

Business and Financial Review January – June 2011

29 July 2011



Živjeti zajedno

Disclaimer

- These materials and the oral presentation do not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the Company nor should they or any part of them or the fact of their distribution form the basis of, or be relied on in connection with, any contract or investment decision in relation thereto.
- In particular, these materials and the oral presentation are not an offer of securities for sale in the United States. The Company's securities have not been, and will not be, registered under the US Securities Act of 1933, as amended.
- The third party information contained herein has been obtained from sources believed by the Company to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated herein are complete and accurate and that the opinions and expectations contained herein are fair and reasonable, no representation or warranty, expressed or implied, is made by the Group or its advisors, with respect to the completeness or accuracy of any information and opinions contained herein.
- These materials and the oral presentation contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the Group's Annual Report.
- These materials include non-IFRS measures, such as EBITDA. The Company believes that such measures serve as an additional indicators of the Group's operating performance. However such measures are not replacements for measures defined by and required under IFRS. In addition, some key performance indicators utilised by the Company may be calculated differently by other companies operating in the sector. Therefore the non-IFRS measures and key performance indicators used in these materials may not be directly comparable to those of the Group's competitors.

Business Environment Highlights

Croatia at a glance

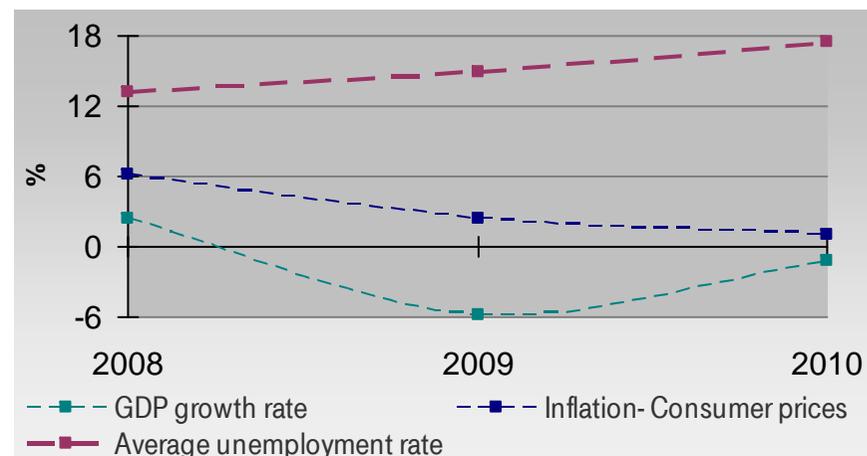
- 4.3 million population ⁽¹⁾
- 1.5 million households
- Largest 10 cities house 36% of population
- ~ 104,000 companies
- 3.2 million tourists in first six months 2011⁽²⁾



Croatian Economy

- Finished EU accession negotiations
- No relevant signs of real recovery
- Expected GDP growth in Q2 2011: ~ 1%⁽³⁾
- Inflation slows at 2.0% ⁽⁴⁾
- Registered unemployment rate 16.9% in June 2011 (June 2010: 16.6%) ⁽⁵⁾
- Overdue payments at the record level: HRK 39.9 bn⁽⁶⁾ in May 2011

