

# Business and Financial Review January – June 2013

26 July 2013



Živjeti zajedno

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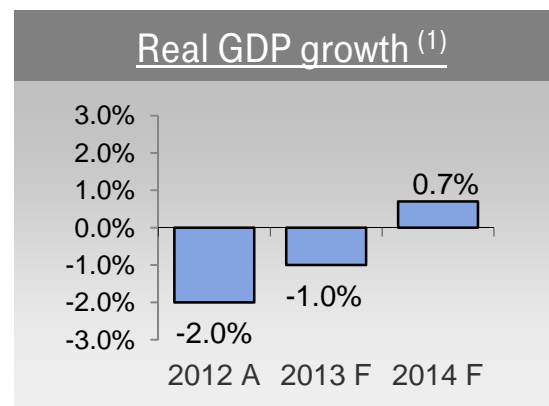
## Business environment highlights

### Croatian economy - facts <sup>(1)</sup>

- Recession continues; 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 1.0% decline
- Standard & Poor's (Dec 2012) and Moody's (Feb 2013) credit ratings of sub-investment grade with stable outlook still unchanged
- Registered unemployment rate 18.6% in June 2013 (June 2012: 17.3%)
- Inflation<sup>(2)</sup> at 2% in June 2013
- Continuously falling disposable income
- Good start to tourist season: tourist arrivals in Jan-Jun 2013 up 5% at 3.6 million

### Croatian economy - prospects

- Budget deficit under pressure: intention of large privatisations (CO & HPB) and highways' monetization announced (30-50 years concession)
- Still awaiting far-reaching structural reforms and improvements in investment environment
- Accession to EU on 1 July 2013
  - Structural and other funds
  - Foreign direct investments expected to increase



(1) Source: Central Bureau of Statistics, Croatian National Tourist Board, Croatian National Bank; Latest GDP forecast taken from Croatian National Bank's statement (July 2013)

(2) Annual inflation growth rate, measured by changes in consumer prices

# Telecom and ICT Market in Croatia

## Fixed Voice

- 9 licensed active operators on the market<sup>(1)</sup>
- CPS, ULL, WLR<sup>(2)</sup>, naked bitstream and bitstream available
- Minutes of use decreased by 20.7% in Q1 2013

## Mobile

- 3 operators on the market, 7 brands
- Mobile penetration at 118%, down 1pp yoy
- Minutes of use increased by 22.6% in Q1 2013, but revenue continues to decline
- Growth in mobile broadband
- T-HT Smartphone penetration 27%<sup>(3)</sup> vs 45% WE<sup>(4)</sup>

## Fixed Broadband

- Broadband lines at 901,000 in Q1 2013, +3.6% yoy
- Fixed line BB household penetration<sup>(3)</sup>: 49% vs 73% Western Europe (WE)<sup>(4)</sup>

## PayTV

- 643,000 payTV customers in Q1 2013, +5.8% yoy
- PayTV HH penetration<sup>(3)</sup>: 42% vs 55% WE<sup>(4)</sup>
- 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<sup>(5)</sup>
- The market continued to be impacted by continued negative economic development
- As Croatia approached full EU membership significant IT projects expected
- Combis, member of T-HT Group, has maintained its leading position in the Croatian ICT services market<sup>(5)</sup>

(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 handsets in circulation; payTV connections per total households

(4) Source: Informa

(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 5.9% to HRK 3,435 million; tough economic, competitive and regulatory environment continues
- EBITDA before exceptional items<sup>(1)</sup> down 14.2% to HRK 1,422 million; margin at 41.4%
  - EBITDA decreased 17.8% to HRK 1,362 million; margin at 39.7%
- Net profit down 29.4% to HRK 570 million; margin at 16.6%
- Capex up 64.9% at HRK 612 million
- Dividend of HRK 20.51 per share approved and paid out in July 2013

