

O2 in 1H 2019: Growth in fixed services thanks to the broadband internet for homes and corporates and continuous success of O₂ TV

2 August 2019

- Substantial expansion of broadband Internet HD availability led to a 20 thousand year on year growth of the customer base. At the end of June 2019, in total 822 customers were subscribed to O2 broadband internet.
- For the first time in history, only the customers of O₂ TV could watch all the matches of FORTUNA:LIGA, UEFA Champions League or domestic ice hockey league. Number of O₂ TV monthly subscribers and those watching television on internet or via our application increased by 39% to 909 thousand active accesses helped also by a unique sport content.
- Consolidated revenue went up 2.1% year-on-year to CZK 19 billion in the first half of 2019, with growth reported both in the Czech Republic and Slovakia.
- Consolidated EBITDA grew by over 12% to CZK 6.1 billion. Higher investments in past years, which were directed mainly into the exclusive sport rights, further improvement of own network in Slovakia and IT transformation, led to a 6% decline in consolidated net income to CZK 2.6 billion.

“After a consistent long-term growth of the mobile services, we to reverse the trend also in the fixed services and we achieved growing broadband internet customer base, helping us to increase revenue across the entire fixed segment. Our unique movie and sport content in O₂ TV continues to significantly contribute to the growth. Thus it became the one and only TV service in the Czech Republic, which offers such a wide and varied range of exclusive content,” comments Jindřich Fremuth, Chief Executive Officer and the Chairman of the Board of Directors of O2 Czech Republic on the results, and adds: *“This also helped us to increase number of O₂ TV customers by over 40 thousand and number of broadband Internet HD customers by close to 14 thousand in the first half of this year.”*

“Growing customer base has been already positively reflected in our revenue for the first half of 2019. While our operating profit EBITDA increased by over 12% year-on-year, higher investments last year led to an increase in depreciation and a year-on-year decline in the net profit,” explains Tomáš Kouřil, the company’s Chief Financial Officer and Vice-Chairman of the Board of Directors and adds: *“The June Annual General Meeting approved the payment of a dividend and part of the share premium totalling CZK 21 per share. We thus offer our shareholders one of the highest returns in the telecommunications sector.”*

Overview of key events in the second quarter 2019

O2 started offering the **fixed Internet connection EXKLUSIV HD** to selected customers. It allows **download speeds of up to 1,000 Mbps** and uploads of up to 100 Mbps. The fastest fixed internet can also be purchased as part of the O₂ Spolu bundled package. This new tariff can only be **combined with the O₂ Smart Box modem**, which is technically tested for transmitting high speeds and is able to transfer the speed via cable to the home network or wirelessly via Wi-Fi.

As part of the **C-Roads Czech Republic project**, O2 introduced a **mobile transport application** and a **vehicle unit**. Thanks to this, **cars can communicate not only with each other**, but also **with traffic signs, rail crossings, rescue system vehicles or traffic lights**. The mobile app alerts drivers via a mobile phone or dashboard information panel about traffic hazards, an oncoming ambulance or a rail crossing through which a train will be passing through. The project aims to significantly increase road safety not only in the Czech Republic, but also within the European Union.

O2 continues preparations for the arrival of 5G. At the end of June, in Kolín, it introduced a **real 5G in a real environment**. In addition to **fast data transmission**, it also provides a **very short response time**. The O2 5G network in Kolín has been tested together with CETIN and the equipment used is provided by Ericsson. The operator launched the technology at a leased test frequency of 3.5 GHz, complemented by Massive MIMO 64T64R and 256QAM technologies. Real-world experience will help selecting suppliers and develop countrywide coverage of fifth generation networks after the necessary frequency bands are auctioned.

Operating overview

Mobile segment

Thanks to the successful proposition of **O₂ Spolu bundled packages** and continuing popularity of **O₂ FREE** and **O₂ Data tariffs**, the **total number of mobile registered customers**¹ reached 5,597 thousand at the end of June 2019. The number of **mobile contract customers** was at 3,199 thousand, the number of mobile prepaid customers stood at 1,970 thousand, while the number of M2M services reached 429 thousand.

