

The Q3 2010 results conference call
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Presenters

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Operator

Thank you for standing by ladies and gentlemen and welcome to the T-HT Q3 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 that this conference is being recorded today, Friday 29th October 2010. I would now like to hand the conference over to your speaker today, Mr Elvis Knezevic. Please go ahead sir.

Elvis Knezevic

Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb. Our CEO Mr, Ivica Mudrinić and CFO Mr Juergen Czapran we talk you through the highlights of our business and financial performance for the first nine months of 2010 using the presentation slides which I hope you have in front of you. If not, please visit our website [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 on page 2 of our presentation. Allow me now to introduce you to Ivica Mudrinić our CEO to outline our company's performance in the first 9 months of 2010.

Ivica Mudrinić

Thank you Elvis. Today we will start on slide 3 with the basic information about the environment and what I would like to point out, I am sure most of you listing are familiar with Croatia to some extent, I would like to simply stress or point out that we still continue to be in recession. This is

sort of a delayed effect so to speak and as a result our GDP contracted in Q2 2010 by 2.5% in comparison to last year. Stable inflation at 1.4%, unemployment rate in September this year at 16.9%. So, rather high unemployment and this relatively poor economic performance has had a direct impact on our business.

Going on to slide 4 nothing much has changed competition wise. What has occurred the fixed line has 15 licenced operators; 10 are active. Mobile telephony: we have three operators, no MVNOs, high mobile penetration at 139%. In the mobile segment I do want to point out that Croatian telecom has launched a new brand called "bonbon" on the Croatian market from the beginning of this month and this has been announced, and, of course, and you should be aware of this. On the Internet side the penetration has grown, the household penetration in particular at 41% which again, on the one side you can see the increase from the previous period, on the other side there is still space to grow. On the Pay TV segment: relatively underdeveloped satellite and cable TV which has in fact allowed MAXtv, our paid TV platform, or IPTV platform to be the most successful paid TV operator in the market. We hold roughly half of the paid TV market in total.

What we have see on the regulatory front is further alignment with the EU and certain regulations related to the optical axis and the optical distribution which has in fact imposed some restrictions on our roll-out and thereby as you will see later our CAPEX levels are below the 2009 levels.

On page 5 very briefly I would like to take you to the Group highlights. Of course we are maintaining the leading market position in all of the segments that we operate in. The revenue in 2010 for the first 9 months or first two quarters is 3.2% lower than last year. Again this is mostly due to the recession impact and special taxation that was introduced last year, mid-last year, but as you can see if you make a comparison our revenue decrease is lower than the total economic performance, or the performance of the economy. EBITDA has decreased 6.4% or 6.4% lower than last year and the margin is at 45.2%. Net cash flow from operations increased better in 4% mostly due to the working capital improvement, and of course the CAPEX decrease that I mentioned a minute ago and the actual amount of CAPEX is HRK 617 million which is 31.9% below last year, again due to the regulatory restriction that I mentioned earlier. I can elaborate on that later if any of you are interested but it is in fact an over regulation from our point of view forcing us to affectively subsidise...asking us to affectively subsidise our competitors which we of course will not do. We are looking for a solution with the regulator. Croatian telecom has applied for what is called pre-qualification in the privatisation of Post and Telecom of Kosovo - PTK. We are now awaiting the response by the Government. The broadband services continue to grow strongly so we have a strong broadband push and the broadband is growing very fast. As I

mentioned a moment ago the bonbon, new prepaid mobile brand has been introduced and it is targeting a sort of slice across the various market segments.

So, moving to slide 6 on the revenue development you have a watershed chart on the right, and on the left you have the breakdown of the revenues. What you can see is the traditional fixed telephony declining. Mobile also declining due to the new taxation and due to the problems of the recession in the economy, and certain competitive pressures as well. Wholesale decline mostly due to termination rate reductions. The Internet has grown. This includes IPTV as well, a strong growth as you can see, daytime miscellaneous revenue as well having grown. In total it is 3.2% drop in the total revenues at the end of Q3 compared to last year.

On the next slide, that is page 7, T-com which is the fixed line business. It is 3% lower in the revenue and you can see exactly the breakdown, mostly the fixed telephony has dropped and wholesale as well as mentioned a moment ago, but Internet having picked up significantly, picking up most of the drop. The EBITDA level is slightly higher than in the same period of last year which is a reflection of our management of the costs in the fixed line business. Capital expenditure is 36% lower, again mostly due to the difficulties in obtaining a favourable or a reasonable regulatory framework for fibre roll out, and also difficulties in obtaining the permits for laying the cable infrastructure.

On page 8 we have again fixed telephony physical parameters and some other important traffic and revenue elements so the number of parts or the fixed main lines is 2.3% below the end of September last year. Traffic is 7.8% lower, so this is the combination of the number of lines having been dropped and certain traffic moving to the mobile networks primarily. The average revenue per customer is 4.6% lower than last year. So this is the traditional fixed telephony business.

