

# Business and Financial Review January – March 2012

27 April 2012



Živjeti zajedno

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# Business Environment Highlights

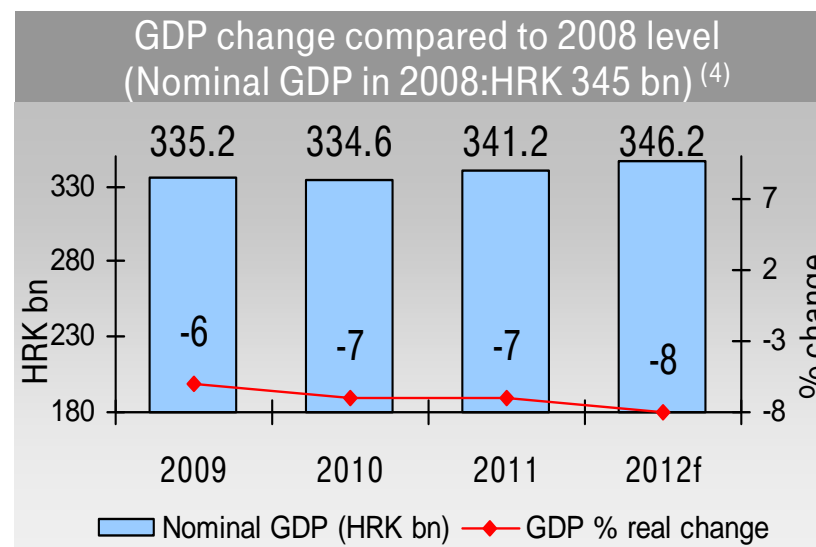
## Croatia at a glance <sup>(1)</sup>

- 4.3 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- ~ 110,000 active companies
- 11.5 million tourists in 2011 (87% foreign tourists)



## Croatian Economy <sup>(2)</sup>

- Recession continues; labour and product market reform as well as fiscal reform remain key issues
- GDP growth in 2011: 0.0 % with negative 2012 forecasts to -2.0%
- Inflation stable at 2.0% in March 2012 <sup>(3)</sup>
- Registered unemployment rate 20.0% in March 2012 (March 2011: 19.3%)
- Business payment arrears continue to grow reaching HRK 42.8 bn in February 2012



(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

(4) Source: Croatian Bureau of Statistics; RBAAnalysis, Raiffeisen Research, January 2012, GDP data refer to nominal GDP amounts and GDP change to 2008 level in real terms

# Croatian Telecom and ICT market

## Fixed telephony

- 19 licensed operators, of which 10 active <sup>(1)</sup>
- July 2011: introduced WLR and naked bitstream
- Usage declines in line with world-wide trends

## Mobile telephony

- 3 operators on the market, 7 brands
  - New mobile brand entered the market
- Commercially launched LTE services
- Mobile penetration: 117%
- Growth in mobile broadband and smartphones

## Internet

- Fixed line BB household penetration: 46%<sup>(2)</sup>
- Naked DSL introduced in 2011
- Significant growth opportunity

## PayTV

- Satellite and cable underdeveloped
- PayTV household penetration: 39%<sup>(2)</sup>
- MAXtv – most successful payTV in the market

## ICT <sup>(3)</sup>

- IT market estimated to decline by 2.7% in 2011 to USD 1,026 billion
- IT services are estimated to represent roughly 35% of total IT market; estimated decline of 4% in 2011 year-on-year to USD 355 million
- 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 third consecutive year

(1) Including operators providing fixed line service over VoIP

(2) Residential broadband lines per total households; payTV connections per total households

(3) Source: IDC Croatia, Revised forecast for Croatian IT market, December 2011

## Regulatory Framework

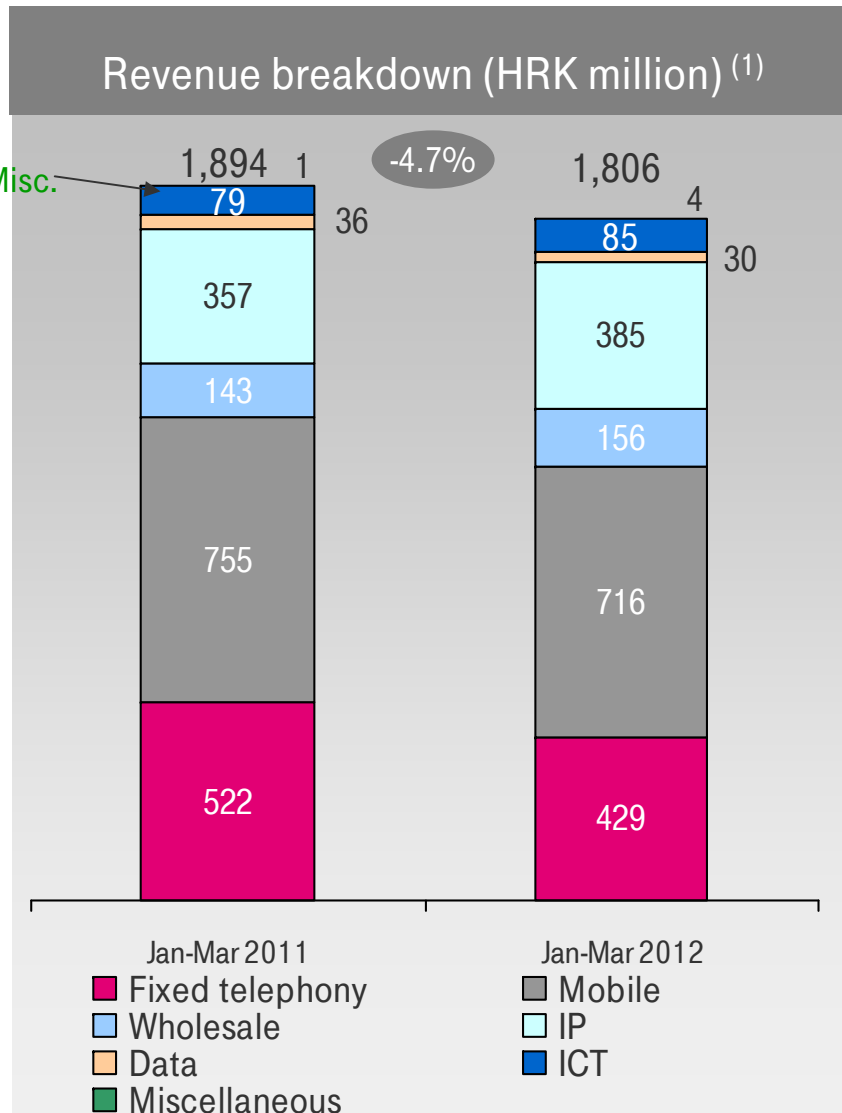
- Parliament adopted reinstatement of 6% fee on mobile services; applicable from January 26, 2012 to June 30, 2013
- January 2012: interconnection prices amended
- March 2012: Regulatory agency adopted decision on regulation of retail broadband and IPTV markets
  - Price control obligations/promo offers regulation imposed on T-HT
- T-HT designated as SMP operator on wholesale terminating segment of leased lines market and wholesale trunk segment of leased lines market (non-competitive lines)
  - New reference offer for wholesale leased lines entered into force on April 1, 2012

