Business and Financial Review
January – September 2012

30 October 2012

Življeti zajedno

Hrvatski Telekom

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

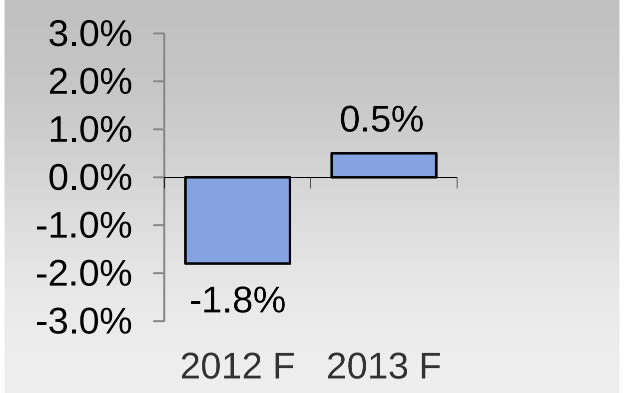
Croatian economy - facts [1]

- One of slowest recovery economies in region since entering recession at beginning of 2009
  - GDP growth in Q2 2012: -2.2%, average 2012 forecast around -1.8% [1]
- Registered unemployment rate 18.3% in September 2012 (September 2011: 16.8%)
- Inflation[2] at 5.0% in September 2012 mainly due to increase in energy and food prices
- Falling disposable income
- Business payment arrears still extremely high at HRK 44.0 bn in August; peaked at HRK 44.6 bn in May 2012
- Successful tourist season: tourist arrivals in Jan-Aug 2012 up 4% at 9.5 million (90% foreign tourists)

Prospects

- In first ten months Government has shown fiscal discipline and outlined strategic direction
  - Sep 2012: Fitch maintained long-term rating at BBB- and revised outlook from negative to stable
  - Still awaiting far-reaching structural reforms
  - Large public sector investments announced
- EU accession scheduled for 1 July, 2013
  - Structural and other funds
  - Foreign direct investments expected to increase
- GDP 2013 forecasts around +0.5% [1]

Real GDP growth [1]



(1) Source: Central Bureau of Statistics, Croatian National Tourist Board, Croatian National Bank; GDP forecast refers to forecast of six major Croatian banks
(2) Annual inflation growth rate, measured by changes in consumer prices

Croatian Telecom and ICT Market

Fixed Voice
- 19 licensed operators, of which 9 active [(1)]
- CPS, ULL, WLR[(2)], naked bitstream and bitstream available
- Usage declines in line with world-wide trends
- Mobile and VoIP substitution continue to undermine fixed voice

Mobile
- 3 operators on the market, 7 brands
- Commercially launched LTE services
- Mobile penetration: 123%
- Growth in mobile broadband (8% penetration [(3)] vs 9% WE) [(4)] and smartphones
- T-HT Smartphone penetration 21% [(3)] vs 37% WE [(4)]

Fixed Broadband
- Fixed line BB household penetration[(3)] : 47% vs 65% Western Europe (WE) average [(4)]
- Aggressively priced 2Play and 3Play offers, first integrated fixed-mobile offers and Naked DSL

PayTV
- Satellite and cable underdeveloped
- PayTV HH penetration [(3)]: 39% vs 56% WE [(4)]
- Croatia is only regulated IPTV market in Europe
- MAXtv – most successful PayTV in the market

ICT
- Successful positioning of T-HT as one-stop shop for all ICT services [(5)]
- Cloud as a concept gradually becoming accepted within Croatian IT community
- As Croatia approaches full EU membership significant IT projects expected (e.g. fiscal registers)
- Economic malaise continues and CAPEX budgets of country's largest IT services spenders shrinking
  - In 2011 Croatia's IT services market declined 2% (source: IDC)
  - IDC expects further 0.4% (in USD) fall in 2012 and subsequent CAGR of 6.3% (in USD) in 2012-16

(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; No. of mobile data SIMs (data sticks and PCMCIA cards) vs. population); smartphones of total handests in circulation; payTV connections per total households
(4) Source: Analysys Mason
(5) Source: Internal market research done by Ipsos Puls

Group Highlights

Financial

- Tough economic, competitive and regulatory environment continues
- Revenue down 7.1% to HRK 5,660 million
- EBITDA decreased 6.7% to HRK 2,611 million; EBITDA margin at 46.1%
- Net profit down 6.4% to HRK 1,388 million
- Capex 8.3% lower at HRK 581 million

