

The Q3 2016 results conference call

27 October 2016 at 11:00 CET

Presenters

Davor Tomašković

Hrvatski Telekom – President of the Management Board and CEO

Josef Thürriegl

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Operator: Good morning ladies and gentlemen. Thank you for standing by and welcome for the HT Group Q3 Results Conference Call.

At this time, all participants are in a listen only mode. There will be a presentation followed by 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. I must advise you, the conference is recorded today on Thursday, the 27th of October, 2016.

And I would now like to hand over to your first speaker today Mr. Elvis Knežević. Please go ahead, sir.

Elvis Knežević: Thank you. Ladies and gentlemen, good morning and welcome from Zagreb. Today, our CEO, Mr. Davor Tomašković, and Josef Thürriegl our CFO who is dialing in this this call from abroad, will talk you through the highlights of our business and financial performance for the nine-month ended 30th of September, 2016 using presentation slides, which I hope you have in front of you. If not, please visit our Web Site at 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 2 of our presentation. Allow me to introduce you to Mr. Davor Tomašković, our CEO, who will outline our company's performance during the nine-month ended 30th of September, 2016.

Davor Tomašković: Good morning ladies and gentlemen and thank you for joining us today. It is my pleasure once again to present the results from Hrvatski Telekom for the nine months ended the 30th of September, 2016.

I will start the presentation with slide 3, which outlines the highlights of the January to September period. Our results come against the big drop of an improving creation economy. Second quarter GDP grew at the higher than expected 2.8 percent amid major economic activity and an excellent tourist season.

The Croatian telecommunication sector which is lagging behind GDP trends remains very competitive however. There is a trend towards network investment in order to service daytime internet needs and there are more convergent operates in the market, an area that HT has been focusing on for some time.

Against this backdrop, I am pleased to report that we have held our revenue largely stable at 5.18 billion Kunas in the nine months to September. The slight 0.1 percent decrease was driven by lower fix and system solutions revenue which was offset by an increase in mobile and miscellaneous revenue.

EBITDA, before exceptional items, was up to 0.6 percent to 2.11 billion Kunas while our EBITDA margin also rose slightly to 40.7 percent from 40.5 percent in the year ago period. Looking ahead, we have adjusted our revenue outlook up slightly and now expect revenue at around 2015 level, up from the previous range of flat to 2 percent below last year. Our EBITDA margin outlook remains unchanged at around 40 percent.

And we have also adjusted our topics outlook from slightly lower than in 2015 to around the 2015 level to account for an increase in broadband related regulatory expenses. Namely, as well as what we consider to be unreasonably higher right of

way cost related to ECI, which is an abbreviation for Electronic Communication Infrastructure, we had to account also for geodetic surveying and legalization of ECI.

On the operational front, we have maintained our leading market position across all areas of business and continue to focus on the ongoing transformation initiatives in our Horizont 2016 program. Notably, our Magenta ONE convergent services offer has boosted broadband and TV customers and the visitor roaming revenue was also up slightly in the period. We continue to see strong growth in the energy sector and the HT Group is the first to market with innovative converged Telco energy proposition. Internally, the Horizont 2016 initiatives are progressing well.

Please turn now to slide 4, which described the revenue breakdown in greater detail. As I have said, our revenue remains largely stable with positive mobile and energy sales offset somewhat by fixed voice and system solutions. Mobiles revenue rose 3.3 percent to 2.12 billion Kunas in the nine months to the end of September.

The increase stems largely from higher data revenue, sales of low margin handsets and then increase in wholesale revenue following deregulation of certain non-E.U. termination rates, which were effective from April 1, 2015. While the nine month mobile sales were up, however, revenue from third quarter handset sales was lower compared to the third quarter in 2015.

Fixed voice continued its downwards trajectory in line with global industry trends as mainlines traffic and average revenue per user all contributed to a 12.8 percent fall in fixed voice revenue to 776 million Kunas. Broadband and TV revenue fell slightly in the first nine months of the year down 1.6 percent to 986 million Kunas.

This was largely due to a broadband revenue decline as ARPU fell but was offset by slight growth in TV revenue, as we gained customers and ARPU in that area of our business. Fixed wholesale revenue rose 8.4 percent to 271 million Kunas mainly due to higher infrastructure revenue while other fixed revenue stayed broadly stable.

As outlined in our update in July, sales of system solutions was down 2.8 percent to 461 million Kunas. The expected decline was the outcome of one favorable project dynamics and the deferral of public sector projects in the third quarter. Finally, miscellaneous revenue was boosted substantially by growth in energy sales. This

year, between January and September, energy revenue was 71 million Kunas, more than double of the 34 million recorded in the same period last year.

Now, please turn to slide 5. On slide 5, you can see both EBITDA and less profit are up in the nine-month period as we continue our program of investment to improve our networks. EBITDA was up 0.6 percent to 2.11 billion Kunas between January and September 2016. This is attributable to stable revenues, a positive contribution from our concerted restructuring efforts and the sale of certain assets, offset however by increasing cost in our growing energy business. Nevertheless, our margins rose slightly year on year to 40.7 percent from previously 40.5 percent. This growth in EBITDA helped lift net profit by 2.9 percent to 752 million Kunas.

