

The H1 2012 results conference call
26 July 2012 at 15:00 CET

Presenters

Ivica Mudrinić

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

Dr Dino Dogan

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 first half results 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 keypad. I must advise you the conference is being recorded today, Thursday 26 July 2012. I would now like to hand the conference over to your first speaker today, Erika Kaspar. Please go ahead.

Erika Kaspar – T-Hrvatski Telekom

Thank you. Ladies and gentlemen good afternoon and welcome from Zagreb where our CEO Mr Ivica Mudrinić and CFO Mr Dino Dogan will talk you through the highlights of our business and financial performance for the six months to 30 June 2012 using the presentation slides which I hope you have in front of you, if not please visit our website t.ht.hr where you can access the slides from our investors page. After the presentation Mr Mudrinić and Mr Dogan will also be available for your questions. Before we begin allow me to draw your attention to the harbour statements on page 2 of our presentation. Allow me now to introduce to Mr Ivica Mudrinić our CEO who will outline our company's performance in the first half of this year.

Ivica Mudrinić - T-Hrvatski Telekom

Thank you, Erika. Good afternoon to everyone on the line; myself and Dino Dogan our CFO, we would like to take you through the results for the first six months. We would like to start on page 3 "Business Environment Highlights and here as usual, we have presented the usual information

related to Croatia, population, household's distribution of population and the fact of course, the tourism industry is very important and that we expect again tourism to have a significant effect this year. The economy unfortunately in Q1 2012 and Q2 continues to be in recession meaning that we've seen a contraction which in comparison to the earlier announcements and expectations is certainly a downturn, so we saw a 1.3% contraction in Q1 followed by a 1.5% contraction expected of forecasting Q2 or to the end of year as well. The inflation is at 3.8% in June 2012. This is mainly driven by the energy cost electricity and fuel price and the increase in VAT that the government introduced at the beginning of the year by two percentage points. Currently, or at June of this year we are seeing unemployment at 17.3% so very high unemployment and the business payment arrears are running at 44.6 billion kunas which is quite significant causing certain difficulties in the real sector of the business sector. We have also a chart at the bottom right hand corner indicating the GDP growth or contraction in the years 2009 to 2012 with 2008 being a reference point and here you can see the relative decline in the economy that we saw during these past few years. On slide 4 we have an overview the Croatian telecom and ICT market and again we do present this every time but it's probably worth noting once again that in the fixed telephony business we have 19 licensed operators 10 of which are actually active. We have also in the market carrier pre-select, unbundled local loop and what is called wholesale line rental, naked bitstream and the bitstream available which is a completely deregulated market. We have also seen in fixed telephony the usual decline in the usage of fixed line mostly driven by the substitution by mobile.

In internet, the fixed line broadband household penetration is at 47% whereas in Western European countries we have an average of roughly 66% this is an indication that we still have room to grow in this segment. We have seen the price aggressive the double play and triple play offers also first integrated fixed - mobile offers in naked DSL in this segment. In mobile telephony we have three operators in the market with seven brands. We saw a new brand introduced in Q1 2012. We have commercially launched LTE services in Croatia earlier this year. Mobile penetration is 119 SIMs per 100 population and we see significant growth in mobile broadband and in smart phones. Smart phones currently account for 51% for all phones being sold and roughly 18% of the phones in our market with our customers are smart phones. In pay TV we have a roughly speaking under developed satellite and cable TV distribution, total pay TV household penetration is at 39%. We ourselves have a very strong position in this market as you will see a little bit later. It's worth noting that Croatia has become the only IPTV market in Europe to be regulated so the regulator has moved to regulate this part of the service.

We are, our Max TV platform is by far the most successful pay TV platform in our market. In ICT we have successfully positioned HT as a one stop shop for all ICT services especially in the SMB

segment of the market. The Cloud as a concept is gradually becoming accepted within our proposed IT community and also as we are coming up to full EU membership a year from now we expect significant IT projects to be launched but we have for example fiscal registers just as an indication of what we do expect in the coming months and year. We continue of course, unfortunately under this recession environment for economic malaise as we have put it, this has led to a shrinking capex budget of the largest IP service spenders including the public sector and especially following the change of government at the beginning of the year. This has caused them to slow down in what was already earlier a rather small budget but they have slowed down further and this has influenced the complete ICT market in Croatia.

