

29 October 2020

Conference call: HT Group - Results for the nine months ended 30 September 2020

Speakers: Kostas Nebis, President of the Management Board and CEO
Daniel Daub, CFO
Siniša Đuranović, Senior Vice President and General Counsel
Tomislav Bajić, Head of Investor Relations

Presentation Material: Results for the nine months ended 30 September 2020

Operator

Thank you for standing by and welcome to the Hrvatski Telekom Results conference call for the nine months ended 30 September 2020.

At this time, all participants are in a listen-only mode. Today, there will be a presentation followed by a question and answer session at which time, should you wish to ask a question, you will need to press the <star> 1 on your telephone.

I must advise you that this conference is being recorded today, Thursday 29 October 2020. It is now my pleasure to hand you over to your first speaker today: Mr Tomislav Bajic

Mr Tomislav Bajic – please go ahead.

Mr Tomislav Bajic

Thank you

Ladies and gentlemen, good afternoon and welcome from Zagreb. Today our CEO Mr Kostas Nebis, our CFO Mr Daniel Daub, and our Senior Vice President and General Counsel Mr Siniša Đuranović, will talk you through the highlights of our business and financial performance for the nine months of 2020, by 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 Investor's page. After the presentation, we will gladly take your questions.

Before we start, allow me to draw your attention to the harbour statements on page 2 of our presentation.

Moving forward, I will give word to Mr Kostas Nebis, our CEO, who will outline Hrvatski Telekom's performance for the first nine months of 2020.

Mr Kostas Nebis

SLIDE 3

Thank you Tomislav.

Good afternoon ladies and gentlemen and thank you for joining us today.

It is my pleasure to present the results of the Hrvatski Telekom Group for the first nine months of 2020. I will start the presentation with slide three which describes the business highlights for this period.

Year 2020 has been a very challenging and demanding year for all – businesses, economy and society. Nevertheless, I'm proud to say that in terms of Business Development we have, despite a very challenging environment, delivered a solid overall operational performance. COVID-19 developments have inevitably affected our business, but we have undertaken appropriate actions to adjust to the present situation and are pleased to report that these are paying dividend and that we are seeing an improving trend in the third quarter, on which I'll comment in more detail on the next slide.

In line with our mission to drive the country's digitization agenda and connect everyone with the opportunities of digitization, Hrvatski Telekom despite the challenging environment supported its customers, businesses and society, and we remained focused on continuing with our investment plans.

When our competitors are slowing down, we are continuing strongly investing into network quality, which is the key differentiator in the market and the foundation for future business development. During the past nine months we have even accelerated our fiber-optic roll-out and preparations for 5G development which are key levers for Croatia's digitalization, development and economic recovery.

As a result of the investments we have been able to provide the best in class services and strengthen our status as the leading network, receiving along with the two independent awards from Ookla we mentioned last time, also the umlaut (formerly P3) award for the Best in Test mobile network, with HT Group receiving the same recognition for the fixed network, as well.

The most important aspect of these awards is that they contribute to an enhanced customer experience and satisfaction, which has been further improving during third quarter. At the same time, our ongoing efforts behind driving the penetration of our digital channels, namely the One App that we are constantly upgrading with new features contributed to a massive year-on-year increase of 72% in the monthly active users and 47% of our monthly Smart phone users, which enabled us to deliver a far better sales and service experience to our customers.

In parallel, with our SmartWork hybrid operating model we have taken care of our employees' health and safety against the Corona risks, combining working from home and in the office, while at the same time keeping them productive and fully engaged, which in turn plays an important role in us delivering the best customer experience.

The Regulatory Developments during the first nine months were positive as a result of the reduction of the radiofrequency spectrum fees, which provides a positive incentive to invest further in our network.

On the downside the COVID-19 outbreak prompted the Regulator for Network Industries - HAKOM to postpone the assignment of frequency bands for 5G for the first half of next year.

Financially, our performance in the first nine months of the year was inevitably affected by COVID-19. However, the third quarter showed an improving year-on-year trend. Excluding the one-off EvoTV acquisition that took place in 2019, EBITDA after leases (AL) decreased by 5.4% in the first nine months of 2020.

Today we can also confirm the revised outlook for 2020 that we provided at the half year mark, and although the environment remains uncertain, we expect to deliver on the set targets.

We are also continuing to focus on shareholder value. In the year to 30 September we have returned HRK 716 million to our shareholders through a combination of dividends and share buybacks, which represents a total yield of 5.1%.

And I'm pleased to announce that on 12 October, Hrvatski Telekom transitioned its shares to the Prime Market of the Zagreb Stock Exchange from the Official Market, a move that underscores our 'blue-chip' status and confirms that we operate in line with the highest level of best corporate governance practices.