In O2 network, smartphones represent 74% of handsets and 62% of total handsets support LTE technology. The larger portion of data volumes included in FREE tariffs along with customers' interest in O₂ Data tariffs with a monthly data volume of 4 to 20 GB and with an increase in the number of customers with a 4G LTE-enabled smartphone contributed to a 31% year-on-year increase in mobile data usage generated in handsets.

Fixed segment

The number of **O₂ TV** tariffs customers provided over O2 fixed line (IPTV) as well as over internet connection from any provider (OTT), reached **381 thousand** as at 30 June 2019, including households subscribed for complementary **MULTI service**, which enables customers to watch TV on multiple TV sets at once. During the first half of 2019, the number of O₂ TV customers improved by 43 thousand. The opportunity to watch O₂ TV content on the

¹ Since 1Q 2019, it comprises mobile customers who have generated revenue for the past 13 months and excludes Internet HD mobile customers using 4G LTE and WTTx wireless technologies; comparable data for the previous period have been adjusted.

web or in mobile applications used in average close to 530 thousand viewers on a regular basis in the first half of 2019, including customers of O₂ TV Sport Pack package. Thus, O₂ registered over **900 thousand O₂ TV active accesses**² as at the end of June 2019.

Number of **broadband internet customers**³ over cable as well as wireless technology reached in total 812 thousand as at 30 June 2019. During the first half of 2019, their number increased by 14 thousand.

Slovakia

O₂ Slovakia keeps recording increasing demand for its O₂ Pausal mobile tariffs portfolio. As at 30 June 2019, the **total active customer base** reached 2,081 thousand. Contract base amounted to 1,330 thousand and it represented 63.9% of total base, up by 2.9 percentage points year-on-year.

Financial overview

Total consolidated operating revenue reached **CZK 18,989 million** in the first half of 2019, up 2.1% year-on-year, with growing revenue in all segments. **Operating revenue in the Czech Republic** improved by 1.7% to **CZK 15,364 million**, thanks to the 2.6% growth in **fixed revenue** to CZK 5,449 million and a 1.1% year-on-year growth of **mobile revenue** to CZK 9,915 million. Mobile data, financial services, O₂ TV and ICT were the key revenue growth drivers.

In **Slovakia**, total **operating revenue improved by 3.7%** to EUR 146 million in the first half of 2019. In Czech koruna (CZK) the operating revenue reached CZK 3,756 million, up 4.4% year-on-year. Similarly to the Czech Republic, higher mobile data revenue was the key growth driver.

Consolidated earnings before depreciation and amortisation **EBITDA** improved by **12.6%** year-on-year to **CZK 6,055 million** in the first half of 2019, thanks to the higher revenue, savings in majority of costs and a positive impact of the new IFRS 16 accounting standard. In the Czech Republic, EBITDA grew by 11.5% to CZK 4,563 million, while Slovakia reported a 17.5% increase to CZK 1,510 million (+16.6% to EUR 59 million). Consolidated **EBITDA margin improved** by 3 percentage points to 31.9% in the first half of 2019.

Consolidated **net profit declined by 6.2%** year-on-year reaching **CZK 2,604 million** in the first half of 2019 as higher investments into growth areas in 2018 led to depreciation & amortisation growth.

² IPTV/ OTT including MULTI, web and mobile apps accesses.

³ Fixed (xDSL, fiber), wireless (4G LTE, WTTx).

KEY FINANCIAL INDICATORS OF THE GROUP

Financial indicators	1H 2019	1H 2018	Year-on-year change
Operating revenue	CZK 18,989 mil.	CZK 18,599 mil.	+2.1 %
- CZ mobile revenue	CZK 9,915 mil.	CZK 9,803 mil.	+1.1 %
- CZ fixed revenue	CZK 5,449 mil.	CZK 5,310 mil.	+2.6 %
- SK revenue	CZK 3,756 mil.	CZK 3,597 mil.	+4.4 %
Total costs	CZK 12,995 mil.	CZK 13,254 mil.	-2.0 %
- of which operating costs	CZK 3,843 mil.	CZK 4,042 mil.	-4.9 %
EBITDA	CZK 6,055 mil.	CZK 5,378 mil.	+12.6 %
EBITDA margin	31.9 %	28.9 %	+3.0 p. p.
Net profit	CZK 2,604 mil.	CZK 2,776 mil.	-6.2 %

In this section, we present and comment in more detail on the unaudited consolidated financial results for the six months ended 30 June 2019 of O2 Czech Republic a.s. prepared in accordance with the International Financial Reporting Standards.

