



# H1 2008 Business and Financial Review

Ivica Mudrinić, President of the Management Board and CEO  
Juergen P. Czapran, Member of the Management Board and CFO

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# Croatia and its telecom market

## Croatia at a glance

- 4.4 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- 90,000+ companies
- 11.2 million tourists in 2007  
(89% from abroad)



## 2008 Economic data<sup>(1)</sup>

- GDP<sup>(3)</sup> per capita: €9,185
- Real GDP growth: 6.1%
- Unemployment rate: 8.6%
- Average net salary Jan-Apr 2008: €690
- Inflation rate in June 2008<sup>(3)</sup>: 5.1%

<sup>(1)</sup> Croatian Ministry of Finance's Economic and Fiscal Policy Guidelines for the period 2008-2010

<sup>(2)</sup> Annual average inflation as published by the Central Bureau of Statistics

<sup>(3)</sup> Gross domestic product

Sources: Ministry of Finance, Central Bureau of Statistics, Croatian National Bank

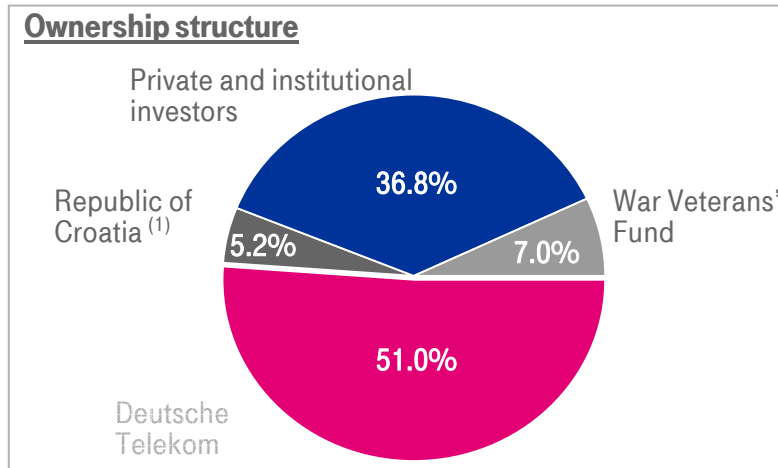
## Croatian telecom market

- Fixed line
  - 15 licensed operators, of which 10 active
  - CPS, ULL and bit-stream available
- Mobile
  - 3 operators on the market, no mobile virtual network operators (MVNO)
  - Mobile penetration: 121.5%
- Internet
  - ~45% of households with Internet access
  - Broadband household penetration: 25%
- Cable
  - Cable TV household penetration: 9%
  - Cable TV broadband penetration: 1%

Sources: Croatian Agency for Telecommunications, Puls market survey, Company's internal estimates

