

# Business and Financial Review January – September 2010

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

29 October 2010



Zivjeti zajedno

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# Business Environment Highlights

## Croatia at a glance

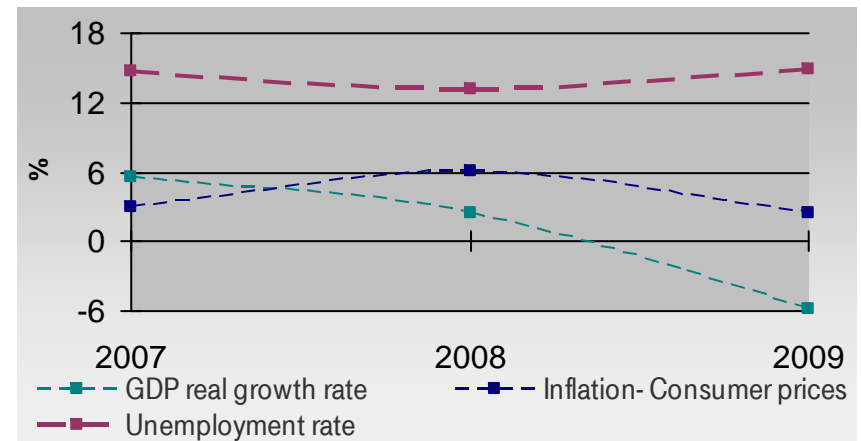
- 4.4 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- 90,000+ companies
- 10.9 million tourists in 2009 (90% from abroad)



## Croatian Economy <sup>(1)</sup>

- Continued economic downturn – recovery expected to be the slowest in Europe
- GDP fell by 2.5% in Q2 2010
- Inflation stable at 1.4% <sup>(3)</sup>
- Unemployment 16.9% in September 2010 (September 2009: 14.7%)

## Macroeconomic indicators <sup>(2)</sup>



(1) Source: Croatian Central Bureau of Statistics,

(2) Source: Croatian Central Bureau of Statistics, Croatian National Bank

(3) Annual average inflation rate in September 2010

# Croatian Telecom Market

## Fixed telephony

- 15 licensed operators, of which 10 active <sup>(1)</sup>
- CPS, ULL and bitstream available
- Liberalized since 2005; local loop unbundling started in 2006

## Mobile telephony

- 3 operators on the market, no mobile virtual network operators (MVNO)
- Mobile penetration 139%
- Growing demand for mobile data, driven by smartphones and mobile broadband

## Internet

- Internet penetration: ~58% of population
- Broadband household penetration<sup>(2)</sup>: 41%
- Significant growth opportunity

## PayTv

- Satellite and cable underdeveloped
- Cable TV household penetration: 10%; cable TV broadband penetration: 3%
- MAXtv – most successful payTV in the market

## Regulatory framework

- Further price reduction of WBA (price reduction for virtual private channels for voice and IPTV services)
- Finalization of HAKOM's analysis and public consultations expected by the end of 2010
- New Regulation on technical conditions and conditions for use of optical distributions network: interferes with the current network topologies and imposes additional obligations for roll-out

(1) Including operators providing fixed line service over VoIP

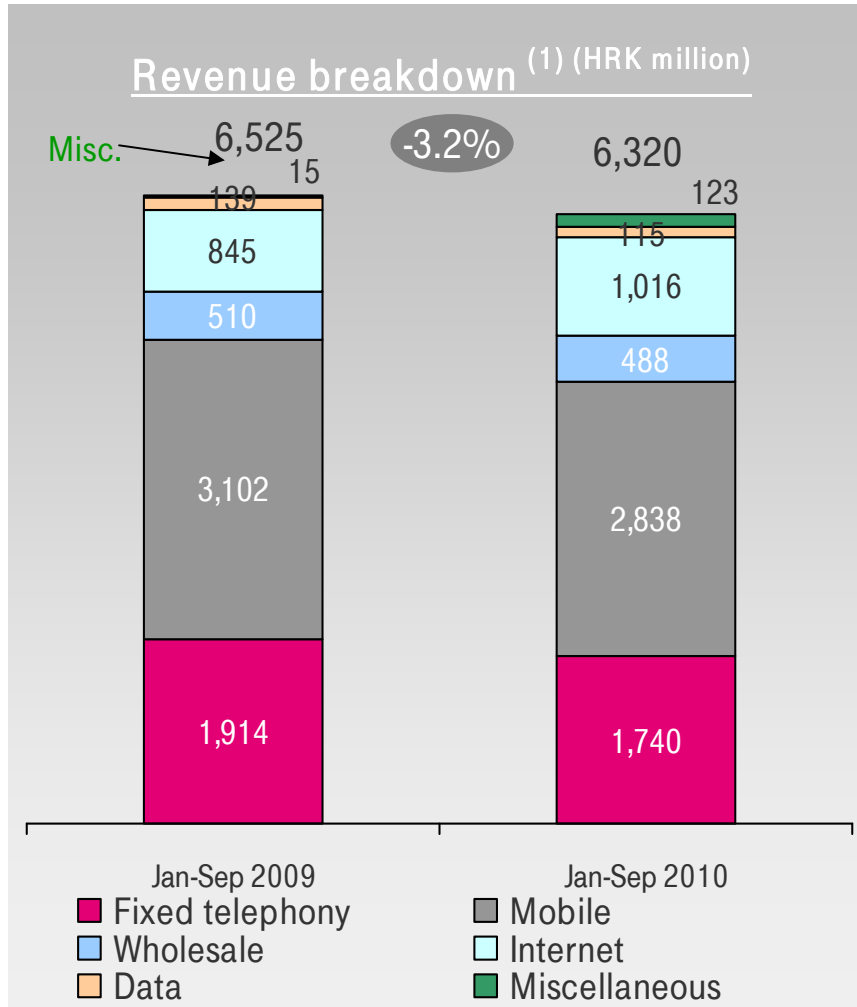
(2) Residential broadband lines per total households

