

O2 experienced a record interest in its O₂ TV digital television thanks to the new sport events proposition

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- Number of O₂ TV customers subscribed for any of M, L or XL monthly tariffs and those watching television on the web or in application increased by close to 22% year-on-year; thus O2 registers already 673 thousand active devices.
- O₂ Spolu bundled packages containing O₂ TV tariffs and newly also interest in attractive exclusive sport content remain the key drivers of the customers' growth.
- O2 newly offers the sport content also in a monthly O₂ TV Sport Pack package, which allows watching via set top box, on the web or in a mobile application.
- Consolidated revenue went up 1.1% year-on-year to CZK 28.2 billion in the first nine months 2018, EBITDA grew by close to 7% to CZK 8.3 billion.

"I am glad that our decision to bring to the customers the most attractive sports content - the first Czech football league, the UEFA Champions League and the domestic ice hockey league, has proved positive results already in the first months. The number of customers of our traditional monthly O₂ TV tariffs increased by more than 20 thousand in the last three months, the same as in the previous three quarters. For fans who want to watch only our exclusive sports content, we have introduced a new O₂ TV Sport Pack package with sport programs that offers all the benefits of IPTV. In addition to watching TV on the set top box, hundreds of thousands of viewers regularly take advantage of watching the whole O₂ TV program on the web or in the application," comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *"Our customers continue being interested in O₂ Spolu bundled packages as well as in new O₂ Data mobile tariffs with a significantly higher data volumes."*

"In line with our plan, in the third quarter we have significantly intensified investments in the Czech Republic. Thus we expect the 2018 full year total consolidated capex to revenue ratio will exceed 10 percent," explains Tomáš Kouřil, company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and adds: *"Thanks to these billions investments and the success of O₂ Spolu packages we have been able to maintain strong financial performance."*

Overview of the key events in the third quarter

Since 23rd July, O2 has been offering its O2 TV customers the **next-generation set-top box**. Following the smart O2 Smart Box this is the second device developed by internally by O2. In addition to the modern design, users can enjoy a clear content sorting in enhanced My Menu. Thanks to the new remote blue tooth driver that communicates with the TV set even without directing it to the new set-top box, customers can turn off and turn on set-top-box as well as TV set just by pressing the button.

During the third quarter, O2 TV began broadcasting **the most popular sport matches**. Until 2021, it will **exclusively** offer the prestigious football **UEFA Champions League**. From the 2018/2019 season till 2023, only O2 TV customers can watch **all** the broadcasted **matches of ice hockey Tipsport League**, including play-off or a final matches. O2 TV Sport holds the rights for three matches per week, while two ice hockey league matches per week will be broadcasted by ČT Sport (Czech TV) channel, which is included in all O2 TV tariffs. Thanks to the new contract, in next four seasons, for the first time ever O2 TV will be offering **all matches of the football Fortuna League exclusively**.

For the sports fans, O2 has been offering a new **O2 TV Sport Pack** package since August, which allows watching exclusive O2 TV Sport, O2 TV Football and O2 TV Tennis channels for 30 days for a CZK 199 fee. This can be paid comfortably by a credit card. The O2 TV Sport Pack offers all the benefits of a unique multidimension that has been appreciated for a long time by O2 TV customers. This package works both for watching over the set top box, on the web or in the applications and is currently being used by tens of thousands of viewers.

Since September, O2 has **increased the speed of its fixed xDSL internet** for 1.5 million households. Approximately 900,000 of them can get a more powerful Internet ACTIV HD with up to 50 Mbps speeds instead of OPTIMAL HD (20 Mbps), and 600,000 other households can now use the Premium Internet HD tariff offering up to 100Mbps. These tariffs can also be enjoyed by those interested in combination with O2 Smart Box, the heart of the smart home. Since mid-September, this device has been offering a new Parental Supervision feature that enables the O2 Smart Box application owner actively receive automatic alerts on their mobile phone on home arrival of their offspring, and connect their smartphone and desktop to their home network.

