

24 February 2021

Conference call: HT Group - Results for FY 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 FY 2020

Operator

Thank you for standing by and welcome to the Hrvatski Telekom Results conference call for the 12 months ended 31 December 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, Wednesday 24 February 2021. 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 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 in 2020.

Mr Kostas Nebis

SLIDE 3

Thank you Tomislav.

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

2020 was by all means a demanding year with the consequences of the COVID-19 felt across the industries. At the same time it became clear just how vital the digital infrastructure and digitalization are for all aspects of our lives.

In a challenging 2020 environment Hrvatski Telekom remained focused on supporting the economy, businesses and the society to find ways to overcome, digitalize and move forward. Our continuous investments in infrastructure, our networks and our service quality, played an essential role in enabling everyone to adapt to the unprecedented conditions and us to confirm our leadership status while ensuring the best experience for our customers.

To take a more detailed look at the year please turn to page three where some of our business highlights for 2020 are listed.

Despite all the challenges we faced as a result of COVID-19 and the inevitable lockdowns, the March and then again the devastating December earthquakes, the negative macroeconomic developments which resulted in the biggest GDP decrease in the country's history... we adapted and found ways to record a solid performance and even break several records in our company's history, setting new standards and foundations for future growth.

We maintained our leading position in all areas of the business with the investments made in our network modernization bringing improvements in both fixed and mobile networks when it comes to the delivery of the best network experience in the market, collecting independent awards both from Ookla and umlaut (former P3) and confirming Hrvatski Telekom's leading network status in Croatia. The progress has been recognized also on a global level with the analysis of millions of user-run tests across each network showing that Hrvatski Telekom's mobile network is one of ten fastest in the world.

Also, in a year as challenging as 2020, with the launch of the first ever commercial 5G network on the 29 of October, Hrvatski Telekom opened a new chapter in the development of the digital society and economy, preparing Croatia for the digital transformation based on the Industry 4.0, and putting the country alongside numerous European and world markets that are already taking advantage of the opportunities provided by 5G technology. The introduction of 5G, with which we are at the moment covering 17 cities across Croatia and over 1.2 million of the country's population, represents an important milestone for the country and the foundation of the future technological, economic and social development as its broad application will enable a number of innovations and the development of smart industries, modern cities and the society of the future.

Additionally, we delivered on our fiber commitment with the largest ever fiber rollout plan covering over 75K households while also committing to cover another 150K in semi urban and rural parts of the country with the support of EU funds.

At the same time our ongoing efforts behind reducing customers issues and technical faults translated into lower calls and complaints, resulted in constantly growing customer satisfaction reaching all-time high levels within our company during 2020.

Along with this we have delivered substantial growth of our digital touchpoints penetration and usage with our Moj Telekom application reaching 50% penetration, with 500K customers enjoying the benefits of the best rated digital experience. This represents some 50% increase of users on an annual basis.

Our focus on employee satisfaction and engagement translated into a number of different activities as well as the introduction of the new SmartWork operating model, with 2020 ending with the best ever employee satisfaction results in the history of Hrvatski Telekom.

On the regulatory front, the COVID-19 pandemic delayed the auction process for new spectrum frequency bands, which has now been postponed until the end of first half of 2021.

We have started to apply the new Margin Squeeze methodology to our current tariffs, all of which have passed the margin squeeze test.

Our financial performance shows that our company has proven resilient against the challenges of the pandemic, growing mobile postpaid, broadband and TV, and System Solutions revenue.

After declining for six quarters in a row, we have managed to turn around our EBITDA AL performance and grew by 1.2% in the fourth quarter of last year.

Our Full Year CAPEX AL to sales ratio was at 24.5% of sales.

In terms of share developments, during 2020, we returned a total amount of HRK 737 million to our shareholders through dividends and share buybacks, which represents a 5% yield.

I'm also proud to say that in the fourth quarter we transitioned our shares to the Prime Market of the Zagreb Stock Exchange from the Official Market, which is a recognition of the high level of corporate governance by which we operate. In addition, we were also voted as the 'Share of the Year' by the public and won the 'Top Turnover Share' award.

SLIDE 4

We now turn to slide four. As you can see looking to our full year performance, we delivered better than expected on revenue with a bit lower than anticipated EBITDA AL margin. The pandemic forced us to review our outlook in July to reflect the dramatic macroeconomic pressures the country was under.

In July, we anticipated a decline in revenue at the levels of mid-to-high single digits but have in fact reported a better-than-expected 3.2% reduction in sales to HRK 7.46 billion.