(3) Wholesale Bitstream Access

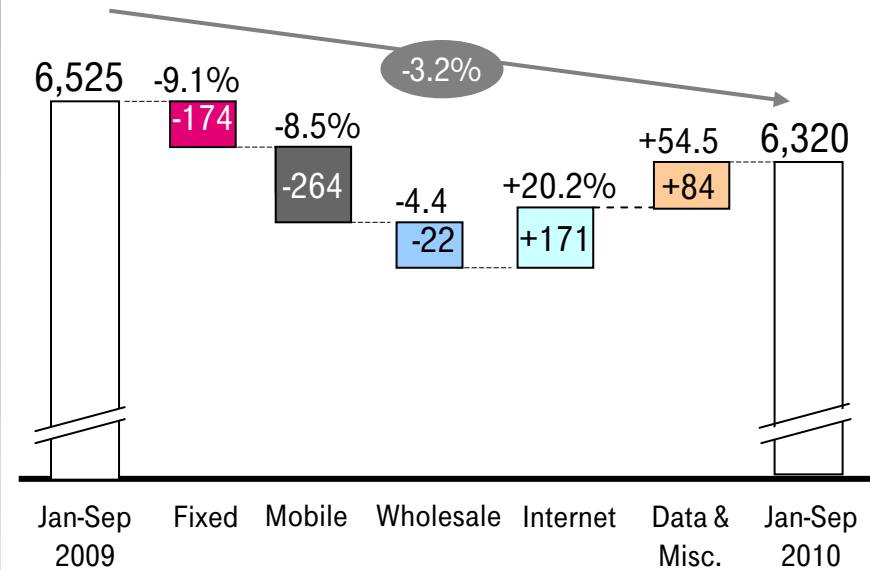
## Group Highlights

- Maintained leading market position in all business segments
- Revenue decreased 3.2% to HRK 6,320 million; recession and special taxation measures continue to impact business, but at a slower rate of decline
- EBITDA decreased 6.4% to HRK 2,858 million with EBITDA margin at 45.2%
- Net cash flow from operations increased by 34.0% to HRK 2,223 million mostly due to working capital improvement
- Capex decreased 41.9% to HRK 617 million (Jan-Sep 2009: HRK 1,063 million) mainly due to ongoing regulatory issue of FTTx deployment and delays in obtaining local permits for fixed access and radio access network infrastructure
- Applied for prequalification in the privatisation of Post and Telecommunications of Kosovo (PTK)
- Broadband services continue to grow strongly
- bonbon - new mobile brand introduced in October 2010; offers high-quality service tailored to the price performance sensitive customers

# Revenue Development



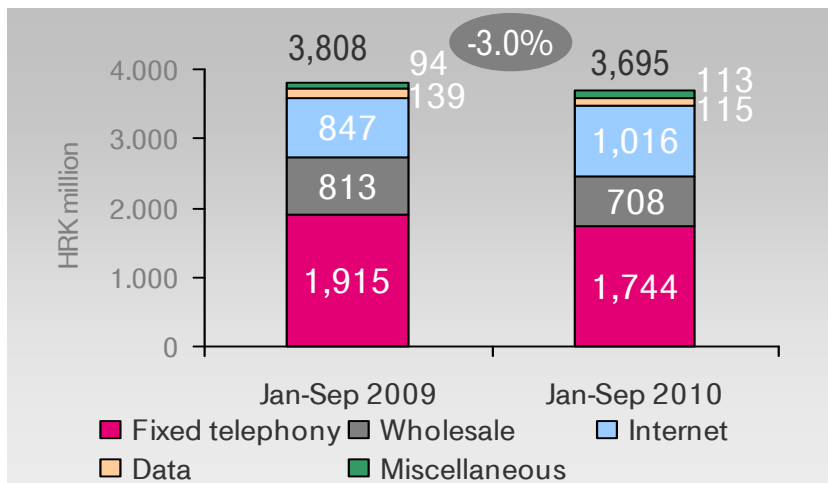
(1) Excluding other operating income



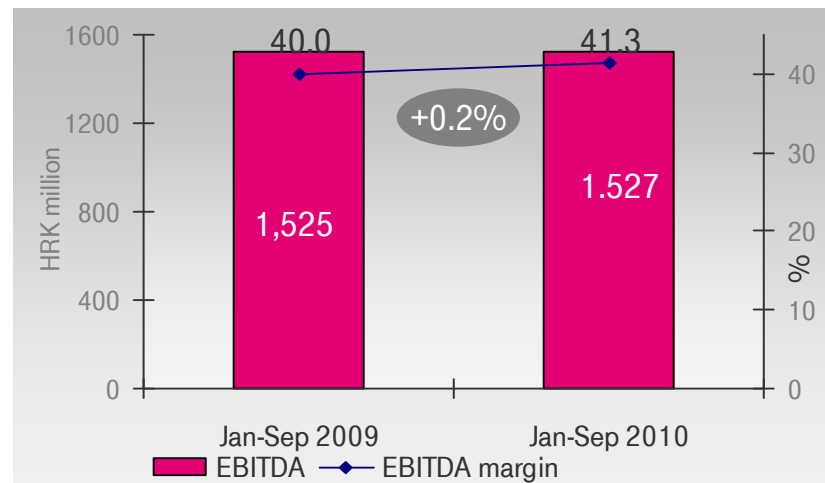
- Revenue continues to be affected by the recession, special taxation measures and continued competitive pressures
- Lower revenue from fixed telephony and wholesale, mobile revenue declined at slower rate
- Internet revenue continues to grow
- Combis contributed HRK 110 million (classed as Miscellaneous revenue)

