

**The 2009 results conference call  
16 February 2010 at 15:00 CET**

**Presenters**

**Ivica Mudrinić**

*T-Hrvatski Telekom – President of the Management Board and CEO*

**Jürgen Czapran**

*T-Hrvatski Telekom – Member of the Management Board and CFO*

**Erika Kašpar**

*T-Hrvatski Telekom – Corporate Communications and Investor Relations*

**Operator**

Thank you for standing by and welcome to the T-HT 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, Tuesday 16<sup>th</sup> February 2010. I would now like to hand the conference over to your speaker today, Erika Kaspar. Please go ahead Madam.

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**Erika Kašpar**

Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb where our CEO Mr Ivica Mudrinić and our CFO Mr Jürgen Czapran will talk you through the highlights of our business and financial performance for the 2009 financial year, using the presentation slides, which I hope you have in front of you. If not, please visit our web site, which is t.ht.hr where you can access the slides from our Investor's 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 the company's performance of the last year.

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**Ivica Mudrinić**

Thank you Erika. I will start today and then I'll be joined by Jürgen Czapran our CFO to continue through part of the presentation. On slide 3, little bit about the business highlights or the overall

environment in which we operated during the course of 2009. We saw a GDP contraction of roughly 5%, so a significant decline. We also saw the unemployment rate rise to 16.6%. In August of last year, there was a new personal income tax, a sort of a crises tax introduced. We saw the increase of VAT from 22 to 23% and the introduction of a special fee for mobile communications and messaging, or mobile telephony and messaging services as well.

The inflation rate was stable at roughly 2.4% during the course of the year. On the regulatory front, certain decrease in mobile interconnection charges took place. So in March a 20% decrease. In addition, certain remedies, so-called remedies or alignment of the EU recommendations related to certain market analysis, was completed and remedies introduced. Additional decrease of fixed and mobile interconnection charges or termination rates are effective from January 1<sup>st</sup> of this year.

On slide 4, a brief overview of the performance and in addition to this, our statements and announcements regarding the outlook versus the actual performance. We did in fact announce a decline of revenue, but we were...certainly it was going to be below the contraction of the GDP, a decline of revenue for our Group was at 3.1% in comparison to 2008 with a total revenues of HRK 8,570 million. And as I mentioned a moment ago, the GDP contracted by roughly 5%.

The EBITDA performance we have been announcing as well, some erosion, certain pressures; and as you can see that we have a 45.3% EBITDA margin, which is 0.3 percentage points lower than what we had in 2008. Similarly with the capex, we maintained a slightly lower capex than in 2008, yielding or resulting with HRK 1,553 billion invested. Possibly as I will mention later, capacities in mobile and the redeployment of the fixed line infrastructure, focusing on our fibre optic infrastructure and the migration to all IT. On the regional expansion it is something that is ongoing, looking for opportunities as we have been announcing.

On slide 5, we have a brief overview of the highlights, financial highlights and overall performance. We have a revenue decline by 3.1%. 4.7% in Euro terms because of the differences in exchange rates. EBITDA is running at a 3.8% lower level or decline by 3.8%. But as you will see quite strong margins; the net profit HRK 2,023 billion or 12.4% lower than the previous year; headcount lower by 5.8%.

We also have on this page and I should not neglect to mention, that we have together with the Supervisory Board proposed to the General Assembly a dividend level of 34 Kunas and 5 Lipa. This would be a 2.7 billion expenditure as you will see later on or pay out level.

On page 6 Group revenue development, this is the breakdown of the revenue, we see a decline in fixed telephony by 10.2%, a decline in mobile by 5%, wholesale by 3.3%; an increase in internet revenues by 27.7% and data declined by 2.9%. So a total yield of -3.1% when compared to 2008. T-com or the fixed line business; what I would like to say is the maintenance of a strong leadership position in the market, a very strong growth in broadband services and including a strong growth of IPTV; certain decrease in fixed telephony and wholesale which is partly or not to say completely compensated by the growth in internet revenues and the capital expenditure is reduced due to the overall economic situation in the country. So you can see that the revenue was down 2.8% year-on-year. EBITDA was down 8.2% and when you remove the exceptional items or the one-time impacts then the reduction is by 2.5%. The margin still quite strong for our business, 36.9% and 40% without the special one-time influences; Capex 1,081 billion or 6.3% lower than the previous years; Capex to revenue ratio 21.4%, headcount at 5,065. So this is the fixed line business. The fixed telephony numbers, when you look at the main lines, there's a decrease of 3.7%, some of these are unbundled local loops moving to the competition; total traffic in minutes down 8.8%. ISDN lines declining to 12.1% mostly due to the fact that these customers used to use ISDN for access to internet and now these are broadband product; average revenue per customer (ARPA) at 7.9% decline.