Operating overview

Mobile segment

O2 customers has been demanding **new O2 Data tariffs** with 4 GB to 20 GB data volumes. These tariffs are designed not only for browsing on small screens, but also on tablets and notebooks. These tariffs, together with O2 Spolu packages, continuous customers' upsell to rich data tariffs and growing number of mobile home broadband internet customers contributed to over 100% year-on-year growth of data consumption generated by O2 customers in mobile network in the first nine months 2018.

In O2 network, smartphones represent already 68% of handsets and 54% of smartphones support LTE technology.

Fixed segment

The number of any **O₂ TV** tariffs' customers provided over O₂ fixed line (IPTV) as well as over internet connection from any provider (OTT), including Multi service, reached **308 thousand** as at 30 September 2018. Of that 40 thousand households subscribed for a still more 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 to watch complete O₂ TV content on web or in mobile applications. About 365 thousand viewers uses this opportunity on a regular basis, including customers of O₂ TV Sport Pack package. At the end of September 2018 O₂ registered already **673 thousand O₂ TV devices**.

Slovakia

O₂ Slovakia keeps recording increasing demand for its smartphone portfolio. As of 30 September 2018, the LTE smartphone penetration reached 54.9%. Thanks to the 4G LTE network expansion, growing LTE smartphone penetration and continuous customers' demand for tariffs with higher data volumes data consumption in the mobile network went up by over 100% year-on-year in the first nine months 2018.

Financial overview

Total consolidated operating revenue reached **CZK 28,209 million** in the first nine months of 2018, up 1.1% year-on-year. **Operating revenue in the Czech Republic** grew slightly by 0.1% to **CZK 22,849 million**. **Mobile operating revenue** reported a 1.8% growth to CZK 15,081 million despite a negative impact of the European roaming regulation and continuous decline in voice, SMS and MMS revenue. These declines were more than compensated by growing mobile data and hardware sales revenue. **Fixed business** operating revenue declined by 3.0% year-on-year to CZK 7,768 million, as lower revenue from traditional voice and data services was not fully compensated by growing O₂ TV revenue.

In **Slovakia**, total **operating revenue improved by 9.7%** to EUR 216 million. The year-on-year growth in Czech koruna (CZK) has been negatively impacted by strengthening CZK against EUR. Thus denominated in Czech koruna the operating revenue reached CZK 5,524 million, up 5.6% year-on-year. Similarly to the Czech Republic, higher data and hardware sales revenue were the key growth drivers.

Consolidated earnings before depreciation and amortisation **EBITDA** improved by **6.9%** year-on-year to **CZK 8,342 million** in the first nine months of 2018 thanks to the higher revenue and savings in majority of cost categories. In the Czech Republic, EBITDA grew by 4.9% to CZK 6,343 million, while Slovakia reported a 13.8% increase to CZK 1,997 million (+18.1% to EUR 78 million). Consolidated **net profit** in the first nine months of 2018 **improved by 2.5%** year-on-year reaching **CZK 4,217 million**.

KEY FINANCIAL INDICATORS OF THE GROUP

Financial indicators	9M 2018	9M 2017	Year-on-year change
Operating revenue	CZK 28,209 mil.	CZK 27,893 mil.	+ 1.1 %
- CZ mobile revenue	CZK 15,081 mil.	CZK 14,816 mil.	+ 1.8 %
- CZ fixed revenue	CZK 7,768 mil.	CZK 8,006 mil.	- 3.0 %
- SK revenue	CZK 5,524 mil.	CZK 5,230 mil.	+ 5.6 %
Total costs	CZK 19,950 mil.	CZK 20,140 mil.	- 0.9 %
- of which operating costs	CZK 6,065 mil.	CZK 6,146 mil.	- 1.3 %
EBITDA	CZK 8,342 mil.	CZK 7,804 mil.	+ 6.9 %
<i>EBITDA margin</i>	29.6 %	28.0 %	+ 1.6 p. p.
Net profit	CZK 4,217 mil.	CZK 4,114 mil.	+ 2.5 %

In this section we present and comment in detail on the unaudited consolidated financial results of O2 Czech Republic a.s. for January to September 2018 prepared according to International Financial Reporting Standards. These results include the results of O2 Slovakia group (including O2 Business Solutions), O2 IT Services and other subsidiaries.

