Business and Financial Review January – December 2011

14 February 2012

Hrvatski Telekom

Živjeti zajedno

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Business Environment Highlights

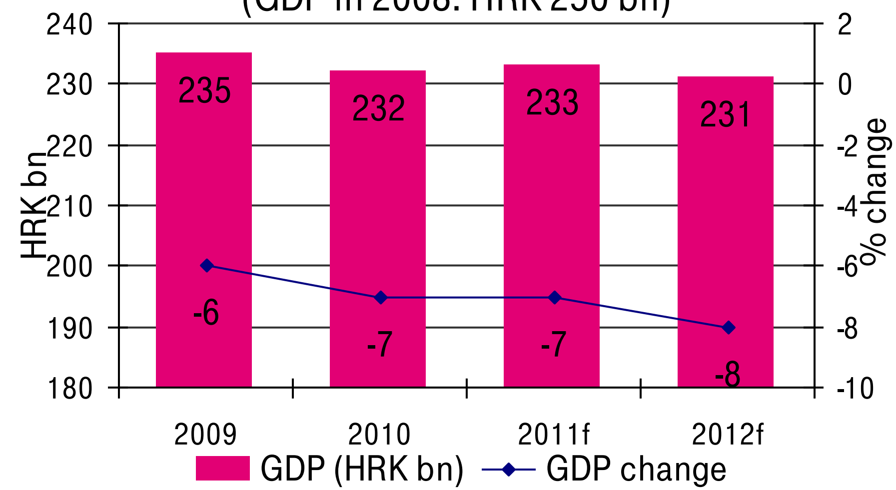
Croatia at a glance (1)

- 4.3 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- ~107,000 active companies
- 11.3 million tourists in first eleven months 2011 (91% foreign tourists)

Croatian Economy (2)

- EU accession approved in a referendum with 66% of votes
- Necessary to speed up fiscal/growth reforms to avoid credit rating downgrades
- GDP growth: 0.7% in Q3 2011; 2011 forecast: from -0.4% to 0.4%; 2012 from -0.5% to -2.1%
- Inflation stable at 2.1%
- Registered unemployment rate 18.7% in December 2011 (December 2010: 18.8%)
- Business payment arrears at the record level of HRK 40.0 bn

GDP% change compared to 2008 level (GDP in 2008: HRK 250 bn) (4)



(1) Source: *First results of the new Census 2011, Central Bureau of Statistics, Croatian National Tourist Board
(2) Source: Croatian National Bank; Central Bureau of Statistics; Croatian Chamber of Economy, GDP forecast refers to forecast of six major Croatian banks
(3) Annual inflation growth rate in December 2011; business payment arrears in October 2011.
(4) Source: Croatian Bureau of Statistics; RBAnalysis, Raiffeisen Research, January 2012

Croatian Telecom and ICT Market

Fixed telephony
- 19 licensed operators, of which 10 active (1)
- July 2011: introduced WLR and naked bitstream
- Liberalized since 2005; local loop unbundling started in 2006
- Usage declines in line with world-wide trends

Mobile telephony
- 3 operators on the market, 6 brands, no mobile virtual network operators (MVNO)
- Mobile penetration: 120% (2)
- Growth in mobile broadband and smartphones

Internet
- Fixed line broadband household penetration: 45%(3)
- Implementation of naked DSL
- Significant growth opportunity
- Market consolidation – acquisition of largest cable operator

PayTv
- Satellite and cable underdeveloped
- PayTV household penetration: 39% (3)
- MAXtv – most successful payTV in the market and one of most successful IPTV launches world-wide (top 3 ranking) (4)

ICT (5)
- 2010: IT market declined 1.3% year-on-year to HRK 5.8 billion
- IT services represent 35% of total IT market; declined 2.3% in 2010 year-on-year to HRK 2.04 billion
- Continued economic malaise and shrinking CAPEX budgets of largest IT services spenders in the country, as well as reduced technology investments in the public sector, lowered IT services spending for second consecutive year

(1)Including operators providing fixed line service over VoIP
(2)Internal estimate. Mobile subscriber data restated due to new prepaid subscriber definition; thus number of total mobile customers decreased and penetration rate is lower than reported in Q2/11
(3)Residential broadband lines per total households; payTV connections per total households
(4)Source: “Industry Outlook: Next-generation access regulation” published by Informa, 25 November 2010
(5)Source: IDC: Croatia IT Market 2011-2015 Forecast and 2010 Vendor Shares

Regulatory Framework

- Introduced wholesale line rental (WLR) and naked DSL; imposed automatic migration to WLR
- Decreased wholesale prices: ULL, wholesale bitstream access (WBA) and interconnection prices
- Defined final concept for the provision of WBA on copper and limited WBA offer on FttH (only for the speeds of 20 Mbit/s and above)
- HAKOM proposed regulation of retail broadband market and IPTV market (decision pending)
- HAKOM adopted Ordinance on Certificate and Fee for the Right of Way, Ordinance on Manner and Conditions for Provision of Electronic Communications Networks and Services
- Cost Accounting and cost modeling projects continue during 2012/2013; in parallel, HAKOM initiated development of its own cost models for fixed/mobile network and universal services. Cost models implementation by HAKOM is expected in H2 2012
- Parliament adopted reinstatement of 6% fee on mobile services; applicable from January 26, 2012 till June 30, 2013