## Group Highlights

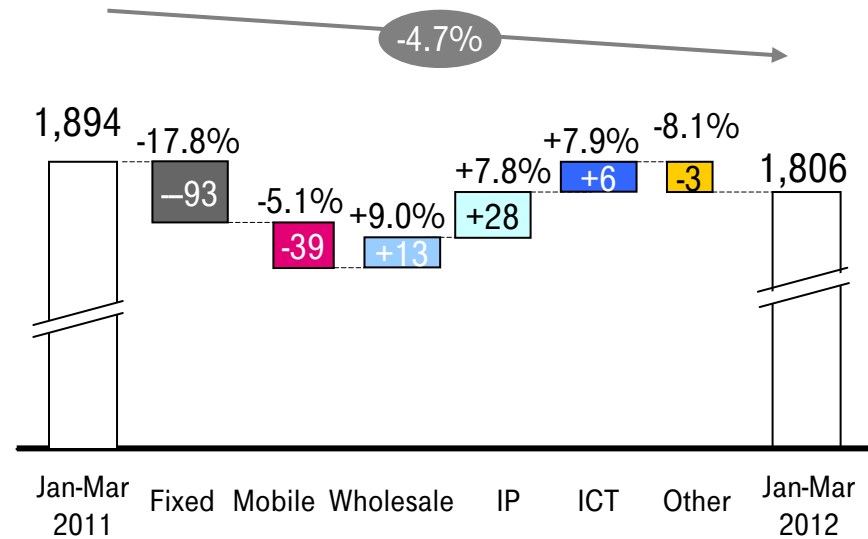
- Leading market position across all areas of business retained
- Revenue decreased 4.7% to HRK 1,806 million
- EBITDA down 0.7% to HRK 762 million; EBITDA margin at 42.2%
- Net profit increased 3.7% to HRK 364 million
- Capex 59.3% lower at HRK 102 million
- Headcount decreased to 5,686 employees (Q1 2011: 6,267 employees) <sup>(1)</sup>
- Advance dividend paid in the amount of HRK 11.07/share on February 27, 2012
- General Assembly approved dividend of HRK 22.14/share; residual part of HRK 11.07 to be paid on May 21, 2012
- Commercial launch of LTE mobile network; introduced new mobile tariffs with highest speed in market

