

**The Q4 2018 results conference call**  
**15 February 2019 at 12:00 CET**

**Presenters**

**Davor Tomašković**

Hrvatski Telekom – President of the Management Board and CEO

**Daniel Daub**

Hrvatski Telekom - Member of the Management Board and CFO

**Elvis Knežević**

Hrvatski Telekom – Investor Relations

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Operator: Thank you for standing by and welcome to the Hrvatski Telekom Results conference call for the 12 months ended 31 December 2018

At this time, all participants are in a listen-only mode. Today, there will be a presentation followed by a question and answer session at which time, should you wish to ask a question, you will need to press the <star> 1 on your telephone.

I must advise you that this conference is being recorded today Friday 15 February 2019. It is now my pleasure to hand you over to your first speaker today: Mr Elvis Knežević

Mr Elvis Knežević – please go ahead.

Elvis Knežević: Thank you

Ladies and gentlemen, good afternoon and welcome from Zagreb. Today our CEO Mr Davor Tomašković and Mr Daniel Daub, our CFO, will talk you through the highlights of our business and financial performance for the 12 months ended 31 December 2018, 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 Investor's page. After the presentation, Mr Tomašković and Mr Daub will be available for your questions.

Before we begin, allow me to draw your attention to the harbour statements 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 12 months ended 31 December 2018.

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 12 months ended 31 December 2018.

I will start the presentation with slide 4, which outlines the business highlights for the period.

We delivered a financial performance in line with our outlook in 2018. Our key metrics including revenue, EBITDA and net profit were up, and we reported industry-leading EBITDA margins.

For the current financial year of 2019, we expect the revenue outlook and capex to be similar to 2018, while EBITDA margin before exceptional items is expected to be around 40%.

The Board has proposed a total dividend of HRK 10 per share. This will incorporate HRK 7 to be paid out of 2018 net profit along with an additional HRK 3 per share, reflecting the improving economic and investment climate in Croatia.

As part of our four year share buyback program launched in June 2017, we bought back 0.55% of total shares in 2018.

Looking at our operational highlights now, we have again retained our leading market position in all areas of our business activity. We also received the P3 award for best mobile network for the second year in a row, which is a strong endorsement of our leadership in technology.

Across the entire business, technology continues to be the focus of the Group and we are introducing innovative digital services to our customers such as the One App, which now has 101,000 active monthly users.

Our premium customer experience and benefits package, Magenta1, continues to attract broadband and TV customers, and has reached 191,000 household subscribers and 16,000 business customers

Turning now to slide 5, you will see that we delivered on all of our full year targets.

We expected revenue of around HRK 7.76 billion and delivered 0.4% higher at HRK 7.78 billion. We forecast an EBITDA before exceptional items margin of around 40% and delivered 40.9%.

We planned on spending slightly lower than HRK1.89 billion of capex and ended the year 3.1% below that level at HRK1.83 billion.

And we promised, we have been closely monitoring the market for opportunities to acquire that would expand our services and capabilities. In 2018 we signed the purchase agreement to buy HP Produkcija, the operator of the Evo TV service, and we are awaiting regulatory approval. When completed, this acquisition will further improve our position in the pay TV market.

Let's now move to slide 7, which shows our key financial highlights. Our main financial indicators, including revenue, EBITDA and net profit all rose, and we enjoyed improved trends at Crnogorski Telekom where the declines in revenue slowed and profitability improved.

Across the Group, revenue rose 0.4% reflecting a modest 0.6% increase in revenue at HT Croatia to HRK 7.17 billion, which offset a 2.0% decline in revenue from Crnogorski Telekom to HRK 618 million.

The revenue increase at HT Croatia was achieved despite our exit from the energy business and the slowing notably high growth rates in visitor data traffic. The decline in revenue at Crnogorski Telekom was a result of the tough competitive and regulatory environment in Montenegro.

EBITDA before exceptional items rose 1.5% to HRK 3.19 billion, with a margin of 40.9% in 2018. This is made up of a 1.2% rise in EBITDA before exceptional items at HT Croatia to HRK 2.95 billion, and a 5.8% increase at Crnogorski Telekom to HRK 233 million.

The key factors affecting this performance measure were the successful transformation of the business which we have been implementing for several years now, and cost savings across the Group. We were also helped by a reduction in spectrum fees in Croatia and the introduction of accounting standard IFRS 15.

Net profit in 2018 was up strongly, rising 22.9% to HRK 1.06 billion, reflecting the improved EBITDA before exceptional items described earlier, the absence of exceptional receivables impairment, which weighed on profit in 2017, lower depreciation and amortisation expenses, and higher net financial income. All these positive impacts came from HT Croatia's business.

Please turn to slide 8 which describes our operating cash flow performance and the continued investment in our network and improvements in customer experience.

