

A dynamic splash of water with numerous bubbles and droplets, set against a dark blue background. The water is captured in motion, creating a sense of freshness and energy.

# O2 Czech Republic

Quarterly Results  
January – June 2014

1<sup>st</sup> August 2014



# CAUTIONARY STATEMENT

Any forward-looking statements concerning future economic and financial performance of O2 Czech Republic a.s. contained in this Presentation are based on assumptions and expectations of the future development of factors having material influence on the future economic and financial performance of O2 Czech Republic a.s. These factors include, but are not limited to, public regulation in the telecommunications sector, future macroeconomic situation, development of market competition and related demand for telecommunications and other services. The actual development of these factors, however, may be different. Consequently, the actual future results of economic and financial performance of O2 Czech Republic a.s. could materially differ from those expressed in the forward-looking statements contained in this Presentation.

Although O2 Czech Republic a.s. makes every effort to provide accurate information, we cannot accept liability for any misprints or other errors.



**January – June 2014  
Performance Highlights**

# Continued focus on efficiency through simplification... ...and building the next generation network

## Future Growth enabled

- **LTE service** in Praha and Brno **extended on new frequencies**
- **Network sharing** is **saving Capex** and helping to **move faster**
- Mutually beneficial **partnership with Apple** addressing customer needs

## We maintain our market position

- **Migration to FREE tariffs completed** in the consumer segment...
- ...**protecting customer base** and market share in the **business** segment...
- ...sustained **demand for VDSL** and **growing O2 TV** base...
- ...continued **mobile data revenue growth**...
- ...all resulted in maintained market position in a **market that is slowing down**

## Focused on efficiencies

- **Robust cost reduction** initiatives to protect OIBDA...
- ... driven by the **simplified operating model** enabled by FREE
- Increasing contribution from our business in Slovakia

# FREE tariffs have changed the market by addressing the needs of our customers... ..while simplifying our operational model

We changed the market

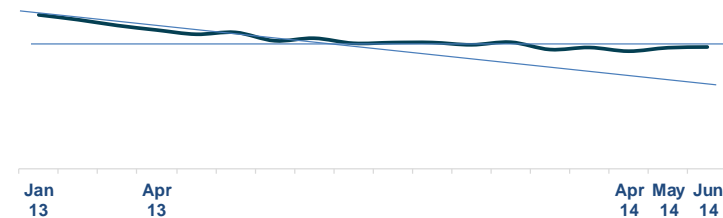
- **Addressing customers' needs** of simplicity, transparency and increasing traffic
- ...while moving from price-oriented to **value-oriented**
- ...through innovative **customer experience**, unique **loyalty program** and best-in-class **NW quality**
- Migration to FREE Tariffs is a **growth opportunity**...
- ...while in the very competitive **business segment** we protect our **strong customer base**



Benefiting from simplification

- FREE **changed spend trend** in Consumer segment
- Consumer postpaid base **migrated to FREE tariffs**
- **Simplification** drives savings
  - **Reduction of calls** in the call centres
  - **Reduction of handling time** in shops
  - **All FREE** customers on **e-bill**
  - Hardware **subsidies eliminated**

Consumer postpaid spend  
*illustrative*

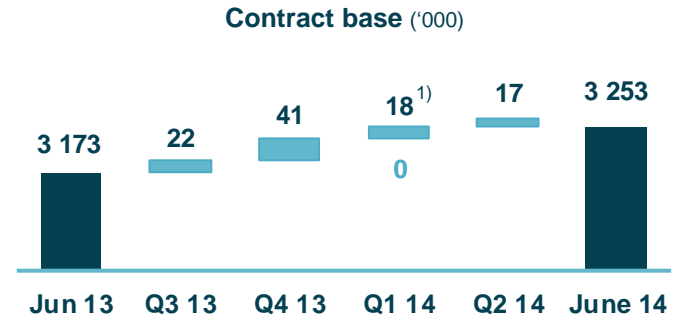




# Continue to execute our strategy...

## Grow mobile base

- Total mobile customer base at 5.1 mil.
  - Modest contract growth +2.5% y-o-y
  - Contract customers now 64% of total base (+1.9p.p. y-o-y)