Macroeconomic indicators⁽⁵⁾



(1) Source: *First results of the new Census 2011", Central Bureau of Statistics

(2) Source: Croatian National Tourist Board

(3) Real GDP growth rate, source: estimates of PBZ, HAAB and EBRD

(4) Annual inflation growth rate in June 2011; source: Croatian National Bank

(5) Source: Croatian Central Bureau of Statistics

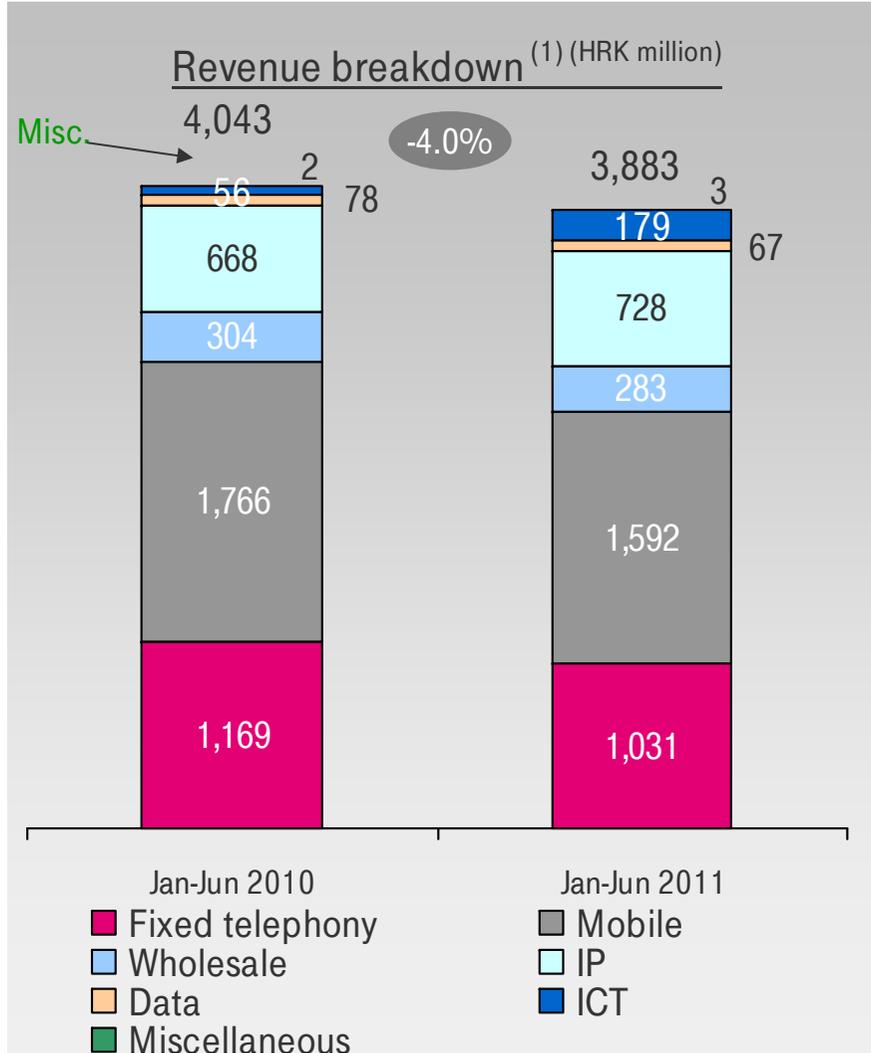
(6) Source: Croatian Chamber of Economy

Group Highlights

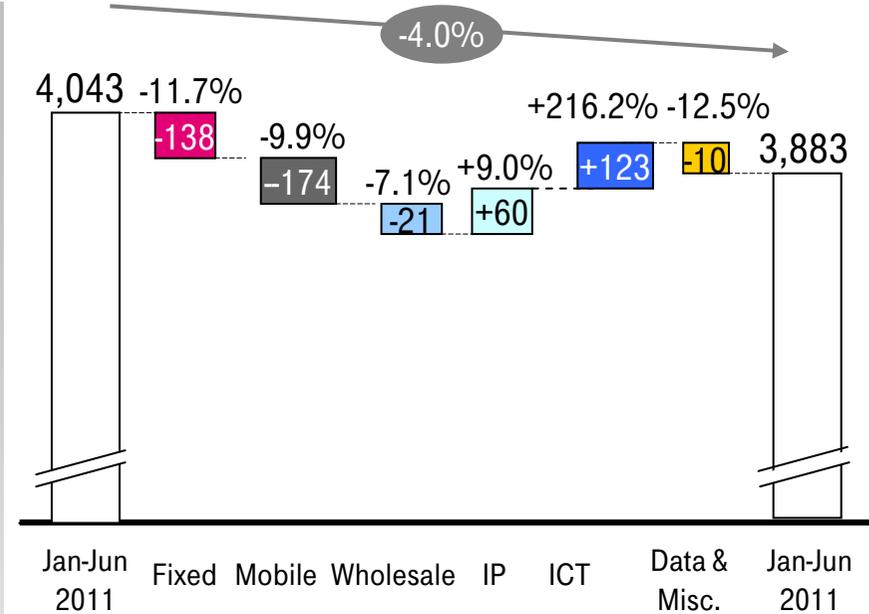
- Maintained leading market position in all business segments
- Revenue decreased 4.0% to HRK 3,883 million due to continuing recession as well as strong competitive pressure
- EBITDA ⁽¹⁾ down 3.1% to HRK 1,668 million with EBITDA margin increased to 43.0%
- Capex increased 73.2% to HRK 499 million
- Dividend paid in the amount of 22.76 HRK/share on 17 May 2011
- Launched new ICT services: tCloud, first cloud based service in Croatia, and eBook store – Planet9
- Further participation in process of privatisation of Post and Telecommunications of Kosovo (PTK) under review

