

Business and Financial Review January – March 2011

28 April 2011

Živjeti zajedno

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Business Environment Highlights

Croatia at a glance

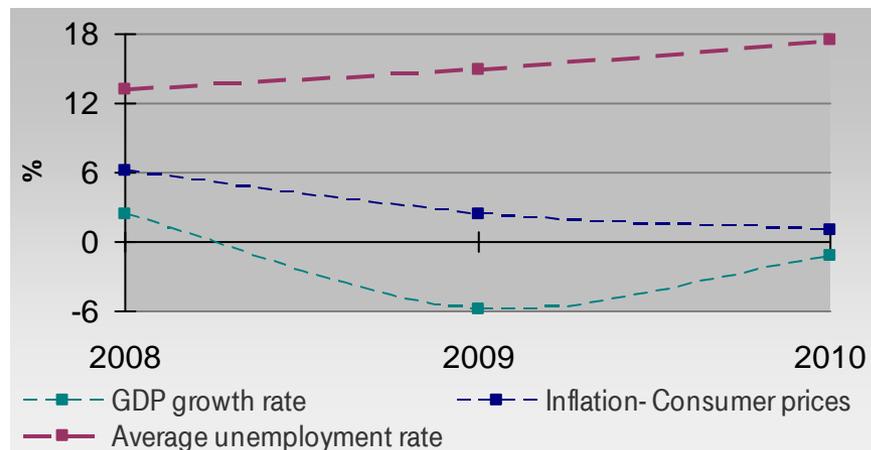
- 4.4 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- ~ 113,000 companies
- 10.6 million tourists in 2010 (86% from abroad)



Croatian Economy

- Expected economic recovery delayed due to the lack of public sector reforms and investments
- GDP decreased 1.2% ⁽¹⁾ in 2010
- Inflation at highest rate since May 2009: 2.6% ⁽²⁾
- Registered unemployment rate 19.3% in March 2011 (March 2010: 18.4%) ⁽³⁾
- 1/3 of total active companies are insolvent ⁽⁴⁾

Macroeconomic indicators⁽³⁾



(1) Real GDP growth rate, source: Croatian Central Bureau of Statistics

(2) Annual inflation growth rate in March 2011; source: Croatian National Bank

(3) Source: Croatian Central Bureau of Statistics

(4) Source: Croatian Chamber of Economy

Croatian Telecom Market

Fixed telephony

- 21 licensed operators, of which 10 active ⁽¹⁾
- CPS, ULL and bitstream available
- Liberalized since 2005; local loop unbundling started in 2006
- Usage declines in line with world-wide trends

Mobile telephony

- 3 operators on the market, no mobile virtual network operators (MVNO)
- Mobile penetration: 145%
- Growing demand for mobile data, driven by smartphones and mobile broadband

Internet

- Internet penetration: ~ 61% of population
- Broadband household penetration⁽²⁾: 45%
- Significant growth opportunity

PayTv

- Satellite and cable underdeveloped
- Cable TV household penetration: 10%; cable TV broadband penetration: 4%
- MAXtv – most successful payTV in the market and one of most successful IPTV launches world-wide (top 3 ranking) ⁽³⁾

Regulatory framework

- Decrease in fixed and mobile interconnection charges from 1 January 2011
- Imposed changes to the Reference Unbundling Offer: introduction of VDSL; reduction of installation fees; lower monthly fees for the second and third access line to the same end-user, etc.
- Reduced monthly fee for ULL from HRK 52.14 to HRK 43.61 from March 2011
- Finalized analysis of the retail market of access to the public communications network at a fixed location: obligation to introduce wholesale line rental, to offer Naked DSL solution, etc.