2011: Solid performance in the face of protracted recession

	Announced outlook			Delivered results
	Q1	Q2	Q3	FY 2011
Revenue	■ At the 2010 level; subject to strong tourist season and economic recovery	■ Moderately lower than 2010 given the economic and regulatory conditions	■ Moderately lower than 2010	**HRK 8,067 mil** **Decline: 3.6%** ■ ☑
EBITDA before exc. items	■ Above the 2010 level	■ No longer expected to be above 2010	■ Close to the 2010 level	**HRK 3,782 mil in 2011 vs** **HRK 3,694 mil in 2010** ■ ☑
CAPEX	■ Lower than 2010	■ Lower than 2010	■ Lower than 2010	**- 23.9%** **HRK 877 mil in 2011 vs** **HRK 1,153 mil in 2010** ■ ☑
Regional Expansion	■ Continued monitoring of expansion opportunities			■ ☑

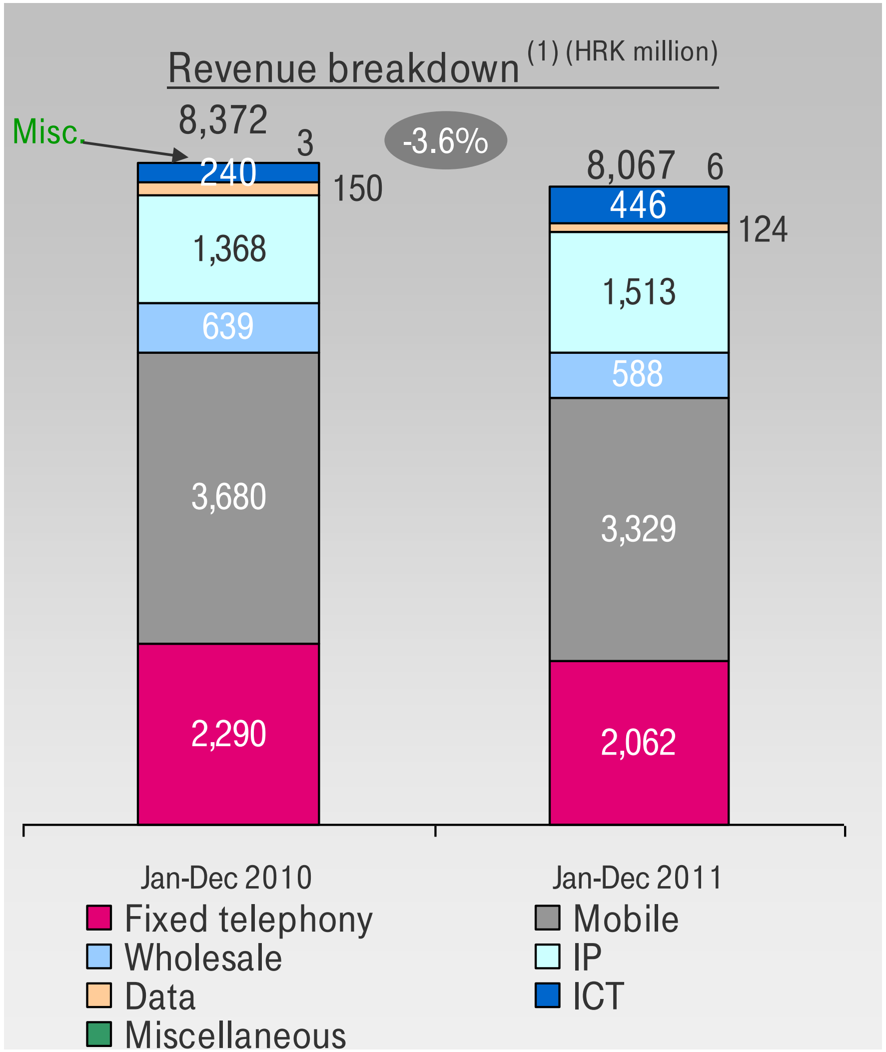
Group Highlights

- Maintains leading market position in all business segments
- Revenue decreased 3.6% to HRK 8,067 million as a result of difficult economic environment, as well as stronger competition and regulatory measures
- EBITDA down 1.2% to HRK 3,619 million; EBITDA margin at 44.9%
  - EBITDA before exceptional items (1) up 2.4% to HRK 3,782 million
- Net profit decreased 1.1% to HRK 1,811 million
- Capex 23.9% lower at HRK 877 million
- Headcount number decreased to 6,032 employees (2)
- Dividend proposed in the amount of HRK 22.14/share

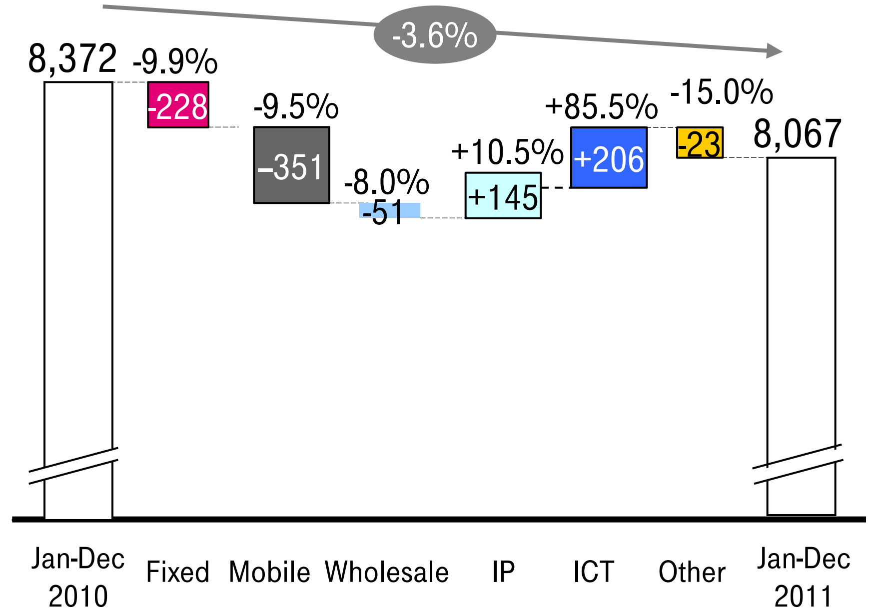
(1) Exceptional items in 2011 refer to redundancy provisions totalling HRK 162 million. Exceptional items in 2010 totalled HRK 32 million, of which HRK 31 million related to redundancy provisions and HRK 1 million related to reorganisation costs.

