Business and Financial Review
January – June 2012

26 July 2012

Hrvatski Telekom

Živjeti zajedno

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Business Environment Highlights

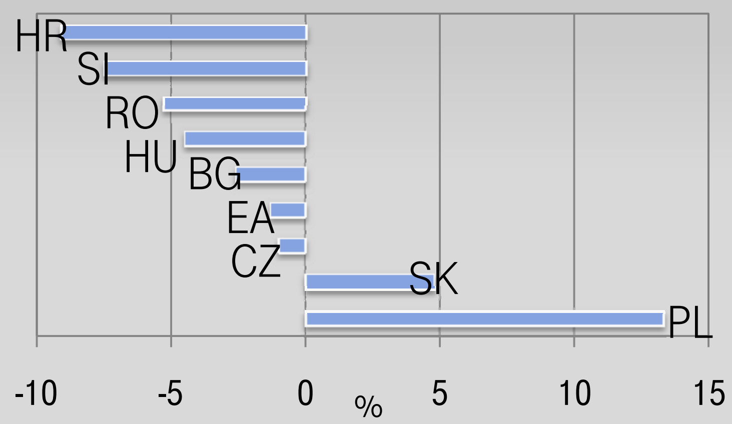
Croatia at a glance (1)

- 4.3 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- ~110,000 active companies
- 11.5 million tourists in 2011 (87% foreign tourists)
  - ~ 2.0 million tourists in first four months of 2012 (76% foreign tourists)

Croatian Economy (2)

- Further slow down in Q1 2012 with no encouraging indicators for Q2 2012
- GDP growth in Q1 2012: -1.3% , average 2012 forecast around -1.5%
- Inflation at 3.8% in June 2012 (3) mainly due to increase in VAT rate and electricity/gas price
- Registered unemployment rate 17,3% in June 2012 (June 2011: 16,9%)
- Business payment arrears continue to grow to record level at HRK 44.6 bn in May 2012

Cumulative GPD Growth by Countries 2009-2012 (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
(4) Source: Eurostat, national sources. Raiffeisen Research

Croatian Telecom and ICT market

Fixed telephony
- 19 licensed operators, of which 10 active (1)
- CPS, ULL, WLR (2), naked bitstream and bitstream available
- Usage declines in line with world-wide trends

Mobile telephony
- 3 operators on the market, 7 brands
  - New mobile brand introduced in Q1 2012
- Commercially launched LTE services
- Mobile penetration: 119%
- Growth in mobile broadband and smartphones

Internet
- Fixed line BB household penetration: 47%(3) vs 66% Western European average (4)
- Price aggressive 2Play and 3Play offers, first integrated fixed-mobile offers and Naked DSL

PayTV
- Satellite and cable underdeveloped
- PayTV household penetration: 39% (3)
- Croatia is the only regulated IPTV market in Europe
- MAXtv – most successful payTV in market

ICT
- Successful positioning of T-HT as one stop shop for all ICT services (5)
- Cloud as a concept is gradually becoming accepted within Croatian IT community
- As Croatia is approaching full EU membership significant IT projects are expected (etc. Fiscal registers)
- Still continued economic malaise and shrinking CAPEX budgets of largest IT services spenders in the country

(1) Including operators providing fixed line service over VoIP
(2)CPR=Carrier Preselection Service, ULL=Unbundled Local Loop; WLR=Wholesale Line rental
(3) Residential broadband lines per total households; payTV connections per total households
(4) Source: Analysys Mason
(5) Source: Internal market research done by Ipsos Puls

