Business and Financial Review January – September 2011

28 October 2011

Hrvatski Telekom

Živjeti zajedno

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Business Environment Highlights

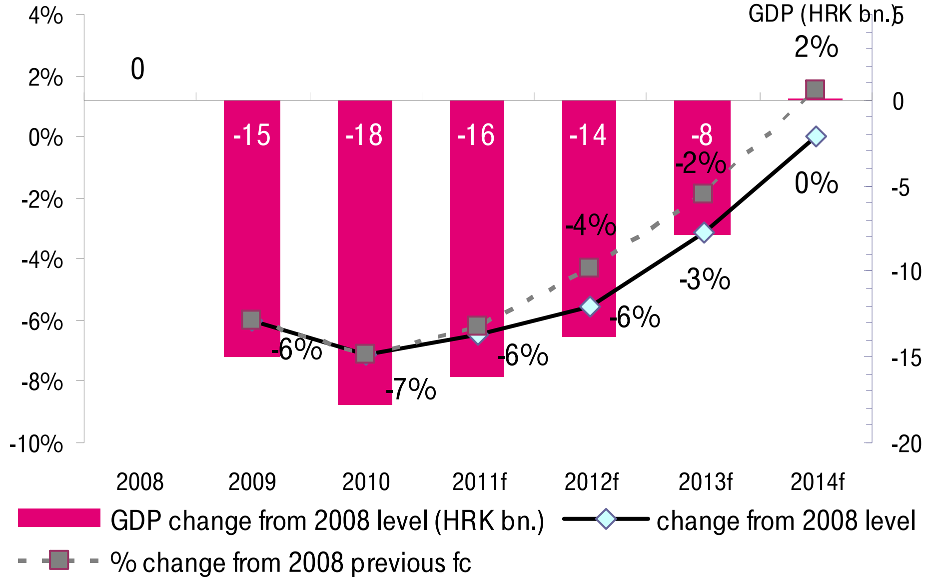
Croatia at a glance (1)

- 4.3 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- ~106,000 active companies
- 9.3 million tourists in first eight months 2011

Croatian Economy (2)

- No growth enhancing reforms; public debt estimated to reach 51 %/GDP in 2011
- Lowered expected GDP growth in 2011: between 0.5% and 0.8%
- Inflation stable at 2.2% (3)
- Registered unemployment rate 16.8% in September 2011 (September 2010: 16.9%)
- Overdue payments at the same record level: HRK 39.9 bn in July 2011

GDP change compared with 2008 level (4)



(1) Source: *First results of the new Census 2011", Central Bureau of Statistics, Croatian National Tourist Board
(2) Source: Croatian National Bank; International Monetary Fund, Macroeconomic outlook, September 2011, Croatian Central Bureau of Statistics; Croatian Chamber of Economy
(3) Annual inflation growth rate in September 2011
(4) Source: Regional Economic Prospects in EBRD Countries of Operations: July 2011, EBRD

Croatian Telecom and ICT Market

Fixed telephony
- 21 licensed operators, of which 10 active (1)
- July 2011: introduced WLR and naked bitstream
- Liberalized since 2005; local loop unbundling started in 2006
- Usage declines in line with world-wide trends

Mobile telephony
- 3 operators on the market, 6 brands, no mobile virtual network operators (MVNO)
- Mobile penetration: 127% (2)
- Growing demand for mobile data, driven by smartphones and mobile broadband

Internet
- Fixed line broadband household penetration: 45%(3)
- Significant growth opportunity

PayTv
- Satellite and cable underdeveloped
- PayTv household penetration: 37%
- MAXtv – most successful payTV in the market and one of most successful IPTV launches world-wide (top 3 ranking)(4)

ICT (5)
- 2010: IT market declined 1.3% year-on-year to HRK 5.8 billion
- IT services represents 35% of total IT market; declined 2.3% in 2010 year-on-year to HRK 2.04 billion
- Continued economic malaise and shrinking CAPEX budgets of largest IT services spenders in the country, as well as reduced technology investments in the public sector, lowered IT services spending for second consecutive year

(1) Including operators providing fixed line service over VoIP
(2) Mobile subscriber data restated as effect of new prepaid subscriber definition; thus number of total mobile customers decreased and penetration rate is lower than previously reported.
(3) Residential broadband lines per total households
(4) Source: "Industry Outlook: Next-generation access regulation" published by Informa, 25 November 2010
(5) Izvor: IDC; Croatia IT Market 2011-2015 Forecast and 2010 Vendor Shares

Regulatory Framework

- HAKOM proposes new price for wholesale bitstream access on copper network: retail - 60%
- HAKOM finalizes analysis of retail market in fixed network: imposes price control and regulation of promotional offers for local/national phone services; obligations for international services abolished
- T-HT publishes wholesale reference offer for naked bitstream and WLR
- T-HT's wholesale reference bitstream offer over fiber undergoing public consultation
- Retail broadband Internet and IPTV market analysis to identify operators with SMP
- Croatian Competition Agency (CCA) officially initiated proceedings against all mobile operators (incl. T-HT) due to alleged collusion on price increases when changing billing units
- HAKOM filed two indictments against T-HT due to alleged breach of regulatory obligations prescribed by the decision obligating T-HT to offer alternative operators WLR as of July 1, 2011. These indictments not officially delivered to T-HT

Group Highlights

- Maintains leading market position in all business segments
- Recession, regulatory initiatives and special fee continue to impact business
- Revenue decreased 3.6% to HRK 6,092 million as a result of difficult economic environment as well as intense competitive pressure
- EBITDA(1) down 2.1% to HRK 2,799 million; EBITDA margin increases to 46.0%
- Capex 2.6% higher at HRK 633 million
- Published WLR offer results in significant interest from CPS operators
- Enriched portfolio of ICT services with addition of two SaaS (Software as a Service) modules
- Government proposes abolition of 6% fee on mobile services