(2) Full time employees

Revenue Development



(1) Excluding other operating income

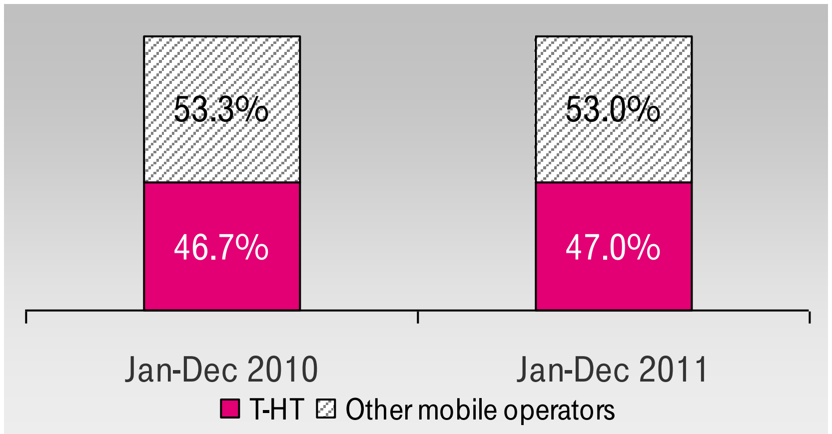


- Continued recession and competitive pressures impact revenue and price per minute
- Impact of changed useful life of customer relationship added HRK 73 million
- Combis contributed HRK 413 million (vs HRK 232 million in Jan-Dec 2010, consolidated from May 2010)

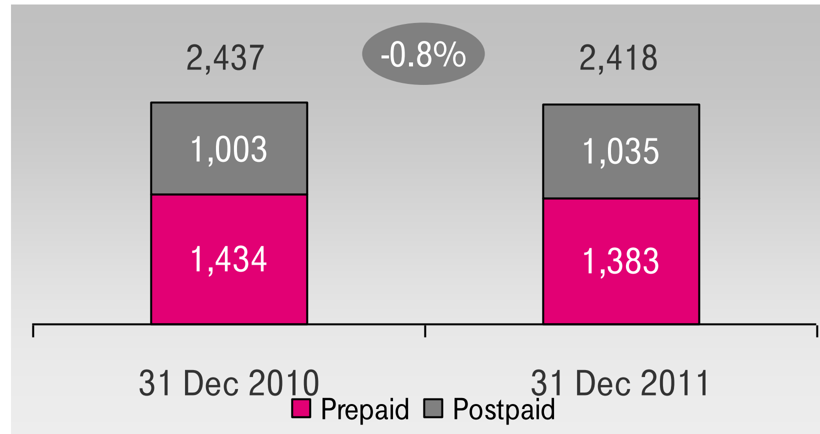
Hrvatski Telekom

Mobile Telephony

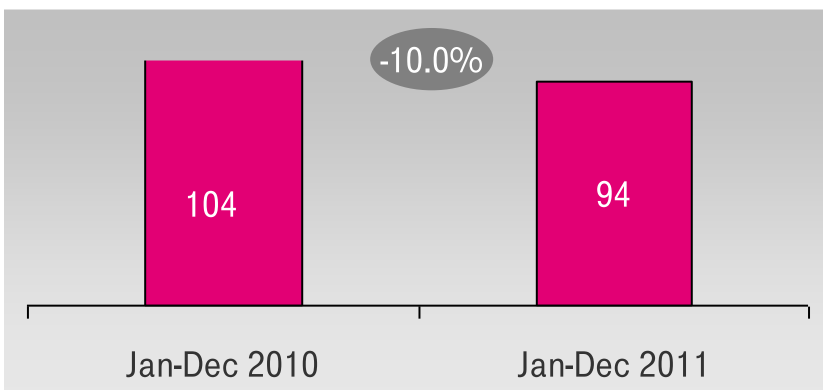
Market share by subscribers (%) (1)



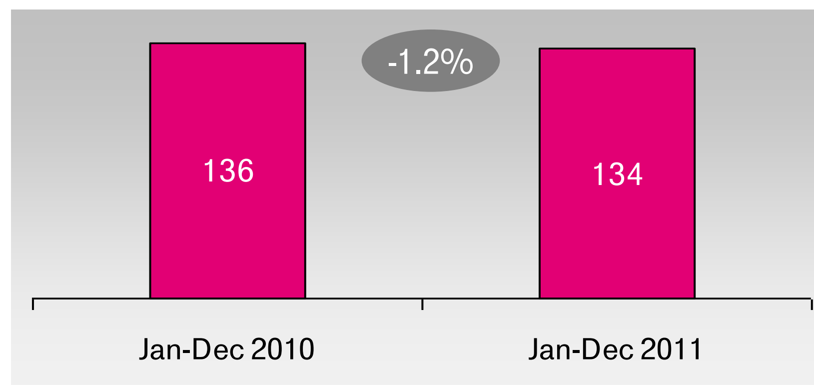
Number of subscribers ('000) (2)



