

The 2010 results conference call
14 February 2011 at 15:00 CET

Presenters

Ivica Mudrinić

T-Hrvatski Telekom – President of the Management Board and CEO

Jürgen Czapran

T-Hrvatski Telekom – Member of the Management Board and CFO

Erika Kašpar

T-Hrvatski Telekom – Corporate Communications and Investor Relations

Operator

Thank you for standing by and welcome to the THT 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. I must advise you this conference is being recorded today, Monday 14th February 2011. I would now like to hand over to your first speaker today, Erika Kaspar. Please go ahead.

Erika Kaspar

Thank you, ladies and gentlemen good afternoon and welcome from Zagreb where our CEO Mr Ivica Mudrinić and our CFO Mr Juergen Czapran will talk you through the highlights of our business and financials performance for the financial year ended 31 December 2010.

We will use the presentation slide which I hope you have in front of you, if not please visit our website which is www.t.ht.hr where you can access the slides from our investors page. Before we begin allow me to draw your attention to the harbour statement from page 2 of our presentation, and now allow me to introduce you to Ivica Mudrinić our CEO to outline our Company's performance in 2010.

Ivica Mudrinić

Thank you Erika and good afternoon to all of you listening, so we will start the presentation on page 3, giving you a few or a brief outline of the business environment in Croatia during 2010. I think most of you have seen the basic statistics related to the country. I think what is important to

note that in 2010 the GDP has been estimated to contract a further 1.5% in comparison to 2009.

In 2009 we thought we saw a decline of 5.8%, cumulative in comparison to 2008, but therefore we are somewhere in the 7% plus contraction. Inflation is stable at roughly 1.1%, however the unemployment rate has increased from 16.7% at the end of 2009 to 18.8% in December. All of this is important to have in mind when looking at the performance of our company.

On Slide 4 a brief overview of the market. In fixed telephony we have 10 active operators, we have a carrier pre-select, unbundled local loop and bitstream available, we have liberalised it since 2005. Internet penetration is at about 60% of population. Household penetration of broadband that is, is at 43% and so therefore there is a significant growth opportunity in internet.

Mobile telephony is a three operator market, no MVNOs. Mobile penetration is 144 SIMs per 100 populations, so quite highly saturated, growing demand however for mobile data driven by smart phones and mobile broadband is quite noticeable, and this is clearly a growth area in the mobile segment of the business.

Pay TV, the satellite and cable TV is under developed in comparison to say the usual markets that you consider. Cable TV household penetration is at about 10%, cable TV broadband is at about 4% of households. MAXtv, our IPTV offering is by far the most successful pay TV platform in the market. We now offer a satellite service as well. We have roughly half of the pay TV customers and we are now at roughly 20% of households with our pay TV service.

On Slide 5 a few words about the regulatory framework. We saw in 2010 the wholesale broadband access or the bitstream access price set at 40% below retail price. Also prices for virtual private channels for voice and IPTV were additionally reduced in Q3 2004, so this is part of an alignment with the EU I would say.

Also, there is a procedure for prices for the wholesale bitstream access over the fibre optic network - it is an ongoing process - one of the issues we have faced in the regulatory front. In addition, the regulation on technical conditions and the conditions for use of optical distribution networks also has been imposed; we are negotiating with the regulator at this point. You will see later that our capex level is reduced in comparison to 2009. This is partly due to the unfavourable regulatory framework for the fibre optic access in the fixed line segment of the business.

In 2011 on January 1st interconnection prices were decreased following the EU benchmarks. Also there is a public consultation that has been started on the analysis of wholesale infrastructure

access. This is a formal process and a formal element of the regulatory framework. In addition to that, we expect new remedies or new regulations based on their analysis of the retail markets which is expected in Q1 or Q2, and there is also a further alignment of the EU Regulatory Framework 2009, so this is an amendment to the law in telecommunications expected earlier this year, most likely in Q2.

On Slide 6 a little bit of a comparison between what we have committed to deliver in 2010 and what we did deliver. We have been forecasting a moderate decline in revenue in Q2 again even with the consolidation of COMBIS we were forecasting a moderate decline, and in Q3 similar. At the end of the year we reached 8.375 billion Kunas, or a decline of 1.7%.