(1) Including operators providing fixed line service over VoIP

(2) Residential broadband lines per total households

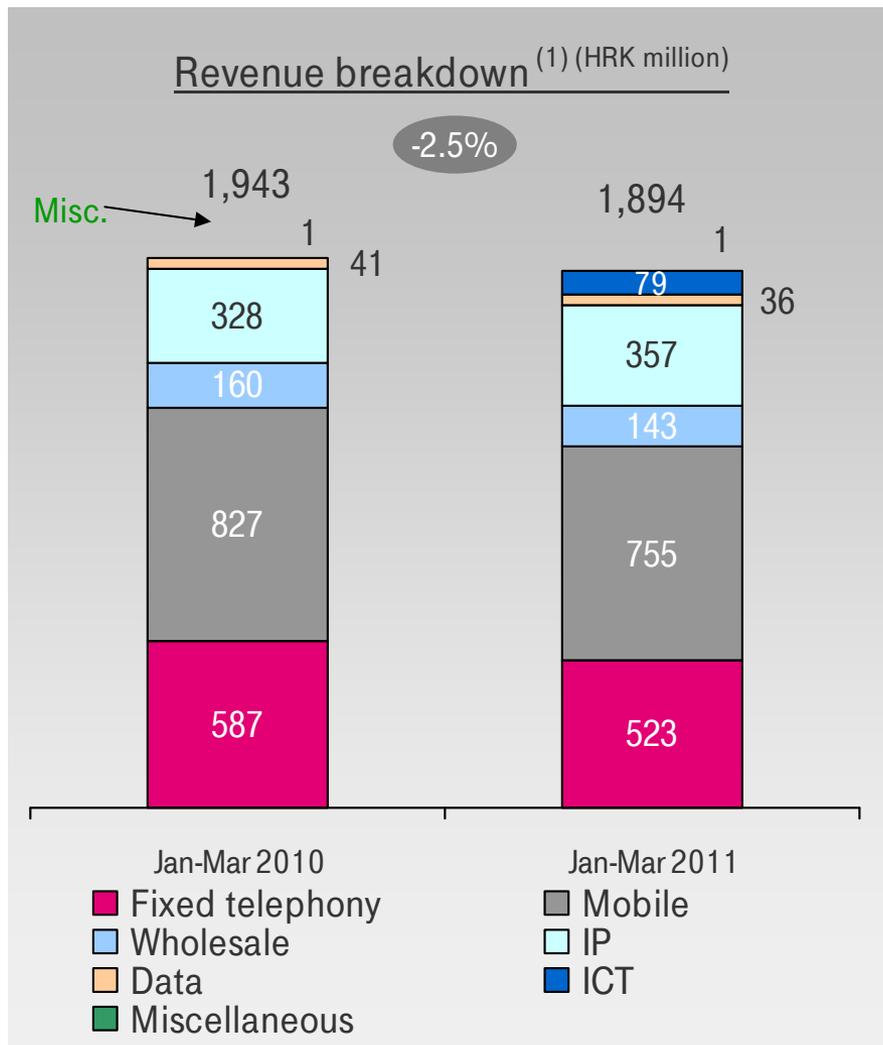
(3) Source: "Industry Outlook: Next-generation access regulation" published by Informa, 25 November 2010

Group Highlights

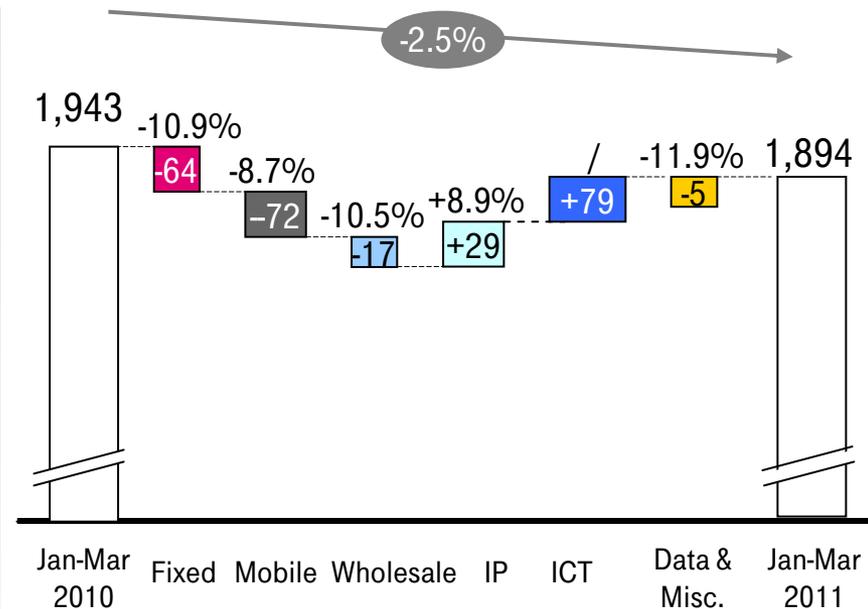
- Maintained leading market position in all business segments
- Revenue decreased 2.5% to HRK 1.894 million due to continuing recession as well as strong competitive pressure
- EBITDA ⁽¹⁾ down 6.4% to HRK 767 million
- Capex increased 176.5% to HRK 250 million
- New segment reporting introduced based on organization implemented in 2010:
 - Residential Segment
 - Business Segment