Blended ARPU (HRK/month) (2)(3)



Average MOU (minutes/month)(2)

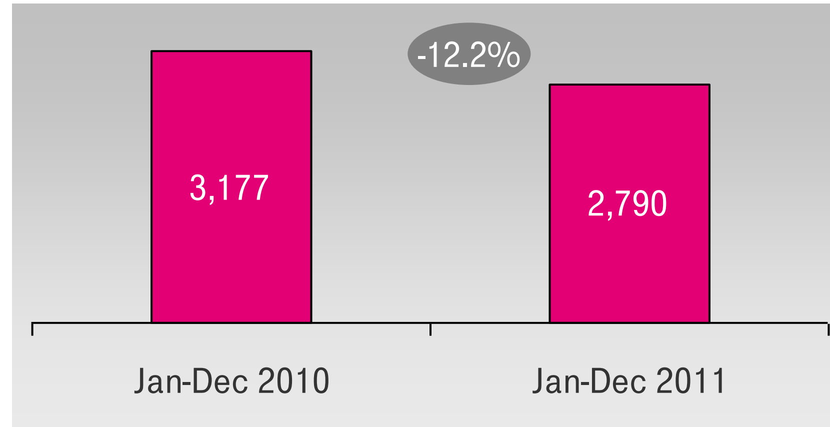


(1) Source: published VIPnet and Tele2 reports for Q4 2010, Tele2 report for FY 2011 . Number of VIPnet subscribers at Q4 2011 is internally estimated.
(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. According to new definition, only SIMs showing traffic or voucher recharges in the last 90 days should be considered as subscribers. Number of subscribers in 2010 as well as all respective KPIs were restated accordingly.
(3) Due to T-Mobile and T-Com merger and within the new segmental reporting structure as of Q1 2011 calculation of ARPU was changed to show consolidated mobile revenues rather than unconsolidated mobile revenues

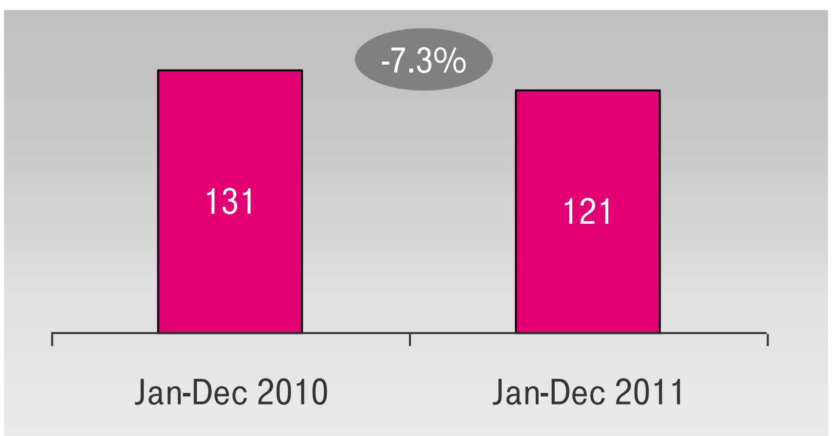
Fixed Telephony

Number of mainlines ('000) (1)

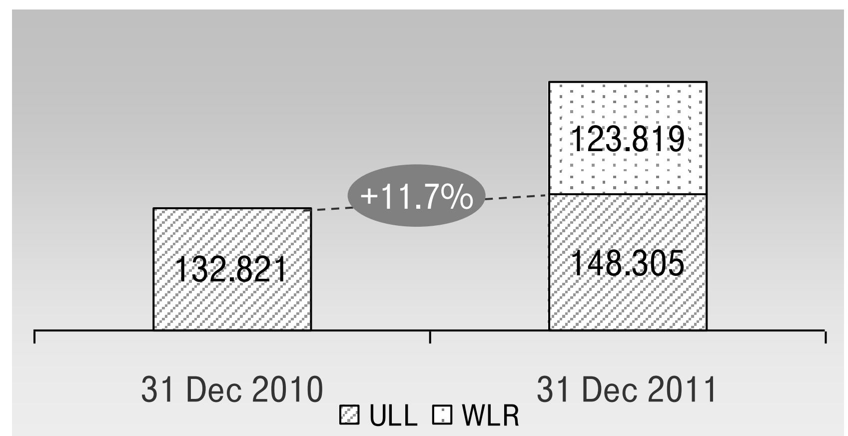
Total traffic in minutes (million)



ARPA (HRK) (2)