On page 5 in very brief terms, we have some Group highlights, we are the leading market provider and we hold the leading market position across the whole of the areas that we maintain and where we are present. We have launched new bundled offers in the fixed line segment. We have a continued promotion of the 4G mobile internet tariffs, further enhancement of prepaid and postpaid tariffs as well. The revenue in the first six months of this year have declined by 6% in comparison to last year, EBITDA has decreased by only 2.9% to 1.62 billion kunas and the EBITDA margin for the first six months is 44.4%. The net profit is down to 2.5% to 808 million kunas. Capex is lower at 31% to 345 million and to pre-empt questions on the Capex issue let me indicate that we are still staying firm with our outlook on the Capex. We have certain delivery issues earlier this year and some seasonalisation and we do expect the investment in enabling further market development to continue.

The headcount decreased to 5,713 employees versus 6,132 that we have in the same period last year. Our General Assembly approved a total dividend payment per share of 22.14 kunas, the residual part being paid on 21 May 2012.

One other highlight is that the Parliament abolished the 6% fee on mobile services that is applicable up to 9 July this year. It had originally been planned to be in place up to our accession to the EU or roughly one year from now. So this is a significant improvement or success to have this abolished. The impact in the first half of this year was a total of 53 million whereas in H1 of 2011 the impact was 71 million.

On slide 6 we present the revenue development both by segment and in addition we have a watershed indication giving a clear indication that, for example, the overall drop of 6% is composed of a decline in the fixed telephony by 17.9% and we do explain that later on. Mobile, we have a decline of 6.9%. Wholesale grew by 12.4% and it is linked in fact to the decline in the fixed line primarily because the fixed line decline is due to what is called wholesale line rental

shift, whereas we do recap some of the loss of retail revenues in the Wholesale. IP grew by 5.3%, this includes television as well. ICT is 3.9% lower, but again this is due to the ICT spending patterns that I mentioned a moment ago and other revenues have declined by 9.9%. All of this yielding a total of 6% decline in revenue or 3.649 bn.

On slide 7 we have an overview of the mobile telephony segment, so here we see the subscriber base being first of all stable, declined in total by 1.9%. However, the market share by subscribers has increased by 0.4 percentage points. We also show here the breakdown between prepaid, postpaid and also the data and here we see for example, on the upper right chart that the number of data customers has increased by 11.9%. Part of this is due to the smartphone penetration but of course by all of the other usage of data in the mobile segment.

The ARPU in mobile, so we have a blended ARPU that has decreased by 2.2% to 90 Kunas. The blended non voice ARPU however has increased by 4.8%. Minutes of use have increased by 9.6% as well - 237 minutes per subscriber per month.

Moving to page 8, we have an overview of the fixed telephony. Here we have a decline in the number of mainlines by 4.5%. We have, however, included in the total number of lines the wholesale lines as well, meaning that 1.2 million plus 132,000 wholesale is included in the total numbers.

The traffic is 12.4% lower than the same period last year, ARPU is also down by 2.3% at 118 Kunas and the number of unbundled local loop lines or ULL is up 13.9%.

On the IP services side you see an increase of the number of broadband access lines by 0.8%. Here again, as in the previous slide we have included the wholesale lines, the 19,000 wholesale as well. The broadband retail ARPA is up 4.9% in the IP services and the number of TV customers has increased by 7.5% to 347,000. We have seen the growth of net adds in Q2 for the TV services, also the promotional offer of MAXtv To Go, so this is the ability to access the television programming on the various internet base services, tablet PC's and the PC's. And we have introduced what is called the MAXtv recommender service enabling users easier selection of MAXtv Video store content.

Now from this point on to the Outlook, I would turn the floor to Dino, my colleague in the Board, our CFO. Dino, please take it from here.

Dino Dogan - T-Hrvatski Telekom

Thank you very much to you. Ladies and gentlemen good afternoon from my side as well.

Let me start on slide 10 with the residential segment. So the overall revenue in this segment fell 6.5% in the first half of 2012. This was due largely to lower voice revenue with the continued, as already mentioned, tough economic climate, intense pricing pressure, reductions in mobile termination rates, regulatory tightening along with an industry wide shift from fixed voice to mobile and data services. Consequently the voice revenue was down 11.4%.