(1) Full time employees

# Revenue Development

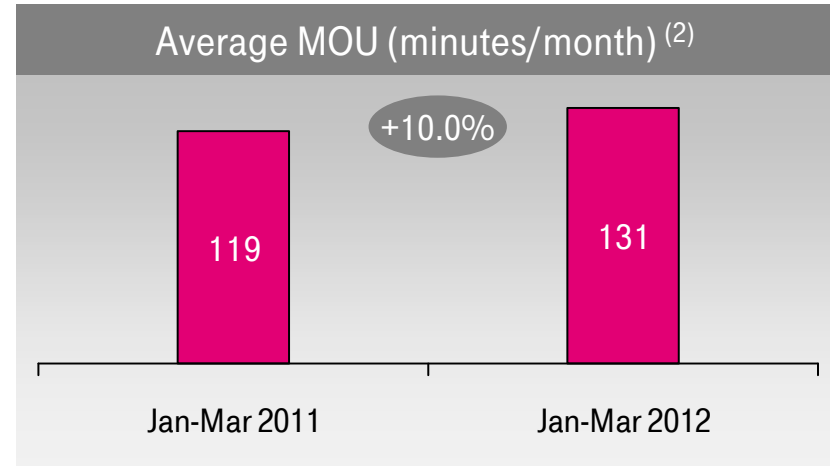
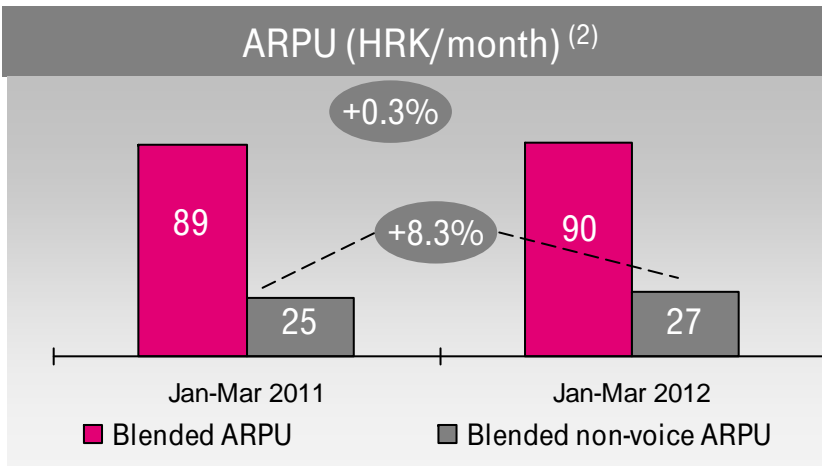
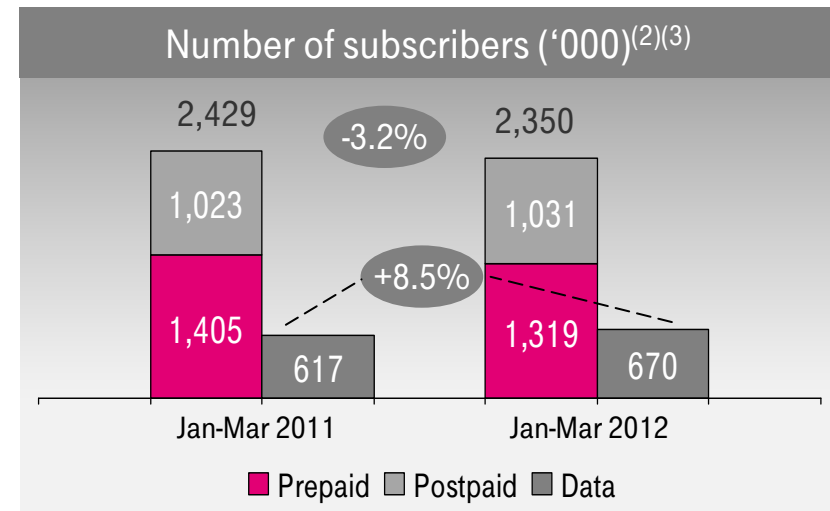
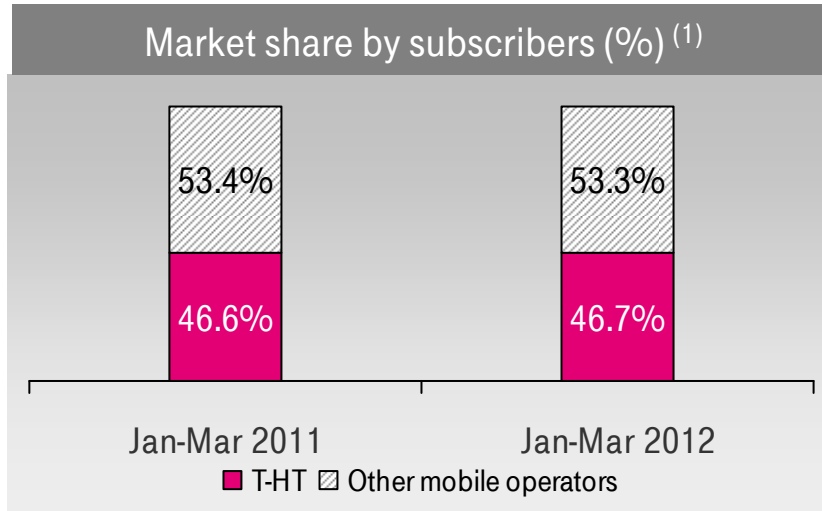


(1) Excluding other operating income



- Revenue down as a result of further competitive pressure and decreasing consumption amid economic stagnation and due to regulatory measures
- Fixed revenue additionally impacted by WLR introduced in August 2011; mobile revenue down mainly due to intense competition and continued recession
- Internet revenue continues to grow
- Combis contributed HRK 74 million (vs HRK 68 in Q1 2011)

