

30 April 2020

Conference call: HT Group - Results Q1 2020

Speakers: Kostas Nebis, President of the Management Board and CEO
Daniel Daub, CFO
Sinisa Đuranović, Senior Vice President and General Counsel
Tomislav Bajić, Head of Investor Relations

Presentation Material: Results for the 3 months ended 31 March 2020

Operator

Thank you for standing by and welcome to the Hrvatski Telekom Results conference call for the 3 months ended 31 March 2020.

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 Thursday 30 April 2020. It is now my pleasure to hand you over to your first speaker today: Mr Tomislav Bajić

Mr Tomislav Bajić – please go ahead.

Mr Tomislav Bajic

Thank you

Ladies and gentlemen, good afternoon and welcome from Zagreb. Today our CEO Mr Kostas Nebis, our CFO Mr Daniel Daub, and our Senior Vice President and General Counsel Mr Siniša Đuranović, will talk you through the highlights of our business and financial performance for the 3 months ended 31 March 2020, 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 Investor's page. After the presentation, we 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 Kostas Nebis, our CEO. He will outline our company's performance during the 3 months ended 31 March 2020.

Mr Kostas Nebis

SLIDE 3

Thank you Tomislav.

Good afternoon ladies and gentlemen and thank you for joining us today.

It is my pleasure to present the results of the Hrvatski Telekom Group for the 3 months ended 31 March 2020.

I will start the presentation with slide 3, which details our response to the seismic changes that have occurred during the COVID-19 outbreak. We are all living through unprecedented times. The scale of this global pandemic and the rapid response by countries around the world to contain the virus have had a substantial impact on everyone.

At HT, protecting and helping our stakeholders is our primary concern, from our customers who more than ever need to stay in contact, to our employees who need to stay safe and well. In addition, we are in a unique and privileged position of being able to offer support to the government and the wider society.

We have created a Crisis Team on an operational and Management Board level to monitor and coordinate our handling of the COVID-19 crisis. We moved quickly to implement safety measures when the risks became apparent, and we developed a new operating model to ensure our employees were at little or no risk of exposure to the virus while performing their duties. As you will be aware the government closed all shops on March 20, and this included all our retail stores. They remained closed during this period as per the government recommendations. However, as of this week, I'm pleased to report that certain shops have been able to reopen. We have put in place procedures to ensure that the shops that have opened comply with guidelines and enable our staff to remain safe.

In March, Zagreb was hit by a devastating earthquake that resulted in widespread damage across the city. The earthquake also caused a fire and power shutdown at our Draškovićeveva data centre and knocked out several mobile locations across the city. I'm pleased to report that our disaster recovery systems proved to be robust and we were able to restore all services within 24 hours. We have also extended financial support to employees who have been affected and are in need of assistance.

Despite the unexpected nature of the COVID-19 crisis, we reacted quickly to help our customers deal with the requirements of lockdown. In those first few days, we launched several customer giveaways to help them stay connected.

For consumers we provided extra connectivity, MAXtv and extra channels on Evo TV. For businesses, we provided extra connectivity, safe connections, and collaboration tools to enable their staff to work effectively from home. For our student customers, we zero-rated the "School of Life" schooling program and provided free educational tutorials on MAXtv.

As a result, we saw a substantial increase in data and voice traffic on our network as the COVID-19 lockdown measures were put in place. In March, we recorded a 25% increase in mobile data traffic and a 32% increase in mobile voice traffic, as compared with the month of February. We also experienced a 35% increase in Internet traffic and a 45% increase in fixed voice traffic minutes, compared with usage in February.

In addition to supporting our customers and employees, we have been providing support to the government to ensure that society, business and the economy can remain functional even while we all have to stay apart.

We increased internet speeds to several hospitals across Croatia and for Carnet to support the online schooling program. We enabled free calling numbers to the Corona Crisis Centre, the Red Cross and other institutions

that have been providing vital support and help during the crisis. We also donated HRK4 million to the "Dr. Fran Mihaljević" Clinic for Infectious Diseases to help fund their vital research.

Croatia has benefited from the fact that controls have been put in place to manage the virus outbreak, but even as some of the restrictions on society are being relaxed we will not become complacent. Until there is a cure or a vaccine, COVID-19 will continue to affect our lives and at HT Group we will do everything we can to keep our people safe, our customers connected and society open for business.

Please now turn to slide 4 and we will proceed with the presentation of the group's first quarter results.

SLIDE 4

Slide 4 details the company highlights during the three-month period to March 31, including new business and regulatory developments, financial performance and decisions on capital allocation.

During the first three months of the year, we placed a strong focus on implementing the next generation fixed access network, to connect our customers with the very best broadband speeds available. In addition, we have continued to lower the number of complaints coming through to our call centre agents. This was through proactive customer base management and a series of customer-centric efforts which increased customer satisfaction both from residential and business customers in Q1 2020. Meanwhile our One App digital service saw an 18 percent rise in usage in the first quarter compared to the same time last year.

