

First nine months 2008 Results Conference Call

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Presenters

- Erika Kašpar
- Ivica Mudrinić
- Juergen Czapran

Erika Kašpar: Ladies and gentlemen, good morning and welcome from Zagreb. Here with me today are Ivica Mudrinić the company CEO and Juergen Czapran T-HT's CFO. Both gentlemen will talk you through the highlights of our business and financial performance in the first nine months of this year using the presentation slide, which I hope you have in front of you. If not, please visit our website, it is www.t.ht.hr where you can assess the slides from our investor's page.

Before we begin allow me to draw your attention to the harbour statement on page two of our presentation. Allow me now to introduce you to Ivica Mudrinić our CEO to outline our company's first performance this year.

Ivica Mudrinić: Thank you, Erika, good morning to all of you listening. So I will start on page three, a few words about Croatia and the telecom market. Initially you will see on the presentation 4.4 million people, 1.5 million households, 90,000 companies but at the same time 11.2 million tourists in 2007. So tourism is a strong and very important industry. Economic data for this year: GDP per capita just over 9,000 - €9,399; real GDP growth at 4.4%, most likely we will be slightly down or moderated by the more recent economic disruptions. Unemployment rate at 9% and average net salary in January to July at €702; inflation rate at 6.2%. In the telecoms market 15 licensed operators in fixed line business, nine are active. Both carrier pre select, unbundled local loop and bit stream are available in our market.

Three operators on the mobile side of the business, no MVNOs no mobile virtual network operators and mobile SIM penetration is at 126.5% or 126 SIMs per 100 population. We have roughly 45% of the households with internet access and broadband penetration is at 27%. On the other side cable TV penetration is only 9% and cable TV broadband 1% which for us as the telecoms operator is of course an opportunity.

On slide four an overview about our company, or our group the T-HT Group, we are the full service telecom provider and market leader in all major segments. We are operating in a fully liberalised market since the beginning of 2005. We have two fundamental business units, T-Mobile for mobile operations and T-Com for fixed telephony, internet, data and wholesale. We have a dividend payout policy that is set at 50 to 100% but we have 100% payout ratio for 2007 and all of the retained earnings have been paid out for the past period as well. We have an above industry average EBITDA margin, strong technological and quality leaderships, strong expertise in IP and the technologies that we use. We are listed on the London Stock Exchange and the Zagreb Stock Exchange since October 2007 so just over a year ago. Our ownership structure, 51% is held by Deutsche Telecom. There is a residual 3.6% stake held by the Government or the Republic, so a very small amount, residual stake. The rest is all essentially in free float. There is a 7% share that War Veterans Fund holds but in principle this is all privatised.

When you look at the revenue development over the last four years we have roughly 3% average growth rate and also you can see here the split between the fixed line business, the mobile part of the business, internet, data and wholesale. There is a slight drop year on year in the fixed telephony, growth in mobile, growth in internet. But we will see that in the following slides.

On slide five we have Group highlights. Of course maintained the market position in all business segments; we have seen growth in revenues for mobile, the internet and wholesale as I mentioned and some slight decline in fixed line voice revenues, you will see that broken down in the subsequent pages. IPTV customer base has reached 100,000 customers in October; we are about to launch the iPhone tomorrow in our market on an exclusive basis. A strong financial performance, EBITDA margin 48% and the operating free cash flow remains strong at HRK1.937 billion. We continue a cost optimisation programme with a further headcount reduction of 216 employees by year end, or it is underway already. And the outlook is maintained; we have an expectation of a slightly increased full year revenue expectation.

The actual data on the IFRS unaudited financials is shown on the right side of page five. The revenue is 2.8% up when we do a period to period, meaning January to September

comparison '08 versus '07; 2.8% increase in revenue in the Kuna, more in Euros because of the exchange rate, the appreciation of our domestic currency versus the Euro. In addition – or the change in the exchange rate of course – EBITDA is down slightly, 0.1%. Net profit is down 12.3% but this is due to a one time impact that we had last year. It has to do with a removal of some reservation that we had vis-à-vis the business in Bosnia-Herzegovina due to a license issue but I think we have some explanation on this point later on. Headcount as you can see is down 5.5% mostly due to the headcount reduction that we have performed last year.

