

# FINAL TRANSCRIPT

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**TKAGY.PK - Q2 2009 Telekom Austria AG Earnings Conference Call**

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Aug. 19. 2009 / 2:00PM, TKAGY.PK - Q2 2009 Telekom Austria AG Earnings Conference Call

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## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the Telekom Austria results for the second-quarter 2009. My name is Louise. I will be your coordinator for today's conference. (Operator Instructions).

Before the call begins I must make the following statement on behalf of Telekom Austria. This presentation contains certain forward-looking statements. Actual results may differ materially from those projected or implied in such forward-looking statements. Forward-looking information involves risks and uncertainties that could significantly affect expected results.

I am now handing you over to Peter Zydek to begin today's call.

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**Peter Zydek** - Telekom Austria AG - IR

Good afternoon, ladies and gentlemen. I would like to welcome you to today's conference call for Telekom Austria Group's result for the second quarter of 2009. Hannes Ametsreiter, our CEO, and Hans Tschuden, the CFO of Telekom Austria Group have joined me here today to present the results and also to discuss the recent trends in the markets that we operate in.

Hannes Ametsreiter will start first and discuss the operation and details of our Mobile Communications and Fixed Net segment, while Hans Tschuden will later on present the financial results for the second quarter and the first-half of 2009. We will conclude this presentation with our outlook for the full year of 2009, followed by a question-and-answer session. I now give the floor to Hannes Ametsreiter for the key developments, and the later on an overview of the key financials by Hans Tschuden.

**Hannes Ametsreiter** - Telekom Austria AG - CEO

Good afternoon ladies and gentlemen, this is Hannes Ametsreiter speaking. I have the pleasure to highlight the most important developments of Telekom Austria Group in the second quarter of 2009.

Starting with the fixed line. We could cut our fixed net line loss by two-thirds with 12,600 lines lost in the second quarter 2009 due to stronger customer retention measures and new product [panel sort]. In Mobile Communication segment we have double-digit subscriber growth. Growth by 10.1%.

Revenues declined by more than 6.6% to EUR1.5 billion, which was also driven by the disposal of Fixed Net subsidiaries and currency translation effects with a total of EUR25 million.

EBITDA decreased by 3.9% to EUR450 million, which reflects a sequential improvement comparing first quarter 2009. The reduction of operating expenses drove the profitability of our operations. Austria and Belarus contributed higher EBITDA, while the Republic of Serbia and the Republic of Macedonia managed to enhance their contribution. (technical difficulty) in Bulgaria, Croatia and Slovenia suffered from weak economies (technical difficulty) competition, but improved compared to first quarter 2009.

As announced in May of 2009, we fully reiterate our outlook for 2009 and the EUR0.75 EPS guidance for '09 to '12. Now I hand over to Hans who will guide you through the financial overview of our second-quarter 2009 results.

**Hans Tschuden** - Telekom Austria AG - CFO

Welcome, ladies and gentlemen, from my side. In the second quarter 2009 revenues declined by 6.6% to EUR1.2 billion and EBITDA decreased by nearly 4% to EUR450 million. These declines were driven primarily by the Fixed Net segment, (technical difficulty) stable contributions from the (technical difficulty) communication segments.

Operating free cash flow increased by 8.2% to EUR300 million, resulting from lower capital expenditures. Earnings per share decreased from EUR0.22 in the second quarter '08 to EUR0.19 in the second (technical difficulty).

I would like to go through our per share buyback plans. As announced at the beginning of 2009 at our Capital Markets Day, we evaluated a resumption of our share buyback in recent weeks. Following this year's dividend distribution net debt was at 2.1 times EBITDA at the end of June 2009. Until year-end we expect net debt to fall to around 1.9 times EBITDA, which is the midpoint of our target debt structure of 1.8 to 2 times net debt to EBITDA.

Therefore, Telekom Austria Group plans to start share buyback in 2010 in line with our [cautious] policy, but subject to normalization of business, stable currencies and provided no investment with a high return is available. About one-third of free cash flow after dividends is available for these buybacks.

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Now Hannes will go ahead with the Fixed Net segment.

**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

Fixed Net revenues decreased by 12.5% to EUR456.9 million in the second quarter, mainly driven by a lower number of access lines and declining voice volumes, resulting in lower revenues from access, voice and broadband.

Second quarter included -- in 2008 -- included revenues of EUR9.4 million from eTel Slovensko and Telekom Austria Czech Republic, which was sold in November 2008. Total Fixed Net EBITDA declined by 8.7% to EUR142 million in the second quarter '09 compared to second quarter '08. Low expenses drove profitability and allowed an improvement of the EBITDA margin from 29.8% to 31.1%, respectively.

Operating expenses decreased by 13.1%, or over EUR50 million to EUR332.6 million, due to lower interconnection and employee costs following the implemented restructuring program, as well as lower material expenses. Now let us take a look at the effect of our marketing initiatives.

During the first-half 2009 we intensively developed our market and increased the offering of customized product bundles. As a result, even without the effect of our Christmas campaign, we still managed to cut access line lost by two-thirds to 12,600 in the second quarter '09 compared to 35,000 in the second quarter '08. Average revenue per line declined by 8% to EUR34.5, reflecting lower voice per minutes and lower prices.

At the end of the second quarter '09 we extended our bundle offering for the business customer segment. The initiatives targets small businesses, build from the success of retail product bundles, and includes unlimited broadband, net monthly rental of Fixed Net as well, up to 5 SIM cards. Prices start at EUR29. We have been pretty successful with that product in the market and created 10,000 customers. 70% are new customers.