(1) Before exceptional items

Revenue Development



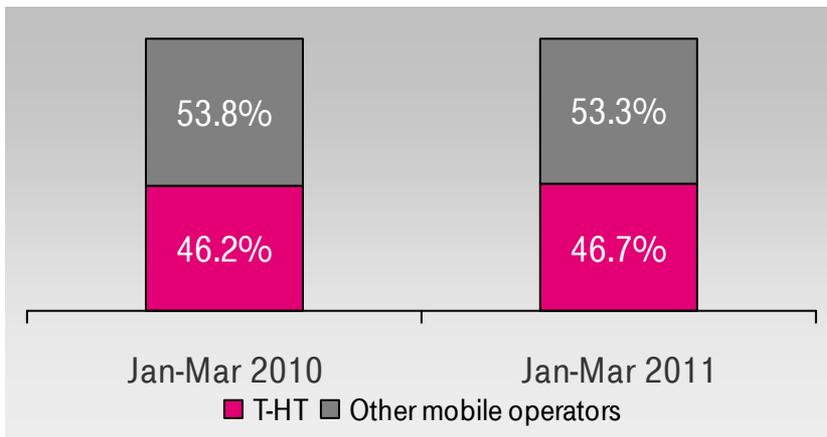
(1) Excluding other operating income



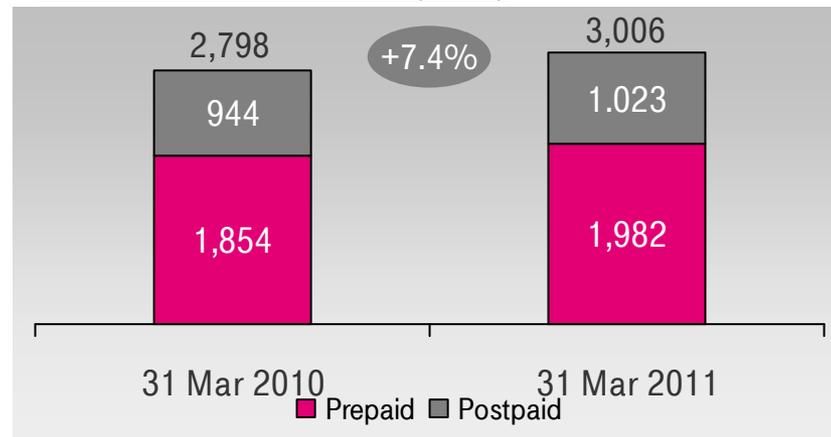
- Revenue still affected by recession and continued competitive pressure
- Lower revenue driven mainly by lower revenue from fixed and mobile telephony
- Internet revenue continues to grow
- Combis contributed HRK 68 million (no effect in Q1 2010, consolidated from May 2010)

Mobile Telephony

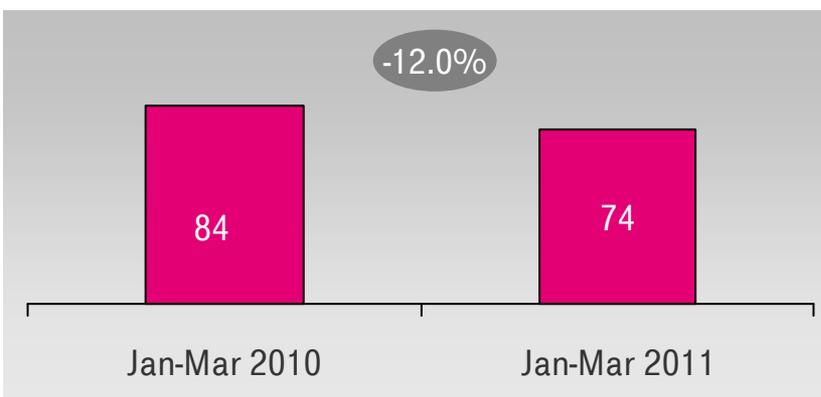
Market share by subscribers (%)⁽¹⁾



Number of subscribers ('000)



Blended ARPU (HRK/month)⁽²⁾



Average MOU (minutes/month)



(1) Source: published VIPnet's and Tele2's quarterly report for 1Q 2010. Number of subscribers for VIPnet and Tele2 for 1Q 2011 are internally estimated.

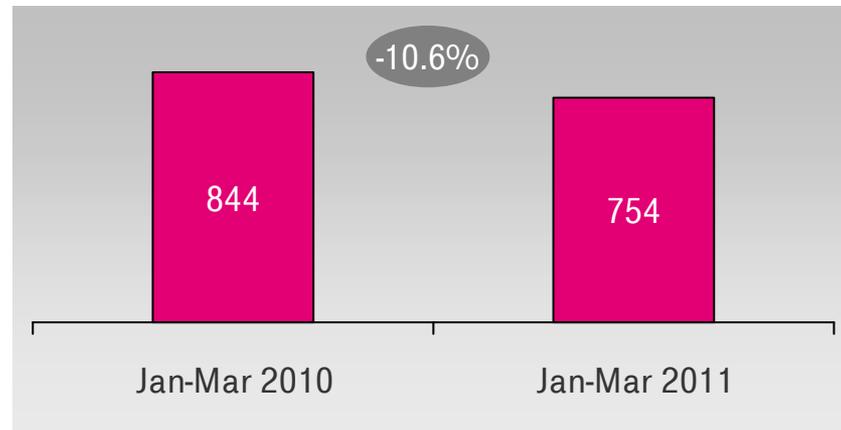
(2) Due to elimination of intercompany transactions previous periods have been restated and are not comparable with already published results.

