

The Q4 2013 results conference call

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Presenters

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Operator: Thank you for standing by and welcome to the T-HT Full Year Results 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 one on your telephone. I must advise you that this conference is being recorded today, Friday, the 14th of February, 2014.

I would now like to hand the conference over to your speaker today, Erika Caspar. Please go ahead.

Erika Kašpar: Thank you, Julie. Ladies and gentlemen, good morning and welcome from Zagreb.

Today our CEO Mr. Davor Tomaskovic and Ms. Irena Sekirica, operating director from the Controlling Division, in place of our CFO, Mr. Dino Dogan who is unwell, will talk you through the highlights of our business and financial performance for the full year ended on the 31st of December, 2013, using the presentation slides which I hope you have in front of you.

If not, please visit our website at t.ht.hr where you can access the slides from our investor's page. After the presentation Mr. Tomašković and Ms. Sekirica will also be available for your questions.

Before we begin allow me to draw your attention to the safe harbor statements on the page two of our presentation.

Allow me now to introduce you to Mr. Davor Tomašković, our CEO, who will outline our company's performance during the full year ended on the 31st of December, 2013.

Davor?

Davor Tomašković: Good morning, ladies and gentlemen. Thank you for joining us today. As this is my first results presentation since I took the role of the chief executive officer of HT, I am delighted to be able to present a solid set of results from T-HT for the full year ended 31st of December, 2013.

I'd like to start with slide number three, giving you an overview of the Croatian economy. As you are probably aware the Croatian economy, is, for the fifth consecutive year, in recession. We have seen the last year, no GDP growth, actual decline of one percent.

In the meantime, unemployment is rising, and we are, unfortunately, already over 20 percent. On top of that the credit rating, set by all three major rating agencies, is at sub-investment grade. And as you know, we joined the European Union on the 1st of July last year. We now also entered the excessive deficit procedure which is an EU supervision mechanism due to the fiscal imbalance in the country, so, obviously a challenging environment in the market.

So let us have a look at what impact that has on the telecom market. On page four, we look at both fixed and mobile voice market shrinking. The fixed voice market is declining by 14 percent, where minutes of use actually decreased by almost 18 percent up until September, 2013. On the mobile side we are actually seeing a shrinkage of market by 18 percent, but what we can see is the penetration of mobile customers being at 115 percent, which still leaves room for some growth to the EU level, which is at 130. What we can report also is that the penetration of Smartphones in Croatia is at 32 percent versus 50 percent in EU.

On the IT market, due to the economic downturn and basically many businesses shrinking their budgets, IT investments as well, the market declined by three percent.

We expect some recovery in 2014, mainly as a result of new funds coming in from the EU.

If we move to page 5, we see that all these results are partially offset by growth in fixed Broadband and Pay TV. If you look at the fixed Broadband the market actually grew by five percent, bringing us to the household penetration of 50 percent which leaves, really, enough room to grow because the best in European standard benchmark in the penetration of households with fixed Broadband is at 67 percent. So we see further growth potential in fixed Broadband market.

On the Pay TV side, even more impressive growth of the market, 20 percent on the revenue side. Penetration now at 43 percent, again leaving some room for growth because the EU benchmark stands at 53 percent.

What I would like to add is that Croatian IPTV market became regulated. That puts us as the only regulated market for IPTV in Europe.

So basically that is the look on the market developments, both from a macroeconomic perspective and from the telecom market. So I'd like to hand over to Irena to show us how did HT perform in the last year in these market conditions.

Irena, please.

Irena Sekirica: Thank you, Davor.

So let's turn to slide six, where we outline the contribution to full-year 2013 revenues made by various parts of the Group. So as already mentioned with the continued recession, challenging regulatory framework, and also strong competitive pressure, we see the overall revenue decline of 6.8 percent in 2013. So we could say that the revenue decline appears to be lower against the previous period.

In the fixed line business, revenue fell 13.2 percent during the full year, which is owing to the market dynamics, which is basically affecting the entire global telecom sector. However, T-HT maintained its leading position in fixed line market as the Group continued to provide quality services and attractive bundled offers, so this basically helped to slow the ongoing rate of decline from previous years.

Looking at the mobile revenues, they fell 10.4 percent to 2.839 billion, due largely to a significant impact from the implementation of EU regulation at the 1st of July, 2013. And basically this led to an impact of 133 million lower roaming and visitor revenues compared to 2012. Wholesale revenue was down 11.3 percent to 567 million.

Looking at the increases, we see 2.5 rise in IP revenues, while growth in ICT revenues continued, delivering 25.5 percent increase on the back of the demand for HT standard service portfolio, to name some, Cloud services, marketplace, fiscalization solutions to key accounts. There are also customized solutions to key accounts provided, as well as Combis' success with its offering in professional solutions, IT infrastructure and network infrastructure services.

At the end of the year the group had more than 1,550 companies or customers for its Cloud services portfolio. For the (HT) ICT subsidiary Combis, we see a rise of 9.7 percent in revenues to 385 million. Iskon also reported 12 percent revenue increase to 335 million.

If we turn to slide seven, there we cover the other most important group financials. So basically as a result of the decline in revenue and the overall change in our product mix, the EBITDA before exceptional items fell 12.9 percent to 3.065 billion and the EBITDA margin fell to 43.5 percent, from the 46.6 the previous year.

Looking at the net profits reported for 2013, it was down 15 percent to 1.442 billion with a net profit margin of 20.5 percent, which is also lower compared to 2012 when it was 22.4 percent.