New standard IFRS 15 - Revenue from contracts with customers

In accordance with International Financial Reporting Standards (IFRS), O2 Czech Republic Group (O2 Group) adopted new standard IFRS 15 - Revenue from contracts with customers, and applies it when preparing its 2018 financial statements. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The adoption of the new standard will result in significant changes in the financial statements of O2 Group primarily in respect of the timing of revenue recognition and in respect of capitalisation of costs of obtaining contracts with customers.

O2 Group management decided to adopt IFRS 15 using the cumulative effect method as of 1 January 2018, recognising the cumulative effect of applying new standard as an adjustment to the opening balance of equity (retained earnings) as at the date of initial application. As a result of the front-loading revenue and capitalisation of costs to obtain contracts, O2 Group booked total an adjustment (net of tax) to the opening balance of equity at 1 January 2018 of CZK 627 million.

The positive effect of IFRS 15 standard adoption on the consolidated net income for the first nine months of 2018 reached CZK 121 million. Detailed information on the IFRS 15 impact on other selected consolidated financial indicators in the first nine months 2018 is provided at [O2 web pages](#) (see Facts & Figures).

Consolidated Financial Results

Consolidated operating revenue reached CZK 28,209 million in the first nine months 2018, up 1.1% year-on-year. Thanks to the customers' interest in the new packages and tariffs including exclusive content, mobile data and O₂ TV revenue kept growing. Hardware & accessories revenue and revenue from financial services also continued increasing. In addition, strong performance in Slovakia positively contributed to the consolidated revenue. Similarly to the Czech Republic, also in Slovakia, mobile data and hardware revenue were the key growth drivers. Growth in the aforementioned revenue compensated for negative impact of European roaming regulation and declining revenue from traditional voice and data services.

Operating revenue in the Czech Republic reached CZK 22,849 million in the first nine months of 2018, marking a 0.1% year-on-year decrease. **Mobile operating revenue** was CZK 15,081 million in the first nine months of 2018, reporting a 1.8% year-on-year growth, as lower voice and messaging revenue were more than compensated by 12% growth of data revenue, 22% increase in hardware & accessories revenue and 51% uptake in revenue from financial services. **Fixed operating revenue** declined by 3.0% year-on-year reaching CZK 7,768 million in the first nine months. The 18.9% growth in O₂ TV revenue did not fully compensate lower voice revenue (due to continuous fixed-to-mobile voice substitution)

and the continuous decline in data and internet revenue. **Revenue in Slovakia**¹ reached CZK 5,524 million, up by 5.6% year-on-year. As the CZK strengthened against EUR² in the last twelve months, the revenue growth in Czech koruna was slower than in euros. In local currency, the revenue improved by 9.7% to EUR 216 million.

Total consolidated expenses³ went down 0.9% year-on-year to CZK 19,950 million in the first nine months of 2018. In the Czech Republic they declined by 1.4%, Slovakia reported a 1.6% growth. Costs of sales were 0.8% lower year-on-year as lower fixed costs of services and positive IFRS 15 impact in commissions more than compensated higher hardware & accessories cost growth (in line with growing revenue). Mobile costs of service were negatively impacted by higher roaming costs, which the company has to pay to its wholesale international partners for its customers using roaming services abroad. Operating expenses were reduced by 1.3% year-on-year as a 3% growth in personal costs due to insourcing of customer care staff was more than compensated by savings external call centres costs and other cost categories.

