Business and Financial Review
January – December 2012

14 February 2013

Živjeti 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

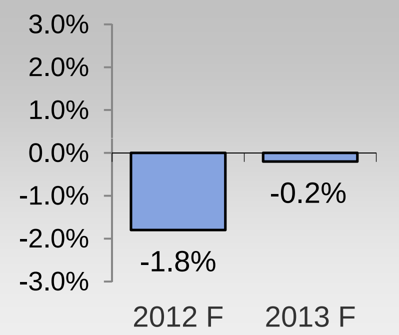
Croatian economy - facts [1]

- One of slowest recovering economies in region since entering recession at beginning of 2009
  - GDP growth in Q3 2012: -1.9%, average 2012 forecast around -1.8% [1]
- Registered unemployment rate 21.1% in December 2012 (December 2011: 18.7%)
- Inflation[2] at 4.7% in December 2012 mainly due to increase in energy and food prices; average inflation in 2012 at 3.4% (2011:2.3%)
- Falling disposable income
- Successful tourist season: tourist arrivals in Jan-Oct 2012 up 5% at 11.9 million (90% foreign tourists)

Prospects

- Still awaiting far-reaching structural reforms
- Credit rating downgraded to sub-investment grade with stable outlook by Standard & Poor's (Dec 2012) and Moody's (Feb 2013)
- 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 recently lowered to around -0.2%[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

Jan – Dec 2012

Croatian Telecom Market

Telecom and ICT Market in Croatia

Fixed Voice
- 9 licensed active operators on the market(1)
- CPS, ULL, WLR(2), naked bitstream and bitstream available
- Minutes of use decreased by 16% in Jan-Sep 2012

Mobile
- 3 operators on the market, 7 brands
- Mobile penetration at 117%, down 3pp
- Increased usage, but revenue continues to decline (by 5.1% in Jan-Sep 2012)
- Growth in mobile broadband
- T-HT Smartphone penetration 23% (3) vs 40% WE (4)

Fixed Broadband
- Broadband lines at 880,000 in Sep 2012, +4.1% yoy
- Fixed line BB household penetration(3) : 49% vs 66% Western Europe (WE)(4)
- Increasing need for bandwith

PayTV
- 603,000 payTV customers in Sep 2012, +1% yoy
- PayTV HH penetration (3): 41% vs 56% WE (4)
- New player launched pay TV services in Dec 2012
- Croatia is only regulated IPTV market in Europe

ICT
- In 2012 Croatia's IT services market declined by 4.6% (5)
- Cloud as a concept gradually becoming accepted within Croatian IT community
- As Croatia approaches full EU membership significant IT projects expected
- Combis, member of T-HT Group, has maintained its leading position in the Croatian ICT services market (5)

(1) Including operators providing fixed line service over VoIP
(2) CPS=Carrier Preselection Service, ULL=Unbundled Local Loop; WLR=Wholesale Line rental
(3) Residential broadband lines per total households; smartphones of total handests in circulation; payTV connections per total households
(4) Source: Analysys Mason
(5) Updated forecast of Croatian IT market for 2012 (in USD), IDC Adriatics, Dec 2012 and „Croatia IT Services Market 2012-2016 Forecast and 2011 Vendor Shares", IDC Adriatics, Sep 2012

Group highlights

Financial

- Revenue down 7.6% to HRK 7,456 million; tough economic, competitive and regulatory environment continues
- EBITDA decreased 8.0% to HRK 3,376 million; EBITDA margin at 45.3%
  - EBITDA before exceptional items (1) down 8.1% to HRK 3,520 million; margin 47.2%
- Net profit down 6.4% to HRK 1,696 million, margin at 22.7%
- Dividend proposed in the amount of 20.51 per share, payout ratio equals 100%
- Capex up 25.8% at HRK 1,180 million

