

The Q3 2011 results conference call
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Presenters

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Operator

Thank you for standing by and welcome to the T-HT 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, Friday 28th October 2011. I would now like to hand over to your first speaker today, Erika Kaspar. Please go ahead Mam.

Erika Kašpar

Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb where our CFO, Dino Dogan, our COO Business Irena Jolić Šimović, our COO Residential Johan Busé will talk through the highlights of our business and financial performance for the nine months unit 30th September this year 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 page. After the presentation our board members will also be available for you questions. Before we begin, allow me draw your attention to the harbour statements on page 2 of our presentation. And allow me now to introduce you to Mr Dino Dogan to outline the company's performance in a period from January to September this year. Dino

Dino Dogan

Starting with slide 3 it is clear that there hasn't been improvement in the economic environment and the long awaited recovery has still not emerged.

With an absence of pro-growth reforms, Croatia's public debt is estimated to reach 51% of GDP in 2011 according to the Croatian National Bank. GDP did show a marginal increase of 0.8% in the second quarter of the year but forecasts for 2011 GDP growth have been lowered to 0.5% for the full year.

Inflation remains stable, and stood at 2.2% in September. Unemployment remains high, despite seasonal factors such as the tourist season that pushed the figure down to 16.9% in June (compared with 19.3% at the end of March).

Overdue payments also remain at record levels, and were HRK 39.9 billion in July 2011.

So issues related to the economic downturn remain challenging, as we have outlined in previous quarters this year. As the tough economic climate continues, consumer and public and private sector spending is being tightly reined in across the board putting further pressure on our revenues.

So let's have a look on the Croatian telecommunication market on slide 4. So fixed telephony remains competitive in Croatia with currently ten active operators. The acquisition by VIPnet, the second largest mobile player, of leading cable operator B.net in June 2011 will lead to considerable competitive pressure in the market for integrated telecommunications products.

Broadband and TV are still major growth areas in the sector, however, and they continue to offer significant opportunities for us.

In mobile, the increased availability of smartphones and mobile broadband devices such as laptops and tablets is also boosting mobile broadband usage. Penetration stands at 127%. This is lower than the 151% reported in July and the change is the outcome of an amendment to the definition of total prepaid subscribers. Only SIMs showing traffic or voucher recharges in the previous 90 days are now considered as subscribers. This change was introduced by HAKOM in Q1 and has been adopted by T-HT in the third quarter.

In IT, the total market fell 1.3% in 2010 to HRK 5.8 billion. IT services, which represent 35% of the total IT market, slipped 2.3% in 2010. The continuing economic downturn has led to lower budgets for capital expenditure across the board among the largest users of IT services. As a result, spending on IT services was down for the second consecutive year last year.

I already mentioned the influence of the regulator so let's elaborate a little bit more on that one, slide 5 the regulatory framework. So the regulatory realm has seen a number of developments

and I will provide a brief outline here. So first of all in September 2011 our regulator HAKOM initiated a revision of the methods of calculating bitstream process and he is proposing and it's not a decision yet, so it's proposing to raise the 40% figure currently employed in these calculations to 60%. The outcome of this process is still pending and we will update you when we receive further information on that one. HAKOM has also completed its analysis of the retail market in the fixed line network. This has resulted in the imposition of price controls on the regulation of promotional offers for local and national telephone services whilst obligations for international services have been abolished.

T-HT published its wholesale reference offer for naked bitstream and WLR after the new rules were brought into force. This is currently undergoing public consultation. We discussed this as well as other regulator changes in greater detail in our press release. The retail broadband market including the IPTV market will also undergo analysis the regulator to identify any operators that have significant market power. Again we will update you when we receive further information on this. We are also facing a decision by the Croatian Competition Agency which has initiated proceedings against all mobile operators in Croatia, including T-HT alleging collusion over pricing when there was a change to billing units. Also we understand the HAKOM has filed to indictments against us alleging that we had reached regulatory obligations with respect to the wholesale and rental to alternative operators. So far we haven't received any official information on this.