Now let's turn to the Austrian broadband market. You are probably aware of the success of mobile broadband in Austria, which contributed to the increase in broadband penetration in Austria to 83.1% at the end of June '09 compared to 70% in the second quarter '08.

I believe it is also important to have a look at not only mobile broadband and fixed broadband, but we are looking at total growth from future market broadband, and there we can clearly see that we could increase our marketshare in that market.

Broadband [networks] grew 2.5 times to 22,700 in second quarter '09. The rising number of retail broadband lines drove the number of Fixed Net broadband lines by 16% to 958,400 at the end of June 2009, more than compensating for a decline in wholesale broadband lines.

On the next slide I will present the update from the restructuring program. 497 employees had agreed to enter the social plan as of June 2009, and 433 have already left the company. The original plan was 400 people taking the social plan at the end of the year of 2009. By that time 654 FTEs were released from work, and the salaries of those employees will be funded from the restructuring provision accrued last year. As announced in November 2008 measures initiated are expected to lead to a reduction of 1,250 employees in 2009.

Now we will go over to the Mobile Communication segment. A rising number of contract customers in all mobile operations drove the growth of the customer base in the Mobile Communication segment by 10.1% to 18.1 million customers as of June 30, 2009. Revenues in the Mobile Communication segment fell slightly by 1.7% to EUR800 million in second quarter '09, primarily driven by lower revenues in Croatia, Bulgaria and Austria due to the expiry of the national roaming agreement in Croatia and lowering the national roaming revenues as well as lower prices for voice and data.



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The foreign currency translation impacted revenues negatively by EUR15 million. On a local currency basis revenue increased by 0.2%. While EBITDA rose in Austria and Belarus, the total EBITDA of Mobile Communication segment declined by 1.8% to EUR313 million in second quarter '09, mainly due to lower contributions from Croatia, Bulgaria and Slovenia.

The losses associated with the launch of operations in the Republic of Serbia and the Republic of Macedonia were reduced further from EUR15 million in second quarter to EUR11 million in second quarter '09. The negative impact of foreign currency translation amounted to EUR4.8 million. On a local currency basis EBITDA remained almost stable.

Let's have a look at the performance of mobilkom austria. The subscriber base of mobilkom austria in an extremely competitive market grew by 8.7% to 4.6 million subscribers at the end of June '09, mainly driven by attractive priced tariff models and additional SIM cards from mobile broadband. Revenues of mobilkom austria declined by 1.4% to EUR392 million compared to second quarter '08, mainly driven by lower traffic revenues, following lower prices for voice and data, as well as lower roaming revenues.

Average revenues per user decreased by 9.3% to EUR25.5, as an increasing data usage partly offset lower prices for voice and data. ARPU remained stable compared to first quarter '09.

Profitability improved as mobilkom austria's EBITDA increased by 5.4% to EUR147.1 million in second quarter '09 compared to second quarter '08 as a result of lower marketing and sales cost, as well as lower interconnection costs.

Let's turn to mobilkom austria's key operational figures on the next page. Mobilkom austria kept its market leadership with an almost stable marketshare of 42.3% at the end of the second quarter '09. The mobile penetration rate in Austria rose to 130% at the end of June '09 due to an increasing number of customers with two SIM cards for both mobile broadband and voice services.

Mobilkom austria grew its mobile broadband subscriber base by 43%, and had 464,000 mobile broadband customers at the end of June. The number of mobile broadband net adds were 23,850 in the second quarter '09. Data revenues as a percentage of traffic related revenues rose from 31% in second quarter '08 to 35% in second quarter '09.

Now let's turn to Mobiltel in Bulgaria. Mobiltel increased its customer base by 1% to 5.2 million customers at the end of June '09. The number of subscribers declined compared to first quarter '09 due to inactive prepaid customers, which are taken out of the subscriber base. Mobiltel's marketshare declined slightly to 50% at the end of second quarter '09. Revenues of Mobiltel declined by EUR165.6 million in second quarter '08 to EUR157.7 million in second quarter '09, mainly due to lower subscription and traffic revenues.

The higher contract subscriber base partly offset lower prices as a consequence of fierce competition. EBITDA decreased from EUR96 million in second quarter '08 to EUR87.9 million in second quarter '09, mainly due to lower revenues and lower other operating income. The rate of decline materially improved compared to the first quarter. Operating expenses could be reduced by EUR2.3 million mainly due to savings in marketing and material expenses, whereas interconnection costs rose due to rising traffic into other networks, partly offset by lower mobile to fixed tariffs.

The following slide provides an overview of our Belarus operation, Velcom. Velcom grew its subscriber base by 13% to 3.8 million customers at the end of June. Velcom's marketshare declined from 44.4% at the end of June '08 to 43.1% at the end of June '09 due to the rising marketshare of preferred operator in Belarus.

Revenues grew by 6.3% to EUR75.6 million in second quarter '09, driven by higher revenues from subscription and traffic due to a larger subscriber base. Currency translation differences following the devaluation of the Belarusian ruble in '09 impacted revenues with an amount of EUR11 million. In local currency revenue growth was 21.9%.



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In second quarter '09 EBITDA rose by 10.9% to EUR38.8 million (technical difficulty) interconnection costs and costs for services received. In local currency EBITDA increased by 27.3%.

Now let's turn to the operation [structure] in Slovenia. Vipnet increased its subscriber base by 14.8% to 2.6 million customers at the end of June '09. Revenues declined by 6.9% to EUR119.3 million in '09 due to lower wholesale roaming revenues, mainly as a result of the expiry of the national roaming agreement with a competitor in '08, as well as lower subscription and traffic revenues.