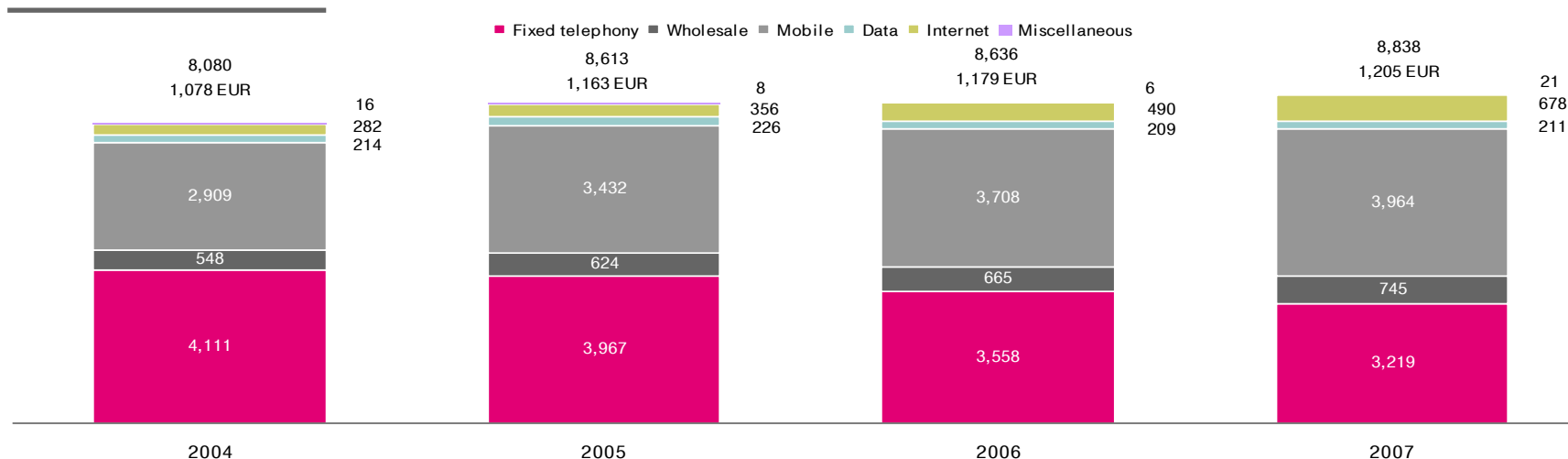
# About T-HT Group

- Full-service telecom provider and market leader in all major segments; full liberalisation since 2005
- Two business units:
  - T-Mobile (mobile operations)
  - T-Com (fixed telephony, internet, data, wholesale)
- 50%-100% dividend policy, 100% payout ratio for FY 2007
- Above industry average EBITDA margin
- Technological and quality leadership, strong expertise in IP Networks
- Listed on the LSE and ZSE since October 2007



CAGR 2004 – 2007 **+3.0%**

## Revenue (HRK million) <sup>(2)(3)</sup>



<sup>(1)</sup> The Government of the Republic of Croatia holds 5.2% of T-HT's shares, out of which up to 2.5% may be allocated as "bonus shares" to shareholders who subscribed for shares in the Initial Public Offering in October 2007 and who have held them for 12 months.

<sup>(2)</sup> Consolidated revenue (excluding other income). Iskon included from 2006 onwards.

<sup>(3)</sup> Kuna per Euro average rate 2004: 7.49; 2005: 7.40; 2006: 7.32; 2007: 7.33.

# Group Strategy



## Group Highlights

- Maintained position as market leader in all business segments
- Strong financial performance
- Growth in revenue from mobile, Internet and wholesale services more than offset the expected decline in fixed line voice revenue
- EBITDA margin 46.1%
- Net cash from operations up 2.4% to HRK 1,038 million
- Dividend payment in May of HRK 2,421 million or HRK 29.56 per share
- Headcount optimisation programme ongoing
- Resolution of DTI (Distributive Telecommunication Infrastructure) access rights as expected
- Full year 2008 guidance maintained

### IFRS, unaudited

	Jan - Jun 2007	Jan - Jun 2008	% change
Revenue <sup>(1) (2) (3)</sup> (in HRK million)	4,109	4,193	2.1%
(in EUR million)	558	577	3.3%
EBITDA (in HRK million)	1,979	1,932	-2.4%
(in EUR million)	269	266	-1.2%
Net profit (in HRK million)	1,333	1,125	-15.6%
(in EUR million)	181	155	-14.6%
Headcount (at 30 Jun)	7,004	6,500	-7.2%