# T-Com Financials

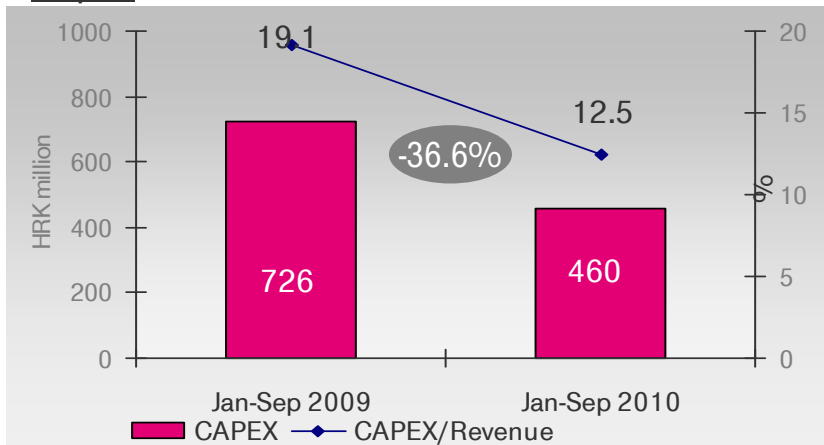
Revenue breakdown (1)



EBITDA



Capex

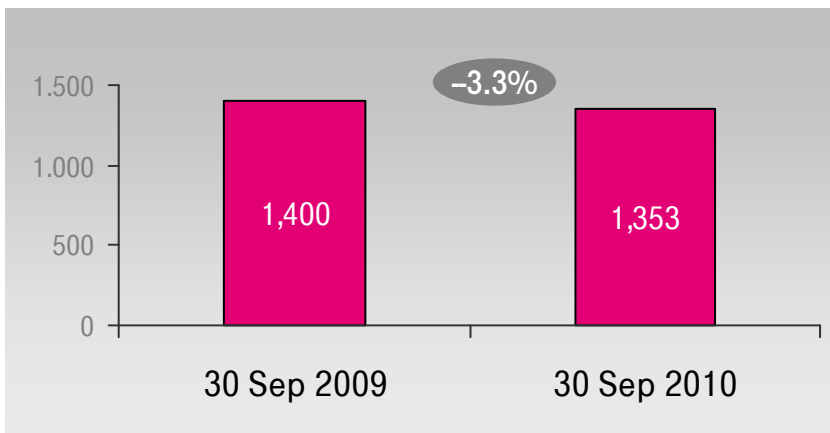


- Fixed telephony revenue lower due to fixed-to-mobile substitution and increased competition
- Internet revenue up 19.9% to HRK 1,016 million; now 27.5% of T-Com revenue
- EBITDA stable primarily as a consequence of decrease in operating expenses
- Capex decreased due to delayed investments in fiber infrastructure and delays in obtaining local permits for cable infrastructure

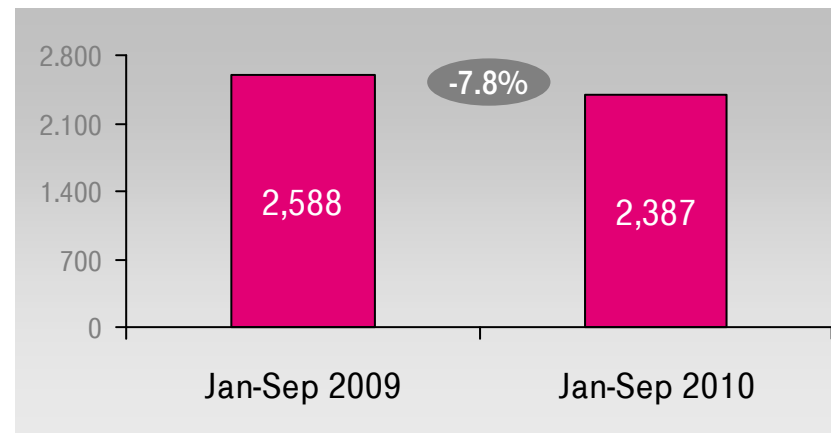
(1) Excluding other operating income

## Fixed Telephony

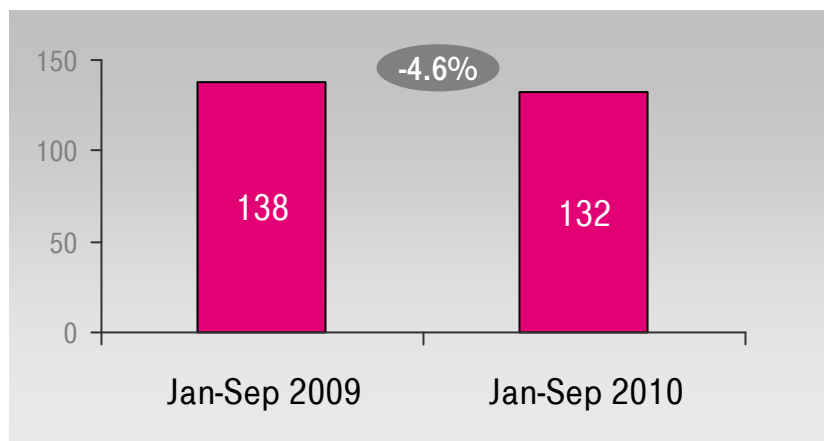
Number of POTS mainlines ('000) (1)



Total traffic in minutes (million)



ARPA (HRK) (2)



- Total mainlines of all types decreased by 4.0% (0.7% lower than at the end of Q2 2010)
- Decline in traffic easing: 7.8% fall at the end of Q3 2010 compared with fall of 9.2% at the end of Q3 2009
- ARPA decline mostly due to fixed-to-mobile substitution and increase in VoIP usage