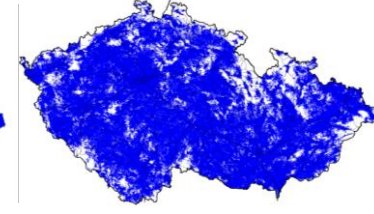
## High speed data network

- Efficient LTE roll-out is using new spectrum
  - Coverage in Prague and Brno growing fast
  - Rural areas deployment under way...
  - ...to provide high speed mobile internet <sup>2)</sup> to 90% of the population this year
  - 4G LTE included in all O2 mobile data tariffs with up to 110 Mbps speed

Network sharing regional division  
*illustrative*



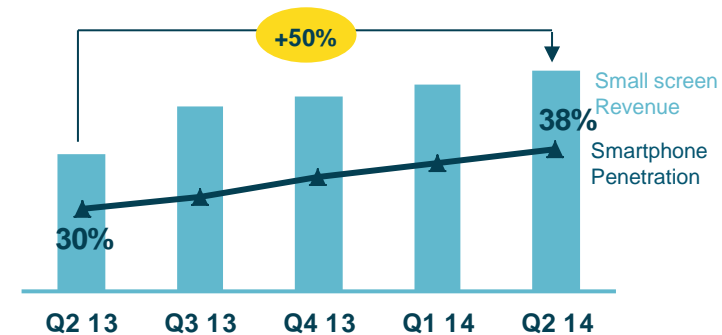
High speed mobile internet<sup>2)</sup> by end of 2014  
*illustrative*



## Monetising data growth

- FREE tariffs and smartphone penetration uptake driving small screen base growth (+44% y-o-y)...
- ...driving 50% growth of small screen revenues
- Supported by mobile network enhancements (LTE deployment, HSPA+ upgrade, LTE Advanced) and MultiSIM proposition

Small screen revenue in Q2 growing Y-o-Y



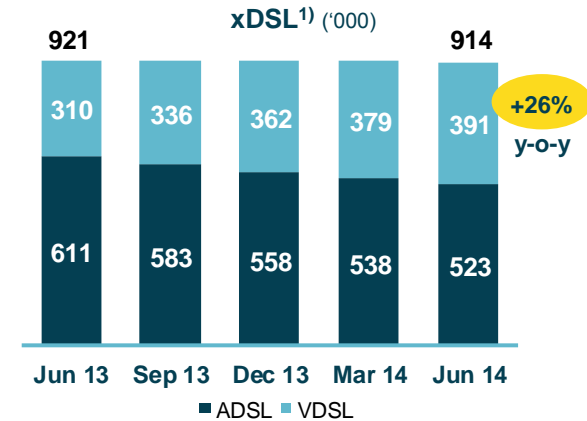
<sup>1)</sup> Excluding the estimated 18 thousand churn from the new Open door policy

<sup>2)</sup> A combination of 3G HSPA+ and 4G LTE with download speeds up to 110Mbps

# Maintaining leadership in fixed BB with continuing migration to VDSL... ...refreshed IPTV platform with unique features

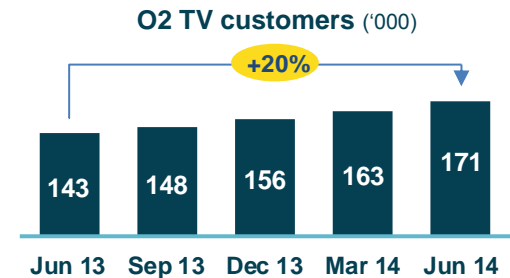
## Fixed BB

- Continuous **demand for VDSL service**, with customer base growing by **26% y-o-y**...
- ...helping to **manage churn, spend dilution and improve customer satisfaction**



