

O2 increased net profit by 8% and stopped revenue decline. In addition to dividend it intends to propose distribution of CZK 4 per share from part of share premium

25 October 2016

- Operating profit EBITDA increased slightly to CZK 7.9 billion in the first nine months, net profit grew by 8% to CZK 4 billion.
- Number of mobile contract customers grew by more than 90 thousand. Their loyalty (churn) reached all times maximum.
- Increasing demand for new services led to fixed segment revenue turnaround.
- Consolidated revenue reached CZK 27.7 billion and stopped year on year decline.
- O2 provides outlook for the full year 2016¹ - EBITDA of CZK 10.4 to 10.7 billion and net income of CZK 5.1 to 5.4 billion. For both, the lower bound is above last year actuals.
- O2 confirmed its dividend policy, it plans proposing payment of 90% to 110% of 2016 net income.
- In addition to dividend payment O2's Board of Directors considers proposing to the shareholders distribution of part of share premium of CZK 4 per share. This is not a one-off payment, but a sustainable way of gradual distribution of entire share premium in actual amount of CZK 36 per share².

Despite continuous pressure in corporate and public sector segments and since May also negative impact of new roaming regulation, O2 has been able to maintain flat revenue year on year and slightly increase operating profitability. **Digital O2 TV and mobile data** continue staying the key growth areas.

Based on the financial results for the first nine months of 2016 and considering the outlook for the fourth quarter, O2 expects that the **2016 full year** consolidated **EBITDA** will reach **CZK 10.4 to 10.7 billion** and consolidated **net income** will reach **CZK 5.1 to 5.4 billion**.

A year ago, O2's Board of Directors introduced its new **dividend policy**, based on which it considers proposing **distribution of 90% to 110% of net profit**. This dividend policy is **still valid**

¹ The 2016 full year outlook excludes any one-off/exceptional items, which may arise in the period from 25 October and 31 December 2016.

² Calculated as current (as of 30 September 2016) share premium (CZK 11.9bn) less treasury shares account (CZK 658m), i.e. CZK 11.2bn in total, over current total number of shares (310.2m).

and the Board of Directors will **reflect** it also in its **dividend proposal for 2016**. In addition to the dividend payment from the profit, the Board of Directors **intends to propose** to the shareholders a **distribution of part of the share premium of CZK 4 per share**. **Sustainability of the shareholder remuneration's per share absolute amount** will be one of the key proposal's factors in the future.

"I am pleased that the loyalty of our customers keeps growing. They enjoyed the new services, which we introduced in the past year and use them more. With the new unlimited tariff for callings from fixed lines to all networks they call by 40 % more. Also the popularity of digital television O₂ TV is growing. In August, we launched for our customers new O₂ TV Football channel," comments Tomáš Budník, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results.

"Despite a negative impact of roaming regulation on our mobile revenue in the Czech Republic and in Slovakia, we have been able to maintain total revenue flat year on year thanks to customers' interest in new services and increased net profit by 8%", adds comments on the financial results Tomáš Kouřil, company's Chief Financial Officer and Vice-Chairman of the Board of Directors, and continues *"For the 2016 full year, we expect operating profit EBITDA to reach between CZK 10.4 and 10.7 billion and the net income in the range from CZK 5.1 to 5.4 billion."*

"There is no change in our dividend policy. We intend to propose to the shareholders distribution of 90% to 110% of the net profit for 2016 in dividends. On top of that we intend to propose distribution of the part of share premium of CZK 4 per share. This is not a one-off payment, but our mid-term object to gradually pay out the whole share premium amount." adds Tomáš Budník and concludes: *"We present our proposal in the time of record low interest rates and our relatively low indebtedness compared to the levels seen in the industry."*

Consolidated operating and financial results for the **first nine months of 2016** comprise results of all subsidiaries, including O2 Slovakia.