<sup>(1)</sup> Kuna per Euro average rate Jan-Jun 2008: 7.27; Jan-Jun 2007: 7.36

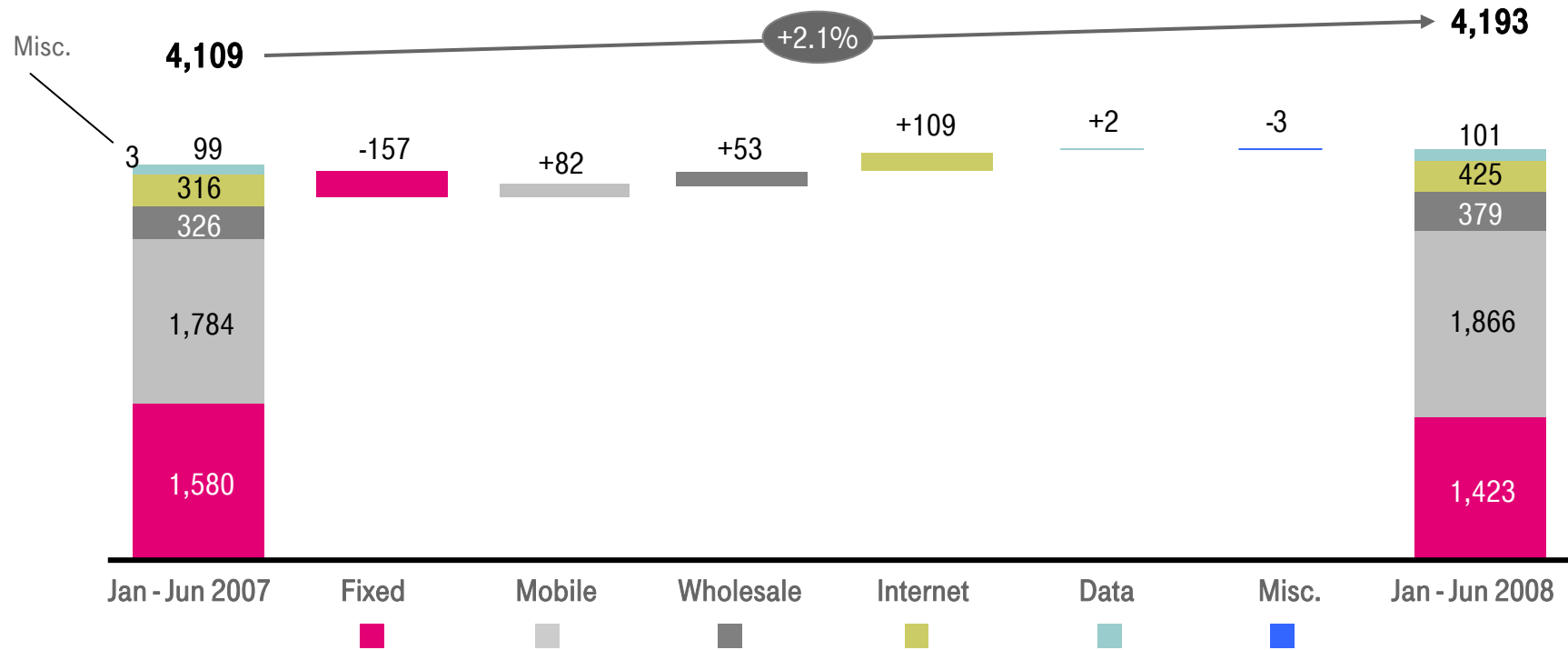
<sup>(2)</sup> Excluding other income

<sup>(3)</sup> Revenue from VAS services is presented on the net principle.

# Group Revenue Development

- Continuing growth in mobile, Internet and wholesale revenue

Revenue <sup>(1)</sup> (HRK million)



<sup>(1)</sup> Consolidated revenue (excluding other income); revenue from VAS services is presented on the net principle.

# T-Com Highlights

- Leadership maintained in all segments
- High-quality and innovative services attracting new and upgrading broadband users
- Growth in Internet and wholesale almost entirely offset the decline in fixed telephony services
- Strong growth in Internet services driven by IP/DSL

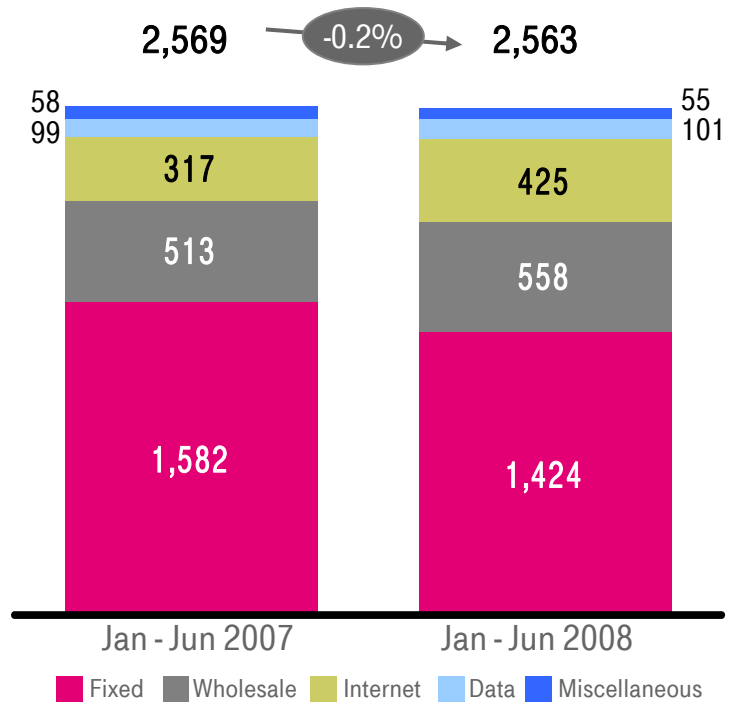
## Key financials (HRK million)

	Jan - Jun 2007	Jan - Jun 2008	% change
Revenue <sup>(1) (2)</sup>	2,569	2,563	-0.2%
EBITDA	1,125	1,093	-2.9%
EBITDA margin	43.8%	42.6%	-1.2 p.p.
Capex	268	330	23.2%
Capex / Revenue	10.4%	12.9%	2.4 p.p.
Headcount (at 30 Jun)	5,955	5,431	-8.8%