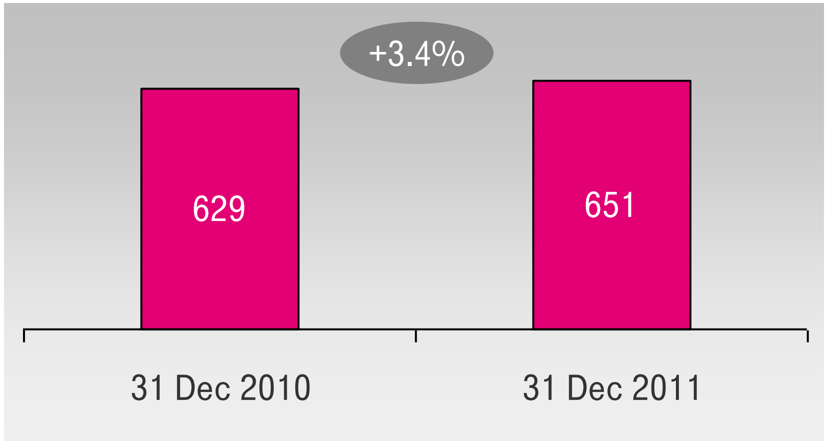
Number of ULL and WLR



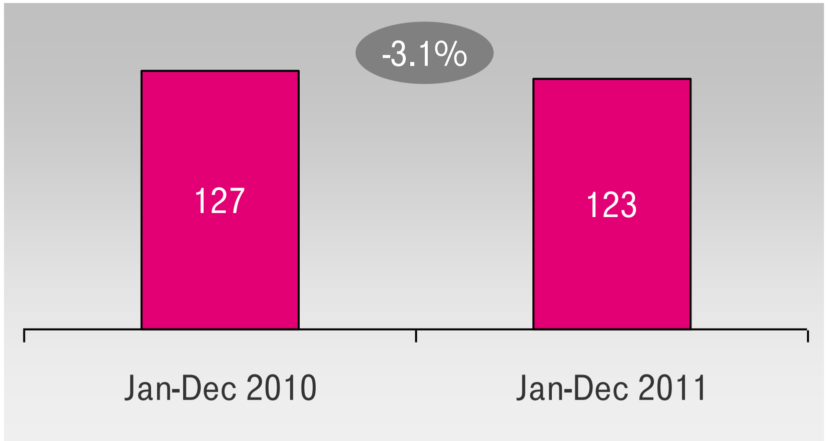
(1) Includes POTS+FGSM + ISDN + payphones
(2) Voice revenue per voice acces – monthly average for the period

IP Services

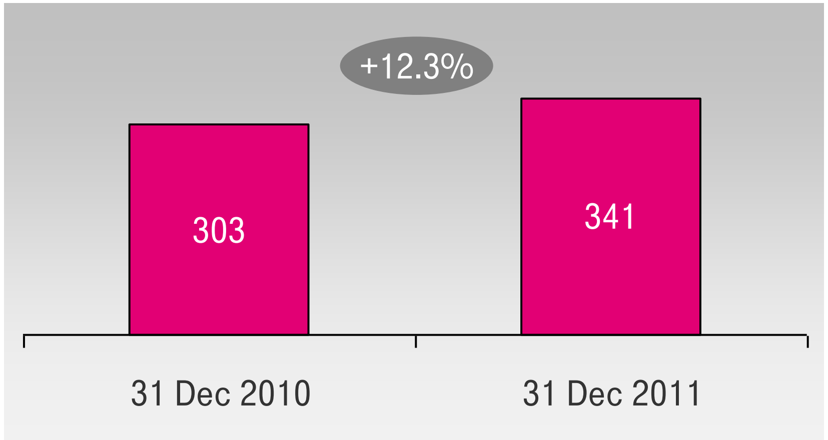
No. of ADSL mainlines ('000) (1)



ADSL ARPA (HRK) (2)



Number of TV customers ('000) (3)

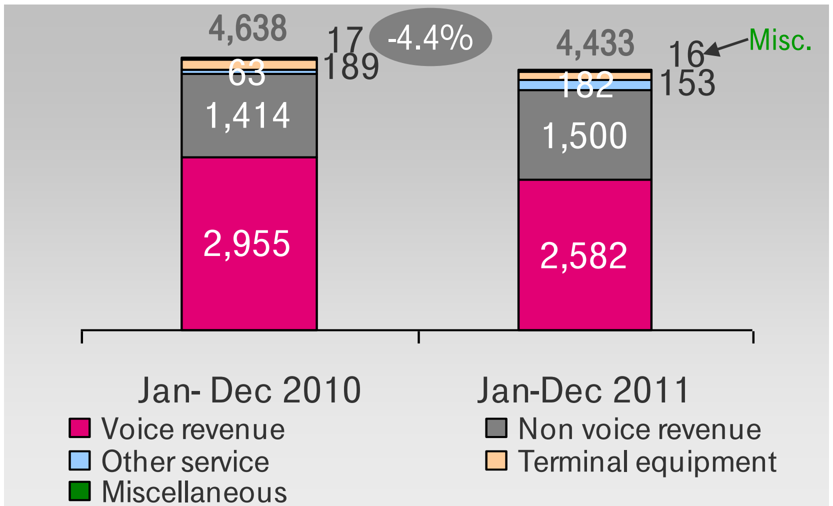


- Growth of MAXtv (3): nearly 4,000 net adds in Q4 2011
- Launched MAXtv To Go – TV service for smartphones, laptops and PCs
- Launched attractive 12-and 24-months contract based MAXadsl and MAXtv offers

