

# The Q3 2017 results conference call

## 26 October 2017 at 14:00 CET

### Presenters

#### **Davor Tomašković**

Hrvatski Telekom – President of the Management Board and CEO

#### **Josef Thürriegl**

Hrvatski Telekom - Member of the Management Board and CFO

#### **Elvis Knežević**

Hrvatski Telekom – Investor Relations

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Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's HT Group Q3 Results Conference Call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time, if you wish to ask a question, you will need to press the star and one on your telephone keypad and wait for your name to be announced. I must advise you that this conference is being recorded today, Thursday, the 26th of October 2017.

I would now like to hand the conference over to your speaker today, Mr. Elvis Knežević. Please go ahead.

Elvis Knežević: Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb. Today, our CEO, Davor Tomašković, and Josef Thürriegl, our CFO, will talk you through the highlights of our business and financial performance for the nine months ended 30th of September, 2017 using presentation slides, which I hope you have in front of you. If not, please visit our website at [www.t.ht.hr](http://www.t.ht.hr) where you can access the slides from our Investors page. After the presentation, Mr. Tomašković and Mr. Thürriegl will be available for your questions.

Before we begin, allow me to draw your attention to the harbor statement on page two of our presentation. Allow me to introduce you to Mr. Davor Tomašković, our CEO, who will outline our company's performance during the nine months ended 30th of September, 2017.

Davor Tomašković: Good afternoon, ladies and gentlemen, and thank you for joining us today. It is my pleasure to present the results from Hrvatski Telekom for the nine months ended 30th of September, 2017. I will start the presentation with slide number three, which outlines the financial highlights of the period.

I am pleased to report that revenue and the EBITDA has grown at both HT Croatia and across the HT Group, which includes our recently acquired operations in Montenegro. Net profit, however, was 2.2 percent lower. Revenue at HT Group rose 11.6 percent to HRK5.79 billion in the January to September period with a significant boost from the consolidation of Crnogorski Telekom in January. At our core HT Croatia operations, revenue rose 2.4 percent to HRK5.31 billion buoyed by a strong third quarter performance as well as the consolidation of H1 Telekom, which was merged with Optima Telekom from the beginning of July. Excluding H1 Telekom, revenue to HT Croatia rose 2.1 percent.

Crnogorski Telekom revenue, which was consolidated from January 1, 2017, came under pressure from continued regulation in a very competitive landscape. However, we have undertaken certain efficiency initiatives and this has helped improve EBITDA margin. Across the HT Group, EBITDA before exceptional items rose 11 percent to HRK2.35 billion following the consolidation of both Crnogorski Telekom and H1 Telekom.

Excluding Crnogorski Telekom, HT Croatia's EBITDA before exceptionals rose 3 percent underpinned by rising revenue as well as real estate sales and the continued transformation program. When H1 Telekom is also excluded, the EBITDA before exceptional was up 2.7 percent. Even accounting for the lower profitability at Crnogorski Telekom, we maintained our margins at an industry leading 40.5 percent for the nine months to September 2017.

Net profit in the period was down 2.2 percent to HRK735 million. Excluding Crnogorski Telekom, net profit was down 5.7 percent owing to high depreciation and

financial expenses. And exceptional items including the extraordinary impairment of receivables, driven by the ongoing and widely reported corporate crisis in Croatia.

Please turn now to slide four, which shows the financial and operational highlights of HT Group. In the nine months to September 2017, operational cash flow increased, and we are continuing to invest in our network infrastructure, increasing broadband access capacity and availability in order to maintain our leading position in Croatia. Net cash flow from operations rose 14.8 percent to HRK1.89 billion helped by the consolidation of Crnogorski Telekom and better working capital management in HT Croatia. Excluding Crnogorski Telekom, net cash flow rose 5.5 percent.

Capital expenditure rose significantly in the nine months to 30th of September, 2017, up 28 percent to HRK1.25 billion compared to the year earlier period. In part, this increase followed the consolidation of Crnogorski Telekom, but the remaining increase was due to our commitment to investing in our mobile and fixed broadband networks, the transformation of IT in HT Croatia, and an increase in capitalization of contracts for TV content.