<sup>(1)</sup> Excluding other income

<sup>(2)</sup> Unconsolidated figures; revenue from VAS is presented on the net principle

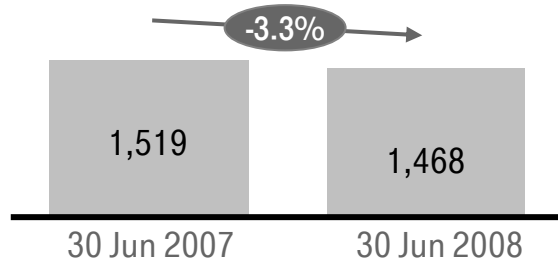
## Revenue by business service<sup>(2)</sup> (HRK million)



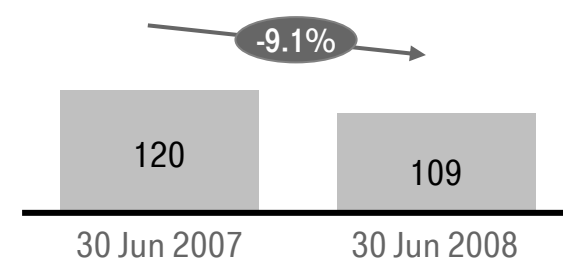
# Fixed Telephony

- Fixed-line revenue down 9.9% to HRK 1,424 million
- Number of fixed lines remained relatively stable
- Decline in traffic slowing compared with full year 2007
- Fixed voice ARPA declining mostly due to decreased traffic

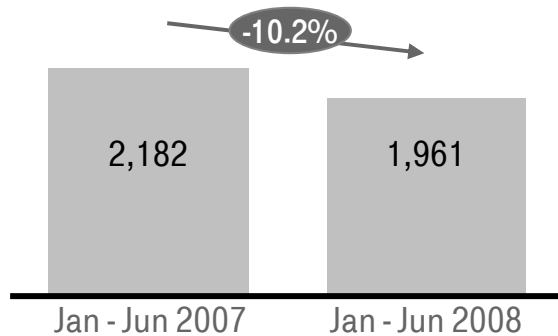
No. of POTS<sup>(1)</sup> mainlines ('000)



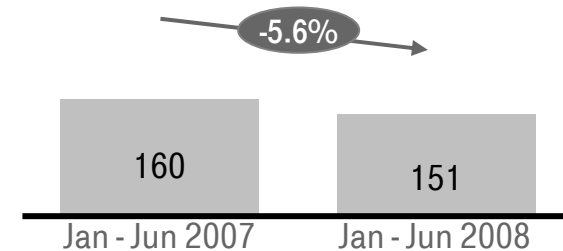
No. of ISDN mainlines ('000)



Total traffic in minutes (million)



ARPA<sup>(2)</sup> (HRK)

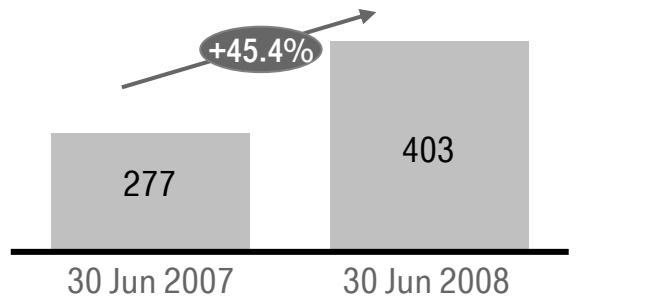


Note: <sup>(1)</sup> FGSM included; payphones not included  
<sup>(2)</sup> Voice revenue per voice access - monthly average for the period

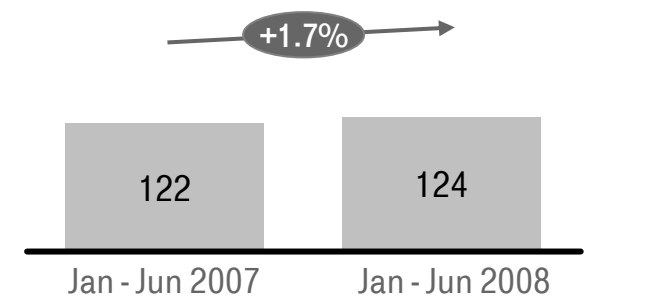
## Internet Services

- Internet revenue up 34.2% to HRK 425 million
- Strong growth in ADSL driven by new broadband customers and upgrades from dial-up
- Competitive broadband pricing - more traffic for less cost, lower-cost 'unlimited' package
- ARPA improving through migration to higher speeds
- Attractive content and promotions driving strong growth in MAXtv