## Pay TV

- Our **new O<sub>2</sub> TV** with the unique **O2 TV Go** OTT Multiscreen and **Timeshift** services **continues to add new customers** in a stagnating market segment



## ICT

- **ICT** represents **37% of fixed operating revenues in business segment**
- Selective approach maintaining **solid profitability** on the back of **managed services growth**
- Further **upsell opportunities** via **fixed & mobile proposition**

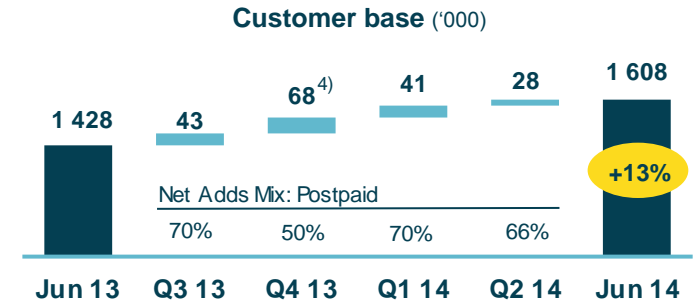


<sup>1)</sup> retail & wholesale

# Slovakia – sustained customers’ growth and value focused proposition continue driving further improvement in financial performance

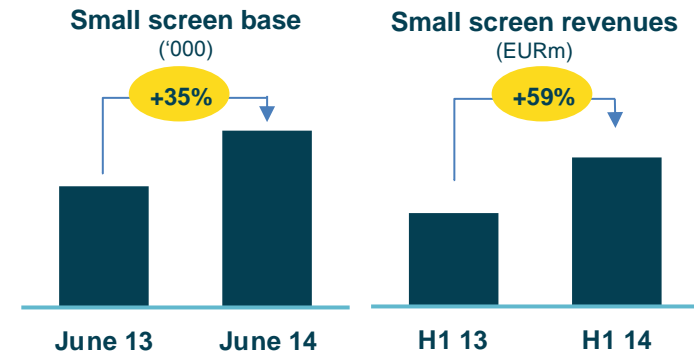
## Mobile customers

- Sustained customers’ growth (+13% y-o-y)
- Churn remains low (contract less than 1% in Q2)
- Refreshed proposition still popular with customers, contract as well as pre-paid
- Over 24% market share<sup>1)</sup> (+2.5 p.p. y-o-y)



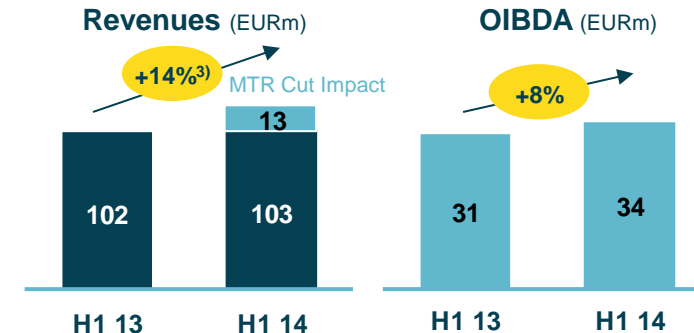
## Growing data revenues

- Increasing the **quality of 3G coverage** driving **smartphone penetration** and **data ARPU uptake**
- Favourable **data packages** driving growth of the mobile internet base **+35% y-o-y**, translating into **data revenue growth +59% y-o-y**



## Strong financials (EURm)

- Strong underlying <sup>2)</sup> **revenues growth maintained**
- **OIBDA margin 33%** in 2Q 2014, leveraging on **lean operation** and synergies with CZ
- Increasing and positive **contribution to the Group’s financials**



<sup>1)</sup> Q1 2014, <sup>2)</sup> ex-MTR cut impact, <sup>3)</sup> reported revenue growth of 1% y-o-y while ex-MTR impact growth 14%, <sup>4)</sup> incl. 18 thousand adjustment of prepaid customers