New standard IFRS 16 – Leases

The new IFRS 16 – Leases is mandatory for accounting periods beginning on or after 1 January 2019 and replaces all existing IFRS lease requirements for both the lessees and the lessors. IFRS 16 provides a single balance sheet accounting model for leases. In the case where the O2 Czech Republic Group (the O2 Group) is the lessee, it recognises the right-to-use asset, which represents its right to use the underlying asset, and the liability under the lease, which expresses the obligation to pay the lease payments.

The O2 Group has adopted the new IFRS 16 using a modified retrospective method. Comparable data for the previous period has not been adjusted. Thus, as of 1 January 2019, it newly recognises assets and liabilities mainly from operating leases of stores, office and technical buildings, vehicles, office equipment, and in Slovakia also from rental of telecommunication technologies. The nature of these related costs has changed; the O2 Group newly recognises the depreciation of usage rights and interest expense of lease liabilities, instead of operating costs (included in EBITDA) reported before.

In the first half of 2019, a positive consolidated EBITDA effect of IFRS 16 amounted to CZK 380 million and a negative consolidated net income impact reached CZK 19 million. Detailed information on the IFRS 16 impact on other selected consolidated financial indicators in the first half of 2019 is provided at [O2 web pages](#) (see Facts & Figures).

Consolidated Financial Results

Consolidated operating revenue increased by 2.1% year-on-year to reach CZK 18,989 million in the first half of 2019. Thanks to the customers' interest in the family and group O₂ Spolu packages, the new mobile tariffs with an increased data volume, and growing O₂ TV base, mobile data revenue and digital TV revenue kept growing. Revenue from financial services also maintained an increase. In addition, positive performance in Slovakia positively contributed to the consolidated revenue. Similarly to the Czech Republic, mobile data were the key growth driver in Slovakia as well. Growth in the aforementioned revenue compensated for declining revenue from traditional voice and data services.

Operating revenue in the Czech Republic reached CZK 15,364 million, marking a 1.7% year-on-year growth. **Mobile operating revenue**⁴ reached CZK 9,915 million, reporting a 1.1% year-on-year growth, as a 10.7% increase of data revenue and a 21% increase in revenue from financial services more than compensated a 3.9% decline of voice revenue, a 11.2% dilution of messaging revenue and by 2.7% lower hardware & accessories sales revenue. **Fixed operating revenue** performance improved compared to the previous years and in the first half of 2019, revenue grew by 2.6% year-on-year to CZK 5,449 million. Again, close to 30% year-on-year higher revenue from O₂ TV contributed the most to this growth. Thanks to the broadband Internet HD base's growth, the relevant revenue decline almost stopped. ICT revenue grew by 10.9% year-on-year, largely fuelled by a single relevant ICT

⁴ Since 1Q 2019 revenue from wireless technology (4G LTE and WTTx) of Internet HD product reported in the fixed segment, while till 4Q 2018 it was included in the mobile operating revenue; comparable data for the previous period have been adjusted.

project for the government sector. Revenue growth in the aforementioned areas more than compensated continuous decline of voice revenue, which were 12.6% lower year-on-year, and limited data revenue erosion. **Revenue in Slovakia**⁵ reached CZK 3,756 million, up by 4.4% year-on-year. In local currency, the revenue improved by 3.7% to EUR 146.3 million.

