

**The Q1 2010 results conference call**  
**30 April 2010 at 15:00 CET**

**Presenters**

**Ivica Mudrinić**

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

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**Operator**

Thank you for standing by and welcome to the THT First Quarter 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 please press \*1 on your telephone. I must advise you that this conference is being recorded today, Friday 30<sup>th</sup> April 2010. I would now like to hand the conference over to your speaker today, Erika Kašpar. Please go ahead Madam.

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**Erika Kašpar - THT**

Thank you, ladies and gentlemen good afternoon and welcome from Zagreb where our CEO Mr Ivica Mudrinić and our CFO Mr Juergen Czapran will talk us through the highlights of our business and financial performance for the Quarter ended March 31<sup>st</sup> 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](http://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 statements on page two of our presentation. Allow me now to introduce you to Ivica Mudrinić our CEO to outline our company's performance in the First Quarter, Ivica?

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**Ivica Mudrinić - THT**

Thank you Erika and good afternoon to everyone on the line. So starting, let us take you through Juergen Czapran and I will guide you through the presentation. I will start with some environment basic initial results an overview of our business performance; then take you through somewhat through the fixed line business, Juergen will take you through the mobile business and then through the financial overview and then we will wrap it up with an outlook for 2010.

Starting on slide number 3, we have some information on the operation at a glance and I think most of you are familiar and you have that basic information on the first part of this slide. What is most important to have in mind is that Croatia has been relatively hard hit by the recession, triggered by the global downturn, both the financial markets and then subsequently the economies on a global scale, this downturn affected Croatia significantly.

In 2009 although the recession hit later on in the year and it was not felt to a large extent in the first quarter, overall, year on year results saw a contraction of GDP by 5.8%, 2009 compared to 2008. When you look at the trends at the beginning of this year, we also saw retail trade down by 8.3%, exports down by 5%, the inflation rate remains stable at 0.9%. Also the unemployment rate which is quite a significant factor in the economy, grew to or was raised to 18.4% so a significant increase in comparison to end of March 2009 when it was at 15%.

On slide 4, what I would like to again highlight is a little about the telecom market, in fixed telephony there are 15 licensed operators of which only 9 are active, bit-stream, unbundled local loop and carrier pre-select are available. Market is liberalized in 2005. Unbundling of local loop started in 2006. The internet penetration is at about 56% of the population, 37% of the households have broadband. There is in the internet clearly significant growth opportunity.

On the mobile operator side, 3 operators in the mobile market, no MVNOs thus far, penetration of SIMs is at a 137%, there is an increase in the demand for mobile data and smartphones using mobile broadband and in addition the computers or netbooks also using the broadband services.

On the PayTV side the satellite and cable TV are relatively underdeveloped, only roughly 10% of households have cable TV and 2% of households have broadband via the cable TV. Infrastructure MAXtv, Croatian telephones IPTV offering is the most successful PayTV in the market. We have nearly half of the market share.

The regulatory framework; what is worth noting is the decrease in fixed and mobile interconnection or termination rates from January 1<sup>st</sup> of this year. There is a need in our opinion

and some analyses of the leased line and public voice markets. We expect the finalisation of this market analysis to be finished mid this year. We also saw a reduction of the ducts infrastructure it was reduced in February of this year. Also the wholesale broadband access or bit-stream was set at 40% below the retail price effective March of this year and there is significant pressure for making the pre-paid customer registration mandatory. Some discussion is still underway originally planned to start on June 1<sup>st</sup> we may see some delay on this one.

So moving on to slide 5 and when you look at the HT or Croatian Telecom's performance we maintain leading positions in all of the segments of operation that we are present in, meaning the fixed voice, the internet, mobile voice and broadband and in addition to the data services especially for the business segment. In all of these areas we are the leading operator.

Our revenue decreased by 6% period to period in comparison to last year. The EBITDA is down 13.8% to HRK 819 million. The net cash flow from operations improved significantly in Q1 this year, nearly 96% up in comparison to Q1 last year. Most of that is due to the decreased CAPEX and the decreased CAPEX is a result of our managing of the capital investments due to regulatory hurdles that we face.

On January 1<sup>st</sup> of this year we re-integrated our T-Mobile our wholly owned subsidiary up to that point in time and developed a residential and business units or customer facing units for these two segments. We continue with T-Com and T-Mobile reporting through 2010 in order to facilitate comparison of performance in comparison to last year and previous periods. The acquisition of a company called Combis an ICT operator is part of our strategy, we are now waiting for the competition agency approval and then we expect to close this transaction. At this point in time it is pending approval of the agency.

The General Assembly was held on 21<sup>st</sup> April. There is a decision or confirmation of an earlier proposal that a dividend in the amount of HRK 34.05 should be paid per share and this will in fact be executed later in May. So in the next three weeks or so; and we have of course, this facilitated as a result of a one-off impact as part of the merger of T-Mobile and it's enabled us to distribute this level of dividends to our profits.

On slide 6, we have revenue development showing exactly as I mentioned a decline of 6% in comparison to the same period last year. We saw a decrease in the fixed telephony services of 9.6%, mobile declined 10.7%, wholesale 7%, increase by 20.8% in internet and a decrease in the data and miscellaneous services, so resulting in a total or overall revenue decline by 6%.

In the T-Com or the fixed line business starting with slide 7, you have again a breakdown of the revenues, 6.2% decline period to period comparison, again broken down by fixed telephony, wholesale, internet data and miscellaneous revenues. Again indicating where the decline and the increase respectively took place.