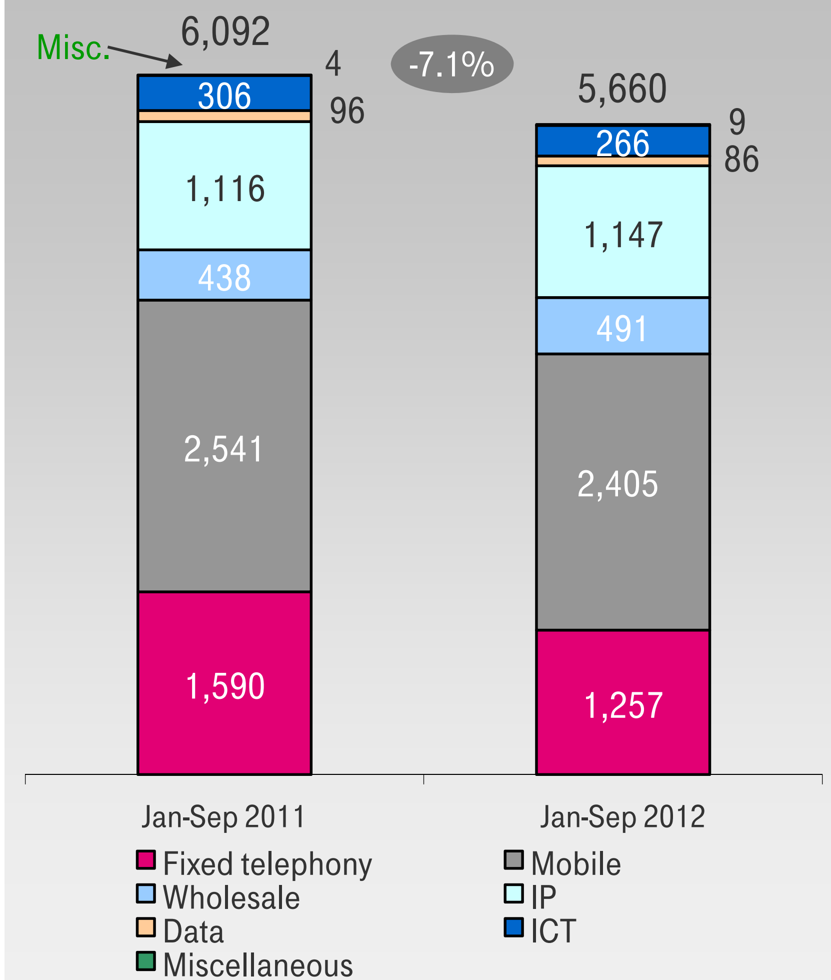
Operational

- Leading market position across all areas of business maintained
- Launched new bundled offers in fixed segment
- Continued promotion of 4G mobile internet tariffs, expanded network
- Test phase of mobile payments on NFC technology introduced
- Headcount decreased to 5,725 employees (30 Sep 2011: 6,066 employees) [1]
- Public submission process on wireless frequency licence on the 790MHz-862MHz band;
    - T-HT applied for one frequency block of 2x10 MHz
    - HAKOM announced on 29 October that licence granted to T-HT for 12 years
- New strategic and transformation initiatives

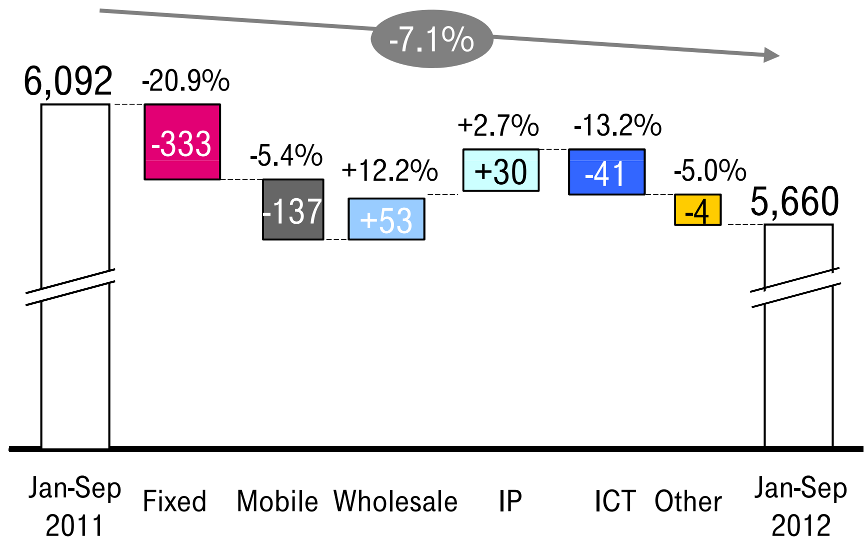
(1) Full time employees

Revenue development

Revenue breakdown (HRK million) (1)