Fixed Telephony

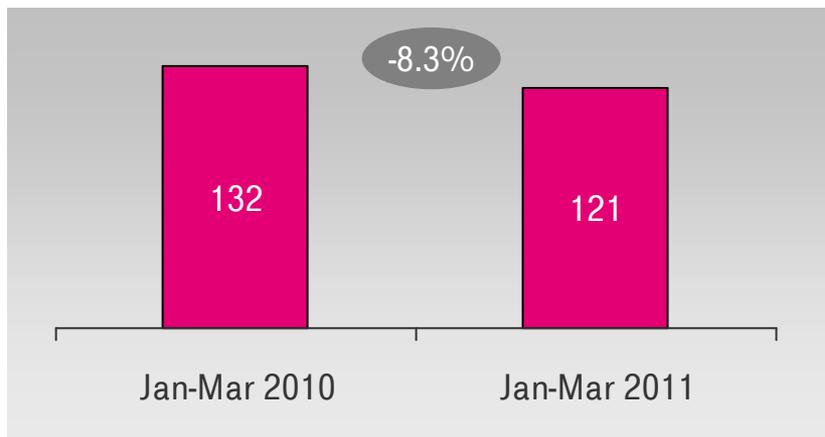
Number of mainlines ('000) ⁽¹⁾



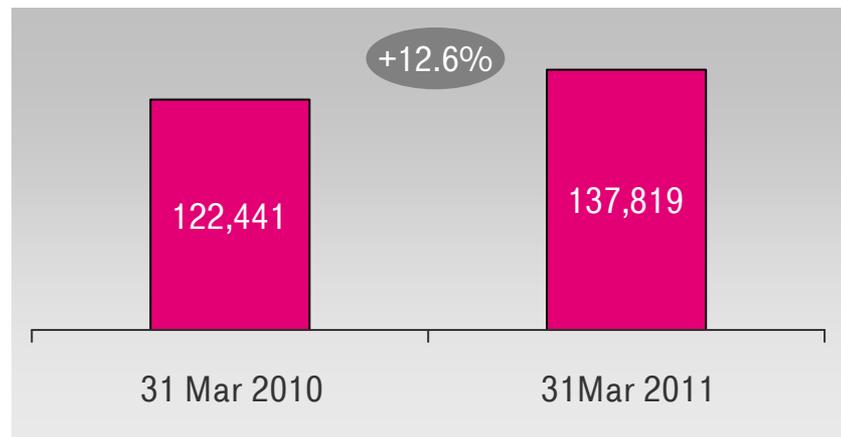
Total traffic in minutes (million)



ARPA (HRK) ⁽²⁾



Number of ULL ⁽³⁾



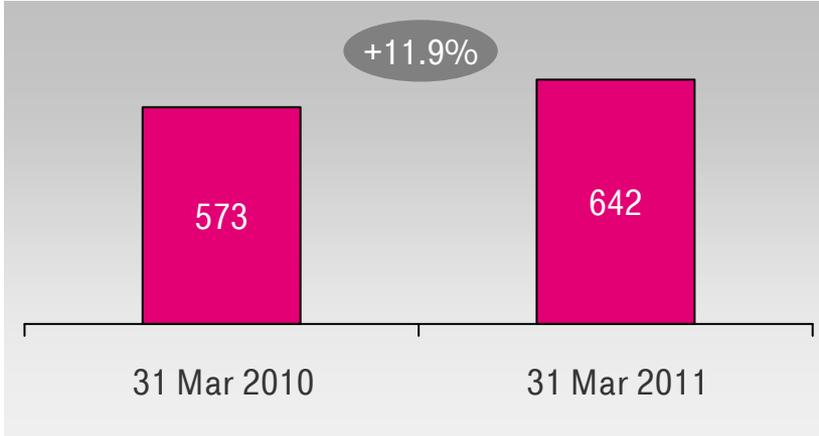
(1) Includes POTS+FGSM + ISDN + payphones

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

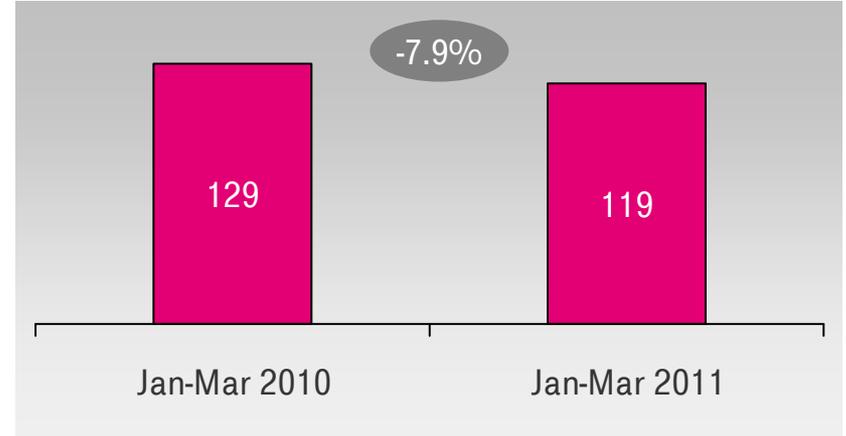
(3) ULL reporting methodology changed in Q2 2010 to reporting based on active lines vs. previously used realized lines. If measured by realized line ULL number would be 154,445 for March 2011 and 131,804 for March 2010.