On the internet services side on the next slide, our revenue increased by 27.7% or 1.19 billion. We've been upgrading the speeds in the broadband access side. We also saw an increase in the average revenue per customer. Also, we have a significant increase in the IPTV customers, premium content combined with the upgrades and promotions, yielded a 47,000 increase in the number of customers in Q4 alone. We have also launched an IPTV service for hotels, this being important in view of the Croatian tourism industry or the importance of tourism in Croatia.

17.4% was in the increase in the number of ADSL mainlines or the broadband customers. Dial-Up users is stable; this is again the base for future ADSL customers. ADSL average revenue per customer increased, mostly due to the end of the promotional periods and as the promotional period ends of course, it influences in a positive manner the average revenue per customer.

The IPTV customers grew to 236,000 or 1.7 times the number that we have at the end of 2008; a very important and very significant position in the pay TV market in Croatia. We are number one in this segment.

On slide 10, a little bit about our wholesale and data services. We saw a revenue decrease in the wholesale, due to competition and also certain decline in prices on the international market. We

saw new unbundled local loops and expansion of local interconnections; this is the relationship that we have to our competitors that are using our infrastructure.

On the data side, we continue to migrate the customers to an all IP based services and we also the increase in a product called Methro Internet Connections] by 12.9%; again this is the growth in the customer base, but again the price per unit delivery drops because of the new technology that is being used. ULLs increased to 123,000 in total.

Now I'll turn the floor to my colleague Jürgen our CFO who will take you through the T-mobile highlights.

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### **Jürgen Czapan**

Okay thank you Ivica. Let me talk you through the performance of T-mobile in 2009. Also we managed to increase subscriber numbers by 6% to 2.86 million, the fact is we experienced a fall of 5% in revenue, because of the recession and all the associated tax introduced people tighten their spending. If you look at the chart on the right, you can see that revenues are down 220 million and that's made up of a fall of nearly 200 million in pre-paid revenue and the 120 million fall in post-paid revenue, which were offset to some degree by the 107 million increase in other revenue, including national roaming.

We took lots of actions to attract new customers and keep existing ones by offering very attractive packages, like post-paid tariff for young people, weekly pre-paid options, daily internet rates and even netbook packages for mobile data. Following the launch of iPhone the year before, in the second quarter this year, we introduced the iPhone 3GS. To support the demand for mobile data services, we are constantly upgrading our network, is focused on data capacity and you can see we kept a similar Capex level as in 2008 at 472 million or just over 11% of T-mobile revenue.

Over the page, on slide 12, we can look at what we strive in this performance in more detail and yes, as you will see, we are not only increasing subscriber numbers overall, but also increasing the share of post-paid customers in the mix to 32.2% and of course these are the higher paying customers on monthly recurring contracts.

We have maintained our market leadership by SIM at 46.7% of the market, but because there's a lot of competition, we have given up some revenue market share and that's fallen from 50.1% to 48.7%. Usage has fallen as customers tighten spending and make less calls and of course, that

combined with the higher numbers of subscribers we have, means that ARPU has suffered somewhat and fallen below HRK100 per month.

Finally, let me run through the Group financials. As we have already seen, revenue fell 3.1% as a result of the recession and the new taxes. If we discount the one-off item like provisions for redundancy, the adjusted EBITDA fell by only slightly more at 3.8%. That's because we kept a tight control of costs where we could and that was an important part of the strategy we set out to deliver across the whole of 2009. Our EBITDA margin before exceptional items fell 0.3 percentage points at 45.3%. As I mentioned, we had an exceptional item of 163 million of which 152 million related to provision for redundancy and this hit net profit for the year, which are down by 12.4%.

Due to impact of lower EBITDA, as well as increased depreciation and amortisation charges, net profit decreased 12.4% at HRK two billion twenty three million. Let me now hand you back to Ivica to sum up.

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**Ivica Mudrinić**

Thank you Jürgen. So when we look at the Group outlook for this year, what we would like to state is that having in mind the continued recession in Croatia, the high unemployment rate, the effects of new personal taxes and of course the VAT tax as well and including the 6% charge on the mobile services, we expect a slight to moderate decline in revenues in 2010.

Our EBITDA will continue to be under pressure for similar reasons as in '09, but we have cost control programmes underway that should significantly mitigate this erosion to some extent. We anticipate a lower capital expenditure in 2010, but we will review the plans during the course of the year depending on how the economy and the overall circumstances develop. The investment will be focused on the optical asset network deployment and the increase in broadband coverage, of course migrating all of the services to the single IP network.

In the mobile segment, our focus is mainly on capacity and primarily on the data capacity. Regional expansion, we do continue to monitor and we will continue to evaluate expansion opportunities to increase shareholder value through potential acquisitions and the synergies that we could introduce. Thank you.