

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

# O2 Czech Republic

Investor Presentation

February 2016



# 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.

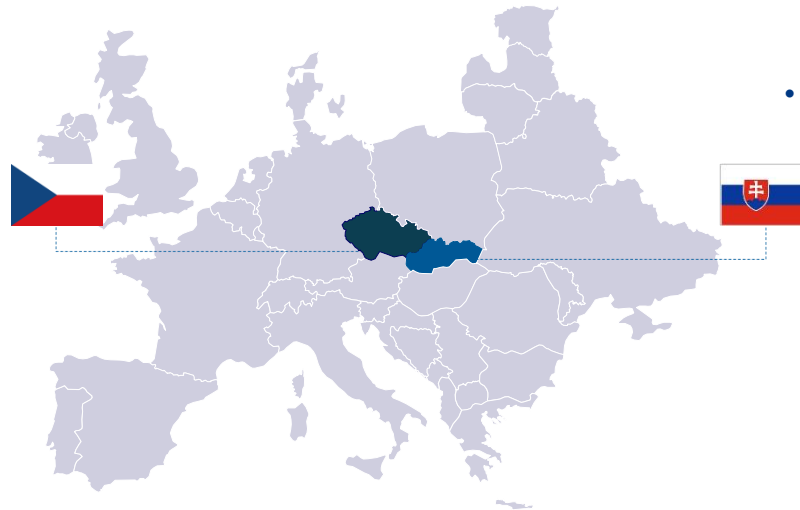
The actual development of these factors, however, may be different. Consequently, the actual future results of economic and financial performance of O2 Czech Republic a.s. could materially differ from those expressed in the forward-looking statements contained in this Presentation.

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

- 1 Market position
- 2 Separation project
- 3 Growth opportunities
- 4 Commercial model
- 5 Operating model
- 6 Strong financial performance & position

# The leading digital economy enabler in the Czech Republic... ...and the fastest growing operator in Slovakia

- 4,896k Mobile
- 840k fixed voice lines
- 795k xDSL
- 202k IPTV



- 1,809k Mobile

- Leading fixed/mobile operator
- Fastest growing Pay TV provider
- Leading fixed BB provider

- No. 3 mobile (26% m.s.), the fastest growing
- Voted “Operator of the Year” for the 5th consecutive year by customers
- Revenues +9%, EBITDA +23%

# O2 Czech Republic Group structure

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

**O<sub>2</sub> Czech Republic**

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

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

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

**O<sub>2</sub> IT Services**

**Other <sup>[1]</sup>**

<sup>[1]</sup> O2 CR branch in Slovakia, Tesco Mobile CR, Internethome., ICA

# Fundamental rationale for separation...

## ...transaction follows three simple goals

### 1. Streamlining the business



- **Vertically integrated O2 CR incorporates two businesses different in nature:** digital economy enabler (“O2”) and infrastructure unit (“CETIN”)
- Each require different management approach and goals
- Different investment policy and horizon to be followed to maximize shareholder value

### 2. Easing of regulation



- Second strictest regulatory remedy voluntarily to be delivered by CETIN in the new set-up
- Freeing up the business from numerous negative consequences of current semi-regulated environment (naked TV, fixed/mobile voice bundles for corporate customers)

### 3. Financial consequences



- O2 and CETIN risk profiles may diverge in the future and funding options correspondingly
- CETIN has longer term visibility, while new O2 can accelerate execution of its strategy

# Commercial relationship with CETIN established...

## ...PPF will not request financial assistance from O2

### O2 CR x CETIN relationship

- **Two independent companies** since 1 June, **CETIN key vendor** of O2
- **Commercial relationship established...**
- ... **12 main business contracts** on **commercial** as well as **regulated basis**
  - **Fixed** – based on reference price, commitment 80% of current FBB customer base
  - **Mobile** – open book principle @ CZK 4.4 bn. for 7 years

### Listing on Stock Exchange

- **PPF Group declared** that it will **not intend to withdraw O2 shares from the stock market**, is **not interested to increase its effective ownership interest** in O2, will **not seek to squeeze out** minority shareholders and, conversely, intends to **support an increase in liquidity and free-float**
- In November, PPF **sold 0.84% stake in O2**, as a one-off decision
- PPF will **support all proposals by management of O2**, which will **result in long-term increase in the fundamental value of O2 shares**

### O2 CR x PPF relationship

- **PPF Group declared** that it **considers O2 as financial investment**
- **O2 is not considered as part of PPF Group**
- **PPF does not interfere with daily management of O2** and **O2 does not pay any management fee to PPF**

# O2 is in business with increasing demand... ...while the other sectors experience the opposite trend

Electricity consumption in CR<sup>[1]</sup>



Electricity consumption per head in CR<sup>[1]</sup>



2010 2011 2012 2013 2014

2010 2011 2012 2013 2014

O2 data<sup>[2]</sup> consumption



O2 data<sup>[2]</sup> consumption per customer



2010 2011 2012 2013 2014

2010 2011 2012 2013 2014

<sup>[1]</sup> source: ERU  
<sup>[2]</sup> mobile data only

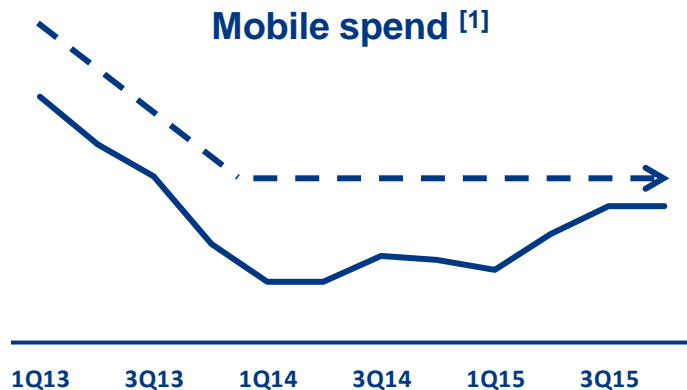




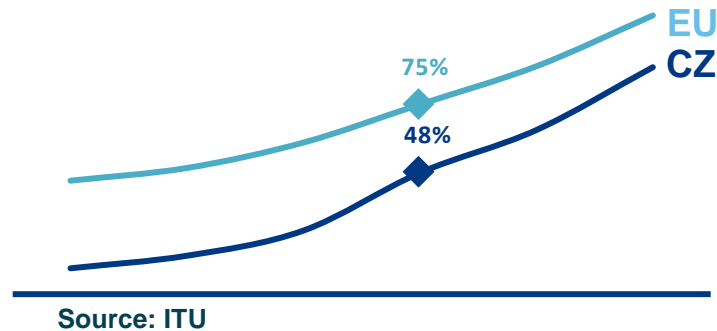
# Stabilizing traditional business...

... with clear growth opportunities

## Flat & Data

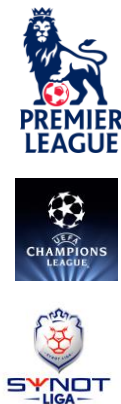
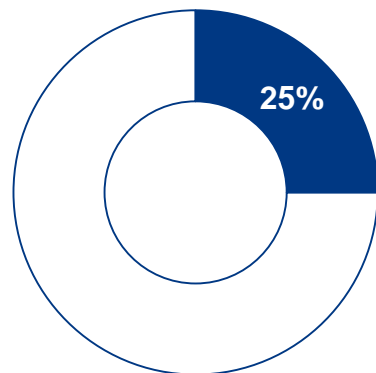


### Data penetration [2]

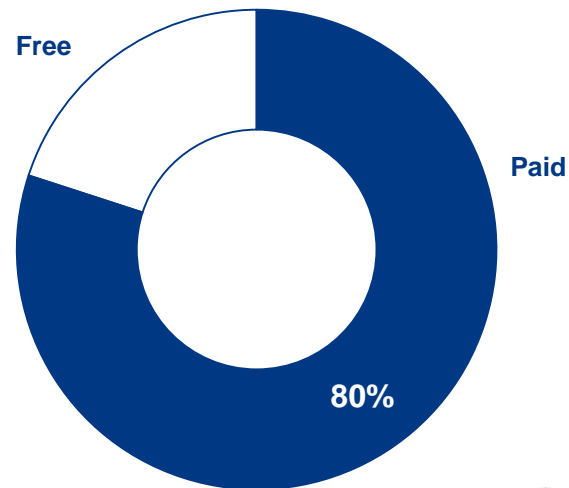


## Pay TV

### Pay TV penetration in CZ



### Pay TV penetration in PL, HU



[1] Mobile consumer contract spend, [2] Mobile data penetration

# Our mobile strategy works...

## ... two digit growth in data revenue



### Our customers are loyal

- Significant improvement in blended churn...
- ... record high loyalty level
- Best in class contract churn in EU context

