Business and Financial Review
January – March 2013

30 April 2013

Hrvatski Telekom

Živjeti zajedno

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Business environment highlights

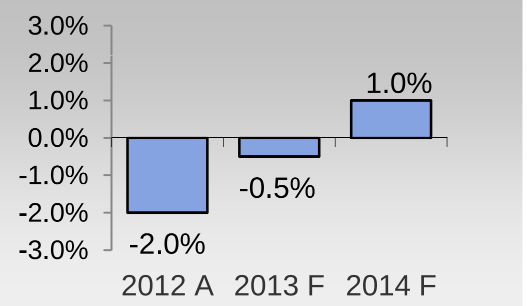
Croatian economy - facts (1)

- Recession prolonged further; 2013 to be the fifth consecutive year with no real GDP growth
  - GDP contraction in 2012 of 2.0% and 2013 estimates of a further 0.5% decline
- Credit rating downgraded to sub-investment grade with stable outlook by Standard & Poor's (Dec 2012) and Moody's (Feb 2013)
- Registered unemployment rate 21.6% in March 2013 (March 2012: 20.0%)
- Inflation(2) slowed down to 3.7% in March 2013 from 4.9% in February 2013 due to VAT base effects
- Continuously falling disposable income
- Successful tourist season: tourist arrivals in 2012 up 5% at 12.3 million (88% foreign tourists)

Croatian economy - prospects

- Still awaiting far-reaching structural reforms and improvements in investment environment
- EU accession scheduled for 1 July 2013
  - Structural and other funds
  - Foreign direct investments expected to increase
- Second half 2013 expected to show some recovery in GDP, with 2014 forecasts of +1% real GDP growth (1)
- Large privatisations announced (CO, HPB,..)

Real GDP growth (1)



(1) Source: Central Bureau of Statistics, Croatian National Tourist Board, Croatian National Bank; Latest GDP forecast taken from Raiffeisen Research (April 2013)
(2) Annual inflation growth rate, measured by changes in consumer prices

Jan - Mar 2013

Croatian Telecom Market

Telecom and ICT Market in Croatia

Fixed Voice

- 10 licensed active operators on the market(1)
- CPS, ULL, WLR(2), naked bitstream and bitstream available
- Minutes of use decreased by 15% in 2012

Mobile

- 3 operators on the market, 7 brands
- Mobile penetration at 116%, down 1pp yoy
- Increased usage, but revenue continues to decline (by 3.9% in 2012)
- Growth in mobile broadband
- T-HT Smartphone penetration 25% (3) vs 42% WE (4)

Fixed Broadband

- Broadband lines at 890,000 in Dec 2012, +3.4% yoy
- Fixed line BB household penetration(3) : 49% vs 66% Western Europe (WE)(4)

PayTV

- 619,000 payTV customers in Dec 2012, +6% yoy
- PayTV HH penetration (3): 41% vs 56% WE (4)
- New player launched pay TV services in Dec 2012
- Croatia is only regulated IPTV market in Europe

ICT

- In 2012 Croatia's IT services market declined by 4.6% and totalled USD 356 million(5)
- Cloud as a concept gradually becoming accepted within Croatian IT community
- As Croatia approaches full EU membership significant IT projects expected
- Combis, member of T-HT Group, has maintained its leading position in the Croatian ICT services market (5)

(1) Including operators providing fixed line service over VoIP
(2) CPS=Carrier Preselection Service, ULL=Unbundled Local Loop; WLR=Wholesale Line rental
(3) Residential broadband lines per total households; smartphones of total handests in circulation; payTV connections per total households
(4) Source: Analysys Mason
(5) Updated forecast of Croatian IT market for 2012 (in USD), IDC Adriatics, Dec 2012 and „Croatia IT Services Market 2012-2016 Forecast and 2011 Vendor Shares“, IDC Adriatics, Sep 2012

Group highlights

Financial

- Revenue down 6.1% to HRK 1,695 million; tough economic, competitive and regulatory environment continues
- EBITDA before exceptional items (1) down 14.3% to HRK 669 million; margin at 39.5%
  - EBITDA decreased 22.0% to HRK 609 million; margin at 35.9%
- Net profit down 34.7% to HRK 238 million; margin at 14.0%
- Capex up 73.8% at HRK 220 million
- General Assembly convoked for 17 June 2013; proposed dividend of HRK 20.51 per share, payout ratio equals 100%