Operating overview

Mobile segment

As of the end of September 2016, total number of mobile customers reached 4.921 million. The number of **contract customers** increased by **2.5%** year-on-year reaching **3.330 million**. Since the beginning of the year their number increased by 92 thousand and their loyalty measured by average churn reached all times maximum. They represented already 67.7% of the mobile customer base, up by 1.5 percentage point. Number of prepaid customers reached 1.591 million customers. Decline of their number slowed down in the first nine months of 2016 and between June and September even grew. During summer, O2 offered to its prepaid customers a new prepaid card PředplaDENka, thanks to which they pay only in days, when they make a call, send an SMS or connect to Internet. In this day they can make unlimited calls to all networks for a fixed price.

Helped by LTE broadband network rollout and tariff proposition with increased data package mobile data traffic increased by over 80% year-on-year. Number of internet in handset service went up by 15% year-on-year to 1.738 million.

Already 55% of handsets in O2 network is already a smartphone and one fourth supports LTE technology. Number of customers with LTE smartphone and with USIM card, which supports the new technology, exceeded 730 thousand at the end of September and continues growing.

Fixed segment

Number of **O₂ TV** service customers provided on O2 fixed line as well as on internet connection from any provider reached **220 thousand** (IPTV and OTT), up by 11.6% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already **32 thousand** customers subscribed for this service and thus O2 can show off with **over 250 thousand** active set top boxes. Unique features (time shift, recording etc.), and also own O₂ TV Sport channel with multidimension drive increasing demand for digital television. In August, O2 launched a new O₂ TV Football channel dedicated to the most popular sport in the country. Next year, it intends to add individual channels dedicated to tennis and ice-hockey.

The customers also lie watching **O₂ TV** via internet and mobile application, or in restaurants. Following the successful cooperation with Staropramen brewery, O2 newly concluded a partnership with No. 1 brewery Pilsner Urquell. The market share of restaurants, pubs and bars' chains of those two breweries is over 60%. Number of viewers, who actively watch O₂ TV via internet and mobile application, continues growing and in September these means of watching TV were already used by close to **350 thousand** watchers.

Number of **xDSL fixed internet** customers reached 774 thousand at the end of September 2016. Thanks to internet speed increase through installation of remote DSLAMs, the share of customers enjoying VDSL technology on total xDSL base reached already over 60%, up by 10 percentage points year on year.

Almost all the households has been already passed to the new tariffs, which offer **unlimited calls** from fixed line to all mobile and fixed networks in the Czech Republic. The proposition thanks to which the customers do not need to count called minutes and are not charged any fee for line rental is liked among the customers. This is confirmed by the fact that with new tariffs customers call in average by 40% more. Total number of fixed voice lines reached 727 thousand at the end of September 2016.

Slovakia

Number of **mobile customers in Slovakia** increased by 5.2% year-on-year to **1,865** thousand. Through O2 Business Services O2 in Slovakia has been offering also fixed services for corporate customers from the beginning of the year.

New business areas

In line with its long-term strategy to focus after the infrastructure spin off on development and offer other than traditional telecommunications services, O2 is extending its business into new areas that are currently experiencing a boom. At the same time this is happening in the time when trends in the telecommunications industry are changing significantly, and when the O2's financial results in the coming years will be negatively impacted by European roaming regulation. Following the handsets and tablets insurance and smart travel insurance in handset, O2 is preparing for its customers unique telco-insurance products. Another example of innovative services is a complete solution for electronic sales reporting, where O2 already belongs to the most relevant market players.

Financial overview

Total consolidated operating revenue reached **CZK 27.720 billion** in the first nine months of 2016, **flat year-on-year**. **Operating revenue in the Czech Republic** totalled CZK 22.918 billion, representing a 0.1% growth. Fixed business operating revenue improved by 0.5% year-on-year to CZK 8.600 billion, largely driven by continuous O2 TV revenue growth and higher ICT revenue. **Mobile operating revenue** reported slight 0.2% decline to CZK 14.319 billion. Voice and SMS revenue declines driven by roaming regulation and competitive pressures in corporate and public sector segments were almost compensated by mobile data and hardware revenue growths. In **Slovakia**, revenue reached CZK 4.934 billion, a 0.5% year-on-year growth. **Revenue** denominated in euros **improved by 1.7%** to EUR 182 million.

EBITDA increased by **4.5%** year-on-year to **CZK 7.855 billion** in the first nine months of 2016, as lower profitability in Slovakia driven by investments into B2B business development was more than compensated by 6.7% EBITDA growth in the Czech Republic. **Net profit improved by 7.7%** year-on-year reaching CZK 4.012 billion.