Lower interconnection revenues as a result of reduction of mobile termination rates, which took effect in April '09, also contributed to this decline. In spite of the operating expenditures, EBITDA decreased by around 18% to EUR40.6 million in second quarter '09, mainly due to lower revenues.

Vipnet is market leader in the wireless broadband segment in Croatia. (inaudible) of airtime revenues grew to 30% compared to the same period in '08.

Si.mobil. Si.mobil grew its subscriber base by 8.8% to 581,800 customers at the end of June '09. Revenues decreased by 8.6% to EUR42.4 million during second quarter '09, mainly due to lower subscription and traffic revenues, as well as interconnection revenues, resulting from the symmetry of termination rates with the incumbent introduced in April '09.

Coming to Vip mobile, Serbia. Vip mobile in the Republic of Serbia grew its subscriber base by 60.1% to 1.1 million customers at the end of June '09, and had a marketshare of 10.7%. The revenues increased by 45% to EUR18.4 million as a result of higher subscription traffic revenues driven by a larger subscriber base and higher usage. The negative EBITDA decreased from EUR7.4 million compared to EUR9.6 million in second quarter '08.

Vip operator in the Republic of Macedonia had 224,400 customers in second quarter '09, which is an increase of 7.3%. Vip operator's marketshare was (inaudible) at 9.6% at the end of second quarter '09 due to a drop in prepaid customers caused by an earlier promotion's churn.

Revenues more than doubled to EUR5.2 million in second quarter '09 as a result of higher subscription traffic revenues. The negative EBITDA of the company declined from EUR5.2 million in second quarter '08 to EUR4.0 million in second quarter '09, reflecting a continuing operating improvement. Now Hans will give the financial overview.

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#### **Hans Tschuden** - Telekom Austria AG - CFO

Now let's have a short look on our profit and loss statement. The main elements, revenues and EBITDA, has already been discussed. Our EBITDA margin increased to 37.8%, being up 1.1 percentage points compared to last year's second quarter.

In the second quarter net interest expenses increased to EUR56 million from EUR51 million during the second quarter '08 due to the restructuring program, which led to additional non-cash interest expenses and higher interest-bearing liabilities following the EUR750 million bond issue in January 2009.

In the second quarter '09 there were no significant effects from foreign exchange relation on our financial result. Income tax expense has decreased from EUR27 million to EUR26 million, due to lower income before income taxes in the second quarter.

Net income amounted to EUR82 million in the second quarter '09 after net income of EUR96 million in the second quarter '08. Basic and diluted earnings per share amounted to EUR0.19 versus EUR0.22 a year ago.

The next slide provides a detailed overview on the free cash flow generation of our company. During the second quarter '09 cash generated from operations before working capital decreased by 3.8% to EUR391 million due to lower operating results.

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For the working capital EUR44 million was spent compared to EUR39 million last year. Total CapEx was reduced during the second quarter by 22% to EUR149 million to support the free cash flow generation, which increased as a consequence by 12% to EUR198 million or EUR0.45 per share.

For more details on the CapEx let's move on to page 25. On quarterly comparison Fixed Net segment capital expenditures decreased by 13% to EUR56 million, mainly due to the postponement of investments into the access and core net infrastructure, as well as a restrictive investment policy.

In the Mobile Communication segment capital expenditure decreased by 26% to EUR94 million in the second quarter, as lower CapEx in Austria, Bulgaria and the Republic of Serbia was offset -- did offset higher capital expenditures in Croatia. As a consequence, total cash outflow from investing activities decreased from EUR191 million in the second quarter '08 to EUR144 million in the second quarter '09.

On the next slide I will discuss the changes in the composition of our balance sheet. The total assets decreased to EUR8.7 billion as of June 30, 2009. During the first six months of 2009 currency assets increased by 24% due to higher cash and cash equivalents and higher short-term investments following the issue of the EUR750 million bond in January.

Long-term assets declined by nearly 9% due to depreciation charges exceeding additions, and as a result of the devaluation of the Belarusian Ruble. Stockholders equity decreased by -- decreased to EUR1.7 billion as of June 30, due to the payment of dividends amounting to EUR330 million and higher currency translation adjustments following the devaluation of the Belarusian Ruble.

Net debt remaining stable at EUR4 billion as of June 30, as cash flow generation offset the payment of dividends and capital expenditures. Excluding the restructuring program, net debt to EBITDA remained stable at 2.1 times.

Now let's move on to the slide about cancellation of shares. The management Board of Telekom Austria resolved to cancel 17 million treasury shares, or 3.7% of share capital of Telekom Austria. Consequently, the number of shares will be reduced to 443 million pieces. This cancellation will result in an increase in the stake of the remaining shareholders by 3.8%.

On slide 28, we compare the expected cash available with the debt maturing in 2008 and 2009. The sources of cash include both cash and short-term investments, which comprises the proceeds of the bond issued in January and the expected free cash flow generated during the quarter of '09 and to obtain after dividend payments. Those sources of cash more than cover what we have to refinance on maturing debt. This clearly shows our solid financial policy and that we can easily meet our obligations even without drawing on any bank facility, of which we have currently about EUR1.3 billion unutilized committed lines in place.

So we are coming to the last slide of my presentation, which shows the outlook for 2009. For the full year 2009 and based on constant currencies, we anticipate slightly weaker revenues than the originally expected to EUR5.1 billion due to lower Fixed Net wholesale revenues, as well as lower Mobile Communication interconnection and equipment revenues, which will be accompanied by a proportionate reduction in cost. Therefore, EBITDA guidance remains unchanged at about EUR1.9 billion in 2009.

Capital expenditure for the full year are expected to amount to approximately EUR800 million, which translates into operating free cash flow, which means EBITDA minus CapEx, of EUR1.1 billion.