Net profit was also positively affected by lower depreciation and redundancy cost but negatively impacted by change of rate loses largely incurred in the first quarter on 2016. Net cash flow from operations fell 4.1 percent to 1.64 billion Kunas mainly due to negative working capital moments.

We continue to invest significantly in our mobile and fixed broadband networks and this along with related expenses meant CAPEX in the period was up 8.3 percent to 977 million Kunas.

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

Josef Thürriegl: Yes. Thank you very much, Davor. And welcome once again also from my side to all participants.

I would kindly ask you now to turn to slide number 6, which provides you a breakdown of the performance of our residential segment where during the January to September period 2016, residential revenue fell slightly from around the 2.83 billion Kuna to 2.81 billion, as a rise in mobile sales scale to fully offset our decline in fixed revenues.

But still, the attraction of our Magenta ONE convergent offer remains very strong with 32,000 new household signed the contracts with us and our customized offers and numerous benefits for private customers and households here has obviously deal with very good results.

We continue also to promote our MAX2 and MAX3 packages, enticing customers with exclusive TV content and premium packages. Lower revenue and somewhat higher operating expenses contributed to 2 percent decline in the contribution to EBITDA in the residential segment to overall 1.94 billion Kunas.

Moving now on to slide number 7, you can see that revenue and EBITDA contributions from the business segments however were slightly higher. Revenue in this segment rose by 0.1 percent to rounded 2.0 billion Kunas in the nine-month to September, has strong growth in energy revenue offset declines we saw in mobile, fixed and system solutions.

Within that business segment, we continue to focus on value management and customer retention and our business customers here are also benefitting from the B2B Magenta ONE package, which boasts the highest available speeds, 4G backup but also network security and Cloud storage. The applied attractive energy pricing has driven our sales from our business customers as our overall Telco energy proposition also has gained traction.

Please now turn to slide number 8, which sheds more light on our mobile business. Here, we continue to focus on mobile data bundles and improving the customer experience. Especially through wider 4G coverage and faster speeds. HT group's share of the market at the end of the third quarter was broadly stable at 46.4 percent compared with 46.5 percent in the same period last year. Subscriber numbers were up 0.4 percent to 2.33 rounded million. As the decline in prepaid subscribers was offset by a rise in contract customers.

The average revenue for users showed a similar trend up – with prepaid with down and postpaid up. The prepaid ARPU fell 1.8 percent in the January or December period from 43 to 42 Kuna while the postpaid ARPU meanwhile rose 1.3 to 110 Kuna from 109 Kuna. In this period, the average minutes of use was also up 2.4 percent in line with the overall market trend fixed-to-mobile substitution and free minutes included within our tariffs.

The percentage of smart phones as a proportion of our total sales was 80 percent in the postpaid segment in the nine months to September 2016 up from 76 percent the previous year, while HT Groups smartphone penetration was 58 percent. As we continue to invest in our network, 4G coverage has reached 68 percent of the

population indoors and 96 outdoors. 51 percent of the population now could achieve 4G download speed of 225 megabytes per second and 2 percent can now get speeds even up to 262.5 megabytes per second which is a significant technology milestone from the Group.

Slide number 9 describes our fixed line and IP business where broadband and TV customers are up but fixed mainlines are down. The number of fixed mainlines at the end of the third quarter fell 7.3 percent to 1.02 million reflecting declines in both wholesale and retail mainlines. The fixed line ARPU was also falling by 6.4 percent to 85 Kuna. Broadband access lines were however up 5.9 percent at the end of September compared with the year ago period. The broadband retail ARPU fell 2.3 percent to 122 largely as a result of stronger competition in the market and the aggressive offers in the market.

To mitigate the decrease, HT group continues to market its MAX2, MAX3 packages and Ultra MAX on fiber to the home. We recorded 2.4 percent increase in the TV customer base and 1.3 percent higher ARPU. As it reaches out, continues service in program also improvement driven by premium content and enhanced exclusive TV content. Moreover, the company continues to promote its MAXtv Pickbox package which contains more than 70 hit series and 300 movies and covers the majority of Hollywood productions.

HT Group enabled 52 percent of Croatian household to achieve next generation access speed bringing Croatia closer to the European commission's digital agenda target as outlined in the Europe 2020 strategy.

I will now hand it back to Davor who will update you on our outlook for the remainder of 2016.

Davor Tomašković: Thank you, Josef. To conclude this presentation of our nine-month performance, on slide 10, I would like to review and update you on our outlook for the full year.

As I mentioned earlier, we have adjusted our revenue outlook up slightly and now expect revenue at around the 2015 level, up from the previous range of flat to 2 percent below last year. Our EBITDA margin outlook remains unchanged at around 40 percent. We have also adjusted our CAPEX outlook from slightly lower than in 2015 to around the 2015 level to account for an increase in broadband related

regulatory expenses. With regards to regional expansion, we continue monitoring and evaluating potential M&A opportunities.

Thank you for your attention. We're now ready to take any questions you might have.

Operator: Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, you can use the hash key. Once again, that's the star and one, if you have a question.