On page six, we have the Group revenue development and again here you can see clearly that the fixed line telephony business is down. That is the magenta at the bottom. The mobile revenue is up, wholesale is up, internet is up, data is flat and again you have this watershed chart on the right side, again indicating the same breakdown, 2.8% increase in revenue period to period comparison. T-Com highlights, T-Com is our fixed line business. That includes everything that is not the mobile part so to speak. Again here leadership in all segments, innovative services; so we are investing and attracting the broadband users and you will see the customer data in a minute. So growth in internet and wholesale almost entirely offsets the decline in the traditional fixed telephone services. Strong growth in internet services being driven by the IP DSL or the broadband part of the business.

We are also seeing a capital expenditure increase by 40% period to period comparison, again this is due almost exclusively to the investments that we are making in the access network and the upgrades of the fixed line infrastructure. The revenue period to period comparison, 0.3% down in this year, so basically flat; EBITDA is down 4% mostly due to subscriber acquisition costs. EBITDA margin is slightly higher again for the same reason. CAPEX is up for reasons that I mentioned and the CAPEX to revenue ratio for this period 15.5%. Headcount is down 7% and the revenue breakdown by business is on the right side again. As I mentioned the traditional fixed telephony is down, mostly due to the fact that the traffic is migrating to mobile and in addition some of it is migrating to our competitors.

On page eight is the traditional business overview. The number of POTS for the old analogue lines is down by 4%, the traffic is down by 10.4% mostly due to this migration that I mentioned. ISDN is down by 7.5% but this is because many of the ISDN – many of the customers bought ISDN services for internet access and they have switched to broadband or to ADSL and this is why many of them have dropped the ISDN service. The average revenue per customer is down 5.9%. So this is an expected aggregate result.

But on the next page, on page nine, we show the internet services, the internet revenue is up 33.5%, strong growth in ADSL driven by these broadband customer acquisitions. We have a competitive broadband pricing, we have also the improvement of our average revenue per customer and migrating many customers to higher speeds but also we are seeing the end of promotional periods. And what is most important – and I mentioned it already – the IPTV customer base has reached the 100,000 point in October. So the number of ADSL mainlines, or an ADSL broadband customer at the end of the September was 429,000. Dialup users are also still very strong. This is the base for our future broadband customers. ADSL ARPA is 1.5% above the same period last year and the IPTV customer base at the end of September was 92,000 but in October as I mentioned we reached the 100,000 customer point.

The wholesale and data services; wholesale revenue increased, driven by market liberalisation. This is our effort to insure that if we loose the customer at a retail level, we still maintain the wholesale relationship. There is an increase in the unbundled local loop customers; you see this is at nearly 74,000 at the end of September. The customer CPS or the Call Pre Select customer base is decreased by 8% due to the fact that many of these have migrated to the ULL or Unbundled Local Loop relationship. Data revenue is slightly down again due to the customers migrating to IP based services.

And now I would like to pass the floor to Juergen Czapran, our CFO, my colleague. He will take you through the T-Mobile highlights and some of the financials. Juergen?

Juergen Czapran: Okay, thank you, Ivica and good morning all from my side. As Ivica point out at the start of the presentation, T-Mobile continues to be a strong performer for the Group. Subscriber numbers have now exceeded 2.6 million. That is an increase of 15% on last year and revenue has increased by 5.5% to nearly HRK3.4 billion. An important thing to notice that we have getting more customers on the postpaid accounts and you can see they generate 6.8% more revenue this year. They now account for 60.5% of total revenue at T-Mobile. That is up slightly on 2007.