On the other hand growth has continued in the fixed IP into mobile data revenue, however with residential non voice revenue rising 4.5% in the first half year of 2012. The division's contribution to the EBITDA fell 5.3% to 1.362 billion with a decline offset to a degree by continuous cost controls and corresponding lower operating expenses. This residential segment continues to introduce innovative product and services with attractive tariffs and voice and data products. It continues to enhance and augment these MAXtv to be offering as it features a promotion.

In broadband Group offered new deals for visitors in Croatia with added flat rate internet access at HT hotspots, whilst the new multi plus mobile brand expanded its range of options and services.

Let's move to the business segment, so on slide 11, I would like to take a closer look at the performance of the business segment. The revenue here fell 5.4% to 1.621 billion Kuna in the first six months of 2012. Here the voice revenue fell 12% to 760 million Kuna owing to a lower number of fixed main lines to migration to mobile voice, lower mobile revenues due to decreased usage and lower prices per minute and decreased mobile termination rates and roaming rates.

On the other hand our non-voice revenues rose 7.2% to 564 million Kuna however, primarily driven by higher infrastructure revenues due to the wholesale line rental activations. Other service revenue slide 8.1% to 250 million Kuna, this fall resulted from the lower number of hardware and public sector projects this year in the ICT business and as Ivica outlined earlier, along with some changes to mobile tariff structures.

The business segment contribution to EBITDA rose marginally on the back of lower merchandise cost to one billion Kuna. We continue to innovate and develop products that address the increasingly needs of our business customers with the introduction of converged fixed mobile and ICT services, whilst identifying novel and efficient ways to monetise services in the Cloud. Our Plant 9 e-book service launched in the second quarter of 2011 has been available now for a year.

During the past 12 months the service has made available more than 130,000 foreign titles and more than 550 Croatian books in over 16 different categories. The P9 application preload for all smartphones is also available as a part of our service offer.

Turning to slide 12, I would like to conclude by outlining our financial highlights. So the revenue was down 6% due to the economic and regulatory reasons we have mentioned today and on previous calls as well, against the backdrop of an increase in the competitive domestic market. EBITDA fell as well down to 2.9%. The impact of cost controls along with lower overall costs continues to have a beneficial impact but this did not fully offset the revenue fall. Nevertheless, the corresponding EBITDA margin rose from 44.4% up from 43% the previous year. Our net profit slipped 2.5% in the first half of 2012 to 808 million Kuna.

Capex was lower again, as already mentioned, down 31% in the first half year of 2012 against the previous year, as projects to enhance the telecom infrastructure were deferred with a net cash flow of 15.9% to 1.139 billion Kuna, mainly due to positive movements in provisions and working capital and here especially in the management of trade payables and the inventories.

So, ladies and gentlemen, that concludes our overview of the Group's result of the first six months of 2012. Another challenging period within which we have continued to innovate and maintain our market leadership in the various segments.

We will now outline our outlook for the remainder of 2012, so this is now page number 12. So looking ahead, the guidance we have given previously remains the same, with the exception of the impact of the 6% mobile fee abolished earlier this month.

In terms of revenues, the Croatian economy continues to be sluggish with no signs of recoveries since entering recession in 2009 and, according to the recent forecasts growth is still not expected to materialise in 2012. In this economic environment with domestic regulatory pressures and progress towards alignment with the EU regulation, as well as intensifying competition, last year's spending group revenue decline is expected to continue.

EBITDA before exceptional items, the group will continue its cost management programme throughout the year. Nevertheless, due to continued severe economic and market conditions in Croatia, leading to lower expectations for revenue, the group expects 2012 EBITDA to be somewhat lower than the corresponding 2011 level. Capex – the current regulatory framework continues to deter investment in further infrastructure by the group. However, THT will continue invest to transform its fixed core network and enhance its infrastructure to support further growth,

both in fixed and mobile broadband demand. As a consequence, Capex in 2012 is expected to be higher than the previous year.

And last but not least, regional expansion. Here the group will continue to monitor and evaluate expansion opportunities to increase the corresponding shareholder value.