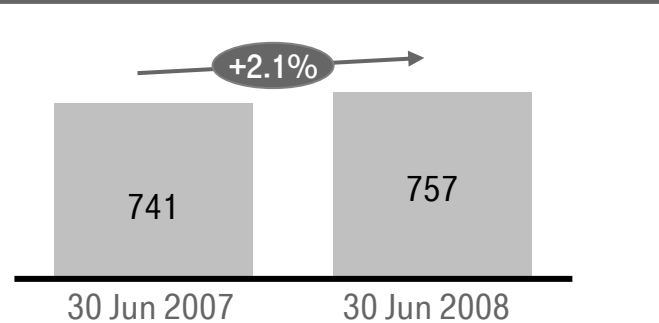
No. of ADSL mainlines ('000)



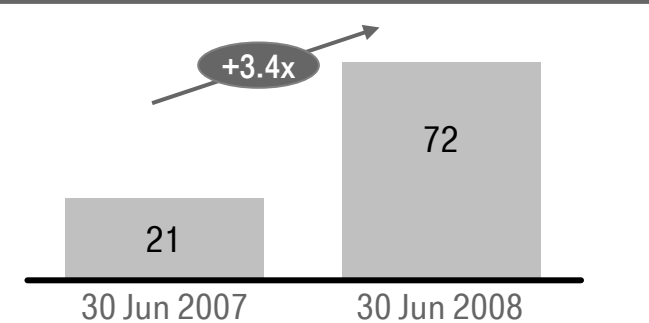
ADSL mainlines ARPA<sup>(2)</sup> (HRK)



No. of dial-up users<sup>(1)</sup> ('000)



No. of MAXtv customers ('000)

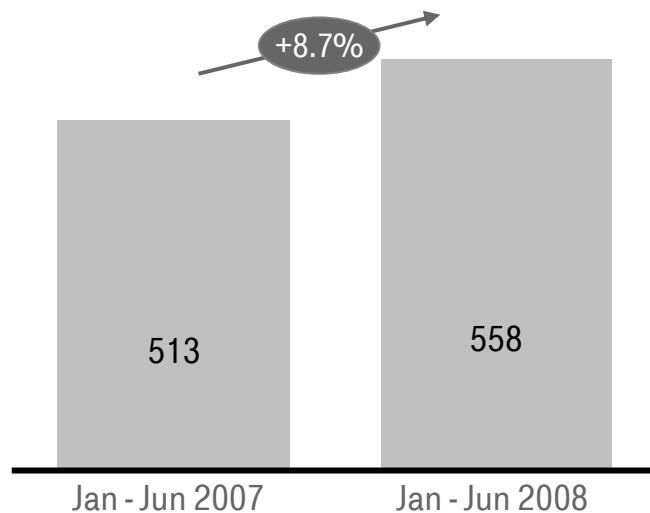


Note: <sup>(1)</sup> Active and non-active users  
<sup>(2)</sup> Monthly average for the period

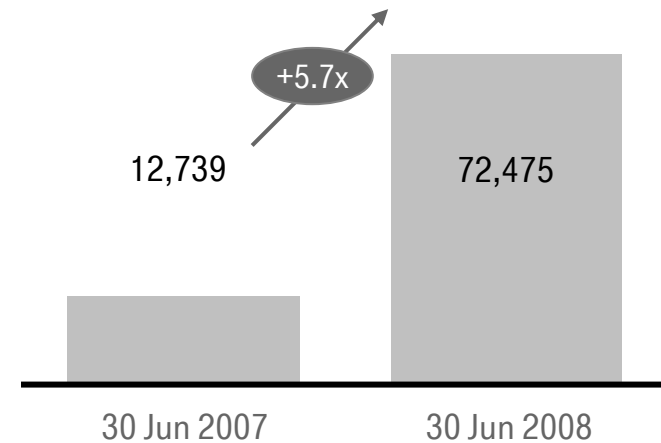
## Wholesale and Data Services

- Wholesale revenue increased by 8.7%, primarily driven by continued market liberalisation
- Large increase in ULL
- Number of CPS customers decreased by 4.9% due to the migration to ULL
- Data revenue up slightly to HRK 101 million
- Number of data lines decreasing as customers migrate towards new IP-based services

Wholesale revenue (HRK million)