T-HT Group Jan – Jun 2012

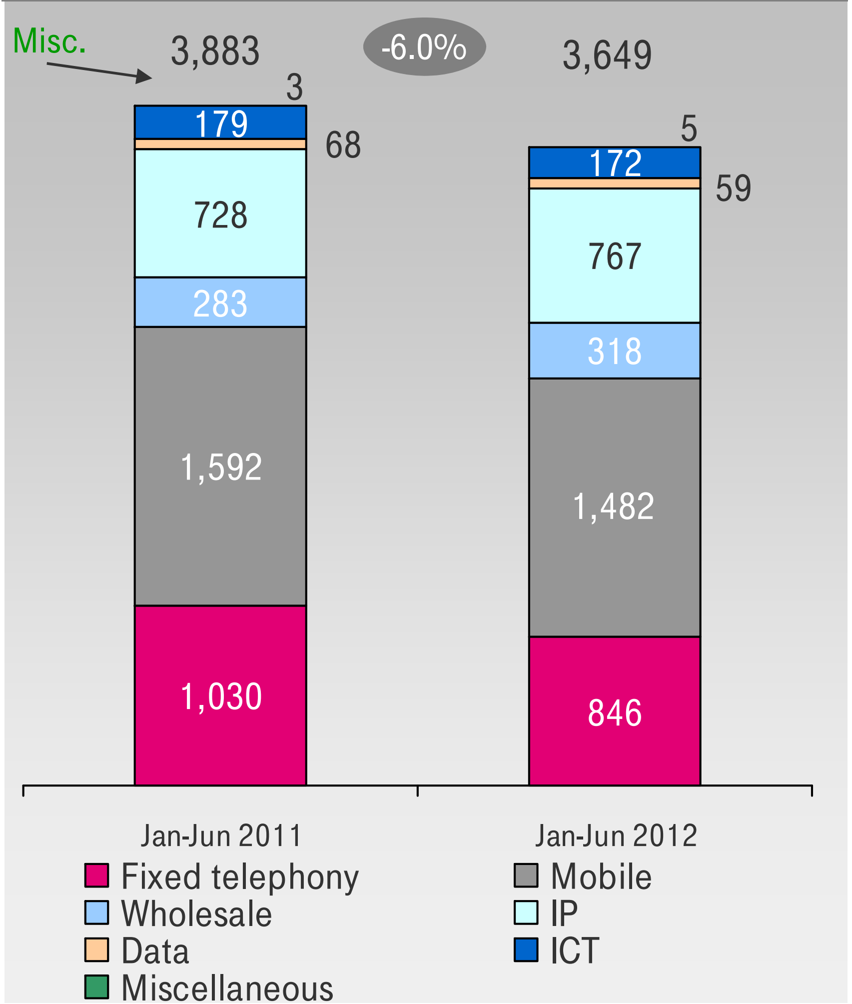
Group Highlights

- Leading market position across all areas of business maintained
- Launched new bundled offers in fixed segment
- Continued promotion of 4G mobile internet tariffs; further enhancement of prepaid and postpaid tariffs
- Revenue down 6.0% to HRK 3,649
- EBITDA decreased 2.9% to HRK 1,620 million; EBITDA margin at 44.4%
- Net profit down 2.5% to HRK 808 million
- Capex 31.0% lower at HRK 345 million
- Headcount decreased to 5,713 employees (H1 2011: 6,132 employees) [1]
- General Assembly approved dividend of HRK 22.14/share; residual part of HRK 11.07 paid on 21 May, 2012
- Parliament adopted abolition of 6% fee on mobile services; applicable from 9 July, 2012
  - H1 2012 impact totalled HRK 53 million (H1 2011: HRK 71 million)

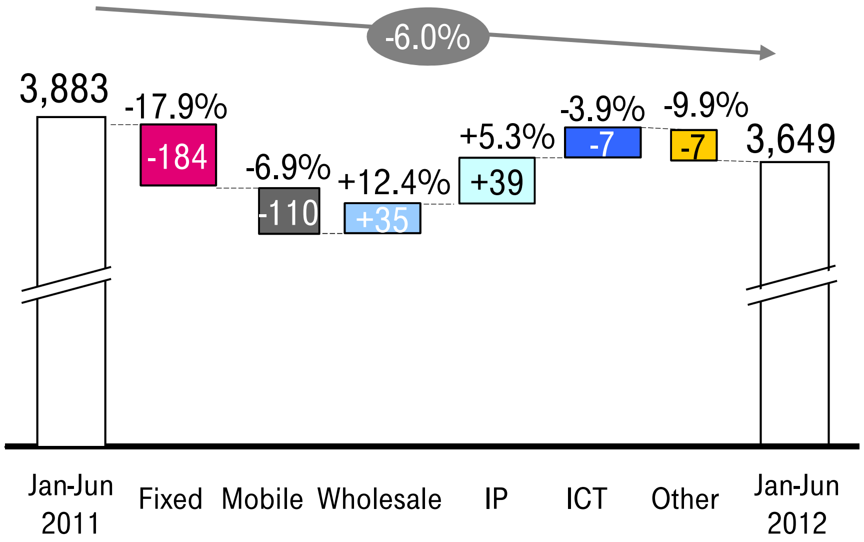
(1) Full time employees

Revenue Development

Revenue breakdown (HRK million) (1)