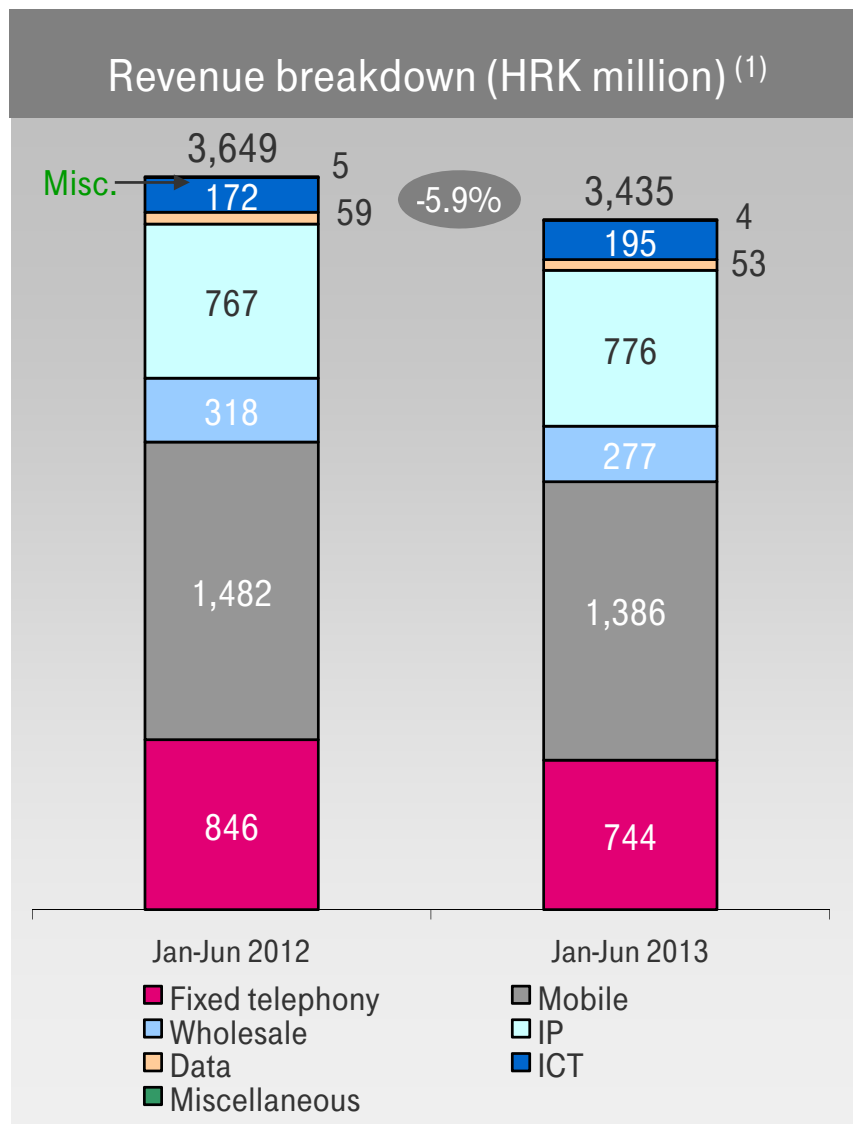
### Operational

- Leading market position across all areas of business maintained
- Continued promotion of 4G mobile internet tariffs; largest coverage in the country
- Continued growth in TV customers
- Transformation initiatives in progress
- Headcount decreased to 5,609 employees<sup>(2)</sup>
- EU roaming regulation applied as of 1 July 2013
  - Successful strategic roaming partnership with Telekom Slovenija

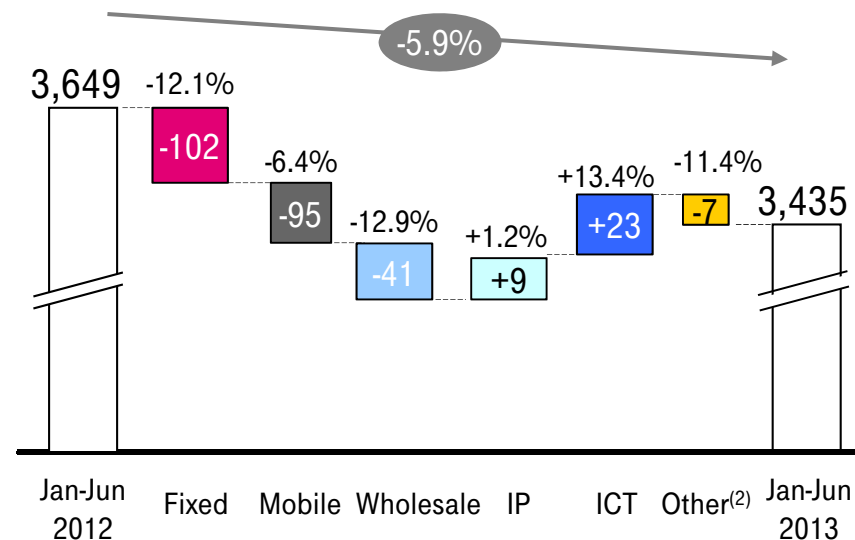
(1) Exceptional items in H1 2013 refer to redundancy provisions totalling HRK 60 million. No exceptional items in H1 2012.

(2) Full time employees

# Revenue development

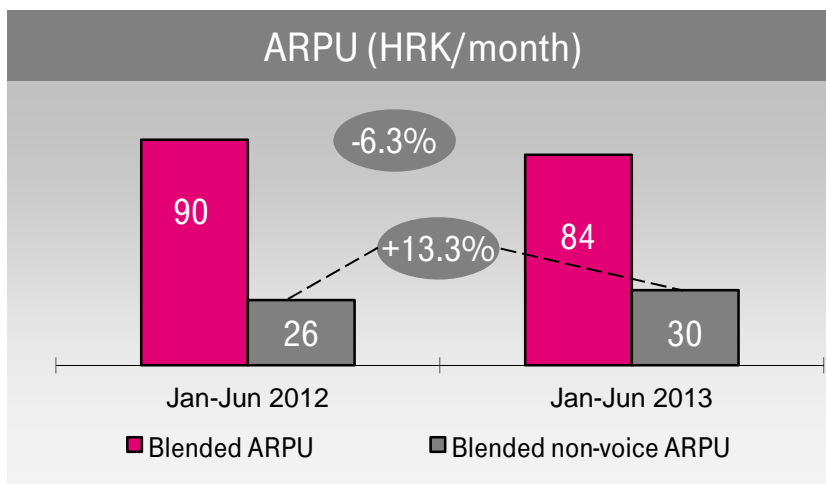
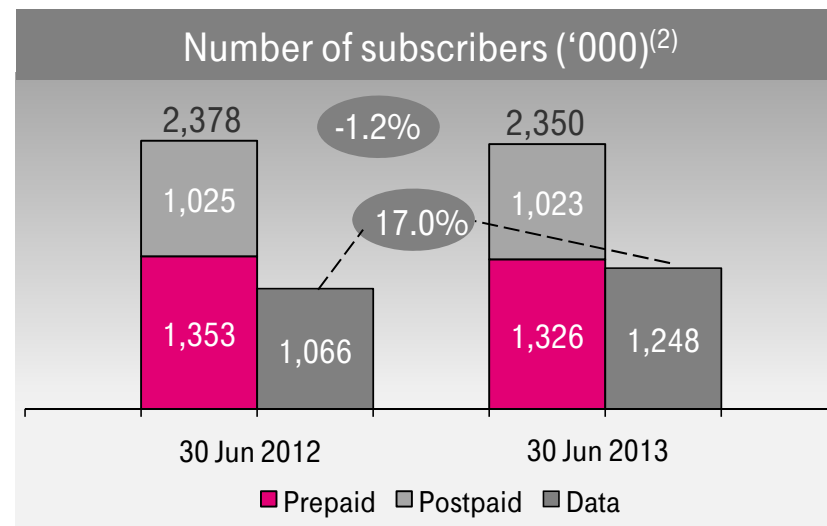
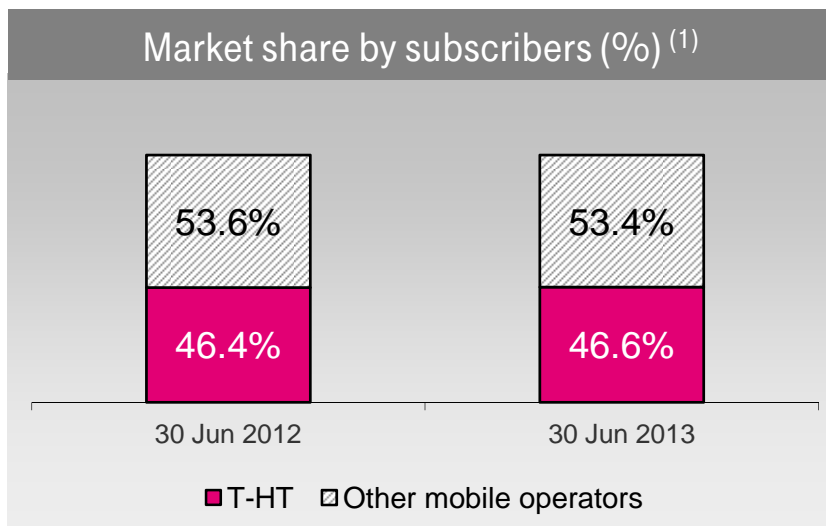


