

The Q1 2015 results conference call

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Presenters

Davor Tomašković

Hrvatski Telekom – President of the Management Board and CEO

Mr. Kai-Ulrich Deissner

Hrvatski Telekom - CFO

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Hrvatski Telekom – Investor Relations

Operator: Thank you for standing by and welcome to the HT Q1 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 and one on your telephone keypad.

I must advise you that this conference is being recorded today. I would now like to hand the conference over to your speaker today, 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 our CFO, Mr. Kai-Ulrich Deissner will talk you through the highlights of our business and financial performance for the three months ended 31st of March 2015 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 slide from our investors' page. After the presentation, Mr. Tomašković and Mr. Deissner 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 of March 2015.

Davor Tomašković: Good morning, ladies and gentlemen. Thank you for joining us today. It's my pleasure once again to present the results from Hrvatski Telekom for the three months ended March 31st, 2015.

I will start the presentation with slide three addressing the highlights of the beginning of this year. So operationally we maintained our leading position in the telecom's market despite continuing challenging environment we operate in both from economical and competitive and regulatory perspective.

We have been heavily investing in our networks, both fixed line and mobile, broadband - because we want to ensure the customer-based experience. We are pleased to confirm that the rollout targets for the end of this financial year are fully on track.

Also we continue to transform the company in order to counteract the negative market forces, focusing on running costs and our long term positioning.

Our previously announced headcount reduction program has been completed in Q1 and our group-wide excellence program Horizont is well underway which is aiming mainly at enhancing the quality of service and customer experience which are the focus of company's operations in 2015.

On the financial side, we see favorable development on both revenue and EBITDA side. Including Optima Telekom revenue in the first quarter of 2015 compared to the first quarter of 2014 is up 0.7 percent.

We also a good mobile revenue performance which slowed a decline from 6.4 percent in 2014 versus '13 to only 2.2 percent in this quarter versus last year. EBITDA decline also slowed down.

We see the EBITDA before exceptional items down 1.2 percent. This includes also the consolidation of Optima. Our EBITDA margin remains market-leading 38.4 percent. Our outlook for full year 2015 remains unchanged.

I will now turn to slide four which describes the markets we are operating in. On the mobile side, the mobile market continues to contract. SIM penetration is down 2.4 percentage points year on year.

The reason for that being that the customers given the new tariffs no longer find the need for double SIM cards because there are attractive enough flat and cross-net offers on the market.

There has also been the change in the consumer usage of the phones. Cheap data bundles encourage more data use. So we also see that the mobile minutes use grew 2.1 percent in 2014 which is substantially slower than 21 percent growth in 2013.

That is because the data use has been compensating or we see the increase in data as a substitute for the minutes of voice. On the fixed side, we see the continuing decrease of fixed voice minutes use by 15.8 percent.

This trend has continued for some years. Nevertheless we maintained our strong market lead position in fixed voice. On broadband and pay TV, we see the growth trend continuing. Total fixed broadband market lines are 3.1 percent year on year growing and pay TV customers are 5.6 percent year on year growing. This is all in Q4 2014. And we see more and more penetration of bundled and convergent offers being the key market drivers.

What we expect in the ICT market is continuing growth and we see 2.7 percent growth year on year in 2014. Our market position improved last year because we grew faster than the market. I will now hand over to our CFO, Kai-Ulrich Deissner to present the financial performance.

Kai-Ulrich Deissner: Thank you very much, Davor. If you now please turn to slide five, which takes in more detailed look at the breakdown of our revenues of the Group in the first quarter of the year.

Total revenues grew 0.7 percent, 1.619 billion in the first quarter, supported by Optima Telekom. Excluding the Optima contribution, Group revenues declined four percent and this compares with the decline of 6.2 percent in the same period last year.

Fixed telephony revenue was down 12.9 percent according to the general trend which we see across the telecom industry for lower fixed line usage for many, many years now. Mobile revenues also fell by 2.2 percent. However, this represents an improvement on the first quarter for last year when revenues fell 6.4 percent.

This was supported by growth in mobile data and the price adjustments which we did as of July last year. Wholesale revenue was down 36.7 percent on the previous year. That was largely due to a decline in termination rates on the one hand side and a negative consolidation impact from Optima.

IP revenues fell 1.7 percent as a result of regulatory and competitive pressure while ICT was up 0.2 percent which reflects slower growth but we believe that this is of a seasonal nature of the IP infrastructures and contract.

Other revenues were up HRK 147 million from HRK 32 million last year with some of this growth coming from the Optima position. Optima in fact contributed HRK 105 million to the other revenue line, but we need to take into consideration the negative impact on the wholesale revenue so the net impact of the consolidation of Optima is HRK 75 million on revenues.

We now turn to slide six - which provides more detailed analysis of earnings and cash flow. It is important to highlight that despite the worsening economic environment in which we operate, the Group has delivered a solid EBITDA result which shown improving trend.

EBITDA before exceptional items fell 1.2 percent and this represents a clear slowdown in the rate of decline compared with 5.8 percent in the first quarter of last year. Excluding the Optima contribution, the first quarter of this year the EBITDA decline amounts to 5.1 percent.