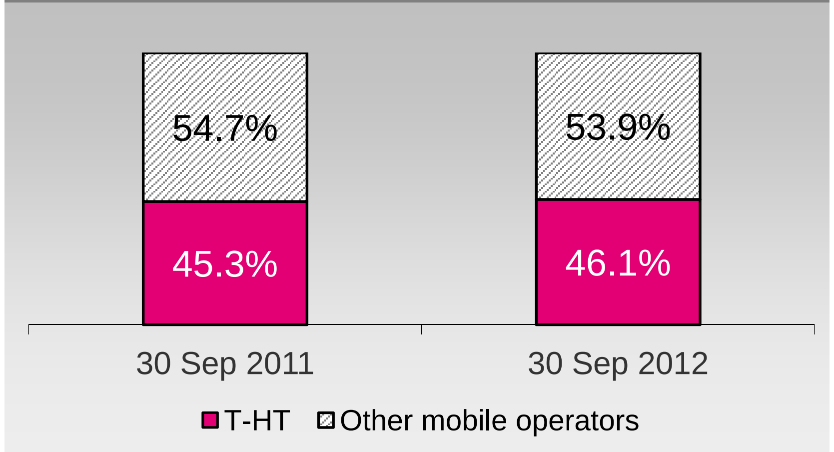
(1) Excluding other operating income



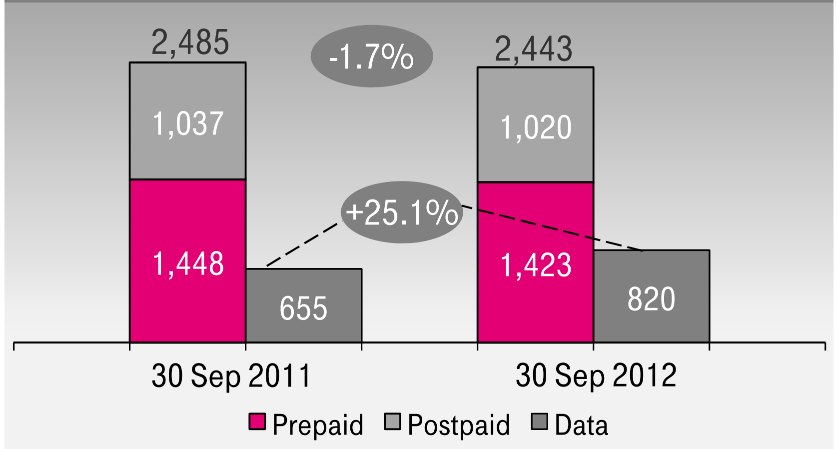
- Continued recesssion, regulatory measures and intensifying competition reflected in revenue development
- Fixed revenue additionally impacted by WLR introduced in August 2011; mobile revenue declined primarily as a result of competitive pressures and continued recession; ICT revenue down on lower public spending and seasonality
- Continued growth in IP revenue; wholesale revenue positively impacted by WLR activations
- Combis contributed HRK 234 million (Jan-Sep 2011: HRK 281 million) and Iskon: HRK 221 million (Jan-Sep 2011: HRK 179 million)

Mobile telephony

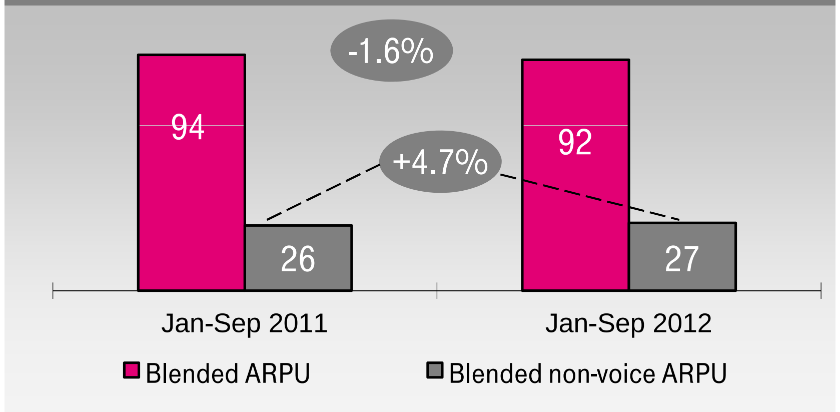
Market share by subscribers (%) (1)



Number of subscribers ('000)(2)(3)



ARPU (HRK/month) (2)

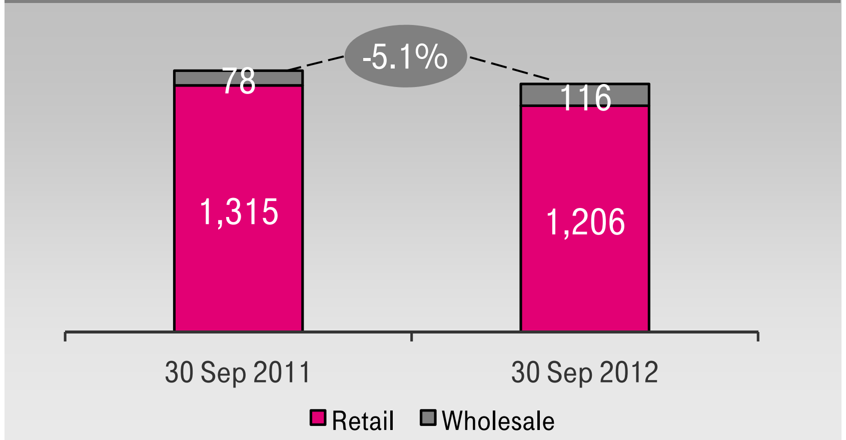


- Average MOU (minutes of use) up 11.2% to 143
- Smartphone proportion of total handset sales at 51%
- 21% of total T-HT subscribers are smartphone users
- Test phase of mobile payments on NFC technology introduced