(1) Before exceptional items

Revenue Development



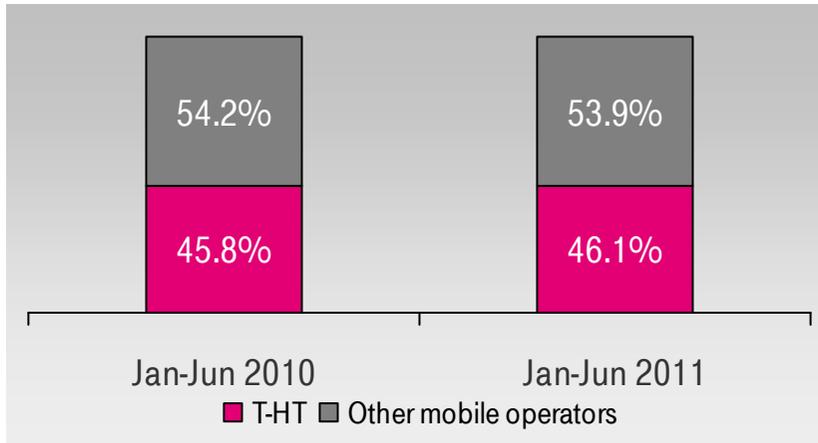
(1) Excluding other operating income



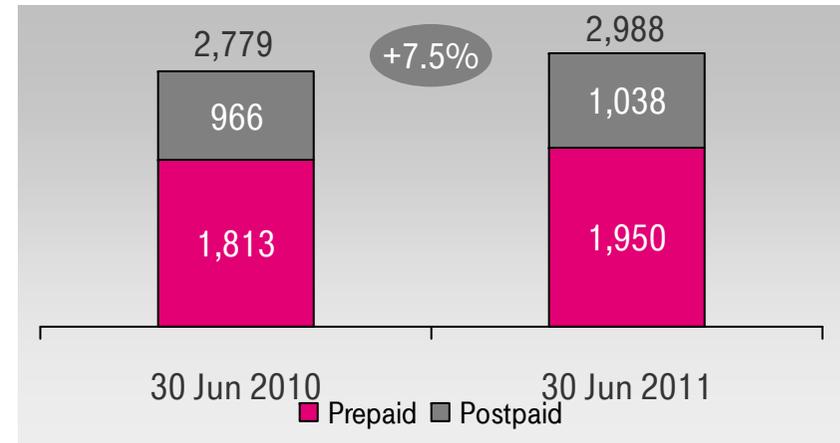
- Revenue still affected by recession and continued competitive pressure
- Lower revenue continues to be driven mainly by lower revenue from fixed and mobile telephony
- Internet revenue continues to grow
- Combis contributed HRK 161 million (vs HRK 53 million in H1 2010, consolidated from May 2010)

Mobile Telephony

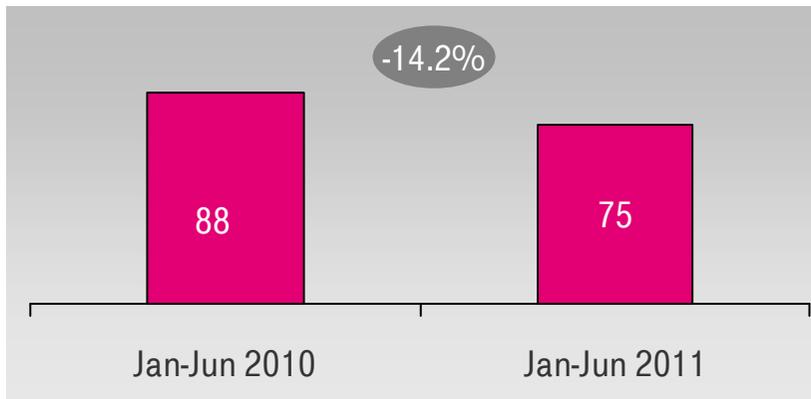
Market share by subscribers (%)⁽¹⁾



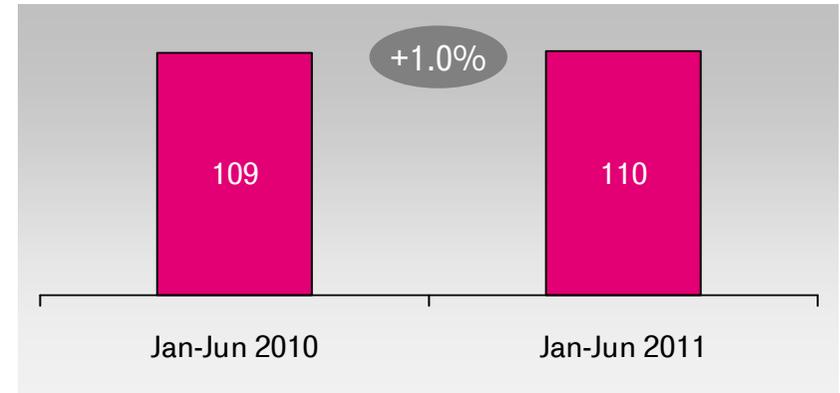
Number of subscribers ('000)



Blended ARPU (HRK/month)⁽²⁾



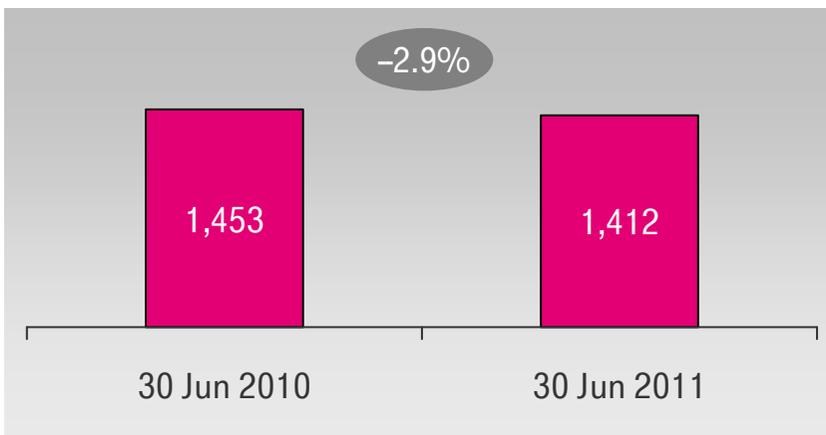
Average MOU (minutes/month)