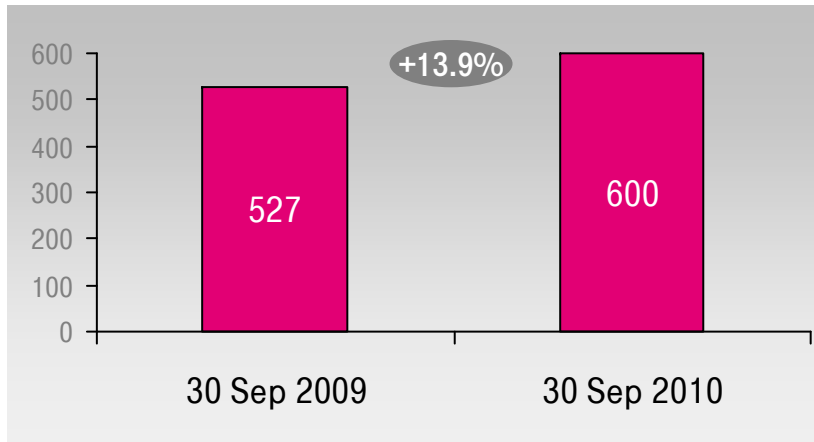
(1) FGSM included, payphones not included

(2) Voice revenue per voice access - monthly average for the period

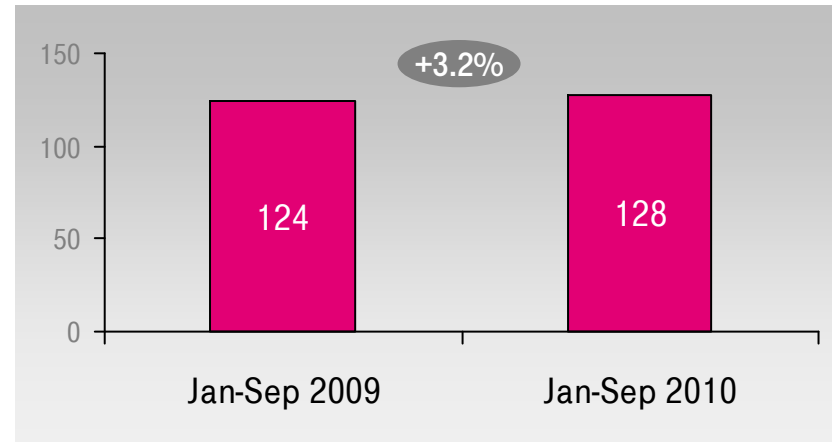


## Internet

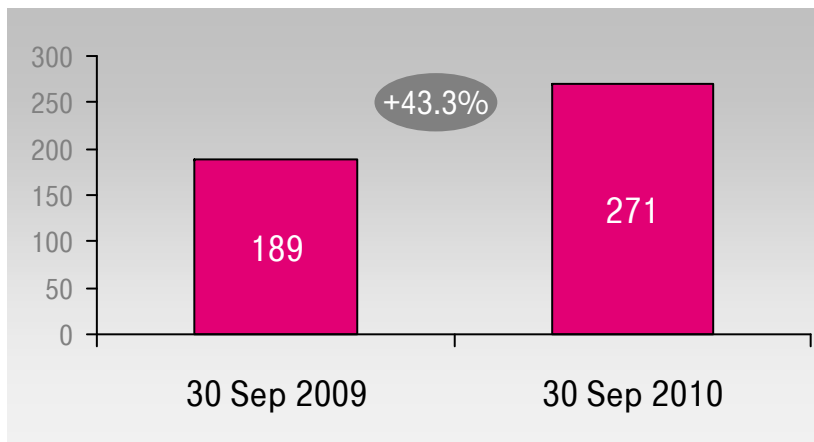
No. of ADSL mainlines ('000) <sup>(1)</sup>



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



Number of IPTV customers ('000) <sup>(3)</sup>



- MAXadsl – successfully growing in the broadband market
  - Promotional offer of 4GB access + flat traffic to new business users
- ADSL ARPA rose 3.2% mostly due to successful marketing activities
- Growth of MAXtv <sup>(3)</sup> – more than 14,000 net adds in Q3 2010
- MAXtv program upgraded with Sport package

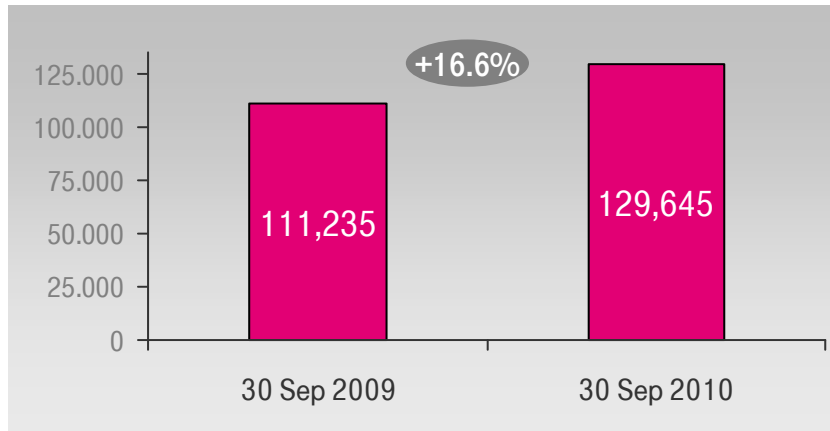
(1) Including Iskon ADSL mainlines  
 (2) Monthly average for the period  
 (3) Including Iskon IPTV customers

