The first six months 2009 results conference call

30 July 2009 at 15:00 CET

Presenters

- Erika Kašpar
- Ivica Mudrinić

Operator: Thank you for standing by and welcome to the T-HT Q2 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, Thursday 30 July, 2009. I would now like to hand the conference over to your speaker today, Erica Kaspar. Please go ahead and thank you ma'am.

Erika Kašpar: Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb. At the beginning, I would like to inform you that following our results announcement this morning, we just issued another one, where we are confirming that the Croatian Parliament approved, following their extraordinary session, two of the earlier announced laws which might have some impact on our performance. The first one is the one related to new fees for mobile services, and another one related – increased value added tax from 22 to 23%. Both our CEO, Mr Mudrinić and our CFO Mr Czapran are out of the office today and out of Zagreb so Mr Mudrinić will join us from the Croatian coast, and he will walk you through the highlights of our business and financial performance for the first six months of this year. The presentation slides are available on our page, and if you don't have them in front of yourself, you can still visit our website, which is 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 statements on page 2 of our presentation, and allow me now to introduce you to Ivica Mudrinić, our CEO, to outline our company's performance during the first half of this year.

Ivica Mudrinić: Good afternoon to everyone. So, today has been a very busy day, in view of the decisions taken by the Parliament earlier, during the course of today. Let's start then the presentation on page 3, a brief overview of the environment in which we operate – both the economic and the regulatory environment. We saw the official GDP decrease in Q1 of this year, by 6.7%. Unemployment rate has increased to 14.2%. Decreased payment collection efficiency, and also, what we have as an announcement earlier and today adopted – VAT, or the value added tax is increased to 23% from the previous 22%. This is deemed to be a temporary increase. In addition to this, there is going to be kind of a crisis tax imposed on salaries, as well, with a rate depending on the actual amount of salaries – it's a progressive rate. In addition, what is most important for our business, there is a fee on mobile communication services introduced. It is a 6% of the gross revenues, so this is a Government move, in order to sure up the fiscal situation in the country. In addition to this, we have continued stable banking system, and relatively speaking, a stable monetary situation. We've seen in Q1 of this year a decrease in the fixed mobile termination charges, or interconnection rates, and also in line with the EU recommendations, we are seeing a new round of market analysis being facilitated.

Moving on to the next page, our Group performance highlights – we've maintained, of course, leadership in all of the segments that we operate in, continued growth in internet segment – meaning the broadband access in IPTV, continued and accelerated broadband roll-out. The revenues increased in Q1 this year, versus Q1 last year, by 0.7%. A slight EBITDA decrease, mainly driven by growth of the operational expense, and subscriber activation costs. Total dividend paid was 29.99 per share, earlier this year, the second part being paid in May. This is related to the 2008 results and previously, the income that we had previously generated. We have also started a reorganisation process in the company, to improve internal efficiency. When you look at page four, at the bottom, you can then see the increased revenue to HRK 4,208 billion, or €569 million. EBITDA before exceptional items, at 1.923, or a decrease of 0.5%. In Euro terms, a decrease of 2.1% because of the exchange rate. Net profit is down 2.9% to HRK 1, 092 million, or €148 million. Headcount is down by 2.4%, part of an ongoing efficiency optimisation programme. On the next slide, we have the development of the revenue, and what is seen here is a drop in the fixed line telephony – traditional fixed line telephony revenues, an increase in mobile, decrease in wholesale, increase in internet, and the flat data. That's where we come to the 4,208 million as I indicated.

When we go to the segment reporting T-Com, meaning everything that is not T-Mobile – the strong market position supported of course by attractive services and packaging. In addition, a strong push in the broadband development, increased internet revenue, as a result, and also, this is offsetting clearly the drop in fixed telephony revenues.

We also have our wholly owned subsidiary Iskon launched also its owned IPTV service. What we see – the EBITDA being impacted by slightly decreased revenues and an increase in merchandise related expenses. We also have a higher investment in the network, in the first half of this year – mostly focused to the optical network infrastructure, pushing optics further into the network, and increasing the number of

DSL access nodes. Also, additional services related to the support functions as well – investments related to the support functions. The T-Com revenues are down 2.2%, EBITDA is down 6.6% in the H1, versus the H1 last year, and again, you can see the slight drop in the EBITDA margin as well. Capex is higher, because of an aggressive roll out plan that I mentioned, and the capex to revenue ratio is equally higher, due to the more aggressive roll out that we have had this year. The headcount is down as part of the headcount optimisation programme, to 5,244. This is without of course mobile.

Then, on the fixed telephony, some additional figures, some additional data – the number of mainlines, of all types – 4.1% in Q2, versus the same period last year. You can see the POTS line down to 1,413 million or 3.8% lower than last year. Most of this is due to certain migration through ULL to our competitors, in addition to some customers who are also migrating to mobile only. The total traffic in minutes is down 8%. Number of ISDN lines is 8.2% down, but this is mostly due to the fact that many of these ISDNs were being used for data access, and this of course is being replaced by ADSL.