Total consolidated expenses⁶ went down 2% year-on-year to CZK 12,995 million in the first half of 2019. Excluding the impact of the new IFRS 16 standard, they would have grown slightly by 0.9% year-on-year. In the Czech Republic, they decreased by 1.6% (+0.9% excluding IFRS 16 impact), Slovakia reported a 2.5% decline (+2.2% excluding IFRS 16 impact). Costs of sales were 0.7% lower year-on-year as lower fixed costs of services (-2.7%) and a 3% year-on-year decline of the commercial costs more than compensated slightly higher mobile costs of service (+1.8%) related to the wireless technology rollout of the broadband internet in the Czech Republic. Operating expenses were reduced by 4.9% year-on-year, while excluding the impact of the new IFRS 16 standard they would have grown by 2.3%, driven mainly by a 3% growth in personal costs, which has, however, slowed down in the second quarter due to the headcount reduction. This is a first tangible result of IT systems transformation, whose main goal was to build a unified interface that simplifies customer service across all sales and service channels and which also enables customers to make greater use of the intuitive My O₂ self-service application.

Earnings before interest, depreciation and amortisation (EBITDA) improved by 12.6% year-on-year to CZK 6,055 million in the first half of 2019. Excluding the impact of the new IFRS 16 standard EBITDA would have gone up by 5.5% year-on-year to CZK 5,675 million. In the Czech Republic, EBITDA grew by 11.5% reaching CZK 4,563 million (+4.9% excluding IFRS 16 impact), while Slovakia reported a 17.5% uptake to CZK 1,510 million (+9% excluding IFRS 16 impact). Thus, the consolidated **EBITDA margin** reached 31.9% in the first half of 2019. In the Czech Republic, it amounted to 29.7% and in Slovakia to 40.2%.

Consolidated net income reached CZK 2,604 million in the first half of 2019, down by 6.2% year-on-year. Excluding the impact of the new IFRS 16 standard, net income would have declined by 5.5% year-on-year to CZK 2,623 million. This decline was driven mainly by a 23.3% growth in depreciation and amortisation charge driven by higher investments into the exclusive sport rights, further improvement of own network in Slovakia and IT transformation in 2018.

Consolidated capital expenditures (CapEx) reached CZK 1,055 million in the first half of 2019, down by 22.7% year-on-year, and their share to consolidated revenue was 5.5%.

Investments in Slovakia grew by 11.4% year-on-year reaching CZK 479 million and CapEx to revenue grew by 0.8 percentage points to 12.8%. Investments continued to be directed mainly into own 2G network coverage expansion with the aim to reduce dependency on national roaming. O2 Slovakia also continued investing into 4G LTE and wireless WTTx networks rollout and capacity improvement of the backbone and transmission networks with the aim to capture the growing customers' demand for mobile data.

⁵ O2 Slovakia and O2 Business Services; The following CZK/EUR FX rates have been used: 25.50 in 1H 2018, and 25.68 in 1H 2019.

⁶ Cost of sales, operating expenses and Internal expenses capitalised in fixed assets.

In the Czech Republic, CapEx reached CZK 575 million in the first half of 2019, representing a 38.1% year-on-year decline and CapEx to revenue share was at only 3.7%. IT systems upgrade and network investments related to the development of the new services were the main CapEx areas. On top of that, there were investments in O2 brand shops redesign.

The consolidated free cash flow⁷ reached CZK 2,771 million in the first half of 2019, up 29.7% year-on-year. A 27.6% year-on-year growth in net cash from operating activities helped by a positive working capital changes and IFRS 16 impact, which were the key free cash flow growth contributors, more than compensated a 24.2% increase in net cash used in investing activities due to higher cash purchase of non-current assets related to higher investments in the second half of 2018. Based on the IFRS 16 standard, payments of lease liabilities are included in Net cash used in financing activities, while till 2018, they were included in net cash from operating activities. Excluding IFRS 16 impact, free cash flow would grow by 12% year-on-year.

The consolidated financial debt⁸ amounted to CZK 14,578 million as at 30 June 2019 compared with CZK 10,499 million at the 2018 year-end. The CZK 4,079 million growth relates to the promissory loan notes (Schuldschein) placement for a total of EUR 160 million across 4 tranches. At the end of June 2019, **cash and cash equivalents** reached CZK 8,813 million compared with CZK 2,475 million as at 31 December 2018. Cash accumulation for the 2018 dividend and part of the share premium payment in the total amount of CZK 6,332 million was the key driver for higher cash balance. The payment commenced on 4 July 2019. Thus, **net debt**⁹ to **EBITDA** reached 0.5 at the end of June 2019.