(1) Excluding other operating income  
 (2) Data and Miscellaneous revenue



- Continued recession, regulatory measures and intensifying competition impact revenue
- Fixed revenue down due to general usage trends, but at a slower rate compared to 2012; 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 13.4% following uptake in customised solutions
- Combis contributed HRK 153 million (Jan-Jun 2012: HRK 151 million) and Iskon: HRK 161 million (Jan-Jun 2012: HRK 148 million)

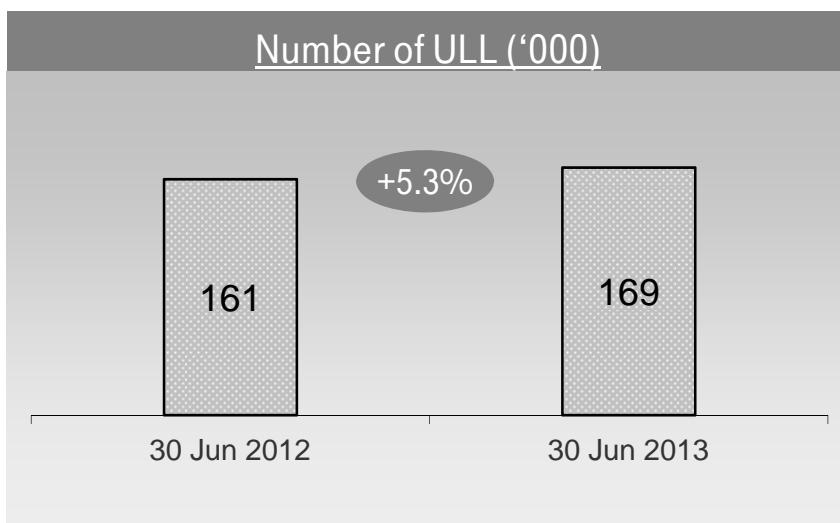
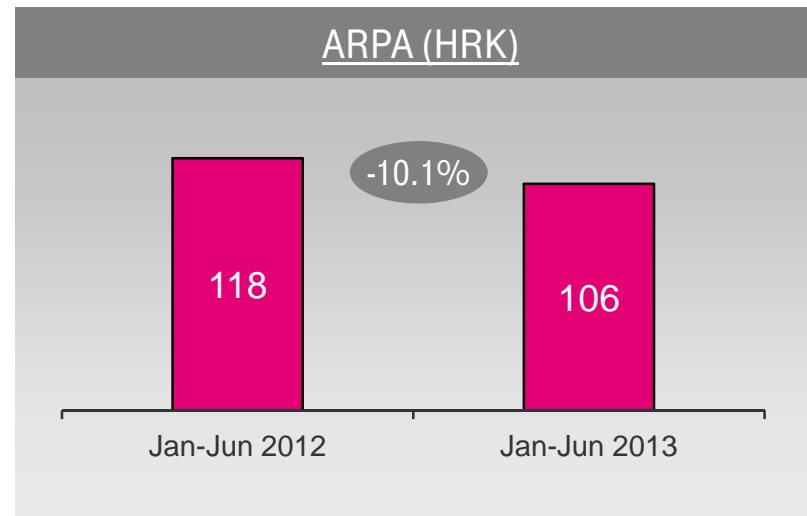
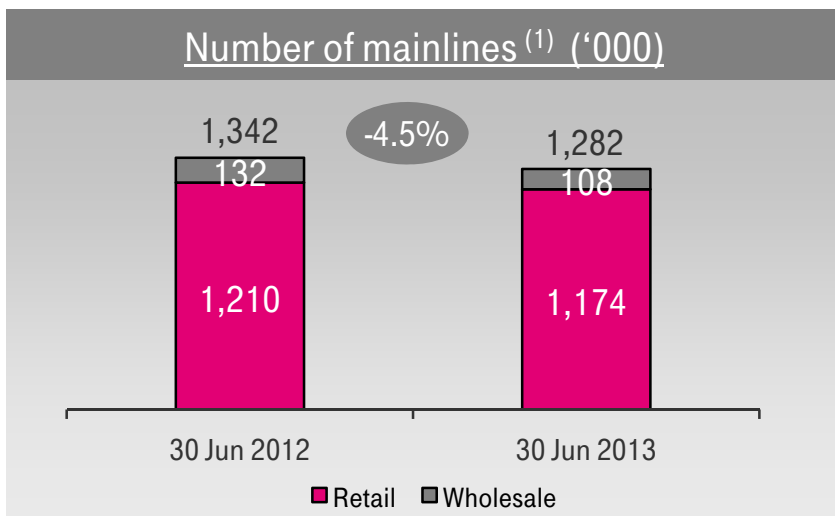
# Mobile