On slide 9 we have a similar overview for Internet. The number of broadband ADSL lines has grown by 13.9% reaching 600,000. The average revenue has also increased by 3.2% mostly due to the end of promotion periods in the broadband segment. The IPTV customer base has grown by 43.3% reaching HRK 271,000; this has nearly 20% of the Croatian households. What we have done, maybe not too well on this point in time but we have amended and upgraded our programme packages and including certain sports on an exclusive basis which is helping us promote the service.

On slide 10 is an overview of the wholesale and data service. The wholesale revenue is down by 12.9% due to decrease in international traffic to mobile operators and national cut in termination

rates and that revenues have dropped following the regulatory decision. High revenues from infrastructure services. The ULL or the unbundled local loop; these are the access lines that are being used by our competitors it has increased by 16% totalling 129,000 which is a usual trend in the business I would say. Now I would like to pass the floor to Juergen Czapran, my colleague, the CFO who would take you through the mobile segment and some of the financials. .

Juergen Czapran

Thank you. As we have already heard, T-Mobile revenue is still falling but at a slower pace than we saw in the first half and that's down to a combination of the recession, the cut in termination rates and the special tax. The tax has cost us about 124 million only in this year. T-Mobile EBITDA fell by about 13% but that is an improvement on the fall of nearly 15% we saw back in June. Again, we have benefited from some cost cutting and a fall in mobile merchandise cost that accompanied the integration of the retail sales outlets. Looking at the breakdown of revenue you can see that postpaid has fallen about 8%, while prepaid revenue has fallen 12% which is a trend we had expected to see because pre-paid users are more likely to cut spending in times like these.

As you can see CAPEX fell by more than half for a combination of reasons, including some delays in obtaining local permits, and optimised IT projects following the merger of T-Com and T-Mobile. Looking over the page to T-Mobile's operational data we can see that Q3 has been good in that what we only have lost touch 2% of subscribers during the first half, so most of the 3% or 3.8% losses has been sustained in the first six months of the year. Overall, we are still the market leader with nearly 48% share by revenue and 45% by sim.

We have done well in increasing our Postpaid base which is up nearly 10% on last year and now accounts for more than 35% of total subscribers and remember these are longer term customers paying monthly bills. You can see that we have been losing share of pre-paid subscribers which we have down about 10% until 09, but we have launched "bonbon" as an independent mobile network and we think this will gain a decent market share both from younger customers who are churning from T-Mobile, as well as gaining share from other networks. What "bonbon" has put together is a very attractive package of 1,000 minutes per month right through to 2020 which we think is a unique offer in the mobile market right now. We are constantly looking at ways we can improve our own mobile services. We are coming up with products like iPhone-4 and Dell Streak tablet as well as with packages like postpaid tariffs for internet users, and new loyalty programme. Over the page you can see that ARPU is falling because of the drop in termination rates and of course because of the recessionary measures introduced last year. By contrast, we had some

good marketing initiatives that had actually increased minutes of use very slightly, and although it's only a small change, it is a step in the right direction. Coming to the Group financial highlights and as we have already covered revenue and EBITDA, I will move to net profit which is down 15% to a little under 1.5 billion, but that rate of decline is significantly lower than the 25% we have reported in the first half. With interest rates so low we are getting far less interest than we had before. In fact last year we received 250 million in interest but this year it is only 43 million which is a fall of more than 80%. At the same time we have seen our financial expenses more than double to 63 million, and this is mainly associated with one time impact of 32 million related to HT Mostar. Our CAPEX is down as we have already mentioned and you can see that our headcount is up very slightly, which is a combination of some ongoing headcount reductions that we are more than balanced by the addition of Combis to the group. Let me now pass you back to Ivica to wrap up.

Ivica Mudrinić

Thank you again. So as you have seen from the figures that the ongoing recession in Croatia and high unemployment and the impact of the 6% on mobile services continue to have an impact on our revenue. So we expect a moderate decline as a result even after the consolidation of Combis in comparison to 2009. So far as the EBITDA is concerned, we have implemented successfully cost-control initiatives including lower subscriber acquisition costs and other measures, and what we expect is that the EBITDA, full year EBITDA will be at the 2009 EBITDA levels. The CAPEX we expect a lower CAPEX in 2010. Primarily it is due to the inability to roll out the optical access network for broadband and secondly, again, we will continue to invest in capacity in the mobile network, but again we are limited to some extent because of the problems with permits. On the regional expansion we continue to monitor and evaluate the opportunities in order, what we believe as an opportunity to create value for the shareholders, and we will keep the market and the media posted on the developments in Kosovo.

So, so much for me to wrap up, I would like to say one more thing, at the end. We, most of the management board of HT will be in London next Tuesday at the meeting that is scheduled for analysts and investors, I would like to invite all of you to join us those of you that are able. I think the information is contained in the release that we have sent out. I would be very happy to see any of you that are able to attend and join myself and members of the board and key management of the company, both for the presentation and subsequently the informal meeting. Thank you.