Davor has already highlighted this resilient EBITDA performance in such an adverse environment is a result of our transformation activities which we've undertaken and are still ongoing across the Group.

Net profit fell 24 percent in the period. This was largely impacted by redundancy costs along with higher depreciation and these negative factors were only partially

offset by lower taxes. Net cash flow from operations fell 14.2 percent to HRK 420 million due to lower profit before tax and some adverse working capital movements.

As we previously disclosed and just mentioned, we are planning extensive improvements to our fixed and mobile networks mainly in broadband and these have now started. This has pushed Capex for the quarter up 34.5 percent to HRK 253 million.

We now go to the segments on slide seven where we provide a breakdown of the revenue in the residential segment. Revenue in the first quarter of this year fell 3.1 percent. This was largely due to the 11.8 percent decline in voice revenues in both fixed line which reflects general usage trend and in mobile which reflects termination rate cuts, roaming regulation and new flat rate tariff offers.

These declines were partially offset by rise in miscellaneous revenue which reflects our price adjustments again which we introduced in July 2014. Terminal equipment revenue fell 11.1 percent because of lower prices of handsets on the market and more customers on lower value tariffs.

Moving onto slide eight, we look at the performance of the business segment. During first quarter of this year revenues fell 9.7 percent, both voice and non-voice revenue declined. Voice revenue was down 20.8 percent, decline that was largely seen across fixed, mobile and wholesale.

Non-voice also fell 12.8 percent and this could be explained largely through lower wholesale revenues because of regulated prices and the absence of revenues from the Optima consolidation in the third quarter of last year which had a HRK 28 million impact in this quarter - in the first quarter of 2015.

Terminal revenue on the other hand grew strongly up HRK 9 million or 49.8 percent due to split contract and higher value handsets sold in the business segment.

I will now hand back to our CEO, Davor Tomašković to talk you through the main development in our mobile, fixed and IP business and to the outlook for 2015.

Davor Tomašković: Thanks, Kai. If you will turn to slide nine, before starting I would like to emphasize that at the end of last year we had both additional spectrum and that allowed us to double download speeds on our 4G mobile network to 150 Mbps.

That obviously helps us improve our customer experience when using our services. We would like to stress that we are the sole telecom operator that has this speed in the market.

Our market share as you can see on page nine remained largely stable in the first quarter at 46.7 percent. The number of subscribers has declined by 2.5 percent including both prepaid and postpaid segments, but we see a small increase in postpaid customers.

Nevertheless, the data customers continue to grow. The number of customers is now up to 1.4 million which is 6.7 percent increase compared to a year ago. If we talk about the smartphone penetration as a proportion of postpaid handset sales, that increased from 71 percent last year to 74 percent this year and on the total market in which HT operates, the penetration is 44 percent.

The competitive market obviously impacted our ARPU because the customers sought lower price deals, so the blended ARPU fell 5.6 percent and it was hit by regulated prices, roaming and termination rates and also by a tough economic situation in Croatia.

That was the overview of the mobile business. If we now turn to page 10, we see the overview of our fixed line telephony. The number of fixed lines continues to decline, down 7.3 percent in the first quarter.

This is due to the industry-wide trend of fixed to mobile substitution. We are actively working to retain customers with promotions and new tariffs. At the same time ARPA has fallen for the same reason as I have just outlined. It fell 6.2 percent in the first quarter of 2015.

If you turn to page 11, this is the overview of our IP business, broadband and TV. We continue to lead the market in convergent offers and content. However, the market for broadband and TV is fiercely competitive and thus a number of aggressively priced offers in the market.

So that impacted retail broadband subscriber numbers which slid 2.7 percent in the first quarter. However, rise in the wholesale customers has meant the total broadband subscribers rose 1.5 percent in the same period.

Broadband retail ARPA was flat at HRK 155. We remain on track with our network rollout plans. To reiterate, by the end of this year we plan to achieve household coverage by Next Generation Access between fixed broadband speeds above 30 Mbps of around 50 percent of all households and LTE or 4G coverage indoors of around 60 percent of the population. As I mentioned we are the sole operator in the market that have the 150 Mbps downloading speed.

Pay TV customers fell slightly 0.6 percent to 390,000 but we recorded 0.4 percent rise in TV ARPA which is a consequence of a strong exclusive and premium content such as Arena Sport and HBO premium TV packages.

We turn to slide 12 where I would like to reiterate our outlook for 2015 which remains unchanged since we last presented our results to you in February this year. In 2014 revenue was HRK 6.9 billion and we expect this to remain stable in 2015.

In 2014 the Group achieved a pre-exceptional EBITDA margin of 40.3 percent and the outlook for 2015 is for a similar margin of around 40 percent. We spent on Capex HRK 1.073 billion in 2014 and as announced we will increase these investments to around HRK 1.35 billion mainly going into the infrastructure improvement both mobile and fixed broadband.

We continue to monitor and evaluate potential M&A opportunities. Thank you for the attention and we are now ready to take your questions.