# Wholesale and Data Services

## Wholesale

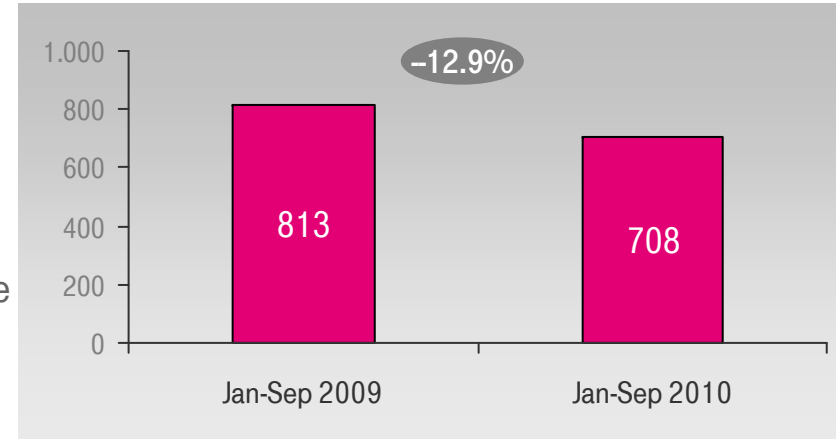
- Wholesale revenue down 12.9%
  - Decreased international traffic to mobile operators and national hubbing services
  - Cut in termination, origination and DTI revenues following regulatory decisions
  - Higher revenue from providing infrastructure services
- Continued increase in ULL since end of Q2 2010 (125,962)

## Number of ULL <sup>(1)</sup>



(1) ULL reporting methodology changed in Q2 2010 to reporting based on active lines vs. previously used realized lines. If measured by realized line ULL number would be 141,510 for September 2010 and 116,232 for September 2009.

## Wholesale revenue (HRK million)

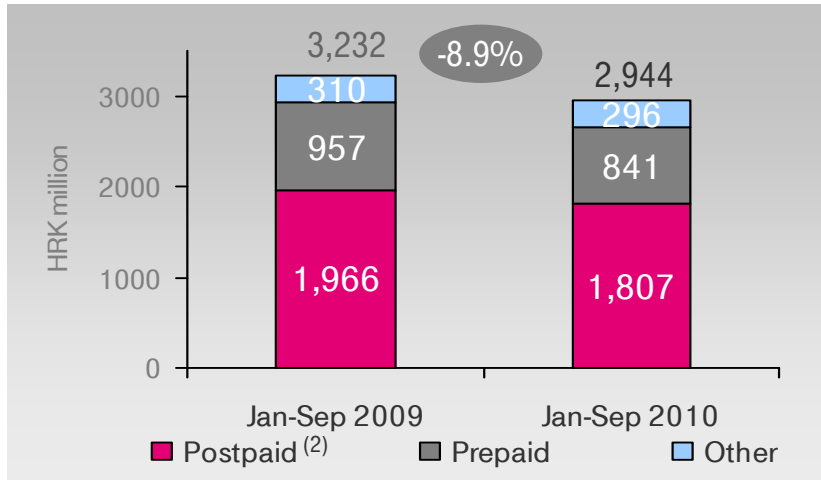


## Data

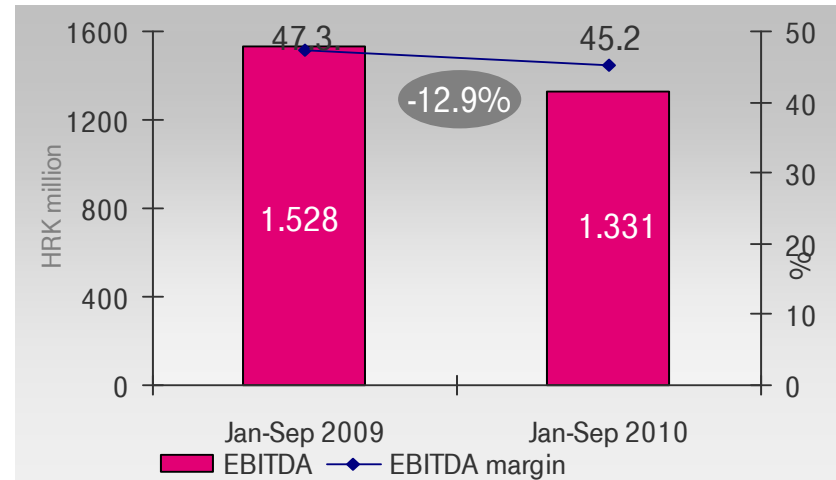
- Continued migration of customers to IP-based services
- Share of Metro Ethernet connection points increased 12.6 p.p.

# T-Mobile Financials

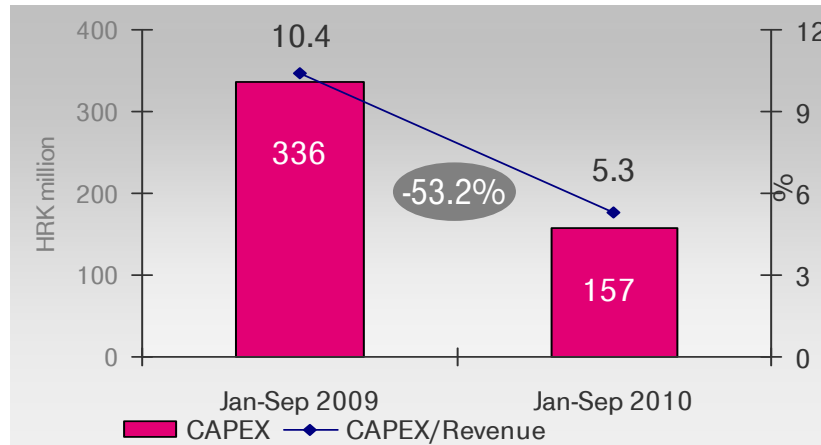
Revenue breakdown (1)