The Telekom Austria Group continues to expect to distribute 65% of net income in form of dividends at the minimum floor of EUR0.75 per share.

Thank you now for your attention, and now I hand over to Peter.



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**Peter Zydek** - Telekom Austria AG - IR

Ladies and gentlemen, after this presentation we would like to answer your questions and discuss the financial markets that we operate in, and of course, also the result that we just presented to you. Please go ahead and ask your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Andrew Lee, Citigroup.

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**Andrew Lee** - Citigroup - Analyst

Two questions, one on domestic mobile and the next on group cost-cutting. We are seeing a return intense price competition in Austrian mobile. When and how do you think this can improve again? And do we need to see further consolidation in the market for this to happen?

And then secondly on cost-cutting, on our numbers you have to raise group EBITDA margins by at least a further 50 basis points in the second half to reach your EBITDA guidance. Where do you think the major driver of this expansion will come from? And can domestic fixed margin improvements accelerate further into the second half? Thank you.

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Covering the two points you mentioned first. One is the price development in the Austrian mobile market. This development, which we have seen recently, was initiated by Orange. Orange out of a very shortsighted view pushed into the market and tried to increase their [growth of share] and marketshare significantly. This led to a reaction of other players also in the market.

I believe that we will not see such harsh moves in the future, because there is not the place to do so. We have seen, and we all know the T-Mobile results in Austria. We also know that Orange needs to focus on profitability. And I believe that this was an adventure, which we have seen the last month. But I would believe that there is more rational acting in -- and I would hope so -- in the future in this Austrian mobile market.

I believe it has now really reached a situation that everybody should look at the profits, should look at the results, and this hopefully, especially from the bigger players T-Mobile and Orange, will be seen the same way.

Hutchison is a more difficult thing and brings me to your second point. If we talk about consolidation, which I don't know. There are some signals international from Hutchison that they are willing to make steps in certain markets and countries. If they are willing to make that step in Austria also, we just don't know. But what we are sure about is that three infrastructures in Austria is enough.

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**Hans Tschuden** - Telekom Austria AG - CFO

To cover the second question regarding EBITDA improvement in the second half, we are not anticipating that markets are improving significantly, nevertheless here and there I think we do have some opportunities to grow, for instance in the fixed line business segment, as one element to improve the margins and EBITDA.

On the other side, we have in all operations a close look at their cost structure and to the strong focus on mobile. And this should also lead to an improvement in the second half of this year in the cost base, which should help to achieve our targeted EBITDA.

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**Operator**

Will Draper, Execution.

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**Will Draper - Execution - Analyst**

A couple of things. One and Austria and one in the Balkans. The question about domestic Austria in fixed net please, how does the postponement of some of your CapEx -- what impact does that have on your plans to upgrade the network to fiber -- fiber to the curb -- and then the longer-term fiber to the home in order to compete with the cable guys? So I guess my question is how detrimental to your fiber plans is postponing CapEx in fixed?

My second question relates to mobile termination rates in the Balkans. I'm just wondering if you're aware -- it is a little difficult for us to get visibility in this -- are you aware of any mobile termination rate cuts in any of your Balkan properties and Belarus in the next 12 months that we should know about? Thank you.

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**Hannes Ametsreiter - Telekom Austria AG - CEO**

Starting with the fiber investment and CapEx, I believe everything is known what our plans are. It is included in the outlook that we are doing three things, and we are talking about trials and pilot projects. One is that we start with Fibre Cities in Villach and Klagenfurt and also in two districts in Vienna. This will cover 150,000 households. It will be a mix of fiber to the curb in Villach, fiber to the building and fiber to the home.

The mix -- the decision about the mix that is a very local thing and needs to be decided in further assessments. But we are now really into that and we start evaluating, assessing, and this should give us a very good overview about what technology is good, what service and offering is accepted by the customers, what the real costs are, and which technology is the best to apply.

The second thing is VDSL2 technology in the rural areas. There we are covering 750,000 households. This brings speeds up to 30 megabit per second. I believe that a good move to also assess how to strengthen our position and great new opportunities in the rural areas.

And the third one -- and the third package is the change to an all-IP platform, next generation network, moving our copper cables into the next generation network. That is clearly a process, which will last over the next years. But as I said, all these trials and pilot projects are included in the outlook already.

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**Hans Tschuden - Telekom Austria AG - CFO**

Regarding the second question, Balkans termination rates, there are no changes we're aware of. The expected mobile termination rates for the Balkans, and the development of them we have presented on our Capital Markets Day, and there is a chart included in the documentation which shows the gliding paths in the different countries, but nothing has changed significantly compared to the status as of end of January.

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**Operator**

Graeme Pearson, Nomura.

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**Graeme Pearson** - Nomura - Analyst

The fixed revenue trend was a bit worse than we were all expecting in the second quarter. Can you just help us with the timing of the various combi packet promotions on the retail side please. I guess I'm trying to understand whether the fixed revenue trend is just going to keep getting worse and worse or whether it might improve in the second half or at some point going forward.

Secondly, on headcount, I think you said that 433 people had taken the social plan by the end of June. I was just wondering if you can say how many people have actually agreed to accept the social plan at this point?

And then third, worth a try, it is now nearly the end of August so can you just say whether you have seen any big changes in the trends in Eastern Europe so far in Q3? I am obviously thinking about Belarus and Bulgaria in particular. Thanks very much.

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Starting with the second question, how many people accepted the social plan, around 500 accepted the social plan. This is a better result than we originally planned. We planned 400 until the end of the year. We now already have 500 who accepted already the social plan. So that is the social plan development.