So now let's turn slide 6. As I have mentioned already we are operating in a very tough economic environment and we have been doing so for several consecutive quarters. This has all in all resulted in the 3.6% fall in our revenue for the nine months to the end of September. This fall however has been mitigated somewhat by a strong contribution from the ICT business Combis that we acquired in 210 and by growth in the IP revenues. In addition we have amended the way we recognise revenues from connection fees and revaluated the period that constitutes useful life at three years compared with 10 years previously. This change was recognised in the third quarter of 2011 and has had a positive impact on our revenues in the fixed line segment to the tune of 73 million Kuna. Meanwhile our EBITDA slipped 2.1% to 2.799 billion Kuna on the back of our lower revenues but we have continued with strict cost cutting initiatives and as a result we have managed to boost the EBITDA margins to 46% compared with 43% in June this year. Capex remained higher due to recommencing of projects we had postponed after the reorganisation of the group in 2010 and also because of changing the accounting treatment of customer premises equipment which is now classified as capital expenditure. We still await clarification from the regulator on the situation regarding the fibre infrastructure however and the increase in capex is not related to the restarting of fibre investment. And while we have been attempting to combat the effects of the recession, we have also had special crisis taxation

imposed on us by the government, in other words the 6% fee charged to mobile network services that was brought into force in August 2009.

Now some minutes ago we received the notification that the government has proposed the abolition of the 6% fee and the parliament has voted in favour of this proposal so in rough words we will not face anymore in 2012 the 6% fee charged on mobile network services.

So we continued to launch new services to provide a more compelling offer to our customers. These new products offerings now include two Software as a Service modules. We have also launched the eBookstore Planet 9 this year and we continue to design innovative and attractive tariffs for mobile services targeting a broad range of customers. Our new packages include family tariffs and tariffs designed specifically to suit the needs of small and medium enterprises. Also as I discussed the previous slides on regulation, we published our wholesale line rental offer and as a number show this has resulted in significant interest from CPS operators.

On slide number 7 we provide a breakdown of our revenues. As we have noted in the past, we continued to lose revenue from fixed telephony. This is in line with the industry trend and as we call it fixed/mobile substitution. We have also lost ground on mobile revenue even though our subscriber base has increased following some attractive promotions initially launched earlier this year, the so called front loading and this revenue decline is due largely to the strong competition we are facing in the mobile market. You most probably have recognised that our blended ARPU is down by some 11.9%. Data and wholesale revenues were down but internet revenues has again shown an increase and our acquisition of Combis in May 2010 continues to bolster out revenue with the business making 280 million Kuna to group revenues in the nine months to the end of September. On slide 8 we outlined the performance of the mobile telephony in both the residential and the business segment. Subscriber numbers edged 3.8% higher in the nine month period to 2.485 million as marketing efforts earlier in this year continued to boost customer numbers. These were lower compared to the previous quarter however due to the changes definition of the total prepaid subscriber base we described earlier on slide 4.

Residential mobile subscribers were up 3.5% over the previous year and business mobile subscribers rose 5.6% with an increase in both prepaid and post paid services. Our new "bonbon" prepaid brand completed it's first successful year with 100,000 subscribers. Of these 85% are under 35 years old indicating that the brand has become extremely well established among young professionals in Croatia.

Minutes of usage per average subscriber grows only marginally however blended ARPU was almost 12% lower as intense competition into mobile markets put downward pressure on pricing. Compared with the second quarter, ARPU and MOU have increased as a result of the previously

outlined change in the definition of the prepaid subscriber base. Across the group, mobile revenues were down by 10.6% as we saw in the previous slide.

Slide number 9 shows fixed telephony across the group. As the chart demonstrates, the number of mainlines continues to fall in line with industry-wide trend of lower usage of fixed line services. In addition we have seen some CPS move to other providers following the introduction of wholesale line rental. In response to this we are offering top flight services that are competitively priced. This of course puts pressure on our ARPA which was down 8.8% while total traffic in minutes has fallen 12.2%.

In the residential segment, we reported an 8.3% fall in fixed lines to 1.123 million. The business segment saw a similar fall of 9.2% to 199,000. Fixed line revenues across the group fell 8.5%.

Now let's move to slide 10, our IP services across the group. So we report further strong growth here with ADSL mainline subscriptions rising 7.9% to 648,000.

If you look at Q2 2011 number, you will see that the number remained the same and this is due to our decision to unbundle ADSL service from provision DTH customer not using the ADSL service to DTH which is resulting in the decline of our ADSL residential connections in Q3.

Unbundling was carried out to better meet the customer needs and expectations as well as to improve further the market reach of DTH.

