Interim report

O2 Czech Republic –
January to March 2015 Financial Results

May 13, 2015

O2 Czech Republic a. s. announces its unaudited financial results for January to March 2015. These results are consolidated and prepared according to International Financial Reporting Standards and fully include the results of O2 Slovakia s.r.o. and other subsidiaries.

Operational highlights of 1Q 2015

- **We maintain our position in a declining market:**
    - **Mobile contract base growth of 1.0%** year-on-year in the Czech Republic, sound growth of 8.6% in Slovakia
    - **Smartphone penetration in the Czech Republic growing to 42%**, up by 8 percentage points year-on-year, driving growth of mobile data traffic
    - **VDSL accesses growing** by 14.8% year-on-year, helping to manage fixed broadband ARPU dilution and low churn. Total xDSL base growing 1.4% year-on-year with 8 thousand net adds in 1Q 2015
    - **O_2 TV customer base growth continues**, driven by new features reaching close to 190 thousands customers (15.5% year-on-year growth)
    - **Fixed voice lines disconnections decelerated compared to the previous periods**, having declined by 10.3% year-on year
- **Consolidated operating revenue** reaching CZK 11,160 million, growing by 3.7% year-on-year thanks to **fixed transit business**, **mobile data** and **Slovakia**
- **EBITDA** grew by 25.6% year-on-year to CZK 4,332 million, helped by tangible OPEX reduction, with EBITDA margin[1] reaching 38.8%
- **Net income went up by 106%** year-on-year to CZK 1,150 million.
- **O2 Slovakia** with sustained its commercial momentum and further increasing its contribution to the Group financial performance
- **The General Meeting** approved the **separation of the company** by spin-off and **dividend for 2014**

[1]EBITDA/Operating revenue

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Consolidated Financial Results

Consolidated operating revenue reached CZK 11,160 million, up by 3.7% year-on-year in 1Q 2015. The revenue year-on-year performance improved compared to the previous quarters (-9.6% in 1Q 2014, -8.3% in 2Q 2014, -3.2% in 3Q 2014 and -0.5% in 4Q 2014). This performance has been helped by the improving spend trend and growing data revenues in mobile segment, solid growth of wholesale transit revenues in fixed segment and continuous revenue growth in Slovakia.

Fixed operating revenue in the Czech Republic reached CZK 4,916 million, up by 3.2% year-on-year, showing a stabilized trend of operating revenue quarter-on-quarter.

Mobile operating revenue in the Czech Republic were CZK 4,732 million, reporting 0.4% year-on-year growth, impacted by intense competitive pressures with decline in traditional voice and messaging revenue, which were more than offset by uptake in data and hardware revenues.

Revenue in Slovakia reached EUR 58.2 million, growing by 17.1% year-on-year, the revenue growth denominated in CZK currency was 17.9% year-on-year.

The Group has continued in its effort to deliver efficiencies in both commercial and non-commercial areas of its operations. **Total consolidated operating expenses**[2] went down by 5.0% year-on-year to CZK 6,765 million, of which operating expenses declined by 23.7% year-on-year helped by simplified operating model and procurement contracts renegotiation. Personnel expenses (excluding restructuring costs) declined by 11.1% year-on-year as the Company continued in its restructuring programme focused on building more lean and flexible organizational structure. The total Group headcount[3] has been further optimised to reach 4,613 personnel at the end of March 2015, representing 11% year-on-year reduction. At the same time, costs of sales increased by 18% year-on-year due to higher commercial activities in fixed transit and higher hardware costs in line with growing revenue.

Earnings before interest, depreciation and amortization (EBITDA) increased by 25.6% year-on-year to CZK 4,332 million, driven by growing revenue, focus on efficiency agenda, growing profitability in Slovakia and lower base in 1Q 2014. **EBITDA margin** reached 38.8%, up by 6.8 p.p. year-on-year.

Depreciation and amortization charges went up by 4.7% year-on-year reaching CZK 2,815 million. **Consolidated net income** increased by 106.1% year-on-year to CZK 1,150 million in 1Q 2015, largely due to growing EBITDA which more than offset higher depreciation and amortisation, higher net financial expenses and higher income tax charge.