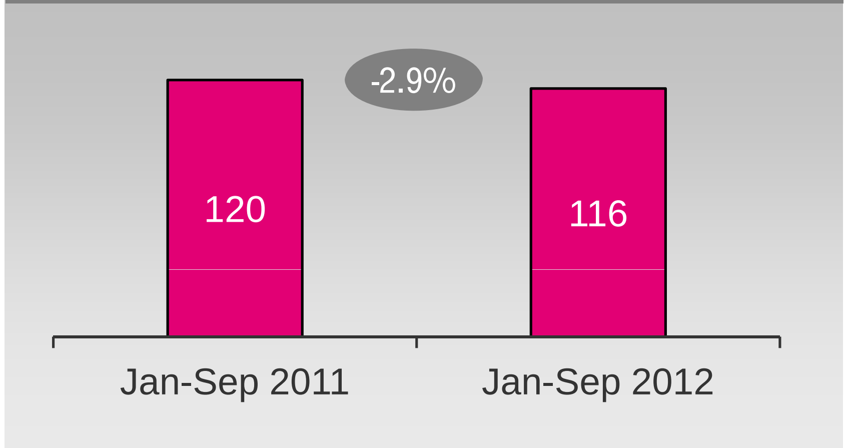
(1) Source: published VIPnet report for Q3 2011 and Tele2 reports for Q3 2011 and Q3 2012. Number of VIPnet subscribers at Q2 2012 is internally estimated.
(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. Number of subscribers Jan-Sep 2011 as well as all respective KPIs were restated accordingly. Blended non-voice ARPU for Jan-Sep 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

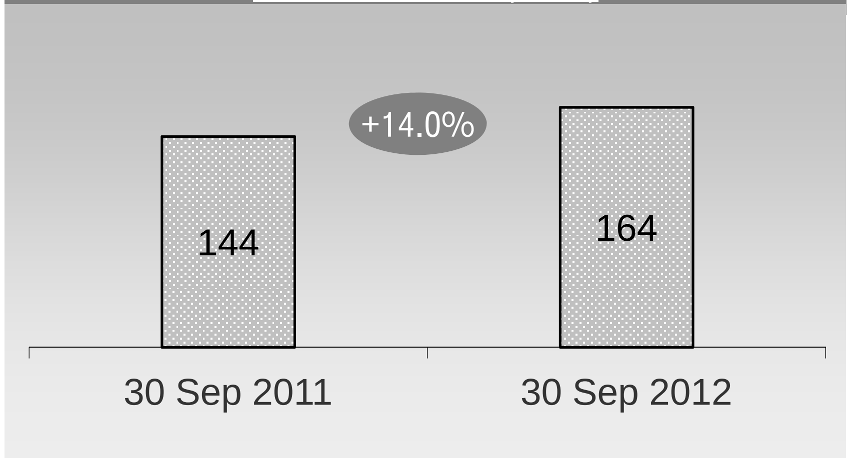
Number of mainlines ('000) (1)



ARPA (HRK) (2)



Number of ULL ('000)

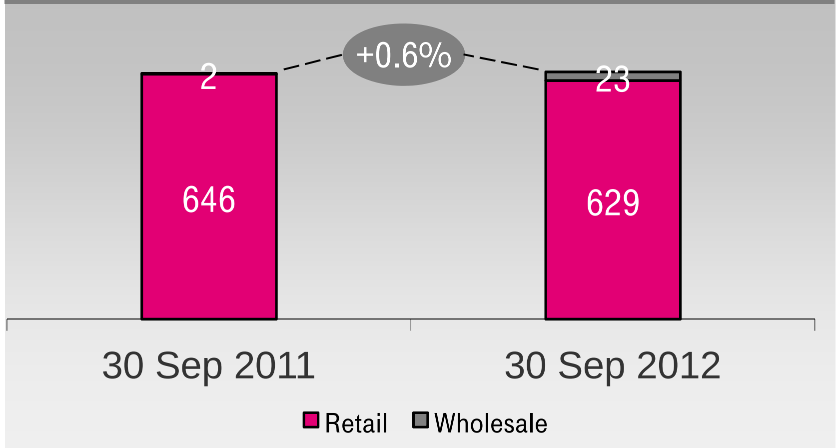


- Total traffic down 12.9% to 1,826 million minutes
- Successful win-back initiatives across the board regained customers and significantly decreased WLR numbers in Q3 2012, from 132,000 to 116,000

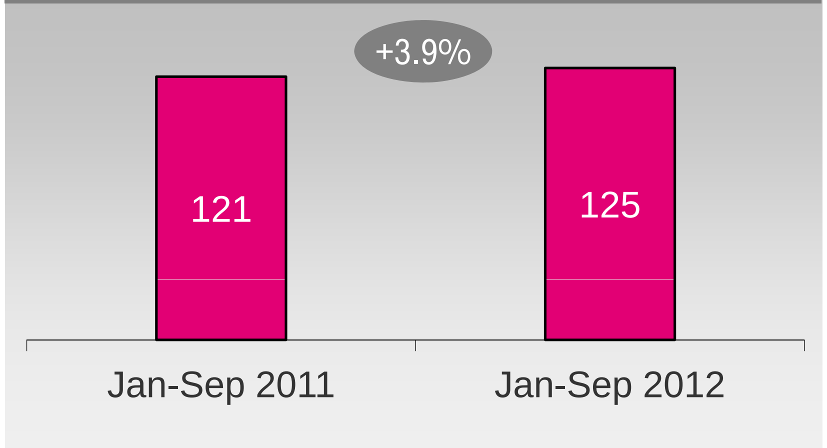
(1) Includes POTS + FGSM + ISDN. 2011 number restated according to the new definition; payphones excluded from total number of mainlines .
(2) Voice revenue per voice acces – monthly average for the period; 2011 number restated in line with new mainlines definition in 2012.