EBITDA



Capex

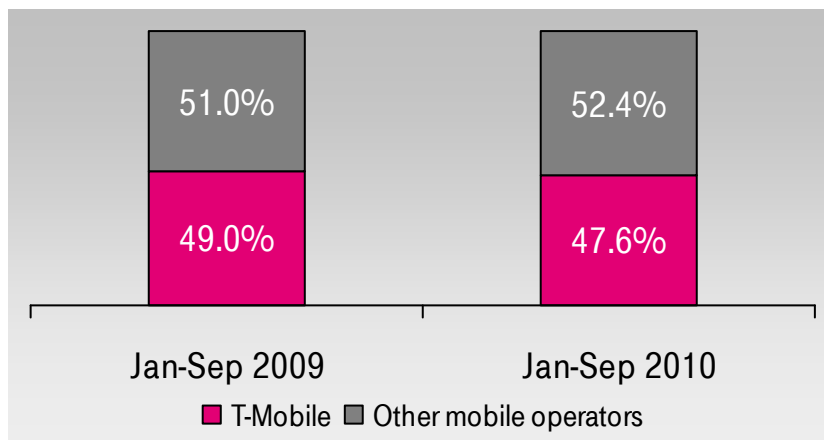


- Revenue down 8.9% – economic recession, lower termination rates and Government measures introduced in Q3 2009
- EBITDA down 12.9% as a result of lower revenue
- Capex decreased mostly due to delay of internal IT projects and delays in obtaining local permits for base stations

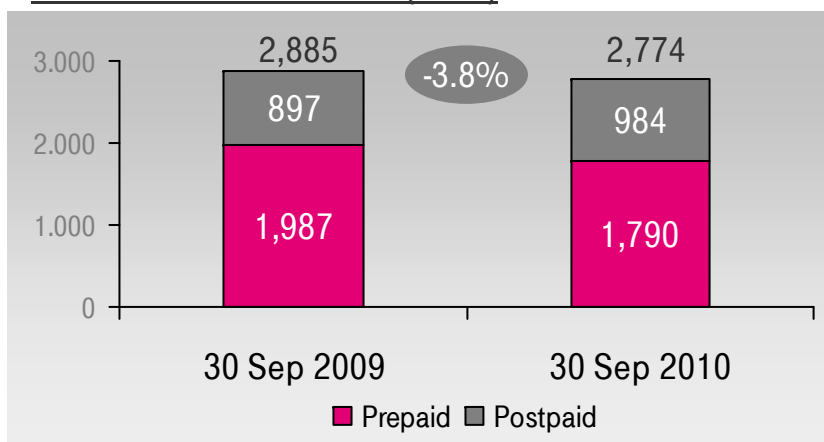
(1) Unconsolidated figures, excluding other operating income  
 (2) Including revenue from visitors.

## T-Mobile Operational Data

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



Number of subscribers ('000)

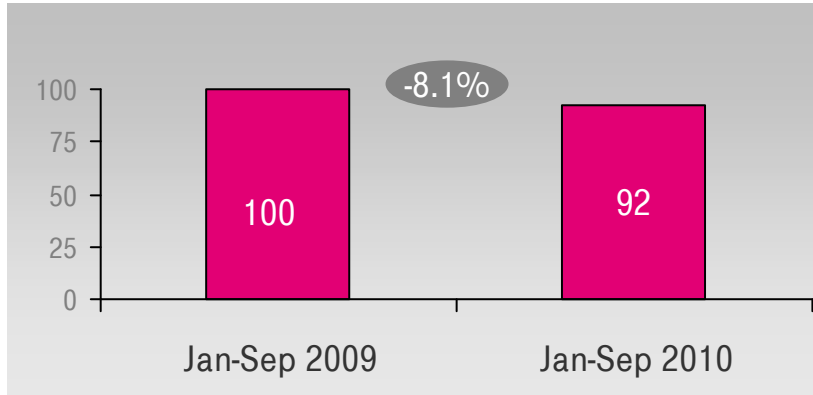


- Maintained market leadership: 44.9% of SIM market share
- Total subscribers down 3.8% (-0.2% on Q2 2010)
- Postpaid subscribers increased from 31.1% in Q3 2009 to 35.5%
- Prepaid subscribers number decreased 9.9% due to recessionary pressures and SIM-only promotions in Jan-Sep 2009
- bonbon – new mobile brand; offers 1,000 minutes/month to 2020, unique daily options, most favorable call prices to other countries in region, lowest voucher value
- Continuously enriching mobile offer increasing customers' satisfaction:
  - Sales of iPhone 4 and Dell Streak tablet
  - New postpaid tariffs for internet users
  - Launched joint loyalty program for prepaid customers

(1) Source: Telekom Austria report for Q3 2009, Tele2 report for Q3 2009, VIPnet's and Tele2 net revenue for Q3 2010 internally estimated.

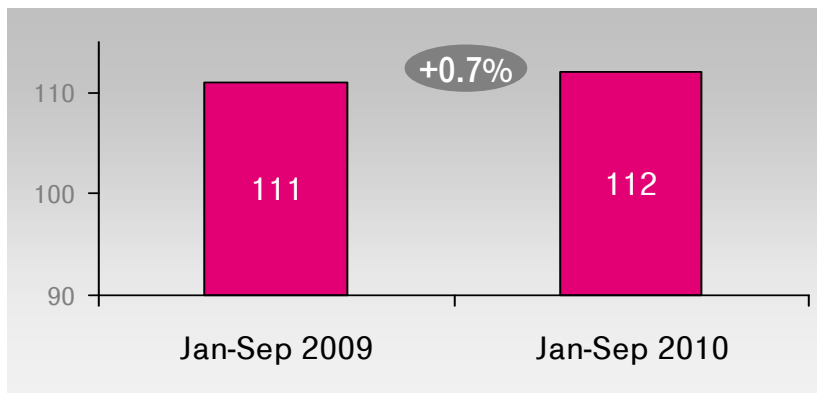
# T-Mobile Operational Data

## Blended ARPU (HRK/month)



- ARPU decrease resulting from drop in termination prices and Government measures introduced in Q3 2009 (VAT rate increase and 6% fee)