Consolidated CapEx reached CZK 771 million in 1Q 2015. On fully comparable basis[4] CapEx increased by 26.9% year-on-year. The Company continued to focus on efficient investments into growth areas. In mobile segment these included largely deployment of LTE network using the spectrum purchased in 2014, 2G/3G mobile networks sharing and consolidation, further capacity expansion and improvement of the quality of mobile broadband network, in line with the growing demand for mobile data services. Additionally, in fixed business the Company directed its investments into capacity enhancements of its fixed broadband networks by VDSL expansion via

[2] Costs of sales and operating expenses
[3] Excluding the headcount of Bonerix, the Group subsidiary
[4] Excluding acquisition costs of LTE spectrum in both Czech Republic and Slovakia in 1Q 2014.

construction of new remote DSLAMs. In addition the Company started testing so called vectoring, which shall be commercially launched in the near future and which will enable up to two times higher speeds.

Consolidated free cash flow was positive in 1Q 2015 at CZK 2,328 million, representing 52.5% year-on-year growth on like-for like[5] basis. This has been helped by higher net cash from operating activities, driven largely by higher profit and lower tax paid, and relatively stable net cash used in investing activities[5]. **The consolidated financial debt** amounted to CZK 7 billion at the end of March 2015, the same amount as at 2014 year end. At the same time, **cash and cash equivalents** reached CZK 5,589 million, as the Company continued accumulating cash for 2014 dividend payment (CZK 4,103 million) to be commenced on 28 May 2015.

CZ Mobile Business Overview

The Company continued in its strategy to focus on value proposition through its data centric tariffs to maintain high loyalty of its customers. In business contract base, the Company continues focusing on maintaining its leading position by addressing the needs of its business customers with the commitment to be the innovation leader in the Czech mobile market.

The demand for mobile data continued to grow largely thanks to improved proposition in the Company's tariffs with extended data package, and the Company's ongoing support of smartphone sales via instalment model, while keeping the best price guarantee proposition for the bestselling smartphones. As a result, **data revenue**[6] went up by 6.1% year-on-year in 1Q 2015. **Small screen base**[7] grew by 14.3% year-on-year at the end of March 2015. **Smartphone penetration**[8] grew further, reaching 41.6% at the end of March 2015, up by 8 percentage points year-on-year. In 1Q 2015, smartphones accounted for about 75% of all new phones sales and 90% of them were LTE smartphones. At the end of March 2015 LTE smartphones accounted to 22% of all smartphones in O2 network.

The total **mobile customer base** reached 5,013 thousand at the end of March 2015. The number of **contract customers** grew by 1.0% year-on-year, reaching 3,269 thousand. The number of **prepaid customers** reached 1,744 thousand at the end of March 2015, down by 4.7% year-on-year.

The blended monthly average **churn rate** reached 2.0% in 1Q 2015 down by 0.4 percentage point year-on-year. Contract churn was at 1.2% by 0.2 percentage lower compared to the same period in 2014. Monthly average churn rate in prepaid was 3.6%.

In terms of usage, total **mobile traffic**[9] carried by our customers in the Czech Republic reached 2,876 million minutes in 1Q 2015, up by 2.1% year-on-year, supported by the adoption of unlimited on net voice calling in the Czech Republic in all tariffs and unlimited all net voice calling in some tariffs.

Total mobile ARPU was CZK 280 in 1Q 2015, down by 0.8% year-on-year, impacted largely by price pressures in the market, which were not fully offset by growing quality of the customer base.

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[5] Excluding payment for LTE license in 1Q 2014
[6] Excluding SMS and MMS
[7] Customer base using mobile internet in handsets
[8] Smartphones as % of total handsets base
[9] Inbound and outbound, including roaming abroad, excluding inbound roaming

Contract ARPU decline further decelerated to -2.5% year-on-year reaching CZK 369 in 1Q 2015. **Prepaid ARPU** increased by 0.7% year-on-year to CZK 115.