The third question about the trends and tendencies in Eastern European countries, I have to say it is a very diverse picture. You really need to look at the countries. There is a significant change in the GDP expectations in different countries. There is the expectation in Belarus that they will have a GDP growth. In other countries there will be -- GDP will be shrinking.

I believe -- we believe -- in the region we believe that we are well positioned with either number one or number two position. And I believe we are doing well with our greenfield operations. And as you have heard, the marketshare is decent and we are on the way. And since we started in the second half of 2007, I believe this is first phase, which is okay, and we further need to see how we develop in those countries.

What is annoying is that we have taxes in Serbia and in Croatia. This is what we did not expect and did not know. So is very immediate action by the local governments and, of course, is putting some pressure on us. But it is an amount where we either can make a move to give it to the end consumer or find other ways or suffer. Since there is not every detail now known to us, we are still working to better understand, to discuss with the politicians and to find the right and proper way how to handle it.

The first question about the combi-package about the timing, we will now bring our next promotion -- we will less have ongoing promotions in different aspects. We at the moment are running promotions, a combination of we call it (inaudible). That is fixed line, data and Internet and mobile broadband in a package. And it is included notebook. With notebook we are on a leasing basis, giving for free to the customer.

It is an extremely successful promotion. We are now preparing the autumn and winter promotion, and are in the phase of planning a proper setup with regulation, which looks good. This means that we will have another good, aggressive promotion starting this winter -- this autumn.

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**Graeme Pearson** - Nomura - Analyst

Just on the revenue trend, (multiple speakers).

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

Following up on the revenue trend, the most difficult thing is the loss of minutes. This is something which is really difficult to approach since these minutes are really moving from fixed to mobile. We now out of total voice market in Austria have 14% -- 14 percent -- at Telekom Austria. That is really low. It is much higher in other countries like Germany, 60%, 70%. So this is already much of pain in the past, but still pain today.

How far will it go down, we just don't know. This really hurts, because losing minutes means losing revenue and EBITDA. And I believe that we see a good development on the broadband side, on the package side, but we have pressure on those minutes. If we once reach [stadium] where this minutes loss stops, I believe there is a good chance for us to further work on that line loss, maybe generate in medium, long or whatever term, line growth, and generate a profit out of this positive development.

We see a good development with new customers, because 70% of the combi-package customers are new customers. So that is really additional revenue. But what we cannot stop this is this loss of minutes. How are we attacking it? We are now at the moment trying to get bundles for flat fees. This is already possible in Germany for Deutsche Telekom. It is not possible here in Austria.

If we would be able to get that that, this would add additional value into the monthly fee, and would be a good argument for customers to stay with the fixed net and to keep the minutes. And this is what we are trying to do at the moment. What the outcome will be I cannot tell you, but this is the activities we are taking.

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**Graeme Pearson** - *Nomura - Analyst*

That is very clear. Thank you very much.

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**Operator**

Hannes Wittig, JPMorgan.

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**Hannes Wittig** - *JPMorgan - Analyst*

I have two questions related to the fixed line again. In a way, following up on the first question this afternoon, which was on cost cutting, if I remember correctly, your fixed line cost cutting program, which was worth about EUR100 million or so, was run-up -- started to be bumped up in the second half of 2008. And then was probably continued into the first-half of this year, so I would presumably see a full run rate of this cost cutting program in the second quarter.

So my first question would be, has the cost cutting program that you launched in the summer of last year, has that already peaked or is there more to come out of this existing program in the second half of this year to help the margin?

The second question is regarding the fixed line up (inaudible). You have obviously already just commented on the voice pressure from voice losses; however, there are a number of other components in this ARPU equation. My question would be whether the EUR34.5 are likely to -- from your point of view -- will fall a lot further or whether that is approaching some kind of bottom in your view?

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

I will take the first question. Regarding cost cutting, we are relatively far with the cost cutting program already, but we anticipate that still kind of EUR25 million should kick in in the second half of this year out of the EUR100 million.

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**Hans Tschuden** - *Telekom Austria AG - CFO*

Concerning the average revenue per line. You are absolutely right, there are several components which are kicking in. There is the pressure from the minutes which we are losing. There is a good and positive development in new customers we are generating with these combi-packages and broadband packages. There is another aspect, which we did not mention so far, and this is the fixed line -- the fixed termination. This fixed termination just recently got increased.

I believe that good achievement in Austria, because we are the only one in Europe where we could achieve an increase of the fixed termination. This will in the further years have some positive effect for our growth. And it reflects also the situation that there are so many minutes which already moved already to the mobile industry that there need to be some kind of a balance of terminations. And this needs to move into the right direction.

Talking about average revenue per line, we are of course trying to keep it as stable as possible. To really have the full picture, this will be the moment when we really see a softening of the [movement] of minutes, which are substituted by the mobile industry.

**Operator**

Markus Remis, Cheuvreux.

**Markus Remis** - *Cheuvreux - Analyst*

A question on Bulgaria. You mentioned that competition has become way more intensive. Could you elaborate who is the driving force behind, and whether that is on the corporate side or on the retail clients or the whole market?

Then secondly, regarding CapEx in 2010, if I'm not mistaken you still have to pay around EUR320 million for the remaining stake in Velcom, as well as the performance linked consideration. How does that reconcile with the buyback?

And then lastly, do you see any other players in Austria replicating the business combi-package, maybe UPC or so?

**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

I start with the last one. No, nobody is replicating. So that is a good thing for Telekom Austria in Austria. Talking about the Bulgarian business, there is -- at first I mentioned that the economic situation in Bulgaria is not easy. They really came out of a development and our planning figures included GDP growth of around 6%. This now turns out that they are trending into a decrease. This, of course is impacting the country, different industries, also us.