Number of ULL



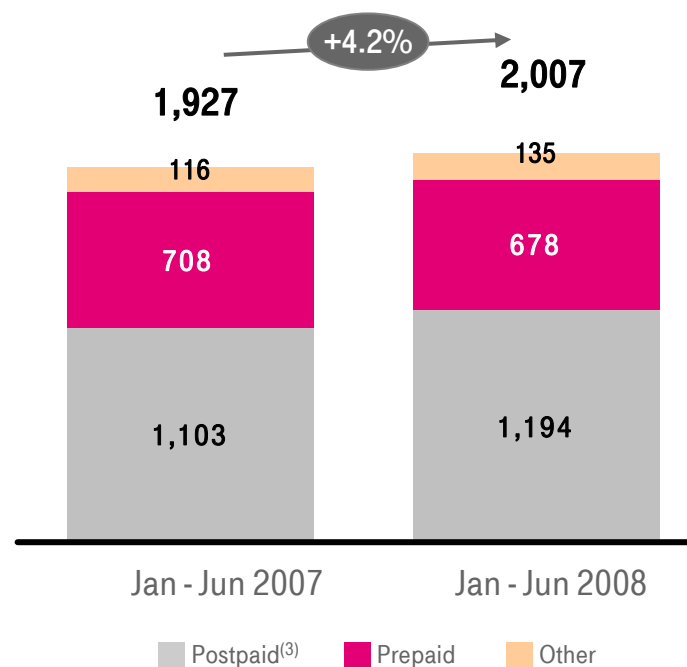
## T-Mobile Highlights

- Subscriber numbers break through 2.5 million
- Postpaid and new accounts driving revenue growth
- Higher subscriber-related costs impacting EBITDA margin
- Capital expenditure increased by 14.9% to HRK 147 million due to the increased investment in 3G networks and new platforms.

### Key financials (HRK million)<sup>(1) (2)(4)</sup>

	Jan - Jun 2007	Jan - Jun 2008	% change
Revenue	1,927	2,007	4.2%
EBITDA	854	840	-1.7%
EBITDA margin	44.3%	41.9%	-2.4 p.p.
Capex	128	147	14.9%
Capex / Revenue	6.6%	7.3%	0.7 p.p.
Headcount (at 30 Jun)	1,049	1,069	1.9%

### Revenue breakdown<sup>(3)</sup> (HRK million)



<sup>(1)</sup> Unconsolidated figures

<sup>(2)</sup> Revenue from VAS services is presented on the net principle.

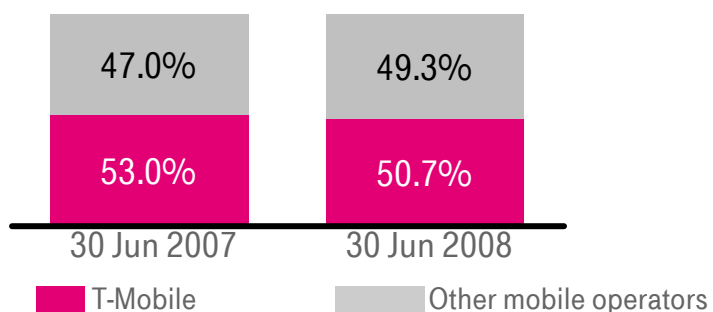
<sup>(3)</sup> Postpaid / prepaid distribution changed due to change of interconnection revenue ratio according to actual data.

<sup>(4)</sup> Including revenue from visitors.

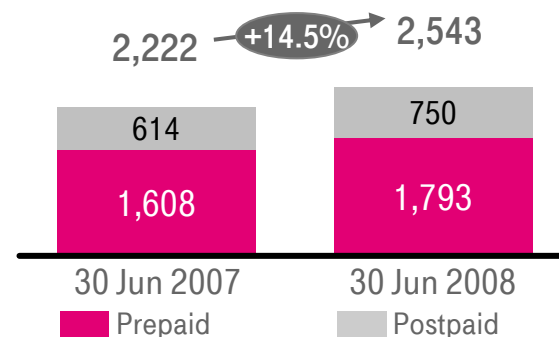
# Mobile Telephony

- Maintained leadership with 47.1% of SIM market share
- Strong 22.2% growth in postpaid, proportion of post-paid subscribers increased from 27.6% to 29.5%
- Decrease in ARPU is a result of price cutting and increased penetration
- MOU increase partially offsetting pricing pressure

