

The Q1 2014 results conference call
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Presenters

Davor Tomašković

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Operator: Thank you for standing by and welcome to the T-HT First Quarter Earnings 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 1 on your telephone. I must advise you this conference is being recorded today, on Wednesday the 30th of April 2014.

I would like to hand the conference over to your speaker today, Ms. Anita Marić from the IR department.

Anita Marić Šimek: So, thank you.

Ladies and gentlemen, good morning and welcome from Zagreb. Today, our CEO, Mr. Davor Tomaskovic and Mrs. Irena Sekirica, Operating Director in the Controlling Division will talk you through the highlights of our business and financial performance for the first quarter ended 31st March 2014, using the 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 investors page. After the presentation Mr. Tomašković and Mrs. Sekirica will also 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 now to introduce you to Mr. Davor Tomašković, our CEO who will outline our company's performance during the first quarter ended 31st March 2014.

Davor Tomašković: Good morning, ladies and gentlemen. Thank you for joining us today. I will start the presentation with slide three, give you an update on Croatian economy and the outlook for it. As you can see, Croatian economy is witnessing for the last several years, negative GDP growth, and for 2014, we are looking again at the negative GDP growth, being flat at the best. So, that will be the sixth consecutive year without real growth.

On top of that, we see the unemployment figures rising. So, we are above 20 percent and still increasing, 21 expected to reach in 2014. Credit rating of most major credit rating agencies is set to sub-investment grade and also upon accession to EU, Croatia entered excessive deficit procedure – EU supervision mechanism due to the fiscal imbalance.

If we turn to page four, these are the data that compare last available data on market sizes, Q4 last year, compared to Q4 the year before. So, you see that in fixed market, voice revenues declined for 12 percent and the number of subscribers also declined by 1 percent. Also, it needs to be stressed out that minutes of use are transferring from fixed to mobile and therefore you see the decrease in fixed voice by almost 16 percent and increase in mobile by over 20 percent.

On the mobile side, revenue in the market declined by 5 percent and the number of subscribers equal as in fixed market declined by 1 percent. IT market, although the IT spending declined in all segments, particularly because of the budget restrictions and business downsizing. We're expecting a modest recovery of IT market in 2014, hoping for some funds to flow in from EU.

If we move to page five, you see that the fixed and mobile growth and revenue rose 6 percent in the fourth quarter of 2013. We estimate that the fixed broadband penetration has reached 60 percent of Croatian households, and mobile data usage is increasing as people use more tablets and smartphones. We currently estimate that THT smartphone penetration is at 32 percent, including both prepaid and post paid.

The positive trends in Pay TV continued. So, we're glad to report that the growth of 18 percent in revenue in Pay TV and 13 percent in number of subscribers, the current penetration of Pay TV in households is at 46 percent. We need to stress out once again, as we do regularly that Croatia is the only regulated market for IP TV in Europe, so expecting these positive trends for Pay TV to continue in 2014 as well.

I would like to hand over now to Irena, our Director in Controlling will talk to you more about the group's financial performance.

Irena Sekirica: Thank you, Davor.

So, firstly, let's turn to slide six where we outline the contribution to third quarter revenues made by the various parts of the group. What we see is that the revenue decline continues with the moderate fall of 6.2 percent, which is compared to 6.8 percent for a whole last year, slightly better development. The decline can be attributed to the continued recession, competitive pressure and the challenging regulatory framework.

As with last year, the fall in fixed and mobile service revenues was only partially offset by ICT and IP revenue growth. Looking at the fixed line business, revenue fell 16.6 percent during the first quarter, which is owing to the market dynamics that are affecting the entire global telecom sector. However, THT maintained its leading position on the fixed line market as the group continued to provide services and also attracted bundled offers.

Mobile revenues fell 6.4 percent due to significant impact from the implementation of EU regulation in July last year, and also due to a cut in termination rates and flat rates tariff offers. Wholesale revenue was 14.2 percent lower and here lower

(hubbing) traffic contributed to the development and the fall in termination rates, all this only partially offset by higher infrastructure revenue. The group saw 1.7 percent rise in IP, where higher TV revenues compensated for lower broadband revenues.

As indicated, ICT revenue continued to grow strongly, delivering 20.8 percent increase following the successful cloud and hardware solutions as well as positive developments in IT infrastructure.