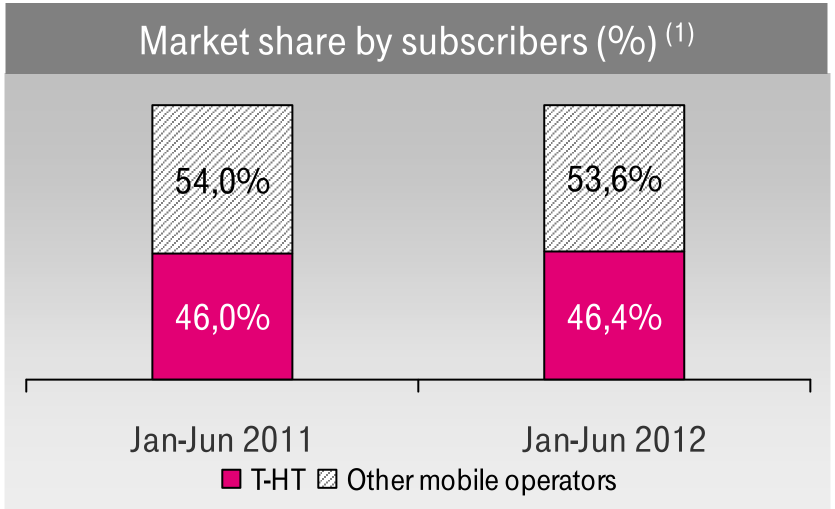


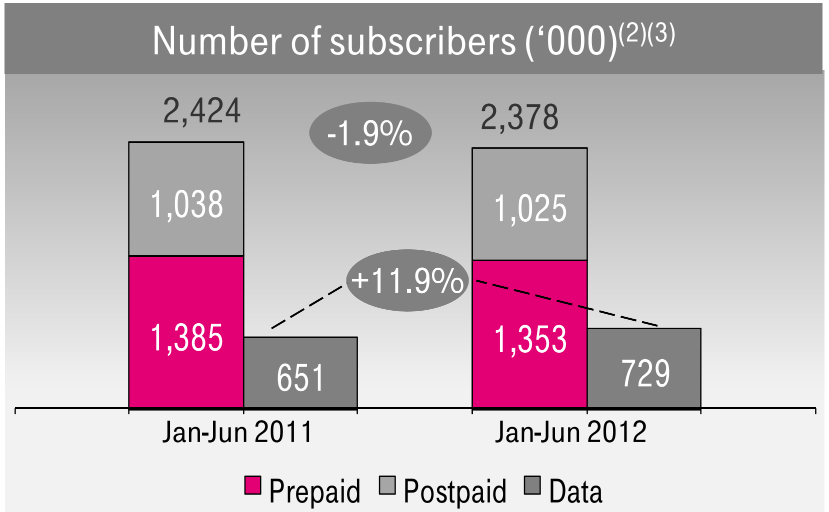
(1) Excluding other operating income

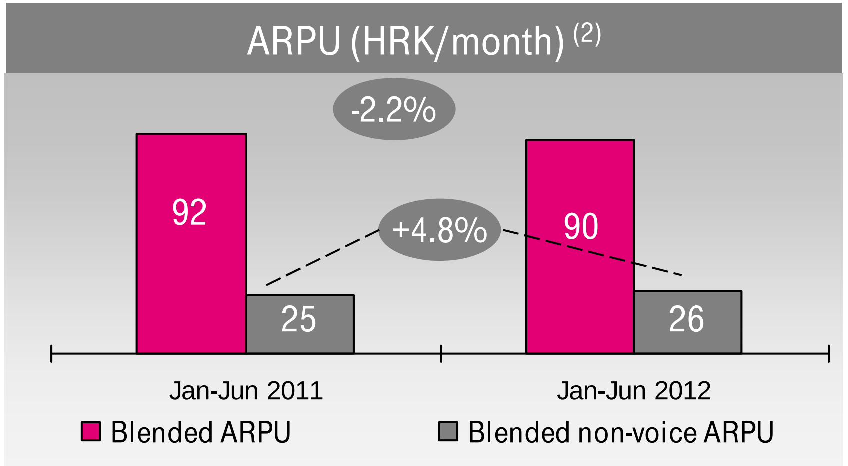


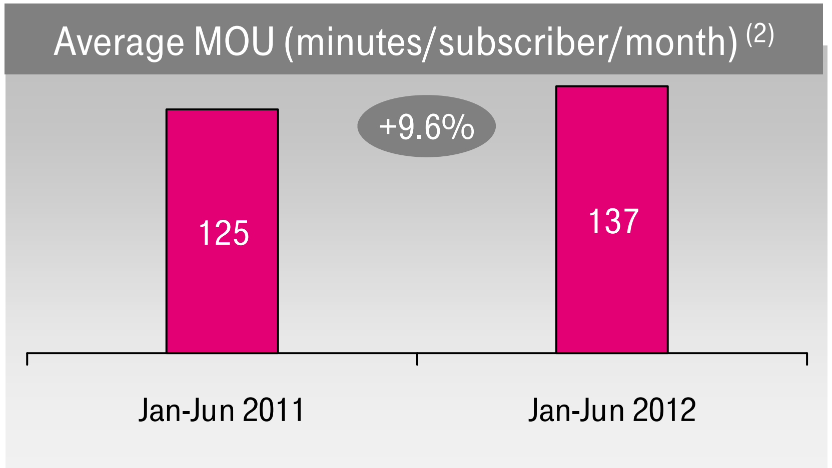
- Continued recesssion, regulatory measures and intensifying competition reflected in revenue development
- Fixed revenue additionally impacted by WLR introduced in August 2011; mobile revenue declined primarily as a result of competitive pressures and continued recession
- Wholesale revenue positively impacted by WLR activations
- Continued growth in Internet revenue
- Combis contributed HRK 151 million (H1 2011: HRK 161 million)

Mobile Telephony









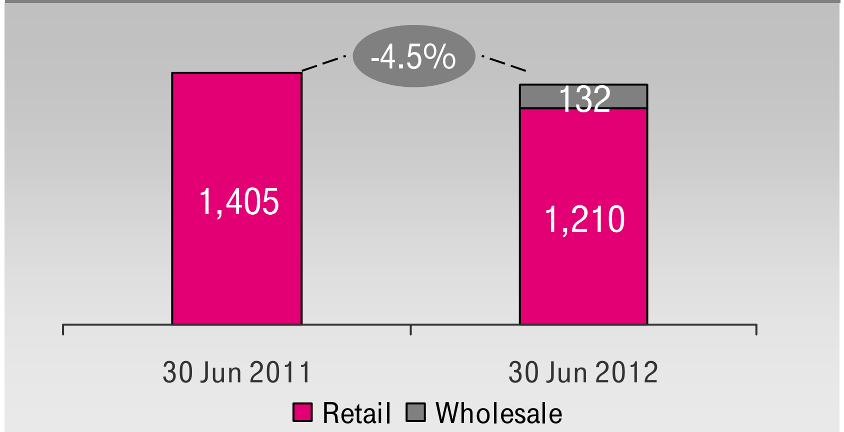
(1) Source: published VIPnet report for Q2 2011 and Tele2 reports for Q2 2011 and Q2 2012. Number of VIPnet subscribers at Q2 2012 is internally estimated.
(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. Number of subscribers in H1 2011 as well as all respective KPIs were restated accordingly. Blended non-voice ARPU for H1 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.