The second thing is that we have competition there, intense competition. This competition is coming from Globul, but also from Vivatel and [Betacar], Vivatel. They are now more trying to play this everything out of one hand. This -- we are offering fixed and mobile and try to enter some segments with that approach. So this is the pressure coming from that side.

I believe also it is important to understand that Betacar and shareholders AIG is in a selling process and they want to address this asset, and trying to be aggressive and pushy on the market to achieve a growth which is descent, and which they expect to create a nice story around it.



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**Hans Tschuden** - Telekom Austria AG - CFO

Regarding the question of the performance payment for the 30% of Velcom, as the full payment for the 30%, including the performance pay, is included in our net debt calculation, there is no effect or influence on our share buyback plans linked to payment of the remaining -- for the remaining 30% in the performance pay.

**Markus Remis** - Cheuvreux - Analyst

Okay, so everything will be paid in Q4?

**Hans Tschuden** - Telekom Austria AG - CFO

That is to be seen, because there are certain elements which have to be met, but our assumption currently is that everything will be paid in October 2010.

**Markus Remis** - Cheuvreux - Analyst

Maybe lastly, the amount for the deferred consideration was once mentioned around EUR300 million. Did that change, given the performance of Velcom recently?

**Hans Tschuden** - Telekom Austria AG - CFO

No, it did not change, because the operational performance is excellent.

**Operator**

(inaudible), Morgan Stanley.

**Unidentified Participant**

I have two questions. The first one is from domestic mobile ARPU, and especially on the comparison relative to the trend that we saw in the first quarter. In the first quarter ARPU was coming down 11%, now ARPU in the second quarter is down only 9% when in principle we should expect -- or we should have expected like 3 to 4 percentage points revenue drag from termination rate that saw around 14%, 15% decline would have made sense too.

You are mentioning in the press release data usage, so you could elaborate a bit on this and maybe go through the major drivers of ARPU, and provide us with the mobile broadband ARPU growth year on year. It would be very useful.

And secondly, on your free cash flow after dividends, that you are not going to use for buyback, so the two-thirds that are considered as a kind of reserve, if you could elaborate a bit on the plans you have for this work? What are the options, whether acquisitions or even a [higher server back] if you don't find where to put the money, especially whether or not (inaudible)? Thank you.

**Hans Tschuden** - Telekom Austria AG - CFO

Talking about the ARPU. That is a complex question. It is always a combination of what kind of structure we are able to generate in our customers, which is that we had a growth in the customer base of 9%. So that is a very positive thing.

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We have a mix of postpaid and prepaid customers. We achieved within the latest past that we could move prepaid customers to postpaid customers. We also -- and that has some impact -- and pretty much impact on the ARPU. Are very successful with our no-frills offer. This means lower ARPU. So the portion of no-frills subscribers is steadily and significantly increasing. This is lowering the ARPU, on the other hand it is much lower cost. So the the SAC, the subscriber acquisition cost, for a no-frills, what we call bob -- we sell it under the brand of bob -- is zero. So we are earning money by selling the package and it is only a SIM card.

So it is a mix of activities. One is no-frills, absolutely low cost combination, so we are adding customers and ARPU is lower. Then we have the let's say normal voice and multimedia customers where we could see normally a pretty flat development. Now we have seen an aggressive promotion by Orange. They just halved the monthly fee. And this was clearly an offensive and aggressive move in the market. This is already out of the market.

At the moment it is pretty silent. Everybody went back to the normal standard tariffs like before. And talking about mobile broadband, of course we see some dynamic there. The price breaker here is Hutchison. They are offering -- they have extremely cheap offers in the market. This really hurts on one hand the fixed line, but also the mobile industry in Austria, and is pulling prices down.

So I mean that are like the components of ARPU, which we are seeing and this is how it sits together.

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

Just to add here on our presentation, page 42, you will find the development of our data ARPU per quarter. Regarding the question of what do we do with the reserve? I mean, a reserve should be a reserve. And we have no plans currently how to spend it. It is something which we consider from a cautious standpoint, and that is the reason why we say we are able to pay out one-third of the free cash flow after dividends.

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**Operator**

Hugh McCaffrey, Goldman Sachs.

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**Hugh McCaffrey** - *Goldman Sachs - Analyst*

Firstly, 3G in Belarus. I see one license has been handed out. And when do you expect to get yours and what are your plans around 3G there and also in Austria? And what kind of usage are you seeing from your mobile broadband subscribers? And how is your infrastructure positioned to absorb all of that?

And the final question is really a cost-saving one. How much integration is there between the fixed and mobile infrastructure in Austria, and what scope you have to generate cost savings from bringing those two things closer together?

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**Hans Tschuden** - *Telekom Austria AG - CFO*

Starting with the second point, the networks and technology. We are already having a very close cooperation of the both companies, mobikom austria and Telekom Austria. Why? Because we believe in hybrid products.

This means that we found out that mobile broadband, 80% usage is at home. At home you normally have a copper cable, so we are trying to find a combination where a customer doesn't have to think about technology. He is just surfing the Internet at home automatically, while Wi-Fi connecting to the mobile. A broad using mobile infrastructure, this allows us to deload the



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mobile infrastructure with the heavy usage at home, and gives full freedom and opportunities to our customers. So that is one aspect.

The other one is that we now now start to have a combined planning of technology. This means that we will have a clear coordination of the fiber activities, which we already mentioned before, and the planning of (inaudible) plus for the future of the activities.

This integration enables us to have the most efficient approach in planning and in the use of technology. So that is what we are already doing, and that is what our plans are in this field.