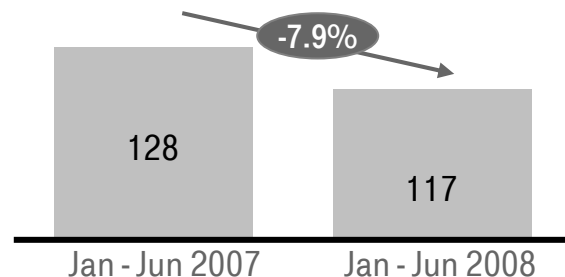
Market share by revenue (%)<sup>(1)(2)</sup>



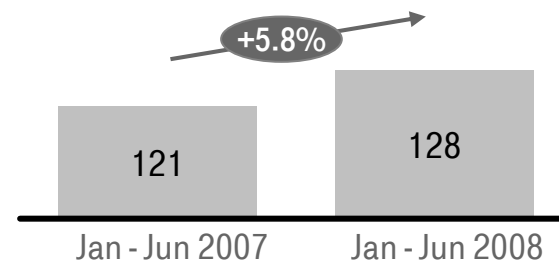
Number of T-Mobile subscribers ('000)



Blended ARPU (HRK/month)



Average MOU (minutes/month)



<sup>(1)</sup> Source: Telekom Austria quarterly report for Q1'08. Tele2 quarterly report for Q1'08. VIPnet's total revenue for Jan-Jun '08 internally estimated. VIPnet's national roaming revenue internally estimated. Tele2 total revenue internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue).

<sup>(2)</sup> Revenue from VAS services is presented on the net principle.

## Group Financial Highlights

IFRS, unaudited	HRK million		
	Jan - Jun 2007	Jan - Jun 2008	% change
Revenue <sup>(1)</sup>	4,109	4,193	2.1%
EBITDA	1,979	1,932	-2.4%
EBITDA margin	48.2%	46.1%	-2.1 p.p.
Net profit	1,333	1,125	-15.6%
Net profit margin	32.4%	26.8%	-5.6 p.p.
Capex	396	477	20.5%
Capex / Revenue	9.6%	11.4%	1.7 p.p.

<sup>(1)</sup> Excluding other income; revenue from VAS services is presented on the net principle.

# Group 2008 Outlook Maintained

## Revenue

- Group revenue expected to remain stable at 2007 levels.
- Continuing strong growth of Internet and mobile revenue expected to offset expected decline in fixed-line revenue. Wholesale revenue expected to remain stable.
- ADSL customer base expected to reach 450,000 customers by the end of 2008. Strong growth in our MAXtv customer base expected to continue.
- Growth in mobile subscribers and data services is expected to result in a moderate growth in mobile revenue this year. Mobile ARPU will decrease as a natural consequence of SIM growth outpacing revenue growth.

## CAPEX

- The Group is focused on the development of an access network as a part of its strategy to migrate to a single IP platform. Therefore CAPEX is expected to represent a slightly higher percentage of revenue in 2008, compared with 2007.

## EBITDA

- Competitive pressure, increasing subscriber acquisition and retention costs in both the fixed-line and mobile segments will continue to impact the Group's EBITDA margin, although our ongoing cost control programme will mitigate this to some degree. Headcount optimisation will continue, but not as extensively as in 2007.

## Regional Expansion

- We intend to participate in the privatisation process of HT Mostar, which is expected to start this year. The Group holds a 39.1% stake in HT Mostar and is represented on its management bodies. We will continue to monitor and evaluate all other expansion opportunities that we believe could increase shareholder value.

# Appendix

## Consolidated Income Statement

in HRK million (IFRS; unaudited)	Jan-Jun 2008	Jan-Jun 2007	% of change 08/07
Mobile telephony	1,866	1,784	4.6%
Fixed telephony	1,423	1,580	-9.9%
Wholesale services	379	326	16.3%
Internet services	425	316	34.5%
Data services	101	99	1.6%
Miscellaneous	0	3	-93.4%
<b>Revenue <sup>(1)</sup></b>	<b>4,193</b>	<b>4,109</b>	<b>2.1%</b>
Other operating income	136	116	17.9%
<b>Operating cost</b>	<b>2,397</b>	<b>2,245</b>	<b>6.8%</b>
Merchandise, material, services, energy and other expenses	1,840	1,649	11.5%
Merchandise, material and energy expenses	483	358	34.8%
Services expenses	662	640	3.4%
Other expenses	695	651	6.8%
Employee benefit expenses:	565	598	-5.6%
Work performed by the Group and capitalised	-53	-61	-12.9%
Write down of current asset	46	59	-21.9%
<b>EBITDA</b>	<b>1,932</b>	<b>1,979</b>	<b>-2.4%</b>
Depreciation and amortization	672	689	-2.5%
Impairment of non-current assets	1	0	
<b>EBIT</b>	<b>1,260</b>	<b>1,290</b>	<b>-2.4%</b>
Net financial income	162	148	9.1%
Income from investment in joint ventures	12	261	-95.3%
<b>Profit before taxes</b>	<b>1,434</b>	<b>1,700</b>	<b>-15.6%</b>
Taxation	309	366	-15.6%
<b>Net profit for the year</b>	<b>1,125</b>	<b>1,333</b>	<b>-15.6%</b>

<sup>(1)</sup> As of Q1 2008, revenue from VAS (value-added services) is presented on a net basis and the figures for 2007 have been adjusted accordingly.