Jan – Jun 2012

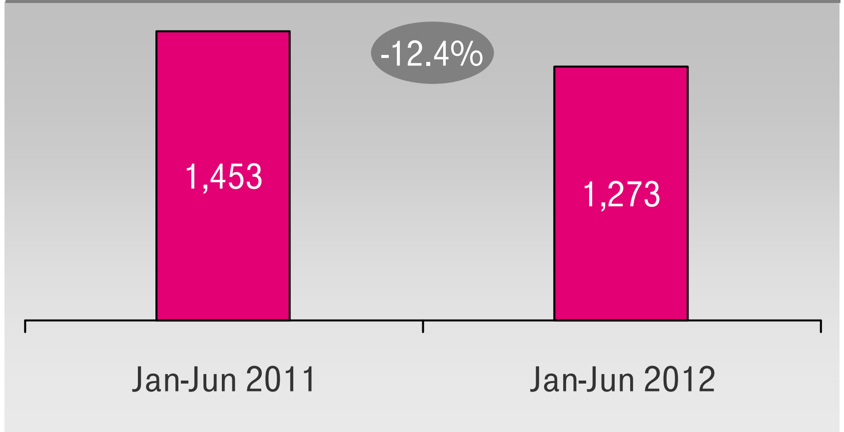
T-HT Group

Fixed Telephony

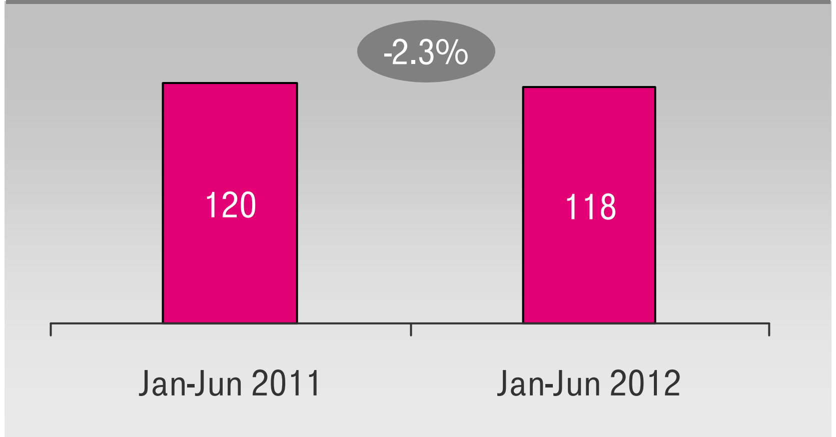
Number of mainlines ('000) (1)



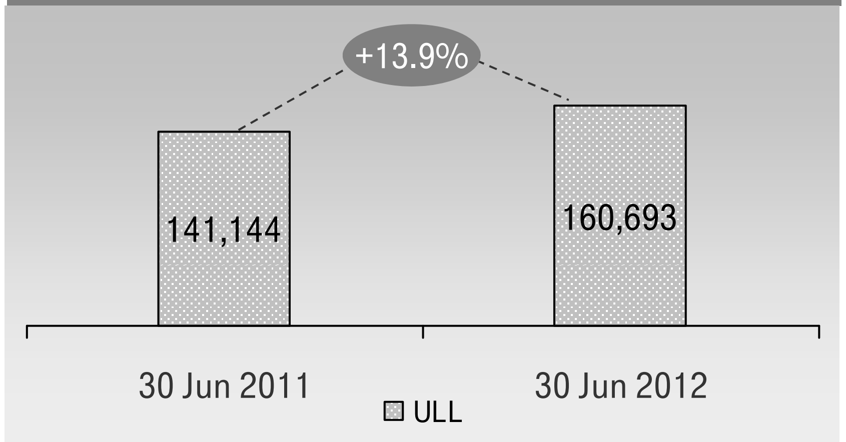
Total traffic in minutes (million)



ARPA (HRK) (2)