Operationally, we had introduced a number of innovative services during the period. In May, we introduced voice over LTE network, which enables voice calls over the super fast LTE network. Users have access to clear and natural sound, much faster call setup time, and longer battery life without any additional charges.

We also launched our Next TV platform to enable customers to consume TV content on any device, and hybrid access, which combines fixed and mobile broadband access where the fixed infrastructure offers just limited speed levels. In June, we announced plans for a full-year share buyback program, and this was launched on July 3rd, with a maximum of 2.5 million shares schedule for acquisition, accounting for 3 percent of the total shares outstanding.

Slide five describes our revenue performance for HT Croatia in the first nine months of 2017. And I'm very pleased to report that we have reversed the revenue decline seen in the first half. This was after a strong third quarter for visitors using their mobiles in Croatia and improvement in our system solutions performance, and the merger of H1 Telekom into Optima.

Total revenue rose 2.4 percent to HRK5.31 billion from HRK5.18 billion. By segment, mobile revenue rose 5.7 percent in the period to HRK2.24 billion driven by strong postpaid revenue; hence, its sales and the rise in visitors to Croatia using their phones on the HT network following the abolition of roaming charges.

Mobile growth contrasted with fixed line declines as fixed voice revenue fell 11.2 percent to HRK645 million. This continuing trend was due to a fall in the number of mainlines amid fixed to mobile substitution, lowered traffic, and lower average revenue per user influenced by more low value residential customers using our fixed voice services. Broadband and TV revenue rose 0.7 percent to HRK993 million in the first nine months of the year, reflecting stable broadband income but an increase in TV customers which boosted TV revenue modestly.

Fixed Wholesale revenue rose slightly, up 1.3 percent to HRK274 million due to high infrastructure revenue and the new regulated pricing model for wholesale customers since the start of the year. This rise was slightly offset by revenue deductions from H1 Telekom.

A 4.4 percent rise in Other Fixed revenue to HRK569 million was largely attributable to a rise in Optima revenue following the consolidation of H1 on July 1. System Solutions, which had been on a declining trend at the half year, is back on track following a strong third quarter and reported a 3.8 percent increase in revenue in the first nine months to HRK479 million. And the last, Miscellaneous revenue growth of 43 percent to HRK110 million was largely a result of a 10 percent jump in the number of business energy customers who consumed large amounts of energy.

I will now hand over to Josef who will walk you through our performance during this period in more detail.

Josef Thürriegel: Yes. Thank you, Davor, and once again, good afternoon to everyone from my side. Please now turn to slide six, which describes the performance of HT Croatia's mobile business where we remain focused on mobile data bundle offers and an improved customer experience. Market share by subscribers slightly slipped to 45.8 percent at the end of the third quarter 2017 from 46.4 percent in the year-ago period. But we have maintained our leading market position here. Total subscribers fell 1.5 percent

to 2.3 million by the end of the third quarter as an 8.2 percent rise in postpaid customers did not completely offset the 10.6 percent decline in prepaid subscribers.

Meanwhile, average revenue per user for prepaid customers rose 1.6 percent or HRK43 per month but postpaid ARPU fell 2.7 percent to HRK107 in the nine months to 30th of September 2017. Average minutes of use rose 8.2 percent to 216. The percentage of smartphone as a proportion of total handset sales was 80 percent in the postpaid segment in the first half, which was flat compared to the same period last year; while HT Group's smartphone penetration was at 61 percent.

Our 4G network covered 75 percent of the population indoors and 98 percent outdoors. It is worth mentioning also that average speeds continuously increase. We achieved this despite of multiple rise in mobile network traffic following the abolition of EU roaming fees, which encouraged more visitors to use their phones in Croatia.

Turning now to slide seven, which describes HT Croatia's fixed line and IT businesses. The trends towards declining fixed mainlines, but rising broadband lines and TV customers continued. The number of fixed mainlines fell 6.8 percent to HRK953,000 at the end of the third quarter 2017. In contrast, the number of broadband access lines rose 2.7 percent to 760,000 at the end of the period as wholesale broadband lines rose 6 percent and retail broadband lines also increased to 2.1 percent.

