

The Q4 2012 results conference call

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Presenters

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Operator

Thank you for standing by and welcome to the T-HT Q4 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 * 1 on your telephone keypad. I must advise you that this conference is being recorded today, on Thursday 14th February 2013. I would now like to hand the conference over to your speaker today, from the Senior Management Team, Erika Kaspar. Please go ahead, Madam.

Erika Kaspar

Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb. Today our CEO, Mr Ivica Mudrinic and CFO, Mr Dino Dogan, will talk you through the highlights of our business and financial performance for the full year ended 31st December 2012, 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 Mudrinic and Mr Dogan will also be available for your questions. Before we begin, allow me to draw your attention

to the harbour statements on page 2 of our presentation. Allow me now to introduce you to Mr Ivica Mudrinic, our CEO who will outline our company's performance during the last year. Ivica?

Ivica Mudrinic

Thank you Erika, good afternoon everyone. Both Dino Dogan our CFO and I will take you through the presentation today. Starting on page 3, the business environment highlights, what we would like to do is position the overall environment in Croatia. As in many of the South East European economies, Croatia has had a long and protracted recession. From 2008 actually or beginning of 2009 to now, we have continuously seen contraction of GDP. During 2012, we anticipate that the final figures will be at roughly 1.8% contraction for the year in comparison to 2011 or the previous year.

Registered unemployment reached 21.1% in December 2012 which is up from 18.7% that we had in December 2011. Inflation in December of 2012 was at 4.7%, mainly driven by energy costs and food prices. Average inflation in 2012 is expected to be roughly 3.4%. We also saw falling disposable income on the one side and on the flipside we saw a successful tourism season, where we saw the arrivals in January to October 2012 up 5% in comparison to the previous year.

When we look at the overall economic situation, we are still awaiting far reaching structural reforms that have been recommended to the government. We, at the same time, saw the downgrade of Croatia's rating, both by Standard & Poor's in December and Moody's in February, down to below, unfortunately, investment grade.

We also saw large public sector investment announced, however they have not thus far materialised. In July this year or July 1st this year, we anticipate accession to the European Union, where we expect the structural funding and other funds to help to boost the economy. And in addition, we should see a signal to foreign direct investment that this is part of the EU and hopefully this will have a positive impact on the economy as well.

Current forecasts for 2013 is roughly 0.2% contraction, which is in fact a significant slowing of the contraction and one could imagine that we are at the bottom end and we could see the inflection point from here on.

When we look at the telecommunications market which is on slide 4, a brief overview, in the fixed voice segment, we have 9 licenced operators on the market. Full de-regulation with carrier pre-select unbundled local loop wholesale line retail, naked bit-stream and bit-stream available. We

also saw in the fixed voice segment, the decline of minutes of use by 16% when we use the January through September comparison to the previous year.

In fixed broadband, we have 880,000 lines, this is the total market, in September 2012 which is 4% growth, year on year. Fixed line broadband household penetration is at 49% versus 66% in Western Europe, which means that we see still opportunities for growth in this segment. We are also seeing the increasing need for bandwidth, the market is bandwidth-hungry so to speak.

The mobile segment, we have 3 operators on the market with 7 brands. Mobile penetration is at 117 SIMs per 100 population, which is down 3 percentage points. Typically we see this as a move by the customers to clean the multiple SIMs out of their portfolio, partly driven by the economic situation and the high unemployment. We also see increased usage, but the revenue continues to decline. We saw a contraction in the total market, by roughly 5.1% January through September 2012, versus the same period the year before.

Growth in mobile broadband is however still present. In addition, the smartphone penetration in our country is 23% versus 40% in Western Europe, again giving an indication of a growth potential.

On the pay TV segment, 603,000 households have pay TV in September 2012, which is 1% increase year on year. The overall household penetration is 41% in Croatia, versus 56% in Western Europe. New player launched pay TV services in December 2012, so this market is also becoming competitive and we are the only market in the EU or in Europe, for now, in EU shortly, that has IPTV regulated.

In the ICT segment, we saw the market decline in 2012 by 4.6%. This is mostly due to the change of government at the beginning of last year and the reduction in the public sector spending in the IT segment. In addition to this on the positive side, Cloud as a concept and Cloud services are becoming accepted within the Croatian IT community. As we approach the EU membership, we expect significant IT projects to be initiated. And last on this point, Combis, a member of the HT Group, has maintained its leading position on the Croatian ICT market.

Now moving to slide 5, a brief overview of the Group's highlights for 2012. On the financial segment we saw, or the financial performance, revenue is down 7.6% to 7.456 billion kunas. This is due to the tough economic environment, competitive and regulatory pressures. EBITDA decreased 8% to 3.376 billion. EBITDA margin is at 45.3%, so a stable EBITDA margin year on year. EBITDA before exceptional items, down 8.1% at 3.520 billion kunas and a margin of

47.2%. Net profit is down 6.4% to 1.696 billion kunas and the margin as a percentage of sales at 22.7%. The dividend is proposed in the amount of 20 kunas and 51 lipa, so 20.51 kuna per share, which is equivalent to a 100% pay out ratio.