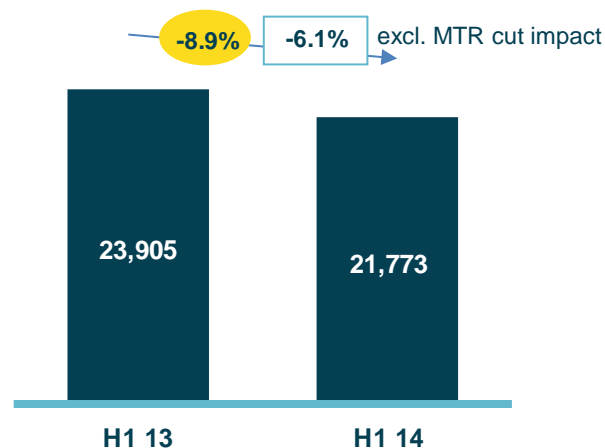


# January – June 2014 Financial Performance

# Top line remains under pressure, affecting OIBDA

<i>CZK millions</i>	Jan – Jun 2014	<b>Change H1 14/H1 13</b>
<b>Operating Revenue</b>	<b>21,773</b>	<b>-8.9%</b>
<b>CZ Fixed</b>	<b>9,667</b>	<b>-5.1%</b>
<b>CZ Mobile</b>	<b>9,447</b>	<b>-15.9%</b>
<b>Slovakia</b>	<b>2,821</b>	<b>7.6%</b>
<b>OIBDA<sup>1)</sup></b>	<b>7,581</b>	<b>-12.0%</b>
<b>OIBDA margin</b>	<b>34.8%</b>	<b>-1.2 pp</b>
<b>Adjusted<sup>2)</sup> Free Cash Flow</b>	<b>3,492</b>	<b>-24.8%</b>

## Operating revenue ex-MTR cut (y-o-y)

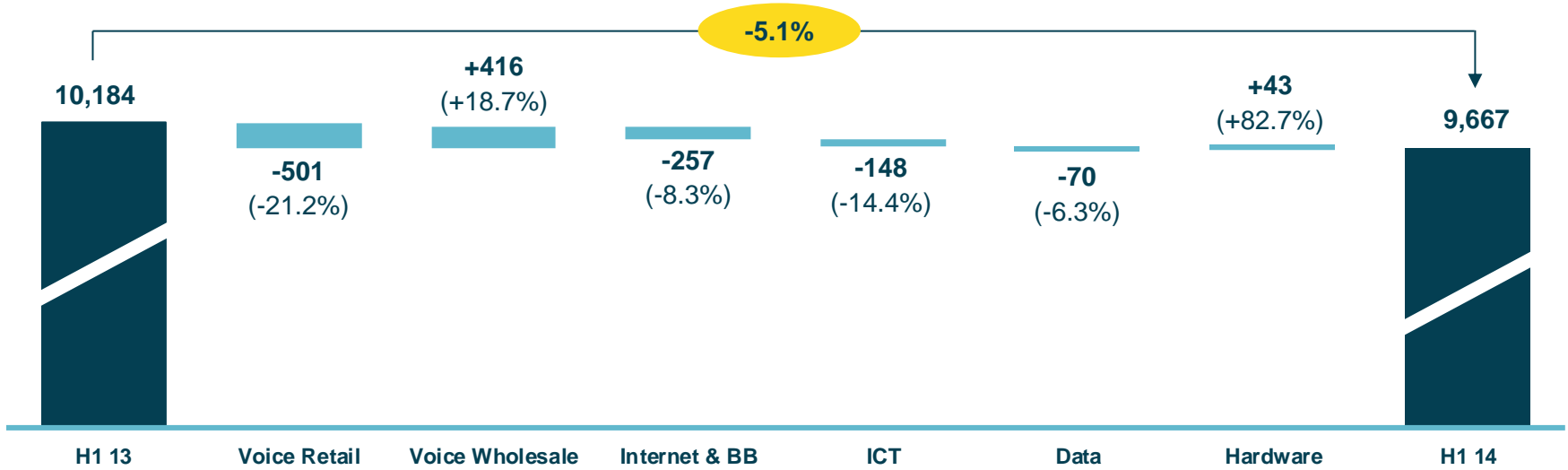


<sup>1)</sup> Includes restructuring costs in H1 13 (CZK 354m) and H1 14 (CZK 350m)