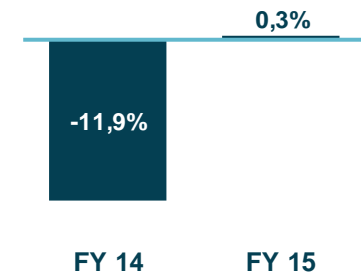
### Contract churn



### Stable spend

- Tariff upsell
- B2B under pressure, but decline decelerating
- Data monetization works

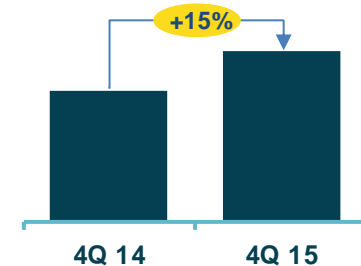
### ARPU (y-o-y)



### And data monetized

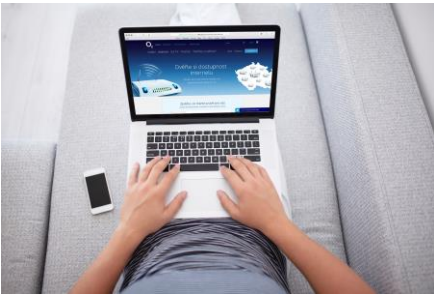
- LTE network coverage
- LTE up to 2x more traffic and spend
- Data package readily available

### Small screen revenue

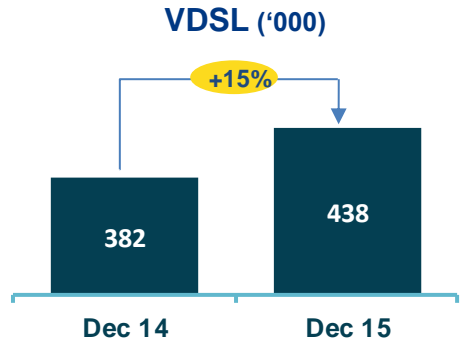


# More rich content & tariff upsell resulting in double digit Pay TV revenue growth... ...Improving fixed BB experience with continuing migration to VDSL

## Fixed BB accelerating

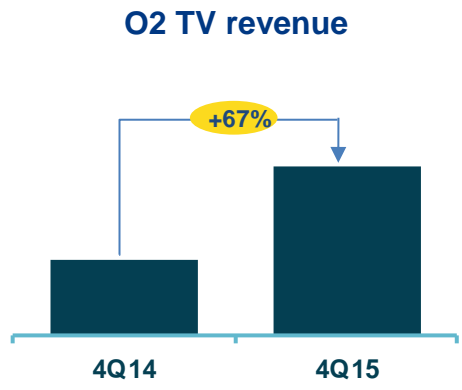


- VDSL network coverage
- Acceleration in progress
- Higher VDSL loyalty<sup>1)</sup>
- VDSL +15 % y-o-y



## Growing Pay TV

- Tariff upsell
- Unique experience
- Available to all households<sup>2)</sup>



## Unlimited fixed voice

- Fixed voice revolution
- Tariff upsell
- Successful pilot, execution in H1 2016



<sup>1)</sup> by 40% higher compared to ADSL  
<sup>2)</sup> all households in the Czech Republic with internet connection from any provider



# O2 brings unique multidimensional customer experience...



## Anytime

Time shift



Recording



Video on demand



## Anywhere

Multi-device



For all



Retail distribution since 2/2016

TESCO



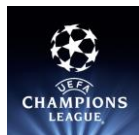
MALL.CZ

alza.cz

Multi-room



## Unique content



## Any match



## Any camera



# ... confirming its leading position in European IPTV market

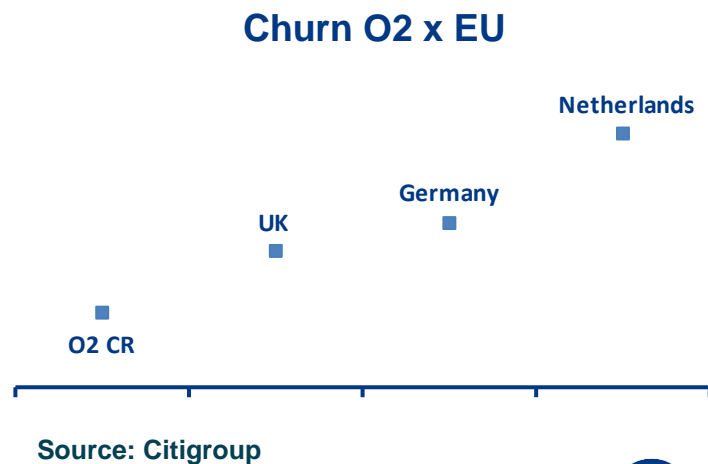
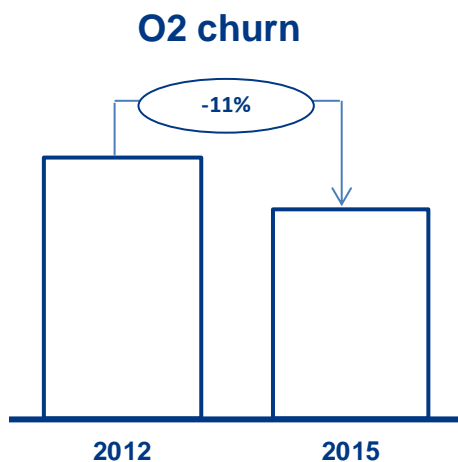
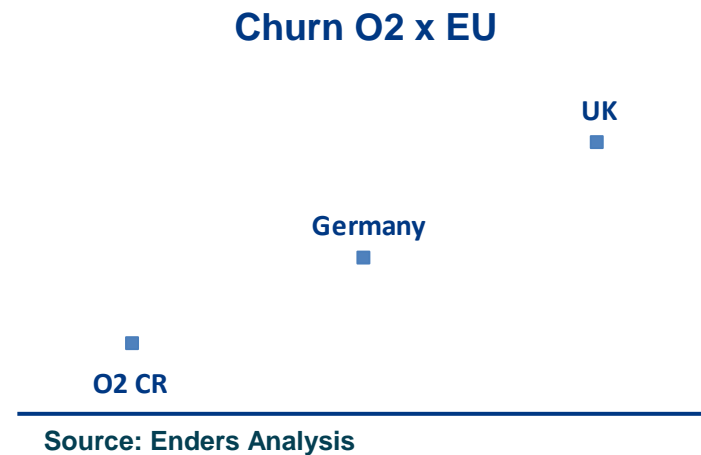
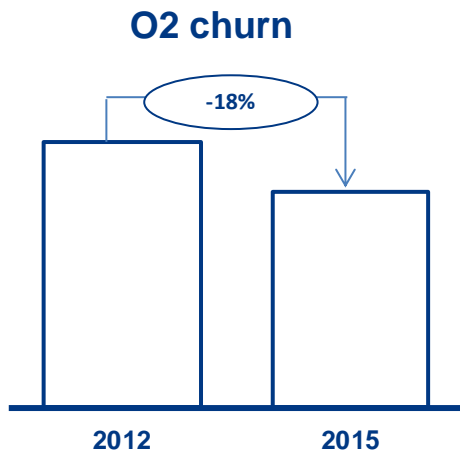
	Provider	Time-shift	Archive	Multi-room	Multi-Mosaic	OTT service	Exclusive content	Own TV studio	Multi-device	Simultaneous
	<b>O2 CR</b>	✓	✓	✓	✓	✓	✓	✓	✓	<b>4</b>
	UPC	✓	✓	✓	✗	✓	✗	✗	✓	3
	A1	✓	✓	✓	✗	✓	✓	✗	✓	∞*
	UPC	✓	✓	✓	✗	✓	✗	✗	✓	3
	TDC	✓	✓	✓	✗	✓	✓	✗	✓	2
	YouSee	✓	✓	✓	✗	✓	✗	✗	✓	2
	Orange	✓	✓	✓	✗	✓	✗	✗	✓	✗
	Numericable	✓	✓	✓	✗	✓	✗	✗	✓	5
	Deutsche Telekom	✓	✓	✗	✗	✓	✗	✗	✓	4
	Sky	✓	✓	✓	✗	✓	✓	✗	✓	2
	Telecom Italia	✓	✓	✗	✗	✓	✗	✗	✓	✗
	Mediaset	✓	✓	✗	✗	✓	✓	✗	✓	✗
	Telenor	✓	✓	✓	✗	✓	✗	✗	✗	✗
	Canal Digital	✓	✓	✓	✗	✓	✗	✗	✗	✗
	MEO	✓	✓	✓	✗	✓	✓	✗	✓	3
	Cabovisao	✓	✓	✗	✗	✓	✓	✗	✓	5
	Movistar	✓	✓	✓	✓	✓	✓	✓	✓	✗
	Ono	✓	✓	✗	✗	✓	✓	✗	✓	✗
	Telia Sonera	✓	✓	✓	✗	✓	✗	✗	✓	✗
	ComHem	✓	✓	✗	✗	✓	✗	✗	✓	2
	Swisscom	✓	✓	✓	✗	✓	✓	✗	✓	∞
	UPC Cablecom	✓	✓	✓	✗	✓	✗	✗	✓	3
	BT	✓	✓	✓	✗	✓	✓	✓	✓	2
	Sky	✓	✓	✓	✗	✓	✓	✓	✓	2