On the EBITDA point, some erosion was forecast in Q1 and Q2. In Q3 we forecast roughly the 2009 level and what we have achieved is roughly this as you can see on the presentation.

The capex, what we have done during the year is forecasting a lower capex, but a review during the year, we were anticipating the change in the regulatory framework. Similarly in Q2, in Q3 it became evident that this would not happen, so we forecast a lower capex in comparison to 2009. In the end we were 25.8% below the 2009 level, and as you will see later we will give an indication of the capex to sales ratio and so on.

On the original expansion we, as said in our outlook, will continue to monitor expansion possibilities. We ultimately acquired Combis and closed the deal in May of last year. We also applied for pre-qualification of PTK in Kosovo and are waiting for the government to be formed to see how this process could continue.

On Slide 7 group highlights. As up to now we have maintained the leading position in all of the business segments that we operate in. We have introduced a new organisational structure at the beginning of the last year. This is a customer facing unit concept where we have organised the company along market segments rather than access technologies.

We have acquired Combis as mentioned a minute ago, an ICT company. We introduced a new mobile brand called "bonbon" for a different part, or a different positioning of the prepaid product in addition to the existing brand. We launched DTH, direct home satellite delivery of pay television programming.

Our revenue decreased 1.7% to 8.375 billion Croatian Kunas. We saw a continued effect by the recession and the special taxation. In 2010 we had the full effect of 12 month of 6% of the mobile telephony and messaging taxation, versus only the 5 month effect in 2009. This is a top line

impact on the mobile part of the business, and this reflected in our core revenues. EBITDA margin increase to 44.1% down from the 45.3% in 2009.

Net cash flow from operations however increased by 19.3% to 3.268 billion; this is mostly driven by the stable EBITDA and the reduced capex. The dividend proposed is in the amount of 22.76. This was proposed by the management board. Today has been also approved by the supervisory board, so it will be sent to the shareholders' assembly later this year.

On Slide 8 we have the group revenue development; we have a breakdown by segment. As you can see, the fixed telephony is down 2.6% or minus 215 million Kunas in comparison to 2009. Mobile is also down by 7%, wholesale by 8.2%, internet is up 19.5%, data and miscellaneous is up 91.1%. So the total net result is 1.7% below the previous year.

On Slide 9 we have T-Com, the fixed line business, showing this as we have done up to now for comparison reasons. We have revenue breakdown, it is down 1.2% in comparison to the 2009 results. You can see that the fixed telephony is down, wholesale is down; however internet and miscellaneous are up. The EBITDA is higher than the previous year going to 41.8% margin, plus 3.2%. Capex is down by 20% mostly due as I mentioned to the regulatory issues and a reduction in the investment in the fibre infrastructure.

On Slide 10 fixed telephony in the actual physical traffic minutes. So the key KPIs on the fixed telephony, the number of POTS or mainlines is down 2.9%. The traffic is down 8.3%, average revenue per customer is minus 5.2%.

On Slide 11 the internet part of the business, the number of mainlines has risen by 13.4%. ADSL average revenue per customer is 1.7% higher, and this due to the expiration of the promotional period as in previous situations, and also the fact that we are moving our speeds up, migrating the customers to higher speeds and upgrading the services.

The IPTV customer numbers have risen by 26.1%, so 297,000. We are at 20% of households which is a very high achievement, one of the top four-five operators on a global scale when you consider the IPTV density in any market. The way we have grown, some of these segments is illustrated in the text on the bottom right hand corner.

On Slide 12 is the wholesale and data service. The wholesale revenue is down, mostly due to decreased international traffic to mobile operators; international hubbing service also. We saw some regulatory pressure, termination prices and similar. On the ULL side it is 13.7% higher.

These are the line that has been taken by our competitors and we have retained the wholesale relationship in this case.

On Slide 13 I would now pass it on to Juergen Czapran, our CFO to take you through the T-Mobile and the financials.