Slovakia

Thanks to the continuous investments into expansion of the services portfolio and their quality improvement, in the first half of 2019, O2 Slovakia group¹⁰ reported continuous growth of the customer base, increase of share of contract customers with higher spend, which led to the increase of average revenue per customer. This resulted in yet another improvement of the financial performance. Thus, O2 Slovakia group keeps contributing positively to the O2 Group's financial results as it represented 20% of the consolidated revenue, 25% of consolidated EBITDA¹¹ and 26% of consolidated net income in the first half of 2019.

O2 Slovakia continued recording increasing demand for its smartphone portfolio. This was reflected in growing smartphone and LTE handset penetrations. Thanks to the 4G LTE network coverage expansion, which was available for 96.48% of the Slovak population at the end of June 2019, growth in LTE handset penetration and increasing customers' demand for tariffs with improved data volumes, the number of customers increased by 5.4% year-on-year to 2,081 thousand. The share of mobile contract customer base in the total base reached 63.9% at the end of the first half of 2019, up 3 percentage points year-on-year.

⁷ Free cash flow = Net cash flow from operating activities plus Net cash used in investing activities; since 1Q 2019 interest paid (including interest expense of lease liabilities) included in Net cash used in financing activities, while until 4Q 2018 they were included in Net cash flow from operating activities; comparable data for the previous period have been adjusted.

⁸ Long term and short term (excluding Lease liability).

⁹ Gross debt (excluding Lease liability) less cash/EBITDA (excluding IFRS impact) for the last 12 months.

¹⁰ Including O2 Business Services, a. s. (100% subsidiary of O2 Slovakia).

¹¹ Lower operational profitability in the Czech Republic compared to Slovakia due to inclusion of fixed and mobile network charge by CETIN into cost of service.

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 providers 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 – June 2019	January – June 2018
Operating revenue	18,989	18,599
Non-operating revenue	26	30
Revenue	19,015	18,629
Internal expenses capitalised in fixed assets	169	171
Cost of sales	(9,321)	(9,383)
Operating expenses	(3,843)	(4,042)
Other operating income/(expenses)	35	3
EBITDA	6,055	5,378
EBITDA margin	31.9 %	28.9 %
Depreciation and amortisation (including amortisation of right of use asset)	(2,299)	(1,575)
Amortisation of cost to obtain contract	(266)	(214)
Impairment reversal/(loss)	(11)	(8)
Operating profit	3,479	3,581
Net financial income (expense)	(167)	(83)
Share of profit/(loss) of investments accounted for using the equity method	-	3
Profit before tax	3,312	3,501
Income tax	(708)	(725)
Profit	2,604	2,776

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	30 June 2019	31 December 2018
Non-current assets	28,406	25,190
- Intangible assets	16,251	17,164
- Property, plant and equipment and investment property	6,132	6,130
- Right-of-use assets	4,167	-
- Incremental costs to obtain contract	709	678
- Long-term financial assets and other non-current assets	884	916
- Non-current contract asset	120	134
- Deferred tax assets	143	168
Current assets	17,577	10,940
- Inventories	978	906
- Trade and other receivables	7,282	7,067
- Current tax receivable	116	81
- Current contract asset	372	411
- Cash and cash equivalents	8,813	2,475
- Asset held-for-sale	16	-
Total assets	45,983	36,130
Equity attributable to owners of the parent	11,440	15,225
Non-controlling stake	17	-
Total equity	11,457	15,225
Non-current Liabilities	19,334	12,083
- Non-current financial debt	14,539	10,461
- Deferred tax liabilities	492	484
- Non-current provisions for liabilities and charges	65	66
- Non-current contract liability	62	81
- Non-current lease liability	3,515	-
- Non-current other liabilities	661	991
Current Liabilities	15,192	8,822
- Short-term financial debt	39	38
- Trade and Other payables	13,707	7,975
- Current income tax payable	90	116
- Current lease liability	714	-
- Current contract liability	564	610
- Provisions for liabilities and charges	78	83
Total Equity and Liabilities	45,983	36,130