(1) Before exceptional items

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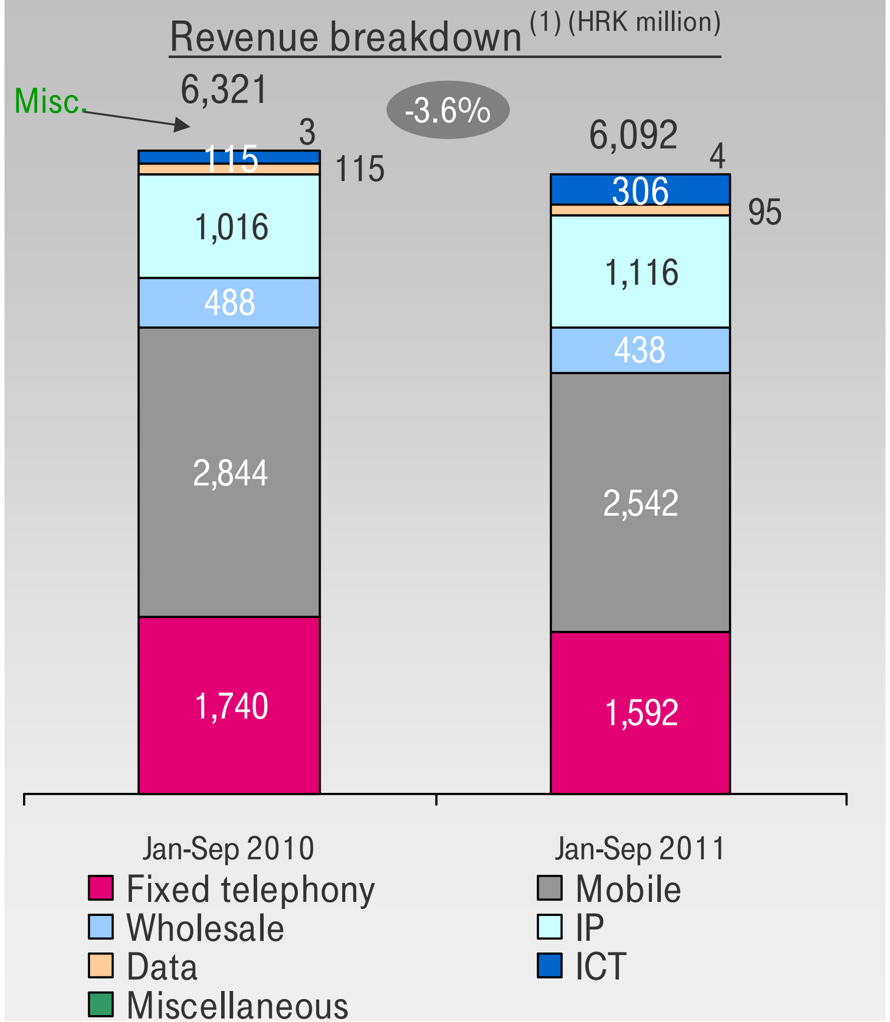
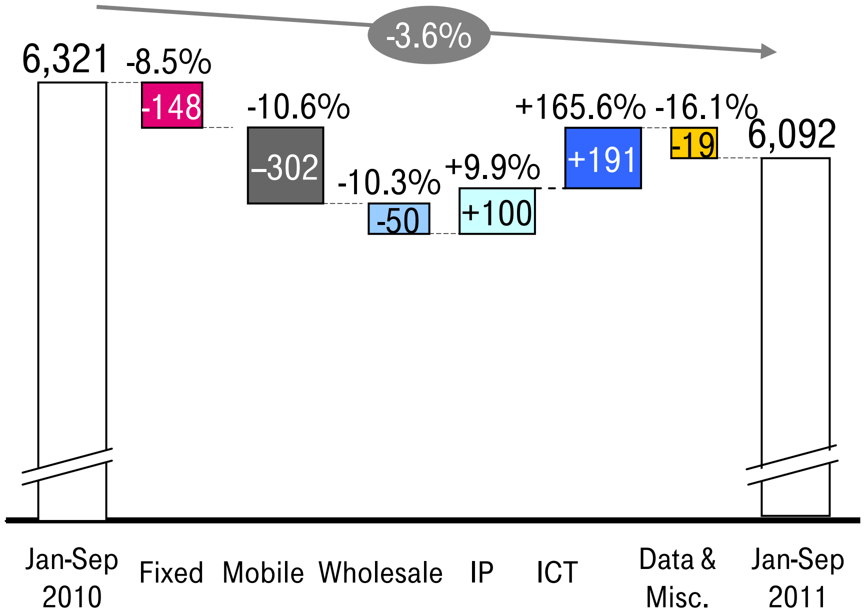
T-HT Group