# Mobile Telephony



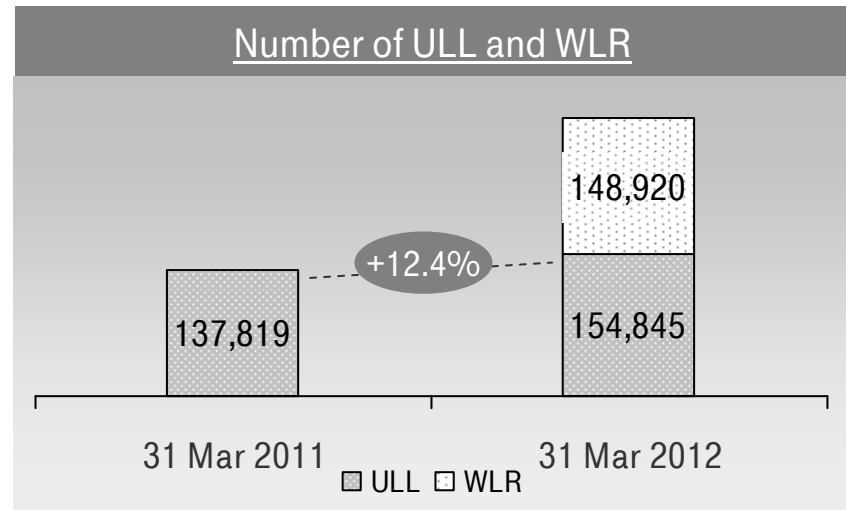
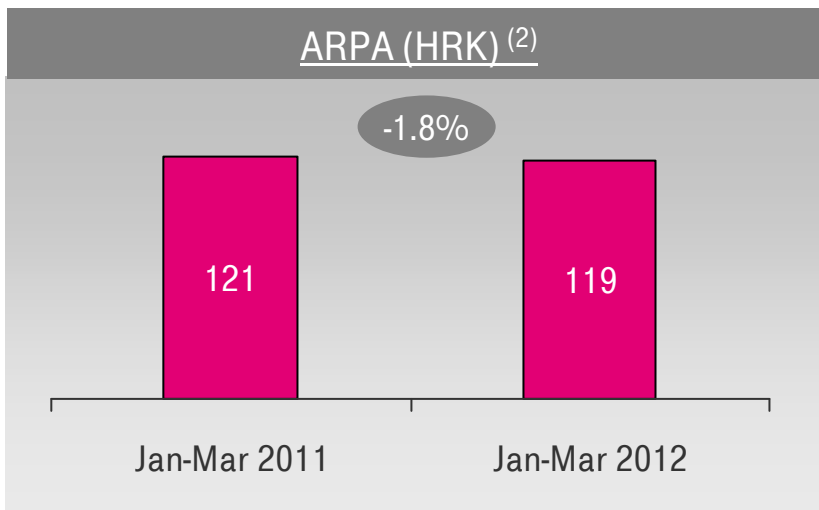
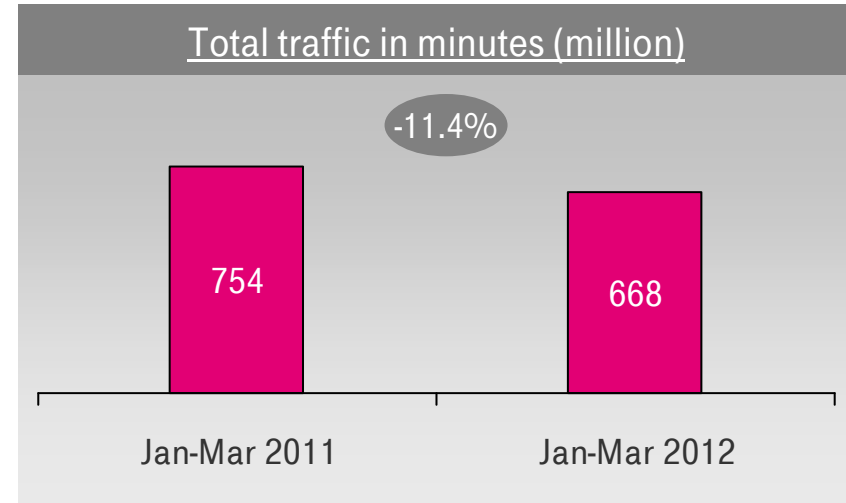
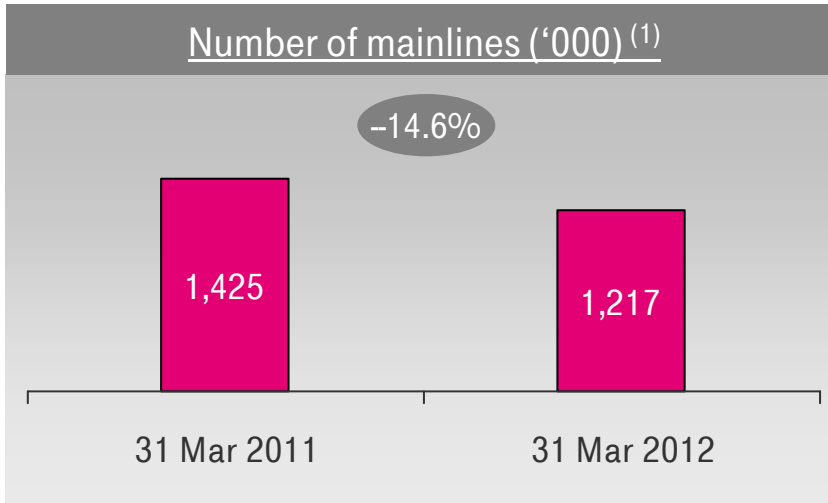
(1) Source: published VIPnet report for Q1 2011 and Tele2 reports for Q1 2011 and Q1 2012. Number of VIPnet subscribers at Q1 2012 is internally estimated.

(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. Number of subscribers in Q1 2011 as well as all respective KPIs were restated accordingly. Blended non-voice ARPU for Q1 2011 is restated due to change in reporting of bundle tariffs.

(3) Number of mobile data subscribers is based on all relevant mobile data tariffs and options. It consists of mobile broadband subscribers with internet tariffs and handset internet subscribers with data bundle tariffs/options with recurring payments on a fixed period contract of more than one month and with predefined data volumes.