\* Each device with monthly fee



# Best in class loyalty...

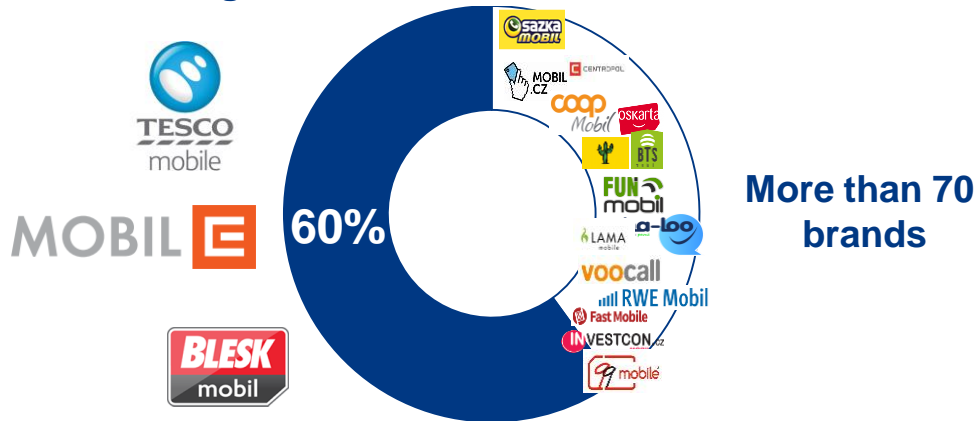
# ...already bringing significant value



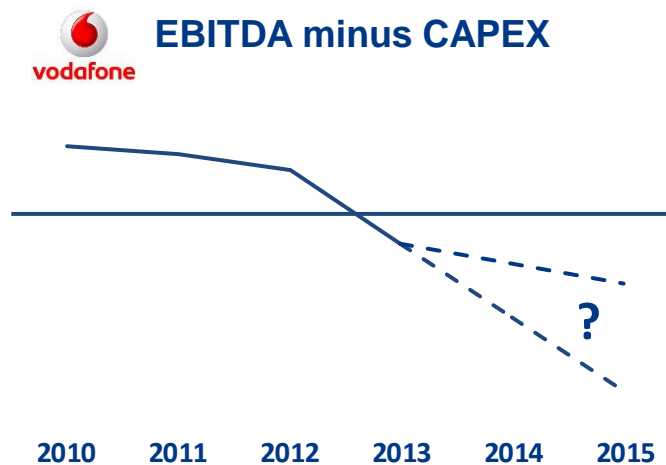
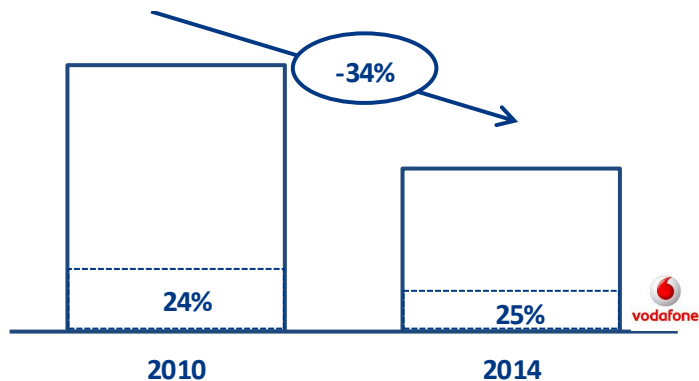
# Leadership in MVNO & B2B market...

... unsustainable business model of market challenger

O2 with strong brands



CZ mobile market shrank [1]



[1] service revenues

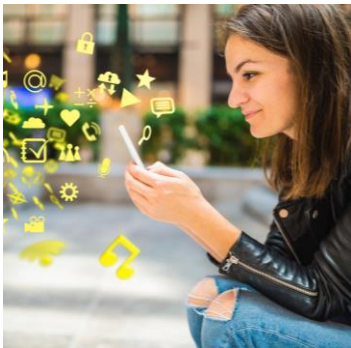
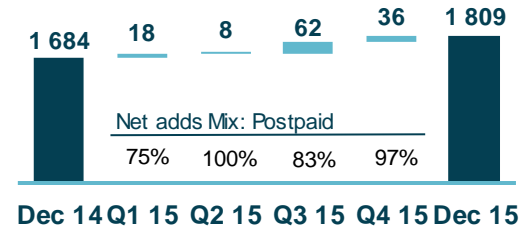
# Slovakia maintains commercial & financial growth... ... on the back of value & data focused proposition



## Growing mobile customers

- Solid customers' growth maintained in increasing competitive landscape
- Maintaining customer loyalty & value
- Strengthening market position

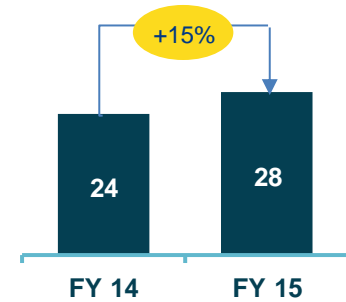
## Customer base ('000)



## Growing data revenue

- Growing 3G and 4G network coverage
- Data focused proposition driving smartphone penetration...
- ...internet base & data revenue growth

## Data revenue (EURm)

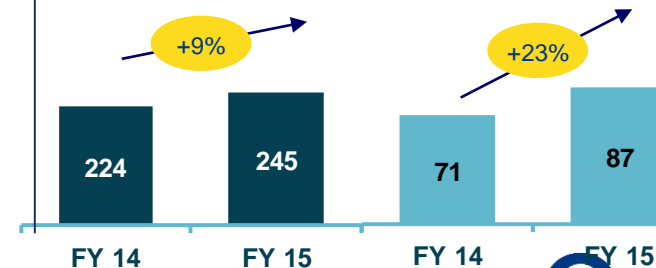


## Strong financials

- Solid revenues growth driven by data & HW
- EBITDA margin 35.4% in 2015
- Positive contribution to Group financials

## Revenue (EURm)

## EBITDA (EURm)



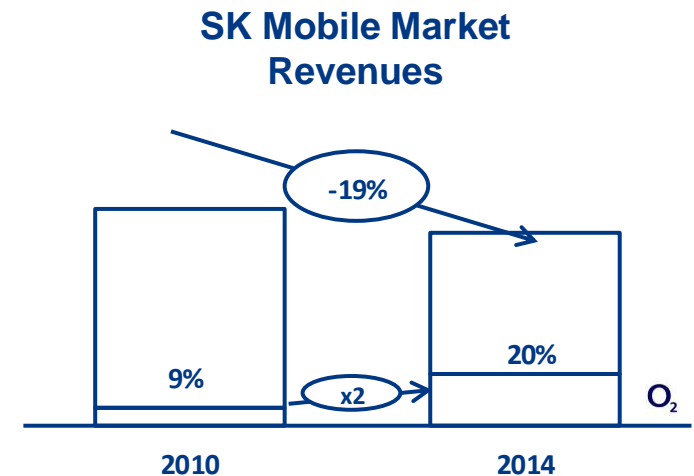
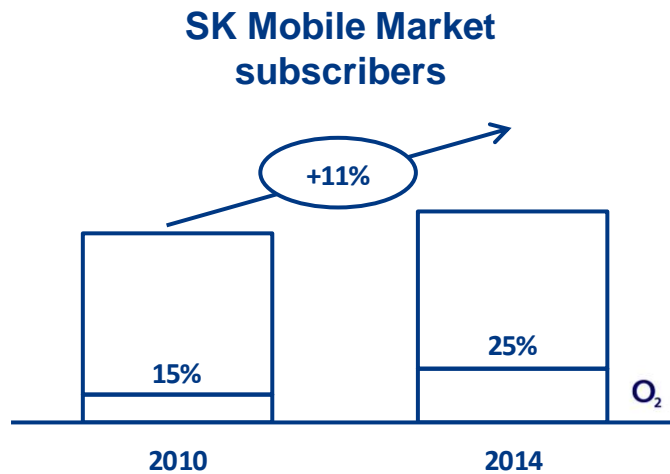