Revenue Development



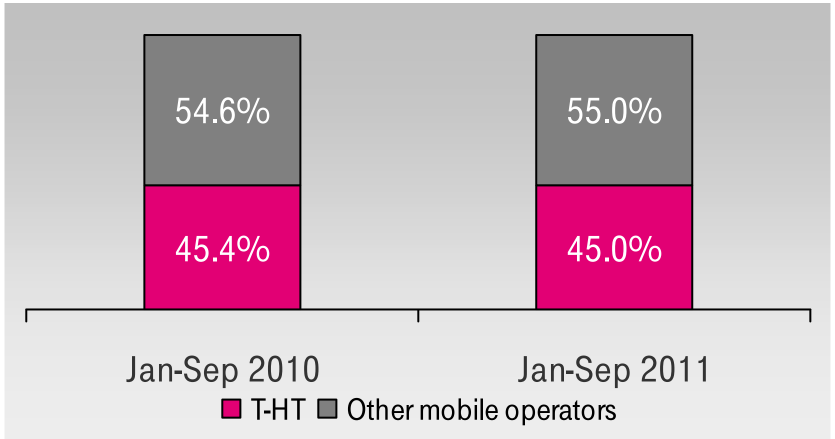
(1) Excluding other operating income



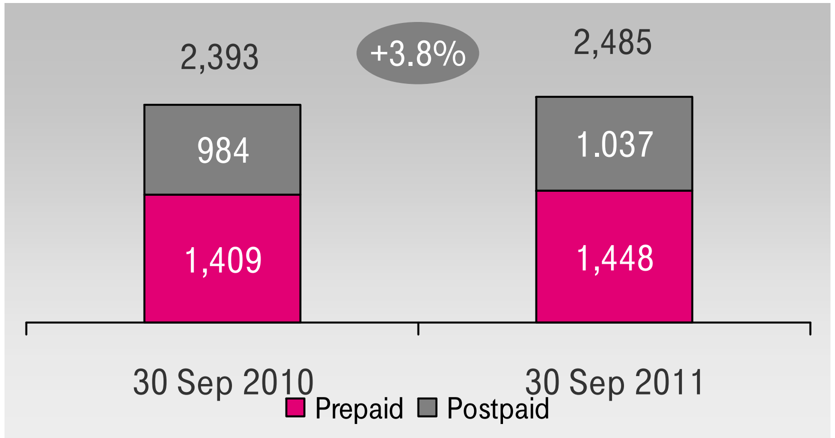
- Continued recession and competitive pressures impact revenue and price per minute
- Impact of changed useful life of customer relationship added HRK 73 million
- Revenue decline driven primarily by lower revenue from fixed and mobile telephony
- Internet revenue continues to grow
- Combis contributed HRK 281 million (vs HRK 110 million in Jan-Sep 2010, consolidated from May 2010)

Mobile Telephony

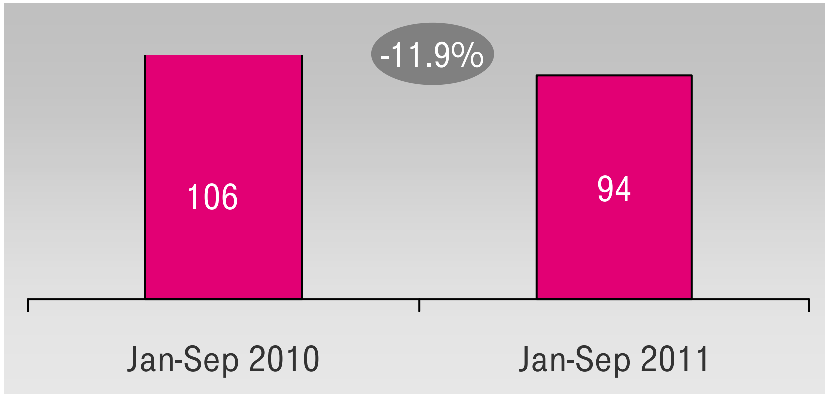
Market share by subscribers (%) [1]



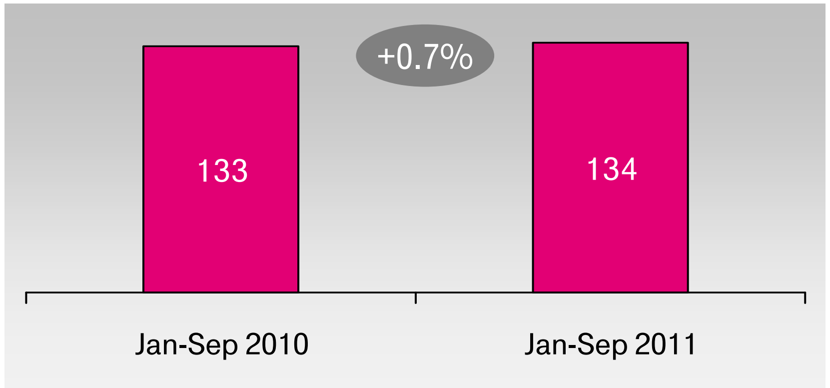
Number of subscribers ('000) [2]



Blended ARPU (HRK/month) [2][3]



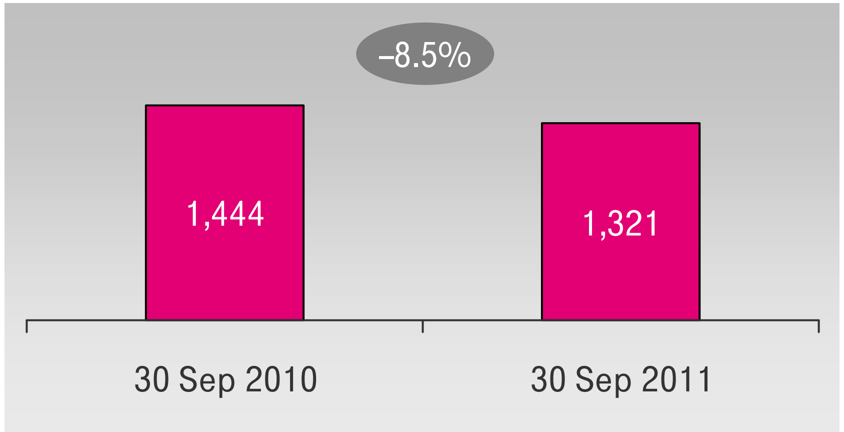
Average MOU (minutes/month) [2]