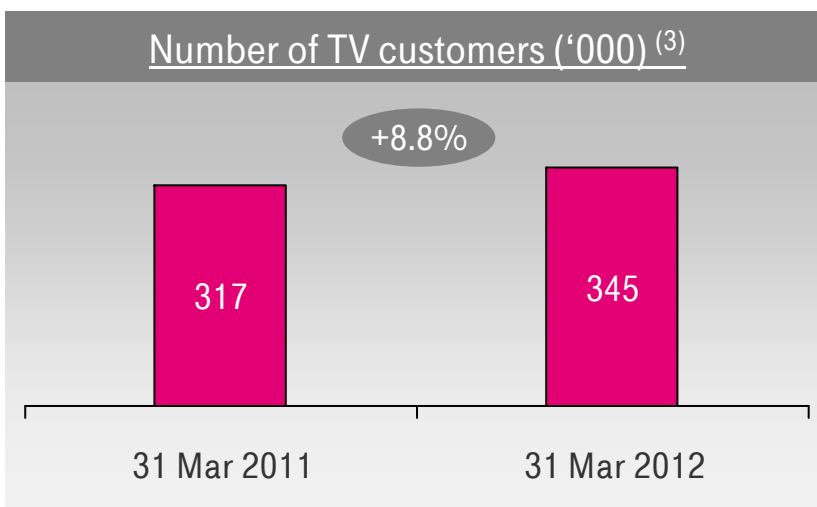
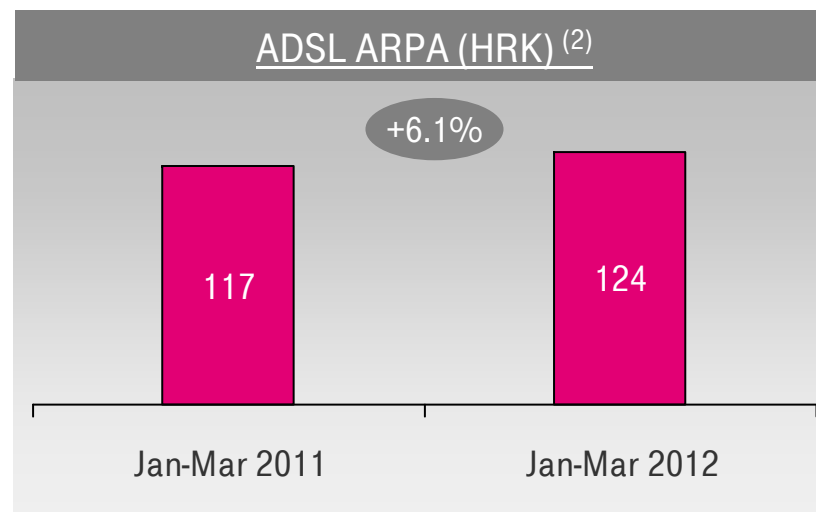
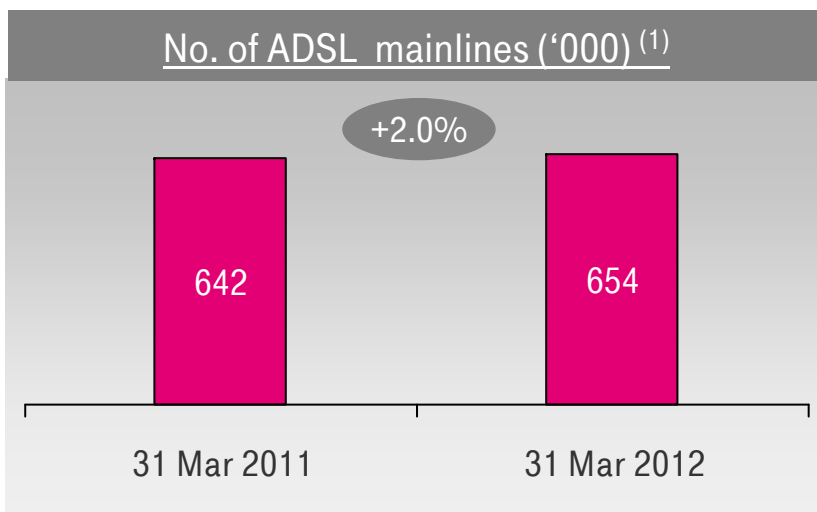
# Fixed Telephony



(1) Includes POTS + FGSM + ISDN + payphones

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

## IP Services



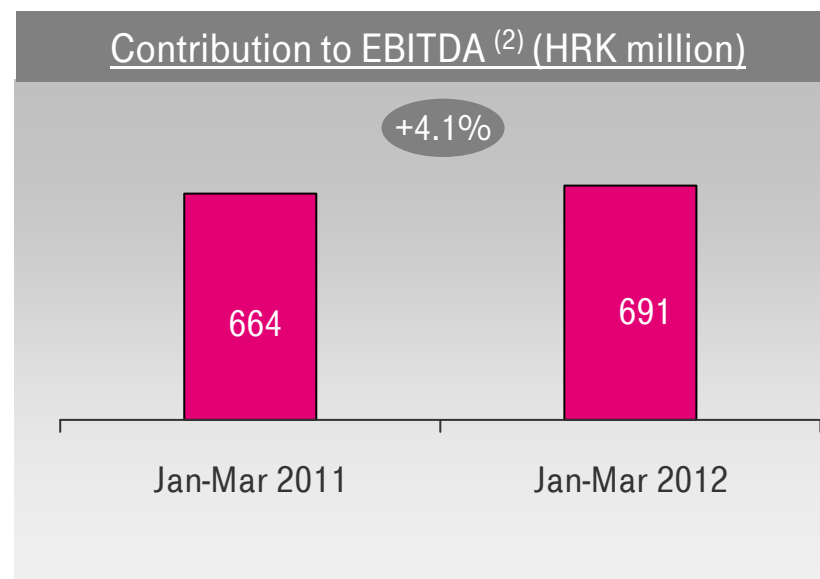
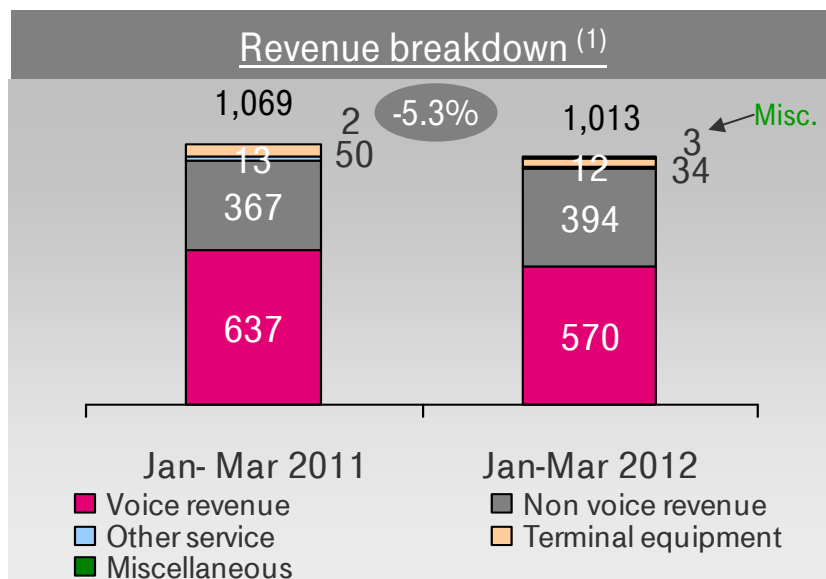
- Growth of TV service <sup>(3)</sup>: almost 4,000 net adds in Q1 2012
- Exclusive TV content - Champions League 2012 /13
- t.portal launched tribina.hr sport community website
- Offered attractive 12- and 24-month contract based MAXadsl and MAXtv services