Our EBITDA AL margin was slightly lower than expected due to a different revenue mix, lockdown that extended into the fourth quarter, and the impact of the earthquake that hit Croatia in December.

Additionally, our CAPEX AL was higher than we expected due to a different timing of projects in the fourth quarter of 2020.

We will outline our outlook for the 2021 at the end of the presentation.

SLIDE 5

Turning now to slide five, you can see that our core financial metrics were inevitably affected by the COVID-19. The positive signs of turnaround recorded in the fourth quarter of the year were not yet sufficient to offset adverse impacts in the first 3 quarters but are an indication of positive trends going forward.

Full year total revenues contracted by 3.2% to HRK 7.46 billion, which was a better-than-forecast performance. We grew in postpaid mobile, fixed broadband and TV, and System Solutions. However, this was not enough to offset the Covid-19 driven losses on visitor numbers, roaming and handset sales, as well as the continued decline in fixed voice and lower Optima Telekom contribution. Crnogorski Telekom revenues declined by 6.7% to HRK 546 million, impacted by fewer visitors, lower fixed revenue and System Solutions business.

Group EBITDA AL contracted 5.9% to HRK 2.74 billion in 2020. This reflects the lower net revenue which can be attributed largely to COVID-19, along with the absence of the positive one-time contribution of the EvoTV transaction which was the case in year 2019. Despite the overall year closing lower, the trends have progressively improved with a 1.2% EBITDA AL YoY growth in the fourth quarter.

The lower EBITDA AL was the main contributor to a 20.5% net profit reduction to HRK 588 million.

SLIDE 6

Please turn now to slide number six which provides highlights of the Group financial performance across the full year, broken out into the quarters to illustrate the evolution of the pandemic impact over the year. Against a very difficult economic backdrop, revenue and EBITDA were under pressure most of the year.

Revenue fell sharply in the second quarter and stabilised through the third quarter despite ongoing pressure from the low visitor numbers. In the fourth quarter revenue slightly decreased due to different timing of ICT projects, the positive impact of which is usually even more significant in the last quarter of the year.

In the first quarter, EBITDA AL was down due to the unfavourable comparison to Q1 19 carrying the effects of EvoTV transaction. COVID-19 pandemic caused visitors numbers to drop substantially impacting the second and third quarters. We are pleased to report that EBITDA AL returned to growth in the final quarter of the year due to positive underlying business developments.

SLIDE 7

We continue the financial highlights on slide seven with our cash flow and CAPEX performance with our network investments being key levers in customer experience improvements and future growth potential on the back of the accelerated fiber rollout and the introduction of the first commercial 5G network in Croatia.

Net cash flow from operations was down 1.7% to HRK 2.53 billion in 2020, largely due to lower profits and unfavourable movements in working capital in the time of pandemic. HT Croatia cash flow decreased by 2.1% to HRK 2.33 billion, while Crnogorski Telekom cash flow rose 3.9% to HRK 205 million.

CAPEX AL was 4% lower than year 2019, a year which carried the peak investment for the modernization of our mobile network. CAPEX at HT Croatia was down 4.5%. However, we still kept our investment focus on the new technologies including fiber and 5G. CAPEX at Crnogorski Telekom rose 3.3% in 2020 to HRK 122 million because of the higher TV content spend.

I will now hand over to our CFO, Daniel Daub, who will outline the highlights for both HT Croatia as well as Crnogorski Telekom's performance.

Mr Daniel Daub

SLIDE 8

On slide eight, we show the breakdown of revenue at HT Croatia over course of 2020 which reflects growth in broadband and TV as well as system solutions, and a good level of resilience in our other revenue streams despite the impact of the COVID-19 pandemic.

Total revenue contracted by 2.9% to HRK 6.91 billion in 2020. This reflects a decline in mobile revenue of 4.1% to HRK 3.02 billion. The good progress we made in the postpaid segment wasn't enough to offset the impact of the curtailed tourist season on visitor revenue and roaming.

Fixed voice followed the market trend towards mobile substitution, declining 11.1% to HRK 575 million. While the trend is lower, the pace of decline is slowing down.

Fixed broadband and TV revenue grew by 4% in 2020 to HRK 1.38 billion, with broadband driven by increased customer numbers and higher ARPU, and TV growth underpinned by the acquisition of EvoTV and DVBT-2 transition.

Our fixed wholesale revenue shrunk 3.7% in the year to HRK 300 million, brought down by lower prices for regulated wholesale services and transit traffic.

Meanwhile other fixed revenue was down 10.6% to HRK 737 million. This was largely attributable to a lower contribution from Optima.