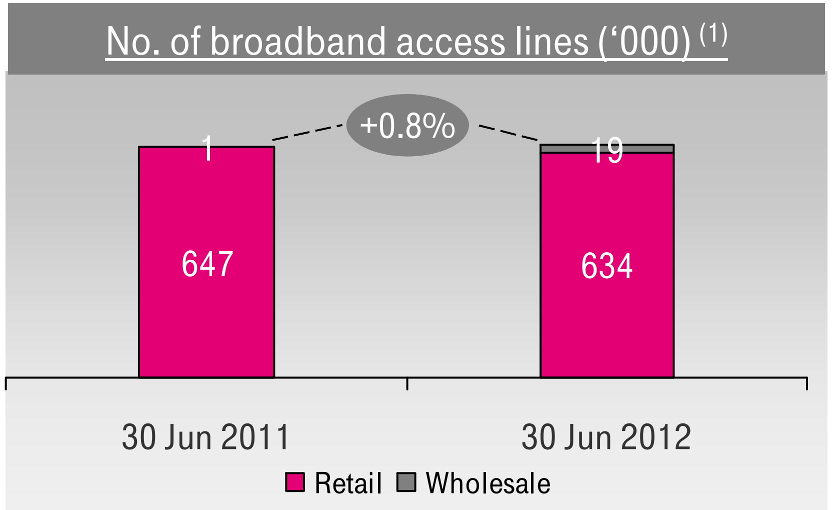


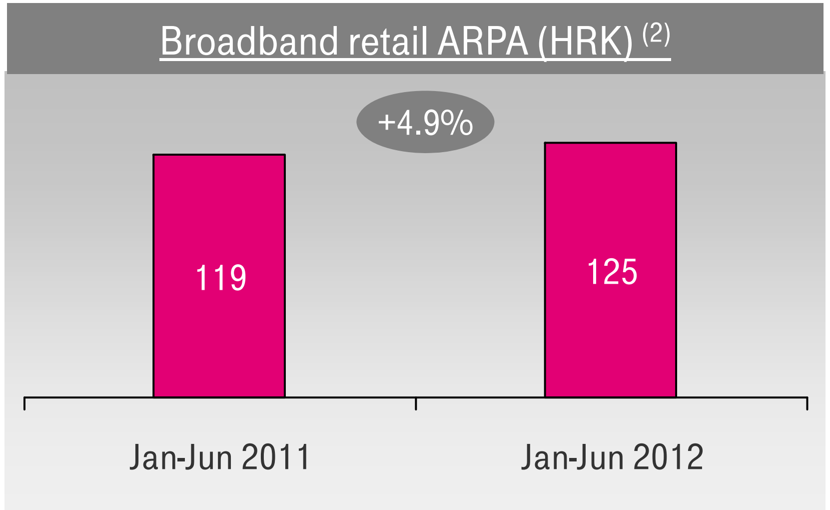
Number of ULL

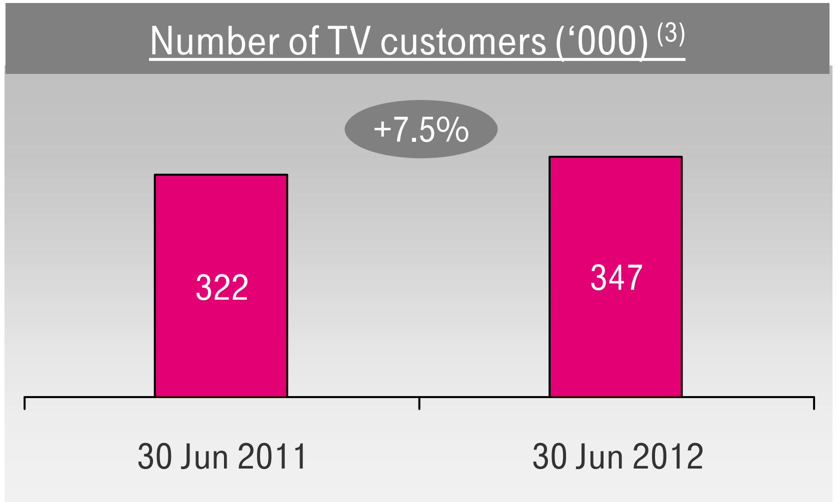


(1) Includes POTS + FGSM + ISDN. 2011 number restated according to the new definition; payphones excluded from total number of mainlines .
(2) Voice revenue per voice acces – monthly average for the period; 2011 number restated in line with new mainlines definition in 2012.