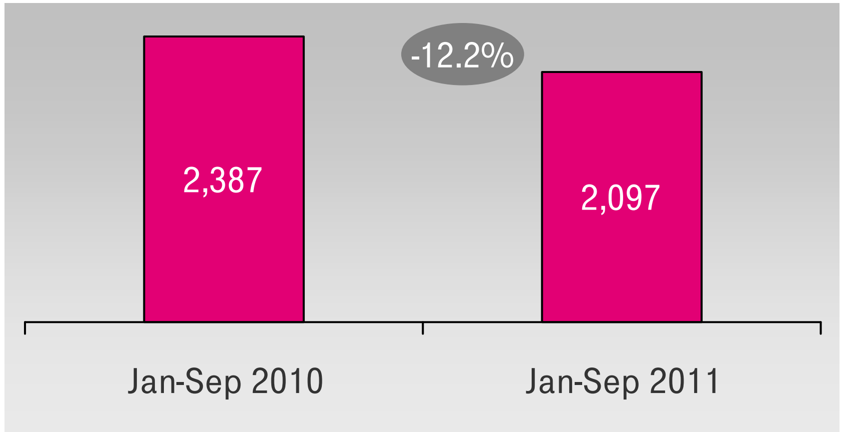
(1) Source: published VIPnet and Tele2 reports at Q3 2010. Number of VIPnet and Tele2 subscribers at Q3 2011 is internally estimated.
(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. According to new definition, only SIMs showing traffic or voucher recharges in the last 90 days should be considered as subscribers. Number of subscribers in 2010 as well as all respective KPIs were restated accordingly.
(3) Due to T-Mobile and T-Com merger and within the new segmental reporting explained above, as of Q1 2011 calculation of ARPU was changed to show consolidated mobile revenues rather than unconsolidated mobile revenues

Fixed Telephony

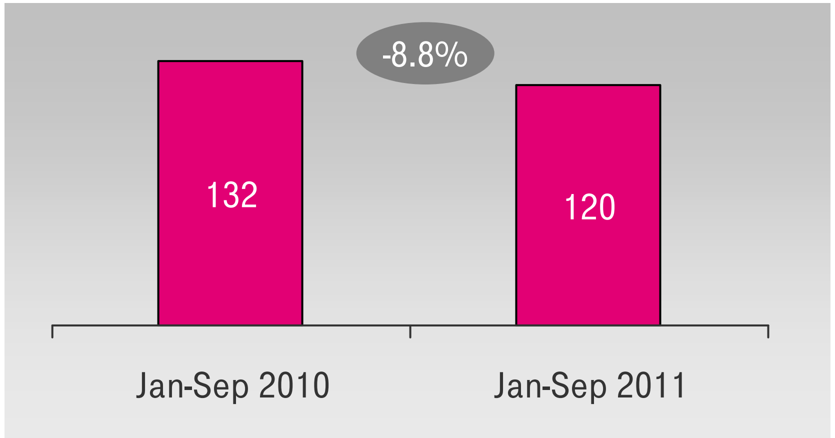
Number of mainlines ('000) (1)



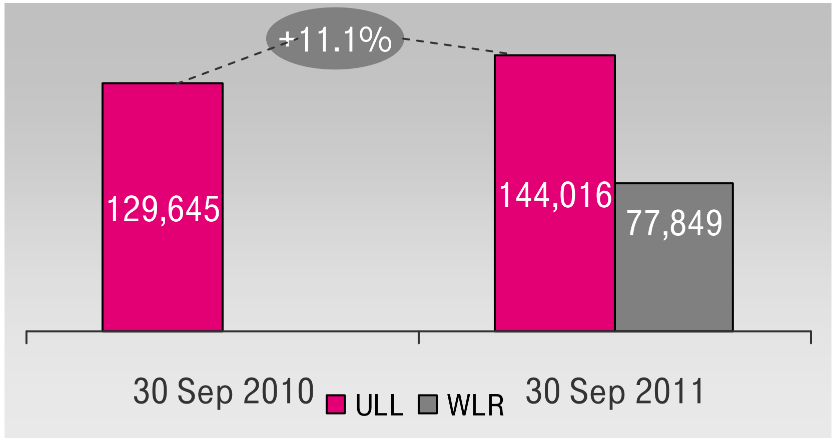
Total traffic in minutes (million)



ARPA (HRK) (2)



