

# The Q4 2017 results conference call

## 21 February 2018 at 11:00 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: Good morning, ladies and gentlemen, thank you for standing by and welcome to the HT Group's Full Year 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 star 1 on your telephone.

I must advise you the conference is being recorded today, Wednesday the 21st of February 2018. I would now like to hand the conference over to your first speaker 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 Mr. Daniel Daub, our CFO, will talk you through the highlights of our business and financial performance for the 12 months ended 31st of December 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. Daub 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 12 months ended 31st December 2017.

Davor Tomašković: Good morning, 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 31st December, 2017.

I will start the presentation with slide four, which outlines the Group business highlights for the period. HT Group has delivered a solid financial performance in 2017 and our results are in line with the Outlook we provided in November at our Capital Markets Day.

Revenue and EBITDA are up at both HT Group and HT Croatia and we continue to enjoy an industry leading EBITDA margin.

Looking ahead, we are maintaining our outlook and expect revenue in 2018 to be slightly higher than 2017, with an EBITDA margin before exceptional items of around 40 percent and slightly lower capital expenditure in 2018, compared to the previous year.

We have proposed a 6 kuna per share dividend payout, which represents a 58 percent payout ratio. HT Group expects to propose a minimum dividend of 6 kuna per share to be paid out of 2018 profits.

We also launched a share buyback program in June of 2017, and had bought back around 0.3 percent of total shares by the end of that year. The program runs for four years, and the maximum shares scheduled for acquisition is 2.5 million, representing around 3 percent of the total number of shares outstanding.

Turning now to our operational highlights, we have maintained our leading position across all areas of business. Within the fixed line market, we consolidated our position through the merger of H1 Telekom and Optima Telekom.

Our technology leadership was again recognized and endorsed with a P3 Award for the best mobile network in Croatia. And during 2017, we expanded our presence regionally to the acquisition of Crnogorski Telekom.

In order to maintain this leading position, we continue to develop new products and innovative solutions for our customers, including voice over LTE, the NextTV platform and hybrid access, which enables customers with low speed fixed connections to improve their broadband speed, using both the fixed and mobile networks.

Our flagship Magenta 1 premium customer experience and benefits offer continues to attract broadband and TV customers. There are now 118,000 households and 10,000 businesses registered for the Magenta 1 offer.

As a business, we have undergone several years of transformation, and I'm delighted to say that we have now moved back into growth mode, supported by our strong CAPEX envelope.

We anticipate that midterm growth will come from three main areas, our core telco services, expansion into strategic adjacencies and digitalization.

Slide five presents our 2017 performance compared again the outlook we provided to the market. This demonstrates that we have delivered on all of our expectations. We said in November 2017 that we expected revenue to be around 7.65 billion kunas, and it was in fact, slightly above this level at 7.76 billion kunas.

The outlook for EBITDA before exceptional items was for a margin of around 40 percent, and we delivered a margin of 40.5 percent.

CAPEX came in slightly below the 1.9 billion kunas predicted at 1.89 billion kunas. And as you're already pretty much aware, we acquired Crnogorski Telekom in January of 2017.

Please now turn to slide seven, which looks at the Group financial highlights in more detail. We are very pleased to report revenue and EBITDA growth of both HT Group and HT Croatia. Also, net profit fell in the full year, owing to a combination of factors, which I will explain shortly.

Total revenue rose 11 percent to 7.76 billion kunas, and this included a 630 million kunas contribution from Crnogorski Telekom. Excluding Crnogorski Telekom, HT Croatia revenue rose 2 percent following the robust performance and the consolidation of H1 Telekom, which was merged with Optima Telekom from 1st of July 2017. If we exclude H1, HT Croatia revenue was up 1.5 percent.

Crnogorski Telekom's revenue, which was consolidated from January 1, 2017, remained under pressure from both fixed line and mobile operations amid continued regulatory and strong competitive pressure. However, we are pleased to report that profitability has improved following the introduction of efficiency initiatives.

EBITDA before exceptional items across the whole Group rose 11.2 percent, to 3.14 billion kunas supported by the consolidation of Crnogorski Telekom and H1.

In addition, higher revenue and real estate sales at HT Croatia, as well as the continued success of our transformation program, boosted strong EBITDA growth. And despite lower profitability at Crnogorski Telekom, we maintained a stable EBITDA margin at the industry leading level of 40.5 percent.