IP services

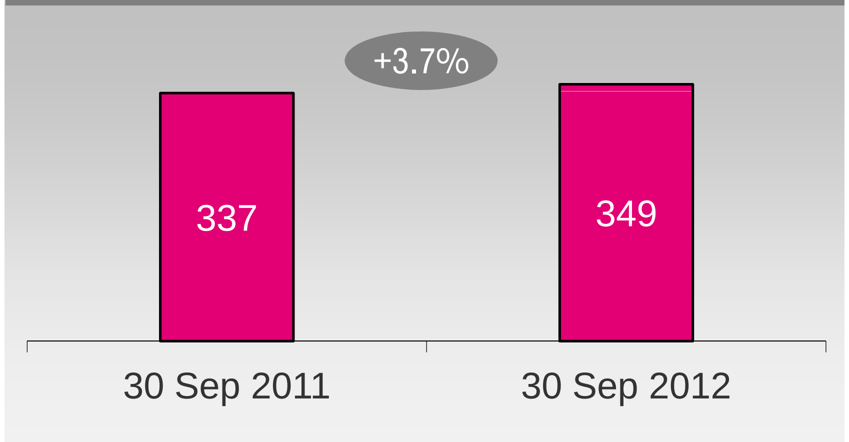
No. of broadband access lines ('000) (1)



Broadband retail ARPA (HRK) (2)



Number of TV customers ('000) (3)

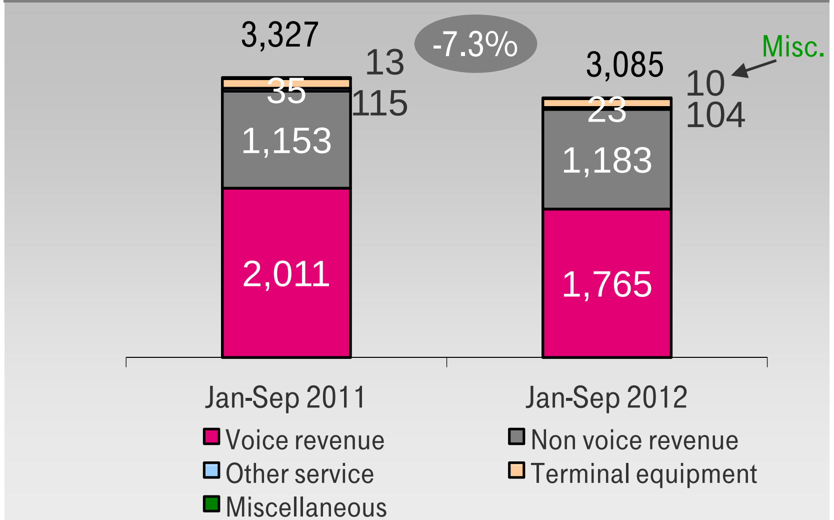


- Number of retail broadband lines impacted by wholesale bitstream offer and regulatory measures introduced in Q1 2012
- MAXtv exclusive content: MAXtv HNL Croatian football league, Champions League, Europa League
- HT pioneer in IP transformation; currently 20%, targeting 30% of retail customer migration by end-2012

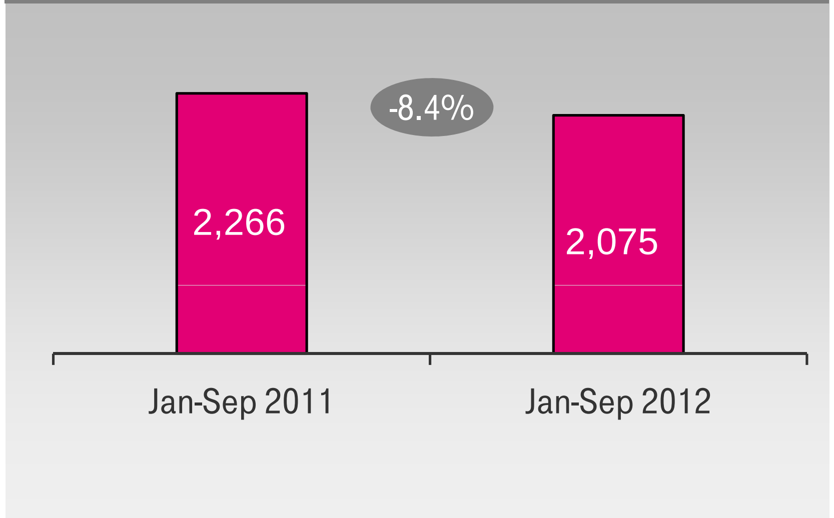
(1) Including Iskon ADSL mainlines
(2) Monthly average for the period; 2011 restated due to subsequent split of revenues from internet bundle packages to ADSL and IPTV
(3) Including Iskon IPTV customers, DTH and Cable TV customers