IP Services



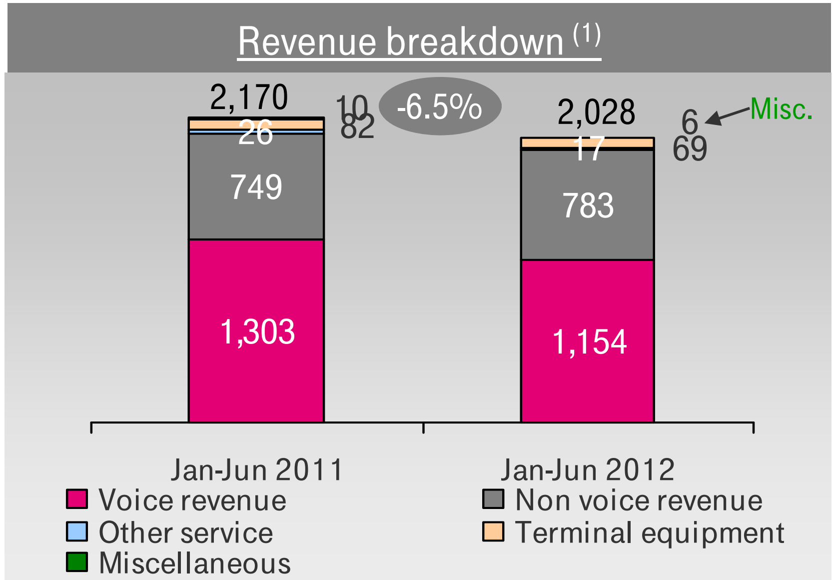


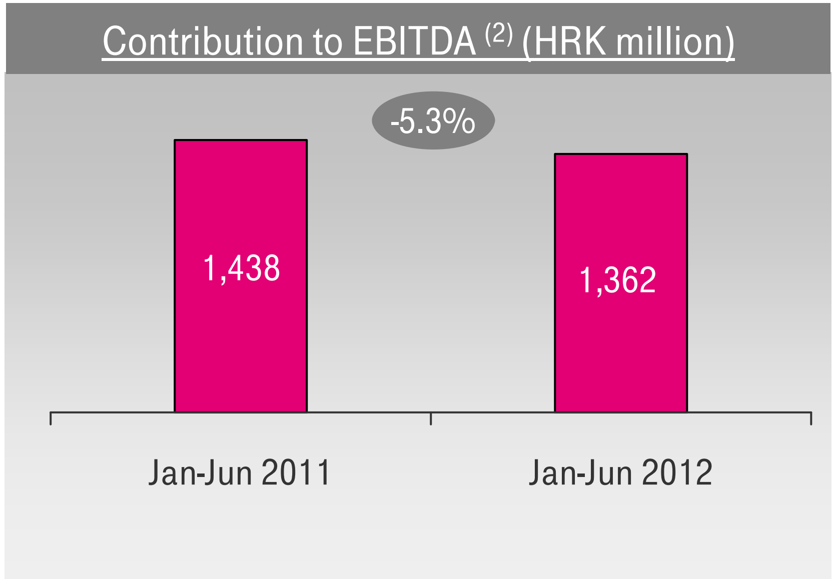


- Number of retail broadband lines impacted by wholesale bitstream offer and regulatory measures introduced in Q1 2012
- Growth of TV service [3]: more than 2,000 net adds in Q2 2012
- Promotional offer of MAXtv to go for HRK 1.00 for one month
- Introduced MAXtv Recommender service, enabling easier selection of MAXtv Video Store content

(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



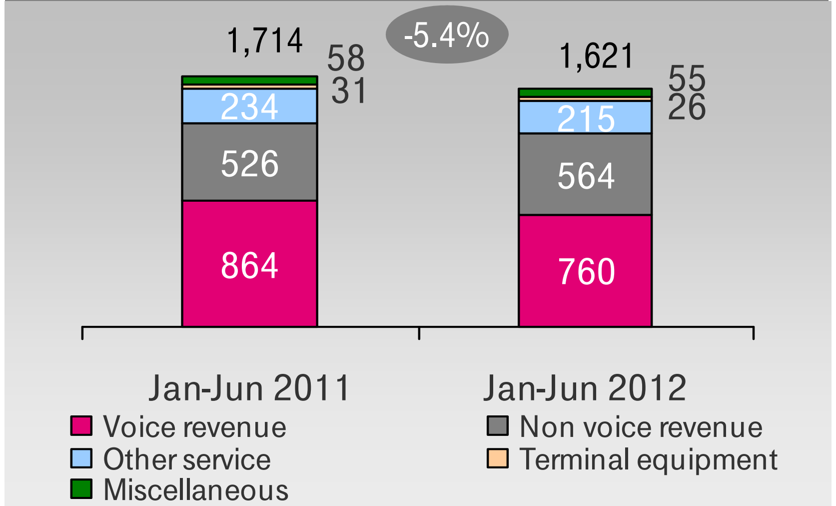


- Revenue down mainly as a result of lower voice revenue; impacted largely by lower number of fixed mainlines exacerbated by WLR introduction, further economic deterioration and competitive pressures
- Non-voice revenue increased due to higher fixed IP revenue and higher mobile data revenue
- Terminal equipment revenue lower due to reduced mobile services offers compared to H1 2011
- Contribution to EBITDA down due to revenue decrease partly compensated by cost reduction
- MAX total bundle: fixed and mobile telephony combined with discounted devices price
- Visitors offered flat internet via HT Hot Spots
- MultiPlus ehanced with mobile internet option and handset offers

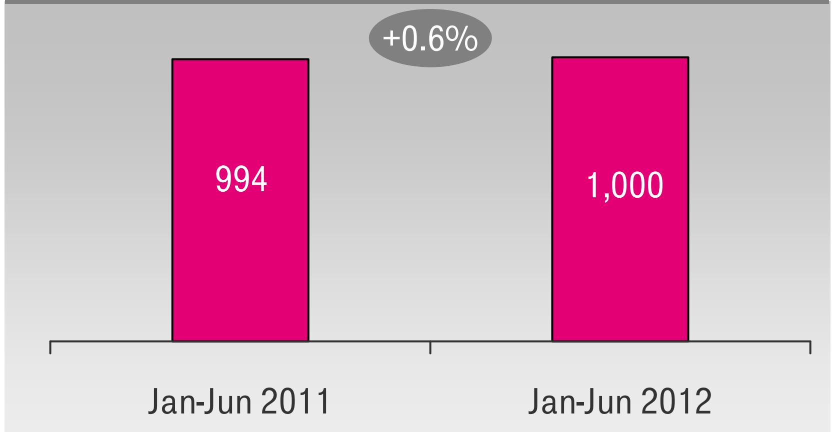
(1) In the financial reports, the Group's segments are reported by contribution to EBITDA level. The revenues and expenses of the segments include primary results
(2) Before exceptional items
- Note: Revenue structure and contribution to EBITDA restated for 2011 restated due to mobile usage bundle allocation from other service revenue to voice and non-voice and allocation of consolidation items on Group level between segments.

Business Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)



- Voice revenue down mainly due to lower number of fixed mainlines and migration to mobile voice, lower mobile revenue due to decreased usage and lower price per minute, decreased MTRs and roaming prices
- Non-voice revenue increased primarily due to higher infrastructure revenue resulting from WLR
- Other service revenue down mainly due to lower ICT revenue as a result of seasonality, lower number of hardware sales and public sector projects and due to different mobile tariff structures
- Contribution to EBITDA increased mainly due to lower merchandise costs
- Further development of Cloud services
- Introduced converged fixed, mobile and ICT services