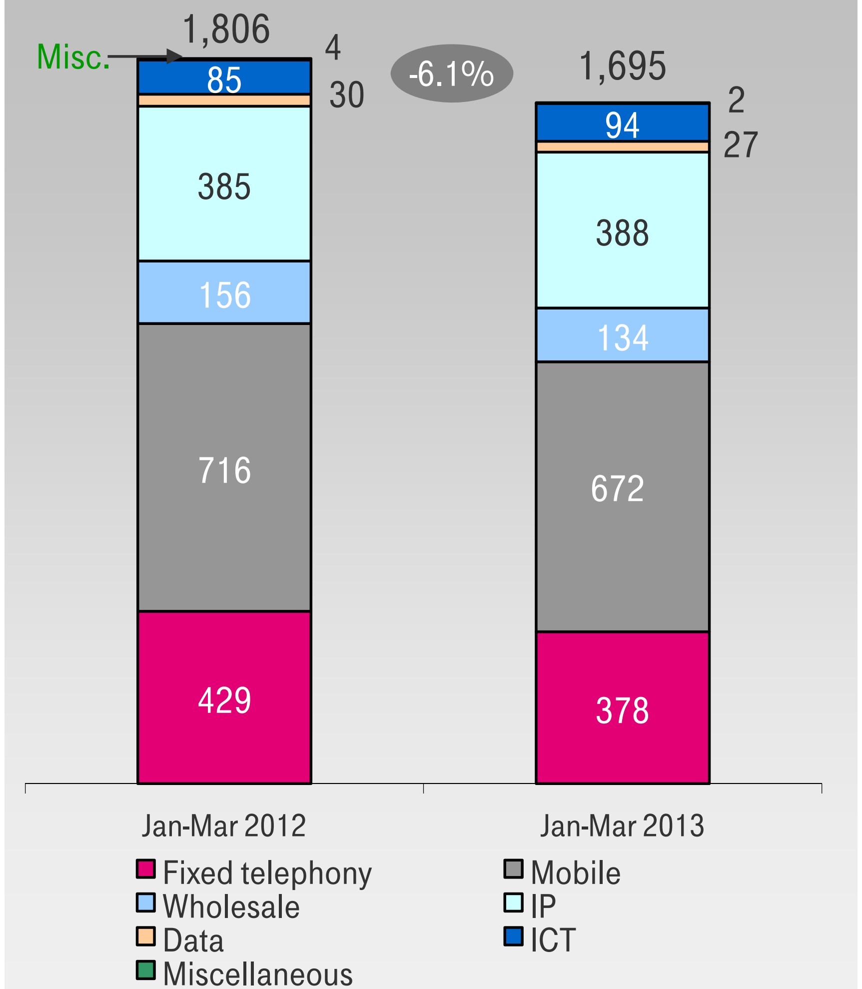
Operational

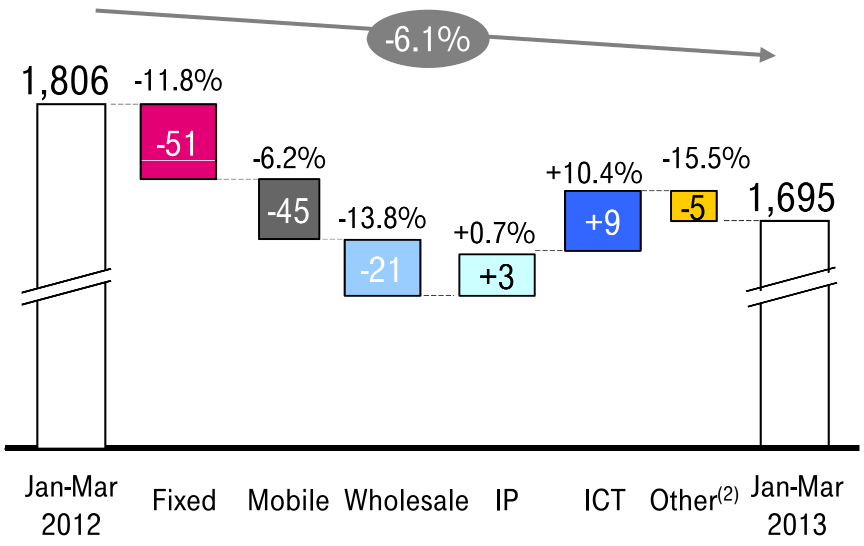
- Leading market position across all areas of business maintained
- Continued promotion of 4G mobile internet tariffs; largest coverage in the country
- Cutting edge TeraStream technology concept currently piloting
- Headcount decreased to 5,514 employees(2)
- EU roaming regulation to be applied as of 1 July 2013

(1) Exceptional items in Q1 2013 refer to redundancy provisions totalling HRK 60 million. No exceptional items in Q1 2012.
(2) Full time employees

Revenue development

Revenue breakdown (HRK million) (1)