IP services

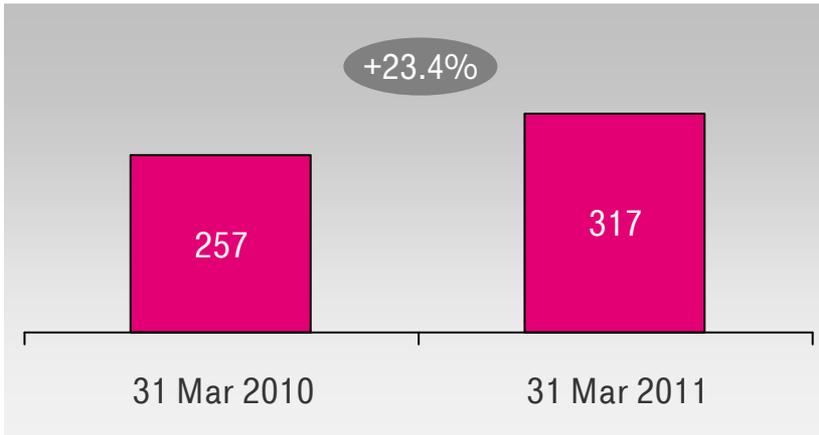
No. of ADSL mainlines ('000) ⁽¹⁾



ADSL mainlines ARPA (HRK) ⁽²⁾



Number of IPTV customers ('000) ⁽³⁾

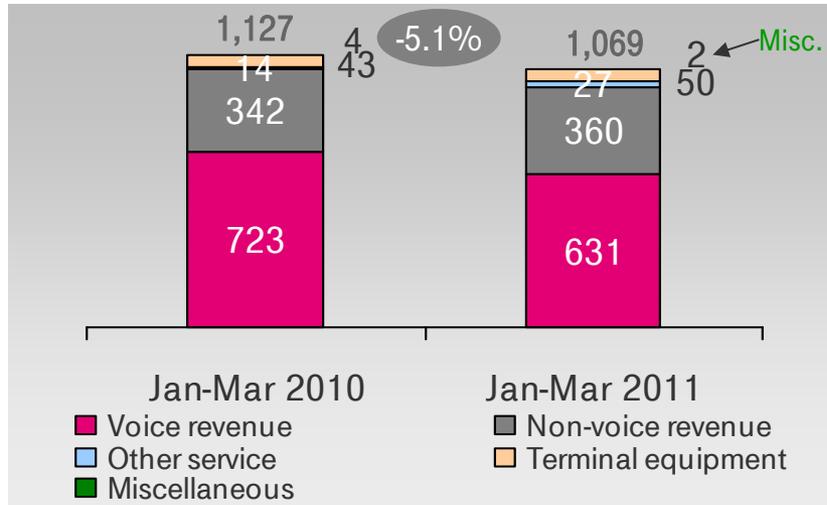


- Growth of MAXtv ⁽³⁾ : nearly 20,000 net adds in Q1 2011
- T-portal launched TV and Film portal - MAXtv: enables users of MAXtv service to use Personal Video Recording via web

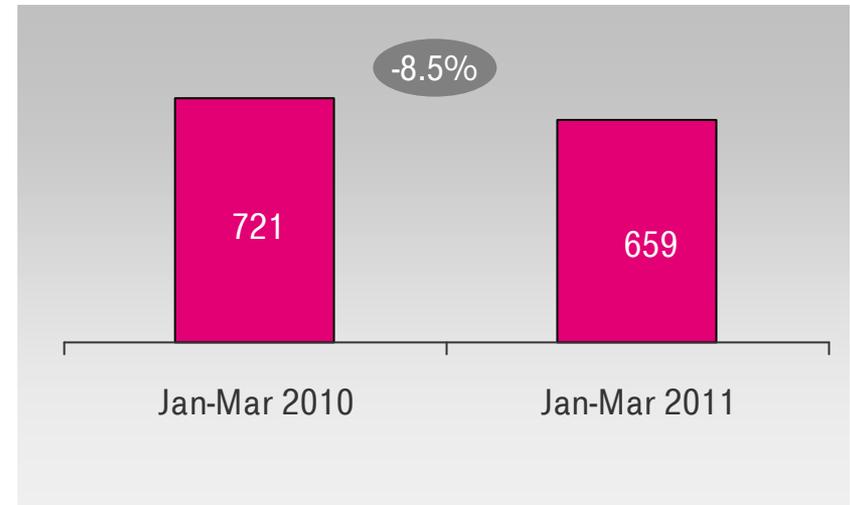
(1) Including Iskon ADSL mainlines.
 (2) Monthly average for the period,
 (3) Including Iskon IPTV customers,

Residential Segment

Revenue breakdown ⁽¹⁾



Contribution to EBITDA ⁽²⁾ (HRK million)