# O2 Slovakia – improving financial performance...



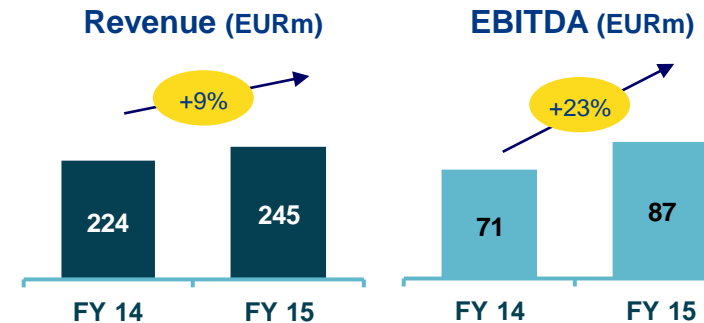
## ... driven by subscribers' growth, data & lean operation

Strengthening market position



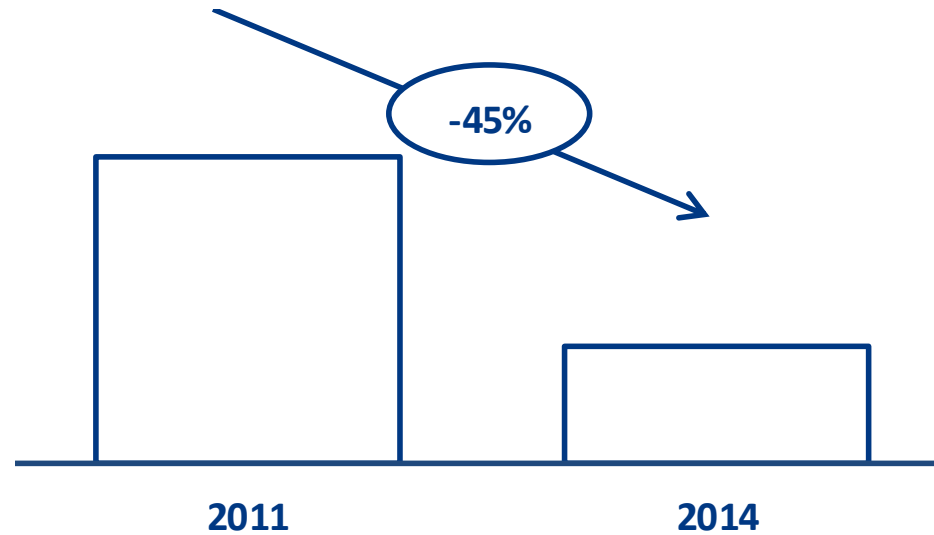
Strong financials (EURm)

- Solid revenues growth driven by data & HW
- **EBITDA margin 35.4% in 2015**
- Positive contribution to Group financials



# Commercial model already rationalized... ... with significant cost reduction

Commercial  
Costs [1]

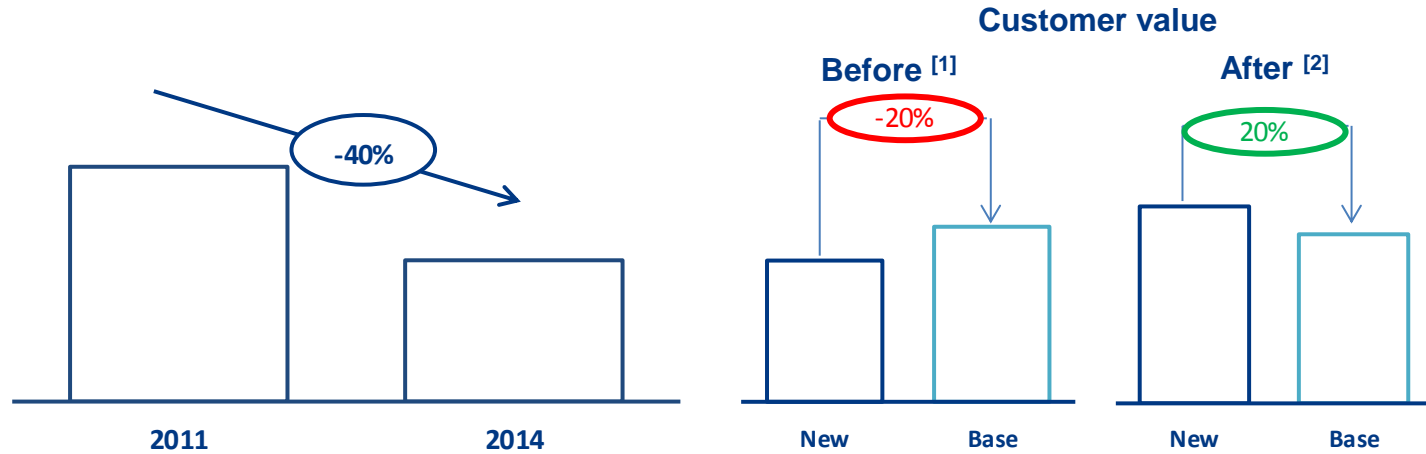


[1] includes Call centers, Commissions, Handset subsidies & Marketing

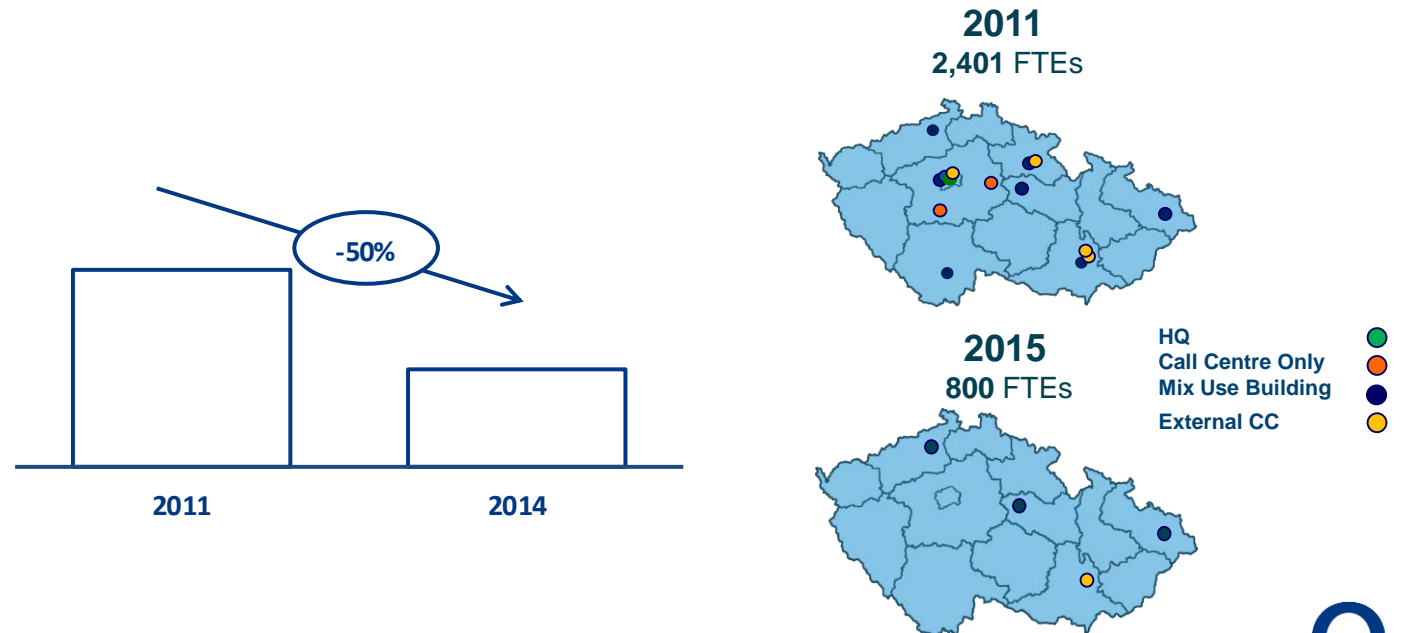
# Bringing more valuable customers at lower cost...