Stripping out Crnogorski Telekom, HT Croatia EBITDA before exceptionals rose 3.4 percent. Excluding H1, the increase was 2.8 percent. In 2017, net profit fell 7.5 percent to 863 million kunas.

There are several factors which contributed to this decline, including high depreciation and amortization costs related to infrastructure assets and content contracts and lower net financial income.

In addition, exceptional items including extraordinary impairment of receivables and provisions for legal cases, all within HT Croatia, contributed to the decline in net profit. Moving now to slide eight, we have reported a strong increase in operating cash flow in 2017, as we continued to invest in our network and then improved customer experience.

The consolidation of Crnogorski Telekom along with higher Group EBITDA and improved working capital management in HT Croatia boosted net cash flow from operations by 29.7 percent to 2.69 billion kunas in the full year to 31st December 2017.

During the year, HT Group invested significantly in the mobile and broadband network, as well as in the transformation of our IT infrastructure within HT Croatia. There has been a rise in capitalization of concerts for TV content, and we have invested in a new TV platform to improve customer experience.

These factors of course, impacted CAPEX, which rose 17.2 percent during the period to 1.89 billion kunas. Please turn now to slide nine, which details HT Croatia's revenue performance.

During the year to 31st December 2017, HT Croatia delivered solid revenue growth, underpinned by a good performance from mobile, system solutions and energy. Revenue growth was also supported by the consolidation of H1.

Total revenue rose 2 percent to 7.13 billion kunas in the year. Mobile revenue increased 5.9 percent to 2.99 billion kunas, largely due to an increase in postpaid customers taking up our attractive tariff offers, as well as more visitors to Croatia using data. In addition, a raft of new handsets boosted smart phone sales.

Fixed voice revenue fell 11.5 percent to 843 million kunas. This continuing trend was due to a fall in the number of mainlines and fixed to mobile substitution, lower traffic and lower average revenue per user, due to more low value residential customers using our fixed voice services.

Broadband and TV revenue rose slightly up 0.3 percent to 1.32 billion kunas in the full year of 2017. This reflects a slight fall in broadband revenue amid strong competition in the market, which was more than offset by higher TV revenue as a result of an increase in TV customers.

Fixed wholesale declined in the full year and was down 4.9 percent to 347 million kunas. This follows largely because of revenue deductions from H1 Telekom after its merger with Optima Telekom in July 2017. The decline was however, somewhat offset by higher national infrastructure revenue and higher international voice service revenue.

Other fixed revenue rose 4.9 percent to 779 million kunas. The rise reflects an increase in Optima Telekom revenue, resulting from the consolidation of H1 Telekom in July and an increase in digital advertising revenue.

System Solutions revenue showed good growth of 3.2 percent to 698 million kunas after a strong second half that offset some declines in the early part of the year.

And finally, miscellaneous revenue, which makes up the final part of HT Croatia revenue, rose 34.7 percent to 151 million kunas, reflecting growth in our energy business, where business customers' numbers grew by 21 percent, leading to larger consumption of energy.

I would now like to introduce our new CFO, Daniel Daub, who delivered his first presentation at our last Capital Markets Day, and hand over to him to walk you through our operational performance during this period in more detail.

Daniel Daub: Thank you, Davor. And good morning everyone. I'm delighted to be with you for my first financial results call with HT Group. Please now turn to slide 10, which describes the performance of HT Croatia's mobile business, where we have maintained our market and technology leadership position.

At the end of the fourth quarter 2017, our market share by subscribers was 46.2 percent, only slightly down from the year earlier position of 47 percent. This is purely due to the recent market development where FMS offers from our competition counted broadband customers as mobile subscribers.

We added 10,000 subscribers between the end of 2016 and the end of 2017, for a rise of 0.5 percent to 2.244 million. This reflects growth of 8.7 percent in our post paid segment, which offset an 8.4 percent decline in prepaid subscribers.

Post paid subscribers were attracted by our competitive tariffs, the new handsets coming to market and a successful campaign on our Bonbon network. Average revenue per user among prepaid customers rose 1.9 percent to 43 kuna in the January to December period, following market recovery initiatives.

However, postpaid ARPU didn't fare as well, falling 3.3 percent to 106 kuna because of an increased percentage of M2M customers and roaming regulation, as well as more free minutes included in bundle offers.

In the year to 31st December, 2017, average minutes of use rose 4.8 percent to 216. The percentage of smart phones as a proportion of total handset sales was 84

percent in the postpaid segment during 2017, up 5 percentage points compared to the same period last year. HT Group's smart phone penetration was 58 percent.