Regulatory developments in the telecoms sector have been impacted by the coronavirus outbreak. The regulator HAKOM has postponed application of the new margin squeeze methodology from April 1, 2020, to January 1, 2021 with possibility of further extension, taking the account the current crisis and our arguments that methodology should be postponed due to negative effects on our customers leading to price increases.

However, a decision by HAKOM last October to reduce the weighted average cost of capital did come into effect at the beginning of January 2020. This has resulted in reduced prices for mass infrastructure wholesale services such as Local Loop Unbundling, Bitstream, Naked Bistream and Cable Ducts. The wholesale pricing reductions have ranged from 12% to 21% in Q1 2020, and this of course had an impact on fixed wholesale revenues.

In addition, the deadline for switching to the new DVB-T2/HEVC system, which is used for digital terrestrial television, has been postponed for at least 6 months and will not be implemented before the end of November or the beginning of December 2020.

In terms of our financial performance, our topline revenues have remained quite resilient during the period, with growth in broadband and TV alongside system solutions revenue, whilst mobile and fixed revenue were lower mostly due to non-core revenues.

EBITDA before exceptional items after lease was down 7.9%, which can be fully attributed to the effects of the Evo TV transaction in Q1 2019. I would particularly highlight that when we exclude the impact of the Evo TV transaction, EBITDA AL actually rose 1% during the quarter.

In the first quarter of this year our capex to sales ratio in the first quarter was close to 24% of sales.

The overall stable performance we were able to deliver during the first quarter of this extraordinary year gives us a robust foundation as we address the COVID-19 related challenges we anticipate during the remainder of the year. We can expect to see a lower number of tourists, and that will hit visitor revenue. We also expect to see an impact from the suspension of services by businesses that have had to close during this period. The reduced opportunities for customer mobility will bring reduced prepaid recharges. In addition, we can expect delayed payments and write offs as companies across the country come under significant pressure.

However, following several years of successful and effective business transformation, we are in good shape to meet these challenges. This means we can reduce our costs whilst protecting the future growth potential of the company.

Notwithstanding the good performance in Q1 2020, with the current high level of uncertainty and volatility, it is not possible to provide financial outlook with reliable accuracy, therefore we put our 2020 outlook under-review.

Unfortunately, due to the COVID-19 lockdown and social distancing measures, our general assembly scheduled for 29 April 2020 has been cancelled and we will reconvene when it is safe for our shareholders to participate.

In March, the Management Board adopted amendments to the provision of the Share Buyback Program removing some limitations regarding everyday trading (volume and price). However, the number of own shares scheduled for acquisition and the maximum amount that is assigned to the Program remains unchanged. In the first quarter of 2020, HT bought back 208,508 own shares or 0.3% of total shares within the Share Buyback Program.

SLIDE 5

Now turning to slide 5 we have the financial highlights for Hrvatski Telekom Group. These figures suggest that our top line sales and profitability are both coming under pressure. However, as I have already outlined, underlying profitability remained broadly stable.

Total revenue in the quarter fell 2.2% to HRK 1.74 billion from HRK 1.78 billion reflecting declines at both HT Croatia and Crnogorski Telekom. Sales at HT Croatia fell 2.1% to HRK 1.60 billion mainly due to lower fixed voice and wholesale revenue, compounded by a slide in both mobile and miscellaneous revenue. HT Croatia was notably impacted by lower handset sales and a reduced contribution from Optima.

Meanwhile Crnogorski Telekom revenue also fell in the period, down 4.2% to HRK 135 million. Crnogorski Telekom saw growth in postpaid and TV revenue, but fixed voice and mobile prepaid sales were lower.

EBITDA AL was down 7.9% at HRK 620 million, because of the one-off positive impact from Evo TV transaction in Q1 2019. There was an 8.8% decline at HT Croatia to HRK 572 million, whilst Crnogorski Telekom posted a HRK 2 million or 4.3% increase to HRK 48 million.

As I have already noted, however, when we exclude the impact of the Evo TV acquisition last year, our EBITDA AL delivered a stable performance and in fact was 1% higher than the previous year.

We also saw higher exceptional items during the period from costs related to staff restructuring initiatives, which this year were undertaken in March, as opposed to July in 2019. As a result, net profit recorded a 21.7% decline to HRK 149 million.

SLIDE 6

Please turn now to slide 6 where outline developments in cash flow and capex.

Net cash flow from operations decreased 26.8% to HRK 409 million mainly due to lower net profit and unfavourable movements in working capital. HT Croatia net cash flow was down 28.1% to HRK 377 million and Crnogorski Telekom net cash flow from operations declined 5.7% to HRK 33 million in the first quarter.

Capital expenditure AL rose 7% overall to HRK 413 million, reflecting an 8.5% rise at HT Croatia, tempered by a 13.1% decline in capex at Crnogorski Telekom. The increase in HT Croatia's capex AL was mainly due to

seasonality of content capitalization. The decline at Crnogorski Telekom is largely because of a slow-down in fixed access investments and LTE.