Our Pay TV offer is a continued success story for us too. TV customers have increased more than 21% compared with the same period last year and we have 337,000 subscribers to our services. These are preliminary residential subscribers and we have introduced new packages and deals which has helped bringing 14,000 net additional customers in the three months to the end of September. Our new packages include triple-play offers that bundle the group's services in a compelling deal along with new channels and programming. Notable we now have exclusive rights to broadcast the Croatian Premier Football League on MAXtv. We also launched a content storage service for TV, mobile and PC laptop top ensure our customers to manage their personal content and access it on any platform.

ADSL continues to offer the prospects of strong growth in Croatia with broadband penetration still less than 50%. That provides huge market opportunity and we are focusing our efforts on attracting new ADSL customers to whom we can then cross-sell IPTV service and our triple-play packages.

Ladies and gentleman, now I would like to hand over to Johan who will talk about our performance in the residential segment; Johan please.

Johan Busé

Thank you Dino. Welcome everyone from my side. Moving to slide 11 where we dive into the residential segment. Voice revenue as you can see there has fallen down by 12.7% in the nine month period amid tough economic pressures we face and the falling mobile termination rates as well as the ongoing pricing pressure due to the intense market competition, in particular in the mobile prepaid segment.

Non-voice revenues were up by 6.1% on the other side thanks to the growth of fixed IP and mobile data revenue. Other service revenues in the segment were impacted by different mobile tariff structures but the revenues from terminal equipment have fallen and that's due to the change in CP treatments as well as a lower number of handsets sold. All this means that the contribution to EBITDA by the residential segments was down by 2% to 2.248 million Kuna although the fall was largely offset by significant degree on lower operating costs. So that's from my side to the residential area and happy to pass you onto Irena to present the business segments.

Irena Jolić Šimović

Good afternoon to all from my side, so let's jump immediately on slide number 12 where I will give you a very brief overview of the performance of the business segment. Here you can see that voice revenues fell by 11.6%, as fixed voice revenue declined due to fall in the number of mainlines and decline of fixed network traffic. Mobile services posted lower revenues due to the lower prices as well as the decreased mobile termination rate and ICs due to the higher discounts given to the roaming partners.

Non-voice revenue was also down by 5.45 and hit primarily by lower national lease line revenue and migration, overall migration to the internet protocol base services. Other service revenues almost doubled due to the consolidation of Combis as Dino stated earlier starting from last May. Total revenue on the business segment, we're 1.9% lower until the contribution to EBITDA was down 9.8%, mainly as a result of the higher merchandise cost and Combis contribution to interest cost. I will now hand back to Dino who will sum up, thank you.

Dino Dogan

Thank you very much Irena. Let's have a look on our group highlights starting with the financial part. So we have covered EBITDA in our earlier slides so I will move on to the net profit. So for the nine months to the end of September, net profit was almost flat at 1.483 billion Kuna down just 0.1% from 1.484 billion in the previous year. Our capex rose as we discussed earlier.

Net cash from operations was 14.8% lower, mainly on lower profitability and the impact of redundancy payments. Our headcount now stands at 6,066, which means 3% down compared with September 2010.

Let's have a look on the group outlook. In terms of revenues as stated in the Q1 results on April 28 2011, the Group's performance in the current financial year is influenced by the strength of the tourist season in Croatia and recovery in the national economy. The economy turnaround has been predicted earlier this year, has unfortunately not materialised while unemployment remains high and the amount of overdue payments has reached record levels. At the same time, the government's 6% on mobile tax originally imposed in 2009 has not been removed talking about 2011, while the recent introduction of regulations governing wholesale line rentals and naked DSL will further impact the group's business. The Group continues to maintain it's focus on exploiting new growth opportunities and maximising existing ones. However given the tough economic conditions and accelerated regulatory pressure the Group expects 2011 revenues to be moderately lower than the 2010 level. In the light of the continued challenging economic conditions in Croatia, regulatory impact and consequently lower expectations for revenue the group expects 2011 EBITDA to be close to the 2010 level. However, the Group is committed to maintaining the year-on-year EBITDA margin through efficiencies gained so far and continuing strong cost controls.

Whilst the current regulatory regime remains a disincentive to T-HT's potential investment in fibre infrastructure, the Group expects 2011 capital expenditure to be lower than 2010, however T-HT will continue to invest in modernising the network and IT systems as well as in mobile capacity. And last but not least, the statement regarding our regional expansion, the group continues to monitor and to evaluate expansion opportunities, to increase the shareholder value.

So ladies and gentleman, that would be in brief the overview of our results year-to-date September 2011.