If we go to slide seven, we cover the most important group financial details. So, EBITDA before exceptional items fell 5.8 percent to 630 million, as a result of lower net revenues, which was partially offset by a decrease in most major cost categories.

The EBITDA margin remained solid of 39.2 percent, compared to 39 percent in the prior period of last year. Net profit reported for the first quarter was down 16.5 percent to 199 million, with a net profit margin of 12.4 percent, compared to 13.9 percent for the first quarter of 2013. This fall was primarily a result of lower EBIT along with a fall within net financial income, due largely to lower interest income from bank deposits and lower exchange rate gains.

Net cash flow from operating activities decreased by 8.2 percent, mainly due to a fall in current liabilities and lower net profits, but partially offset by positive development in current receivables. CAPEX, amount to 188 million in first quarter 2014, compared to 220 million in the last year quarter one, because of an absence of the real estate investments that were present in last year, not being present in 2014.

So, this would conclude the overview of financials for the first quarter of 2014, and I will now hand you back to our CEO Mr. Davor Tomašković.

Davor Tomašković: Thank you, Irena.

I'll turn to slide eight to take you to the results of our mobile operations. As you can see, the group maintained market share in mobile business at 46.6 percent, where number of our mobile subscribers slipped by 1.6 percent. However, the data customers continue to grow and they rose 10.6 percent to 1.3 million customers by the end of the first quarter.

Minutes of usage per average subscriber per month rose by 10.3 percent. And the ARPU fell – the monthly blended ARPU fell 6.6 percent, however if we took only the blended non-voice ARPU, it actually increased by 11.4 percent as a result of the growing demand for mobile data services, which is again driven by smartphone penetration.

And also we – in the first quarter, improved our 4G network coverage. What we see also in the sale of handsets, that smartphones accounted for 71 percent of our handset sales in the post paid segment in the first quarter, which is another significant rise from the 60 percent that we recorded last year.

On slide nine, we take a look at HT's fixed telephony, the total number of retail and wholesale mainlines fell 5.3 percent, which is in line with market dynamics that are impacting the entire telecom industry. ARPA also declined by 10.9 percent, and as I said previously, we are witnessing further substitution of fixed traffic with mobile and IP traffic, therefore the number of minutes is down by 22.3 percent.

If we move to slide 10 and have a look at our broadband and TV customer base, we see growth of 2.1 percent in broadband access lines, both wholesale and retail and in TV customers, 6.3 percent. However the ARPA in broadband is declining by 1.6 percent.

On TV customers, as we have seen that the market is growing and also our base is growing, we're almost reaching 400,000 at the end of the first quarter, which was driven by premium content and video on demand and additional program packages that we're offering for our customers. We also made a further move in migrating our customer base on to the all IP network, and we, by the end of March, migrated 46.4 percent of all retail customers on to this network.

If we now turn to slide 11, it gives us revenue breakdown in residential segment. Here the overall revenue fell by 3.1 percent, voice revenue declining 14.2 percent, but non-voice revenue actually increasing by 6.6 percent. This has been driven by the growth in fixed IP, mainly TV and (RM) mobile data revenue.

On slide 12, we look at the revenue breakdown of our business segment, which in total in decline by 10.3 percent, compared to the first quarter 2013. Here we see a strong decline of the voice revenue of over 26 percent in fixed and mobile and both retail and wholesale. Non-voice revenue was almost flat, reflecting decline in fixed and mobile, lower SMS revenue, but partly offset by wholesale revenue.

Other service revenue was up 18.6 percent, mainly due to growth in ICT, both HT and Combis, daughter company of HT. And the other revenue was pushed 34 percent lower as a result of lower national roaming prices.

And we come to the last page which is slide 13, General assembly of HT yesterday approved the proposal made by the Management board and Supervisory board about utilization of net profit. Under this proposal, HT will allocate 51.5 percent of net profit to the payment of the dividend, which transfers to the 9 kuna per share, where the remaining 48.5 percent of net profit will be reinvested.

Outlook for 2014, we maintain, also the Croatian economy remains sluggish and as you see unemployment remains high, we plan to invest further in order to reverse negative business trends in our network, infrastructure, particularly in the growing segments such as broadband, TV and cloud services. We are entirely monitoring potential M&A targets, both in Croatia and in the region.

Thank you.

Anita Marić Šimek: So, operator, this ends our presentation, and now we would like to take questions.