Total **mobile operating revenue** were CZK 4,732 million in the Czech Republic, representing year-on-year growth of 0.4% in 1Q 2015. At the same time, **mobile gross service revenue** went down by 1.6% year-on-year to reach CZK 4,282 million. Continuous competitive pressures mainly in business segment led to lower voice and messaging revenues, while data revenues remained key growth driver. **Mobile originated voice revenue** declined by 6.0% year-on-year to CZK 2,352 million, while **messaging (SMS & MMS) revenue** were 9.3% lower due to lower effective per unit price. **Terminated revenue** went up by 11.9% year-on-year to CZK 543 million, largely helped by higher incoming traffic. **Hardware revenues** went up by 29.6% driven by higher sales.

CZ Fixed Business Overview

In the highly competitive and declining market the Company reported solid commercial and financial performance in all key areas. This has been helped by continuous growth of xDSL service, O_2 TV to the broadband retail customer base, as well as by growth of voice wholesale revenue. Continuous migration of the existing ADSL customers to the VDSL service, and O_2 TV with added features such as multiscreen access (O2 TV Go Multiscreen) including replay of up to 30 hours of any channel, are helping the Company to decelerate fixed broadband ARPU dilution and sustain low churn.

The total number of **fixed voice lines** declined by 10.3% year-on-year reaching 906 thousand at the end of March 2015, with decelerating net losses (-22 thousand) during the period.

The number of **xDSL accesses** reached 931 thousand at the end of March 2015, up by 1.4% year-on-year, with positive net additions of 8 thousand in the past quarter. The share of the high speed VDSL accesses kept growing to 47%. In respect of VDSL, 435 thousand customers (+14.8% year-on-year) have already subscribed for the upgraded service. The total number of **O_2 TV customers** reached 188 thousand at the end of the period, up 15.5% year-on-year thanks to maintained popularity of the new O_2 TV launched in 2013.

Total **fixed operating revenue** reached CZK 4,916 million in 1Q 2015, up by 3.2% year-on-year. **Revenue from voice retail services** continued in trend and fell by 18.7% year-on-year, in line with the performance of previous periods, reaching CZK 773 million, due to continuing fixed voice line losses. **Voice wholesale revenue** improved by 34.2% year-on-year to CZK 1,668 million driven by transit business. **Internet & broadband revenue (incl. O_2 TV)** declined by 4.1% year-on-year to CZK 1,379 million, resulting from competitive retail broadband ARPU pressures, not fully compensated by year-on-year growth in xDSL and O_2 TV customer base. **Total ICT revenue** went up by 8.5% year-on-year to CZK 427 million.

<u>Slovakia</u>

O2 Slovakia continues to be one of Group's key growth drivers, which represented close to 15% of the consolidated revenue and EBITDA in 1Q 2015. O2 Slovakia managed to keep solid commercial and financial performance in 1Q 2015 despite the strong competition. **Total number of customers** reached 1,702 thousand at the end of March 2015, posting 7.7% year-on-year growth. The customer base increased by 18 thousand in 1Q 2015, with 75% of net adds in contract customer base. The **number of contract customers** grew by 8.6% year-on-year reaching 871 thousand at the end of March 2015, while the **number of prepaid customers** increased by 6.8% year-on-year reaching 831 thousand. Share of contract customers in Slovakia reached 51.2% of the total customer base at the end of March 2015, up by 0.4 percentage point year-on-year.

In terms of financial performance, the **total operating revenue** of O2 Slovakia in local currency grew 17.1% year-on-year reaching EUR 58.2 million in 1Q 2015 (+17.9% to CZK 1,608 million), fuelled by customer growth, refreshed portfolio of mobile phones, improving customer mix and the focus on acquiring higher value customers both in residential and small and medium enterprises. At the same time, **EBITDA** of O2 Slovakia went up by 20.5% year-on-year to EUR 19.6 million (+21.3% to CZK 542 million), resulting in growing EBITDA margin to 33.7% in 1Q 2015 (+1.0 percentage point year-on-year). **Total ARPU** in Slovakia reached EUR 9.2 in 1Q 2015, while **contract ARPU** was at EUR 12.7 and **prepaid ARPU** at EUR 5.6.