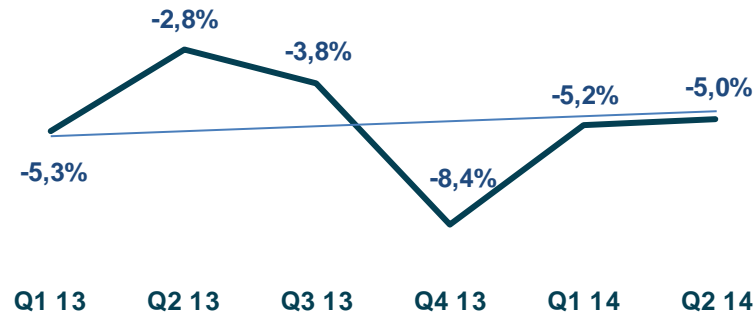
<sup>2)</sup> Excluding payments for LTE spectrum CZK2.8bn in Czech Republic and CZK1.1bn in Slovakia

# Despite a stabilised revenue trend, losing value in fixed

CZK millions  
(% change y-o-y)

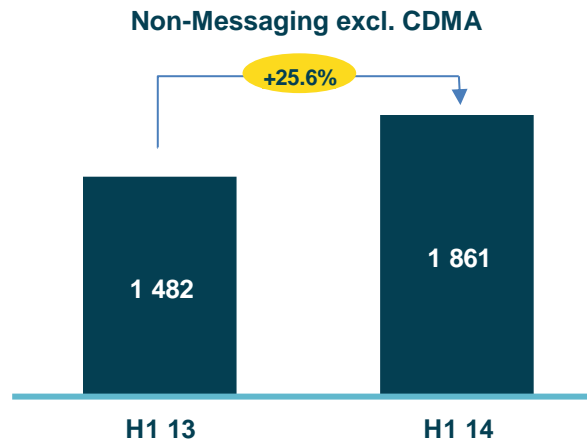
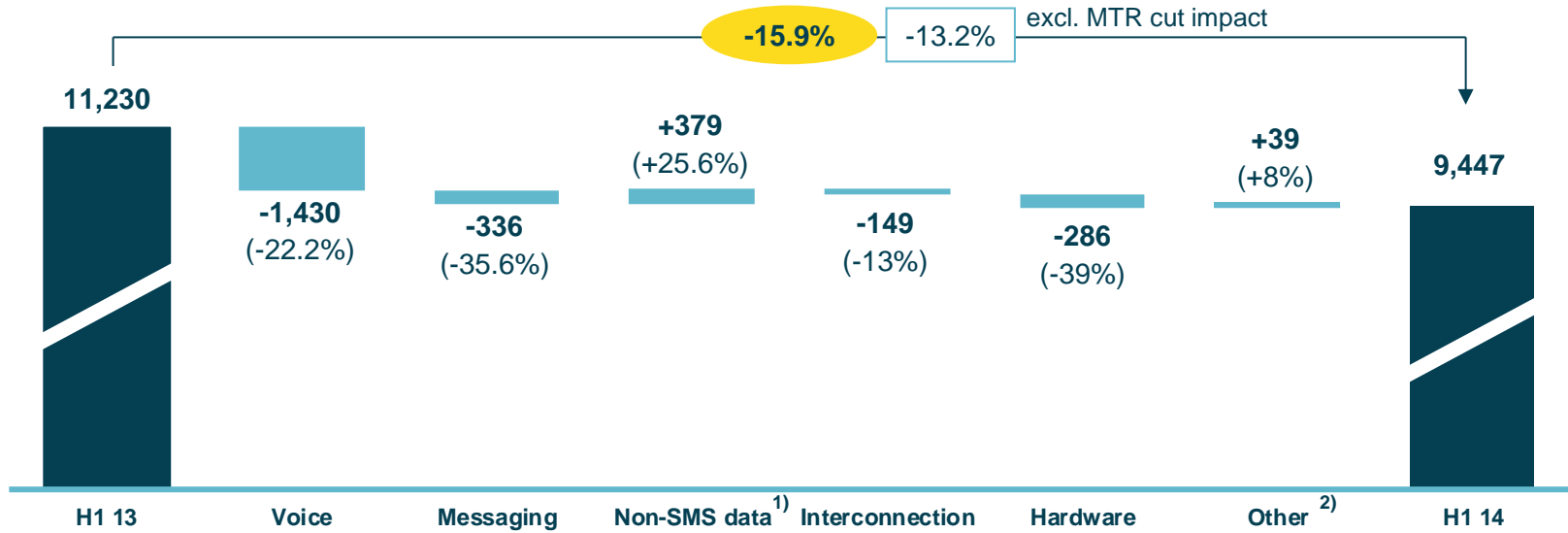