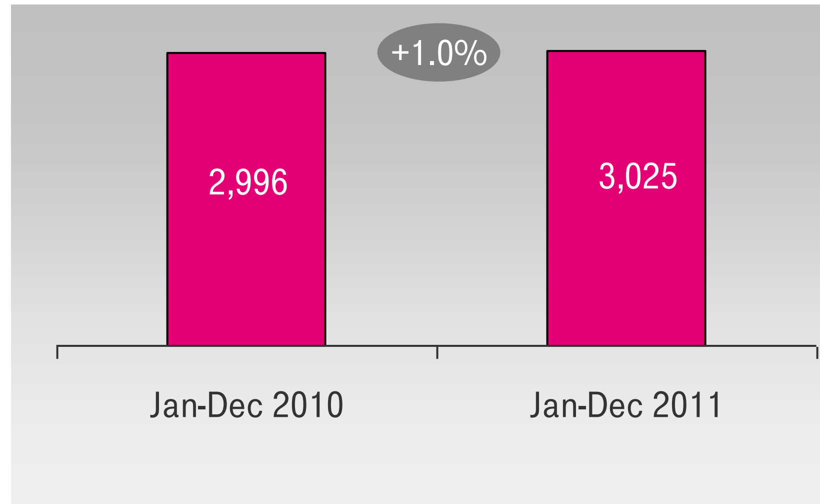
(1) Including Iskon ADSL mainlines
(2) Monthly average for the period
(3) Including Iskon IPTV customers, DTH and Cable TV customers

Residential Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)



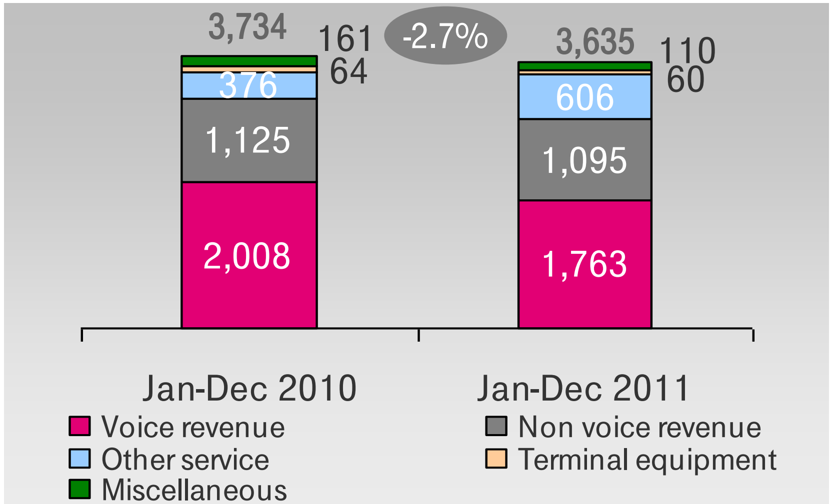
- Revenue down mainly as a result of lower voice revenue; impacted by economic downturn, competitive pressure on pricing, lower mobile termination rates and regulatory measures
- Contribution to EBITDA increased due to lower operating expenses
- Highlights
  - 1st in the market to offer mobile postpaid tariffs with unlimited data usage applying speed step down
  - Launched storage service of multimedia content on TV, mobile and PC/laptop
  - Croatian Premier Football League on MAXtv exclusively
  - Introduced new MAX3 packages with various triple play offers
  - Prepaid brand “bonbon” reaching more than 100,000 users
  - Reintroduced rebranded Simpa tariff with favourable conditions for calls to all networks in Croatia

(1) In the financial reports, the Group’s segments are reported by contribution to EBITDA level. The revenues and expenses of the segments include primary results

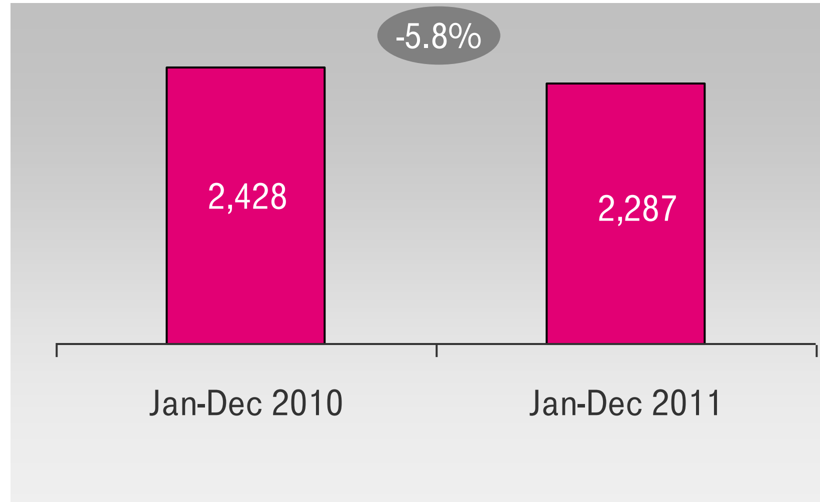
(2) Before exceptional items

Business Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)



- Revenue decrease mainly on decline in fixed network traffic and number of mainlines, lower IC prices, lower mobile revenue due to decreased usage, decreased MTRs and lower roaming prices
- Other service revenue significantly higher, mainly due to Combis contribution
- Contribution to EBITDA impacted largely by lower revenue and merchandise costs higher mainly due to Combis related costs
- Highlights
  - New ICT services: tCloud, ICT LAN, SaaS, virtual server, fleet management, e-book store, e-booking
  - Launched new mobile tariffs for SMEs and data-bundling tariff for business customers
  - Opened My T-Business Portal – provides single location for managing all T-HT accounts
  - Launched HotHot – geolocation marketing solution