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Regarding the question of 3G license in Belarus, generally speaking the number three operator has already received the license. We would be interested in getting one, but it is depending on the financial terms which are linked to that.

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**Hugh McCaffrey** - Goldman Sachs - Analyst

Do you have any clarity those at the moment?

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Pardon?

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**Hugh McCaffrey** - Goldman Sachs - Analyst

Do you have any clarity on those terms at the moment?

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Not yet.

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**Hugh McCaffrey** - Goldman Sachs - Analyst

Not yet, okay. Thank you very much.

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**Operator**

(Operator Instructions). David Wright, Deutsche Bank.

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**David Wright** - Deutsche Bank - Analyst

A lot of the questions I think have already been dealt with pretty well, but a couple of more. Just on the CapEx guidance, obviously, EUR800 million, you have maintained that CapEx, which is a broadly similar amount to last year. But your CapEx at H1 is clearly running way below. Now obviously there are some second-half weighted investment plans, but it does still seem the trend across the wider sector to lower CapEx. Maybe you could talk about the potential for that.

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And then secondly, you have clearly considered your buyback within the framework of year-end net debt and cash flow next year. Now the original dividend guidance, if I understand correctly, was for a minimum of EUR0.75. So when you decided upon the buyback, why did you not choose for instance to raise that minimum dividend of EUR0.75 instead? Thanks.

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**Hans Tschuden** - *Telekom Austria AG - CFO*

Regarding the first question, the CapEx guidance, it is -- we are saying the guidance is around EUR800 million, as well as we are seeing that EBITDA guidance is around EUR1.9 billion. So there is some room, but nevertheless we cannot extrapolate what we have seen in the first-half of this year, because we -- especially in the fixed line segment -- we will see much more investment to come in the second half, and so therefore we are not able to quantify in detail to which extent we will use the EUR800 million or will it be a bit less.

Regarding dividend policy, we have changed our dividend policy, or amended our dividend policy, at the beginning of there by putting in a floor of EUR0.75. And we are not foreseeing any changes there. I think it should provide a minimum return to our shareholders with the EUR0.75, even if net income would not give debt as a 65% payout ratio. And we are not foreseeing any changes to the dividend policy. It has priority, but we want to maintain a stable dividend policy.

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**David Wright** - *Deutsche Bank - Analyst*

I guess there is room though that reserve in the buyback, which suggests you are fairly in a -- comfortable with the cash flow forecast. What is the basis of preferring share buyback to additional dividend?

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**Hans Tschuden** - *Telekom Austria AG - CFO*

The basis is that we have a concept of a stable dividend policy. And if there is excess cash which is not needed, that we would pay out through a share buyback. So it is kind of how to distribute the excess cash to our shareholders. We would use the instrument of a share buyback, rather than dividend, in order also to have a consistent, stable dividend policy.

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**David Wright** - *Deutsche Bank - Analyst*

Yes, okay. That's clear. Thanks guys.

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**Operator**

Justin Funnel, Credit Suisse.

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**Justin Funnel** - *Credit Suisse - Analyst*

A couple of questions please. The competitive trends in Austria and Eastern Europe are quite interesting. There seems to be, at least in Q2, a tariff war, but at the same time a ate pullback by yourselves and the market on SACs and advertising costs, which is a slightly unusual combination. How sustainable do you think that pullback on SAC and advertising cost is?

And secondly, are you able to quantify the benefit in H2 '09 from the accrual of the earlier asymmetry that you received in '08? I think that is one of the benefits you get in the second half of this year.

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

Yes, talking about the SACs, I believe one very important thing, and I mentioned it already before, is that a portion -- a proportion of no-frills subscribers increased significantly. That is our way of reacting to aggressive moves of our competitors. Why? Because our cost structure is by far lower than with our competitors. And so it is a good tool which can be used if we want to fight back.

We now had an extremely good development of our no-frills brand. This, of course, helps in the SACs business, what you have already seen in the past. And this is -- on a certain level will be continued. But it is always depends on that, because if you just consider that the SAC is zero, this of course has an impact if we are selling competitive and good amount of no-frills subscribers.

In our best days we sold clearly over 1,000 per day in our last promotion which we had on the market, which now already is out. So this is the reason for development of SAC.

The second question was --?

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**Justin Funnel** - Credit Suisse - Analyst

Yes, I'm sorry, it is this question of the regulator's decision to bring forward symmetry in MTRs in 2008. So I think you're booking the benefits of that in the second half of '09. Could you quantify the impacts of that on EBITDA in six months of '09, please?

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**Hans Tschuden** - Telekom Austria AG - CFO

It has a single digit EBITDA impact.

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**Justin Funnel** - Credit Suisse - Analyst

Okay, single digit. And the -- thanks for the color on the SACs. Can you give us a rough idea as proportion of your gross adds in Q2 in Austria that would no-frills? And also was that also a benefit in Eastern Europe as well or was it something else going on there?

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**Hannes Ametsreiter** - Telekom Austria AG - CEO

We don't want to give out of competitive reasons the exact details about the proportion of our no-frills subscribers. So sorry for that. But I already mentioned some details that we have seen, especially with the last promotion and extremely good development.

We are now also offering a new product. It is a mobile broadband product on a no-frills basis. This is expanding the market and it is just another very good [tool] to be aggressive, with very low, almost zero costs.

I believe -- I mean, this is just an excellent setup which we are having. We are having the most prestigious, most -- the best quality, the multimedia, premium service [brand] what they want. And we have the low cost, extremely aggressive, extremely interesting, and a brand which is just different from A1. And so we are very well positioned in that brand portfolio, which we are using on the market and enables us -- to keep our front position. And as you have seen in our marketshare, I believe this is a decent development, which we could show that with normal SAC levels we are able and better -- much better SAC levels that our competition, are able to keep [our picture].