KEY FINANCIAL AND OPERATING INDICATORS

Financial indicators for the Group

Financial indicators	9M 2016	9M 2015	Year-on-year change
Operating revenue	CZK 27.720bn	CZK 27.706bn	0.0%
- CZ mobile revenue	CZK 14.319bn	CZK 14.344bn	-0.2%
- CZ fixed revenue	CZK 8.600bn	CZK 8.556bn	+0.5%
- SK revenue	CZK 4.934bn	CZK 4.909bn	+0.5%
Total costs	CZK 19.926bn	CZK 20.174bn	-1.2%
- of which operating costs	CZK 5.702bn	CZK 5.871bn	-2.9%
EBITDA	CZK 7.855bn	CZK 7.517bn	+4.5%
EBITDA margin	28.3%	27.1%	+ 1.2 p.p.
Net profit	CZK 4.012bn	CZK 3.727bn	+7.7%

Operating indicators – Czech Republic

Number of mobile service customers	30 Sep 2016	30 Sep 2015	Year-on-year change
Contract customers	3.330m	3.248m	+2.5%
Prepaid customers	1.591m	1.662m	-4.2%
Total	4.921m	4.910m	+0.2%
ARPU	CZK 288	CZK 287	+0.6%

Number of fixed service customers	30 Sep 2016	30 Sep 2015	Year-on-year change
O ₂ TV	220k	197k	+11.6%
O ₂ TV application and web (number of watchers)	cca. 350k	cca. 130k	
xDSL	774k	796k	-2.7%
VDSL	477k	412k	+15.8%
Fixed voice lines	727k	864k	-15.8%

Smartphones	30 Sep 2016	30 Sep 2015	Year-on-year change
Smartphone penetration within the O ₂ network	55.1%	45.7%	+9.4 p.p.
LTE smartphone penetration within the O ₂ network	28.0%	16.0%	+12,0 p. p.

Operating indicators – Slovakia

Number of mobile service customers	30 Sep 2016	30 Sep 2015	Year-on-year change
Contract customers	1.045m	936k	+11.7%
Prepaid customers	819k	837k	-2.1%
Total	1.865m	1.773m	+5.2%

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 2016 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.

Consolidated Financial Results

Consolidated operating revenue reached CZK 27,720 million in the first nine months of 2016, flat year-on-year. In the third quarter, operating revenue declined 0.5% to CZK 8 192 million, helped by better trends in the Czech Republic and better revenue dynamics in Slovakia. This performance has been driven by slightly higher mobile customers' ARPU thanks to the company's focus on customer value, growing mobile data, O₂ TV revenue growth, lower fixed voice revenue decline and slight revenue growth in Slovakia. These items fully compensated lower mobile voice and fixed data revenue, which have been impacted by continuous price pressures in the corporate segment and lower roaming revenue due to EU regulation.

Operating revenue in the Czech Republic reached CZK 22 918 million, marking a 0.1% year-on-year growth, while in the third quarter they improved by 2.1% to CZK 7,814 million. **Fixed operating revenue** grew by 0.5% year-on-year reaching CZK 8,600 million in the first nine months (+4.7% to CZK 2,949 million in the third quarter), driven by 65.4% growth in O₂ TV revenue, 14.6% increase in ICT revenue and lower fixed voice revenue decline, which more than compensated continuous decline in data revenue. **Mobile operating revenue** were CZK 14,319 million in the first nine months, reporting a 0.2% year-on-year decline, while in the third quarter they improved 0.5% to CZK 4,865 million. This performance has been impacted largely by lower traditional voice and messaging revenue in corporate segment and negative roaming regulation impact, while contract residential revenue, namely data revenue, continued growing. Hardware revenue growth also supported improvement.

Revenue in Slovakia reached CZK 4,934 million in the first nine months 2016, by 0.5% higher year-on-year (+1.7% to EUR 182 million). In the third quarter, the growth rate accelerated and revenue improved 2.6% to CZK 1,726 million (+2.8% to EUR 64 million).