The CAPEX is, or let's start with the EBITDA before that. A 9% decline in EBITDA again period to period comparison also showing the EBITDA margin of 40.5% for the T-Com segment for this first quarter of this year. CAPEX is down compared to last year by 66%, this is part of our management of the capital investment in order to ensure that we are doing this in a responsible manner. We have been pressured by the regulator and we have an unfavourable initial regulatory framework. We have, I believe, come to the completion of a re-negotiation and an amendment of the regulatory framework which should facilitate an increase or a rapid increase in the deployment of the fixed line asset network and therefore we expect to compensate for some of the decline in the capital investments.

On the next page, page 8, the fixed telephony physical indicators, the number of POTS or mainlines is down by 3.8%. The traffic is down 9.6% that is in millions of minutes and the average revenue per customer is 4.5% lower than it was in the same period last year. This is a usual development for incumbent operators in the traditional fixed telephony business.

On page 9, we have a similar comparison for the internet part of the services. The mainlines, or the number of broadband access, has grown by 16.3% for a total of 573,000. The ARPU has grown to 130 or an increase of 5.4% most of this is due to the exemption or the expiration of the initial promotional period where we have bundled a certain amount of usage for no charge and second impact, positive impact, is the migration of customers to higher bandwidth services and more download capacity, more traffic in other words. The IPTV customer base grew by 1.7 times ending the period or the quarter with 251,000 so this is quite a significant increase in the customer base as you can see and it is one of the positive indicators as part of the overall internet offering that we have on the market.

On page 10, a brief overview of the wholesale and data services, the unbundled local loops have increased to a total of 130,000. These are the lines that are owned by us but are given, or are leased, to our competitors on a wholesale basis. The wholesale revenue is down by 14.6%, it is mostly due to the decrease of international traffic to mobile operators and the national hubbing service. On the data part of the business it is not graphically shown but just to mention, we are continuing to migrate our customers from the traditional services to the IP-based services and

also it should be noted that the Metro Ethernet services or connection points have increased by 11.7%.

At this point in time I would like to shift the floor to Juergen Czapran, our CFO, who will take you through T-Mobile financials and T-Mobile indicators and the financials overview, Juergen?

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**Juergen Czapran - THT**

Okay, thank you very much Ivica and also a warm welcome from my side. Just to remind you the special taxation measures including the 6% fee on the mobile services were introduced last year in August and we continue to see the impact they are having on our mobile businesses. Both post-paid and pre-paid revenues were down and overall revenues were down nearly 13%. That is the steepest fall we have ever seen in mobile and it is because of a combination of reasons, mostly the recessionary taxes but also a cut in mobile termination rates and some increased competition. I can tell you that only the special tax on mobile services cost us about HRK 36 million in this quarter. EBITDA fell as a consequence of lower revenue and we reduced CAPEX by about 19% as we reviewed our investment needs at this time.

Looking at the next slide you can see T-Mobile increased subscribers by about 0.5% and maintained market leadership. Also, as you can see, we have lost a little ground in SIM share to the other mobile operators. We are continuing to migrate pre-paid customers to post-paid and now post-paid makes up nearly 34% of subscribers but by revenue they represent 59% of T-Mobile's revenue or about HRK 508 million. Because we are coming under some increased competition from other operators, we are always looking how we can retain existing customers and of course gain new customers with some very attractive promotion on VoiP and also mobile internet because smartphones like the iPhone and the BlackBerry Storm2 are really taking off in Croatia.

Over the page we have broken down the blended ARPU which has clearly been hit by all of these recessionary factors and the cut in termination rates. We have managed to keep minutes of use fairly stable at 104 minutes per month and that is because we have had some promotion in which we offer more minutes for the same cost and that has proved very popular.

Now let me talk you through the group financials on slide 14. Ivica has already mentioned the fall in revenue and this decline was the main driver of the EBITDA decrease of 13.8%. We also had a higher write down of assets and as before debts rated to bad debts we are having to write off because customers not being able to pay their bills during the recession. EBIT was down 19.7%

and moving down to net profit, that has fallen about 34% of course we had had a lot of less financial income HRK 33 million this quarter against HRK 130 million last year and also because our financial expenses have gone up from HRK 5 million to HRK 33 million this year. Obviously, because profits were down, our tax charge was also down and so we are left with a net profit of HRK 384 million. We have already discussed the reason CAPEX has fallen this year and you can see that we are continuing to manage headcount which is more than 4% lower than last year.

Ivica, I will forward back to you to give us the outlook.

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**Ivica Mudrinić - THT**

So on page 15, a brief outlook; we have continued recession in Croatia, high unemployment rates and we still have the impact of the personal income tax or sort of a crisis tax that was introduced in Croatia mid last year. In addition to this we still have the 6% special taxation or levy on mobile services. We expect to end of year in total a moderate decline in revenue in comparison to 2009. In addition when we look at the EBITDA, we expect some erosion of the EBITDA in 2010 but we are pursuing a cost control initiatives that should mitigate this erosion to some extent.

CAPEX, we do expect up to the end of year a lower CAPEX level but we will most likely change the direction that we have seen thus far. The significant reduction in CAPEX in Q1 was mostly due to difficulties or an unfavourable regulatory environment. Our focus is to invest and our objective is to invest in the fixed network access re-deployment, using optical access technology and the migration of the services to a single IP network.

The investment in the mobile network we are mostly focussed on the data capacity giving the customers the ability to access data access using the mobile broadband. We continue to monitor expansion opportunities with the aim of utilising available, not only competencies, but also cash potential to increase and to create shareholder value. Thank you.

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