Residential segment

Revenue breakdown (1) (HRK million)



Contribution to EBITDA (2) (HRK million)

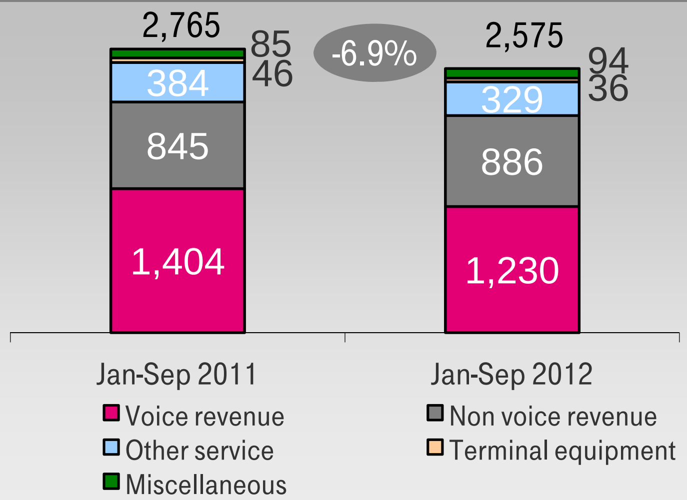


- Revenue down mainly as a result of lower voice revenue; impacted largely by lower number of fixed mainlines exacerbated by WLR introduction, further economic deterioration and competitive pressures
- Non-voice revenue increased 2.6% due to higher fixed IP revenue and higher mobile data revenue
- Terminal equipment revenue lower due to reduced mobile services offers compared to previous year
- Contribution to EBITDA down due to revenue decrease partly offset by cost reduction
- MAX3 bundle packages promotions in fixed
- Visitors offered “All inclusive package” that includes flat internet via HT Hot Spots
- Promotion of mobile internet tariffs based on 4G network, expanded network

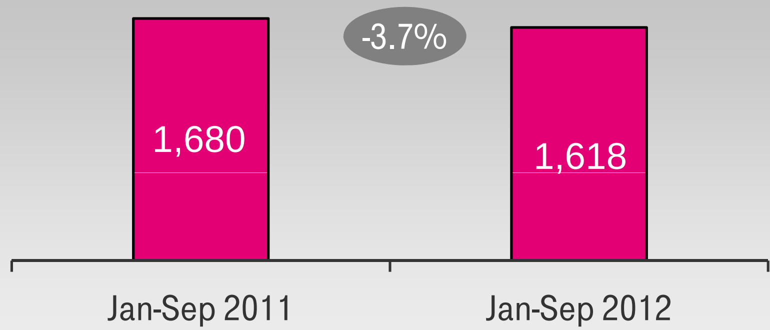
(1) In the financial reports, the Group’s segments are reported by contribution to EBITDA level. The revenues and expenses of the segments include primary results
(2) Before exceptional items
• Note: Revenue structure and contribution to EBITDA restated for 2011 restated due to mobile usage bundle allocation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

Business segment

Revenue breakdown (1) (HRK million)



Contribution to EBITDA (2) (HRK million)



- Voice revenue down mainly due to lower number of fixed mainlines and migration to mobile voice; mobile revenue lower 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 different mobile tariff structures and lower ICT revenue as a result of seasonality and lower number of hardware sales and public sector projects
- Contribution to EBITDA decreased 3.7%, with revenue decrease partly offset by cost reductions
- Further development of Cloud services

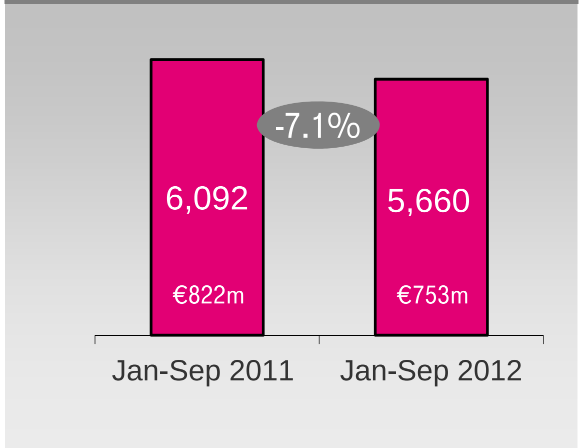
(1) In financial reports, the Group's segments are reported by contribution to EBITDA level. Revenues and expenses of the segments include primary results
(2) Before exceptional items
- Note: Revenue structure and contribution to EBITDA restated for 2011 restated due to mobile usage bundle allocation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