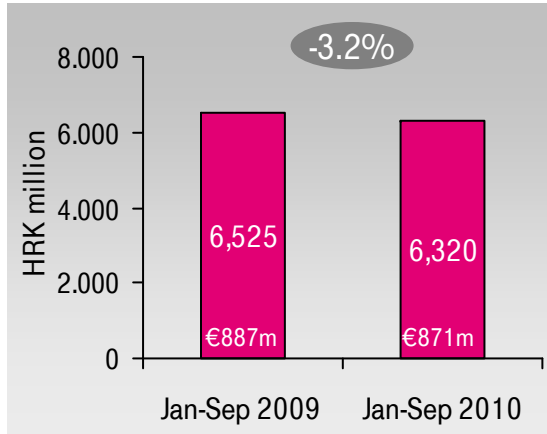
## Average MOU (minutes/month)



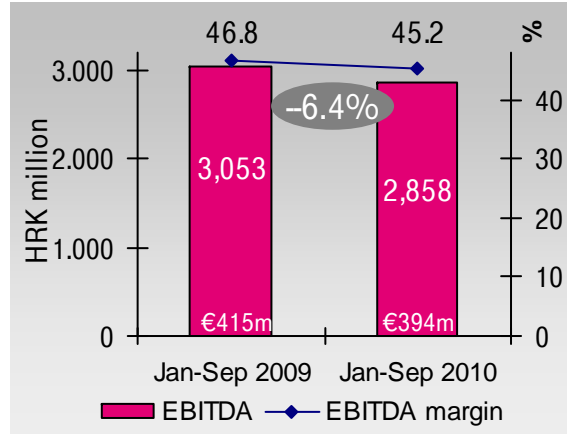
- MOU remained stable supported by marketing initiatives offering more minutes for the same cost

# Group Highlights

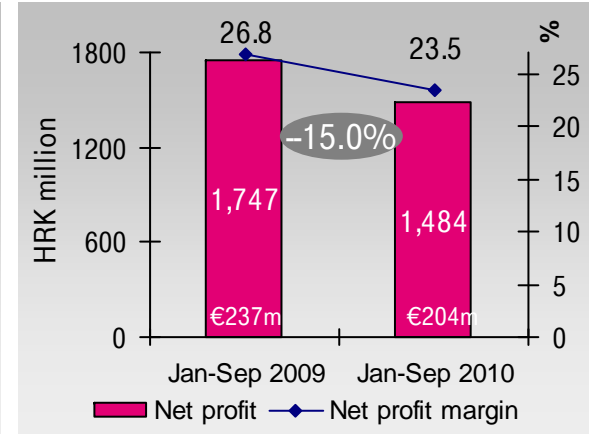
Revenue<sup>(1)</sup>



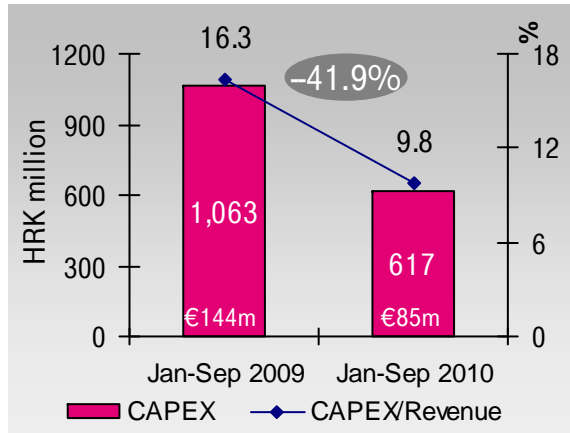
EBITDA



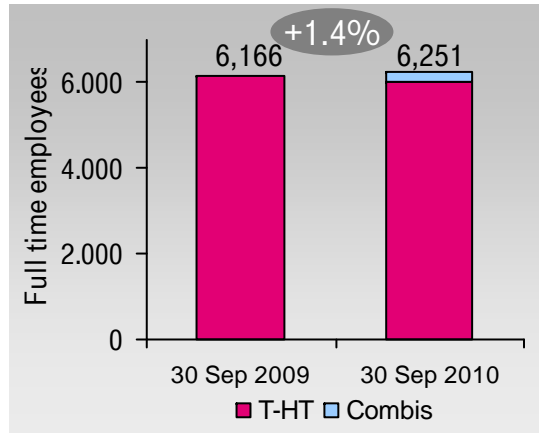
Net profit



CAPEX



Headcount



(1) Excluding other operating income  
 • Kuna per Euro average rate of exchange:  
 Jan-Sep 2010: 7.26; Jan-Sep 2009: 7.36