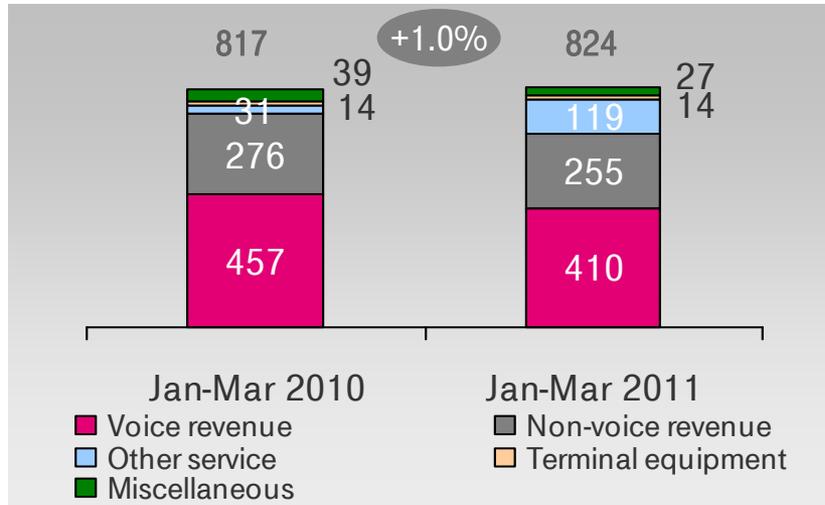
- Voice revenue down as a result of recession, highly competitive mobile market with consistently downward trend of prices and fixed-to-mobile substitution
- Increased fixed IP and mobile data usage revenue, with decrease of other non-voice mobile revenue
- Other service revenue increased due to a different tariff structure in mobile
- Higher revenue from terminal equipment as result of campaigns to acquire and retain mobile customers
- Contribution to EBITDA affected primarily by revenue decrease, and by increased merchandise 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.

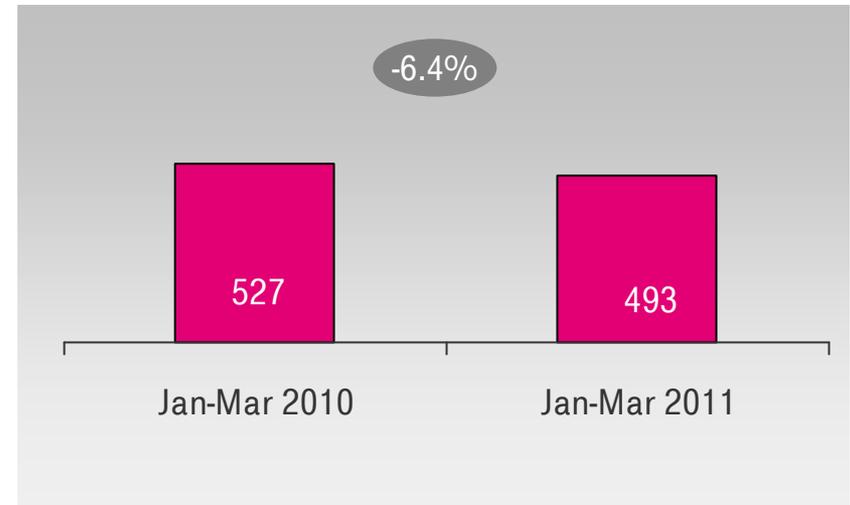
(2) Before exceptional items.

Business Segment

Revenue breakdown ⁽¹⁾



Contribution to EBITDA ⁽²⁾ (HRK million)



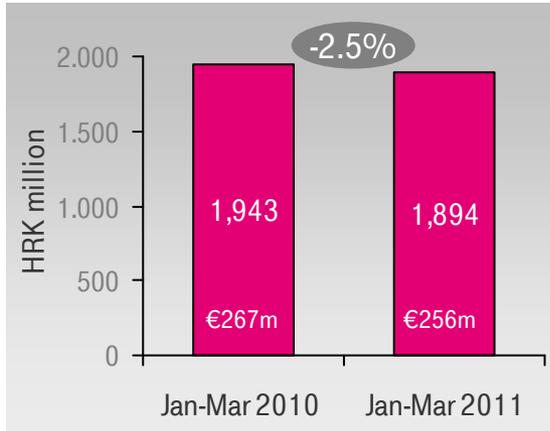
- Voice revenue down mainly due to decline in fixed retail and fixed wholesale segment
- Non-voice revenue affected largely by lower national leased line revenue and migration to IP-based services
- Other service revenue up mainly as a result of Combis contribution (no effect in Q1 2010)
- Miscellaneous revenue decrease resulted from lower national roaming usage and mobile disconnection fee revenue being a part of service revenue starting from 2011
- Contribution to EBITDA affected by higher merchandise costs connected with mobile campaigns and merchandise costs from Combis

(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.