Infrastructure and digitalization services were the key driver for the 6.4% growth in system solutions revenue to HRK 898 million. Finally, miscellaneous revenue reduced to prior year, following the disinvestment of E-tours subsidiary in 2019.

SLIDE 9

Please turn now to the slide nine which outlines HT Croatia's mobile business. In 2020, we continued to grow postpaid customers and ARPU.

Total mobile customer numbers reduced slightly at the end of the fourth quarter 2020, down 0.9% to 2.25 million. This occurred despite mobile postpaid customer increasing by 3.2% to 1.26 million, as prepaid customer switched to contracts. Postpaid growth was offset by a 5.7% decline in prepaid mobile customer numbers reflecting also lower visitors.

Prepaid average revenue per user remained stable at HRK 40 in the 12 months between January and December 2020, however postpaid ARPU grew to HRK 98 from HRK 96 in the previous period as the successful launch of 'more-for-more' propositions attracting a higher spend, along with upselling and the effective development of the customer base.

SLIDE 10

On slide 10 we elaborate the performance of our fixed line and IP business, which was boosted by the growth in fixed broadband lines and increasing TV customers.

The number of fixed voice services reduced by 4.5% to 790,000 at the end of the fourth quarter mainly due to the market trend of fixed to mobile and IP substitution. Wholesale services were down by 15.3% whereas retail services shrunk by 3.8%.

The number of broadband services also reduced, albeit very slightly, down 0.7% to 731,000. The underlying growth of 0.7% in retail broadband lines to 625,000, was diluted by an 8.5% decline in

wholesale services where access line losses were attributed to the migration to competitive infrastructure and fixed to mobile substitution.

Broadband retail ARPU increased though, as we have improved the quality of our infrastructure and made substantial investments in our fiber technology.

Finally, the TV customer base rose strongly, up 5.2% by the end of the fourth quarter, following a successful switch to the new digital broadcasting standard DVB-T2 in the fourth quarter.

SLIDE 11

Slide 11 describes the performance of Crnogorski Telekom on a standalone basis. The results point to the pressure the business has been under during the COVID-19 pandemic both on the top line and on profitability.

Following good progress in the fourth quarter of 2019 and the first quarter of last year, the impact of the COVID-19 social and economic measures significantly hit revenue with absence of almost the entire summer tourist season. This caused a significant drop in visitor and other revenue. Total revenue at Crnogorski Telekom reduced by 7.3% to HRK 551 million, hit by COVID-19 and lower system solutions revenue, which resulted from the decision to focus on higher margin deals.

EBITDA AL was hit by the decline in revenue, contracting 8.6% to HRK 197 million, a result which was tempered by the cost reduction. The EBITDA AL margin was maintained at 35.8%.

The decline in EBITDA and the effect of higher depreciation meant net profit in 2020 fell 72.6% to HRK 9 million.

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

Mr Kostas Nebis

SLIDE 12

Thank you, Daniel.

So, to conclude this presentation, on slide 12 we have set out our outlook for 2021. This includes Optima Telekom until the end of June 2021.

We expect 2021 revenue to decrease by mid-single digits compared from the HRK7.46 billion reported this year. We have amended our EBITDA AL margin KPI to EBITDA AL in its absolute amount, in order to reflect our focus on business growth and better alignment with value creation for shareholders. EBITDA AL is seen to increase by the low single digit percentage compared to 2020's HRK 2.74 billion. And we anticipate CAPEX of around HRK 1.6 billion, compared with this year's CAPEX spend of HRK 1.82 billion. Our acquisition outlook remains the same as we continue to monitor and evaluate potential M&A activity.

To wrap-up, for us in Hrvatski Telekom 2020 was a very challenging and demanding year, but a memorable one for several reasons I mentioned earlier: the biggest fiber-optics roll-out in a single year, the milestone launch of the first commercial 5G network in Croatia, the international recognition as part of the top 10 mobile networks in the world, the best employee and customer satisfaction ever scored, just to name a few.

And with this we entered the year 2021 with a big ambition for growth leveraging on very strong foundations and aiming for: Sustainable and profitable growth in our core telco and Systems Solution business, continue with our investment plan in fiber and 5G, further improve customer experience and satisfaction, solidify our employee satisfaction and increase our employer attractiveness within the ICT segment while strengthening our role as the most trusted partner for the country's digitization.

Inspired and driven by our vision of connecting everyone to the opportunities of digitization we will in continue in year 2021 creating value for our company, our employees, our customers, our partners, the society and our shareholders.

We are now ready to take any questions.