# Appendix



# Consolidated Income Statement

in HRK million (IFRS; unaudited)	Jan-Sep 2010	Jan-Sep 2009	% of change 10/09
Mobile telephony	2,838	3,102	-8.5%
Fixed telephony	1,740	1,914	-9.1%
Wholesale services	488	510	-4.4%
Internet services	1,016	845	20.2%
Data services	115	139	-17.6%
Miscellaneous	123	15	708.1%
<b>Revenue</b>	<b>6,320</b>	<b>6,525</b>	<b>-3.2%</b>
Income from usage of own products, merchandise and services	55	89	-38.4%
Other operating income	105	149	-29.4%
<b>Total operating revenue</b>	<b>6,479</b>	<b>6,763</b>	<b>-4.2%</b>
<b>Operating expenses</b>	<b>3,621</b>	<b>3,747</b>	<b>-3.3%</b>
Material expenses	1,628	1,708	-4.7%
Employee benefit expenses	876	905	-3.3%
Other expenses	1,028	1,038	-0.9%
Write down of asset	89	95	-5.9%
<b>EBITDA</b>	<b>2,858</b>	<b>3,016</b>	<b>-5.2%</b>
Depreciation and amortization	988	1,048	-5.7%
<b>EBIT</b>	<b>1,870</b>	<b>1,968</b>	<b>-5.0%</b>
Financial income	43	250	-83.0%
Loss from investment in joint ventures	6	15	-60.7%
Financial expenses	63	28	127.6%
<b>Profit before taxes</b>	<b>1,855</b>	<b>2,205</b>	<b>-15.9%</b>
Taxation	370	458	-19.1%
<b>Net profit</b>	<b>1,485</b>	<b>1,747</b>	<b>-15.0%</b>
Minority interest	0	0	32.0%
<b>Net profit after minority interest</b>	<b>1,484</b>	<b>1,747</b>	<b>-15.0%</b>
Exceptional items	0	37	-
<b>EBITDA before exceptional items</b>	<b>2,858</b>	<b>3,053</b>	<b>-6.4%</b>

# Consolidated Balance Sheet

in HRK million (IFRS; unaudited)	At 30 Sep 2010	At 31 Dec 2009	% of change 10/09
Intangible assets	1,133	1,099	3.1%
Property, plant and equipment	6,265	6,507	-3.7%
Non-current financial assets	413	490	-15.8%
Receivables	26	33	-20.5%
Deferred tax asset	43	46	-6.0%
<b>Total non-current assets</b>	<b>7,879</b>	<b>8,175</b>	<b>-3.6%</b>
Inventories	261	255	2.4%
Receivables	1,636	1,505	8.7%
Current financial assets	247	259	-4.8%
Cash and cash equivalents	2,949	4,195	-29.7%
Prepayments and accrued income	145	84	72.2%
<b>Total current assets</b>	<b>5,237</b>	<b>6,297</b>	<b>-16.8%</b>
<b>TOTAL ASSETS</b>	<b>13,116</b>	<b>14,472</b>	<b>-9.4%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.0%
Revaluation reserves	-2	-4	-51.4%
Retained earnings	623	1,393	-55.3%
Net profit for the period	1,484	2,023	-26.6%
Minority interest	1	1	22.9%
<b>Total issued capital and reserves</b>	<b>10,705</b>	<b>12,012</b>	<b>-10.9%</b>
Provisions	421	428	-1.5%
Non-current liabilities	124	128	-2.9%
<b>Total non-current liabilities</b>	<b>546</b>	<b>556</b>	<b>-1.8%</b>
Current liabilities	1,607	1,643	-2.2%
Accrued expenses and deferred income	258	261	-1.0%
<b>Total current liabilities</b>	<b>1,865</b>	<b>1,904</b>	<b>-2.0%</b>
Total liabilities	2,411	2,460	-2.0%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,116</b>	<b>14,472</b>	<b>-9.4%</b>

# Consolidated Cash Flow Statement

in HRK million (IFRS; unaudited)	Jan-Sep 2010	Jan-Sep 2009	% of change 10/09
Profit before tax	1,855	2,205	-15.9%
Depreciation and amortization including value adjustment	988	1,048	-5.7%
Decrease of current receivables	0	0	-
Decrease of inventories	0	23	-
Other cash flow increases	0	0	-
<b>Total increase of cash flow from operating activities</b>	<b>2,843</b>	<b>3,276</b>	<b>-13.2%</b>
Decrease of current liabilities	-147	-549	-73.3%
Increase of current receivables	-148	-247	-40.0%
Increase of inventories	-6	0	-
Other cash flow decreases	-320	-822	-61.1%
<b>Total decrease of cash flow from operating activities</b>	<b>-620</b>	<b>-1,617</b>	<b>-61.6%</b>
<b>Net cash inflow/outflow from operating activities</b>	<b>2,223</b>	<b>1,659</b>	<b>34.0%</b>
Proceeds from sale of non-current assets	5	30	-81.8%
Proceeds from sale of non-current financial assets	437	1	-
Proceeds from sale of current financial assets	0	0	-
Interest received	38	235	-83.9%
Dividend received	0	4	-100%
Other cash inflows from investing activities	150	0	-
<b>Total increase of cash flow from investing activities</b>	<b>630</b>	<b>271</b>	<b>132.2%</b>
Purchase of non-current asset	-617	-1,063	-41.9%
Purchase of non-current financial asset	-290	-647	-55.1%
Other cash outflows from investing activities	-399	0	-
<b>Total decrease of cash flow from investing activities</b>	<b>-1,307</b>	<b>-1,710</b>	<b>-23.5%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-678</b>	<b>-1,439</b>	<b>-52.9%</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	-2	-12.7%
Dividends paid	-2,788	-2,456	13.5%
Repayment of finance lease	-1	0	-
Other cash outflows from financing activities	0	-1	-100%
<b>Total decrease of cash flow from financing activities</b>	<b>-2,791</b>	<b>-2,459</b>	<b>13.5%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-2,791</b>	<b>-2,459</b>	<b>13.5%</b>
Total increase of cash flow	2,223	1,659	34.0%
Total decrease of cash flow	-3,468	-3,898	-11.0%
Cash and cash equivalents at the beginning of period	4,195	5,223	-19.7%
Net cash (outflow) / inflow	-1,245	-2,239	-44.4%
<b>Cash and cash equivalents at the end of period</b>	<b>2,949</b>	<b>2,984</b>	<b>-1.2%</b>

## 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