Our 4G network covered 76 percent of population indoors and 98 percent outdoors. It is worth noting that average speeds continuously increased, despite a noticeable increase in mobile network traffic, following the abolishment of EU roaming rates, which encouraged more visitors to use their phones in Croatia.

And I'm delighted to say that our commitment to technology leadership was recognized by industry experts, and we were named the Provider of the Best Mobile Voice and Data Network in Croatia by P3 Communications, a network analytics and testing company.

Turn now to slide 11, our fixed line and IP business was boosted by a rise in broadband lines and TV customers, but held back by a decrease in fixed main lines. At the end of the fourth quarter 2017, fixed main lines were down 6.9 percent to 938,000 lines, compared with the year earlier period.

The decline is driven by the continued trend of fixed to mobile substitution, in tandem with regulation and enforced competition. We continue to develop churn prevention offers to mitigate this trend.

Broadband fared better with the number of broadband access lines at the end of 2017, up 0.4 percent to 755,000 compared to the previous year. Retail broadband growth of 1 percent, offset a 2.3 percent decline in wholesale broadband access lines.

Meanwhile, TV customers rose 4% at the end of the period to 417,000, as more customers were drawn to our premium and exclusive content. TV ARPU was slightly down to the previous year, at 81 kuna, a dip of 1.4 percent.

Fixed voice ARPU was also down 6.9 percent to 78 kuna and broadband retail ARPU fell 3.8 percent to 117 kuna in the year to the end of December.

Next generation access speeds of greater than 30 megabits per second has been enabled for 58 percent of Croatian households, while 20 percent of households are now enabled for speeds of 100 megabits per second.

Now going to slide 12, following of our acquisition of a majority stake in Crnogorski Telekom, we present standalone revenue for this business on slide 12.

Regulatory pressure and the competitive environment are continuing to put revenues at Crnogorski Telekom under pressure, although EBITDA margin has been boosted by our transformation initiatives.

Revenue fell 7.1 percent in the year to end of December 85.3 million euro. This breaks down into a 3.3 percent fall in mobile revenue to 42.5 million euro and 11.8 percent decline in fixed revenue to 38.1 million euro and a modest rise of 0.7 percent in system solutions revenue to 4.7 million euro.

EBITDA before exceptional items fell 5.2 percent to 29.5 million euro, but the business did show improved margins of 34.5 percent, up from 33.8 percent in the year ago period. CAPEX in 2017 was 11.2 percent lower than the previous year at 18.6 million euro.

On slide 13, we outlined the operational performance of Crnogorski Telekom, which shows a decline in customers and lines. However Crnogorski maintained its leading market position in mobile postpaid, fixed voice and broadband.

Mobile subscribers, at the end of the fourth quarter 2017 were down 2.5 percent on the year earlier period at 352,000, with postpaid subscribers up 14.2 percent to 211,000.

The number of fixed retail main lines fell 9.5 percent in the period to 123,000, and the number of broadband retail access lines fell 0.6 percent to 70,000. TV customers fell 4.8 percent to 56,000.

The company has launched a number of initiatives to strengthen its position in each of the above mentioned markets. I will now hand back to Davor, who will outline our outlook for 2018 and our dividend proposal and expectation for 2017 and 2018.

Davor Tomašković: Thank you, Daniel. Please turn now to slide 15 for our Group outlook 2018. We expect revenue in the current year to be slightly higher than last year's revenue of 7.76 billion kunas.



We are anticipating an EBITDA margin before exceptional items of around 40 percent, compared with the 40.5 percent reported for 2017.

CAPEX in 2018 is expected to be slightly lower than the 1.89 billion kunas spent in 2017. And after the acquisition of Crnogorski Telekom in 2017, we will again continue to monitor and evaluate potential M&A opportunities.

And now for our final slide, slide 16, which outlines our dividend proposal and expectation, HT Group announced a minimum target dividend in February 2017 of 6 kunas per share.

The final dividend proposal of 6 kunas per share reflects this and represents a 58 percent payout ratio. This compares to a 54 percent payout ratio in 2016.

In addition, in 2017, HT launched a share buyback program and by the end of 2017, we had bought back a total of around 0.3 percent of shares outstanding.

For the 2018 financial year, HT currently expects to pay out a minimum of 6 kunas per share. Thank you for your attention. We are now ready to take your question.

Operator: Thank you. We will now begin the question and answer session.