SLIDE 4

Please turn now to slide 4, which provides highlights of the Group financial performance in the first nine months of the year. Positive business developments at the start of 2020 were impacted by the COVID crisis, pushing revenues down by 3.9% to HRK 5.49 billion. This reflects a 3.6% decrease for Hrvatski Telekom Croatia which recorded revenues of HRK 5.08 billion, as well as a 7.8% decline in revenues by Crnogorski Telekom that were HRK 411 million at end of September.

Despite the positive momentum in mobile postpaid, system solutions and fixed broadband and TV revenues, COVID driven lower summer season visitors and handset revenues are driving overall revenues down YoY.

Crnogorski Telekom revenue declines were also due to lower visitor numbers as well as the absence of a one-time systems solutions deal that took place in 2019.

EBITDA before exceptional items after leases decreased 8% across the business to HRK 2.06 billion in the nine months, reflecting a 7.9% decrease by HT Croatia and an 8.4% decline by Crnogorski Telekom.

Margins also saw a slight decline, from 39.2% in the nine months to 30 September 2019, to 37.5% in the same period this year.

The EBITDA AL decline was mainly due to the decrease in revenues as well as the absence of the one-off EvoTV transaction effect, which lifted EBITDA in Q1 2019.

Excluding this one-off EvoTV transaction, EBITDA AL as mentioned on the previous slide decreased by 5.4% in the first nine months of 2020.

As a consequence of the EBITDA decline, as well as higher depreciation, net profit decreased 17.5% to HRK 559 million in this years' nine-month period.

SLIDE 5

We can now turn to slide five that provides a quarter by quarter breakdown of our performance in 2020.

This is not something we usually comment on in our results presentations. However, these are unprecedented times so it is worthwhile taking a closer look at the business developments as the pandemic evolved during the course of the year, starting from end of Q1.

Slide five therefore breaks down the quarterly revenue and EBITDA effects and this allows you to see the revenue stabilization in the third quarter despite the negative impact of lower visitor numbers.

The first impact of the COVID-19 pandemic was felt in Q1 2020 when following the start of the lockdown in the second half of March revenues declined 2.2% or HRK 40 million. This was followed by a more notable decrease of 8.4% (HRK 161 million) in the second quarter of the year, with the full impact of the negative lockdown effects becoming stronger due to temporarily suspended business services, lower prepaid revenues due to restricted mobility, lower visitor numbers and decreased handset sales.

In Q3 2020, revenue for HT was almost back to 2019 levels as a result of economy and businesses opening up again, strong mobile postpaid and systems solutions performance as well as a certain normalization in handset revenue.

The impact of COVID-19 on EBITDA AL was largely felt in the second and third quarter, while the first quarter was hit by an unfavourable comparison against the effect of the already mentioned EvoTV transaction in Q1 2019. The Q2 was mainly affected by a number of different COVID related revenue pressures and Q3 predominately by missing visitors' revenues.

SLIDE 6

If you turn to slide six you will see that our strong cash flow has enabled us to continue investing in our network and improving our customer experience.

Favourable working capital developments during the first nine months of 2020 lifted net cash flow from operations by 8.8% to HRK 1.81 billion. This reflects a 9.6% uplift from HT Croatia which offset a 0.4% decline in net cash flow at Crnogorski Telekom.

Capex after leases rose 13.4% in the first nine months of 2020 to HRK 1.23 billion. The 15.6% rise in HT Croatia was driven by seasonality, and it outweighed a 12.8% decline in capex in Crnogorski Telekom, reflecting a slowdown in investments in fixed access and LTE.

I would hereby like to hand over to our CFO, Daniel Daub, who will outline the highlights of both HT Croatia and Crnogorski Telekom's performance.

Mr Daniel Daub

SLIDE 7

Thank you, Kostas, and good afternoon everyone. On slide seven we show the breakdown of revenue at HT Croatia over the first nine months of 2020.

During this period, the impact of COVID-19 led to a decline in mobile handset sales and visitor numbers, but system solutions and fixed broadband and TV showed a good performance.

Total revenue over the period fell 3.6% from HRK 5.27 billion to HRK 5.08 billion. Mobile revenue across the three quarters was down 6.9% to HRK 2.23 billion, pushed down by a decline in visitor

revenue and low-margin handset sales. However, we experienced good progress on mobile postpaid revenues.

Fixed voice revenue fell 13% to HRK 435 million, continuing the trend in declining mainlines, traffic and ARPU as a result of fixed to mobile substitution.

Fixed broadband and TV revenue showed strong growth, up 4.8% in the first nine months of 2020 to HRK 1.03 billion. TV growth was supported by the contribution from the EvoTV acquisition. Excluding EvoTV, TV revenue and ARPU were still up although the customer base was lower. In addition, fixed broadband growth was a result of an increase in our retail customer base and higher ARPU.

Fixed wholesale revenue fell 7.1% to HRK 218 million as infrastructure revenue was impacted by lower prices for all regulated wholesale services (WACC) and lower transit traffic in Iskon.