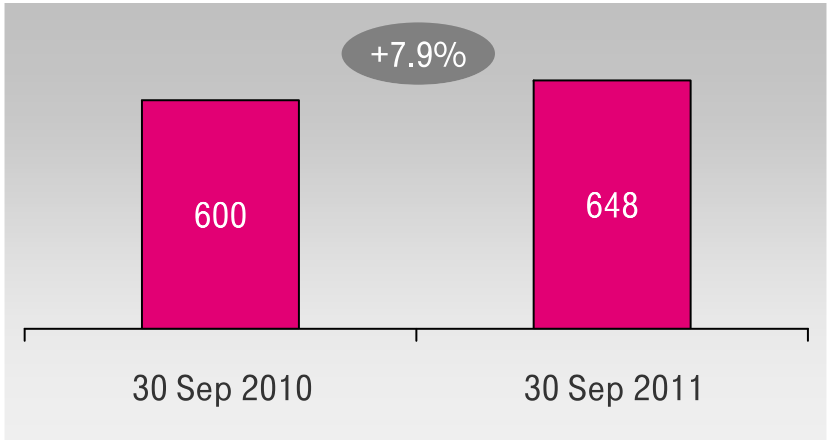
Number of ULL and WLR



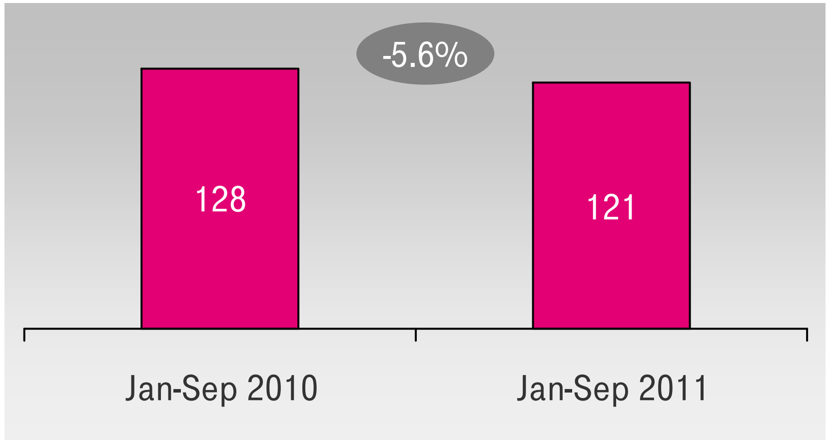
(1) Includes POTS+FGSM + ISDN + payphones
(2) Voice revenue per voice acces – monthly average for the period

IP Services

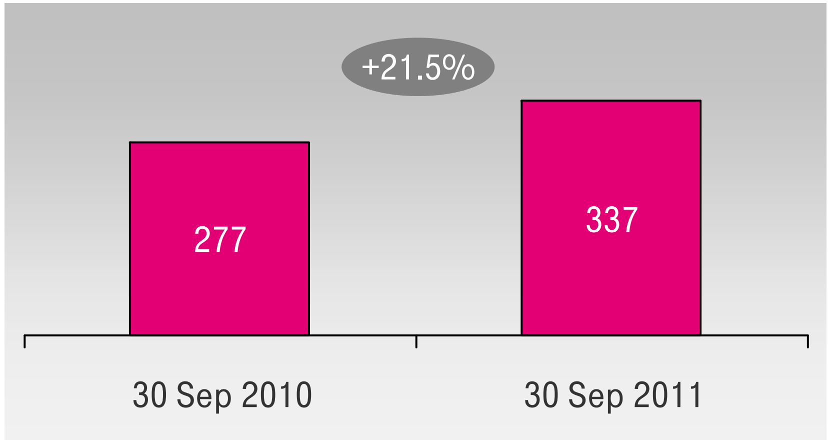
No. of ADSL mainlines (‘000) (1)



ADSL mainlines ARPA (HRK) (2)



Number of TV customers (‘000) (3)

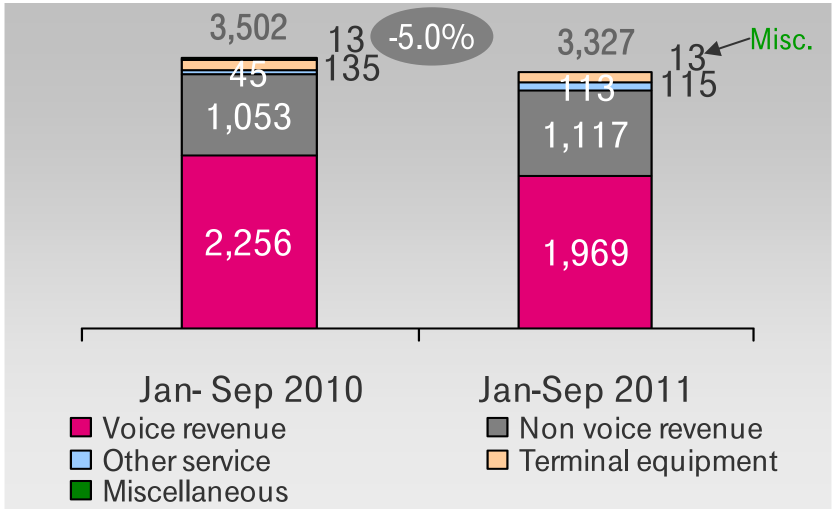


- Growth of MAXtv (3) : more than 14,000 net adds in Q3 2011
  - Croatian Premier Football League on MAXtv exclusively
- New MAX3 triple-play packages offered
- Launched storage service of multimedia content available on TV, mobile and PC/laptop

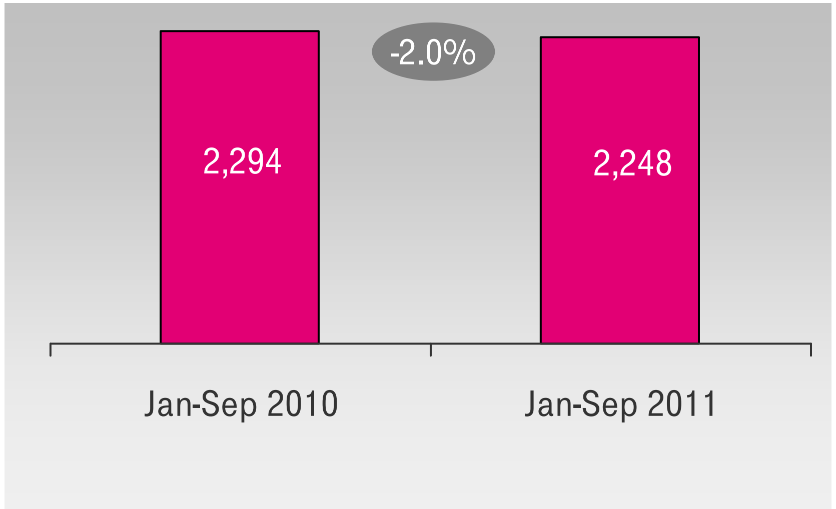
(1) Including Iskon ADSL mainlines
(2) Monthly average for the period
(3) Including Iskon IPTV customers, DTH and Cable TV customers