- Average MOU (minutes of use) up 24.8% to 171
- Smartphone proportion of total handset sales at 56% in postpaid segment
- National mobile termination rate of 19.5 lp/min valid from 1 Jan 2013 decreased further, as of:
  - 1 Jul 2013 to 19.3 lp/min
  - 1 Jan 2014 to 12.8 lp/min and
  - 1 Jan 2015 to 6.3 lp/min

(1) Source: VIPnet's quarterly report for 2Q 2012 and Tele2's quarterly report for 2Q 2012. Number of subscribers for VIPnet and Tele2 for 2Q 2013 are 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 (> 1 month) 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

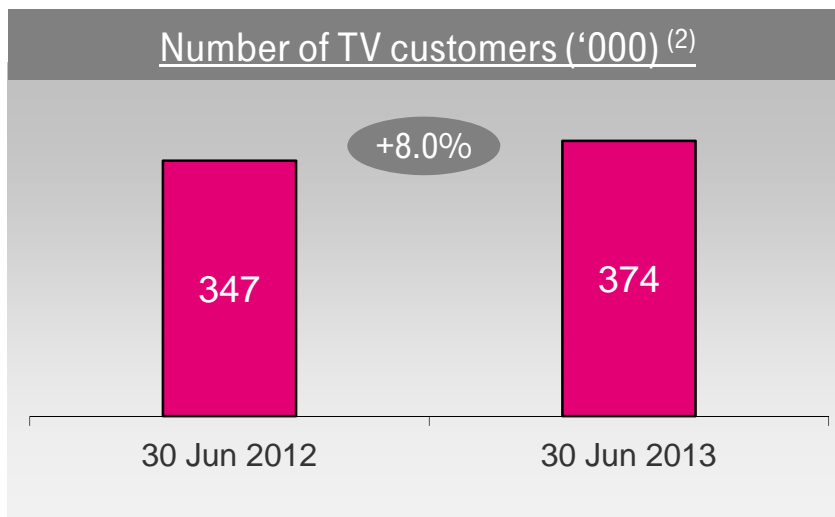
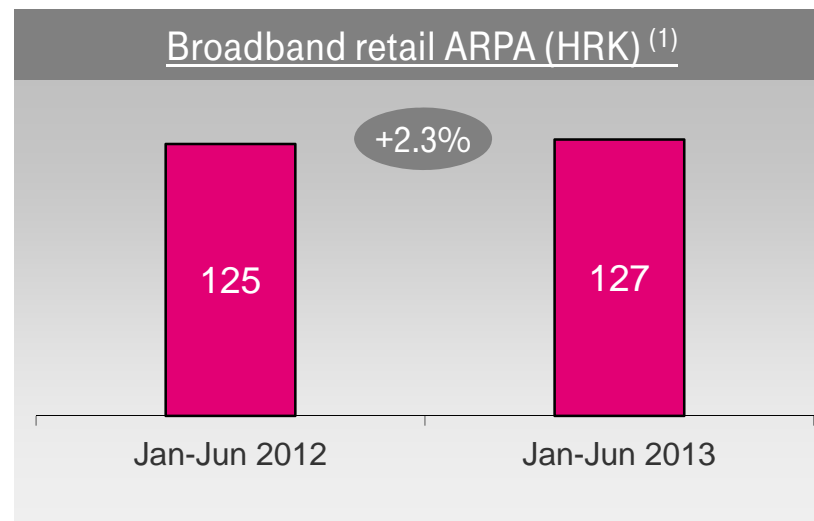
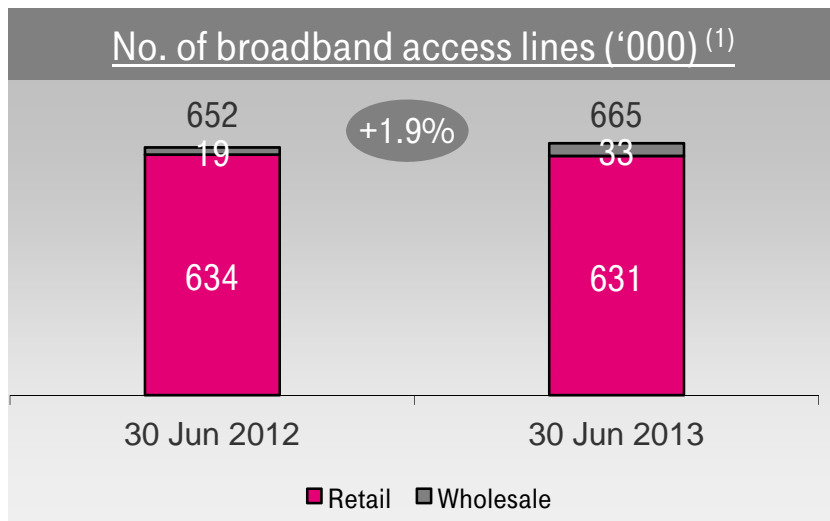