Total consolidated expenses³ went down by 1.2% year-on-year to CZK 19,926 million in the first nine months 2016, of which operating expenses declined by 2.9% year-on-year to CZK 5,720 million. In the Czech Republic, operating expenses reported a 4.7% year on year decline, helped also by positive impact of employee insourcing in call centres, IT and transfer of franchise shops to own shops. By the end of September in total about 800 employees were insourced. On the other hand, operating expenses in Slovakia increased by 6.2% year-on-year, largely due to continuous investments into B2B business entry. Personnel expenses (excluding restructuring

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

costs) increased by 12.3% year-on-year due to above mentioned insourcing. This growth was more than compensated by lower IT & Network maintenance expenses (-24.1%) and lower external call centres costs. The total Group headcount reached 4,729 personnel at the end of September 2016. At the same time, costs of sales decreased by 0.5% year-on-year in the first nine months of 2016.

Earnings before interest, depreciation and amortization (EBITDA) increased by 4.5% year-on-year to CZK 7,855 million in the first nine months of 2016, as 6.7% EBITDA increase in the Czech Republic to CZK 6 162 million more than compensated 3% decline in Slovakia (CZK 1,692 million, -1.6% to EUR 62.6 million). In the third quarter EBITDA increased by 4.1% year-on-year to CZK 2,801 million. **EBITDA margin** thus reached 28.3% in the first nine months, up by 1.2 percentage points, while in the third quarter it went up by 0.6 year-on-year to 29.5%.

In connection with ongoing IT and systems transformation O2 identified part of its systems as obsolete. Thus in the first nine months of 2016 (second and third quarter) it booked one off impairment charge in the Czech Republic and Slovakia related to this assets of CZK 150 million. **Depreciation and amortization charges** went down by 5.1% year-on-year reaching CZK 2,539 million.

Consolidated net income increased by 7.7% year-on-year to CZK 4,012 million in the first nine months 2016 (+4.2% to CZK 1,460 million in the third quarter).

Consolidated CapEx reached CZK 3,098 million in the first nine months 2016. This figure comprise also CZK 1,472 million investment to the 1,800 MHz and 2,600 MHz spectrum license in the Czech Republic, which the company acquired in the auction finished in June 2016. Excluding the spectrum, total CapEx declined by 9.7% year-on-year. The main CapEx areas were investments related to IT transformation (upgrade, consolidation and implementation of IT and systems) aiming at simplification of systems and processes. The company also continued investing in its core network management, and acquisition of latest broadcasting van, which will enable it to provide TV and media production to partners in the Czech Republic as well as in surrounding countries. In Slovakia investments were directed into 3G network capacity and quality enhancement and 4G LTE network coverage rollout, and upgrade of billing and CRM systems. Thus, the Group CapEx to revenue (excl. spectrum) reached 5.9% in the first nine months 2016.

The consolidated free cash flow⁴ reached CZK 2,592 million in the first nine months 2016. This figure comprise full acquisition price of the 1,800 MHz and 2,600 MHz spectrum license (advance payment/guarantee of CZK 450 million paid in the first quarter and price additional payment of CZK 1,022 million settled in the third quarter). For year on year comparison, the

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

one-off positive working capital with CETIN (CZK ~ 1 billion) in the first nine months of 2015, has to be also considered. Excluding this item in 2015 and spectrum acquisition price impact in 2016, free cash flow in the first nine months 2016 improved by 9.8% year-on-year.

The consolidated financial debt amounted to CZK 7,976 million at the end of September 2016. During the third quarter of 2016, there was no debt drawn and repaid. At the same time, **cash and cash equivalents** reached CZK 3,524 million. Thus, **net debt⁵ to EBITDA** reached 0.42 as at the end of September 2016.

CZ Mobile Business Overview

The company continued focusing on value proposition for its residential customers through its FREE tariffs to maintain high quality and loyalty of its customers. In corporate contract base, the company continues focusing on maintaining its leading position by addressing the needs of these customers with the commitment to be the innovation leader in the Czech mobile market. It continues in 4G LTE network rollout, where it aims to cover 99% of the Czech population. At the same time, it focuses on network densification, to enable better indoor coverage. In Prague, it adds additional capacity layers and new towers, where it installs 2CC technology. Gradually, more new towers with 3CC technology will be added. The main goal is to improve transmission capacity as a response to the sharp data traffic uptake

While contract residential revenue continue growing, due to competitive pressures revenue in corporate segment keep declining. However the company's strategy to focus on data revenue growth is positively reflected in average revenue per customer (ARPU) growth, which improved by 0.6% year-on-year in the first nine months 2016, and lower churn (-0.4 percentage point to 1.5%).