(1) Source: published VIPnet's and Tele2's report for Q2 2010 and Tele 2 report for Q2 2011. Number of VIPnet's subscribers for Q2 2011 is internally estimated
 (2) Due to elimination of intercompany transactions previous periods have been restated and are not comparable with already published results

Fixed Telephony

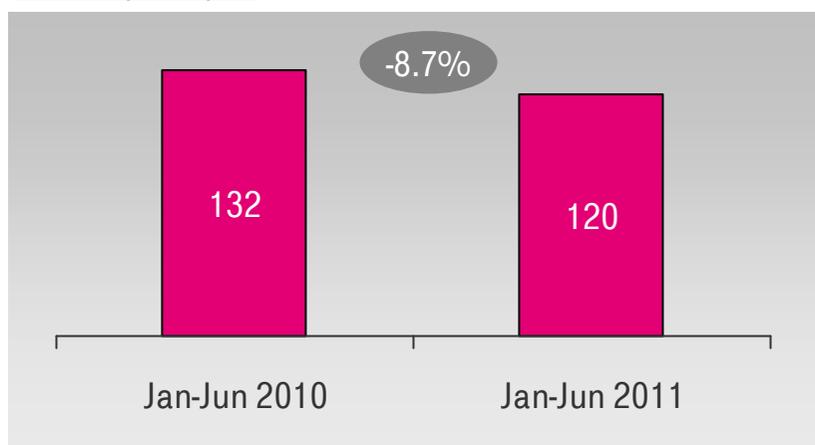
Number of mainlines ('000) ⁽¹⁾



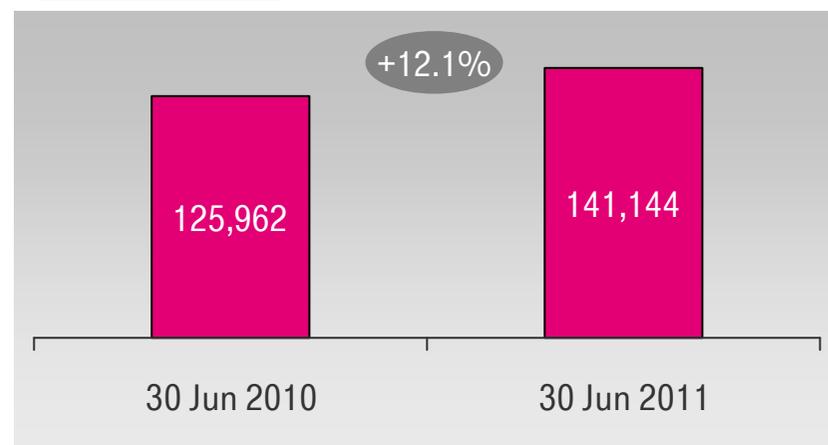
Total traffic in minutes (million)



ARPA (HRK) ⁽²⁾



Number of ULL

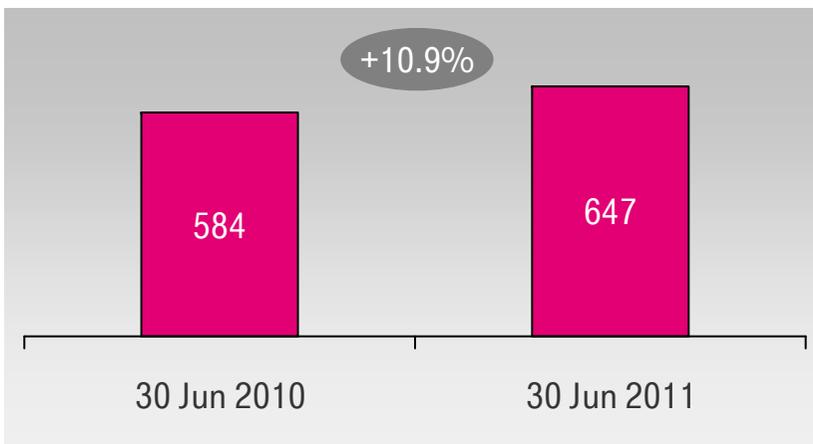


(1) Includes POTS+FGSM + ISDN + payphones

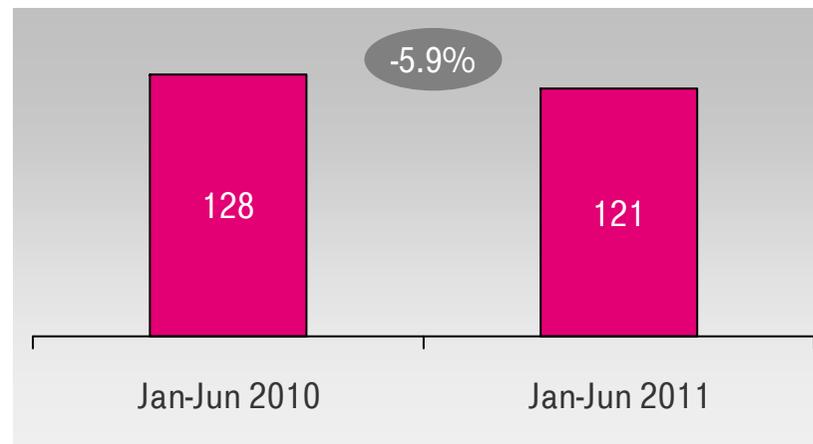
(2) Voice revenue per voice access - monthly average for the period