Fixed Operating Revenue YoY



# Mobile Operating Revenue under pressure, especially in the business segment

CZK millions  
(% change y-o-y)

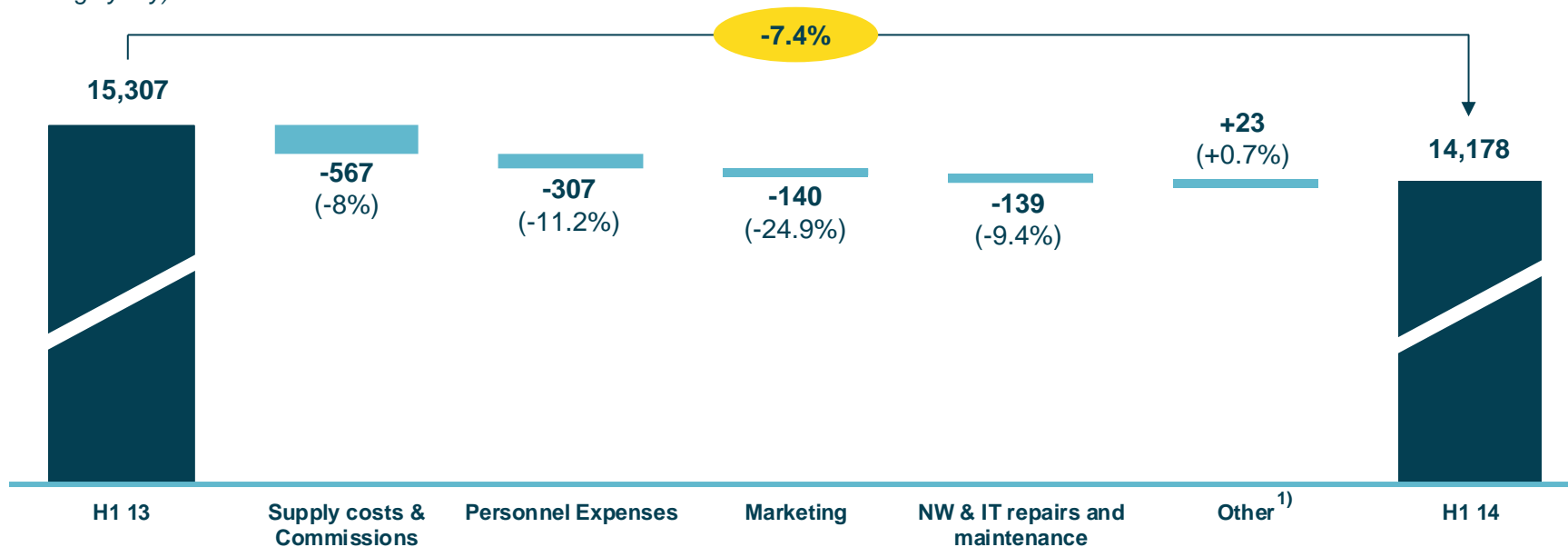


<sup>1</sup> Non-SMS data excluding CDMA

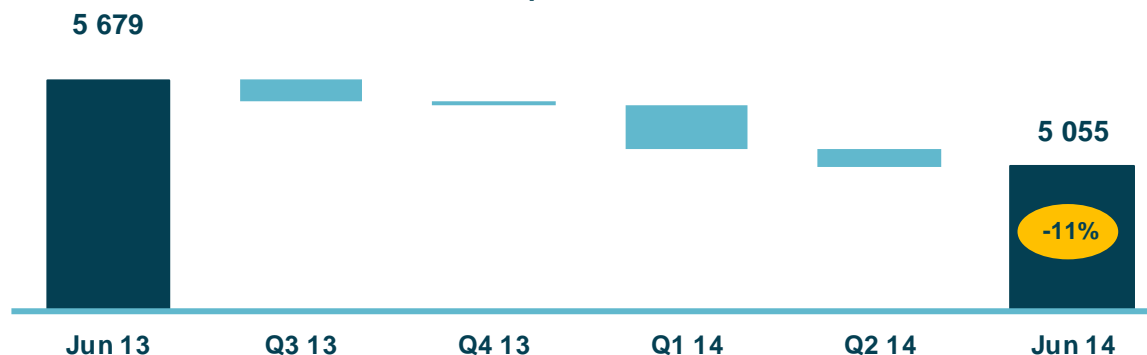
<sup>2</sup> CDMA, Inbound Roaming, M2M, Other revenue