- Substitution of fixed traffic with mobile and IP traffic; total traffic down 17.1% to 1,053 million minutes
- Trend reversed and customers regained; WLR numbers significantly down, from 132,000 to 108,000

(1) Includes PSTN, FGSM and IP Voice customers migrated to IP platform; Payphones excluded



# IP services

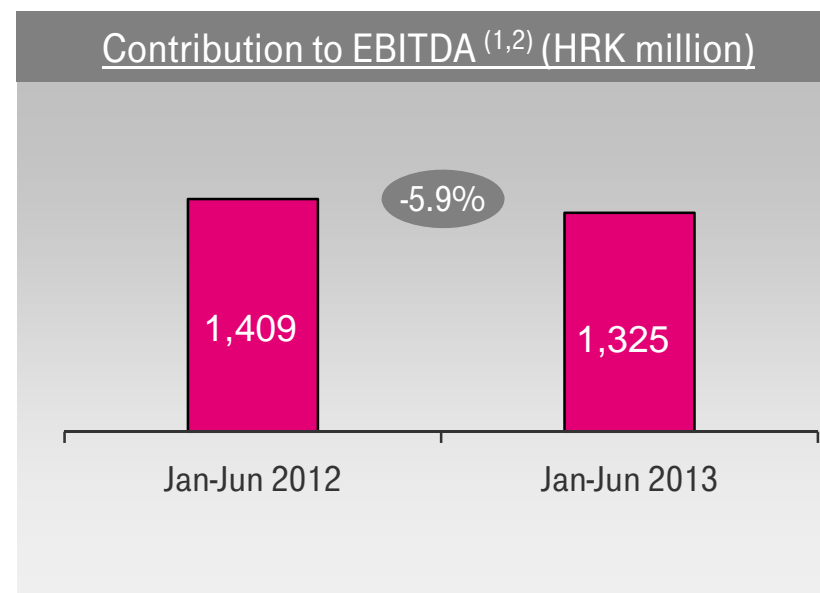
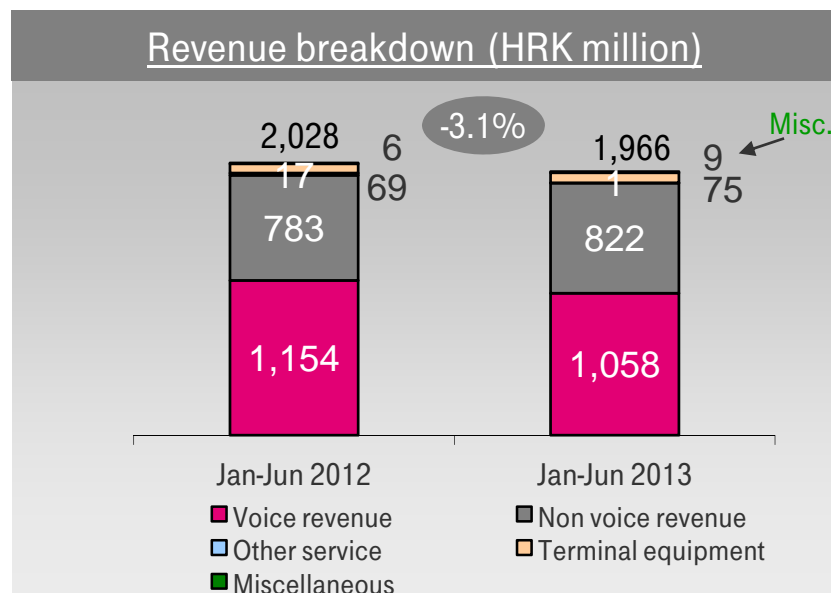


- The MaxADSL “double speed” promotion was launched in May in residential segment and Poslovni Ultra packages, based on FttH technology in business segment
- T-HT leader in IP transformation; 32% of retail customers migrated

