

Full year 2008 Results Conference Call
27 February 2009 at 15:00 CET

Presenters

- Erika Kašpar
- Ivica Mudrinić
- Jürgen Czapran

Operator: Thank you for standing by and welcome to the 2008 final 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 that this conference is being recorded today, Friday the 27th February 2009. I would now like to hand the conference over to your speaker today, Ms. Erika Kašpar please go ahead.

Erika Kašpar: Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb. Here with me today are Ivica Mudrinić, THT CEO and Mr. Jürgen Czapran, THT CFO. Both gentlemen will talk you through the highlights of our business and financial performance for 2008 financial year, using the presentation slides which I hope you have in front of you. If not, you can still find them on our website t.ht.hr on the investor's page where you can access the slides. Before we begin, allow me to draw your attention to the harbour statements on page 2 of our presentation. And now, allow me to introduce to Ivica Mudrinić, our President of the Management Board and CEO to outline our Company's performance this year.

Ivica Mudrinić: Thank you Erika, good afternoon to all of our listeners. So, let me start first of all by thanking everyone for the attendance. Second, as everyone is well aware, 2008 was an extraordinary year by all accounts. The global economy and the different problems both in the financial and so called real or economic sectors were quite difficult. However, in spite of all of this, we're happy to say that our results are stable. That the revenues are slightly above the 2007 levels, as you'll see in a moment that we have in fact reached a 2.7% increase year-on-year in revenue. That we have surpassed the announced 450,000 ADSL customers as a target - we have reached 473,000. We've seen some erosion of EBITDA but it's 1.7 percentage points down, 45.5% versus 47.2% earlier. We have in fact invested more heavily in 2008 and this is really an investment in the future, most of it focusing on the fixed line business reinvention. We continue to,

what is called, headcount optimisation in order to facilitate further operating expense management. Our headcount is down 3.5%, when we measure against end of 2007. We continue to monitor possibilities to expand in the region.

When we move to slide 4 and we look at Group highlights, it's important to note that we have maintained market leadership in all segments of our business. Although and in spite intensified competition, strong growth in ADSL, this is really the part of the reinvention of the fixed line business. In addition to broadband or ADSL we have managed very successfully to push IPTV to 135,000 subscribers at the end of the year which is quite significant, especially in view of the fact that we are now the largest cable TV operator in the country or the delivery platform for television. 2.7 million subscribers in the mobile part of the business and you'll see the breakdown a little bit later between post-paid and pre-paid. We have introduced the Apple iPhone and many other innovative products. We have proposed dividend of 29.99 Kunas per share, very, very high yield and we continue to generate strong cash flow.

When you look at the financials very briefly, the revenue in Kuna terms 2.7% higher, in Euros is 4.4% that including exchange rate differences. EBITDA at minus 1% compared to the previous year and the net profit at 3.2% when we exclude the one-off influence. The headcount, as I say, 3.5% below.

On slide 5 we have the Group revenue development showing the breakdown between the fixed telephony, mobile, wholesale, internet data and miscellaneous revenues. From this is visible that we're seeing a decline in traditional fixed telephony revenues, increase in mobile, increase in wholesale and increase in internet revenues.

On the next slide, page 6, we have an introduction of the fixed line business of T-Com highlights. So it's a continuation on leadership in all of the segments that the fixed line business unit covers. Migration from the traditional unmanaged services to our key based services, as I said 135,000 IPTV or MAXtv subscribers, strong growth in broadband and in fact we're seeing the offset of the fixed line revenues or the fixed telephony revenues offset by wholesale and of course from the internet services. The capex increased significantly in order to fund the network expansion and upgrades. If you look at the fixed line business segment, the revenue is down 1%, EBITDA 6.4% and before exceptional items, 8.4% - we can take you through that if you have questions at this point. Capex has increased again because of the reinvention process of the fixed line business and the capex to the revenue ratio being as you see, 22.2%. Headcount, 5,400 or 4.4% below. And the revenue by the area is also broken down in the fixed line group. The key here is the decline in traditional telephony, however an increase in wholesale and internet parts of the business.

On slide 7, we have the fixed telephony breakdown. The traditional services, the POTS – or the old analogue lines – decline of 3.8% in the number of lines. Decline of 10.5% in traffic minutes, ISDN down 7.3%. As far as the lines are concerned, it's mostly due to the fact that some of these customers using ISDN to access internet, they're now using our broadband services, you'll see also on the next page. The average revenue per customer is down 5.7%.

On the next slide, on the page 8 we have internet services development and here we have a revenue increase of 33.2%. You see in the graphic illustrations an increase of 37% in the number of the ADSL mainlines. Dial-up users remain stable; these are our entry customers, the future broadband customers. The average revenue in the ADSL segment is 1.6% down but it's 120 Kunas which is quite a strong position. The IPTV customer base has grown to 135 or so thousand.

On the slide 9, wholesale and data services - what is important here is that the wholesale revenue increase which is driven by market liberalisation also is ensuring that we are maintaining some part of the lost revenue to competitors, so the wholesale segment remains strong. On the data side, it's important to note that we are seeing a transfer from the traditional data services to new IT based services. Metro Ethernet and similar client services are the key here. Graphically we show the wholesale revenue breakdown. Our increase in wholesale revenue is in addition unbundled local loops up to 87,000 at the end of the year.

On the next slide is T-Mobile and I'll ask Jürgen Czapran, our CFO to talk you through this part of the presentation. Jürgen...