Residential Segment

Revenue breakdown [1]



Contribution to EBITDA [2] (HRK million)



- Voice revenue falls further on economic downturn, competitive pressure on pricing, fall in mobile termination rates
- Non voice revenue increased by growth in fixed IP and mobile data revenue but other non voice mobile revenue lower
- Other service revenue higher on different mobile tariff structure
- Revenue from terminal equipment lower mainly as a result of change in CPE treatment as well as lower number of handsets sold
- Contribution to EBITDA fell on lower revenue, but largely off-set by decline in operating expenses

(1) In the financial reports, the Group's segments are reported on contribution to EBITDA level. The revenues and expenses of the segments include primary results
(2) Before exceptional items

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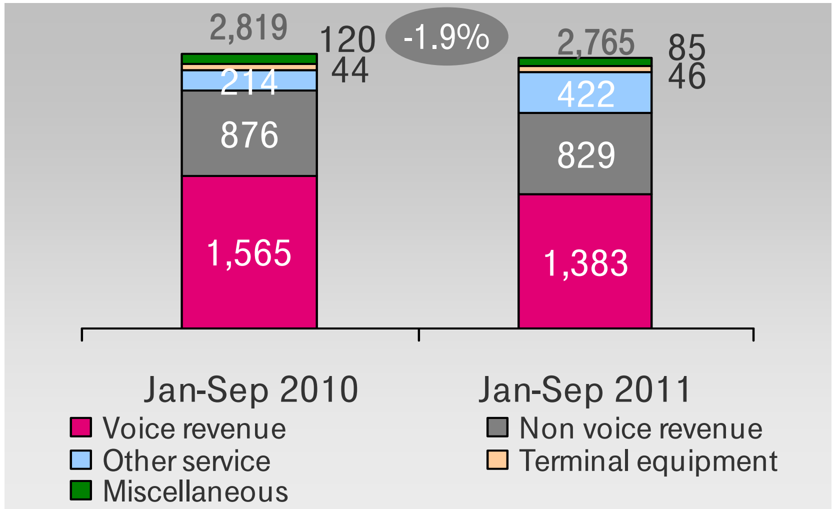
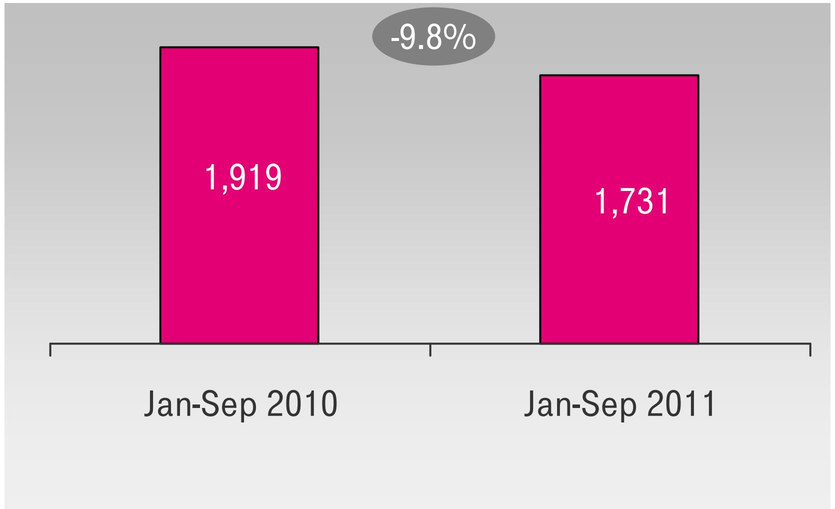
Segment Results

Business Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)



- Lower voice revenue on decline in fixed network traffic and number of mainlines, lower mobile revenue due to decreased price/minute, decreased MTRs and lower roaming prices
- Non voice revenue largely impacted by lower national leased line revenue and migration to IP-based services
- Other service revenue significantly higher, lifted by Combis
- Revenue from terminal equipment shows growth following mobile promotional campaign
- Fall in miscellaneous revenue due to lower national roaming prices, lower usage and mobile disconnection fee revenue designated as service revenue as of 2011
- Contribution to EBITDA down on higher merchandise costs and Combis-related costs

(1) In the financial reports, the Group's segments are reported on contribution to EBITDA level. The revenues and expenses of the segments include primary results
(2) Before exceptional items

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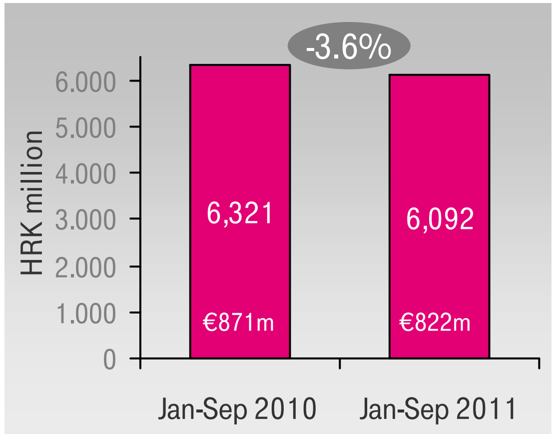
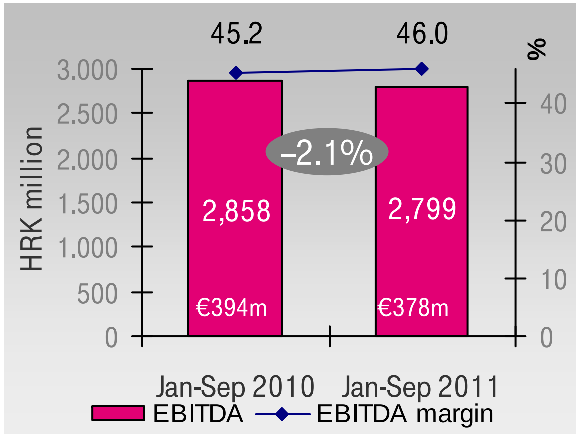
T-HT Group