(1) Including Iskon ADSL mainlines

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

## Residential segment

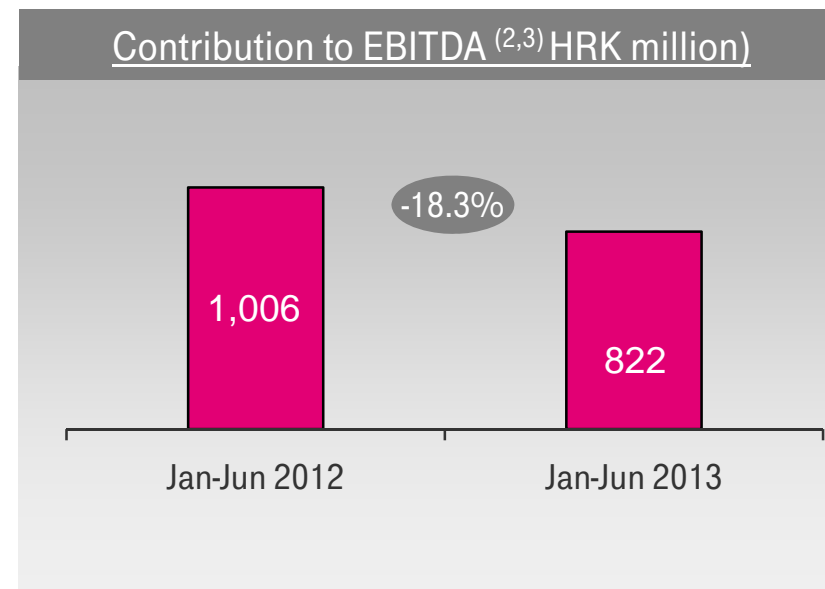
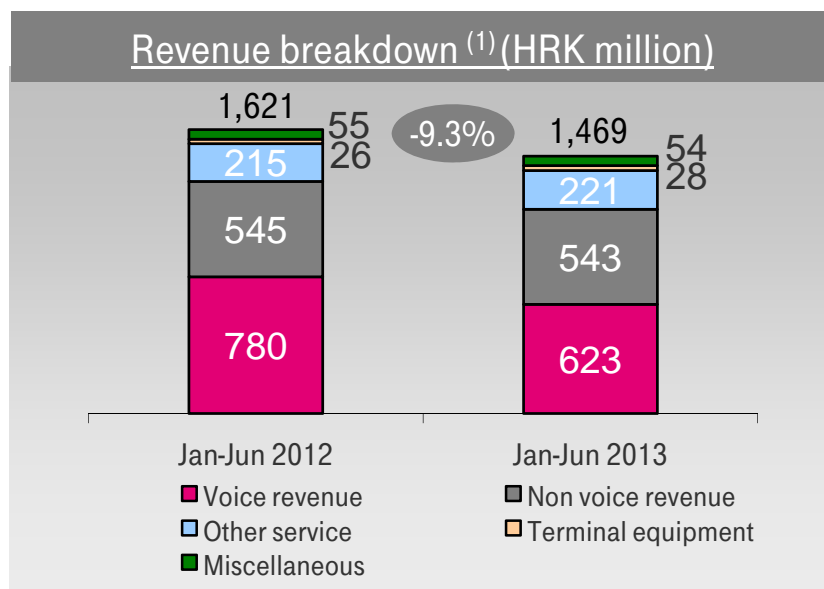


- Revenue down mainly as a result of 8.3% lower voice revenue, in both fixed and mobile; general declining trend in fixed, further economic deterioration and regulatory tightening, as well as competitive pressures
- Non-voice revenue increased 5.1% due to higher fixed IP revenue (broadband and TV) and higher mobile data revenue
- Terminal equipment revenue higher due to lower mobile handset subsidies and extended Christmas 2012 promotional activities in fixed
- T-HT awarded gold QUDAL medal for best provider in 11 different categories
- Strong growth in MAXtv Satellite; up 82.9% yoy to 31,000 customers

1) Operating expenses per segment for 2012 restated due to the changed recognition of content provider costs at the end of 2012 and due to organisational changes in 2013.

2) EBITDA before exceptional items

## Business segment

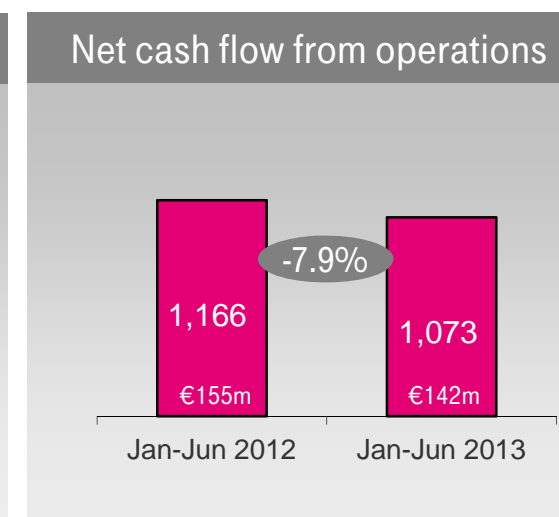
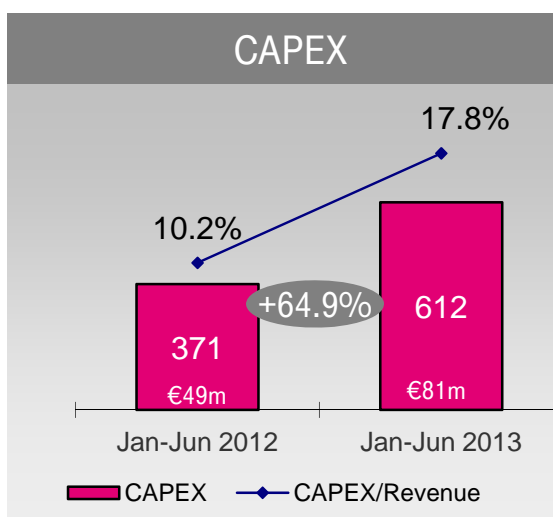
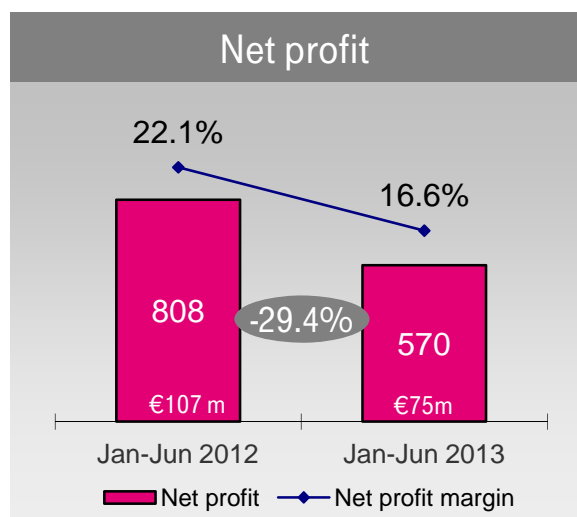
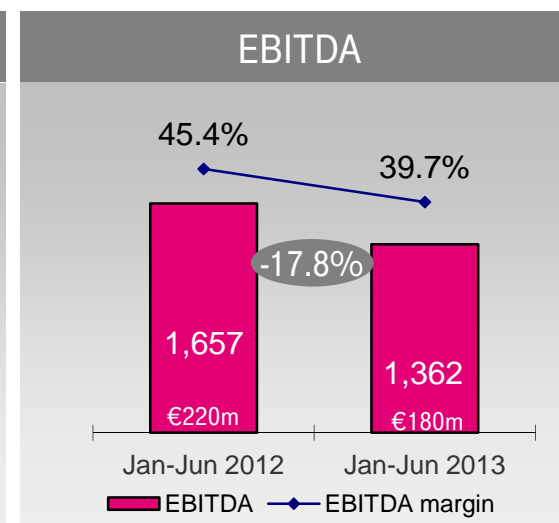
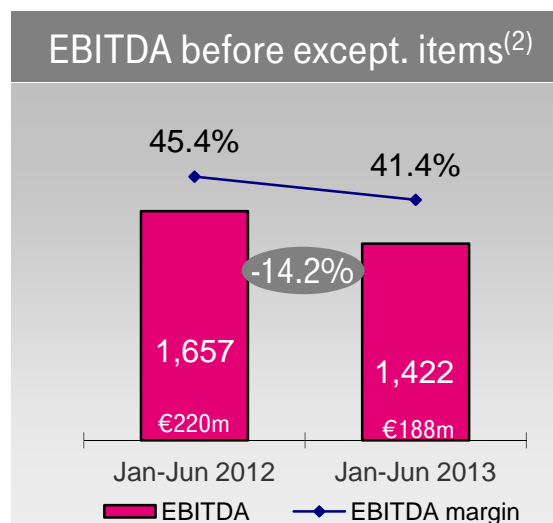
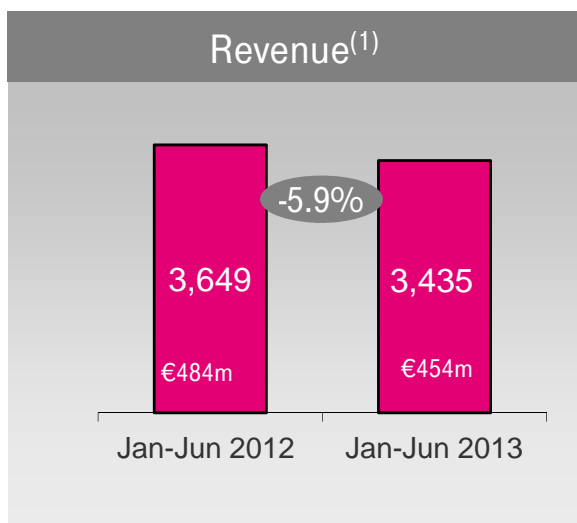