IP Services

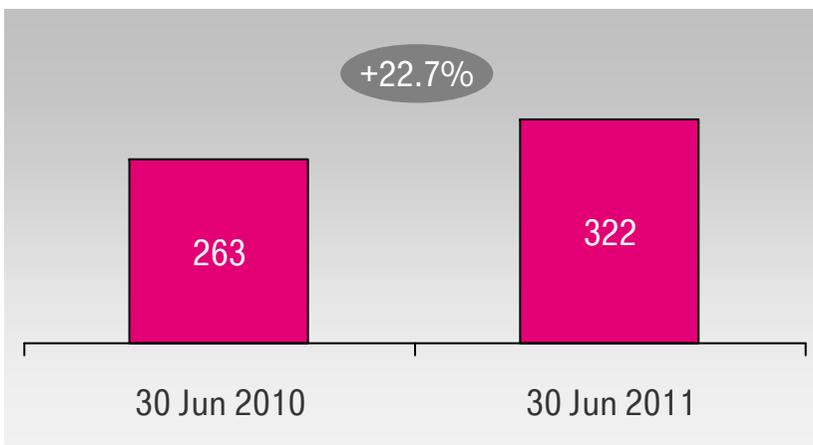
No. of ADSL mainlines ('000) ⁽¹⁾



ADSL mainlines ARPA (HRK) ⁽²⁾



Number of IPTV customers ('000) ⁽³⁾

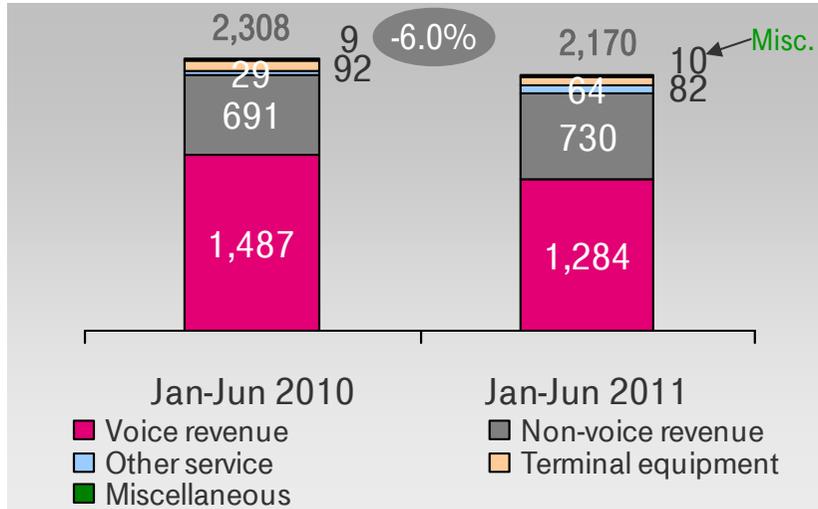


- Growth of MAXtv ⁽³⁾ : more than 5,000 net adds in Q2 2011
 - Expanded Sport package and introduced new pay per view service
- T-portal's Facebook page acquired 100,000th fan in May 2011

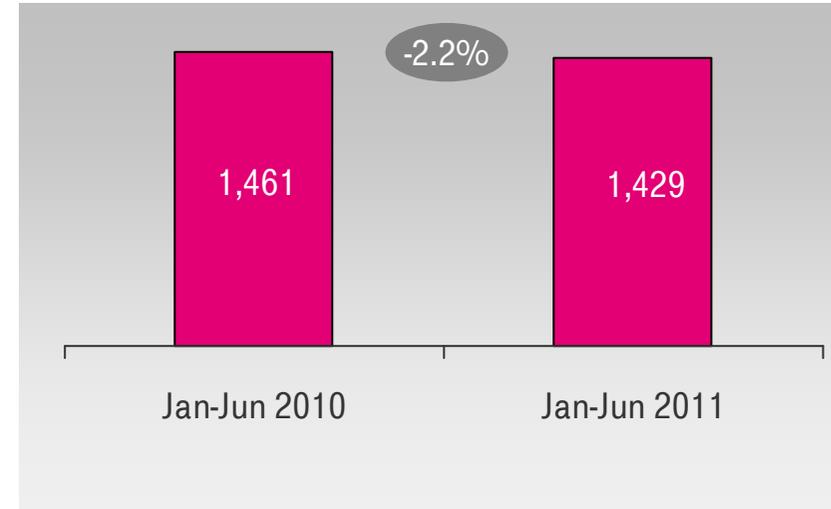
(1) Including Iskon ADSL mainlines
 (2) Monthly average for the period
 (3) Including Iskon IPTV customers