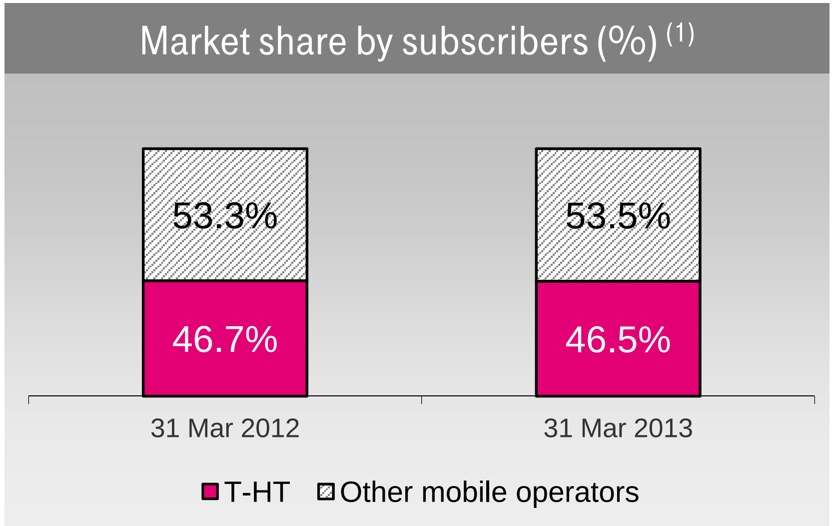


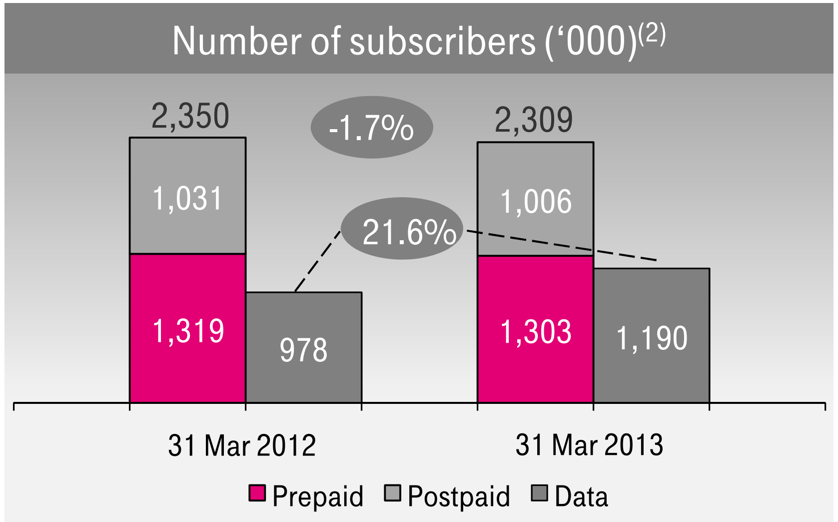


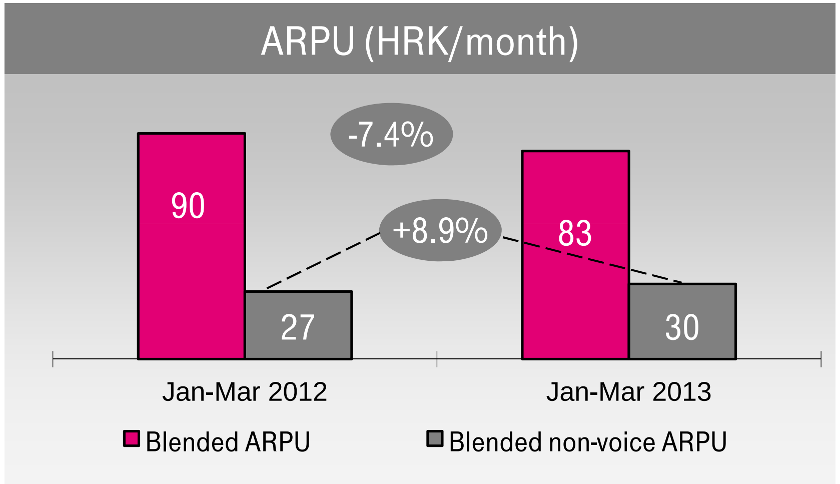
- Continued recesssion, regulatory measures and intensifying competition impact revenue
- Fixed revenue down due to general usage trends, but at a slower rate; mobile revenue declined primarily as a result of competitive pressures and continued recession; both, voice and non voice wholesale revenues down
- Continued growth in IP revenue; ICT revenue up following uptake in customised solutions
- Combis contributed HRK 75 million (Jan-Mar 2012: HRK 74 million) and Iskon: HRK 77 million (Jan-Mar 2012: HRK 72 million)