Group Highlights

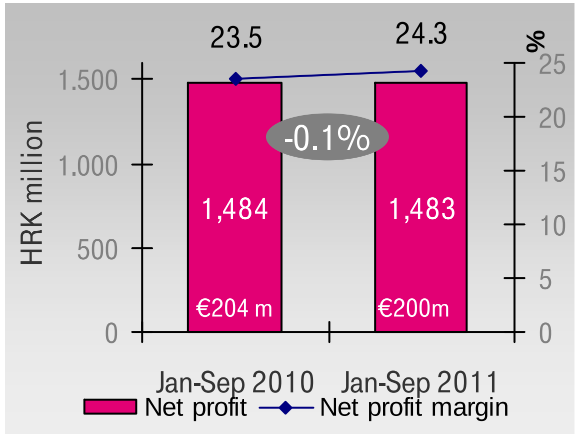
Revenue(1)



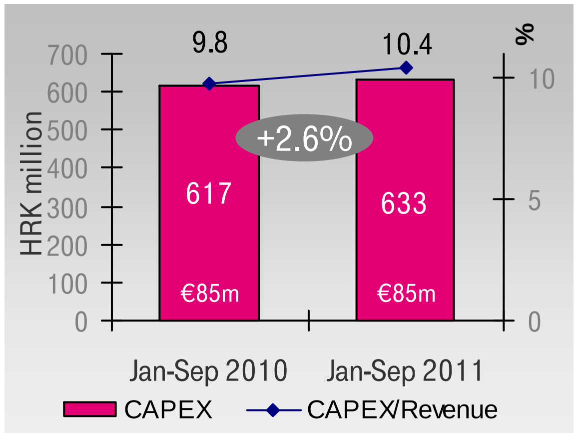
EBITDA before exceptional items



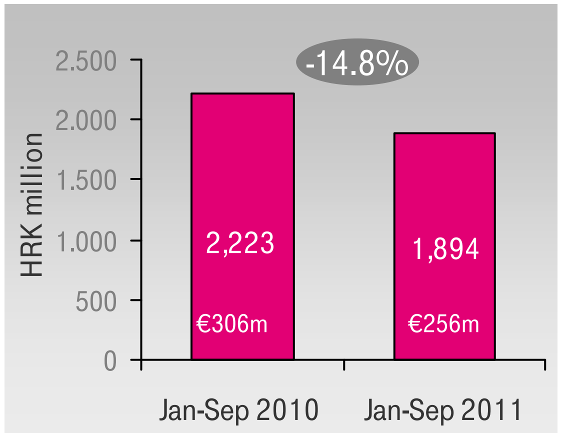
Net profit



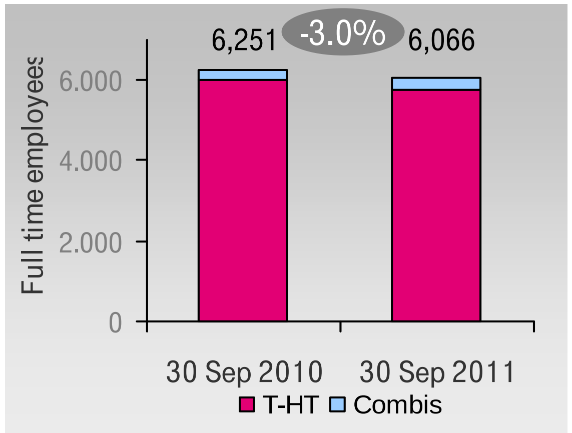
CAPEX



Net cash flow from operations



Headcount



(1) Excluding other operating income

- Kuna per Euro average rate of exchange: Jan- Sep 2010: 7.26; Jan- Sep 2011: 7.41

Group 2011 Outlook

Revenue

- As stated in the Q1 results on 28 April 2011, the Group's performance for the current financial year is influenced by the strength of the tourist season in Croatia and recovery in the national economy. The economic turnaround that had been predicted earlier this year has not materialized, while unemployment remains high and the amount of overdue payments has reached record levels. At the same time, the government's 6% tax on mobile services, originally imposed in 2009, has not been removed, whilst the recent introduction of regulations governing wholesale line rental and naked DSL will further impact the Group's business.

The Group continues to maintain its focus on exploiting new growth opportunities and maximising existing ones. However, given the tough economic conditions and accelerated regulatory pressures the Group expects 2011 revenue to be moderately lower than the 2010 level.

EBITDA before exceptional items

- In light of continued challenging economic conditions in Croatia, regulatory impact and consequently lower expectations for revenue, the Group expects 2011 EBITDA to be close to the 2010 level. However, the Group is committed to maintaining the year-on-year EBITDA margin through efficiencies gained so far and continuing strong cost controls.

CAPEX

- While the current regulatory regime remains a disincentive to T-HT's potential investment in fiber infrastructure, the Group expects 2011 capital expenditure to be lower than 2010. However, T-HT will continue to invest in modernizing the network and IT systems, as well as in mobile capacity.

Regional Expansion

- The Group continues to monitor and evaluate expansion opportunities to increase shareholder value.

