year. Contract churn was at 1.1% by 0.1 percentage point lower compared to the same period in 2014. Monthly average churn rate in prepaid was 3.7%.

In terms of usage, total **mobile traffic**¹⁰ carried by our customers in the Czech Republic reached 5,806 million minutes in 1H 2015, up by 1.1% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all tariffs and unlimited all net voice calling in some tariffs.

⁶ Excluding SMS and MMS

⁷ Customer base using mobile internet in handsets

⁸ Smartphones as % of total handsets base

⁹ Customer with LTE smartphone and LTE SIM

¹⁰ Inbound and outbound, including roaming abroad, excluding inbound roaming

Total mobile ARPU was CZK 284 in 1H 2015, down by 0.3% year-on-year, impacted largely by price pressures in the market, which were not fully offset by growing quality of the customer base. **Contract ARPU** decline further decelerated to -1.8% year-on-year reaching CZK 372 in 1H 2015. **Prepaid ARPU** was flat year-on-year at CZK 117.

Total **mobile operating revenue** in the Czech Republic were CZK 9,505 million in 1H 2015, representing year-on-year growth of 1.1%. At the same time, **mobile gross service revenue** went down by 1.4% year-on-year to reach CZK 8,612 million. Continuous competitive pressures mainly in business segment led to lower voice and messaging revenue, while data revenue and mobile hardware remained key growth drivers. **Mobile originated voice revenue** declined by 5.9% year-on-year to CZK 4,703 million, while **messaging (SMS & MMS) revenue** were 9.2% lower due to lower effective per unit price. **Terminated revenue** (interconnection) went up by 9.7% year-on-year to CZK 1,107 million, largely helped by higher incoming voice and SMS traffic. **Hardware revenue** went up by 46.7% driven by higher sales in line with Company's strategy to become one of the leading mobile hardware sellers in the market.

CZ Fixed Business Overview

In the highly competitive and declining market the Company reported solid commercial and financial performance in all key areas. This has been helped by continuous growth of xDSL and O₂ TV services. 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 decelerate fixed broadband ARPU dilution and sustain low churn.

The total number of **fixed voice lines** declined by 9.7% year-on-year reaching 883 thousand at the end of June 2015. The decline trend decelerated to 44 thousand net losses in 1H 2015 compared to 74 thousand in the same period 2014.

The number of **xDSL accesses** reached 799 thousand at the end of June 2015, up by 1.1% year-on-year, with positive net additions of 5 thousand in 1H 2015. The share of the high speed VDSL accesses kept growing to 51%. In respect of VDSL, 404 thousand customers (+12.4% year-on-year) have already subscribed for the upgraded service. The total number of **O₂ TV customers** reached 188 thousand at the end of the period, up 9.7% year-on-year thanks to maintained

popularity of the new O₂ TV features including O₂ TV GO. Application O₂ TV GO, which enables watching the channels on up to 4 devices, recorded about 350 thousand downloads.

Total **fixed operating revenue** reached CZK 5,739 million in 1H 2015, down by 8.0% year-on-year. **Revenue from voice services** continued in trend and fell by 15.4% year-on-year to CZK 1 496 million, in line with the performance of previous periods due to continuing fixed voice line losses. **Internet & broadband revenue (incl. O₂ TV)** declined by 3.8% year-on-year to CZK 2,465 million, with decelerated 2.6% decline in 2Q 2015 resulting from competitive retail broadband ARPU pressures, not fully compensated by year-on-year growth in xDSL and O₂ TV customer base. Revenue from O₂ TV recorded a 16.7% year-on-year growth. **Total ICT revenue** went down by 2.3% year-on-year to CZK 858 million and data revenue were by 8.0% lower reaching CZK 577 million.

Slovakia

O2 Slovakia continued to be one of the Group's key growth drivers, which represented close to 17% of the consolidated revenue and 23% of EBITDA in 1H 2015. O2 Slovakia managed to keep solid commercial and financial performance in 1H 2015 despite the strong competition. **Total number of customers** reached 1,711 thousand at the end of June 2015, posting 6.4% year-on-year growth. The customer base increased by 27 thousand in 1H 2015, driven solely by net adds in contract customer base. The **number of contract customers** grew by 7.7% year-on-year reaching 884 thousand at the end of June 2015, while the **number of prepaid customers** increased by 5.0% year-on-year reaching 826 thousand. Share of contract customers in Slovakia reached 51.7% of the total customer base at the end of June 2015, up by 0.7 percentage point year-on-year. O2 Slovakia recorded increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which is reached 46.9% at the end of June 2015, up by 7.4 percentage points year-on-year.

In terms of financial performance, the **total operating revenue** of O2 Slovakia in local currency grew 14.1% year-on-year reaching EUR 117.3 million in 1H 2015 (+14.3% to CZK 3,226 million), fuelled by customer growth, improving customer mix, refreshed portfolio of mobile phones, and data revenue. At the same time, **EBITDA** of O2 Slovakia went up by 20.2% year-on-year to EUR 40.8 million (+20.5% to CZK 1,123 million), resulting in growing EBITDA margin of 34.8% in 1H 2015 (+1.8 percentage point year-on-year). **Total ARPU** in Slovakia reached EUR 9.3 in 1H 2015, while **contract ARPU** was at EUR 12.7 and **prepaid ARPU** at EUR 5.7.

Attachment:

The consolidated balance sheet and income statement of O2 Czech Republic 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 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	Jan – Jun 2015	Jan – Jun 2014 (pro-forma)
Operating revenue	18,393	18,438
Non-operating revenue	59	25
Revenue	18,452	18,463
Internal expenses capitalized in fixed assets	93	108
Cost of sales	(9,560)	(9,334)
Operating expenses	(4,064)	(5,309)
Other operating income/(expenses)	(94)	(286)
EBITDA	4,825	3,643
EBITDA margin	26.2 %	19.8 %
Depreciation and amortization	(1,775)	(1,660)
Impairment reversal/(loss)	(2)	(1)
Operating Income	3,048	1,982
Net financial income (expense)	(101)	(42)
Results attributed to joint venture	(4)	3
Income before tax	2,943	1,941
Income tax	(618)	(433)
Net Income	2,325	1,508

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30.6.2015	31.12.2014¹¹
Non-current assets	21,012	63,370
- Intangible assets	16,016	26,276
- Property, plant and equipment and investment property	4,317	36,200
- Long-term financial assets and other non-current assets	351	581
- Deferred tax assets	327	313
Current assets	9,770	10,920
- Inventories	504	470
- Trade and other receivables	6,299	7,170
- Current tax receivable	3	-
- Short-term financial investments	-	24
- Cash and cash equivalents	2,964	3,256
Total assets	30,782	74,290
Equity	15,759	54,153
Non-current Liabilities	3,055	5,557
- Long-term financial debt	3,000	3,000
- Deferred tax liabilities	11	2,151
- Non-current provisions for liabilities and charges	17	251
- Non-current other liabilities	27	155
Current Liabilities	11,968	14,580
- Short-term financial debt	4,001	4,004
- Trade and Other payables	7,445	10,134
- Current income tax payable	279	299
- Provisions for liabilities and charges	243	143
Total Equity and Liabilities	30,782	74,290

¹¹ Including CETIN