(1) Excluding other operating income
(2) Data and Miscellaneous revenue

Mobile



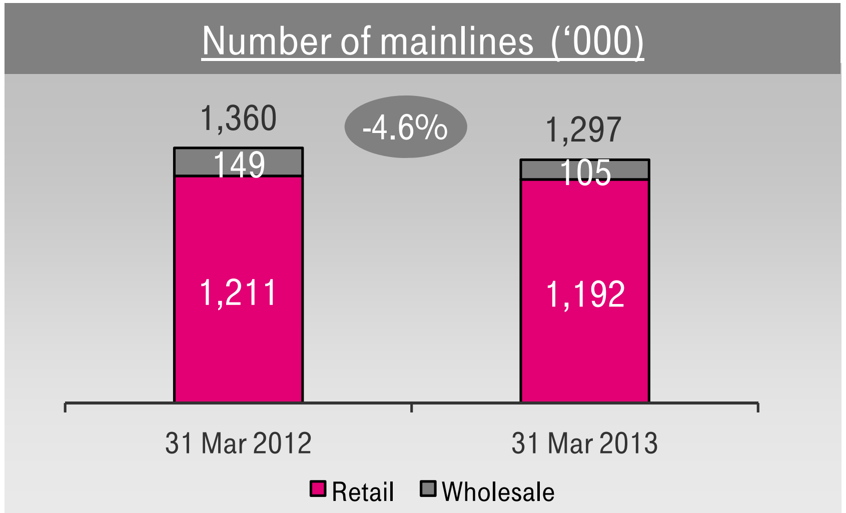


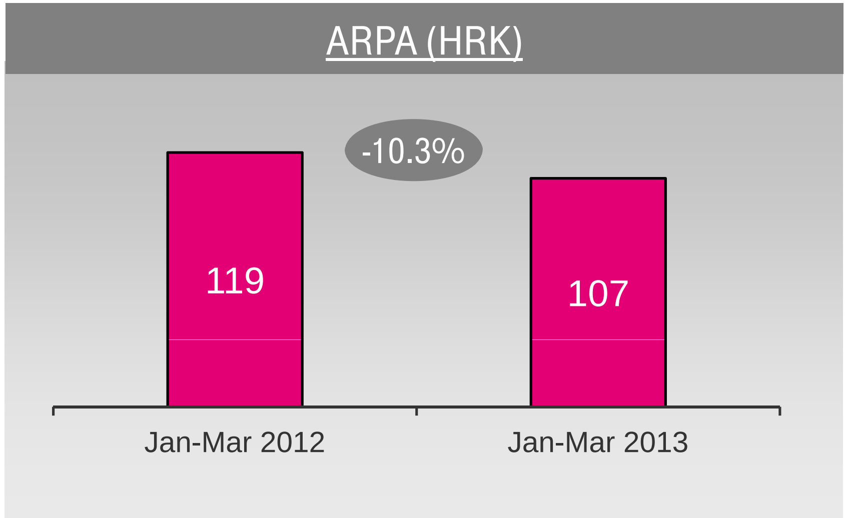


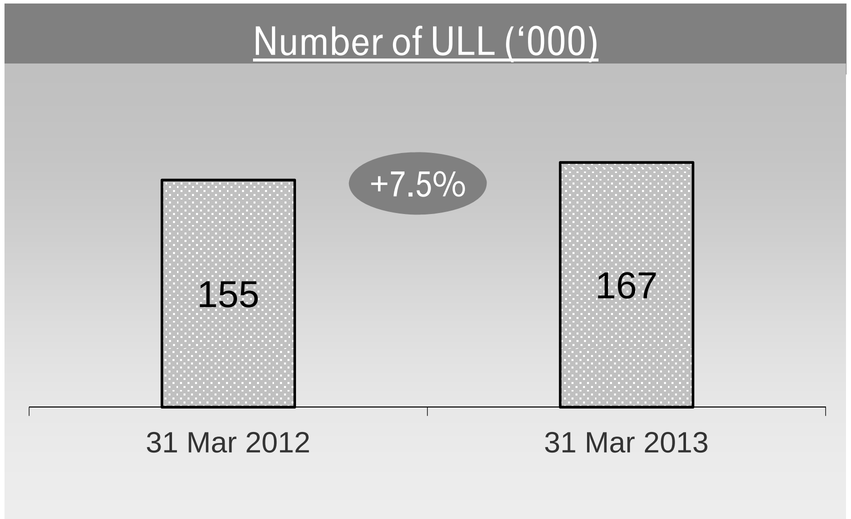
- Average MOU (minutes of use) up 24.2% to 162
- Smartphone proportion of total handset sales at 58% in postpaid segment
- New mobile tarrifs with Multimedia Package included (Deezer music streaming, MAXtv To Go,..)
- As of 1 Jan 2013 mobile termination rate set at 19.5 lp/min, down 35.2%

(1) Source: published VIPnet report for Q1 2012 and Tele2 reports for Q1 2012. Number of subscribers for VIPnet and Tele 2 for Q1 2013 is internally estimated.
(2) As of Q1 2013 Mobile Data Subscriber refers to SIM cards with recurring or non-recurring data usage, allowing access to internet and data services through the mobile network infrastructure. Recurring data usage refers to the PSD access data share of voice & data bundle price plans or options for smartphones or comparable devices with recurring payments (> 1month) and a predefined data volume (incl. flat). Non-recurring data usage refers to revenues from pay-for-use customers using smartphones or comparable devices. 2012 number internally estimated.

Fixed telephony







- Substitution of fixed traffic with mobile and IP traffic; total traffic down 17.7% to 550 million minutes
- Trend reversed and customers regained; WLR numbers significantly down, from 149,000 to 105,000

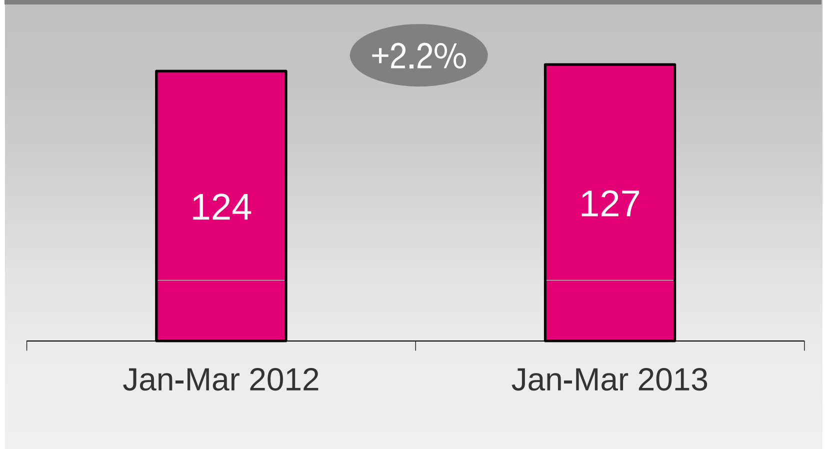
Jan – Mar 2013

T-HT Group

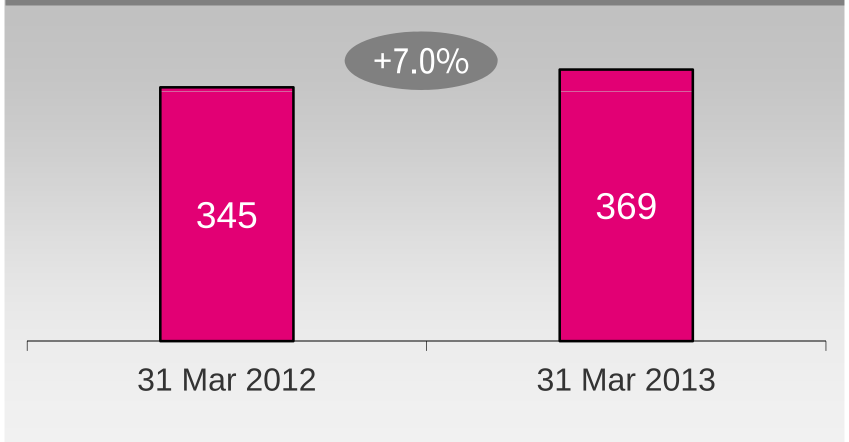
IP services

No. of broadband access lines ('000) (1)