I would like to mention here we are eligible for certain tax benefits on reinvested earnings, and basically without those benefits the fall in net profit would be 23.2 percent and the margin would be 18.5 percent. More on the group dividend proposal will be covered later by Davor within the outlook section.

Looking at the CapEx development, CapEx rose 20.8 percent to 1.426 billion in 2013, and we see this increase primarily being driven by higher IT investments and the further deployment of mobile Broadband. Also there is further capitalization of content provider cost and refurbishment projects.

Looking at the net cash flow from operation, it was 21.3 percent lower at 2.348 billion in 2013, largely on the back of the net profit decline.

So that would conclude the overview of group financials for the full year. And let me just brief you on the outlook we provided for the full year as of October, 2013, and let's compare those projections with the actual outcome.

So we guided that we would aim to slow the decline in revenues, and indeed the fall in revenues has now stabilized to 6.8 percent against 7.6 percent in previous period. And as already mentioned, it is a reflection of our continuous efforts to provide attractive and innovative products and services to our customers across all areas of our operations.

Our margin on EBITDA before exceptional items was 43.5 for 2013, so it was ahead for 42 to 43 that we targeted at the end of October. At the same time CapEx, excluding spectrum investments rose 24 percent to what we had expected. And, yes, we have been continuously monitoring expansion opportunities to increase shareholder value.

So I will now hand you back to our CEO, Davor Tomašković.

Davor Tomašković: Thanks, Irena.

First, I turn to slide number eight, which gives a breakdown of our revenue performance in the residential segment.

As you see, the revenue performance is four percent lower, mainly as a result of the 11.7 percent lower voice revenue, in both fixed and mobile. We see that it has been partially offset by non-voice revenue, particularly Broadband and TV and higher mobile data revenue.

We also have seen a stronger growth in (MAXtv) Satellite, up 69 percent year on year, reaching 43,000 customers in 2013. We had higher terminal equipment revenue, mostly because we had lower mobile handset subsidies and we extended promotional activities from 2012 in the fixed line market.

The group also launched the 4 Play under the brand name MAXobitelj offering all the services to the households. And I would say we hope and expect in this year that

this service actually becomes very attractive and delivers a significant increase in revenue.

On page nine we turn to the business segment, we see revenue that has declined stronger by 10.2 percent to 3.51 billion. Again, a huge decline in voice revenue of 25 percent, both retail and wholesale, very low decline in non-voice revenue, lower fixed data and wholesale revenues but partially offset by the growth in mobile data. And the other services revenue grew up by 21 percent because of the growth in ICT revenue that grew 25.5 percent in both HT and Combis.

On slide 10, I will take you through the results from our mobile operations, both in residential and business segments. What you can see is that our market share remained broadly flat and is at 46.6 percent at the end of 2013, where the number of subscribers slightly declined by one percent. But when we look only at the data subscribers then this number actually grew.

ARPU also declined by 8.6 percent, but if you look at the non-voice ARPU it rose almost 10 percent. Average minutes of sales are up by almost, over 19 percent to 174 minutes. And in postpaid segment, 60 percent of all handsets sales is Smartphones.

Also to draw your attention to the regulatory environment, as you know, the national mobile termination rate is at 12.8 (lipa) per minute and it started from the 1st of January of this year, and it is going to be decreased further to the final rate of 6.3 lipa at the January 1st of 2015.

If we move now to slide 11, we look at the fixed telephony and its operations in 2013. The total number of main lines fell 4.6 percent, ARPA decreased by 10 percent, number of ULLs slowed down the growth and actually achieved the growth of 6.7 percent. Total traffic was 18 percent lower than the previous year and this is in line with the expectations that the traffic is actually moving from fixed to mobile.

If you move to page number 12 and take a closer look at the group's IP services, so number of Broadband access lines increased by 1.8 percent where the ARPA increased by 1.4 percent. I would say this is on the back of promotional offers such as the MaxADSL double speed launched in May, and the products that are based on fiber to the home technology in the business segment.

The number of Pay TV subscriber base in its base showed continuous growth of 7.3 percent. We are ending the year with almost 400,000 subscribers and we are a leader in the IP transformation. With the end of the last year almost 40 percent of the entire retail customer base was migrated to all IP.

I would say it is important to stress that we are, in our TV offering, continuing to develop the quality and range of content, particularly with the compelling sports programming such as the Croatian Football League, the Champion's League, and the European League.

So that brings us to slide number 13, in the HT outlook. With the respect to the net profit, realized in 2013, we proposed to pay 51.5 percent or 737 million to the shareholders via dividend, which would translate into 9 kuna per share. The remaining 48.5 percent or 694 million kuna, we will retain and increase our share capital for it in order to be able to invest further.

What we see and the reason, rationale this is that we believe that the continuously declining revenue and profitability of the company and as a consequence declining dividend that we pay out to our shareholders require a significant turn in our policy which would allow us to increase investments to reverse these negative business trends.

So, we plan to invest over 1 billion capex in 2014, particularly targeting the infrastructure and improvement of service quality, especially in the segments such as broadband, TV and Cloud services. We plan to increase our current product offering from Croatia into the region. And, of course, in parallel we are monitoring all the opportunities for potential M&A activities.

We expect for the outlook 2014 to slow down the decline in revenue and the EBITDA margin to be between 39 percent and 41 percent in the light of the continuous economic situation and competitive pressure, particularly in the mobile market.

So, that would conclude our presentation of the results for the last year. I'll hand it over to Erika.

Erika Kašpar: Yes. So, Julie, we are now ready to take questions.