(1) Including Iskon ADSL mainlines

(2) Monthly average for the period; 2011 restated due to subsequent split of revenues from internet bundle packages to ADSL and IPTV

(3) Including Iskon IPTV customers, DTH and Cable TV customers

## Residential Segment



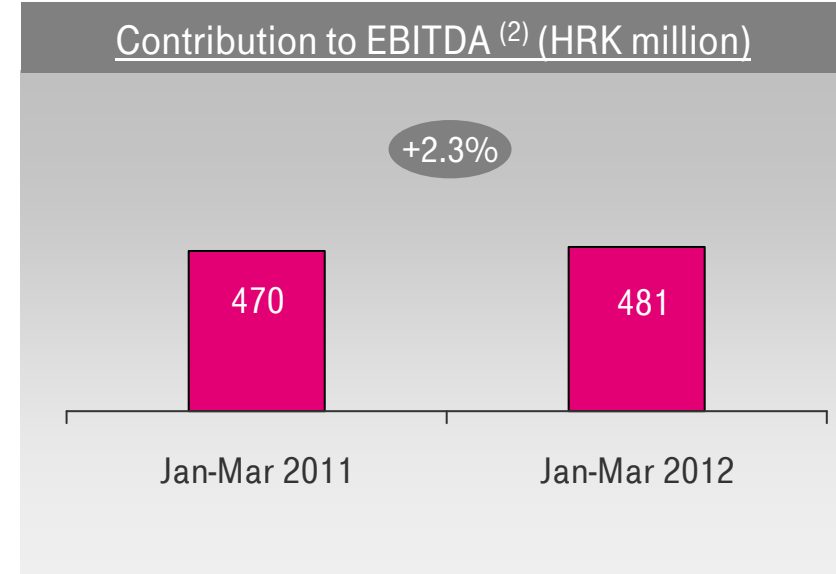
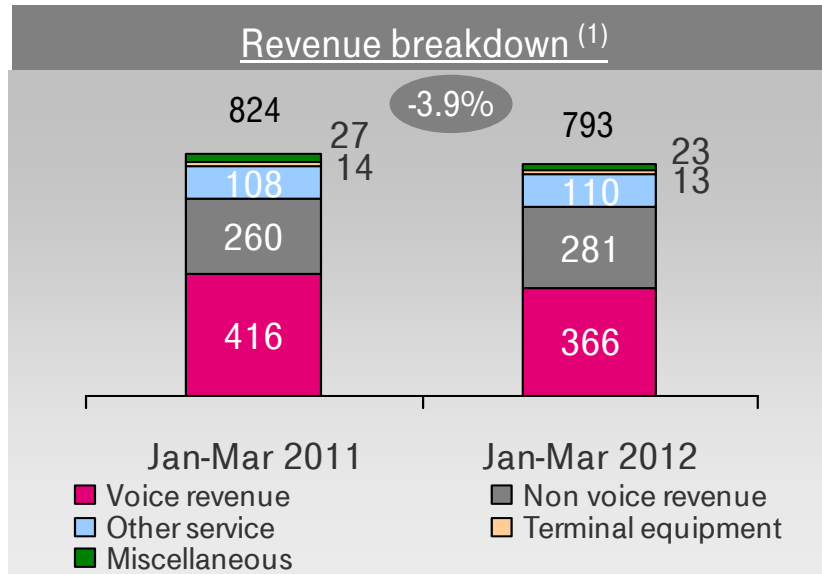
- Revenue down mainly as a result of lower voice revenue; impacted by lower number of fixed mainlines, lower mobile termination rates, economic downturn and competitive pressure on pricing
- Non-voice revenue increased due to higher fixed IP revenue and higher mobile data revenue
- Terminal equipment revenue lower due to reduced mobile services offers compared to Q1 2011
- Contribution to EBITDA increased due to lower operating expenses
- Highlights:
  - Launched MyT web portal with combined functionalities for both fixed and mobile services
  - One simple tariff at affordable cross-net prices offered in cooperation with major retail chain

(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

• Note: Revenue structure and contribution to EBITDA restated for 2011 restated due to mobile usage bundle allocation from other service revenue to voice and non-voice and allocation of consolidation items on Group level between segments.