CAPEX is up 25.8% at 1.18 billion kunas. Now this includes fee that we paid for the digital dividend and it also includes certain capitalisation of the content rights, so the television programming copyright.

On the operational side, we of course maintained a leading market position across all areas of the business. We have initiated new transformation programmes. In addition, as I mentioned a moment ago, we were granted a wireless frequency licence for the next 12 years. 2 x 10 MHz especially for the 4G network. We continued the promotion of 4G which we launched in Q2 of 2012, we continue to expand this network. We have also put in place a pilot of a cutting edge technology called "TeraStream". This is a new fibre optic based fixed line network concept.

The headcount decreased to 5,780 employees and we have agreed with our unions, a new collective agreement that will stay in force until the middle of 2014, so for the next roughly 16 months.

Moving to page 6, we have just a review of the outlook that we have announced and the results that we have realised. On the first part on revenue, we did expect a slightly lower decline in revenue. However, the overall environment, the decline in GDP and the rise in unemployment, and addition, the cumulative arrears in the business sector, caused a further decline in the revenue, somewhat larger than we had anticipated. So we are let's say somewhat below our outlook in this regard, so the decline was 7.6% as is indicated on this slide.

The EBITDA before exceptional items, we continue to maintain this margin and we have essentially met this commitment.

CAPEX similarly, as we had announced, when we exclude the spectrum licence fee, it is higher than in 2011, in line with what we had committed and in line with what we actually needed to manage the business. Regional expansion, we continue to monitor and evaluate expansion opportunities and of course this has been met.

On slide 7, a quick overview of the revenue development. Here we give a breakdown between fixed telephony, mobile, wholesale, IP data, ICT and miscellaneous and the watershed chart as well indicating a decline in the fixed telephony revenues, mobile decline as well, wholesale

increase, IP increase, ICT decline and other revenues slightly declining. The reasons are the ones that I have indicated already. Maybe just to point out that on the ICT segment, we do expect a recovery in the future, but this is a change of government and delay of some of the projects that were anticipated during the course of 2012.

Moving on to slide number 8, we have an overview of the mobile segment. Here we see the market share by subscribers being more or less maintained and stable at 46.5% in a 3 player market. The absolute subscriber numbers are down by 3.8%. Here we also see the split between pre-paid and post-paid and again, the post-paid base being stable. In addition, we are also showing the data on the so-called non voice segment as well, which has grown by 30.5% mostly being driven by the increased smartphone penetration. The ARPU on the bottom left is also indicated; the blended ARPU down 3%, however the blended non voice ARPU which means, which includes data of course, is up by 9% following more or less the increase in penetration of the new smartphones.

So what we could say on the mobile segment that we are maintaining a very strong position. We are rolling out the 4G and 3G networks and we continue to maintain a good market position.

On slide 9, on the fixed telephony, again, similarly, we show the number of main lines both retail and wholesale. What you can see is that the wholesale lines have been reduced, down to 104,000 versus 124 in the previous year, which is the impact on this wholesale line rental that we saw in 2011. The average revenue is down 5.1%, mostly being driven by the reduced number of minutes. Again, the ULL's are up by 9.1%, again showing the actions by the alternate operators.

Now moving to slide number 10, the IP services. Here we see the number of broadband access lines increasing by 1.1%. In addition the broadband retail average revenue on the IP services is also up 2.4%. The TV customer base has also increased 6.9%. Here just to highlight, we have MaxTV which is our IPTV brand, exclusive content as a differentiator, both the national, Croatian national football league, but also Championship League and Europa League as well.

So let me now pass the microphone or the floor over to our CFO, Dino Dogan, who will take you through the next slides in our presentation.

Dino Dogan

Yes thank you very much Ivica and ladies and gentlemen, good afternoon from my side as well. So let's continue with page number 11 and the overview of the residential segment. For the

revenues this segment fell 7.5% in the full year 2012, which was again due largely to lower voice revenue, driven by continuation of adverse economic factors, intense competition and further regulatory tightening, against a backdrop of the industry wide shift from fixed to mobile and IP services. The residential voice fell 11.5% in the year 2012.

However, growth continued during the year in the fixed IP and mobile data revenue and the residential non voice revenue rose 2.7% in 2012.

The division's contribution to EBITDA fell 8.9% to 2.838 billion kuna, with the revenue fall slightly offset by cost discipline and lower operating expenses on the reduction in mobile acquisition campaigns, compared to the previous year. The residential segment has continued to innovate in product and services. These include further features and promotions such as our Max3 bundled packages.