<u>Other relevant events</u>

Outcome of the Annual General Meeting

The Annual General Meeting of O2 Czech Republic a.s. was held on 28 April 2015 in Prague.

The supreme body of the company approved the unconsolidated and consolidated financial statements of the company for the year 2014 prepared under the International Financial Reporting Standards (IFRS). Both sets of financial statements were recommended for approval by the Board of Directors of the company, reviewed by the Supervisory Board and audited by the audit firm KPMG Česká republika Audit, who gave both sets of financial statements its unqualified statement.

The General Meeting further approved the distribution of the company's unconsolidated 2014 profit and part of unconsolidated retained earnings from the previous years as a dividend in the total amount of CZK 4,103 million. A dividend of CZK 13 before tax will be paid to each share with a nominal value of CZK 87 and a dividend of CZK 130 before tax will be paid to the share with a nominal value of CZK 870. The date of record for the dividend payment, the payout of which shall be carried out by Česká spořitelna, shall be 28 April 2015. The dividend shall be payable on 28 May 2015.

In accordance with the separation project the General Meeting approved the separation of O2 Czech Republic a.s. by spin-off with formation of a new company Česká telekomunikační infrastruktura a.s. (CETIN). As part of the separation the General Meeting approved also the closing financial statements and the opening balance sheet of O2 Czech Republic a.s. and the opening balance sheet of CETIN. In connection with the separation O2 Czech Republic a.s. will reduce its registered capital from current amount CZK 27,461 million to CZK 3,102 million. The reduction will be achieved by reduction of the nominal value of each share from current nominal value of CZK 87 to CZK 10 and reduction of the nominal value of the share from current nominal value of CZK 870 to CZK 100 and via cancellation of treasury shares. The reduction of the share capital and cancellation of the treasury shares will not change the actual relative stakes of individual shareholders.

As a result of the separation the company’s assets related to fixed public communications network, physical infrastructure of a public mobile communications network and data centres, and related employees, contracts and documentation shall be passed over to CETIN. For each share of O2 Czech Republic a.s. there will be one share of CETIN allocated to the shareholders as of the separation day. Shares of CETIN will be ordinary booked registered shares with nominal value of CZK 10, which will not be listed on any European regulated market. Therefore, the shareholders who voted against the separation at the General Meeting, either in person or by correspondence voting will be entitled to receive an offer from CETIN to sell all their CETIN shares for the price which will be determined based on the valuation carried out by an expert appointed by a court. The buyout offer for CETIN shares will be published within two weeks from the registration of CETIN in the commercial register.

In accordance with the separation project the General Meeting approved the changes in the changes in Articles of Association of O2 Czech Republic a.s. Based on that, the number of Board of Directors’members will be reduced from 5 to 3. As part of the approval of CETIN’s Articles of Association the General Meeting approved first members of the Board of Directors, who will be Petr Slováček, Michal Frankl and Martin Vlček and first members of the Supervisory Board, who will be Ladislav Chvátal, Lubomír Král and Vladimír Mlynář.

Acting on the proposal by the Supervisory Board and recommendation of the Audit Committee, the General Meeting appointed the auditor KPMG Česká republika Audit, s.r.o., as the company's statutory auditor for 2015.

The General Meeting elected Aleš Minx and Ctirad Lolek as members of the Supervisory Board, effective as at 1 June 2015 and approved entering into the executive service agreement of the Supervisory Board member between the company and both gentlemen.

Personnel changes in corporate bodies

The Supervisory Board of O2 Czech Republic has discussed and taken into account Vladimír Mlynář’s statement of resignation from his office of the Supervisory Board member and Ladislava Bartoníček’s statement of resignation from his office of the Supervisory Board member and Vice Chairman. The Supervisory Board agreed that their memberships will end on May 31, 2015.