The average revenue per customer is down by 8.6%. This is mostly due to the traffic migration. You can see that it's almost the identical percentage.

Internet services, on the other hand, are up 30.6%, to an amount of HRK 555 million in the period. This now represents 22.1% of T-Com revenue. We have seen a strong customer position campaign – very successful in MAXadsl, and also similarly, we have a very good ARPA, or average revenue per customer as a result of promotional activities, and migration of customers to higher speeds. MAXtv, our IPTV product – we've seen a successful growth, driven mostly by the content which is why the customers are taking this up, and again you can see the data shown on the bottom right of this page. We've also upgraded the IPTV platform. This was completed in June of this year.

So, here you see – in the graphical representation – ADSL customers up to 510,000. Dial up users are flat, but I think this is irrelevant in this context. ADSL ARPA is up1.8% and the IPTV customer base, when we compare three year to period, is up by 2.4 times. Moving on to the next page, we have the wholesale and data services. I think what's important to note here is the wholesale revenue is down, mostly due to competition from other infrastructure operators, but also pressures from the regulatory agency through their decision to align more closely with the EU. The number of ULLs is up from last year, but when you compare it to Q1, it's not a dramatic increase. It is important, because you have customers that are now – you only have a wholesale relationship through our competitors, of course.

In T-Mobile, what we have is an increase in revenue of 1.1%. We also saw an EBITDA increase because of the lowering of operating costs, mainly related to the cost of merchandise. Increased capex due to the upgrade of the core network, and the transition to NGN of course, and the continued roll out of radio access network for capacity reasons. Much of the mobile investment is in fact focused on core data and voice capacity, and in addition, preparing the network for next generation technologies. You can see in the key financials, a 1.1% increase in revenue, 6.7% increase in EBITDA, 2.3 percentage points increase in the margin. Capex is slightly higher, for the same reasons as with T-Com. Capex revenue ratio is slightly higher for the same reasons, and the headcount is roughly flat. There is an increase, of course, but it is being held at the 1,000 to 1,100 range. The revenue breakdown, also, is shown, given a split, mostly in prepaid and other revenues as well.

Moving then to slide 11, we have some operational data, related to T-mobile. Continued market leadership: 47.6% share, 50.2% of the revenue market share. We have seen an 86,000 net adds in Q209. The post paid subscriber has increased also, by 16.7%, to now over 30% of those subscribers. ARPU declined due to the increased penetration of SIMs, in other words, moving deeper into the market. Minutes of Use – the decreased cost, mainly by the fall in prepaid minutes, which is related to the earlier period promotional package where we bundled minutes. You can see the market share by revenue in the period to period comparison, and an increase in revenue market share. Blended ARPU is down for reasons mentioned. In addition, you can see the customer increase to more than 2.8 million and the average minutes of use down by 14.3% caused by those factors that I mentioned.

Group financials then – a 0.7% increase in revenue, in this H1 to H1 comparison, this year versus last year. The EBITDA is down by 0.5%, and the EBITDA margin is down by half a percentage point. Net profit is down by 2.9% and the net profit margin down by 0.9 percentage points, or 26.0 %. Capex at 611 million or 28.3% more than last year, again for reasons that I mentioned before, and the capex to revenue ratio being higher for the same reason.

In the outlook, I think that the outlook that we had given earlier now had to be re-stated, and this is our first effort with the information available. Although we had expected a decline in revenues in 2009, because of the decline in GDP, we now have a forecast by the Croatian National Bank estimating a contraction of GDP by 5%. We don't know exactly how the new taxes will be implemented and to what extent they will limit the wallet share, so we have 3 taxes, maybe just for a moment – one is a special fee to be paid by mobile operators, in the amount of 6% of gross revenues related as we understand it to telephony and messaging. This will have definitely a direct impact. The second tax is an increase of VAT by 1 percentage point, to 23%, and the third tax that impacts our business is a special tax on net income, limiting the available disposable income for our services. We are simulating the impact and most likely we'll come out with some further information subsequently, but it is inevitable that the revenue will come under additional pressure as a result of these measures by the government. Similarly, the EBITDA will also be impacted. If the revenue is decreased, it's very difficult for any company to crack the costs. Therefore, we do expect that the EBITDA will come under additional, stronger pressure, more pressure reversion than we had previously indicated.

Capex – although we believe that after the downturn, within a year or two there will be an upswing. We need to invest, but we need to be very prudent in our investment strategy, so we will in fact review the investments, especially those areas that are directly affected by the Government's measures. We will review the deployment of new technologies in the mobile segment. We will also review our overall capital expenditures going forward, but we will invest in those segments, in those areas that we believe will be relevant to the customer. We will ensure that we satisfy the market needs and therefore achieve the growth, with maybe some delay that we had earlier anticipated.

The regional expense remains on track. We continue to monitor and evaluate the expansion possibilities. This is a good time to buy, but we need an opportunity that would of course justify – an opportunity that would allow us or enable us to create synergies, and therefore, shareholder value.