Other fixed revenue meanwhile fell 14.9% to HRK 525 million driven down largely by a lower contribution from Optima after the cancellation of bilateral telco relations with Telekom Slovenia and Orion, although this was mostly EBITDA neutral.

Our system solutions business was a standout success through the first nine months of 2020, surging 21.1% to HRK 651 million. This growth was driven by demand for infrastructure and digitalization services at our ICT company Combis.

Miscellaneous revenue fell 93.5% to HRK 1 million after the disinvestment of E-tours in 2019.

SLIDE 8

Turn now please to slide eight. This slide shows the continued growth of mobile ARPU and the postpaid customer base at HT Croatia.

Total customers fell 2.8% to 2.29 million at the end of the third quarter 2020, reflecting a 9.3% decline in prepaid customers to 1.03 million. This outweighed a 3.2% rise in postpaid customers to 1.26 million.

The rise in postpaid customer numbers was driven by attractive 'more-for-more' offers on tariffs and handsets along with marketing campaigns that promoted the services offered by the bonbon brand. The mobile prepaid market showed a steady decline, dragged lower by fewer summer visitors because of COVID-19 restrictions.

ARPU meanwhile rose in both the prepaid and postpaid segments between January and September 2020. Prepaid ARPU rose to HRK 42 this year from HRK 40 in the nine months to September 2019, while postpaid ARPU rose to HRK 101 in the 2020 period from HRK 96 last year. The postpaid rise was helped by successful migration from prepaid to postpaid contracts and the development of our 'more for more' customer base.

SLIDE 9

Please now turn to slide 9 where fixed line and IP progression shows a stabilization in the development of fixed broadband and a slight growth in our TV subscriber base.

The number of fixed voices services declined 4.9% at the end of the third quarter 2020 to 798,000, compared to the year earlier period. Retail fixed voice services fell 4.2% to 759,000 and wholesale fell 16.4% to 39,000. The declines are part of an ongoing wider trend of fixed to mobile and IP substitution.

The number of broadband services fell 1.1% at the end of Q3 2020 to 732,000. Here wholesale broadband declines of 7.5% dragged down modest growth of 0.1% in retail broadband services. The loss of wholesale access lines was a result of migration to competitive infrastructure including fixed to mobile substitution.

The quality of our broadband infrastructure however helped to lift broadband retail ARPU in the third quarter by 5.8% to HRK 109.

We also grew our overall TV customer base and at the end of the third quarter, TV customer numbers had risen slightly to 493,000 from 490,000 last year.

SLIDE 10

We can now turn to slide 10 which describes Crnogorski Telekom's standalone earnings.

Total revenue at Crnogorski Telekom fell 7.8% to HRK 411 million in the first nine months of 2020. This reflects a positive first quarter performance which was outweighed by the effect of COVID-19 restrictions in the second and third quarter, which includes the popular tourist summer season when we saw visitor revenue fall significantly.

EBITDA AL fell 8.4% to HRK 150 million, impacted by lower net revenue which was only partly offset by lower operating expenses. Despite the challenges so far this year, however, we were able to largely maintain margins at 36.6%.

Net profit at Crnogorski Telekom fell 56.5% to HRK 13 million, driven by the lower EBITDA.

I now hand back to Kostas who will conclude this presentation with our outlook for the current year.

Mr Kostas Nebis

SLIDE 11

Thank you, Daniel.

So moving on to slide eleven and coming to an end of today's presentation, you can see how before the COVID-19 crisis, we forecasted 2020 revenue to be the same, or slightly lower than the 2019 level of HRK 7,704 million.

At the end of Q2 we revised that guidance to a mid-to-high single digit revenue decrease in 2020 compared to the previous year, and I'm pleased to say that today we are able to confirm the revised outlook in which despite the lower revenue expectations, we expect improvement in the margins.

Our prior guidance for EBITDA AL margins was 38% for 2020, while now we expect to close the year at 39%. This compares to the 2019 full year EBITDA AL margin of 37.7%.

We have not changed our capex expectations and continue to expect to spend around HRK 1.7 billion in 2020, compared with HRK 1.9 billion in 2019. And we continue to monitor and evaluate M&A opportunities if and when they come.

To wrap-up, due to COVID-19 the environment remains volatile also during the fourth quarter of the year. One thing that is certain is our commitment to supporting our customers, the economy and the society and to delivering value to our shareholders.

Which is where investments play a crucial role and are essential in not only supporting the economy to get back to growth trajectory, but also setting up our company for future success as well.

During the past months, when others decided to step on the breaks of investments, we chose to go the opposite direction and we stepped-up to support the economy. In the process we have strengthened our role as Croatia's most trusted digitalization partner which provides us with a solid foundation on which we will continue to build and sustainably and profitably grow our business.

We are proud of the fact that in time when it is needed the most Hrvatski Telekom remained dedicated to connecting everyone with the opportunities of digitization and that we brought clear benefits to the economy and the society. And we will continue to do so with passion, commitment and unprecedented drive for constant improvement.

We are now ready to take any questions.