(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
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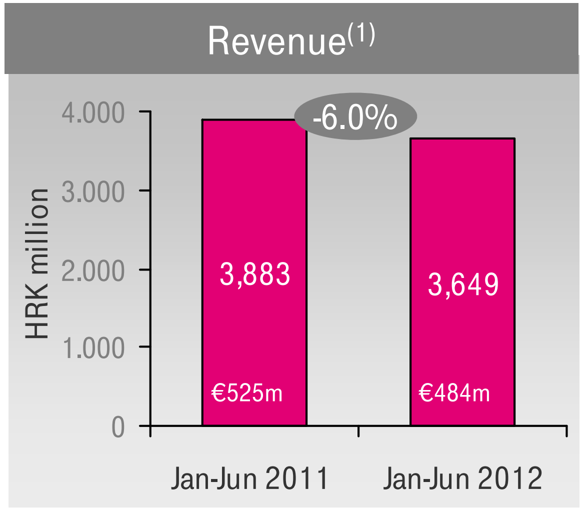
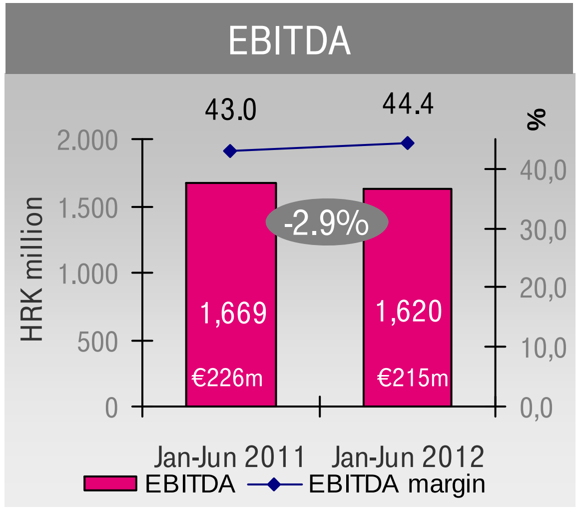
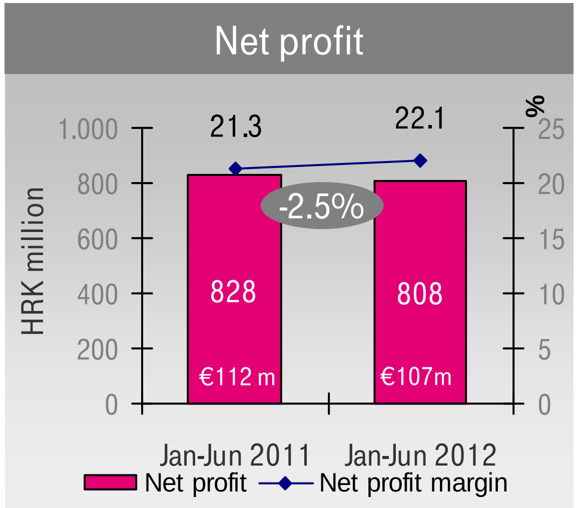
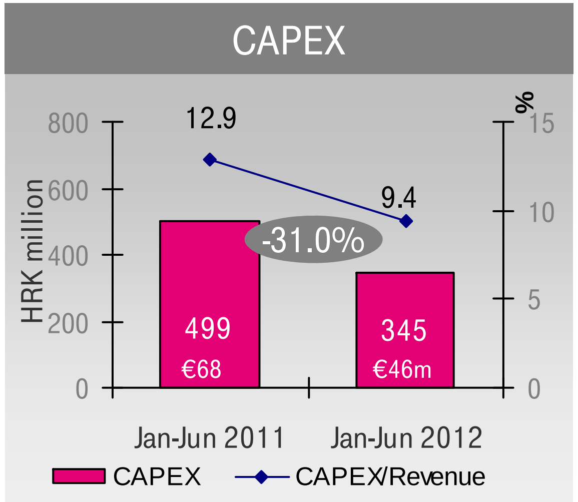
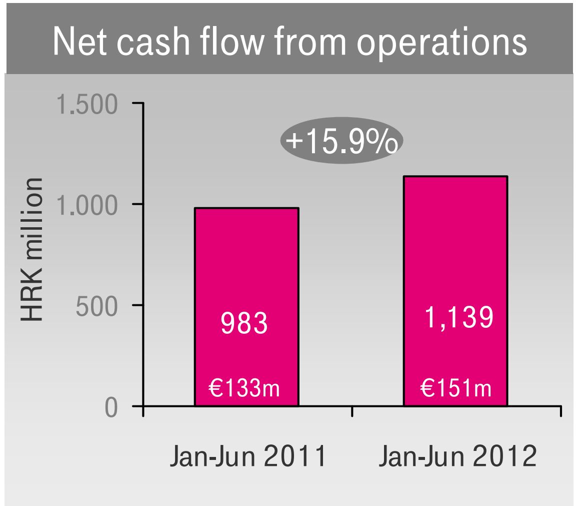
Financial Highlights











(1) Excluding other operating income

- HRK per Euro average rate of exchange: Jan - Jun 2011: 7.39; Jan - Jun 2012: 7.54

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.