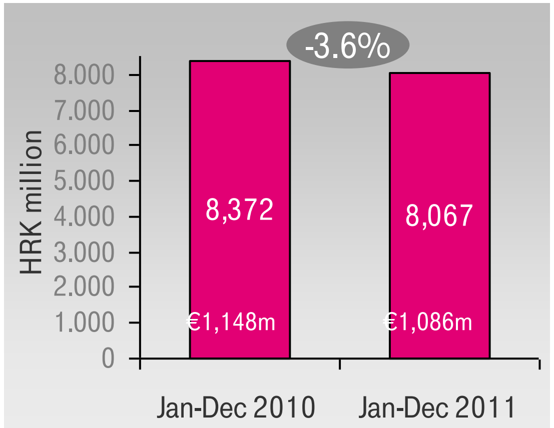
(1) In the financial reports, the Group's segments are reported on contribution to EBITDA level. The revenues and expenses of the segments include primary results
(2) Before exceptional items

Jan – Dec 2011

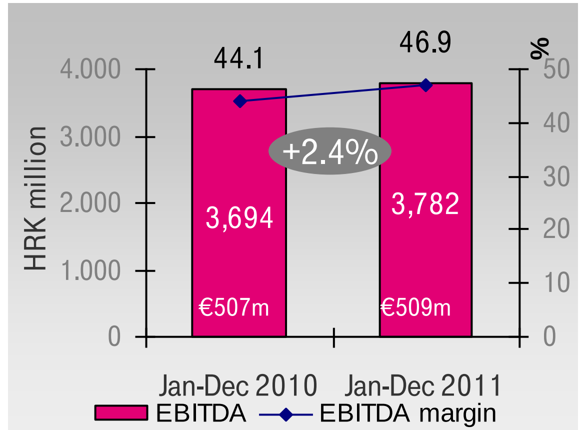
T-HT Group

Financial Highlights

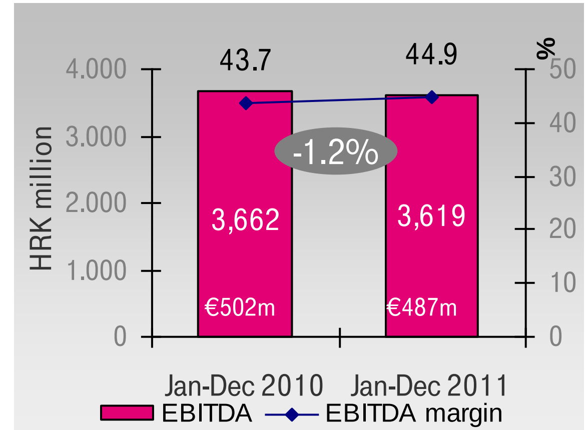
Revenue[1]



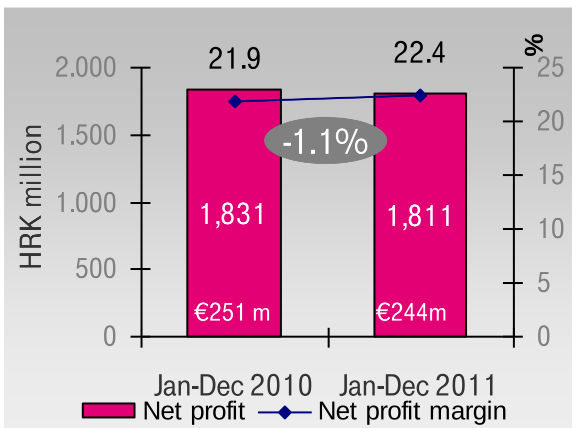
EBITDA before exceptional items



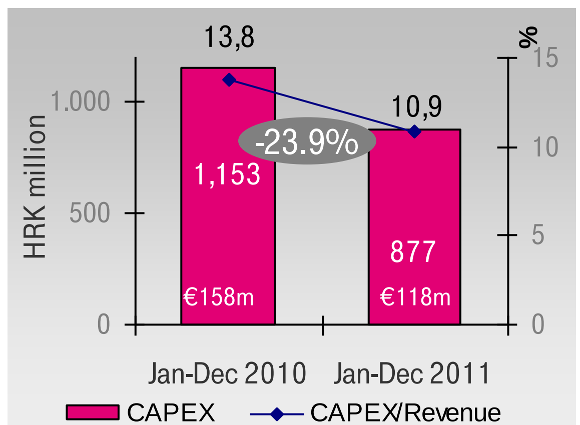
EBITDA



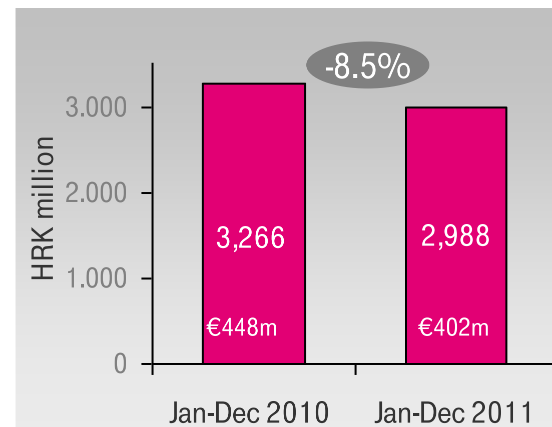
Net profit



CAPEX



Net cash flow from operations



(1) Excluding other operating income

- Kuna per Euro average rate of exchange: Jan- Dec 2010: 7.29; Jan- Dec 2011: 7.43

Group 2012 Outlook

Revenue

- The Croatian economy has shown no sign of recovery since entering recession in 2009 and, according to recent forecasts, growth is still not expected to emerge in 2012. In a business environment characterised by a protracted economic recession, domestic regulatory tightening and progress towards alignment with EU telecoms regulation as well as intensifying competition, last year's trend in Group revenue decline is expected to continue. This will be additionally impacted by the recently introduced increase in the VAT rate and the reinstatement of the 6% fee on mobile services.