Our EBITDA has increased by 4.4% to nearly HRK1.6 billion at a margin of 46.3%. And that is almost all because of the increase in revenue. Even so we have an increase in operating expense as well. We continued to invest in 2G and 3G platforms and so you can see that the capital expenditure has increased and now it represents 7.2% of revenue compared with 6.2% 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 in more detail on the next page, we are maintaining market leadership by SIM numbers. However, our market share of revenue has fallen slightly too just above or

over 50%. But remember that this comes from 46.6% of subscribers when you count the SIM numbers only. I mentioned the increase in postpaid revenue just now and you can see in the chart on the right that we have been very successful in migrating customers from prepaid accounts to postpaid. So of the 15% increase in all T-Mobile subscribers we have managed to increase postpaid accounts by 20.7%. And that is good for us because they tend to talk for longer.

Overall, however, as a result of promotional incentives offering cheaper calls and increased subscriber numbers, we have seen a fall in blended ARPU to HRK120 per month. Obviously we are putting a lot of marketing effort into retaining our existing customers and attracting new ones and we are doing this with a lot of innovation in our pricing packages. We believe that tomorrow's launch of iPhone in Croatia will create additional strong incentive to sign up with us.

Let me turn to the Group financial highlights on slide 13. Ivica has already commented on the trends we have seen in our revenue, so let me talk about profitability. Although we increased revenue by 2.8% our EBITDA remained stable at just below HRK3.2 billion and that is mainly because we had to bear a higher cost associated with things like broadband modems and set top boxes. That we needed to support increasing numbers 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 12.3% because of the higher domestic interconnection charges and we had to pay as we increased subscriber numbers and of course an increase in international telecommunication charges. Our net profit fell 1.5% to HRK1.9 billion excluding the impact of the one off gain in 2007. Including the one off gain, our net profit fell more significantly because we had lower investment income this year from HT Mostar in which we have a stake, of 39.1%. In fact what happened was that last year we had a reversal of the provision and that gave us an unusual high income from Mostar as the one off and now it has gone back to normal.

Looking to CAPEX we have seen an overall increase of 34.8% to HRK848 million representing now 12.8% of revenues. Compared with 9.7 last year, mainly due to increased investment in the fixed line network, optical access network for example or DSL access nodes, and the development in Mobile of 2G and 3G networks and platforms.

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

Ivica Mudrinić: Thank you, Juergen. So just very briefly on the Group 2008 outlook; what you can see from the results thus far this year that we have been a little more than 2% ahead of last year in revenues. We believe and we think we will end the year with revenues slightly ahead of 2007. As mentioned already, some decline in fixed line revenue but we expect this to be offset by growth in internet, mobile and wholesale. The ADSL customer base we still expect to reach the 450,000 customers by year end and we continue and expect strong growth amongst the TV customer base continuing the launch of what is called the “standalone” service. So it is a naked IPTV offering. We see the continued growth in mobile customers and data services which should drive the increase in mobile revenue growth. Although mobile ARPU will decrease as a natural consequence of the SIM growth outpacing revenue growth; meaning that we are going deeper in the market and the fact that we have more customers does not linearly increase the revenue as well.

The CAPEX is focused on the development of the access network in the fixed line business as part of the strategy to migrate the complete customer base to a single IP platform, so we expect CAPEX to represent a slightly higher percentage of revenue in '08 as in comparison to '07. On EBITDA ongoing cost control programmes will mitigate or manage to some degree the erosion of EBITDA margins caused by competitive pressures and increase the acquisition and retention costs. We intend to participate in the privatisation process of HT Mostar where we have a 39.1 stake. This is the company in Bosnia-Herzegovina. We have representation in the management bodies and we are also monitoring other opportunities in the region that could create shareholder value.

So much for me thus far and I guess we will open the floor for questions if there are any.

(Q&A SESSION)

Erika Kašpar: As it seems there are no more questions, we would like to thank you all for participating in this conference call. We wish you to have a nice day.

Ivica Mudrinić: And the information of course is available on our website and in our investor relations department.

Erika Kašpar: Bye-bye.

Juergen Czapran: Thank you, bye-bye.

Ivica Mudrinić: Thank you.