Earnings before interest, depreciation and amortization (EBITDA) improved by 6.9% year-on-year to CZK 8,342 million in the first nine months of 2018. In the Czech Republic EBITDA grew 4.9% reaching CZK 6,343 million, while Slovakia reported a substantial 13.8% uptake to CZK 1,997 million. In euros, EBITDA in Slovakia went up by 18.1% to EUR 78.1 million. Consolidated **EBITDA margin** thus reached 29.6% in the first three quarters 2018, up by 1.6 percentage point year-on-year, with EBITDA margin in the Czech Republic growing by 1.3 percentage point to 27.8% and in Slovakia even by 2.6 percentage points to 36.2%.

Consolidated net income increased by 2.5% year-on-year to CZK 4,217 million in the first nine months of 2018. Amortisation and depreciation charge went up by 2.2% year-on-year driven by higher capex. In addition, the net income in 2018 has been impacted by amortisation of cost to obtain contract due to the application of new IFRS 15 standard.

Consolidated capital expenditures (CapEx) reached CZK 3,404 million in the first nine months of 2018, representing a 12.8% year-on-year growth. Their share on revenue reached 12% in the first nine months of 2018 compared with 10.8% in the same period in 2017. The year on year comparison is impacted by two one-off items booked in the first nine months of 2017 - CZK 210 million for 450 MHz spectrum license renewal for a 15 years period since 8 February 2018, and CZK 782 million related to the extension of the O2 brand license agreement with Telefónica until 27 January 2022.

Investments in Slovakia reached CZK 729 million in the first nine months of 2018, up by 5.9% year-on-year. CapEx to revenue was flat year-on-year at 13.2%. Investments continued to be directed mainly into own 2G network quality enhancement and coverage expansion with the aim to reduce dependency on national roaming, which is already reflected in growing operating profitability. In addition, O2 Slovakia continued investing into expansion 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

¹ O2 Slovakia and O2 Business Services

² The following CZK/EUR FX rates have been used: 26.11 in 3Q 2017, 26.55 in 9M 2017, 25.70 in 3Q 2018 and 25.57 in 9M 2018

³ Cost of sales, operating expenses and Internal expenses capitalized in fixed assets

CZK 2,676 million in the first nine months 2018 and CapEx to revenue share increased was at 11.7%. Investments related to the IT transformation remained the main CapEx category. In addition, investments were spent in redesign of the O2 brand shops. In the third quarter, O2 booked investments into the acquisition of broadcasting rights for UEFA Champions League (from season 2018/2019 till 2021), domestic ice hockey Tipsport league (from season 2018/2019 till 2023) and Czech football Fortuna league (from season 2018/2019 till 2022).

The consolidated free cash flow⁴ reached CZK 3,415 million in the first nine months of 2018, down 5.6% year-on-year. The decline has been driven mainly by investments into profitable hardware instalment sales in Slovakia, which led to higher long term receivables. Together with higher paid interest and income tax contributed to the decline in net cash flow from operating activities. At the same time, net cash used in investing activities were 17% lower year-on-year due to lower cash outflow for purchase of non-current assets.

The consolidated financial debt⁵ amounted to CZK 10,490 million as at 30 September 2018, about the same compared with the end of 2017. At the end of September 2018, **cash and cash equivalents** reached CZK 1,174 million compared with CZK 4,088 million as at 31 December 2017. Cash balance decline was driven by distribution of 2017 dividend and part of share premium (CZK 6,332 million before tax in total), which commenced on 4 July 2018. Thus, **net debt⁶ to EBITDA** reached 0.84 at the end of September 2018.

Slovakia

Thanks to the continuous investments into own mobile network, which is one of the most developed and most affordable in Slovakia, combined with an attractive commercial proposition, O2 Slovakia group⁷ reported another growth of the customer base, improvement of its mix, increase of average revenue per customer and substantial improvement of its financial performance in the first nine months of 2018. Thus it continues positively contributing to the O2 Group's financial results as it represented 20% of the consolidated revenue and 24% of consolidated EBITDA in the first three quarters of 2018. In addition to mobile services proposition for residential and SME customers, O2 Slovakia has been offering wireless home internet and digital O₂ TV television in LTE TDD network on 3.5 GHz and 3.7 GHz spectrums as well as in own 4G LTE network. The 4G LTE network is currently available for over 95% of the Slovak population. Through its subsidiary O2 Business Services, it also provides a comprehensive portfolio of fixed and mobile services for corporate and public sector customers.