# Savings in OPEX, but only partly offsetting topline pressures

CZK millions  
(% change y-o-y)



## Group headcount<sup>2)</sup>



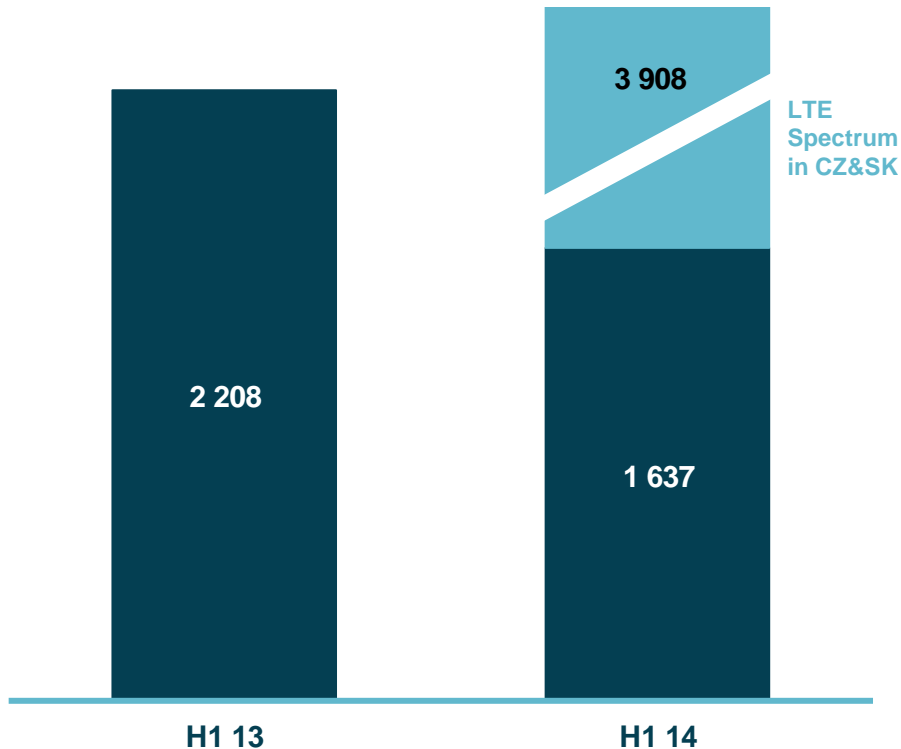
<sup>1)</sup> Taxes other than income taxes, provisions and fees, Rentals, Buildings, Vehicles, Consumables, Consultancy, Billing, Collection, Call Centers, Brand and Partnership fees and other