TV customers grew steady over the third quarter, rising 4.8 percent year-on-year to 413,000 by September 30th, 2017 as we continue to improve our service and our premium and exclusive TV content program offer. While customer numbers were up in some segments, average revenue per user fell in fixed lines, broadband, and TV, fixed voice ARPU fell 6.7 percent to HRK79 and TV ARPU was down 1.1 percent to HRK81. Broadband retail ARPU slipped 3.4 percent to HRK118, hit by stronger competition and very aggressive offers in the market. The next generation access speeds of higher than 30 megabits per second have been enabled for 57 percent of Croatian households, while 18 percent of households are now enabled for speeds of 100 megabits per second.

Following our acquisition of a majority stake in Crnogorski Telekom, we present now standalone revenue for this business on slide number eight. Even though we have started to consolidate Crnogorski Telekom from the beginning of this year, we are presenting nine months data for illustrative purposes to indicate key trends in Crnogorski Telekom's performance. Let me add shortly also that the euro is the offshore reporting currency of Crnogorski Telekom.

Revenue remains under pressure here impacted by a demanding regulatory environment and tough competition in the Montenegro telecoms market. Total revenue at Crnogorski Telekom in nine months to 30th of September was EUR64 million, down 7.7 percent compared to the same period last year, reflecting a decline in all revenue streams. Mobile revenue fell the least, down just 1.1 percent to EUR32.2 million, with postpaid revenue up by 1.3 percent driven by growth in the customer base of 13 percent. This was supported by take-up of Magenta1.

Fixed revenue suffered from the same fixed to mobile substitution that is affecting all telecoms regional in the market globally. Fixed revenue is down 13.4 percent to EUR28.8 million in the nine-month period. Within fixed revenue, broadband and TV revenue both also fell. This was due to a lower customer base, and broadband was also impacted by the regulatory framework. We are working to prevent churn by refreshing Crnogorski Telekom's offer in the core retail telecommunication's market.

System solutions also reported a decline reversing the growth seen at the half year as a result of changing project dynamics. Revenue fell 14.9 percent to EUR3.1 million in the first nine months of 2017. EBITDA before exceptional items decreased by 1.2 million or 5.2 percent compared to nine months to September 30th, 2017 in line with revenue development. This was partially offset by lower material cost due to lower copyright fees resulting from TV content capitalization in the fourth quarter 2016 and first half of the year 2017.

The EBITDA margin before exceptional items in the reporting period amounted to 35.3 percent and was 0.9 percent points above the same period in 2016. This resulted from a number of efficiency initiatives including the implementation of a new organizational structure and improvements in the efficiency of sales processes in shops and call centers. CapEx increased by EUR2.9 million or 29.2 percent as a result of capitalization of TV content contracts in the first half of the year in 2017.

To further illustrate the current position of the new business, slide nine describes Crnogorski Telekom's business performance in the first nine months of 2017. The key trend continued to be a rise in mobile customer but declined in fixed mainlines, broadband, and TV customers. So, mobile subscribers rose 0.3 percent to 370,000 at the end of September 2017 compared with the same period last year. And this reflected a rise in postpaid subscribers which offset the fall of prepaid subscribers.

Fixed retail mainlines fell 9.6 percent in the period to 127,000 owing to the ongoing trend across the industry of fixed-to-mobile substitution as mentioned. The number of broadband retail access lines fell 3.6 percent to 70,000 compared to 73,000 at the end of the third quarter last year. TV customer slipped to 57,000 from 60,000, a decline of 5.2 percent.

I would now hand back to Davor who will outline to you our outlook for the whole year.

Davor Tomašković: Thank you, Josef. Now, on to our final slide, number 10. Our outlook, which is unchanged, includes the merger of H1 Telekom and Optima Telekom in June, and the acquisition of Crnogorski Telekom in January. HT Group continues to expect 2017 full year revenue to be around 10 percent higher than in 2016. Similarly after achieving a margin of 40.5 percent in 2016, we continue to expect to report an EBITDA before exceptional items margin of around 40% in the current financial year.

CapEx is expected to be moderately higher than the HRK1.61 billion we spent in 2016. With regard to regional expansion, HT is monitoring and evaluating potential M&A opportunities.

Thank you for your attention. We are now ready to take any questions.