## Business Segment



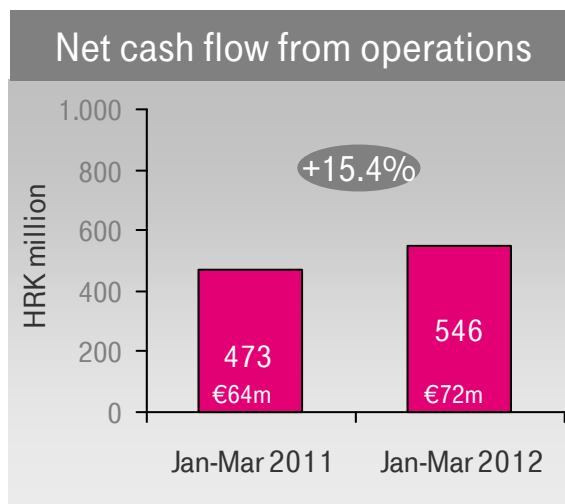
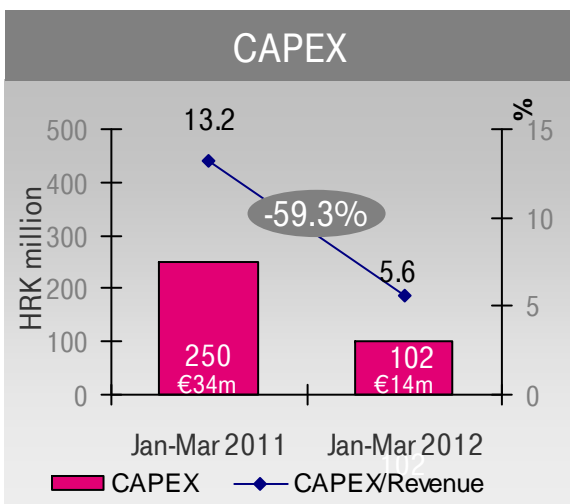
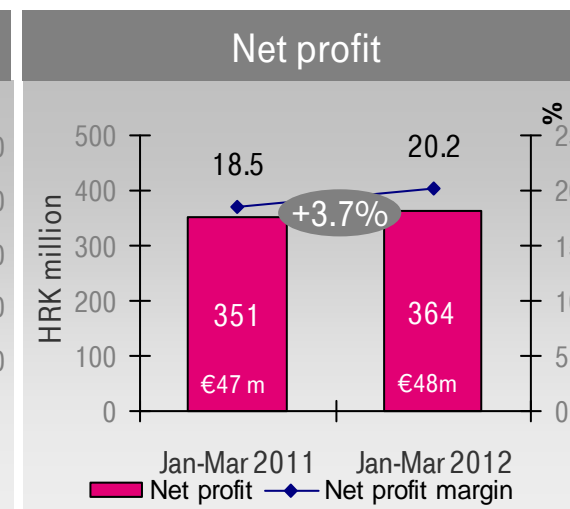
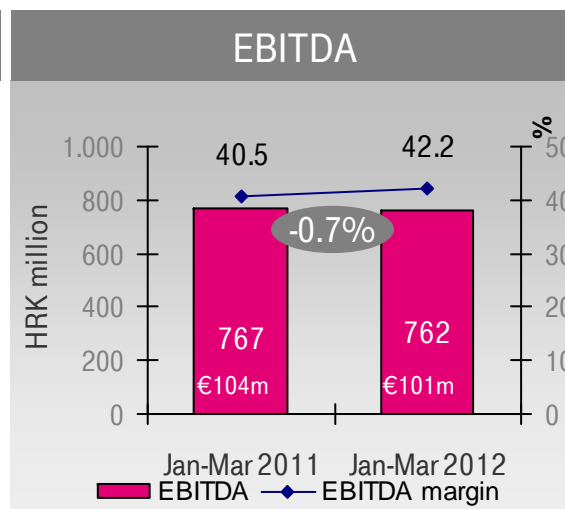
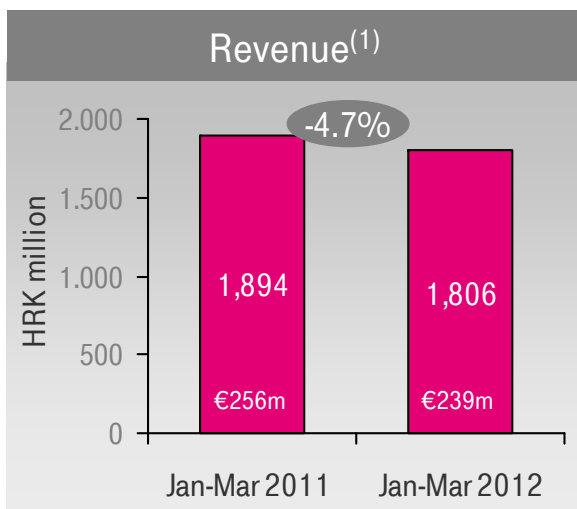
- Revenue down mainly on decline in voice revenue resulting from lower fixed network traffic and number of mainlines, lower mobile revenue due to decreased usage and lower price per minute, decreased MTRs and roaming prices
- Non-voice revenue grown mainly as a result of higher infrastructure revenue due to WLR activations
- Miscellaneous revenue mainly down due to lower national roaming prices and lower usage
- Contribution to EBITDA increased mainly due to lower merchandise costs
- Highlights:
  - Focus on further development and monetization of existing Cloud services portfolio
  - Max 2 Biz packages launched

(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

• Note: Revenue structure and contribution to EBITDA restated for 2011 restated due to mobile usage bundle allocation from other service revenue to voice and non-voice and allocation of consolidation items on Group level between segments.

# Financial Highlights



(1) Excluding other operating income  
 • HRK per Euro average rate of exchange: Jan- Mar 2011: 7.40; Jan- Mar 2012: 7.55

## Group 2012 Outlook

### Revenue

- The Croatian economy continues to be sluggish with no signs of recovery since entering recession in 2009 and, according to recent forecasts, growth is still not expected to materialize in 2012. In this economic environment, with domestic regulatory pressures and progress towards alignment with EU 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 cost management program throughout the year. Nevertheless, due to continued severe economic and market conditions in Croatia, leading to lower expectations for revenue, the Group expects 2012 EBITDA to be somewhat lower than the 2011 level.