Residential Segment

Revenue breakdown ⁽¹⁾



Contribution to EBITDA ⁽²⁾ (HRK million)



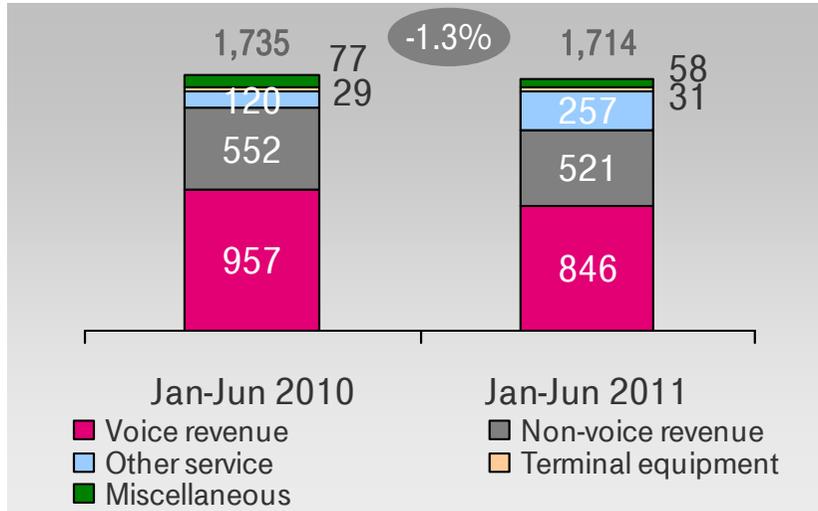
- Voice revenue down as a result of highly competitive mobile market with consistently downward trend of prices, demanding economic environment and lower mobile termination rates
- Non-voice revenue increased due to increased fixed IP and mobile data revenue but other non-voice mobile revenue decreased
- Other service revenue increased due to a different tariff structure in mobile
- Revenue from terminal equipment decreased mainly due to different treatment of CPE
- Contribution to EBITDA decreased as a result of revenue decrease partly off-set with decreased operating expenses

(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

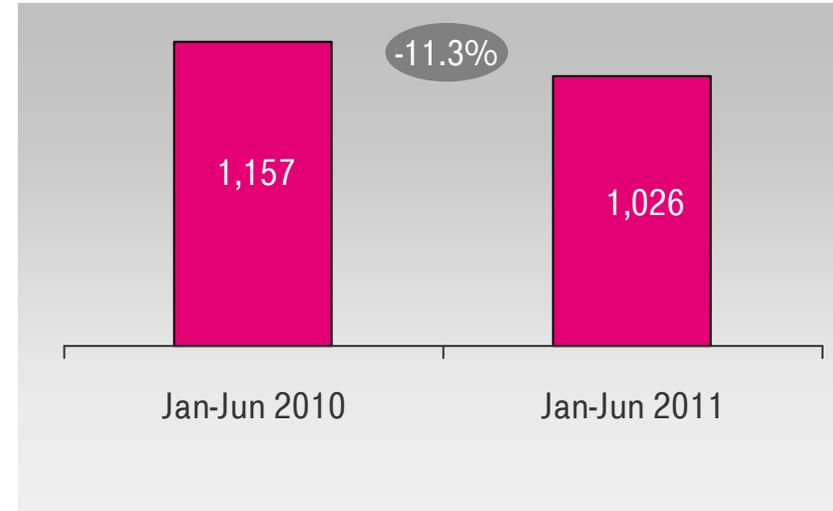
(2) Before exceptional items

Business Segment

Revenue breakdown ⁽¹⁾



Contribution to EBITDA ⁽²⁾ (HRK million)



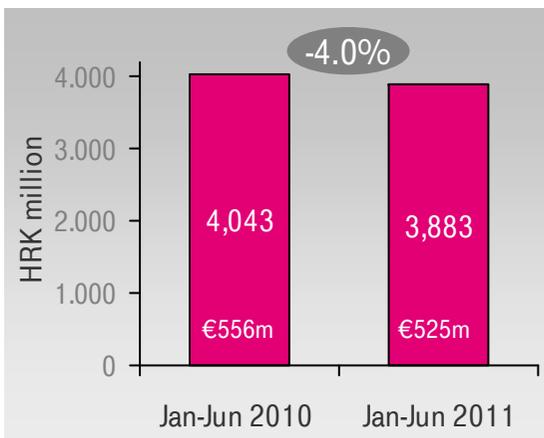
- Voice revenue down mainly due to decline in fixed network traffic and number of mainlines, fixed to mobile substitution, lower mobile service usage and decreased MTRs
- Non-voice revenue affected largely by lower national leased line revenue and migration to IP-based services
- Other service revenue strongly up mainly as a result of Combis contribution
- Revenue from terminal equipment slightly up as a result of mobile push campaign
- Miscellaneous revenue decrease resulted from lower national roaming prices and lower usage as well as due to mobile disconnection fee revenue being a part of service revenue starting from 2011
- Contribution to EBITDA affected by higher merchandise costs and Combis contribution to indirect 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