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

T-HT Group Jan – Jun 2012

Consolidated Income Statement

in HRK million (IFRS HT accounting policies)	Jan-Jun 2012	Jan-Jun 2011	% of change A12/A11
Mobile [1)]	1.482	1.592	-6,9%
Fixed Telephony [2)]	846	1.030	-17,9%
Wholesale	318	283	12,4%
IP Revenue	767	728	5,3%
Data [2)]	59	68	-13,8%
ICT [1)]	172	179	-3,9%
Miscellaneous	5	3	73,6%
Revenue	**3.649**	**3.883**	**-6,0%**
Other operating income	107	127	-16,2%
Total operating revenue	**3.755**	**4.011**	**-6,4%**
Operating expenses	**2.135**	**2.342**	**-8,8%**
Material expenses	941	1.112	-15,4%
Merchandise, material and energy expenses	411	544	-24,5%
Services expenses	530	568	-6,6%
Employee benefits expenses	559	569	-1,7%
Other expenses	611	649	-5,9%
Work performed by the Group and capitalised	-29	-32	10,7%
Write down of assets	53	44	20,6%
EBITDA	**1.620**	**1.669**	**-2,9%**
Depreciation and amortization	655	665	-1,5%
EBIT	**965**	**1.004**	**-3,9%**
Financial income	45	28	63,3%
Income/loss from investment in joint ventures	7	15	-49,4%
Income from investment in associates	0	0	-
Financial expenses	20	25	-20,3%
Profit before taxes	**998**	**1.022**	**-2,3%**
Taxation	190	193	-1,7%
Net profit	**808**	**828**	**-2,5%**
Minority interest	0	0	-39,1%
Net profit after minority interest	**808**	**828**	**-2,5%**
Exceptional items	0	0	-
EBITDA before exceptional items	**1.620**	**1.669**	**-2,9%**

(1) Due to change in reporting to one-company view ICT revenue previously shown in mobile revenue is now reclasified to ICT revenue for all respective periods.
(2) Due to change in methodology of reporting, terminal equipment for data services is reclasified from fixed telephony to data for all respective periods.

Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 30 Jun 2012	At 31 Dec 2011	*% of change A12/A11*
Intangible assets	935	999	*-6,4%*
Property, plant and equipment	5.705	5.953	*-4,2%*
Non-current financial assets	444	435	*2,1%*
Receivables	22	23	*-4,8%*
Deferred tax asset	57	52	*9,3%*
Total non-current assets	**7.163**	**7.462**	***-4,0%***
Inventories	177	175	*0,7%*
Receivables	1.324	1.307	*1,3%*
Current financial assets	879	363	*141,8%*
Cash and cash equivalents	2.199	3.704	*-40,6%*
Prepayments and accrued income	158	125	*26,1%*
Total current assets	**4.736**	**5.675**	***-16,5%***
TOTAL ASSETS	**11.899**	**13.136**	***-9,4%***
Subscribed share capital	8.189	8.189	*0,0%*
Reserves	409	409	*-0,1%*
Revaluation reserves	-2	-3	*36,5%*
Retained earnings	610	612	*-0,3%*
Net profit for the period	808	1.811	*-55,4%*
Non-controlling interest	1	1	*11,6%*
Total issued capital and reserves	**10.014**	**11.019**	***-9,1%***
Provisions	275	271	*1,5%*
Non-current liabilities	29	32	*-8,6%*
Total non-current liabilities	**304**	**303**	***0,4%***
Current liabilities	1.321	1.492	*-11,5%*
Accrued expenses and deferred income	145	153	*-5,0%*
Provisions for redundancy	114	169	*-32,5%*
Total current liabilities	**1.580**	**1.814**	***-12,9%***
Total liabilities	**1.885**	**2.117**	***-11,0%***
TOTAL EQUITY AND LIABILITIES	**11.899**	**13.136**	***-9,4%***

Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Jun 2012	Jan-Jun 2011	% of change A12/A11
Profit before tax	998	1.021	*-2,3%*
Depreciation and amortization	655	665	*-1,5%*
Increase of current liabilities	0	0	-
Decrease of current receivables	0	68	*-100,0%*
Decrease of inventories	0	0	-
Other cash flow increases	0	0	-
Total increase of cash flow from operating activities	**1.653**	**1.755**	***-5,8%***
Decrease of current liabilities	-179	-384	*53,4%*
Increase of current receivables	-50	0	-
Increase of inventories	-1	-39	*96,9%*
Other cash flow decreases	-284	-349	*18,8%*
Total decrease of cash flow from operating activities	**-514**	**-772**	***33,4%***
Net cash inflow/outflow from operating activities	**1.139**	**983**	***15,9%***
Proceeds from sale of non-current assets	2	9	*-73,2%*
Proceeds from sale of non-current financial assets	1	74	*-98,4%*
Proceeds from sale of current financial assets	0	0	-
Interest received	34	35	*-3,5%*
Dividend received	0	0	-
Other cash inflows from investing activities	590	369	*59,9%*
Total increase of cash flow from investing activities	**627**	**486**	***28,9%***
Purchase of non-current assets	-345	-499	*31,0%*
Purchase of non-current financial assets	0	0	-
Other cash outflows from investing activities	-1.106	-516	*-114,3%*
Total decrease of cash flow from investing activities	**-1.451**	**-1.016**	***-42,9%***
Net cash inflow/outflow from investing activities	**-824**	**-529**	***-55,7%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	-3	-8	*63,1%*
Dividends paid	-1.813	-1.863	*2,7%*
Repayment of finance lease	-3	0	-
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	**-1.819**	**-1.871**	***2,8%***
Net cash inflow/outflow from financing activities	**-1.819**	**-1.871**	***2,8%***
Exchange gains on cash and cash equivalents	**-1**	**-4**	***64,6%***
Cash and cash equivalents at the beginning of period	3.704	3.282	*12,9%*
Net cash (outflow) / inflow	-1.505	-1.421	*-6,0%*
Cash and cash equivalents at the end of period	**2.199**	**1.861**	***18,1%***

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