

The Q1 2016 results conference call

28 April 2016 at 10:00 CET

Presenters

Davor Tomašković

Hrvatski Telekom – President of the Management Board and CEO

Irena Sekirica

Hrvatski Telekom - Controlling Sector Director

Elvis Knežević

Hrvatski Telekom – Investor Relations

Operator: Ladies and gentlemen thank you for standing by and welcome to the HT Q1 2016 Results Call.

During the call all participants will be muted. There will be a presentation followed by a question-and-answer session. If you wish to ask the question you will need to press “star” “1” on your telephone keypad.

Please be advised that the conference is being recorded today, on Thursday, the 28th of April, 2016.

And I shall now hand over to the speaker for today, Elvis Knežević. Please go ahead.

Elvis Knežević: Thank you. Ladies and gentlemen good morning and welcome from Zagreb.

Today our CEO, Mr. Davor Tomašković and Irena Sekirica, our Controlling Sector Director will talk you through the highlights of our business and financial performance for the three months ended 31st March 2016, using presentation slides which I hope you have in front of you, if not please visit our website at www.t.ht.hr where you can access the slides from our Investors page.

After the presentation Mr. Tomašković and Ms. Sekirica will be available for your questions.

Before we begin allow me to draw your attention to the Harbor statement on Page 2 of our presentation.

Allow me to introduce you to Mr. Davor Tomašković, our CEO who will outline our Company's performance during the three months ended 31st March 2016.

Davor Tomašković: Good morning ladies and gentlemen. Thank you for joining us today.

It is my pleasure once again to present the results from Hrvatski Telekom for the three months ended 31st March 2016.

I will start the presentation with Slide 3 which outlines the highlights of the first quarter of this year.

Let me please say a few words on Croatian economy as an introduction. It is starting to show some signs of recovery with GDP growth of 1.6 percent in 2015 to mark the first time where this key metric has shown growth across an entire year since 2008.

Other measures of domestic economic health including the unemployment rate and average net income are also starting to show some signs of improvement however this is unfortunately still not sufficient evidence to point to a tangible turnaround in the economy.

So the domestic economic environment in Croatia remains tough and the telecoms market continues to be highly competitive.

In light of this we are very pleased to report certain growth in our business after several years of difficult trading conditions, most notably we have achieved a 3.4 percent rise in revenue in the first quarter to HRK 1.67 billion.

This growth was underpinned by revenue in wholesale, energy, the sale of handsets and above average completion of projects in Q1 in system solutions business.

EBITDA before exceptional items remain stable at HRK 627 million, also margins in the quarter were 37.5 percent, down slightly from 38.8 percent in the same period last year.

The margin impact replaced the lower profitability of the main revenue drivers I've just outlined and also our strong investment in the market in order to for example boost customer retention.

We nevertheless retained our outlook for 2016.

From an operational perspective, we undertook significant initiatives in order to maintain our position in the market and we lead in all our areas of business. We remain committed to ongoing transformation initiatives as well.

One of the key facets of our transformation continues to be our strong focus on the customer experience backed primarily by our continued large investment into fixed and mobile broadband networks.

Our strategic program Horizon 2016 includes initiatives from a broad range of business areas, from human resources strategy to exploring specific growth opportunities, dealing also with areas like wholesale and IT as well as CapEx and TV platform.

Magenta 1 is our new premium customer experience and benefits product. It was launched in March and offers private and business customers a premium service in customer care for our most loyal customers and households.

If we now turn to Slide 4 which describes the breakdown of revenue in more detail.

Let me remind you HT has changed its category breakdown for reporting them to make the financial data of HT more comparable with other market participants.

I will also like to mention here that in order to protect our market position with regard to our competitors we have decided to cut some sensitive information, KPIs, mostly at segmental level whilst they are maintained at the Group level.

Overall we have seen positive growth in low-margin system solutions and energy as well as wholesale and handset sales.

Mobile revenues as you can see rose 5.1 percent to HRK 655 million largely owing to handset sales, higher data revenue and increased wholesale revenue arising from deregulation of non-E.U. termination rates which came into effect in April 2015.

Fixed line voice revenue fell 12.9 percent to HRK 247 million, this reflects the ongoing decline in the number of mainlines as more people use mobiles instead, lower fixed line traffic, and lower average revenue per access.

Broadband and TV revenue in the first quarter fell 2.9 percent to HRK 324 million. This is mainly because of lower average revenue per account which was impacted by bundled services and more people taking flat packages, as well as fewer broadband retail customers which are down 0.9 percent year-on-year. We are actively promoting our MAX2 and MAX3, Ultra MAX and Fiber to the home products to mitigate this decline.

Fixed wholesale revenue rose 16.2 percent on the back of higher infrastructure revenue and the deregulation of certain non-E.U. termination rates. The other fixed revenue was largely stable.

And finally system solutions and miscellaneous revenue were both up strongly, system solutions revenue rose 45 percent to HRK 165 million following with an above average level of projects completed during the period. As noted earlier as well as more sales of ICT equipment and a greater demand for consulting services.