Broadband retail ARPA (HRK) (1)



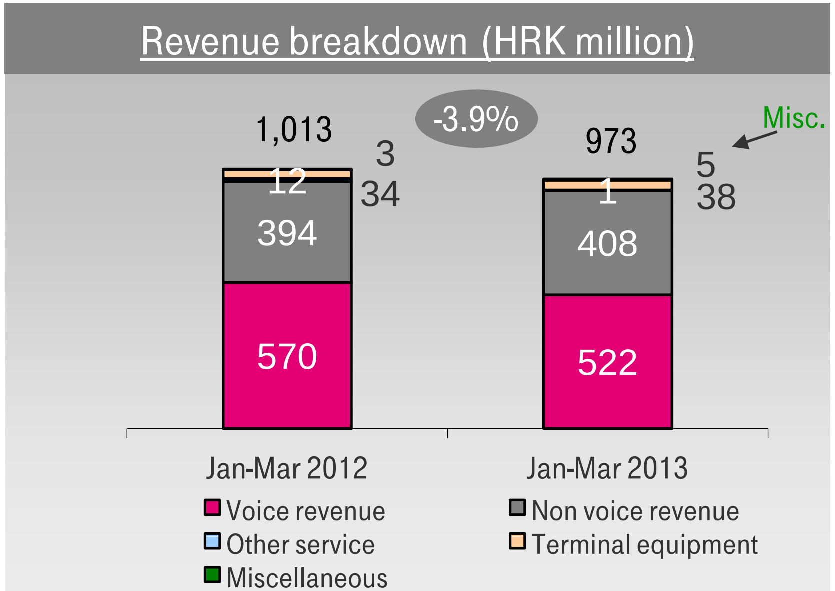
Number of TV customers ('000) (2)

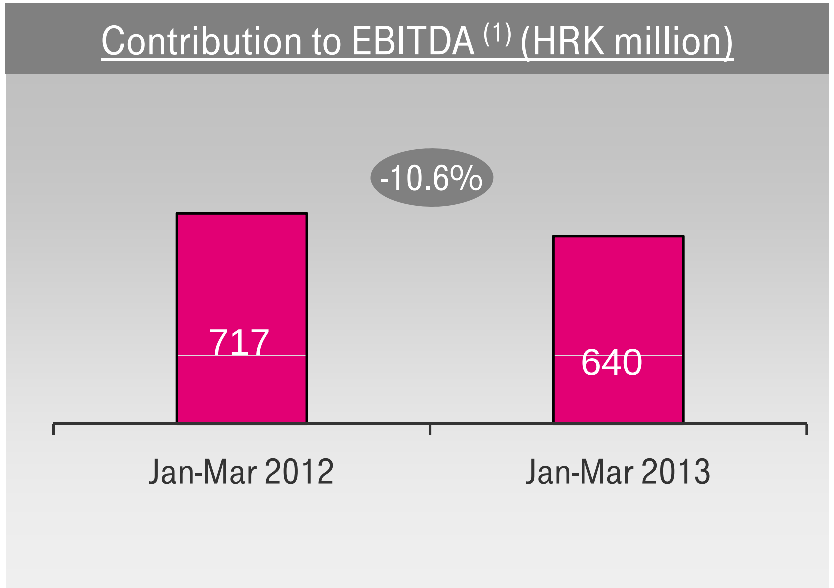


- Number of retail broadband lines impacted by wholesale bitstream offer and regulatory measures introduced in Q1 2012
- MAXtv exclusive content as differentiator: MAXtv HNL Croatian football league, Champions League, Europa League
- T-HT leader in IP transformation; around 30% of retail customers migrated

(1) Including Iskon ADSL mainlines
(2) Including Iskon IPTV customers, DTH and Cable TV customers