O2 Slovakia continued recording increasing demand for its smartphone portfolio. This has been reflected in growing smartphone and LTE handset penetrations. Thanks to the 4G LTE network coverage expansion, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of mobile internet users as well as mobile data consumption further improved. These factors are positively reflected in operating revenue growth.

⁴ Net cash flow from operating activities plus Net cash used in investing activities

⁵ Long term and short term

⁶ Gross debt less cash

⁷ including O2 Business Services, a. s. (100% daughter company of O2 Slovakia)

Total operating revenue in Slovakia increased by 5.6% year-on-year to CZK 5,524 million in the first nine months of 2018. Revenue in euros increased by 9.7% to EUR 216 million, largely fuelled by a 16% year-on-year growth in data revenue and 31% uptake in hardware & accessories sales revenue. **EBITDA** in Slovakia grew by 13.8% year-on-year reaching CZK 1,997 million (+18.1% to EUR 78.1 million). As a result, EBITDA margin reached 36.2% in the first nine months of 2018, up 2.6 percentage points year-on-year.

Other relevant facts

Resignation of Ctirad Lolek from his office of a member and Vice-chairman of the Supervisory Board as of 13th January 2019

On 27th September 2018, the Supervisory Board of O2 Czech Republic a.s. has discussed a resignation by Ctirad Lolek from his office of a member and Vice-chairman of the Supervisory Board of O2 Czech Republic a.s. The reason for the resignation is to create a vacancy in the Supervisory Board for an employees' representative. The representative will be in accordance with the Business Corporations Act and the company's Articles of Association elected by employees of O2 Czech Republic a.s. as of 14th January 2019. Mr. Lolek's office shall terminate on 13th January 2019.

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 – September 2018	January – September 2017
Operating revenue	28,209	27,893
Non-operating revenue	46	49
Revenue	28,255	27,942
Internal expenses capitalized in fixed assets	255	263
Cost of sales	(14,140)	(14,258)
Operating expenses	(6,065)	(6,146)
Other operating income/(expenses)	37	3
EBITDA	8,342	7,804
EBITDA margin	29.6 %	28.0 %
Depreciation and amortization	(2,531)	(2,476)
Amortization of cost to obtain contract	(330)	-
Impairment reversal/(loss)	(8)	(1)
Operating profit	5,473	5,327
Net financial income (expense)	(133)	(86)
Results attributed to joint venture	7	(2)
Profit before tax	5,347	5,239
Income tax	(1,130)	(1,125)
Profit	4,217	4,114

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30 September 2018	31 Dec 2017
Non-current assets	25,075	23,411
- Intangible assets	17,488	16,815
- Property, plant and equipment and investment property	5,843	5,636
- Incremental costs to obtain contract	628	-
- Long-term financial assets and other non-current assets	809	744
- Non-current contract asset	144	-
- Deferred tax assets	163	216
Current assets	9,070	11,431
- Inventories	796	824
- Trade and other receivables	6,680	6,519
- Current contract asset	25	-
- Tax receivable	395	-
- Cash and cash equivalents	1,174	4,088
Total assets	34,145	34,842
Equity attributable to owners of the parent	14,026	15,475
Non-controlling stake	-	-
Total equity	14,026	15,475
Non-current Liabilities	11,652	10,887
- Long-term financial debt	10,458	10,448
- Deferred tax liabilities	473	270
- Non-current provisions for liabilities and charges	53	53
- Non-current other liabilities	668	116
Current Liabilities	8,467	8,480
- Short-term financial debt	31	38
- Trade and Other payables	8,274	8,209
- Current income tax payable	74	139
- Current contract liability	2	-
- Provisions for liabilities and charges	86	94
Total Equity and Liabilities	34,145	34,842