Net cash flow from operations fell 12.9% to HRK 2.35 billion in the 12 months to the end of December 2018. HT Croatia cash flow was down 9.1% to HRK 2.19 billion, while Crnogorski Telekom cash flow slid 44.7% to HRK 158 million. The key reason for the decline in cash flow was the adverse movement of working capital.

While we continue to invest in improving our network and the customer experience, we are managing our capital expenditure well. Despite a 3.1% decline in capex HRK1.83 billion in 2018, we still managed to make significant and important investments in our mobile and fixed broadband networks, IT transformation, product development and regulatory-related capex at HT Croatia.

Capex at our Croatian business fell 5.6% to HRK 1.65 billion. Meanwhile Crnogorski Telekom increased its investment in improving access to its services.

We will now turn to HT Croatia's revenue performance on slide 9 which showed a modest increase, despite our exit from the energy business and lower growth rates in visitor data traffic. Mobile and systems solutions were the stand-out revenue drivers in 2018.

Total revenue at HT Croatia rose 0.6% to HRK 7.17 billion in the 12 months to the end of December. Of this, mobile revenue made up HRK3.13 billion, which is a 4.6% rise on last year's mobile earnings.

This was largely attributed to higher postpaid revenue, more visitors to Croatia using our network and strong handset sales. Handset revenue growth was driven by a higher share of more valuable handsets sold, in addition to a growing number of convergent offers.

There has been no change in the decline trend in fixed voice revenue. Times have changed and people don't use fixed line telephones when they have mobiles often with unlimited minute bundles. A fall in mainlines, traffic and ARPU dragged fixed voice revenue down 12.7% to HRK 736 million. It is unlikely this trend will reverse.

Our broadband and TV revenue showed a mixed performance, with the broadband declining and the TV revenue increasing. Overall broadband and TV revenue fell 1.8% to HRK 1.29 billion. Broadband revenue fell because ARPU was down as we compete with aggressively priced offers in the broadband market. HT Croatia's TV business is getting stronger however, attracting customers with our program improvements and our premium and exclusive content

Fixed wholesale revenue fell 13.2% in 2018 to HRK 301 million, largely because of deductions arising from the Optima Telekom acquisition of H1 Telekom in July 2017, and fewer wholesale broadband access lines.

Other fixed revenue rose 6.3% to HRK 827 million which was a result of the positive impact of the H1 Telekom consolidation on Optima Telekom's revenue.

System solutions showed very good growth. Revenue in this segment rose 9.2% to HRK 763 million as more projects were realized in the period.

Finally, miscellaneous revenue fell 22% to HRK 118 million after the sale of our energy business in the third quarter limited revenue in that business, along with the exit of some marginally profitable contracts in the first quarter. Energy revenue was HRK 97 million in 2018 compared with HRK 141 million the previous year.

I would now like to hand over to our CFO Daniel Daub who will walk you through our operational performance for the 12 months ended 31 December 2018.

Daniel Daub:

Thank you Davor and good afternoon everyone. Slide 10 describes HT Croatia's mobile business, where we have maintained our leadership in the market and in technology. Market share by subscribers slipped a little, down 0.8% to 45.4% due to competitors' push of FMS offers, but nevertheless we remain the leading mobile provider in the country.

Subscriber numbers rose in the year, up 1.3% to 2.27 million at the end of the fourth quarter 2018. This reflects growth in the postpaid segment (up 4.9% to 1.32 million) offsetting a 3.4% decline in prepaid to 951,000 subscribers. There is a general trend towards postpaid contracts as bundles and value offers entice more people to sign up.

Average revenue per user in our mobile segment rose slightly for prepaid customers and fell slightly for postpaid customers. Prepaid ARPU rose 0.9% to HRK 43 in the 2018 full year. Meanwhile postpaid revenue excluding the impact of IFRS 15, fell 1.9% to HRK 104. When the impact of IFRS is included, postpaid ARPU fell to HRK 86 per month.

Average minutes of use rose 4.0% to 225 minutes, and HT Croatia's smartphone proportion of total handset sales is now 91% in the postpaid segment, up from 84% in 2017. Smartphone customers account for 67% of HT Croatia's overall subscriber base.

By the end of 2018, HT Croatia's 4G network had reached 82% population coverage indoors and 98.5% coverage outdoors. We continued the modernization and capacity extension of our mobile network in preparation for the introduction of 5G. We received the P3

award for best mobile data and crowdsourcing network in Croatia for the second consecutive year.

Please now turn to slide 11 for details of HT Croatia's fixed line and IP business. In this segment saw slight growth in the number of our TV customers and they spent slightly more per user in 2018. Broadband and fixed mainlines decreased however as did the average revenue per user on these services.

The number of fixed mainlines at the end of the fourth quarter 2018 fell 6.9% to 872,000. Both retail and wholesale mainlines were down in the period, the former falling 6.3% to 819,000 and the latter falling 15.5% to 53,000. Fixed mainlines have been on a downward trend for many years because of fixed to mobile substitution and the trend does not look to be abating.