Residential segment



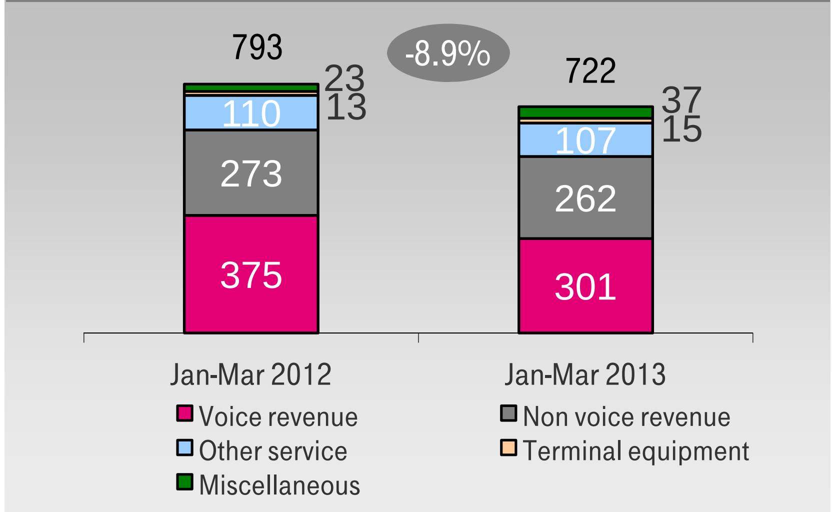


- Revenue down mainly as a result of 8.4% lower voice revenue, in both fixed and mobile; general declining trend in fixed, further economic deterioration and regulatory tightening, as well as competitive pressures
- Non-voice revenue increased 3.5% due to higher fixed IP revenue and higher mobile data revenue
- Terminal equipment revenue higher due to lower mobile handsets subsidies and extended 2012 promotional activities in fixed
- Strong growth in MAXtv Satellite; up 87.1% yoy to 30,000 customers
- HotSpotFon service launched in February; enables usage of WiFI network in more than 100 countries free of charge

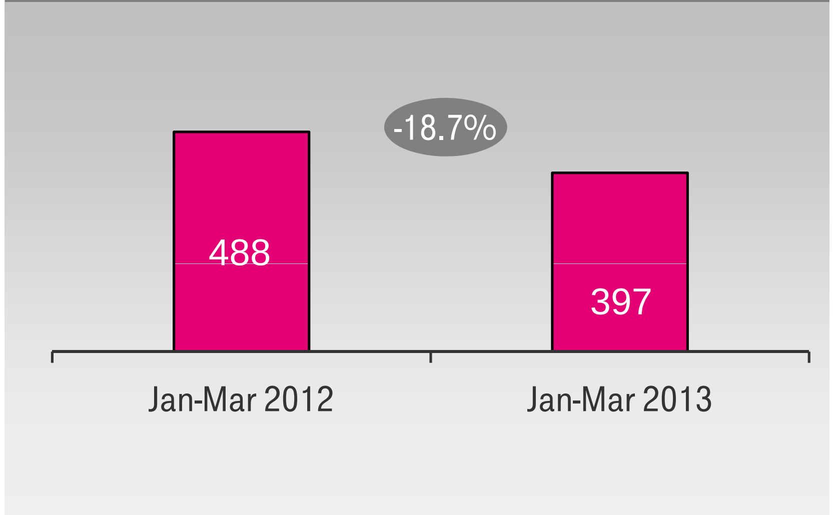
1) EBITDA before exceptional items

Business segment

Revenue breakdown (HRK million)



Contribution to EBITDA [(1)] HRK million)



- Voice revenue down 19.7% due to lower fixed and mobile voice revenues, in both retail and wholesale
- Non-voice revenue decreased 3.8% primarily due to lower fixed IP revenues and wholesale revenues due to lower revenue from infrastructure services, leased lines and global Internet access
- Other service revenue down 2.9% mainly due to different mobile tariff structures; ICT revenue rose 10.4% following successful offers in customised ICT solutions
- Further development of Cloud services; ICT Marketplace offer enlarged (Virtual server, Virtual desktop,..)
- New mobile tariff portfolio launched

1) EBITDA before exceptional items

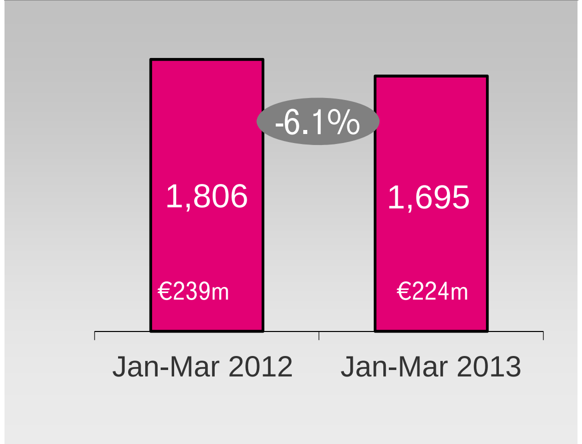
Jan – Mar 2013

T-HT Group

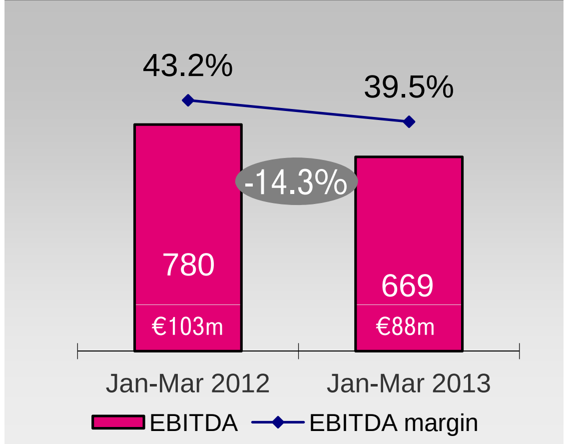
Financial highlights

all in HRK million, except where stated differently

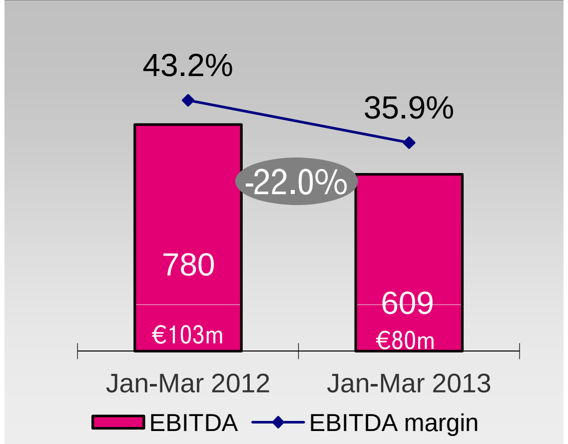
Revenue[1]