The Supervisory Board of O2 Czech Republic has discussed and taken into account statements by Martin Vlček, Petr Slováček and Michal Frankl of resignation from their offices of the Board of Directors member. The Supervisory Board agreed that their membership will end on May 31, 2015.

Other events

O2 Czech Republic a.s. as the sole participant exercising the powers vested to the general meeting of O2 Slovakia, s.r.o. approved distribution of O2 Slovakia, s.r.o. profit in the amount of EUR 31 million (~CZK 852 million) from the part of 2014 profit to the sole participant, O2 Czech Republic a.s.

The Board of Directors of O2 Czech Republic a.s. decided to set up a branch company in the Slovak Republic. The organizational unit was established to provide fixed services in the Slovak Republic.

Attachment:

The consolidated balance sheet and income statement of O2 Czech Republic prepared in accordance with International Financial Reporting Standards.

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About O2 Czech Republic

O2 is the largest integrated telecommunications provider in the Czech market. At present we operate close to eight million mobile and fixed accesses, which ranks us among the market leaders in fully converged services in Europe. To users of mobile services in the Czech Republic we offer state-of-the-art HSPA+ and LTE technology. We have the most comprehensive proposition of voice and data services in the Czech Republic, and we actively exploit the growth potential of the various business lines, especially ICT. Our data centres, with total floor area of 7,300 square metres, rank us among the leaders in hosting, cloud and managed services. O2 data centres belong to the few commercial ones in Central Europe to have TIER III certification. With our O2 TV we are also the largest IPTV service provider in the Czech Republic. In January 2014, O2 became a member of the Czech investment group PPF.

About PPF Group

PPF Group invests into multiple market segments such as banking and financial services, telecommunications, real estate, retail, insurance, metal mining, agriculture and biotechnology. PPF's reach spans from Europe to Russia, the USA and across Asia. PPF Group owns assets of EUR 24 billion (as at 30 June 2014).

All amounts in CZK million

CONSOLIDATED INCOME STATEMENT	**Jan – Mar 2015**	**Jan – Mar 2014**
Operating revenues	11,160	10,764
Non-operating revenues	24	28
Revenues	**11,184**	**10,792**
Internal expenses capitalized in fixed assets	109	139
Cost of sales	(3,770)	(3,195)
Operating expenses	(2,996)	(3,925)
Other operating income/(expenses)	(195)	(362)
EBITDA	**4,332**	**3,449**
EBITDA margin	***38.8%***	***32.0%***
Depreciation and amortization	(2,815)	(2,689)
Impairment reversal/(loss)	(1)	(2)
Operating Income	**1,516**	**758**
Net financial income (expense)	(63)	(30)
Results attributed to joint venture	2	-
Income before tax	**1,455**	**728**
Income tax	(305)	(170)
Net Income	**1,150**	**558**

All amounts in CZK million

CONSOLIDATED BALANCE SHEET	**31.3.2015**	**31.12.2014**
Non-current assets	**61,250**	**63,370**
- Intangible assets	25,660	26,276
- Property, plant and equipment and investment property	34,731	36,200
- Long-term financial assets and other non-current assets	525	581
- Deferred tax assets	334	313
Current assets	**12,910**	**10,920**
- Inventories	510	470
- Trade and other receivables	6,802	7,170
- Current tax receivable	6	-
- Short-term financial investments	3	24
- Cash and cash equivalents	5,589	3,256
Total assets	**74,160**	**74,290**
Equity	**55,303**	**54,153**
Non-current Liabilities	**5,340**	**5,557**
- Long-term financial debt	3,000	3,000
- Deferred tax liabilities	1,999	2,151
- Non-current provisions for liabilities and charges	251	251
- Non-current other liabilities	90	155
Current Liabilities	**13,517**	**14,580**
- Short-term financial debt	4,002	4,004
- Trade and Other payables	8,756	10,134
- Current income tax payable	439	299
- Provisions for liabilities and charges	320	143
Total Equity and Liabilities	**74,160**	**74,290**