## ...care costs down due to simplification & consolidation

### Commissions



### Call centers expenses



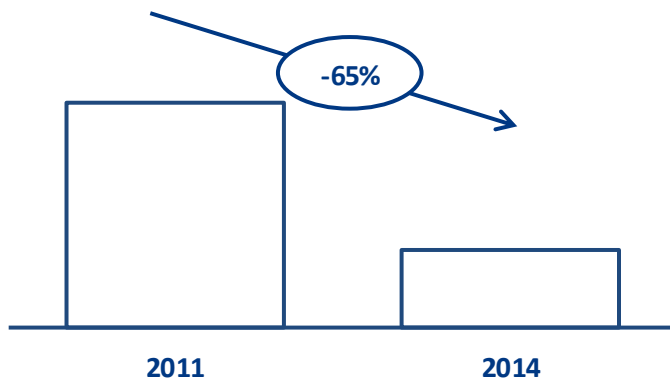
[1] October 2013, [2] March 2015



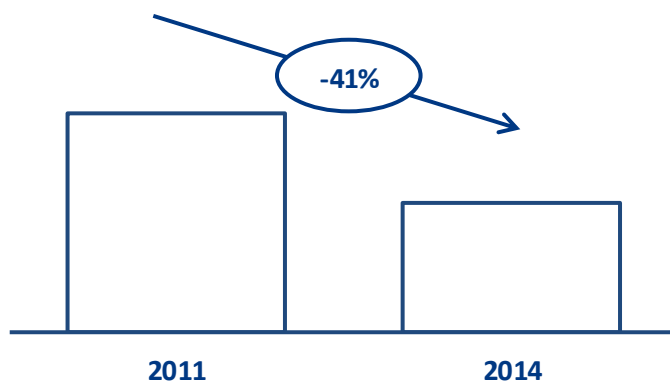
# Radical change in handset subsidies...

...co-financing marketing activities by partners

## Hardware subsidies

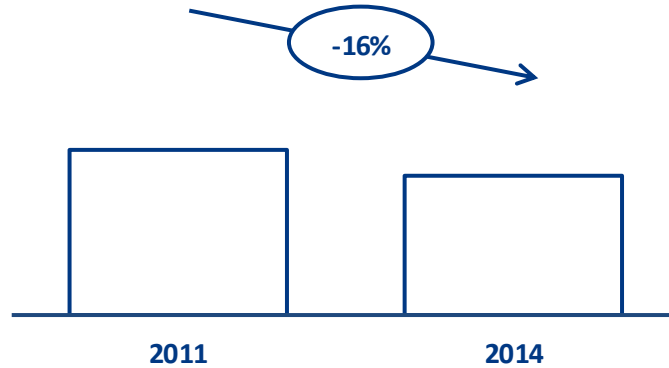


## Marketing expenses

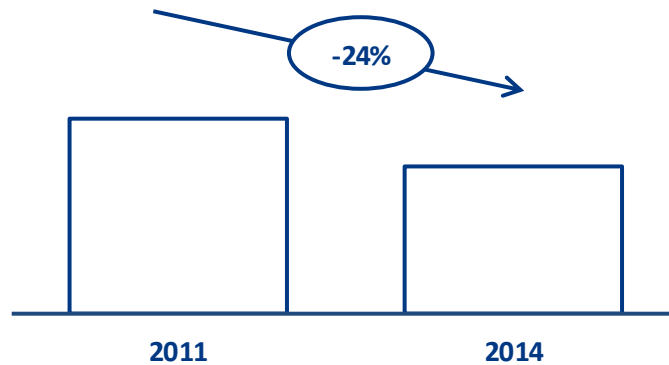


# To benefit from IT consolidation & restructuring... ...savings in NW on the back of joint rollout & consolidation

IT costs



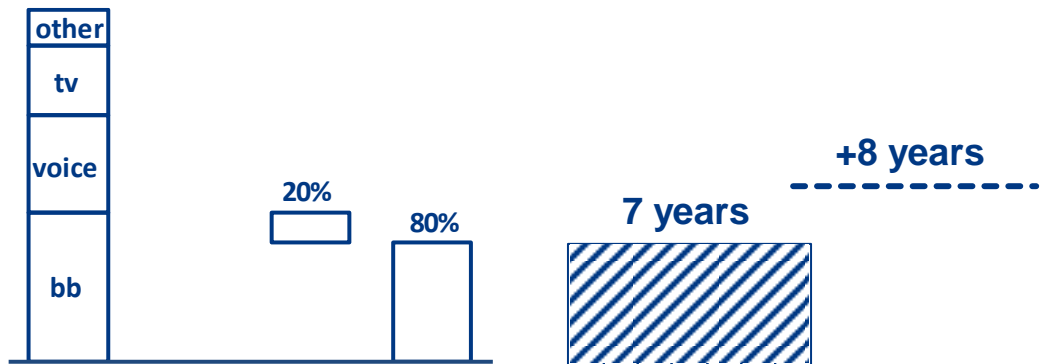
Network costs



# Reasonable commitment for pro-growth areas...

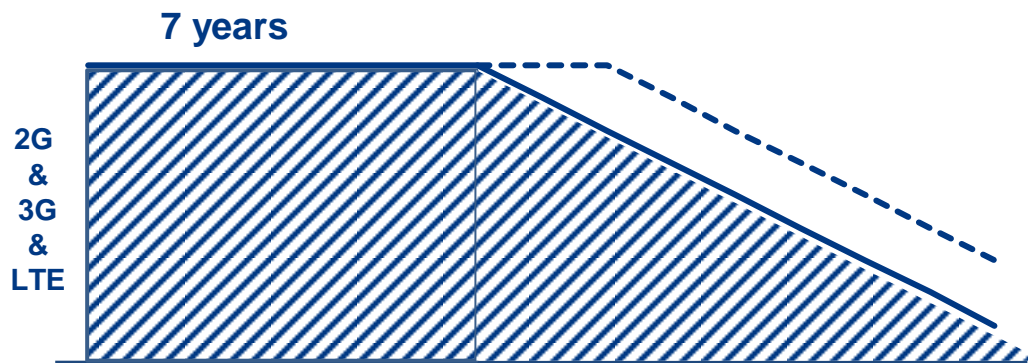
... with further potential


## Fixed charge & commitment (illustrative)



		TIME		
VOLUME	bb			X
			X	

## Mobile charge & commitment (illustrative)



- Open book principle
- 7 years commitment 
- Additional savings shared

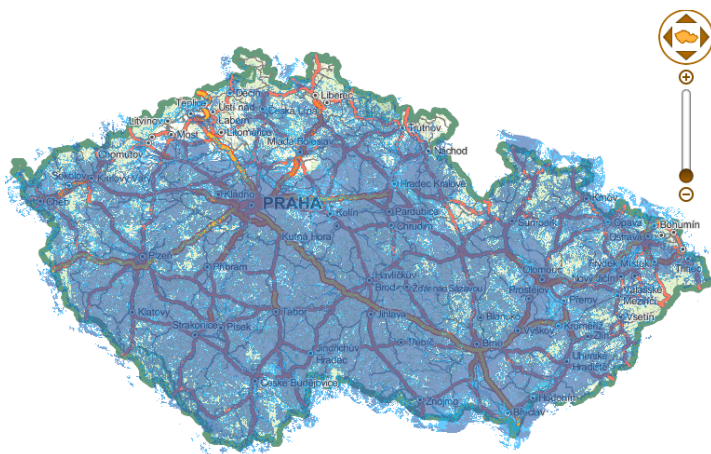
# Pioneers in network sharing...

... execution to be continued by CETIN

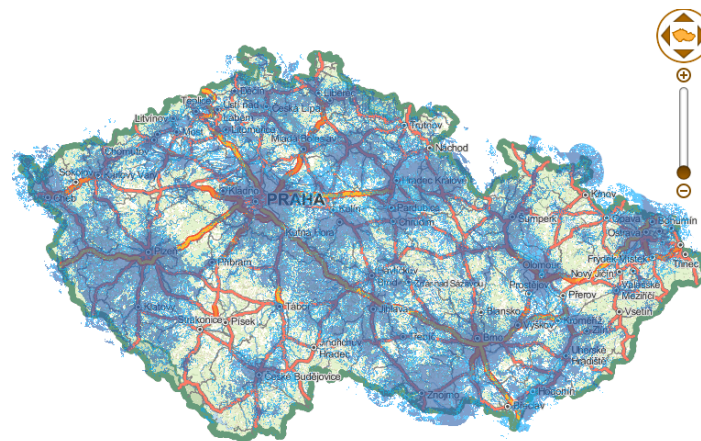


- 3G joint rollout in 2011
- 2G/3G consolidation in 2013
- LTE joint rollout in 2014
- Key network vendors retendered
- 40% network consolidation target...
- ... to meet spectrum coverage commitment

O2/T-Mobile LTE coverage [1]



Vodafone LTE coverage [1]



[1] LTE coverage in 800 Mhz band acquired in auction (Source: Czech Telecommunications Office); as of January 2016