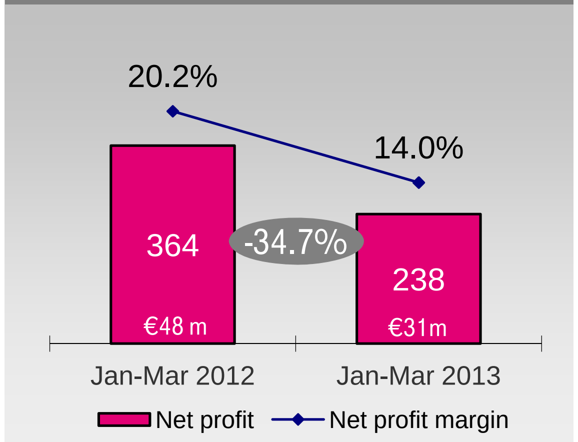
EBITDA before except. items[2]



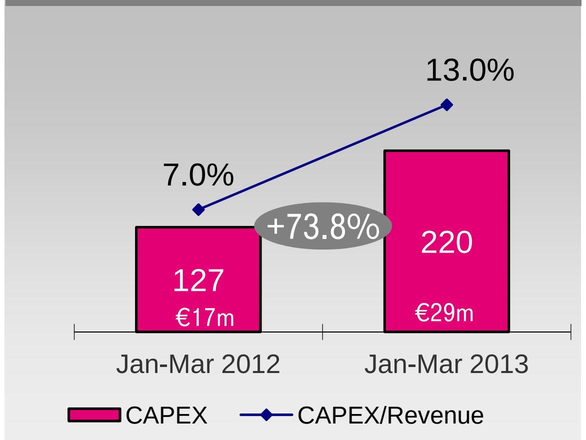
EBITDA



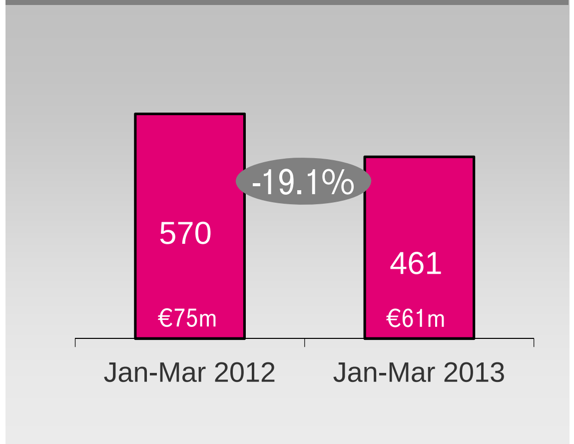
Net profit



CAPEX



Net cash flow from operations



(1) Excluding other operating income

(2) Exceptional items in Q1 2013 refer to redundancy provisions totalling HRK 60 million. No exceptional items in Q1 2012.

- HRK per Euro average rate of exchange: Jan – Mar 2012: 7.55; Jan – Mar 2013: 7.58

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Group 2013 Outlook

Revenue

Last year brought no recovery in the national economy; the recession persisted with GDP forecasts for 2012 at -1.8% and for 2013 at -0.2%. Unemployment and business payment arrears remained at high levels, public debt increased and industrial production declined further. Telecommunication spending in the residential and corporate sector has also tightened.

Competitive pressure and a stringent regulatory regime continue to exert pressure on the Group's business, whilst Croatia's entry to the European Union on 1 July 2013 is expected to have an additional negative impact on revenue.

In light of this tough economic environment, the Group's revenue will decline further in 2013. However, we expect our efforts to capitalise on certain areas of growth will help to slow the decline in Group revenue seen last year.

EBITDA before exceptional items

The economic environment and revenue trend outlined above will impact EBITDA accordingly. However, the EBITDA margin for 2013 is anticipated to remain robust at between 43% and 45%, supported by continuing cost management initiatives.

CAPEX

T-HT will focus its investment in 2013 on new service concepts, IP transformation and the development of mobile broadband, whilst the regulatory framework for planned fiber investments remains unfavourable. Excluding investment in the spectrum licence in 2012, capex in 2013 is expected to be higher than the previous year.

