

The first three months 2009 results conference call

30 April 2009 at 15:00 CET

Presenters

- Erika Kašpar
- Ivica Mudrinić
- Juergen Czapran

Operator: Thank you for standing by and welcome to the T-Hrvatski telekom 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, Thursday 30th April 2009. I would now like to hand over to your speaker today, Erica Kašpar; please go ahead.

Erika Kašpar: Ladies and gentlemen good afternoon and welcome from Zagreb. Here with me today are Ivica Mudrinić, T-HT's CEO and Mr Juergen Czapran, T-HT's CFO. Both gentlemen will talk you through the highlights of our business and financial performance for the first three months of this year using the presentation slides 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 on page 2 of our presentation. Allow me now to introduce you to Ivica Mudrinić our CEO to outline our Company's performance during the first three months.

Ivica Mudrinić: Thank you very much Erika, good afternoon to all. Today we will take you through the presentation that is available to you, so what I will do is I will follow the presentation page-by-page starting with page 3 giving a Group Highlights overview for the First Quarter of this year maintaining market leadership in our business segment or in segments of the business that we operate in, solid financial performance with a 1.7% revenue growth despite the challenging conditions in Croatia as well as we have seen on a global scale; the Croatian National Bank is forecasting a 4% decline or 4% contraction of the GDP for this year. We have also had a General Assembly decision

recently; the total dividend that is being paid for 2008 is HRK 29.99. It was paid in two parts; an advance payment in March and now in May the second part. When you look at the revenue development HRK 2.068 billion revenue; 1.7% increase over Quarter 1 in last year, and similarly when you look at the Euro results it is actually flat; same amount because of the exchange rate differences. EBITDA is higher by 2.5% in comparison to last year Q1; net profit up 6.4% and the headcount is down 3.6%.

Moving to slide 4 we show a breakdown of the Group revenue development showing fixed telephony, mobile revenue, wholesale, internet data and miscellaneous and there you can see the change in revenue, the decline, slight decline in fixed telephony, growth in mobile and growth in internet and a drop in the wholesale levels. Again, you see the development on the right half of the page.

On page 5 we show the segment report for T-Com, the fixed line business which includes wholesale; it includes internet and of course traditional fixed telephony. We have maintained market leadership, strong positioning in the growing, expanding broadband market; leading player in the PayTV or paying television delivery platform; and what we are seeing and expect a decline in the fixed line revenue being compensated or offset by the growth in internet services.

Capital expenditures are up; they are up in comparison to last year as well and this is the continued deployment - migration to the single IP platform. The revenue is 1.8% below Q1 in '08; EBITDA is 4.3% down and the margin is 1.1 percentage points down compared to Q1 last year. Capex is up and the capex to revenue ratio is also up; again this is the continuation of the rollout of the IP platform. Headcount is down and again the revenue development by segment of the fixed line business; fixed line telephony is down. The wholesale is slightly down as well; and of course the internet has grown, yielding a 1.8% drop in revenue quarter-to-quarter comparison Q1 this year versus Q1 last year.

On page 6 we show the development of the customers; so the revenue in fixed line is 9.5% down in this traditional telephony; you see the number of traditional analogue lines or POTS lines is down 3.9%. ISDN is down 7.6%; the ISDN is down mostly due to the migration of internet accesses to the ADSL or to broadband. Total traffic in minutes is down 7.5% quarter-to-quarter comparison again and the ARPU or average revenue per customer is 8.4% decline.

However, on page 7 where we show the Internet Service we see an internet revenue or an increase by 29.3% which accounts for 21.7% of T-Com Revenue; strong growth in broadband following some promotional activities and

again, if you look at the number of ADSL mainlines they were up to 493,000 or 30.6% increase when you compare end of March '09 versus end of March '08. Dial-up users is stable, but the active number of active dial-up users is decreased to 12.1%. ADSL ARPU is 0.8% lower in Q1 this year versus Q1 last year. The IPTV customer base has grown significantly with 151,000 at the end of Q1 this year.