The tourist season in Croatia also provided an opportunity for our group to offer deals to visitors to Croatia that provided flat rate internet access at our hot spots and these were well received. During the year 2012, the Group also promoted its 4G network services, offering super high speed connectivity and as we flagged previously, we are now rolling out our 4G network beyond the urban areas of Croatia.

Let's move to slide number 12 and let's have a look on the performance of the business segment. The revenues in this segment was 7.6% lower to 3.358 billion kuna in the year 2012. The voice revenue fell 13% to 1.561 billion kuna on the decrease in fixed mainlines and, as already outlined, the scene in the residential segment. We also see a shift away from voice services with a decline in talking minutes of 21.5%. In addition, the wholesale fixed revenues and the mobile retail and wholesale revenues were lower, on decreased usage and lower price per minute.

The non voice revenue rose 4% to 1.164 billion kuna in 2012 and this increase was driven largely by higher infrastructure revenues, due to our wholesale line rental activations unbundled local loop and the bit-stream access. Our IPTV customer base increased by more than 6%, among others, pushed by premium sports packages.

Other service revenues was again lower, falling 17.6% to 445 million kuna. This fall resulted from changes to the mobile tariff structures, namely, we see more and more subscribers using our bundle tariffs. Moreover, we see lower ICT revenues owing to the decrease of large public sector projects and the prolonged recession. The business segment's contribution to the EBITDA was down 9.7% to 2.068 billion kuna.

In May 2012, we introduced a raft of convergent packages and offers including fixed mobile and ICT services and these will help us to maintain our leading position in this segment.

The group also continued to develop products targeting the ever more complex needs and requirements of our business customers. We have correspondingly developed an expanding range of Cloud based services to assist our business customers as they seek greater operational efficiencies, that allow them to run their businesses effectively in this challenging economic climate.

Now let's move on to page number 13 and let's have a look at the financial highlights. So the revenue was down 7.6% with the fall triggered by the continuation of the adverse economic environment, regulatory tightening and the intense competition that we face in all of the segments. EBITDA before exceptional items was also lower and we have reported an 8.1% decrease to 3.520 billion kuna. Our focus on cost discipline however has enabled us to maintain a stable EBITDA margin of 47.2% in 2012, against 47.5% in the previous year. Our EBITDA fell 8% to 3.376 billion kuna, with the margin also remaining robust at 45.3% for 2012, compared with 45.5% in the year 2011.

The net profit for 2012 was down 6.4% in 2012 to 1.696 billion kuna, mainly as a result of decreased earnings before interest and tax (EBIT) combined with lower taxation. Our CAPEX increased 25.8%, boosted by the 150 million kuna invested in the spectrum licence that the group was awarded in the 4th quarter of 2012, and totalled 1.180 billion kuna. The CAPEX intensive projects to upgrade the fibre infrastructure are still on hold however.

Our net cash flow from operations slipped 2.2% to 2.982 billion kuna, showing the impact on group performance of improved working capital management.

So ladies and gentlemen, that concludes our overview of the group's results for the full year 2012. All in all it was another tough period economically, but in the face of this we have again maintained our market leadership. We will continue to implement our proactive strategy of innovation in products and services within our strategy of transformation to ensure that the group remains at the forefront of technological development, enabling us to maintain our leading market shares across all sectors.

I will now hand back to you our CEO Ivica Mudrinic, who will talk you through our outlook for the current year, 2013. Ivica.

Ivica Mudrinic

Thank you Dino. So on slide 14, we have the outlook for 2013. On the revenues side, as has been mentioned, last year brought no recovery in the national economy. The recession persisted with GDP forecasts for 2012 at a 1.8% contraction and for 2013 at a 0.2% contract.

Unemployment and business payment arrears remained at high levels. Public debt increased and industrial production declined further. Telecommunication spending in the residential and corporate sector has also tightened. Competitive pressure and stringent regulatory regime, continue to exert pressure on the group's business, whilst Croatia's entry into the European Union on July 1st 2013, is expected to have an additional negative impact on revenue.

In light of this tough economic environment, the group's revenue will decline further in 2013. However, we will expect our efforts to capitalise on certain areas of growth, will help to slow the decline in group revenue seen last year.

On the EBITDA before exceptional items, the economic environment and revenue trend outlined above, will impact EBITDA accordingly. However, the EBITDA margin for 2013 is anticipated to remain robust at between 43 and 45%, supported by continuous cost management initiatives.

On the CAPEX side, T-HT will focus its investments in 2013 on new service concepts, IP transformation and the development of mobile broadband, whilst the regulatory framework for planned fibre investments remain unfavourable. Excluding investment in the spectrum licence in 2012, CAPEX in 2013 is expected to be higher than the previous year. On the regional expansion, the group continues to monitor and evaluate expansion opportunities to increase shareholder value. Thank you very much for your attention.

Erika Kaspar

Thank you Ivica. Operator, our management team is now ready for questions.