Miscellaneous revenue was boosted by energy sales and we see significant potential demand in that market.

If we now turn to Slide 5, you can see that EBITDA remain stable, while operating cash flow is up significantly.

Net profit on the other hand was adversely impacted by the movement in exchange rates particularly Euro to Kuna exchange-rate.

EBITDA before exceptional items remain stable at HRK 627 million, this reflects a weakening of margins because a lot of revenue growth came from low-margin businesses and in addition the cost of investment in the market, largely mobile merchandise cost to protect our customer base also impacted profitability.

Net profit thus fell 10.1 percent in the first quarter mainly as I already mentioned owing to exchange-rate losses which offset the positive impact of lower redundancy cost.

Net cash flow from operations was positively impacted by lower redundancy payments as well as lower tax on positive working capital movements. Net cash flow was up 35 percent to HRK 575 million in the period.

And finally capital expenditure was higher in the first quarter compared to the same period last year as we continue to invest significantly in our mobile and fixed broadband networks.

I will now hand over to Irena who will walk you through our performance during this quarter in a bit more detail.

Irena Sekirica: Thank you, Davor. So let's turn to Slide 6 which details our performance within the residential segment.

The revenue was largely stable at HRK 914 million from 921 million visible last year with EBITDA contribution falling 2.5 percent.

HT is undertaking a number of strong marketing activities to mitigate any residential profitability declines, so Magenta 1 was launched in March targeting our most loyal customers and households with a unique concept of premium customer experience and premium benefits, these include among others, TV packages, top-speed Internet and phone minutes.

In order to retain and increase our broadband and TV customer base, we continue to promote MAX2 and MAX3 packages with exclusive content and premium TV packages.

On Slide 7, business segments performance shows revenue up, strongly on the back of earlier mentioned system solutions as well as wholesale and energy growth, all aligned with the revenue development explained earlier at the Group level.

Business revenue rose 9.9 percent 651 million and the contribution to EBITDA by this segment was 2.8 percent higher.

Continuing our strong marketing push, Magenta 1 offers business-to-business customers the highest available speeds, 4G backup, network security and cloud storage.

In addition to marketing, we remain committed to ongoing efforts in value management, customer retention, and growing our system solutions business.

Now please turn to Slide 8 where I will discuss the mobile business.

We remain focused on offering mobile data bundles and ensuring the best customer experience including offering speeds up to 262 megabits per second.

At the end of the first quarter of 2016, our share of mobile market was up 0.3 percent point to 47 percent. In that period the number of subscribers fell slightly, reflecting fewer prepaid customers. This was mainly due to the aggressively competitive offers on the market and decreasing customers with double SIM cards due to the continuing trend of the favorable cross net and flat offers.

This decline was partially offset by our new attractive mobile tariff called "Najbolja" which we launched in second half of 2015 and as well as the growth in machine-to-machine and mobile Internet.

Pre-paid average revenue per user was flat but customers on contracts spend 1 percent more on average than in the same period last year.

We saw average minutes of use rise 4.9 percent to 196 minutes, in line with the national trend of fixed mobile substitution and increasing number of free minutes, included in competitive tariffs.

During the quarter the proportion of total handset sales, that was smartphones, increased to 80 percent in postpaid from 74 in the same period last year. HT smartphone penetration overall was 55 percent.

We now reach 66 percent of the population with our 4G coverage indoors and we have achieved 94 percent of the outdoor coverage.

Slide 9 shows a mixed picture within the fixed-line and IP business with broadband growing, fixed-line declining and TV business holding steady.

The number of fixed mainlines declined 7.3 percent in the first quarter as the trend for fixed to mobile substitution continues. Those customers that do have a fixed line, they are also using it less which means the average revenue per user was down 6.1 percent to HRK 86 in the current period.

The number of broadband access lines rose 4 percent, supported by a rise in wholesale broadband. Broadband retail ARPA was down 2.6 percent to HRK 122, largely because of bundling with other services and a greater proportion of flat-rate packages.

We have been increasing growth in access capacity and availability to maintain our leading position as the largest fixed broadband operator in Croatia.

TV, the number of TV customers remains broadly flat at 387,000 while TV ARPU rose 1.3 percent to HRK 81 and the rise is the result of our compelling premium content offers like additional program packages and video-on-demand as well as our enhanced exclusive TV content.

I will now hand back to Davor who will talk to you about our outlook for the remainder of 2016.

Davor Tomašković: Thank you, Irena.

Finally on Slide 10, I would like to reiterate our outlook for the full-year. As I said when we reported our full-year results for 2015 earlier this year, we expect revenue this year to be in the range of flat to 2 percent below last year.

EBITDA margins before exceptional items should remain at around 40 percent. We expect to spend slightly less CapEx in 2016 compared to the HRK 1.47 billion spent last year but still above the Group's long-term average of HRK 1.1 billion.

With regards to regional expansion, we continue to monitor and evaluate potential M&A opportunities.

Thank you for your attention.

We're now ready to take any questions.