The Wholesale and Data Services, which are also an important part of the business: some decrease due to a decrease in traffic and including migration to broadband services. The increase of ULL is part of the deregulation and many of the carrier preselect customers have moved to ULL or our competitors are using network or our infrastructure to offer services directly to the customers. Data revenue is down 6.2% mostly due to the migration to the IP based services.

Now we move to T-Mobile Highlights, and I will call for Juergen Czapran, our CFO to take the floor.

Juergen Czapran: Thank you Ivica and also from my side a good afternoon to everyone. T-Mobile has shown good progress in the first three months of 2009 and we are very, very pleased with its progress. We increased our revenue at T-Mobile by 6.6% to a nearly a billion Kuna and that is particularly good for us because as you will recall back from February we had anticipated mobile revenue would remain flat this year. We have been very successful migrating prepaid versus post-paid accounts and you can see that post-paid revenue has grown 5.7%, at HRK 567 million. Now they represent about 57% of T-Mobile revenues even though they come from just 30% of subscribers. Marketing initiatives contributed to that increase of subscriber numbers and in the prepaid market we were the first to launch a weekly option for prepaid customers. Prepaid subscriber numbers increased nearly 12%, but revenue from prepaid accounts fell slightly to HRK 306 million.

In terms of profitability I am pleased to report that EBITDA increased impressively by 12.3% to HRK 425 million and obviously that has a good and a positive impact on Group's profitability because it more than offsets the 24 million fall in EBITDA at T-Com. We have delayed some investment projects at T-Mobile, so capital expenditure has fallen slightly compared with the last year.

Turning to the next slide, slide 10, T-Mobile has maintained its leadership position with 46.1% of SIM market share and we estimate 49.2% of revenue market share. We have in the first quarter reached almost 2.8 million customers after reaching almost 2.7 million at the end of 2008 and it is worth noting that our postpaid subscriber base has

increased by 17.1%. Our ARPU has fallen by 10.4% to HRK 102 and that is because of lower use by prepaid customers, add to that an increase in the number of SIMs. Likewise, minutes of use has fallen 16.7%; again, because of the increased number of subscribers and because we have not had the same offers we had in the first three months of 2008.

Turning to the Group Financial Highlights on slide 11, you can see that revenue has increased by 1.7%, but our EBITDA was increased slightly more by 2.5% and that is because we have had some reduction in materials, merchandise and energy costs, as well as costs associated with capitalised work and the write down of current assets.

Net profit has increased even higher by 6.4% as a result of higher operating profit and a larger contribution from the net financial income which was 125 million in the first three months of 2009 compared with 92 million in 2008.

Back in February we committed ourselves to protecting margins and we have started off well by changing our EBITDA margin just for 0.3 percentage points to 45.9% and obviously this is something we will monitor closely over the coming months.

Finally, we have increased capital expenditure by nearly 25% if compared to Quarter 1 in 2008 because of starting more intensive investing in modernising our network, as we have already said.

Now let me hand you back to Ivica to talk about our outlook for the year 2009.

Ivica Mudrinić: To wrap things up, from the outlook point of view, we are all aware that we are facing a global crisis and the Croatian economy faces a period of uncertainty. The recent estimates and projections by the Central Bank are forecasting a 4% contraction of the economy or the GDP. Having that in mind we can expect that the 2009 revenues could face a decline despite the fact that we have had a solid performance in the First Quarter. The EBITDA continues to anticipate some erosion and we anticipate that EBITDA will be under pressure and the EBITDA margin as well; although it is very strong. We are pursuing ongoing programmes for cost control and we should mitigate the pressures to erode the EBITDA. On the capex side, we are anticipating a similar level of capex as compared to 2008. Most of the capex will be focused on the optical access network deployment with the aim of developing a single IP platform over a period of time and in fact offering increased broadband coverage and capacity.

In the Mobile side we are focusing on deploying new access technologies enabling mobile data growth and to secure of course the wireless broadband performance in mobile.

The regional expansion; we continue to monitor and evaluate expansion opportunities in order to create or increase shareholder value. Thank you.

Erika Kašpar: Thank you, Ivica.