The 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. On top of higher 4G LTE network coverage, the growth has been also supported by the company's ongoing support of LTE smartphone sales. As a result, **data revenue⁶** went up by 13.1% year-on-year in the first nine months 2016. **Internet in handset** base grew by 15% year-on-year to 1,738 thousand at the end of September 2016. **Smartphone penetration⁷** grew further, reaching 55.1% at the end of September 2016, up by 9.4 percentage points year-on-year. LTE smartphones accounted already to 28% of all handsets in O2 network (up 12 percentage points year-on-year).

⁵ Gross debt less cash

⁶ Excluding SMS and MMS

⁷ Smartphones as % of total handsets base

The total **mobile customer base** reached 4,921 thousand at the end of September 2016, up 0.2_ year-on-year. The number of **contract customers** increased 2.5% year-on-year, reaching 3,330 thousand. In the first nine months 2016 their number increased by 92 thousand. The number of **prepaid customers** reached 1,591 thousand at the same date. The share of contract customers in total mobile customer base reached 67.7% at the end of September 2016, up by 1.5 p.p. year-on-year.

The blended monthly average **churn rate** went down by 0.4 percentage point year-on-year reaching 1.5% in the first nine months 2016. Contract churn was only 0.7%, down by 0.4 percentage point year-on-year. Monthly average churn rate in prepaid was 3.2%, representing a 0.3 percentage point decline year-on-year.

Total mobile ARPU was CZK 288 in the first nine months 2016, up by 0.6% year-on-year, as voice and SMS market price pressures and negative effect of new roaming regulation since May 2016 have been compensated by growing quality of the customer base and higher data spend. Excluding roaming, ARPU would grow by 1.2%. In the third quarter, ARPU was at CZK 290. **Contract ARPU** declined by 1% year-on-year to CZK 372 (-1.6% to CZK 377 in the third quarter), while **prepaid ARPU** improved by 0.1% year-on-year to CZK 119 in the first nine months 2016, while in the third quarter it improved by 0.6% to CZK 122.

Total **mobile operating revenue** in the Czech Republic were CZK 14,319 million in the first nine months 2016, representing a 0.2% year-on-year decline. However, in the third quarter, operating revenue improved by 0.5% to CZK 4,865 million. **Mobile service revenue** went down by 0.8% in the first nine months, with a lower 0.1% decline in the third quarter. **Data revenue** growth was the key driver for the improvement, as this revenue improved by 13.1% in the first nine months, but in the third quarter the growth accelerated to +14.1%.

CZ Fixed Business Overview

Thanks to propositions of new services in O₂ TV and fixed voice the company recorded solid operational performance and revenue turnaround in fixed business.

The company continues investing in acquisition of **additional exclusive sport content** and in August the **new O₂ TV Football channel** started broadcasting. In 2017, O₂ TV Tennis and O₂ TV Hockey will be launched. In addition, the OTT version (O₂ TV Air M) recorded increasing popularity. The service is available to all households in the Czech Republic with an internet connection from any provider, and the company sells it through retail as well as e-tail sales channels.

In fixed voice area the company has been offering new tariff with unlimited calls to all networks in the Czech Republic. At the end of September 2016, over 95% of the households enjoyed the tariff. This proposition was well accepted by the customers, which is confirmed by the fact that customers with new tariff call by 40% more.

The total number of **fixed voice lines** declined by 15.8% year-on-year reaching 727 thousand at the end of September 2016. However in the third quarter the decline rate decelerated and thanks to customers' migration to new unlimited tariff the average revenue per line improved by 44% year-on-year in the third quarter.

The number of **xDSL accesses** reached 774 thousand at the end of September 2016. The share of the high speed VDSL accesses kept growing to 62% and this technology is used already by 477 thousand customers (+15.8% year-on-year).