- Revenue down due to 20.2% lower voice revenue, in fixed and mobile, in both retail and wholesale
- Non-voice revenue decreased 0.4%; lower fixed traditional data and wholesale revenues were almost offset by revenue growth in mobile data and visitors revenue
- Other service revenue up 2.9% due to 13.4% growth in ICT revenue following successful offers in customised ICT solutions; this was partially offset by lower postpaid subscription revenue after changes in mobile tariff structures
- Further development of Cloud services; more than 1,300 companies / customers
- New mobile tariff portfolio launched

1) Revenue structure restated for 2012 to be in line with segment reporting in 2013 (Iskon contribution to Group interconnection revenue reclassified from non-voice to voice revenue).  
 2) Operating expenses per segment for 2012 changed restated due to changed recognition of content provider costs at the end of 2012 and due to organisational changes in 2013.  
 3) EBITDA before exceptional items

# Financial highlights

all in HRK million, except where stated differently



(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 - Jun 2012: 7.54; Jan - Jun 2013: 7.57

## Group 2013 Outlook

	2012 Results	2013 Outlook
<b>Revenue</b>	Decline: 7.6%	..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.
<b>EBITDA before exceptional items</b>	Margin: 47.2%	..However, the EBITDA margin for 2013 is anticipated to remain robust at between 43% and 45%, supported by continuing cost management initiatives.
<b>CAPEX excl. spectrum</b>	HRK 1,030 million	..Excluding investment in the spectrum licence in 2012, capex in 2013 is expected to be higher than the previous year.
<b>Regional Expansion</b>	The Group continues to monitor and evaluate expansion opportunities to increase shareholder value.	

# Appendix

# Consolidated income statement

in HRK million (IFRS)	Jan-Jun 2013	Jan-Jun 2012	% of change A13/A12
Mobile	1,386	1,482	-6.4%
Fixed Telephony	744	846	-12.1%
Wholesale	277	318	-12.9%
IP Revenue	776	767	1.2%
Data	53	59	-10.5%
ICT	195	172	13.4%
Miscellaneous	4	5	-20.4%
<b>Revenue</b>	<b>3,435</b>	<b>3,649</b>	<b>-5.9%</b>
Other operating income	99	107	-7.5%
<b>Total operating revenue</b>	<b>3,534</b>	<b>3,755</b>	<b>-5.9%</b>
<b>Operating expenses</b>	<b>2,172</b>	<b>2,099</b>	<b>3.5%</b>
Material expenses <sup>1)</sup>	950	904	5.0%
Merchandise, material and energy expenses	491	411	19.5%
Services expenses	459	493	-7.0%
Employee benefits expenses	603	559	7.8%
Other expenses	605	611	-1.0%
Work performed by the Group and capitalised	-27	-29	5.9%
Write down of assets	42	53	-22.2%
<b>EBITDA</b>	<b>1,362</b>	<b>1,657</b>	<b>-17.8%</b>
Depreciation and amortization <sup>1)</sup>	637	681	-6.5%
<b>EBIT</b>	<b>725</b>	<b>976</b>	<b>-25.7%</b>
Financial income	29	45	-36.8%
Income/loss from investment in joint ventures	10	7	35.7%
Income from investment in associates			-
Financial expenses <sup>1)</sup>	48	31	56.7%
<b>Profit before taxes</b>	<b>716</b>	<b>998</b>	<b>-28.3%</b>
Taxation	146	190	-23.3%
<b>Net profit</b>	<b>570</b>	<b>808</b>	<b>-29.4%</b>
Minority interest	0	0	-100.0%
<b>Net profit after minority interest</b>	<b>570</b>	<b>808</b>	<b>-29.4%</b>
Exceptional items	60	0	-
<b>EBITDA before exceptional items</b>	<b>1,422</b>	<b>1,657</b>	<b>-14.2%</b>