T-HT Group

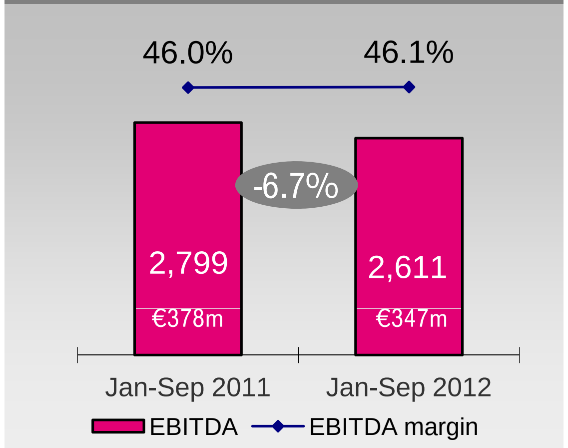
Jan – Sep 2012

Financial highlights

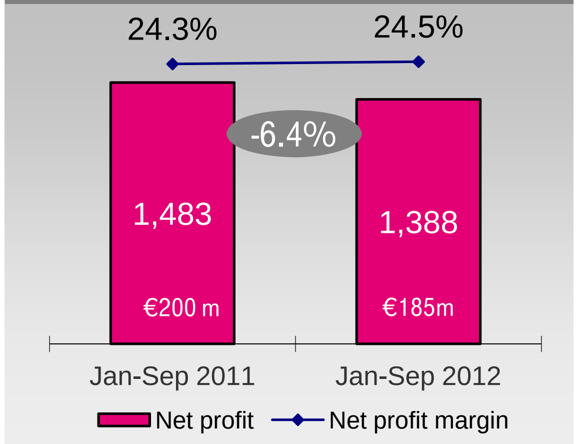
Revenue[(1)]



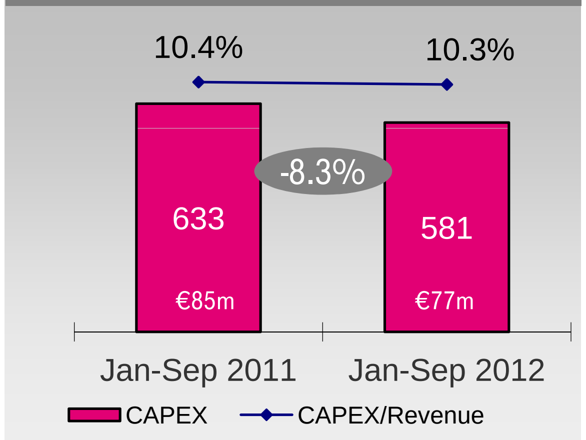
EBITDA



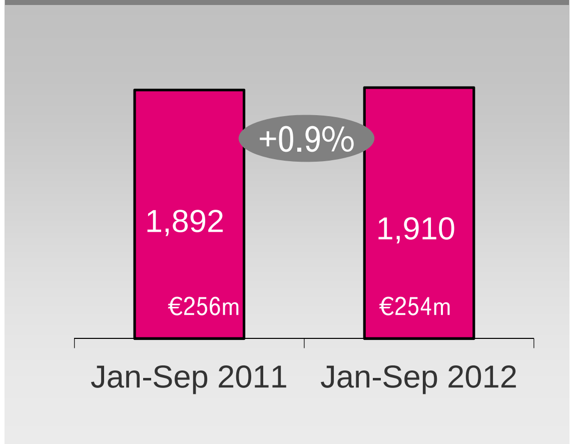
Net profit



CAPEX



Net cash flow from operations



(1) Excluding other operating income

- HRK per Euro average rate of exchange: Jan – Sep 2011: 7.41; Jan - Sep 2012: 7.52
- All in HRK million, except where stated differently

Group 2012 Outlook

Revenue

- Croatia is experiencing a protracted recession, with GDP forecast to shrink 1.8% in 2012. Added to this, fiscal tightening, a two percentage point increase in VAT, rising unemployment and increasing energy and food prices have put further pressure on disposable income. At the same time, the corporate sector faces further insolvencies and restructurings. Competition and a stringent regulatory regime continue to exert pressure on the Group's business. In light of the factors outlined above, the Group now expects a greater than anticipated reduction in revenue, indicating a mid single-digit percentage decline compared to 2011.

EBITDA before exceptional items

- The economic environment and revenue development explained above will impact EBITDA accordingly. However, due to continuing cost management initiatives, the Group expects to maintain a high EBITDA margin in 2012.