Number of **O₂ TV** customers reached **220 thousand** (IPTV and OTT), up by 11.6% year-on-year. A complementary service MULTI which enables customers watching TV on more TV sets at one time became very popular. Already **32 thousand** customers subscribed for this service.

The customers also like watching **O₂ TV** via internet and mobile application, or in Staropramen restaurants, pubs and bars. Number of viewers, who actively watched O₂ TV via internet and mobile application, reached close to **350 thousand** watchers in September 2016.

Total **fixed operating revenue** reached CZK 8,600 million in the first nine months 2016, up by 0.5% year-on-year, while in the second quarter the growth rate accelerated and revenue were 4.7% higher reaching CZK 2,949 million. Higher O₂ TV and ICT revenue and additional relevant voice revenue slowdown more than compensated continuous data revenue decrease. **Revenue from voice services** went down 5.1% year-on-year in the first nine months, while in the third quarter the decline rate was just -1.4%. **Internet & broadband revenue (incl. O₂ TV)** increased in total by 3.1% year-on-year in the first nine months, largely helped by 65.4% growth of O₂ TV revenue. **ICT revenue** went up by 14.6% year-on-year in the first nine months 2016.

Slovakia

O2 Slovakia group⁸ reported customers' growth and solid financial performance in the first nine months of 2016, despite the strong competition in Slovak market and negative roaming regulation impact. Thus it positively contributes to the group's financial results representing 18% of the consolidated revenue and 22% of EBITDA in the first quarter 2016. In addition to

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

mobile services for residential and SME customers, it also focuses on development and proposition of services for corporate and public sector customers via O2 Business Solutions.

Total number of mobile customers reached 1,865 thousand at the end of September 2016, posting a 5.2% year-on-year growth. The customer base increased by 56 thousand in the first nine months of 2016, of which 27 thousand was added in the third quarter. This growth was driven solely by **contract** additions. Their number grew by 11.7% year-on-year reaching 1,045 thousand at the end of September 2016, while the **number of prepaid customers** decreased slightly by 2.1% year-on-year to 819 thousand. Thus the customer mix quality keeps improving and share of contract customers on total base in Slovakia reached 56.1% at the end of September 2016, up by 3.3 percentage point year-on-year.

O2 Slovakia continued recording increasing demand for its smartphone proposition. This is reflected in growing smartphone penetration, which reached 54.1% at the end of September 2016, up by 6.5 percentage points year-on-year. LTE handset penetration was at 28.5%. This drove 12% year-on-year growth in number of mobile internet customers to 816 thousand. As a result mobile data revenue grew 28% year-on-year. O2 Slovakia keeps increasing 4G network population coverage. So, it is on track to cover 66% of Slovak population at the year-end, which means all regional towns, it's nearby and the most populated towns and villages as well as selected highways and motorways. In addition it continues building the most modern fibre backbone network.

In terms of financial performance, the **total operating revenue** in Slovakia increased 0.5% year-on-year reaching CZK 4,934 million in the first nine months of 2016 (+1.7% to EUR 182 million). Excluding roaming the revenue growth would be +4.1%. In the third quarter, the revenue growth accelerated and revenue went up by 2.6% to CZK 1,726 million (+2.8% to EUR 64 million) fuelled by customer growth, improving customer mix, refreshed portfolio of mobile phones leading growing hardware revenue and higher data revenue. **EBITDA** in Slovakia was 3% lower year-on-year reaching CZK 1,692 million (-187% to EUR 63 million), resulting in 34.3% EBITDA margin in the first nine months 2016. Excluding O2 Business Solutions, EBITDA in euros would improve by 1.7% and EBITDA margin would reach 35.5%.

Total mobile ARPU in Slovakia in the first nine months 2016 reached CZK 251 (EUR 9.3, EUR 9.4 excluding roaming), while **contract ARPU** was CZK 338 (EUR 12.5) and **prepaid ARPU** reached CZK 154 (EUR 5.7).