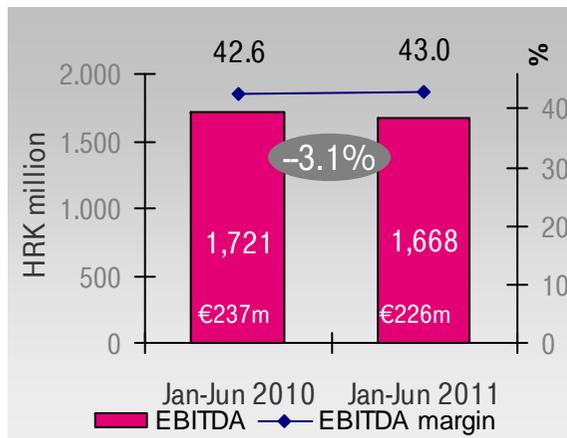
(2) Before exceptional items

Group Highlights

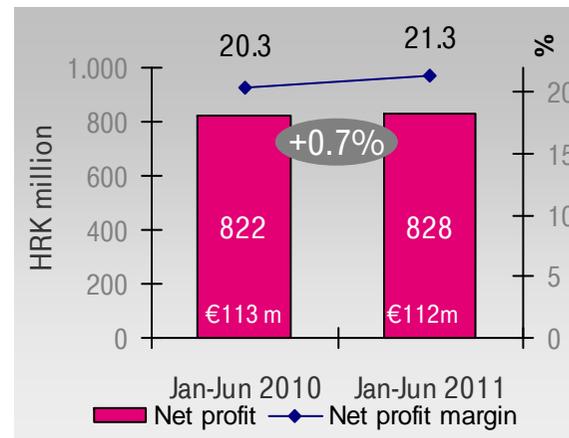
Revenue⁽¹⁾



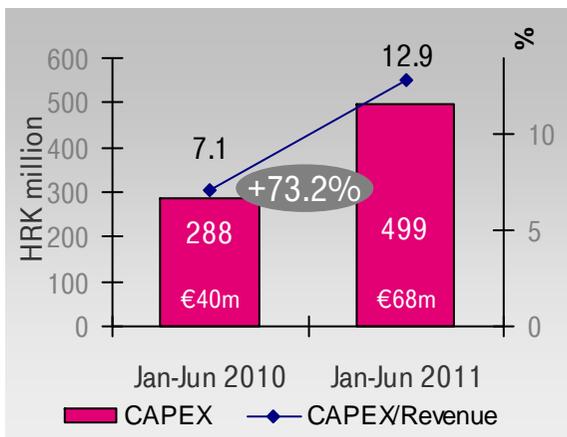
EBITDA before exceptional items



Net profit



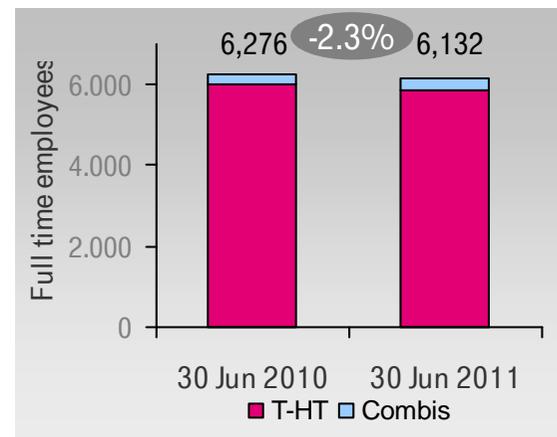
CAPEX



Net cash flow from operations



Headcount



(1) Excluding other operating income
 • Kuna per Euro average rate of exchange: Jan-Jun 2010: 7.27; Jan-Jun 2011: 7.39

Appendix

Consolidated Income Statement

| in HRK million (IFRS HT accounting policies) | Jan-Jun 2011 | Jan-Jun 2010 | % of change A11/A10 |
|---|-----------------|-----------------|------------------------|
| Mobile | 1.592 | 1.766 | -9,9% |
| Fixed Telephony | 1.031 | 1.169 | -11,7% |
| Wholesale | 283 | 304 | -7,1% |
| IP Revenue | 728 | 668 | 9,0% |
| Data | 67 | 78 | -13,9% |
| ICT | 179 | 56 | 216,2% |
| Miscellaneous | 3 | 2 | 76,4% |
| Revenue | 3.883 | 4.043 | -4,0% |
| Other operating income | 127 | 76 | 67,2% |
| Total operating revenue | 4.011 | 4.119 | -2,6% |
| Operating expenses | 2.342 | 2.398 | -2,4% |
| Material expenses | 1.112 | 1.116 | -0,4% |
| Employee benefits expenses | 569 | 579 | -1,8% |
| Other expenses | 649 | 658 | -1,3% |
| Work performed by the Group and capitalised | -32 | -23 | -43,0% |
| Write down of assets | 44 | 68 | -34,7% |
| EBITDA | 1.668 | 1.721 | -3,1% |
| Depreciation and amortization | 665 | 666 | -0,1% |
| EBIT | 1.004 | 1.056 | -4,9% |
| Financial income | 28 | 37 | -24,9% |
| Income/loss from investment in joint ventures | 15 | 6 | 155,6% |
| Financial expenses | 25 | 71 | -65,3% |
| Profit before taxes | 1.022 | 1.027 | -0,5% |
| Taxation | 193 | 205 | -5,6% |
| Net profit | 828 | 822 | 0,7% |
| Minority interest | 0 | 0 | 0,3% |
| Net profit after minority interest | 828 | 822 | 0,7% |
| Exceptional items | 0 | 0 | - |
| EBITDA before exceptional items | 1.668 | 1.721 | -3,1% |