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, excluding investment in the spectrum licence, 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)	Jan-Sep 2012	Jan-Sep 2011	% of change A12/A11
Mobile [1]	2,405	2,541	-5.4%
Fixed Telephony [2]	1,257	1,590	-20.9%
Wholesale	491	438	12.2%
IP Revenue	1,147	1,116	2.7%
Data [2]	86	96	-10.2%
ICT [1]	266	306	-13.2%
Miscellaneous	9	4	98.6%
Revenue	**5,660**	**6,092**	**-7.1%**
Other operating income	156	185	-16.0%
Total operating revenue	**5,816**	**6,278**	**-7.4%**
Operating expenses	**3,205**	**3,478**	**-7.9%**
Material expenses	1,457	1,645	-11.4%
Merchandise, material and energy expenses	635	779	-18.5%
Services expenses	822	866	-5.1%
Employee benefits expenses	839	860	-2.5%
Other expenses	881	975	-9.7%
Work performed by the Group and capitalised	-56	-49	-12.2%
Write down of assets	84	48	74.1%
EBITDA	**2,611**	**2,799**	**-6.7%**
Depreciation and amortization	937	1,005	-6.8%
EBIT	**1,674**	**1,794**	**-6.7%**
Financial income	63	56	11.8%
Income/loss from investment in joint ventures	19	21	-8.9%
Income from investment in associates	0	0	-
Financial expenses	35	30	16.4%
Profit before taxes	**1,722**	**1,842**	**-6.5%**
Taxation	334	359	-7.1%
Net profit	**1,388**	**1,483**	**-6.4%**
Minority interest	0	0	-9.5%
Net profit after minority interest	**1,388**	**1,483**	**-6.4%**
Exceptional items	0	0	-
EBITDA before exceptional items	**2,611**	**2,799**	**-6.7%**

(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)	At 30 Sep 2012	At 31 Dec 2011	*% of change A12/A11*
Intangible assets	935	999	*-6.4%*
Property, plant and equipment	5,659	5,953	*-4.9%*
Non-current financial assets	683	435	*57.1%*
Receivables	21	23	*-6.9%*
Deferred tax asset	57	52	*9.7%*
Total non-current assets	**7,355**	**7,462**	***-1.4%***
Inventories	158	175	*-9.9%*
Receivables	1,299	1,307	*-0.6%*
Current financial assets	1,210	363	*232.8%*
Cash and cash equivalents	2,181	3,704	*-41.1%*
Prepayments and accrued income	184	125	*47.1%*
Total current assets	**5,031**	**5,675**	***-11.3%***
TOTAL ASSETS	**12,386**	**13,136**	***-5.7%***
Subscribed share capital	8,189	8,189	*0.0%*
Reserves	409	409	*-0.1%*
Revaluation reserves	-1	-3	*76.6%*
Retained earnings	610	612	*-0.3%*
Net profit for the period	1,388	1,811	*-23.4%*
Non-controlling interest	1	1	*9.4%*
Total issued capital and reserves	**10,596**	**11,019**	***-3.8%***
Provisions	256	271	*-5.4%*
Non-current liabilities	28	32	*-13.7%*
Total non-current liabilities	**284**	**303**	***-6.3%***
Current liabilities	1,362	1,492	*-8.7%*
Accrued expenses and deferred income	128	153	*-15.8%*
Provisions for redundancy	16	169	*-90.5%*
Total current liabilities	**1,506**	**1,814**	***-17.0%***
Total liabilities	**1,790**	**2,117**	***-15.4%***
TOTAL EQUITY AND LIABILITIES	**12,386**	**13,136**	***-5.7%***

Consolidated cash flow statement

in HRK million (IFRS)	Jan-Sep 2012	Jan-Sep 2011	*% of change A12/A11*
Profit before tax	1,722	1,842	*-6.5%*
Depreciation and amortization	937	1,005	*-6.8%*
Increase / decrease of current liabilities	-155	-503	*69.2%*
Increase / decrease of current receivables	-51	50	*-202.6%*
Increase / decrease of inventories	17	28	*-36.8%*
Other cash flow decreases	-561	-529	*-6.0%*
Net cash inflow/outflow from operating activities	**1,910**	**1,892**	***0.9%***
Proceeds from sale of non-current assets	3	11	*-75.2%*
Proceeds from sale of non-current financial assets	2	74	*-97.8%*
Interest received	41	44	*-6.3%*
Dividend received	0	0	*n/a*
Other cash inflows from investing activities	818	518	*57.8%*
Total increase of cash flow from investing activities	**863**	**647**	***33.5%***
Purchase of non-current assets	-581	-634	*8.3%*
Purchase of non-current financial assets	-225	0	*n/a*
Other cash outflows from investing activities	-1,666	-840	*-98.4%*
Total decrease of cash flow from investing activities	**-2,472**	**-1,473**	*-67.8%*
Net cash inflow/outflow from investing activities	**-1,609**	**-826**	***-94.7%***
Total increase of cash flow from financing activities	**0**	**0**	*n/a*
Repayment of loans and bonds	-4	-9	***54.4%***
Dividends paid	-1,813	-1,863	*2.7%*
Repayment of finance lease	-5	0	-
Other cash outflows from financing activities	0	0	*n/a*
Total decrease in cash flow from financing activities	**-1,823**	**-1,872**	***2.6%***
Net cash inflow/outflow from financing activities	**-1,823**	**-1,872**	***2.6%***
Exchange gains/losses on cash and cash equivalents	-2	2	*-188.9%*
Cash and cash equivalents at the beginning of period	3,704	3,282	*12.9%*
Net cash (outflow) / inflow	-1,523	-804	*-89.4%*
Cash and cash equivalents at the end of period	**2,181**	**2,478**	***-12.0%***

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