EBITDA before exceptional items

- The Group will continue its transformation program measures throughout the year. Nevertheless, due to continued severe economic and market conditions in Croatia, leading to lower expectations for revenue, combined with the absence of one-off items reported the previous year, the Group expects 2012 EBITDA to be somewhat below the 2011 level.

CAPEX

- The current regulatory regime continues to deter investment in fiber infrastructure by the Group. However, T-HT will continue investment to transform its fixed core network and enhance its infrastructure to support further growth in mobile broadband demand. As a consequence, capex in 2012 is expected to be higher than the previous year.

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-Dec 2011	Jan-Dec 2010	Oct-Dec 2011	Oct-Dec 2010
Mobile	3,329	3,680	787	835
Fixed Telephony	2,062	2,290	471	550
Wholesale	588	639	150	151
IP Revenue	1,513	1,368	396	353
Data	124	150	29	36
ICT	446	240	140	125
Miscellaneous	6	3	1	1
Revenue	**8,067**	**8,372**	**1,975**	**2,051**
Other operating income	301	240	116	136
Total operating revenue	**8,369**	**8,612**	**2,091**	**2,188**
Operating expenses	**4,749**	**4,950**	**1,271**	**1,384**
Material expenses	2,175	2,325	531	696
Merchandise, material and energy expenses	1,034	1,044	255	320
Services expenses	1,141	1,281	275	377
Employee benefits expenses	1,296	1,198	435	322
Other expenses	1,292	1,419	318	391
Work performed by the Group and capitalised	-81	-105	-31	-50
Write down of assets	67	114	19	24
EBITDA	**3,619**	**3,662**	**820**	**804**
Depreciation and amortization	1,414	1,415	408	427
EBIT	**2,205**	**2,246**	**411**	**376**
Financial income	83	71	26	29
Income/loss from investment in joint ventures	15	11	-6	5
Income from investment in associates	0	2	0	2
Financial expenses	48	55	18	-8
Profit before taxes	**2,255**	**2,275**	**413**	**420**
Taxation	444	444	85	74
Net profit	**1,811**	**1,831**	**328**	**346**
Minority interest	0	0	0	0
Net profit after minority interest	**1,811**	**1,831**	**328**	**346**
Exceptional items	162	32	162	32
EBITDA before exceptional items	**3,782**	**3,694**	**982**	**836**

Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2011	At 31 Dec 2010
Intangible assets	999	1,162
Property, plant and equipment	5,953	6,336
Non-current financial assets	435	422
Receivables	23	24
Deferred tax asset	52	64
Total non-current assets	**7,461**	**8,008**
Inventories	175	216
Receivables	1,307	1,448
Current financial assets	363	465
Cash and cash equivalents	3,704	3,282
Prepayments and accrued income	126	110
Total current assets	**5,675**	**5,521**
TOTAL ASSETS	**13,136**	**13,529**
Subscribed share capital	8,189	8,189
Reserves	409	409
Revaluation reserves	-3	-1
Retained earnings	612	626
Net profit for the period	1,811	1,831
Minority interest	1	0
Total issued capital and reserves	**11,019**	**11,054**
Provisions	271	293
Non-current liabilities	32	43
Total non-current liabilities	**303**	**336**
Current liabilities	1,492	1,682
Accrued expenses and deferred income	153	324
Provisions for redundancy	169	133
Total current liabilities	**1,814**	**2,139**
Total liabilities	**2,117**	**2,475**
TOTAL EQUITY AND LIABILITIES	**13,136**	**13,529**

Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2011	Jan-Dec 2010
Profit before tax	2,255	2,275
Depreciation, amortization and impairment	1,414	1,415
Increase of current liabilities	0	73
Decrease of current receivables	65	0
Decrease of inventories	41	40
Other cash flow increases	0	0
Total increase of cash flow from operating activities	**3,776**	**3,804**
Decrease of current liabilities	-375	0
Increase of current receivables	0	-48
Increase of inventories	0	0
Other cash flow decreases	-413	-489
Total decrease of cash flow from operating activities	**-788**	**-537**
Net cash inflow/outflow from operating activities	**2,988**	**3,266**
Proceeds from sale of non-current assets	3	13
Proceeds from sale of non-current financial assets	74	473
Proceeds from sale of current financial assets	0	0
Interest received	57	31
Dividend received	0	6
Other cash inflows from investing activities	990	224
Total increase of cash flow from investing activities	**1,125**	**747**
Purchase of non-current assets	-877	-1,153
Purchase of non-current financial assets	0	-290
Other cash outflows from investing activities	-944	-694
Total decrease of cash flow from investing activities	**-1,821**	**-2,136**
Net cash inflow/outflow from investing activities	**-696**	**-1,389**
Total increase of cash flow from financing activities	**0**	**0**
Repayment of loans and bonds	-11	-4
Dividends paid	-1,863	-2,788
Repayment of finance lease	0	0
Other cash outflows from financing activities	0	0
Total decrease in cash flow from financing activities	**-1,874**	**-2,792**
Net cash inflow/outflow from financing activities	**-1,874**	**-2,792**
Exchange gains on cash and cash equivalents	**4**	**2**
Total increase of cash flow	2,992	3,269
Total decrease of cash flow	-2,570	-4,181
Cash and cash equivalents at the beginning of period	3,282	4,195
Net cash (outflow) / inflow	422	-912
Cash and cash equivalents at the end of period	**3,704**	**3,282**

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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