## Consolidated Balance Sheet

in HRK million (IFRS; unaudited)	At 30 Jun 2008	At 31 Dec 2007	% of change 08/07
Intangible assets	947	1,007	-6.0%
Property, plant and equipment	6,002	6,151	-2.4%
Goodwill	77	76	0.8%
Investments	408	393	3.9%
Other long term assets	96	112	-14.3%
<b>Total non-current assets</b>	<b>7,530</b>	<b>7,739</b>	<b>-2.7%</b>
Inventories	255	230	10.7%
Trade and other receivables	1,265	1,269	-0.3%
Prepayments and accrued income	101	62	63.5%
Available-for-sale investments	91	94	-3.6%
Cash equivalents and time deposits	4,271	5,898	-27.6%
<b>Total current assets</b>	<b>5,983</b>	<b>7,554</b>	<b>-20.8%</b>
<b>TOTAL ASSETS</b>	<b>13,513</b>	<b>15,293</b>	<b>-11.6%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	413	411	0.0%
Retained earnings	2,682	3,937	-32.5%
<b>Total issued capital and reserves</b>	<b>11,283</b>	<b>12,573</b>	<b>-10.3%</b>
Provisions	152	90	69.0%
Employee benefit obligations	210	201	4.5%
Deferred income and other non-current liabilities	19	165	-88.3%
<b>Total non-current liabilities</b>	<b>381</b>	<b>455</b>	<b>-16.3%</b>
Trade and other payables	1,164	1,520	-23.4%
Provisions for redundancy	129	277	-53.5%
Accruals, deferred income and short term borrowings	556	468	18.8%
<b>Total current liabilities</b>	<b>1,849</b>	<b>2,265</b>	<b>-18.4%</b>
<b>Total liabilities</b>	<b>2,230</b>	<b>2,720</b>	<b>-18.0%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,513</b>	<b>15,293</b>	<b>-11.6%</b>

## Consolidated Cash Flow Statement

in HRK million (IFRS; unaudited)	Jan-Jun 2008	Jan-Jun 2007	% of change 08/07
Net profit	1,125	1,333	-15.6%
Depreciation and impairment loss of non-current assets	672	689	-2.4%
Income tax expense	309	366	-15.7%
Decrease/ (Increase) in inventories	-25	-69	-64.4%
(Increase) / Decrease in receivables and payables	-384	-487	-21.2%
Decrease in provisions	-97	-221	-56.2%
Other transaction with impact on operating activities	-209	-300	-30.5%
Taxes paid	-354	-297	19.2%
<b>Net cash flows from operating activities</b>	<b>1,038</b>	<b>1,014</b>	<b>2.4%</b>
Net Purchase/Proceeds of non-current assets	-444	-432	2.8%
Net Purchase/Proceeds of financial assets	535	1,007	-46.9%
Interest received	191	114	67.1%
Dividend received	0	0	
<b>Net cash flows from / (used in) investing activities</b>	<b>281</b>	<b>688</b>	<b>-59.2%</b>
Repayment of long-term borrowings and lease liability	-5	-5	-3.2%
Dividends paid	-2,421	-207	11.7%
<b>Net cash flows used in financing activities</b>	<b>-2,426</b>	<b>-212</b>	<b>11.4%</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-1,107</b>	<b>1,490</b>	<b>-174.3%</b>
Effect of F/X rate changes on cash and cash equivalents	1	-2	-156.1%
At the beginning of period	3,366	1,254	168.4%
Net cash (outflow) / inflow	-1,106	1,488	-174.3%
<b>At the end of period</b>	<b>2,260</b>	<b>2,742</b>	<b>-17.6%</b>

## IR Contact:

- Erika Kašpar

Tel: +385 1 491 2000

- Elvis Knežević

Tel: +385 1 491 1114

Email: [ir@t.ht.hr](mailto:ir@t.ht.hr)

[www.t.ht.hr](http://www.t.ht.hr)

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

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HRTA CZ