I would now like to hand over to our CFO Daniel Daub who will outline the highlights for both HT Croatia and Crnogorski Telekom's performance.

Mr Daniel Daub

SLIDE 7

Thank you Kostas and good afternoon everyone.

On slide 7 we will look at revenue at HT Croatia in a little more detail.

We are pleased to report good performances in our broadband and system solutions business, whilst HT Croatia revenue has come under pressure from lower handset sales and lower contribution from Optima.

Total revenue in the first quarter fell 2.1% to HRK 1.60 billion. Revenue was dragged down by a 4.1% decline in mobile sales, mainly due to lower IFRS15 impact and lower number of handsets sold caused by Covid-19 situation. These lower handset sales were only partially compensated by strong postpaid revenue.

Fixed voice revenue in Q1 fell 14.1% to HRK 145 million due to a fall in mainlines, traffic and ARPU.

Broadband and TV revenue rose 6.6% in the period to HRK 338 million. TV revenue was buoyed by the acquisition of Evo TV which started to be consolidated in March 2019. Meanwhile we increased our broadband customer base and average revenue per user which lifted broadband revenue as well.

Fixed wholesale revenue was down 12.7% to HRK 68 million as a result of the price adjustments dictated by HAKOM. The regulatory agency lowered regulated wholesale prices by between 12% and 21% due to a change in the weighted average cost of capital. In addition, a lower customer base and lower transit traffic in Iskon weighed on fixed wholesale revenue.

Meanwhile other fixed revenue also fell 15.2% to HRK 176 million driven down largely by a lower contribution from Optima after the cancellation of the bilateral telco relationship with Telekom Slovenia. Despite the revenue decline, the change in the telco relationship is mostly EBITDA neutral.

We saw system solutions revenue jump 30.8% in the first quarter of 2020 to HRK 178 million underpinned by growth in customized ICT solutions and the standard solution ICT portfolio.

Miscellaneous revenue fell 92% because the 2019 first quarter included a contribution from travel agency E-tours which was sold in November 2019 and subsequently did not contribute to miscellaneous revenue in Q1 2020.

SLIDE 8

On slide 8 we look in more detail at our mobile business, and I'm pleased to report that we have maintained our market and technology leadership in the first quarter of 2020.

We remain the leading mobile provider by subscribers, with 44.4% of the market at the end of the first quarter 2020, just a small decline from the 45.6% share in the year-ago period.

Our total subscribers fell slightly to 2.25 million, reflecting a 4.6% decline in prepaid customers that was not entirely offset by a 3.0% rise in postpaid subscribers. The higher number of postpaid customers reflects the

success of our attractive tariffs and handsets as well as Increase in postpaid customers driven by attractive offers on tariffs and handsets and marketing campaigns for our Bonbon branded services, which allow users to choose a package of calls and texts that suit them.

Average revenue per user in both segments showed growth. Prepaid ARPU rose to HRK 38 in Q1 2020 compared with the prior year. Meanwhile postpaid ARPU also increased to HRK 97 in 2020 from HRK 94 in Q1 2019. Smartphone customers now account for 70% of HT Croatia's overall subscriber base, up from 67% in the first quarter of 2019, which is driving the growth of mobile data ARPU.

SLIDE 9

Please turn now to slide 9 which describes the fixed line and IP business at HT Croatia where broadband customer numbers continue to grow.

Fixed main lines, which have been in decline for many years due to fixed to mobile substitution, regulation and enforced competition, fell 4.8% to 815,000 at the end of the first quarter, which is still a slower pace of contraction than last year.

Retail fixed mainlines were down 4.1% to 772,000 and wholesale fixed mainlines fell 16.5% to 43,000. We are not complacent about this trend and continue to work to mitigate these declines through proactive and reactive churn prevention offers and activities, like promotions and tailor-made propositions.

Broadband access lines overall declined 1.6% to 733,000 at the end of the first quarter, but this in fact reflects a 0.4% rise in retail broadband access lines to 620,000, which was overshadowed by a 12% fall in wholesale lines to 113,000. Broadband retail ARPU rose 2.7% in the first quarter to HRK 106 due to focus on less aggressive offers in the market.

TV customers rose organically by 0.4% in the first quarter to 490,000 although TV ARPU fell 2.5% in the period.

SLIDE 10

Slide 10 describes the performance of Crnogorski Telekom in the first quarter where profitability remained stable despite a decrease in revenue.

Total revenue at Crnogorski Telekom in the first quarter fell 4.2% to HRK 135 million, due to lower fixed voice and system solution revenue which was only partly offset by higher mobile revenue. The rise in mobile revenue reflected postpaid customer growth of 4.5% supported by the residential segment.

Nevertheless, EBITDA after lease adjustments rose 4.3% to HRK 48 million, underpinned by lower operating expenses before exceptional items, which offset the revenue decline. EBITDA AL margins increased by 2.8 percentage points to 35.3%.

Net profit at Crnogorski Telekom surged 350.4% to HRK 2 million in the first quarter, driven by higher EBITDA and net financial result.

We are now ready to take any questions.