Appendix

Consolidated Income Statement

in HRK million (IFRS HT accounting policies)	Jan-Sep 2011	Jan-Sep 2010	*% of change A11/A10*
Mobile	2,542	2,844	*-10.6%*
Fixed Telephony	1,592	1,740	*-8.5%*
Wholesale	438	488	*-10.3%*
IP Revenue	1,116	1,016	*9.9%*
Data	95	115	*-17.3%*
ICT	306	115	*165.6%*
Miscellaneous	4	3	*68.7%*
Revenue	6,092	6,321	*-3.6%*
Other operating income	185	104	*78.1%*
Total operating revenue	**6,278**	**6,425**	***-2.3%***
Operating expenses	3,478	3,567	*-2.5%*
Material expenses	1,645	1,628	*1.0%*
Merchandise, material and energy expenses	779	724	*7.6%*
Services expenses	866	904	*-4.3%*
Employee benefits expenses	860	876	*-1.8%*
Other expenses	975	1,028	*-5.2%*
Work performed by the Group and capitalised	-49	-55	*9.5%*
Write down of assets	48	89	*-46.3%*
EBITDA	2,799	2,858	*-2.1%*
Depreciation and amortization	1,005	988	*1.7%*
EBIT	1,794	1,870	*-4.0%*
Financial income	56	43	*32.5%*
Income/loss from investment in joint ventures	21	6	*265.8%*
Financial expenses	30	63	*-52.8%*
Profit before taxes	1,842	1,855	*-0.7%*
Taxation	359	370	*-3.0%*
Net profit	1,483	1,485	*-0.1%*
Minority interest	0	0	*-58.9%*
Net profit after minority interest	1,483	1,484	*-0.1%*
Exceptional items	0	0	-
EBITDA before exceptional items	2,799	2,858	*-2.1%*

Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 30 Sep 2011	At 31 Dec 2010	% of change A11/A10
Intangible assets	1,030	1,162	-11.4%
Property, plant and equipment	6,090	6,336	-3.9%
Non-current financial assets	443	422	5.0%
Receivables	24	31	-23.0%
Deferred tax asset	50	57	-11.6%
Total non-current assets	**7,637**	**8,008**	**-4.6%**
Inventories	189	216	-12.6%
Receivables	1,351	1,504	-10.1%
Current financial assets	711	465	52.9%
Cash and cash equivalents	2,478	3,282	-24.5%
Prepayments and accrued income	167	110	51.5%
Total current assets	**4,895**	**5,577**	**-12.2%**
TOTAL ASSETS	12,532	13,585	-7.7%
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.1%
Revaluation reserves	-3	-1	-170.3%
Retained earnings	598	626	-4.5%
Net profit for the period	1,483	1,831	-19.0%
Minority interest	1	0	-
Total issued capital and reserves	**10,677**	**11,054**	**-3.4%**
Provisions	311	293	6.1%
Non-current liabilities	35	117	-70.0%
Total non-current liabilities	**346**	**410**	**-15.6%**
Current liabilities	1,305	1,871	-30.3%
Accrued expenses and deferred income	205	250	-18.1%
Total current liabilities	**1,509**	**2,121**	**-28.8%**
Total liabilities	**1,855**	**2,531**	**-26.7%**
TOTAL EQUITY AND LIABILITIES	12,532	13,585	-7.7%

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T-HT Group

Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Sep 2011	Jan-Sep 2010	*% of change A11/A10*
Profit before tax	1,842	1,855	*-0.7%*
Depreciation and amortization	1,005	988	*1.7%*
Decrease of current receivables	50	0	-
Decrease of inventories	28	0	-
Other cash flow increases	0	0	-
Total increase of cash flow from operating activities	**2,924**	**2,843**	***2.8%***
Decrease of current liabilities	-503	-147	*-242.6%*
Increase of current receivables	0	-148	*100.0%*
Increase of inventories	0	-6	*100.0%*
Other cash flow decreases	-527	-320	*-64.8%*
Total decrease of cash flow from operating activities	**-1,030**	**-620**	***-66.2%***
Net cash inflow/outflow from operating activities	**1,894**	**2,223**	***-14.8%***
Proceeds from sale of non-current assets	11	5	*94.7%*
Proceeds from sale of non-current financial assets	74	437	*-83.1%*
Proceeds from sale of current financial assets	0	0	-
Interest received	44	38	*15.9%*
Other cash inflows from investing activities	518	150	*246.2%*
Total increase of cash flow from investing activities	**647**	**630**	***2.7%***
Purchase of non-current assets	-634	-617	*-2.6%*
Purchase of non-current financial assets	0	-290	*100.0%*
Other cash outflows from investing activities	-840	-399	*-110.2%*
Total decrease of cash flow from investing activities	**-1,473**	**-1,307**	***-12.7%***
Net cash inflow/outflow from investing activities	**-826**	**-678**	***-22.0%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	-9	-2	*-394.8%*
Dividends paid	-1,863	-2,788	*33.2%*
Repayment of finance lease	0	-1	*100.0%*
Total decrease in cash flow from financing activities	**-1,872**	**-2,791**	***32.9%***
Net cash inflow/outflow from financing activities	**-1,872**	**-2,791**	***32.9%***
Total increase of cash flow	1,894	2,223	*-14.8%*
Total decrease of cash flow	-2,698	-3,468	*22.2%*
Cash and cash equivalents at the beginning of period	3,282	4,195	*-21.8%*
Net cash (outflow) / inflow	-804	-1,246	*35.4%*
Cash and cash equivalents at the end of period	**2,478**	**2,949**	***-16.0%***

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Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HTRA CZ