Consolidated Balance Sheet

| in HRK million (IFRS HT accounting policies) | At 30 Jun 2011 | At 31 Dec 2010 | % of change A11/A10 |
|--|-------------------|-------------------|------------------------|
| Intangible assets | 916 | 1.162 | -21,2% |
| Property, plant and equipment | 6.249 | 6.336 | -1,4% |
| Non-current financial assets | 162 | 422 | -61,5% |
| Receivables | 438 | 31 | 1312,7% |
| Deferred tax asset | 81 | 57 | 41,7% |
| Total non-current assets | 7.846 | 8.008 | -2,0% |
| Inventories | 255 | 216 | 18,1% |
| Receivables | 1.396 | 1.504 | -7,2% |
| Current financial assets | 525 | 465 | 13,0% |
| Cash and cash equivalents | 1.861 | 3.282 | -43,3% |
| Prepayments and accrued income | 143 | 110 | 30,4% |
| Total current assets | 4.181 | 5.577 | -25,0% |
| TOTAL ASSETS | 12.027 | 13.585 | -11,5% |
| Subscribed share capital | 8.189 | 8.189 | 0,0% |
| Reserves | 409 | 409 | 0,1% |
| Revaluation reserves | -2 | -1 | -55,7% |
| Retained earnings | 598 | 626 | -4,5% |
| Net profit for the period | 828 | 1.831 | -54,8% |
| Minority interest | 1 | 0 | - |
| Total issued capital and reserves | 10.023 | 11.054 | -9,3% |
| Provisions | 342 | 293 | 16,9% |
| Non-current liabilities | 31 | 117 | -73,2% |
| Total non-current liabilities | 374 | 410 | -8,8% |
| Current liabilities | 1.320 | 1.871 | -29,4% |
| Accrued expenses and deferred income | 310 | 250 | 23,9% |
| Total current liabilities | 1.630 | 2.121 | -23,2% |
| Total liabilities | 2.004 | 2.531 | -20,8% |
| TOTAL EQUITY AND LIABILITIES | 12.027 | 13.585 | -11,5% |

Consolidated Cash Flow Statement

| in HRK million (IFRS HT accounting policies) | Jan-Jun 2011 | Jan-Jun 2010 | % of change A11/A10 |
|--|-----------------|-----------------|------------------------|
| Profit before tax | 1.021 | 1.027 | -0,5% |
| Depreciation and amortization | 665 | 666 | -0,1% |
| Decrease of inventories | 68 | 9 | 689,1% |
| Total increase of cash flow from operating activities | 1.755 | 1.701 | 3,2% |
| Decrease of current liabilities | -384 | -354 | -8,6% |
| Increase of current receivables | 0 | 0 | - |
| Increase of inventories | -39 | -9 | -322,8% |
| Other cash flow decreases | -353 | -220 | -60,6% |
| Total decrease of cash flow from operating activities | -776 | -583 | -33,1% |
| Net cash inflow/outflow from operating activities | 979 | 1.118 | -12,5% |
| Proceeds from sale of non-current assets | 9 | 6 | 43,8% |
| Proceeds from sale of non-current financial assets | 74 | 0 | - |
| Proceeds from sale of current financial assets | 0 | 0 | - |
| Interest received | 35 | 30 | 16,6% |
| Other cash inflows from investing activities | 369 | 61 | 505,1% |
| Total increase of cash flow from investing activities | 486 | 97 | 401,9% |
| Purchase of non-current assets | -499 | -288 | -73,2% |
| Other cash outflows from investing activities | -516 | -182 | -183,8% |
| Total decrease of cash flow from investing activities | -1.016 | -470 | -116,0% |
| Net cash inflow/outflow from investing activities | -529 | -373 | -41,8% |
| Total increase of cash flow from financing activities | 0 | 0 | - |
| Repayment of loans and bonds | -8 | -2 | -304,3% |
| Dividends paid | -1.863 | -2.788 | 33,2% |
| Total decrease in cash flow from financing activities | -1.871 | -2.790 | 33,0% |
| Net cash inflow/outflow from financing activities | -1.871 | -2.790 | 33,0% |
| Total increase of cash flow | 979 | 1.118 | -12,5% |
| Total decrease of cash flow | -2.400 | -3.164 | 24,1% |
| Cash and cash equivalents at the beginning of period | 3.282 | 4.195 | -21,8% |
| Net cash (outflow) / inflow | -1.421 | -2.045 | 30,5% |
| Cash and cash equivalents at the end of period | 1.861 | 2.150 | -13,4% |

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
- www.t.ht.hr/eng/investors/

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