Juergen Czapran

Okay, thank you very much Ivica, and also a warm welcome from my side. As you can see on this slide, we had 9.1% fall in revenue at T-Mobile and that is mostly the result of the 6% tax combined with greater competition and lower termination rates. As Ivica mentioned the tax costs us about 164 million and that has obviously had quite an impact on our top line. Net revenue fall was spread across both prepaid and post-paid, with pre-paid's revenue down 11.3% and post-paid is down 6.9%.

Although our costs were down 6.3% revenue fell at the higher rate and so our EBITDA was down 12.5%, and you can see that we have had some slippage from the margin as well. But if you look at EBITDA performance across the year, we started at 19.8% down in first quarter and 14.8% down for the first six months. It is clear that there has been good progress with EBITDA as the year went on.

Capex was down quite significantly and that was related to the fact that we delayed some IT projects while we were reorganising the company, so we didn't spent as much this year as last. Also we had some delays in obtaining local permits for base stations, and so this had a knock-on effect on our investment program.

Turning now to T-mobile operational data, we have actually achieved a slight increase in subscriber numbers into 2010, and as you can see they are up by 1.5% year-on-year. In fact, we had 4.6% increase in total subscribers in the final quarter and that has to do with the lot of promotional activity in the T-Mobile brand, as with the launch of the new "bonbon" brand in October.

What was especially satisfying is that we increased post-paid account by 9% and they broke through the million mark by the end of the year. So, we are continuing to be successful in migrating prepaids to post-paid and that is helping us build a much closer relationship with customers that give us a long term monthly revenue stream.

Another important point is that we are seeing a lot more demand for smartphones and this in turn is driving higher use of mobile internet and this is a trend that will accelerate as more people use more sophisticated handsets and as larger devices like tablet computers begin to take off in Croatia.

Turning the page to 15, we can see that blended ARPU was falling by 7 Kunas to 91 Kunas per month and this is a result of the 6% tax and all the recessionary measures that have reduced consumer spending as well as the fall in termination prices. We had lots of strong promotional activity in 2010 and this has increased minutes of use by about 2% to 150 minutes a month.

Group highlights: looking at the Group highlights, Ivica has already covered revenue and Capex so let us look at EBITDA which fell by just 0.9% after exceptionals and dropped by 4.3% before exceptionals. The exceptional items were mostly to do with redundancy costs, and the year before we had 163 million of exceptionals against about 32 million in 2010. We are continuing to keep a tight control of our costs and this has helped us protect our EBITDA margin to a certain extent, and I think even where we are now we have pretty good EBITDA margins compared with the rest of the industry. Our net profit is down 9.5% and that is because we had significantly lower financial income this year as relates due to the effects of EBIT development.

Finally, you can see that headcount has increased and obviously that is because we acquired Combis and as you know we have picked up the headcount optimisation programme again with announcements we made in January this year.

Let me now hand you back to Ivica to talk about the outlook for 2011.

Ivica Mudrinić

Slide 17: a brief overview on the Group outlook for 2011: the revenue, although the recovery in Croatia, economic recovery is very slow and sluggish and we also of course have a high unemployment rate and a disposable income which is rather limited, we believe that our strategy of exploiting new opportunities, new growth possibilities will help us to maintain 2011 revenue at the 2010 levels. We have a broadband push, IPTV push, IT services and alike to help us achieve this objective.

On the EBITDA side in light of the revenue strategies that I just mentioned, the efficiencies that we have gained from the already successful restructuring programme - meaning headcount reduction that has been completed in January this year and strong cost controls. We anticipate that in 2011 the EBITDA will be moderately higher than in 2010.

On the capex, as I mentioned and has been mentioned both by Juergen and myself, the current regulatory regime is a disincentive to HT's potential investment in fibre infrastructure. We expect the capex in 2011 to be lower than in 2010. However, we will continue to invest in the fixed core network transformation, service platforms development and the infrastructure necessary to support the growing demand for mobile broadband; and in addition of course the support of the fixed line broadband and IPTV services and so on.

Original expansion, we will continue to monitor and evaluate expansion opportunities in order to increase shareholder value. This is process as has been the case up to now.