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**Justin Funnel** - *Credit Suisse - Analyst*

Thanks. I am sorry to go on, but Eastern Europe, what about there? Because this seem to be, again, a pullback on sales and marketing costs you mentioned in the release. Is that no-frills effect or is it something else?

**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

No, we are not using the no-frills contract. We are using it in Croatia, but we are not using it in the other countries. The reason for that is that the SACs are more or less zero or very, very low. And so this has not really opened the room for implementing a no-frills proposition. This cannot really apply in most of our markets, exception is Croatia, where we are having tomato as a no-frills brand.

Concerning marketing and sales costs, it was just a very extremely cautious program which we are running, and we reduced wherever we could reduce, but absolutely focused on the market. And this is what you already can feel that we are trying to keep our marketshares up, but on the other hand are trying to do it as efficient as possible.

**Operator**

Hannes Wittig, JPMorgan.

**Hannes Wittig** - *JPMorgan - Analyst*

Sorry for coming back with another question. But I just wanted to go back to your guidance, because you have kindly provided a reiteration of the guidance for 2009. But I just wondered at the Capital Market Day you of course gave three year guidance for EBITDA of around EUR1.9 billion. What degree of confidence do you have at this stage that this is something that you can actually achieve?

**Hans Tschuden** - *Telekom Austria AG - CFO*

As usual, we reiterate our full-year guidance on any occasion of our quarterly results. We have reviewed our Capital Market Day guidance and not yet, and this is something we will do in our planning for next year.

**Hannes Wittig** - *JPMorgan - Analyst*

Thank you.

**Operator**

(Operator Instructions). (inaudible), RBC.

**Unidentified Participant**

A question, I come back to the Bulgarian market. We spoke before about stronger declining GDP rates in Bulgaria and that competition. On the other hand, I really wondered at ARPU surprise positively remaining rather stable compared to Q1. What was the reason therefore?

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

We are always -- a key reason in Bulgaria is that we achieved to have the major part of the postpaid customers. This was a clear focus of the operation. This means focused on high-value customers, and this of course is a positive contribution to the ARPU. So that is the main reason.

Also, the situation in Bulgaria, it was difficult in the past and it still is (technical difficulty). And there is pressure on the country, on the economy, and I believe we have shown and proven on Bulgaria that we are willing to make to make steps on CapEx, on OpEx, and we are focusing our energy on the right things, in that case, focusing on the high-value.

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**Unidentified Participant**

Thank you, but it is not only a higher share of contract customers. It is -- contract ARPU remained quite stable, increased even slightly, prepaid ARPU as well. Were there any special things I have to bear in mind?

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

No.

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**Unidentified Participant**

No, okay. A reversal of the trend?

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**Hannes Ametsreiter** - *Telekom Austria AG - CEO*

No, I wouldn't say that.

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**Operator**

[Christian Wallis], New Street Research.

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**Christian Wallis** - *New Street Research - Analyst*

I just had a quick point of clarification, please. Can you just confirm to me the termination rate that you used in Austria for the mobile business, because my understanding was that you didn't actually implement the cut from [EUR0.0572] to [EUR0.045] yet, and that will only happen as of Q3. And if that is right, could you just tell me what the EBITDA impact would have been if you had actually implemented that cut in the second quarter? Thanks very much.

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**Hans Tschuden** - *Telekom Austria AG - CFO*

We already implemented the [EUR0.045], and it is a gliding path which is going down over the next years to EUR0.02, so we're just following the official guidelines of the regulation. We are doing nothing else.

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**Christian Wallis** - *New Street Research - Analyst*

Thank you, great. So there was no delay. You have done it as you're supposed to.

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**Hans Tschuden** - Telekom Austria AG - CFO

No.

**Operator**

(Operator Instructions). Harald Weghofer, UniCredit.

**Harald Weghofer** - UniCredit - Analyst

Just a follow-up question on the headcount. There was big noise in the Austrian news that civil servants of Austrian [post] will shift or cap out-source to the Austrian police. My question is basically if you see any chance that also civil servants of Telekom Austria could be transferred to the Austrian police or any other government company?

**Hannes Ametsreiter** - Telekom Austria AG - CEO

We have always underlined that this is a great idea. We are fully supporting there is some kind of coordination and cooperation with their respective ministries. We are already, and that is the interesting thing. We ask our people, which are sitting in the pool at the moment, and we are now doing the same with our employees, our civil servants here in Telekom Austria being in working positions, and there are a few hundreds who are interested in moving to the police. So that is a positive signal from the employees.

How much that realizes in real movement and positions there, we don't know. The process is not clear and very detailed at the moment, but there is the willingness of politicians in Austria to increase the security of the country by adding a few more civil servants and office workers to put some load off the shoulders of our policemen to keep them out on the streets.

We believe that is good. It is a -- politicians promise that they will do something. And we are now contributing by giving all the information, which is needed. If it really realizes and will be put into action, we will see -- how many we will see. But there are good discussions. And it looks like an interesting opportunity. But it is too early to say what the real outcome will be.

**Harald Weghofer** - UniCredit - Analyst

Thanks very much.

**Operator**

There are no further questions. I will hand you back to Peter for closing statements.

**Peter Zydek** - Telekom Austria AG - IR

Ladies and gentlemen, I would like to thank you for attending today's presentation. And I would like to wish you a very nice evening. Thank you very much. Goodbye.

**Operator**

Ladies and gentlemen, thank you for joining. You may now replace your handsets.

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