Regional expansion

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

Appendix

T-HT Group

Jan – Mar 2013

Consolidated income statement

in HRK million (IFRS)	Jan-Mar 2013	Jan-Mar 2012	*% of change A13/A12*
Mobile	672	716	*-6.2%*
Fixed Telephony	378	429	*-11.8%*
Wholesale	134	156	*-13.8%*
IP Revenue	388	385	*0.7%*
Data	27	30	*-10.4%*
ICT	94	85	*10.4%*
Miscellaneous	2	4	*-52.9%*
Revenue	**1,695**	**1,806**	***-6.1%***
Other operating income	35	41	*-13.3%*
Total operating revenue	**1,730**	**1,846**	***-6.3%***
Operating expenses	**1,122**	**1,066**	***5.2%***
Material expenses [1)]	491	438	*12.2%*
Merchandise, material and energy expenses	262	196	*33.5%*
Services expenses	229	241	*-5.1%*
Employee benefits expenses	326	285	*14.5%*
Other expenses	297	320	*-7.2%*
Work performed by the Group and capitalised	-8	-10	*24.2%*
Write down of assets	15	34	*-55.4%*
EBITDA	**609**	**780**	***-22.0%***
Depreciation and amortization [1)]	317	338	*-6.3%*
EBIT	**292**	**442**	***-34.0%***
Financial income	19	34	*-44.6%*
Income/loss from investment in joint ventures	3	5	*-39.5%*
Financial expenses [1)]	14	24	*-42.7%*
Profit before taxes	**300**	**457**	***-34.3%***
Taxation	62	93	*-32.9%*
Net profit	**238**	**364**	***-34.7%***
Minority interest	0	0	*-100.0%*
Net profit after minority interest	**238**	**364**	***-34.7%***
Exceptional items	60	0	-
EBITDA before exceptional items	**669**	**780**	***-14.3%***

[1)] Material expenses, Depreciation and amortization, as well as Financial expenses restated in 2012 due to change of accounting policy of content provider costs, influencing Group profitability

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Consolidated balance sheet

Jan – Mar 2013

T-HT Group

in HRK million (IFRS)	At 31 Mar 2013	At 31 Dec 2012	*% of change A13/A12*
Intangible assets	1,094	1,142	*-4.3%*
Property, plant and equipment	5,680	5,734	*-0.9%*
Non-current financial assets	977	897	*9.0%*
Receivables	20	21	*-2.9%*
Deferred tax asset	62	65	*-4.3%*
Total non-current assets	**7,833**	**7,858**	***-0.3%***
Inventories	183	155	*17.7%*
Receivables	1,179	1,219	*-3.3%*
Current financial assets	129	586	*-78.0%*
Cash and cash equivalents	3,793	3,146	*20.6%*
Prepayments and accrued income	146	148	*-1.8%*
Total current assets	**5,430**	**5,254**	***3.3%***
TOTAL ASSETS	**13,263**	**13,113**	***1.1%***
Subscribed share capital	8,189	8,189	*0.0%*
Reserves	409	409	*0.0%*
Revaluation reserves	0	-1	*124.5%*
Retained earnings	2,316	606	*282.0%*
Net profit for the period	238	1,696	*-86.0%*
Non-controlling interest	0	0	-
Total issued capital and reserves	**11,152**	**10,899**	***2.3%***
Provisions	206	227	*-9.2%*
Non-current liabilities	51	52	*-1.6%*
Deferred tax liability	4	0	-
Total non-current liabilities	**261**	**279**	***-6.5%***
Current liabilities	1,573	1,667	*-5.7%*
Accrued expenses and deferred income	116	122	*-4.7%*
Provisions for redundancy	162	146	*10.7%*
Total current liabilities	**1,850**	**1,935**	***-4.4%***
Total liabilities	**2,111**	**2,214**	***-4.6%***
TOTAL EQUITY AND LIABILITIES	**13,263**	**13,113**	***1.1%***

Consolidated cash flow statement

in HRK million (IFRS)	Jan-Mar 2013	Jan-Mar 2012	*% of change A13/A12*
Profit before tax	300	457	*-34.3%*
Depreciation and amortization [1)]	317	338	*-6.3%*
Increase / decrease of current liabilities [1)]	-64	-156	*58.9%*
Increase / decrease of current receivables	62	41	*50.2%*
Increase / decrease of inventories	-22	21	*-204.3%*
Other cash flow decreases [1)]	-131	-130	*-0.4%*
Net cash inflow/outflow from operating activities	**461**	**570**	***-19.1%***
Proceeds from sale of non-current assets	13	0	
Proceeds from sale of non-current financial assets	1	0	*142.8%*
Interest received	12	22	*-45.5%*
Dividend received	0	0	-
Other cash inflows from investing activities	464	239	*94.3%*
Total increase of cash flow from investing activities	**490**	**262**	***87.2%***
Purchase of non-current assets [1)]	-220	-127	*-73.8%*
Purchase of non-current financial assets	-75	0	-
Other cash outflows from investing activities	-7	-921	*99.2%*
Total decrease of cash flow from investing activities	**-303**	**-1,048**	*71.1%*
Net cash inflow/outflow from investing activities	**187**	**-786**	***123.8%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	-2	-1	*-49.7%*
Dividends paid	0	-907	*100.0%*
Repayment of finance lease	-2	-1	*-62.6%*
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	**-3**	**-909**	***99.6%***
Net cash inflow/outflow from financing activities	**-3**	**-909**	***99.6%***
Exchange gains/losses on cash and cash equivalents	2	-1	*254.1%*
Cash and cash equivalents at the beginning of period	3,146	3,704	*-15.1%*
Net cash (outflow) / inflow	647	-1,126	*157.5%*
Cash and cash equivalents at the end of period	**3,793**	**2,578**	***47.2%***

[1)] 2012 is restated due to change of accounting policy of content provider costs

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Zagreb Stock Exchange Share trading symbol: HT-R-A
Reuters: THTC.L, HT.ZA
Bloomberg: THTC LI, HTRA CZ