# Superior fixed broadband coverage <sup>[1]</sup>... ... with further increase in speeds

Fixed broadband infrastructure <sup>[1]</sup> <sup>[2]</sup>



Household coverage

**O<sub>2</sub>** <sup>[1]</sup> 90%

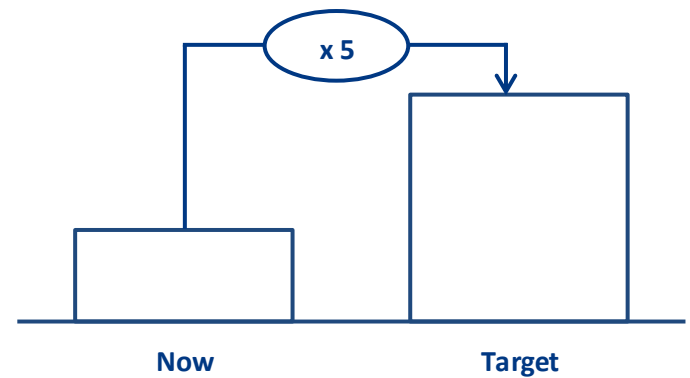
 upc 33%

Speed upgrade through:

- Remote DSLAMs
- Vectoring
- Bonding

**O2 proposition:**

Min. speed 56Mbps



<sup>[1]</sup> through CETIN  
<sup>[2]</sup> 20 million kmp of cables

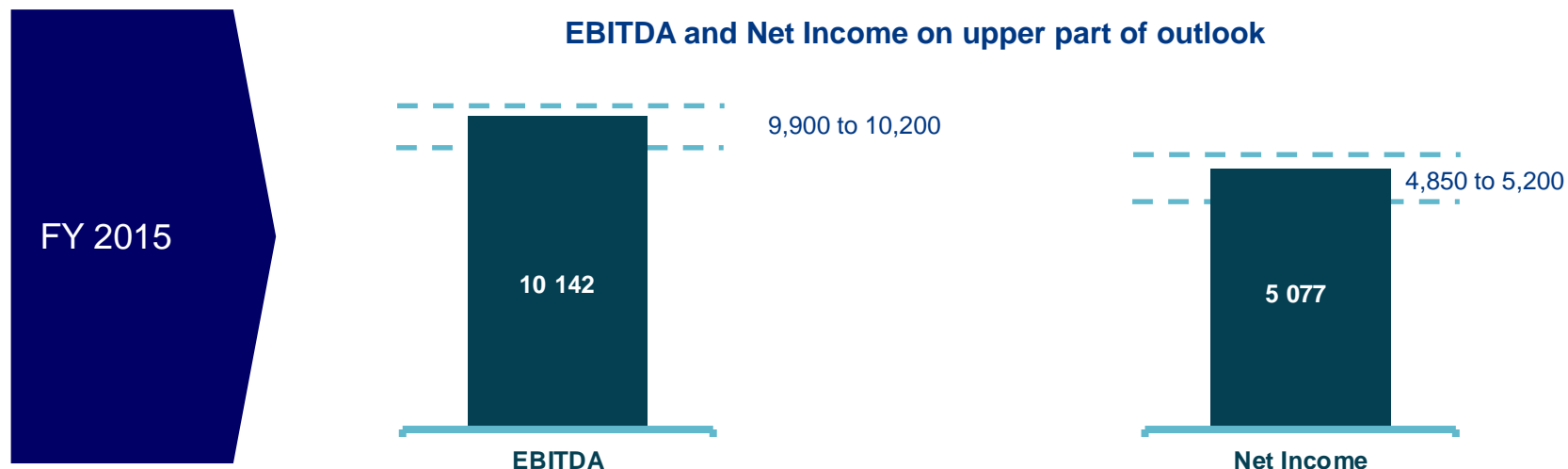




# Stabilized top line helped by mobile data, Pay TV, ICT & Slovakia... ...cost efficiencies contributing to EBITDA growth



<i>CZK millions</i>	FY 2015	<i>Change FY 15 / FY 14</i>
<b>Operating Revenue</b>	<b>37,385</b>	<b>-0.1%</b>
CZ Fixed	11,670	-4.0%
CZ Mobile	19,216	+0.2%
Slovakia	6,682	+8.2%
<b>EBITDA</b>	<b>10,142</b>	<b>+24.7%</b>
<i>EBITDA margin</i>	27.1%	+5.4 p.p.
<b>Net Income</b>	<b>5,077</b>	<b>+44.5%</b>
<b>Adjusted Free Cash Flow<sup>1)</sup></b>	<b>5,760</b>	<b>+18.9%</b>



<sup>1)</sup> 2014: excluding settlement of liabilities with former majority shareholder (Q2 and Q3), 2015: excluding CZK ~1 billion funding with CETIN via working capital in Q2, excluding payment for GSM license renewal (CZK 432m) in Q4

# Share buy-back approved by AGM, to be relaunched in January

## ...debt successfully refinanced benefiting from favorable conditions

### 2015 Dividend

- **2015 Group Net Income: CZK 5,077m vs. standalone CZK 4,711m**
- **Intended 2015 dividend proposal: CZK 16 per share**
- **Final decision to be made by the General Meeting**

### Share buy-back

- **Share buy-back on top of regular dividend**
- **Parameters approved by the General Meeting**
  - **Maximum 10% of shares /up to CZK 8 billion in 5 years, maximum price CZK 297**
- **First tranche (Program) approved by the Board of Directors**
  - **Maximum 4% of shares in 2 years**
- **Restarted on January 28, 2016**

### Debt refinancing successfully exercised

- **Up to CZK 12 billion 5-year loan – term and revolving**
- **O2 benefited from favorable market conditions**
- **CZK 7 bn refinanced, up to CZK 5 bn for general corporate purposes, including share buy-back**
- **Targeted leverage of up to 1.5x Net debt/EBITDA**

## Key O2 stock catalysts

- ✓ Value creation by infrastructure separation
- ✓ O2 as a digital content consumption enabler
- ✓ We change the market rules
  - ✓ Pioneers in network sharing
  - ✓ MVNO leader
  - ✓ Semi-flat/flat tariffs
  - ✓ Handset value chain
  - ✓ Value rather than volume
- ✓ The only financially growing operator in Slovakia
- ✓ Improved profitability & stabilized top line
- ✓ Strong free cash flow generation

A dynamic splash of water against a blue gradient background. The water is captured in mid-air, with numerous bubbles and droplets of varying sizes. The splash is concentrated on the left side of the frame, with the water moving towards the right. The background transitions from a darker blue at the top to a lighter blue at the bottom.