Jürgen Czapran: Thank you Ivica and also good afternoon from my side. As Ivica pointed out that at the start of this presentation T-Mobile continues to be a strong performer for the Group. Subscriber numbers have now reached almost 2.7 million, that's an increase of 12.8% on last year and revenue has increased by 6.1% to more than 4.4 billion Kuna. As you can see, we are continuing to migrate customer to post-paid accounts and they now provide nearly 60% of T-Mobile's revenue, up slightly from last year. Remember that these are predictable and regular revenue that come in every month. Our EBITDA increased by 8.3% to more than 1.9 billion Kuna at a margin of 43.8% and that's a margin improvement of 0.9 percentage points. Also operating expenses grow, they were outpaced by the growth of revenue. We continue to invest in 2G and 3G platforms and so you can see that capital expenditure has increased by 25.1% and now it represents 10.6% of revenue compared with 9% last year. Another success worth mentioning is certainly the launch of iPhone in Croatia in November last year. Unlike T-Com where we

have been rationalising headcount, we have increased it at T-Mobile to support the growth we are seeing.

Looking at more detail on the next page at operational data, we have maintained our market leadership with 45.9% of the market by SIMs and that's giving us slightly more than 50% of the market by revenue. Also you can see the impact of competition because it's down slightly from 2007. I mentioned the increase in post-paid revenue just now and you can see in the chart on the right that we have added post-paid customers at a faster rate than pre-paid and that has contributed quite significantly to the increase in revenues we have seen because post-paid customers tend to spend more time talking on the phone.

In terms of subscriber numbers, post-paid accounts make up 30.1% of subscribers. Overall, however, as a result of promotional incentives offering cheaper calls and increased subscriber numbers we have seen a fall in blended ARPU to 119 Kuna per month. Minutes of use is down 4% but we think that has mostly to do with the fact that in 2007 we run some promotion encouraging people to spend more time on the phone and we didn't repeat this in 2008.

Let me turn to the Group financial highlights on slide 12. Ivica has already commented on the trends we have seen in our revenue, so let me talk about profitability. Also we have increased revenue by 2.7%, our EBITDA rose just 0.2% to just under 4 billion Kuna. That's mostly because we had to be on higher cost associated with things like broadband modems and set-top boxes that we needed to support increasing number of new ADSL and IPTV customers with the necessary modems and terminal equipment.

Amongst the other lines of expenses, we saw services expenses increase by 11.8% because of the higher domestic interconnection charges we had to pay as we increased the subscriber numbers and of course, an increase in international telecommunication charges. The biggest increase was the cost of merchandise materials and energy, which rose 27% to 1.1 billion. Obviously, we are seeing pressure on EBITDA margin and we have fallen 1.1% point to 45% but that is still high for the industry that we are in and we continue to implement cost cutting initiatives across the Group to protect them.

As I explained last time, we had one-off gain in 2007 from our investment in HT Mostar and obviously that hasn't happened this year, so if you exclude that, we have increased net profits by 3.2% to more than 2.3 billion Kuna. Looking at capex we have already mentioned the investments at T-Com and T-Mobile, so overall we have increased Group capex by nearly 30% to 1.6 billion Kuna and that's more than 18% of Group's revenue.

Finally, let me hand you back to Ivica, to sum up.

Ivica Mudrinić: Thank you Jürgen. We have on slide 13 a group outlook for 2009. As everyone is well aware we are in fact in... all of our economies are...should be viewed within the context of the global crisis and also in Croatia we also face some uncertainty and we're not quite certain how much impact this may have on our ...on T-HT. However, at this time, we believe that it is crucial to anticipate some decline in revenue as compared to 2008. We believe that the mobile revenue industry will remain at levels that we have seen in 2008. We think that fixed telephony will continue to decline, internet revenue showing significant growth and we believe we will maintain this momentum. Wholesale revenue, we do expect to decline.

The Group EBITDA - it's our objective to mitigate any pressures on the EBITDA margin through ongoing cost control initiatives which we are undertaking. We are targeting this time, the same capex levels as in 2008. Most of the focus is on the fixed network optical access deployment meaning going deeper with optical fibre and at the same time facilitating the removal of the old platform and migrating to the single IP platform. This, we believe, will improve quality. It is to give us the chance to offer new services and at the same time significantly reduce operating expenses once we consolidate this. This has to do with the removal of the double license fee on the ports, it has to do with the complexity and the cost of maintaining the networks and the two platforms.

In addition, we will be investing in the mobile network especially in data bandwidth and this, we believe, is the key area that we need to focus on. In regional expansion we will continue to monitor and evaluate expansion opportunities to ensure that we produce shareholder value. One note at the very end, is worth having in mind that the Supervisory Board and the Management Board have taken a decision to pay the dividend that I have mentioned earlier in two tranches. The first one to be paid on the 9th of March in the amount of 12 Kunas and 84 Lipas, the balance would be paid after the session of the General Assembly which will be held on the 21st of April with a maturity or payment date of 19th of May this year. To have full clarity it will be done in two parts, HRK12.84 immediately on the 9th of March and the second part of the balance would be paid after the General Assembly in line with the legal obligations that we have.

So far from us, and I think we will now open questions for those on the line.

(Q&A SESSION)

Erika Kašpar: It seems there are no more questions. I would like to mention that in addition to this conference call THT will hold a meeting for analyst and investors in London next

week on Wednesday on the 4th March at 10:30 at the offices of College Hill. More details can be found in our press release, so if there are no more questions I would like to thank all the participants for being with us and till the next time, bye-bye.

Ivica Mudrinić: Thank you.

Erika Kašpar: Thank you.