Other relevant events

Share buy-back

On 28 January 2016, the company commenced acquisition of own shares on the regulated market organized by the Prague Stock Exchange, under the conditions published in the connection with the approval of share buy-back program on the regulated market on 23 December 2015. By 30 September 2016 it acquired in total 2,760,951 of treasury shares (0.89% of total number of ordinary shares) for a total acquisition price of CZK 658 million. This represents an average price of CZK 238.2 per share.

Definite dismiss of the legal action by České Radiokomunikace against O2 Czech Republic

The legal action of České Radiokomunikace based on claim of recovery of damage and lost profit in the amount of CZK 3,107,900,211 was definitely dismissed. The decision was in legal force as of 30 August 2016. The legal action was based on argumentation on alleged margin squeeze on broadband services based on xDSL technology which should allegedly cause the damage to Ceske Radiokomunikace. None of these claims was ever proven in the proceedings, nor damage nor any illegal action of O2 Czech Republic was recognized. The legal action was already in legal force and the proceedings therefore successfully closed.

O2 Czech Republic filed the legal action against Czech Telecommunications Office due to inactivity

In tens of thousands disputes with debtors the Czech Telecommunications Office (CTO) was inactive, in some cases for years, and therefore claims and damages devaluated and the amount of damage occurred to O2 Czech Republic exceeded CZK 250 million. Economic impacts have reached this extent, just because the delay occurred in the large number of claims which could not be further realistically enforced. Although the law sets clear deadlines for issuing decisions, these deadlines have been exceeded multiple. Under this situation, O2 had no other option than to turn to the CTO with request for recovery of damages and non-material damage. As CTO refused to grant the request, O2 has been forced to file the legal action to the court on 6 September 2016.

As previously stated by O2 in January this year, these disputes are simple proceedings with customers who do not fulfil their commitments and owes for telecommunications services. In fact, these are not disputes in the traditional sense. The subject is mostly uncontested claims, where the reason is lack of will or ability to pay voluntarily. The claim in majority of the cases does not exceed ten thousand crowns.

Personal change in the Supervisory Board

The Supervisory Board of at its meeting on 18 October 2016 took into account resignation of Aleš Minx as the Supervisory Board member. Aleš Minx resigned for personal reasons as of

October 18, 2016. Effective as of October 19, 2016 Ladislav Bartoniček took office of a substitute member of the Supervisory Board, until the next General Meeting of the company.

Attachment:

Condensed 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.

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	Jan – Sep 2016	Jan – Sep 2015
Operating revenue	27,720	27,706
Non-operating revenue	41	74
Revenue	27,761	27,780
Internal expenses capitalized in fixed assets	223	160
Cost of sales	(14,224)	(14,302)
Operating expenses	(5,925)	(6,032)
Other operating income/(expenses)	20	(89)
EBITDA	7,855	7,517
EBITDA margin	28.3 %	27.1 %
Depreciation and amortization	(2,539)	(2,674)
Impairment reversal/(loss)	(153)	(3)
Operating profit	5,163	4,840
Net financial income (expense)	(67)	(135)
Results attributed to joint venture	(2)	8
Profit before tax	5,094	4,713
Income tax	(1,082)	(986)
Profit from continuing operations	4,012	3,727
Profit after tax from discontinued operations	-	1,722
Profit	4,012	5,449

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30.9.2016	31.12.2015
Non-current assets	21,690	21,420
- Intangible assets	16,672	16,147
- Property, plant and equipment and investment property	4,520	4,638
- Long-term financial assets and other non-current assets	225	312
- Deferred tax assets	273	323
Current assets	10,658	8,848
- Inventories	587	722
- Trade and other receivables	6,530	6,156
- Cash and cash equivalents	17	1,970
	3,524	
Total assets	32,348	30,268
Equity attributable to owners of the parent	16,752	18,344
Non-controlling stake	1	-
Total equity	16,753	18,344
Non-current Liabilities	8,275	3,146
- Long-term financial debt	7,976	2,970
- Deferred tax liabilities	91	60
- Non-current provisions for liabilities and charges	27	22
- Non-current other liabilities	181	94
Current Liabilities	7,320	8,778
- Short-term financial debt	0	11
- Trade and Other payables	7,180	8,391
- Current income tax payable	3	245
- Provisions for liabilities and charges	137	131
Total Equity and Liabilities	32,348	30,268