**Backup**

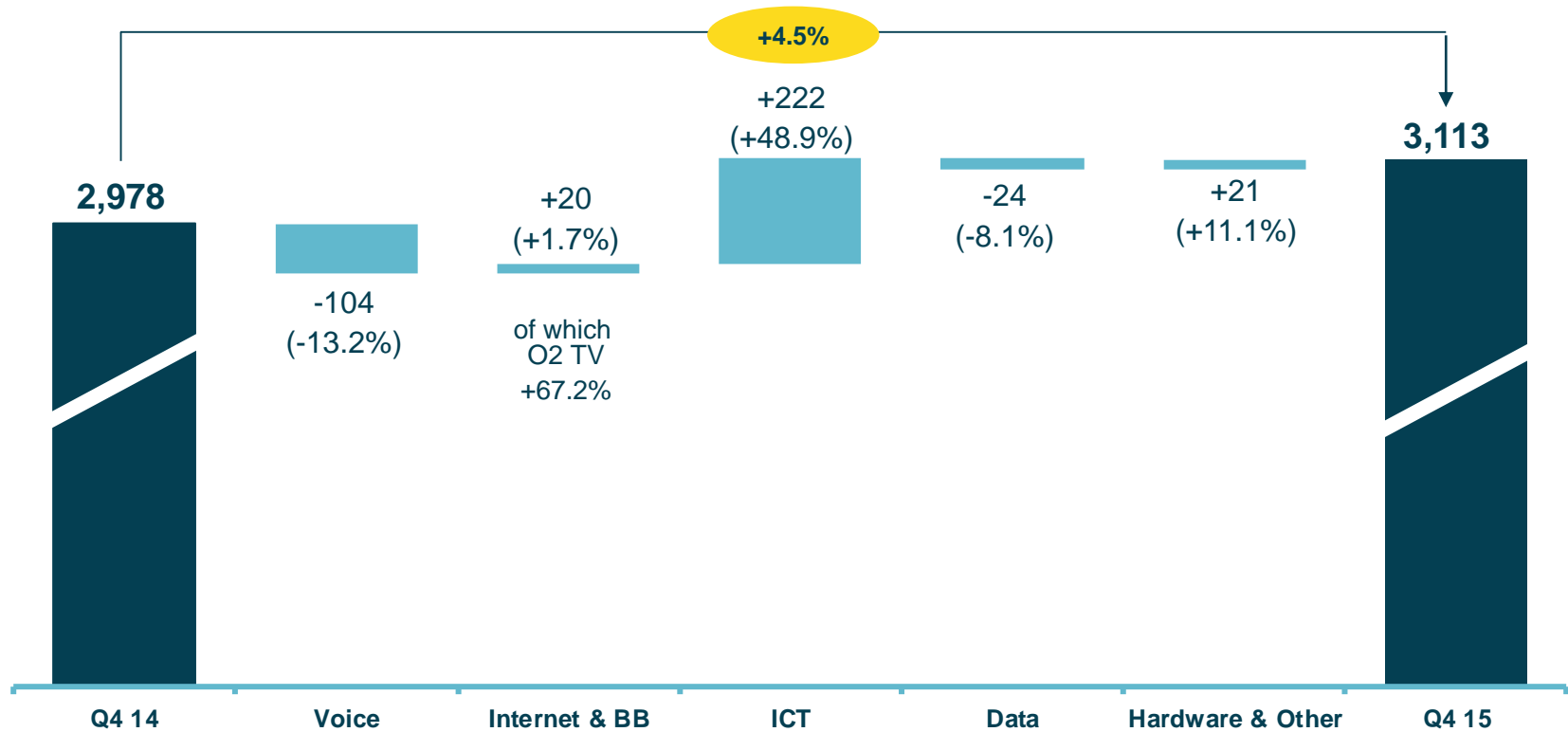
O<sub>2</sub>

# Q4 2015 results

# Fixed Operating Revenue growing...

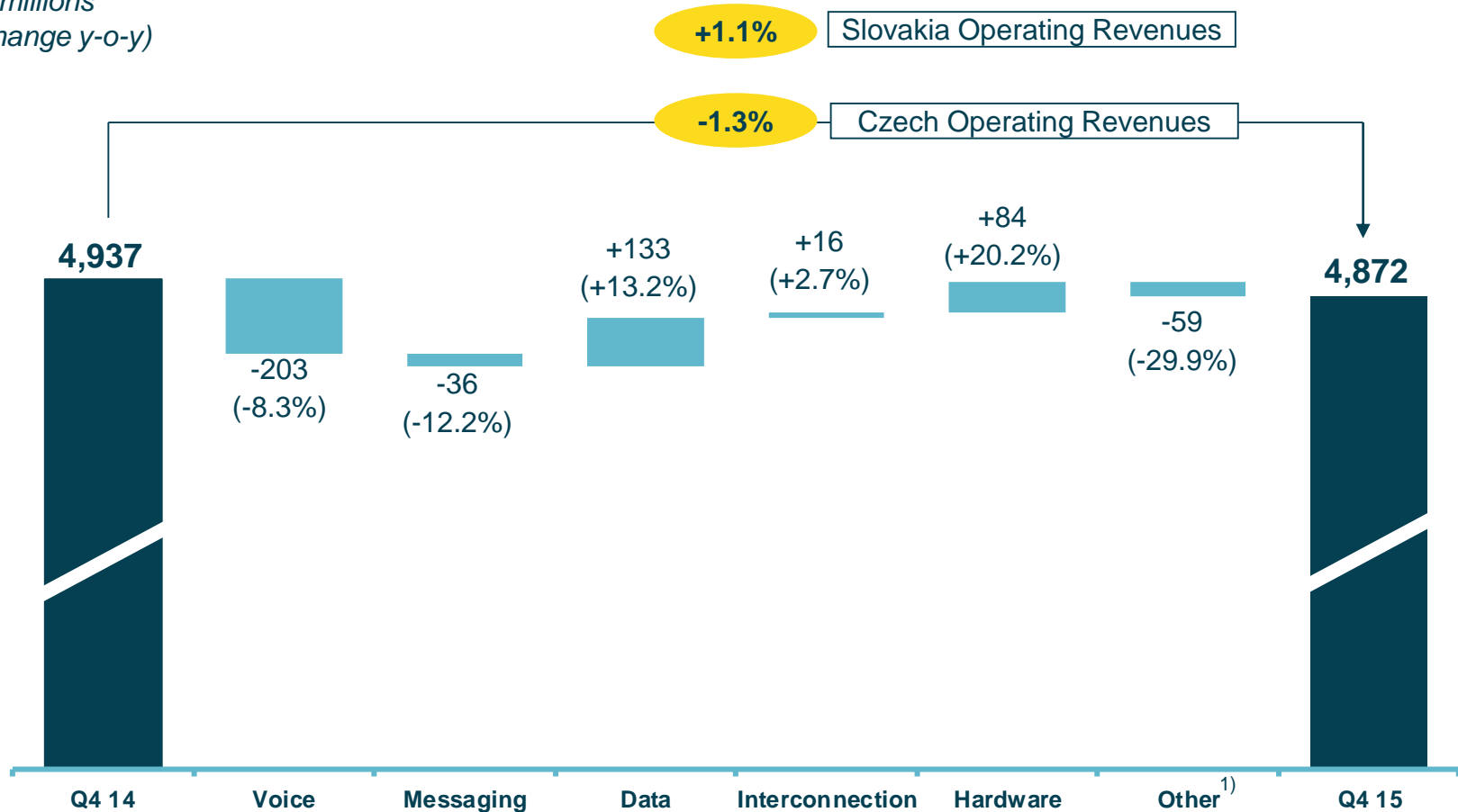
## ... driven by Pay TV and ICT

CZK millions  
(% change y-o-y)



# Czech Mobile Operating Revenue stabilization continues ... ... while Slovak Operating Revenue grew by 1%

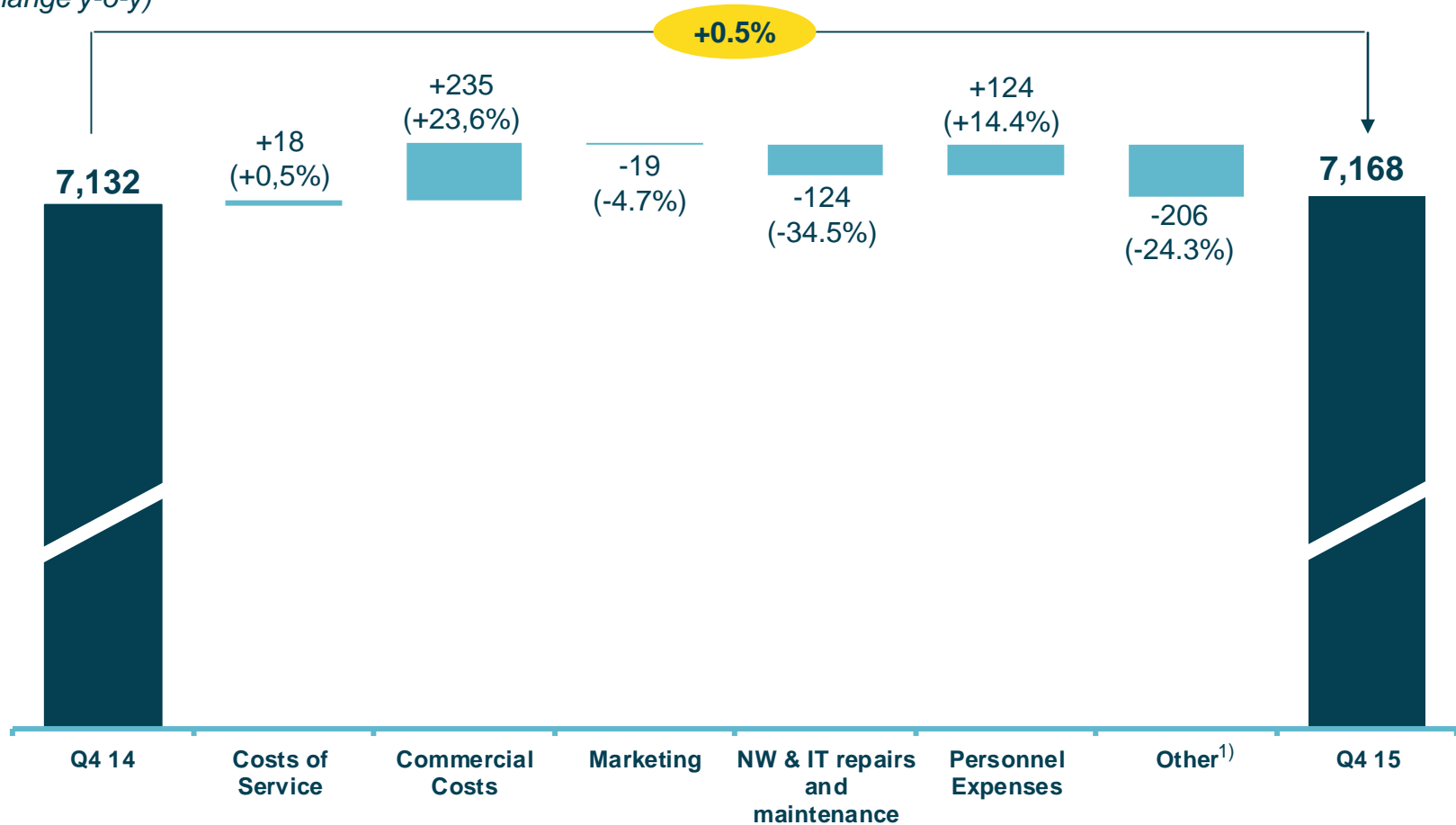
CZK millions  
(% change y-o-y)