<sup>1)</sup> 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

# Consolidated balance sheet

in HRK million (IFRS)	At 30 Jun 2013	At 31 Dec 2012	% of change A13/A12
Intangible assets	1,171	1,142	2.5%
Property, plant and equipment	5,676	5,734	-1.0%
Non-current financial assets	898	897	0.2%
Receivables	20	21	-5.4%
Deferred tax asset	60	65	-7.7%
<b>Total non-current assets</b>	<b>7,825</b>	<b>7,858</b>	<b>-0.4%</b>
Inventories	200	155	28.8%
Receivables	1,349	1,219	10.7%
Current financial assets	187	586	-68.0%
Cash and cash equivalents	4,064	3,146	29.2%
Prepayments and accrued income	159	148	7.3%
<b>Total current assets</b>	<b>5,960</b>	<b>5,254</b>	<b>13.4%</b>
<b>TOTAL ASSETS</b>	<b>13,785</b>	<b>13,113</b>	<b>5.1%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.0%
Revaluation reserves	-2	-1	-62.6%
Retained earnings	637	606	5.0%
Net profit for the period	570	1,696	-66.4%
Non-controlling interest	0	0	-
<b>Total issued capital and reserves</b>	<b>9,803</b>	<b>10,899</b>	<b>-10.1%</b>
Provisions	193	227	-14.8%
Non-current liabilities	122	52	132.7%
Deferred tax liability	4	0	-
<b>Total non-current liabilities</b>	<b>318</b>	<b>279</b>	<b>14.1%</b>
Current liabilities	1,777	1,667	6.6%
Dividend payable	1,680	0	-
Deferred income	127	122	4.8%
Provisions for redundancy	80	146	-45.2%
<b>Total current liabilities</b>	<b>3,664</b>	<b>1,935</b>	<b>89.4%</b>
Total liabilities	3,983	2,214	79.9%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,785</b>	<b>13,113</b>	<b>5.1%</b>



# Consolidated cash flow statement

in HRK million (IFRS)	Jan-Jun 2013	Jan-Jun 2012	% of change A13/A12
Profit before tax	716	998	-28.3%
Depreciation and amortization <sup>1)</sup>	637	681	-6.5%
Increase / decrease of current liabilities <sup>1)</sup>	179	-178	200.6%
Increase / decrease of current receivables	-120	-50	-139.3%
Increase / decrease of inventories	-45	-1	-3562.1%
Other cash flow decreases <sup>1)</sup>	-294	-284	-3.7%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,073</b>	<b>1,166</b>	<b>-7.9%</b>
Proceeds from sale of non-current assets	44	2	1780.0%
Proceeds from sale of non-current financial assets	1	1	-3.1%
Interest received	16	34	-52.0%
Dividend received	0	0	-
Other cash inflows from investing activities	493	590	-16.5%
<b>Total increase of cash flow from investing activities</b>	<b>554</b>	<b>627</b>	<b>-11.7%</b>
Purchase of non-current assets <sup>1)</sup>	-612	-371	-64.9%
Purchase of non-current financial assets	-75	0	-
Other cash outflows from investing activities	-7	-1,106	99.4%
<b>Total decrease of cash flow from investing activities</b>	<b>-694</b>	<b>-1,477</b>	<b>53.0%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-140</b>	<b>-850</b>	<b>83.5%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	-2	-3	41.7%
Dividends paid	0	-1,813	100.0%
Repayment of finance lease	-3	-3	-10.1%
Other cash outflows from financing activities	0	0	-
<b>Total decrease in cash flow from financing activities</b>	<b>-5</b>	<b>-1,819</b>	<b>99.7%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-5</b>	<b>-1,819</b>	<b>99.7%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-10</b>	<b>-1</b>	<b>-679.9%</b>
Cash and cash equivalents at the beginning of period	3,146	3,704	-15.1%
Net cash (outflow) / inflow	918	-1,505	161.0%
<b>Cash and cash equivalents at the end of period</b>	<b>4,064</b>	<b>2,199</b>	<b>84.9%</b>

<sup>1)</sup> 2012 is restated due to change of accounting policy of content provider costs

## Investor relations contact

- Erika Kašpar  
Tel: + 385 1 4912 000
- Elvis Knežević  
Tel: + 385 1 4911 114
- Anita Marić Šimek  
Tel: +385 1 4911 884
  
- e-mail: [ir@t.ht.hr](mailto:ir@t.ht.hr)
- [www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)

London Stock Exchange GDR trading symbol: THPTC

Zagreb Stock Exchange Share trading symbol: HT-R-A

Reuters: THPTC.L, HT.ZA

Bloomberg: THPTC LI, HTRA CZ