Meanwhile broadband access lines also slipped slightly, down 1.0% to 747,000. Retail broadband access lines were down 0.9% to 618,000 following intensive acquisition and retention offers provoked by aggressive competition, as we have already discussed, and wholesale lines fell 1.8% to 129,000 at the year end. This decline was due to more operators using their own infrastructure to provide broadband to consumers and businesses.

TV customer numbers fared better, rising a modest 0.3% to 418,000 at the end of the fourth quarter. Our premium and exclusive TV content is a powerful tool to attract new customers and we are able to sell more services to increase ARPU.

TV ARPU rose 2.7% to HRK 83.6 in the period.

The ARPU for our fixed voice and broadband retail customers followed a similar downward trajectory to customer numbers. Fixed voice ARPU fell 7.3% to HRK 72.5.

Broadband retail ARPU also fell, 5.4% to HRK 110.7.

Next Generation Access speeds greater than 30 megabits per second have been enabled for 58.2% of Croatian households, while 400,000 households are now enabled for optical fiber network access with speeds of 100 megabits per second.

On slide 12 we present the standalone financial results for Crnogorski Telekom. In 2018 we saw slower revenue declines than the previous year, with good performances in mobile and system solutions. Profitability was boosted by our transformation initiatives.

Across the business, Crnogorski Telekom revenue fell 1.9% to HRK 625 million. Whilst revenue was lower, the pace of decline has notably slowed compared against the 7.1% fall in revenue reported in 2017.

Within the 2018 revenue figure, mobile revenue rose 2.2% to HRK 324 million, as we focused on the postpaid segment with a refreshed portfolio of offers.

Fixed voice followed the market trend of fixed to mobile substitution, declining 12.8% to HRK 73 million in 2018. Broadband revenue also fell, albeit less dramatically, down 3.1% to HRK 117 million. Fixed wholesale fell 19.8% to HRK 19 million, and other fixed revenue declined 5.9% to HRK 53 million.

System solutions stood out for its strong growth, with revenue up 10.7% to HRK 39 million as more projects were realized in the full year to 31 December 2018.

Despite the decline in revenue, EBITDA before exceptional items rose 5.8% to HRK 233 million, boosted by lower operating expenses before exceptional items and higher other operating income. This represents a turnaround from last year when EBITDA before exceptional items fell 5.2%. Strong 2018 EBITDA helped net profit surge 40.7% to HRK 54 million.

To conclude Crnogorski Telekom results please look at slide 13 which provides details of their mobile, fixed line and IP business where all segments rose except for fixed mainlines.

The number of mobile subscribers increased 4.9% at the end of the fourth quarter 2018 to 369,000, largely due to very strong growth in postpaid customers. Postpaid numbers rose 7.6% to 227,000 and prepaid also grew, albeit not as vigorously, by 0.9% to 142,000.

Fixed retail mainlines fell 7.3% to 114,000 at the end of the year because of fixed to mobile substitution.

Broadband retail access lines rose 0.9% to 70,000 and the number of TV customers at Crnogorski Telekom surged 15.1% to 65,000 on the back of our strong premium content offer.

I will now hand back to Davor, who will outline our outlook for 2019 and dividend proposal.

Davor Tomašković: Thank you Daniel.

Please turn to slide 15 for our Group outlook 2019.

We expect to maintain revenue at around the 2018 level of HRK 7,783 million, with a margin for EBITDA before exceptionals of around 40% in 2019.

Capex is also expected to remain around the 2018 level of HRK 1,826 million we reported for 2018 and we will continue to monitor and evaluate M&A opportunities in 2019 following our agreement to purchase of evotv last year.

Now please turn to our final slide 16. HT Group announced a minimum target dividend in February 2018 of HRK 6 per share.

Our final dividend proposal for 2018 totals HRK 10 per share, to reflect improvements in the economic and investment climate in Croatia.

HRK 7 of the total proposed dividend represents a 57% pay-out ratio to be paid out of 2018 net profit. This compares to a 58% pay-out ratio in 2017.

The additional HRK 3 per share in the total dividend is being proposed as a result of the improved economic and investment prospects in Croatia, notably related to spectrum fees.

For the 2019 financial year, HT currently expects to pay out a minimum of HRK 6 per share

In 2017 HT launched a share buyback program, and in 2018 we bought back 450,517 shares or around 0.55% of shares outstanding. In 2017, we had bought back 216,005 own shares, or 0.26% of total shares

In conclusion, as you know, this is the last time I was speaking to you in this capacity before I move on from HT Group at the end of March.

I would like to say that it has been a real privilege to hold the role of CEO at HT Group over the past five years.

I would like to thank you all for your interest and support and also to express my gratitude to all the staff of HT Group for the dedication and commitment they have demonstrated during a period of significant change and development.

I wish HT Group the very best in the years ahead.

We are now ready to take any questions.