<sup>1)</sup> Inbound Roaming, M2M, Other revenue

# Savings in OPEX driven by simplified operational model... ...higher commercial costs due to increased trading

CZK millions  
(% change y-o-y)

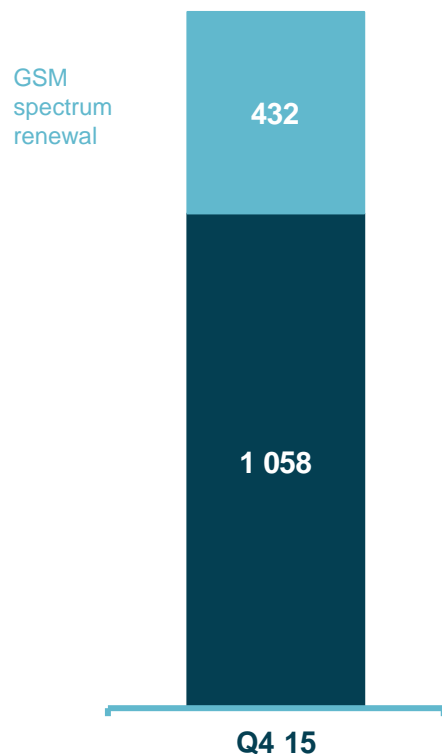


<sup>1)</sup> Taxes other than income taxes, provisions and fees, Rentals, Buildings, Vehicles, Consumables, Consultancy, Billing, Collection, Call Centers, Brand and management fees and other



# Now O2 with low CAPEX profile... ...investments directed to growth areas and IT transformation

CZK millions



**CAPEX/Revenue**

7.6%<sup>1)</sup>

(FY 2015)

## ■ Czech Republic:

- GSM spectrum renewal (till October 2024)
- IT transformation
- NW upgrade and enhancement

## ■ Slovakia:

- 3G/4G rollout
- IT upgrade

<sup>1)</sup> Excluding cost of GSM license renewal (CZK 432m) in Q4 2015, 8.8% including this item

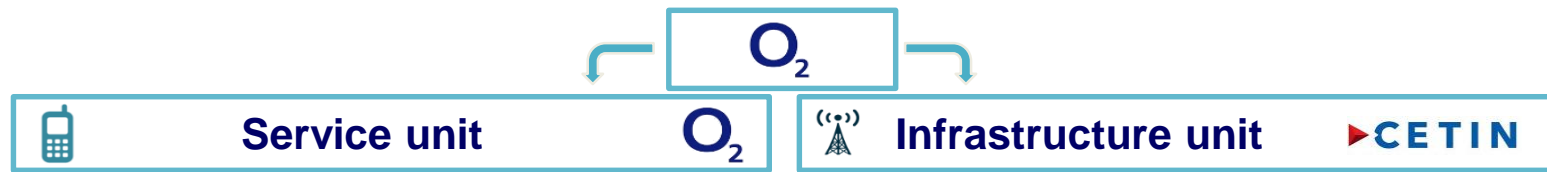
# Strong balance sheet

<i>CZK millions</i>	<b>31 Dec 2014<sup>1)</sup></b>	<b>30 Sep 2015</b>	<b>31 Dec 2015</b>
<b>Non-current assets</b>	<b>63,371</b>	<b>20,830</b>	<b>21,399</b>
- of which Intangible Assets	26,276	15,868	16,147
- of which Property, Plant & Equipment	36,200	4,325	4,638
<b>Current assets</b>	<b>10,920</b>	<b>10,856</b>	<b>8,869</b>
- of which Cash & cash. Equiv.	3,256	3,924	1,970
<b>Total assets</b>	<b>74,290</b>	<b>31,686</b>	<b>30,268</b>
<b>Equity</b>	<b>54,153</b>	<b>17,153</b>	<b>18,344</b>
<b>Non-current liabilities</b>	<b>5,557</b>	<b>3,045</b>	<b>3,146</b>
- of which Long-term financial debt	3,000	3,000	2,970
<b>Current liabilities</b>	<b>14,580</b>	<b>11,488</b>	<b>8,778</b>
- of which Short-term financial debt	4,004	4,001	11

<sup>1)</sup> Including CETIN

# Infrastructure separation

# Two businesses, cooperating but different in nature... ...to emerge from spin-off



Characteristic
Key selling points
Revenue profile
Customer profile
Investment policy
Business risk
Success factors

- Service-oriented, customer-facing
- Brand, marketing, product innovation, differentiation from competition at retail level, customer service excellence, customer loyalty
- Short to mid-term contracts reflecting short lifetime of retail products and rapid innovation
- Mass retail subscribers and wide B2B customer portfolio
- Asset light, fast CAPEX payback (to be recouped over term of customer contract, over short retail product lifecycle)
- Commercial risk of general retail player, customer perception
- Agile, market-oriented, dynamic, trend leader, efficient with great customer experience

- Tangible fixed asset-based business
- Most efficient, reliable and secure underlying wholesale service provider thanks to economies of scale and scope achievable on its network
- Long-term capacity-offtake contracts reflecting useful lifetime of tangible assets of given technology generation
- O2 and few national wholesale partners plus international wholesale
- Longer payback affordable reflecting longer lifecycle of underlying network technologies
- Sector risk; low for current contracted technologies, risk of new technologies
- Proper selection, timing, dimensioning and implementation / operation of new technologies

# Envisaged outcomes of the transaction

- Two strong independent companies prepared to rise to the challenge
  - on the extremely competitive and developing European retail market (O2) and
  - networks and technology investments demanding and regulated sector (CETIN).
- To meet the basic goals of the transaction independent conduct of both companies on the market will be ensured. Each company will have its own independent IT, Board of Directors, Supervisory Board, business plan and goals respecting market orientation of the respective company.
- Transaction as the second strictest regulatory remedy will automatically solve all alleged market disruptions and can serve when voluntarily proposed to Czech Competition Authority in margin squeeze case as a commitment in favour of restoration of effective competition sufficient for the protection of competition.

# O2 leading through product differentiation... ...with focus on lean operational model

## Relevant upsell potential

- Network access to 90% of Czech households
- Relevant BB potential
- The only growing Telco in Slovakia
- Mobile data penetration



## Unique content and TV functions

- O2 TV Go available to all
- Multi device
- The only with time shift
- 30 hours archive
- Premier league



## Leading B2B player

- 50+% market share in business segment
- Customers locked in the contract typically for 24 months



## Best in class loyalty program

- Largest loyalty program in the Czech republic
- The second largest provider of discounts e.g. Groupon model



# CETIN unlocks its potential...

## ...utilising robust infrastructure

### Accelerated network sharing

- NW sharing between O2 & TM (2G&3G)
- Accelerated LTE roll-out
- Assumed timeline: 3-5Y for 2G&3G, LTE 5-7Y
- Ongoing discussion with 3<sup>rd</sup> participant



### Leading connectivity provider

- Backbone part of the Network advanced
- Aggregation part of the Network
- Access part of the Network
- Relevant further potential

T-Mobile



### Fiber model flying

- More retail players shorten the payback
- Sector approach to EU subsidy
- VDSL+ vs. fiber strategy
- Mobile vs. fix BB positioning



### International player

- Transit represents high volume low margin business
- Potential to multiple experience from CEE presence
- Global footprint
- Voice/data



# Key takeaways

- 1. Why?** New companies **fully focused on the core business**; strategic flexibility, easing of regulation in O2. **Supports value maximalisation for all shareholders.**
- 2. Independent companies:** Two independent and separated companies, with own corporate bodies, top management, own business plan and targets appropriate to their focus.
- 3. Mutual co-operation purely based on commercial terms.**
- 4. Both companies believe in sustainable growth:** CETIN via international expansion and development of national partners; O2 CR via best-in-class services, better customer experience and unique content.
- 5. These conclusions are supported by internal as well as external analyses:** internal team spent several months on the separation project - top consultancy and legal companies verified independently results of internal analyses.



A dynamic background image featuring a vertical splash of water on the left side, with numerous bubbles and droplets of varying sizes. The water is bright blue and appears to be moving upwards. The rest of the background is a solid, medium-blue color.

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**Thank you**