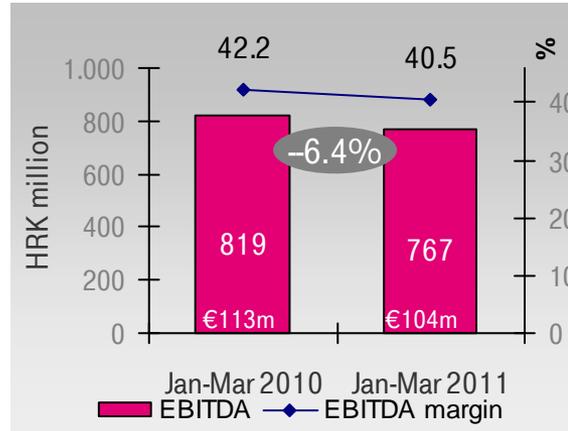
(2) Before exceptional items.

Group Highlights

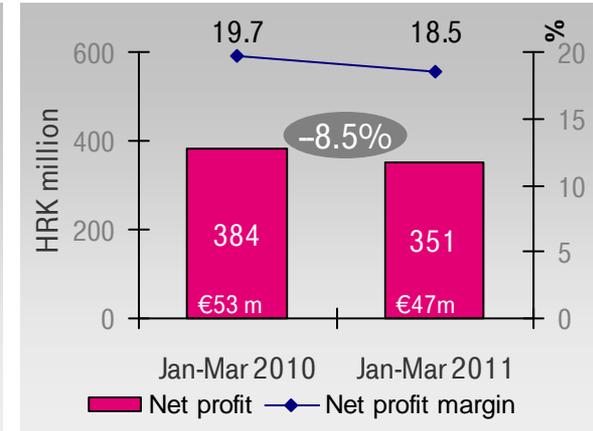
Revenue⁽¹⁾



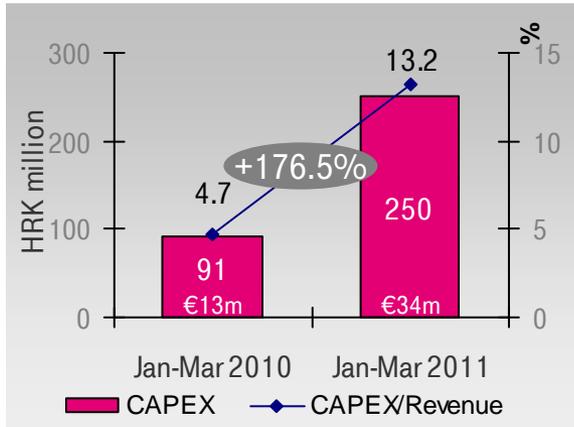
EBITDA before exceptional items



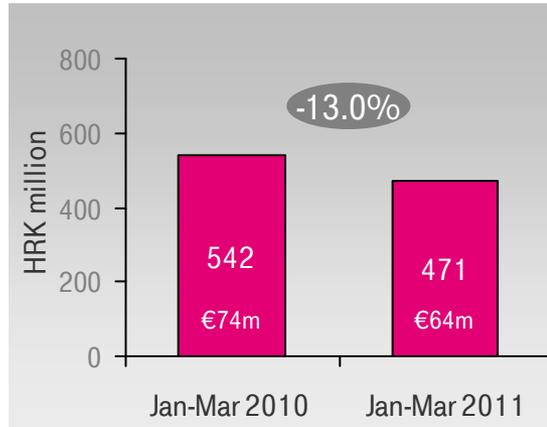
Net profit



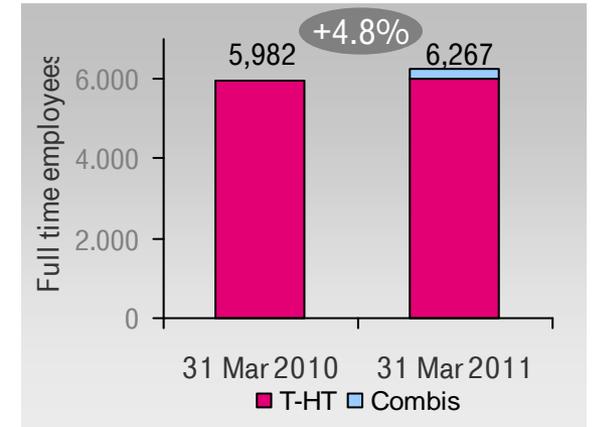
CAPEX



Net cash flow from operations



Headcount



(1) Excluding other operating income

• Kuna per Euro average rate of exchange: Jan- Mar 2010: 7.28; Jan- Mar 2011: 7.40.

Group 2011 Outlook

Revenue

The overall Croatian economic recovery has been slower than anticipated with the unfavourable development of key indicators that impact demand for the Group's services - high unemployment and falling disposable income.

Subject to a strong tourist season in Croatia and recovery in the national economy, the Group expects to maintain 2011 revenue at the 2010 level through a combination of its focus on exploiting new growth opportunities and maximising existing ones.

EBITDA before exceptional items

As a result of the revenue strategies outlined above, efficiencies gained from the successful restructuring in 2010 and continuing strong cost controls, the Group expects that - subject to recovery in the national economy - 2011 EBITDA for the year as a whole should be above the 2010 level.