<sup>2)</sup> Excluding Bonerix subsidiary headcount of 90



# Investments targeting future growth areas and efficiencies

CZK millions



- **H1 Capex dominated by the acquisition of the LTE spectrum**
  - CZK 2.8 billion for CZ LTE spectrum
  - EUR 40.3 million for SK LTE spectrum
- **Continuous investments to growth areas**
  - **Capacity & quality enhancement of MBB network in CZ** (incl. LTE deployment in large cities), **including backhaul**
  - **FBB network improvement** (VDSL/VDSL+ coverage & capacity expansion)
- **IT/Systems investments to simplify processes and improve operational efficiency**

<sup>1)</sup> Excluding LTE Spectrum acquisition costs

# Adjusted<sup>1</sup> Free Cash Flow strongly positive

<i>CZK millions</i>	31 Dec 2013	30 Jun 2014	<b>Change Jun14/Dec13</b>
<b>Non-current assets</b>	<b>62,460</b>	<b>62,655</b>	<b>0.3%</b>
- of which Intangible Assets	6,509	10,095	55.1%
<b>Current assets</b>	<b>11,489</b>	<b>10,690</b>	<b>-7%</b>
- of which Cash & cash. Equiv.	3,890	3,478	-10.6%
<b>Total assets</b>	<b>73,950</b>	<b>73,345</b>	<b>-0.8%</b>
<b>Equity</b>	<b>55,749</b>	<b>51,798</b>	<b>-7.1%</b>
<b>Non-current liabilities</b>	<b>5,825</b>	<b>5,558</b>	<b>-4.6%</b>
- Long-term financial debt	3,000	3,000	0%
<b>Current liabilities</b>	<b>12,376</b>	<b>15,989</b>	<b>29.2%</b>
	<b>Jan – Jun 2013</b>	<b>Jan – Jun 2014</b>	<b>Change H1 14/H1 13</b>
<b>Cash flow from operations</b>	<b>8,351</b>	<b>6,812</b>	<b>-18.4%</b>
Net interest and other financial expenses paid incl. dividends	-29	4	<i>n.a.</i>
Payment for income tax	-655	-735	12.2%
<b>Net cash from operating activities</b>	<b>7,667</b>	<b>6,080</b>	<b>-20.7%</b>
Proceeds on disposals of PPE and intangibles	23	18	-23%
Payments on investments <sup>1</sup>	-3,049	-6,515	114%
<b>Net cash used in investing activities</b>	<b>-3,025</b>	<b>-6,497</b>	<b>115%</b>
<b>Adjusted<sup>2)</sup> Free cash flow</b>	<b>4,642</b>	<b>3,492</b>	<b>-24.8%</b>

<sup>1)</sup> Includes Investments in PPE, intangibles, financial investments, and temporary financial investments and payments for LTE spectrum

<sup>2)</sup> Excluding payments for LTE spectrum CZK2.8bn in Czech Republic and CZK1.1bn in Slovakia



**Backup**

**O<sub>2</sub>**

# 2013 Dividend approved by General Meeting

## 2013 Dividend

- **2013 O2 Czech Republic standalone profit after tax CZK 5,743 million** will be used for distribution to shareholders<sup>1)</sup> as **dividend of CZK 18 per share**
- **Relevant dates**
  - **Record date: 27th October 2014 (ex-date on PSE<sup>2)</sup>: 24rd October 2014)**
  - **Payment date: 26<sup>th</sup> November 2014**

<sup>1)</sup> Total 2013 O2 Czech Republic standalone profit after tax CZK 5,743 million, 2013 dividend CZK 5,681 million (99%)

<sup>2)</sup> Prague Stock Exchange (PSE) trade settlement time is two trading days (T+2) from 6<sup>th</sup> October 2014 onwards