### CAPEX

- The current regulatory framework 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 fixed and 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-Mar 2012	Jan-Mar 2011	% of change A12/A11
Mobile	716	755	-5,1%
Fixed Telephony	429	522	-17,8%
Wholesale	156	143	9,0%
IP Revenue	385	357	7,8%
Data	30	36	-17,3%
ICT	85	79	7,9%
Miscellaneous	4	1	197,3%
<b>Revenue</b>	<b>1.806</b>	<b>1.894</b>	<b>-4,7%</b>
Other operating income	41	81	-49,5%
<b>Total operating revenue</b>	<b>1.846</b>	<b>1.975</b>	<b>-6,5%</b>
<b>Operating expenses</b>	<b>1.085</b>	<b>1.208</b>	<b>-10,2%</b>
Material expenses	456	578	-21,0%
Merchandise, material and energy expenses	196	302	-35,0%
Services expenses	260	275	-5,7%
Employee benefits expenses	285	292	-2,4%
Other expenses	320	326	-1,8%
Work performed by the Group and capitalised	-10	-12	18,3%
Write down of assets	34	25	35,8%
<b>EBITDA</b>	<b>762</b>	<b>767</b>	<b>-0,7%</b>
Depreciation and amortization	325	335	-2,9%
<b>EBIT</b>	<b>437</b>	<b>432</b>	<b>1,0%</b>
Financial income	34	15	132,9%
Income/loss from investment in joint ventures <sup>1</sup>	5	7	-25,9%
Income from investment in associates	0	0	-
Financial expenses <sup>1</sup>	19	13	46,1%
<b>Profit before taxes</b>	<b>457</b>	<b>441</b>	<b>3,6%</b>
Taxation	93	90	3,1%
<b>Net profit</b>	<b>364</b>	<b>351</b>	<b>3,7%</b>
Minority interest	0	0	161,4%
<b>Net profit after minority interest</b>	<b>364</b>	<b>351</b>	<b>3,7%</b>
Exceptional items	0	0	-
<b>EBITDA before exceptional items</b>	<b>762</b>	<b>767</b>	<b>-0,7%</b>

(1) 2011 data restated to better reflect result from investment in joint ventures



# Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 31 Mar 2012	At 31 Dec 2011	% of change A12/A11
Intangible assets	958	999	-4,1%
Property, plant and equipment	5.770	5.953	-3,1%
Non-current financial assets	441	435	1,5%
Receivables	22	23	-2,5%
Deferred tax asset	55	52	5,5%
<b>Total non-current assets</b>	<b>7.247</b>	<b>7.462</b>	<b>-2,9%</b>
Inventories	154	175	-12,0%
Receivables	1.257	1.307	-3,8%
Current financial assets	1.046	363	187,8%
Cash and cash equivalents	2.578	3.704	-30,4%
Prepayments and accrued income	134	125	6,7%
<b>Total current assets</b>	<b>5.169</b>	<b>5.675</b>	<b>-8,9%</b>
<b>TOTAL ASSETS</b>	<b>12.415</b>	<b>13.136</b>	<b>-5,5%</b>
Subscribed share capital	8.189	8.189	0,0%
Reserves	409	409	0,0%
Revaluation reserves	-2	-3	28,5%
Retained earnings	1.516	612	147,9%
Net profit for the period	364	1.811	-79,9%
Minority interest	1	1	1,0%
<b>Total issued capital and reserves</b>	<b>10.477</b>	<b>11.019</b>	<b>-4,9%</b>
Provisions	281	271	3,8%
Non-current liabilities	30	32	-6,6%
<b>Total non-current liabilities</b>	<b>311</b>	<b>303</b>	<b>2,7%</b>
Current liabilities	1.331	1.492	-10,8%
Accrued expenses and deferred income	147	153	-3,4%
Provisions for redundancy	148	169	-12,6%
<b>Total current liabilities</b>	<b>1.627</b>	<b>1.814</b>	<b>-10,3%</b>
Total liabilities	1.938	2.117	-8,5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12.415</b>	<b>13.136</b>	<b>-5,5%</b>

# Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Mar 2012	Jan-Mar 2011	% of change A12/A11
Profit before tax	457	441	3,6%
Depreciation and amortization	325	335	-3,0%
Increase of current liabilities			-
Decrease of current receivables	41	123	-66,7%
Decrease of inventories	21		-
Other cash flow increases			-
<b>Total increase of cash flow from operating activities</b>	<b>844</b>	<b>899</b>	<b>-6,1%</b>
Decrease of current liabilities	-166	-206	19,4%
Increase of current receivables			-
Increase of inventories		-57	100,0%
Other cash flow decreases	-132	-165	20,0%
<b>Total decrease of cash flow from operating activities</b>	<b>-298</b>	<b>-428</b>	<b>30,4%</b>
<b>Net cash inflow/outflow from operating activities</b>	<b>546</b>	<b>471</b>	<b>15,9%</b>
Proceeds from sale of non-current assets	0	4	-100,0%
Proceeds from sale of non-current financial assets	0	74	-100,0%
Proceeds from sale of current financial assets			-
Interest received	22	28	-21,4%
Dividend received			-
Other cash inflows from investing activities	239	63	279,4%
<b>Total increase of cash flow from investing activities</b>	<b>261</b>	<b>169</b>	<b>54,4%</b>
Purchase of non-current assets	-102	-250	59,2%
Purchase of non-current financial assets			-
Other cash outflows from investing activities	-921	-201	-358,2%
<b>Total decrease of cash flow from investing activities</b>	<b>-1.023</b>	<b>-451</b>	<b>-126,8%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-762</b>	<b>-282</b>	<b>-170,2%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	-1	-7	85,7%
Dividends paid	-907		-
Repayment of finance lease	-1		-
Other cash outflows from financing activities			-
<b>Total decrease in cash flow from financing activities</b>	<b>-909</b>	<b>-7</b>	<b>-</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-909</b>	<b>-7</b>	<b>-</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-1</b>	<b>0</b>	<b>-</b>
Total increase of cash flow	546	471	15,9%
Total decrease of cash flow	-1.672	-289	-478,5%
Cash and cash equivalents at the beginning of period	3.704	3.282	
Net cash (outflow) / inflow	-1.126	182	-718,7%
<b>Cash and cash equivalents at the end of period</b>	<b>2.578</b>	<b>3.464</b>	<b>-25,6%</b>

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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