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 its fixed core network transformation and service platforms development, as well as in infrastructure necessary to support the growing demand for mobile broadband.

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-Mar 2011	Jan-Mar 2010	% of change <i>A11/A10</i>
Voice revenue	1.042	1.180	-11,7%
Non voice revenue	614	619	-0,7%
Other service revenue	145	45	224,9%
Terminal equipment	63	57	10,0%
Miscellaneous	29	43	-31,8%
Revenue	1.894	1.943	-2,5%
Other operating income	81	36	124,3%
Total operating revenue	1.975	1.979	-0,2%
Operating expenses	1.208	1.160	4,1%
Material expenses	578	533	8,3%
Merchandise, material and energy expenses	302	238	27,2%
Services expenses	275	296	-6,8%
Employee benefits expenses	292	284	2,8%
Other expenses	326	319	2,1%
Work performed by the Group and capitalised	-12	-7	-65,7%
Write down of assets	25	32	-21,5%
EBITDA	767	819	-6,4%
Depreciation and amortization	335	334	0,2%
EBIT	432	485	-10,9%
Financial income	15	33	-55,4%
Income/loss from investment in joint ventures	0	-1	-
Financial expenses	6	32	-80,5%
Profit before taxes	441	486	-9,3%
Taxation	90	102	-12,1%
Net profit	351	384	-8,5%
Minority interest	0	0	-21,6%
Net profit after minority interest	351	384	-8,5%
Exceptional items	0	0	-
EBITDA before exceptional items	767	819	-6,4%

Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 31 Mar	At 31 Dec	% of change
	2011	2010	A11/A10
Intangible assets	1.099	1.162	-5,5%
Property, plant and equipment	6.314	6.336	-0,4%
Non-current financial assets	429	422	1,6%
Receivables	32	31	1,9%
Deferred tax asset	50	57	-11,7%
Total non-current assets	7.923	8.008	-1,1%
Inventories	274	216	26,7%
Receivables	1.428	1.504	-5,0%
Current financial assets	527	465	13,3%
Cash and cash equivalents	3.464	3.282	5,5%
Prepayments and accrued income	111	110	1,3%
Total current assets	5.804	5.577	4,1%
TOTAL ASSETS	13.727	13.585	1,0%
Subscribed share capital	8.189	8.189	0,0%
Reserves	409	409	0,1%
Revaluation reserves	-2	-1	90,0%
Retained earnings	2.461	626	293,2%
Net profit for the period	351	1.831	-80,8%
Minority interest	1	0	
Total issued capital and reserves	11.410	11.054	3,2%
Provisions	401	293	36,7%
Non-current liabilities	40	117	-65,7%
Total non-current liabilities	441	410	7,5%
Current liabilities	1.555	1.871	-16,9%
Accrued expenses and deferred income	321	250	28,6%
Total current liabilities	1.877	2.121	-11,5%
Total liabilities	2.317	2.531	-8,4%
TOTAL EQUITY AND LIABILITIES	13.727	13.585	1,0%

Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Mar 2011	Jan-Mar 2010	% of change A11/A10
Profit before tax	441	486	-9,3%
Depreciation and amortization	335	334	0,2%
Increase of current liabilities	123	122	0,5%
Decrease of inventories	0	0	-
Other cash flow increases	0	25	-
Total increase of cash flow from operating activities	899	966	-7,0%
Decrease of current liabilities	-206	-290	-29,0%
Increase of current receivables	0	0	-
Increase of inventories	-57	-20	189,0%
Other cash flow decreases	-164	-116	42,2%
Total decrease of cash flow from operating activities	-428	-425	0,5%
Net cash inflow/outflow from operating activities	471	542	-13,0%
Proceeds from sale of non-current assets	4	5	-14,1%
Proceeds from sale of non-current financial assets	74	0	-
Proceeds from sale of current financial assets	0	0	-
Interest received	28	18	59,8%
Dividend received	0	0	-
Other cash inflows from investing activities	63	95	-
Total increase of cash flow from investing activities	169	117	44,3%
Purchase of non-current assets	-250	-91	176,5%
Purchase of non-current financial assets	0	0	-
Other cash outflows from investing activities	-201	0	-
Total decrease of cash flow from investing activities	-451	-91	398,5%
Net cash inflow/outflow from investing activities	-282	27	-1160,0%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-7	0	-
Dividends paid	0	0	-
Repayment of finance lease	0	-1	-100,0%
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	-7	-1	589,0%
Net cash inflow/outflow from financing activities	-7	-1	589,0%
Total increase of cash flow	471	542	-13,0%
Total decrease of cash flow	-289	26	-1226,1%
Cash and cash equivalents at the beginning of period	3.282	4.195	-21,8%
Net cash (outflow) / inflow	182	567	-67,9%
Cash and cash equivalents at the end of period	3.464	4.762	-27,3%

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London Stock Exchange GDR trading symbol: THTC

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

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HTRA CZ