Operational

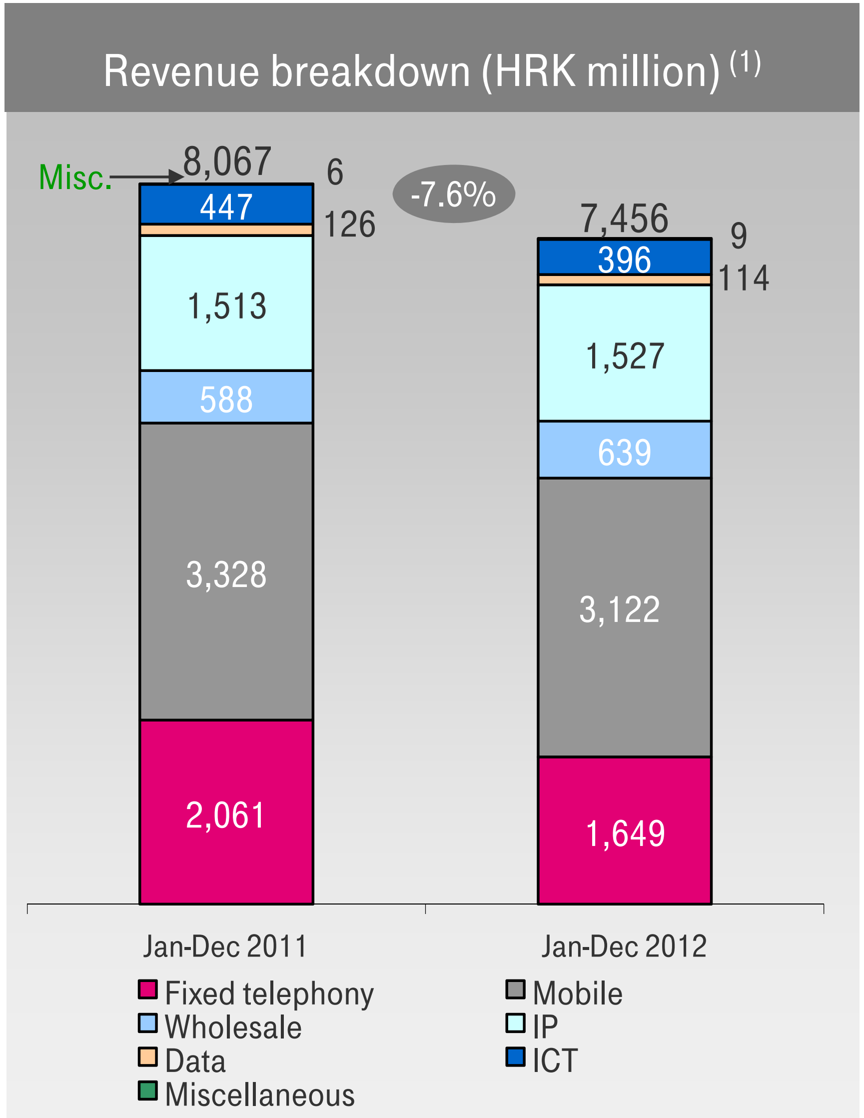
- Leading market position across all areas of business maintained
- New strategic and transformation initiatives
- T-HT has been granted wireless frequency licence for 12 years
- Continued promotion of 4G mobile internet tariffs, expanded network
- Cutting edge TeraStream technology concept presented, currently piloting
- Headcount decreased to 5,780 employees(2)
  - New Collective agreement signed, in force until 30 June 2014

(1) Exceptional items in 2012 refer to redundancy provisions totalling HRK 144 million. Exceptional items in 2011 refer to redundancy provisions totalling HRK 162 million
(2) Full time employees

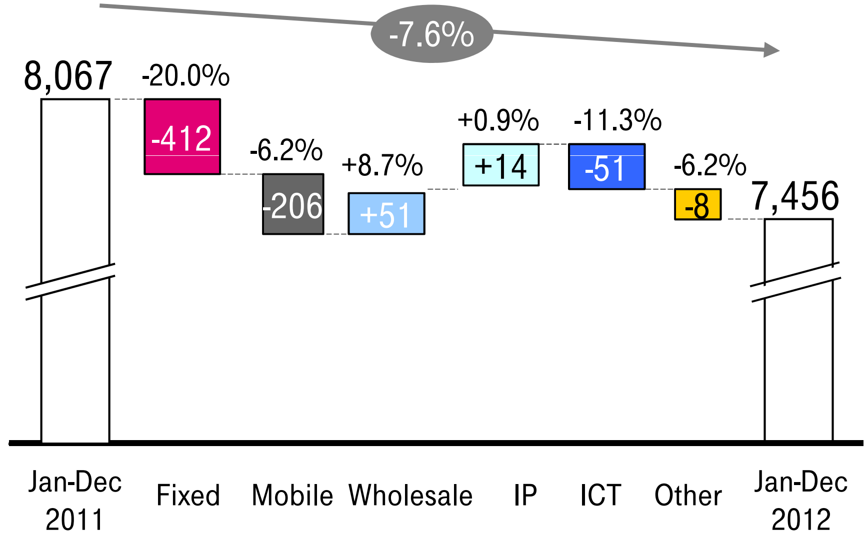
FY 2012 outlook and results

	Announced outlook As of 30 Oct 2012	Delivered results FY 2012	
Revenue	..the Group now expects a greater than anticipated reduction in revenue, indicating a mid single-digit percentage decline compared to 2011.	Decline: 7.6%	~
EBITDA before exceptional items	..due to continuing cost management initiatives, the Group expects to maintain a high EBITDA margin in 2012.	47.2% in 2012 vs 47.5% in 2011	✓
CAPEX	..excluding investment in the spectrum licence, capex in 2012 is expected to be higher than the previous year.	+9.9%	✓
Regional Expansion	The Group continues to monitor and evaluate expansion opportunities to increase shareholder value.		✓

Revenue development



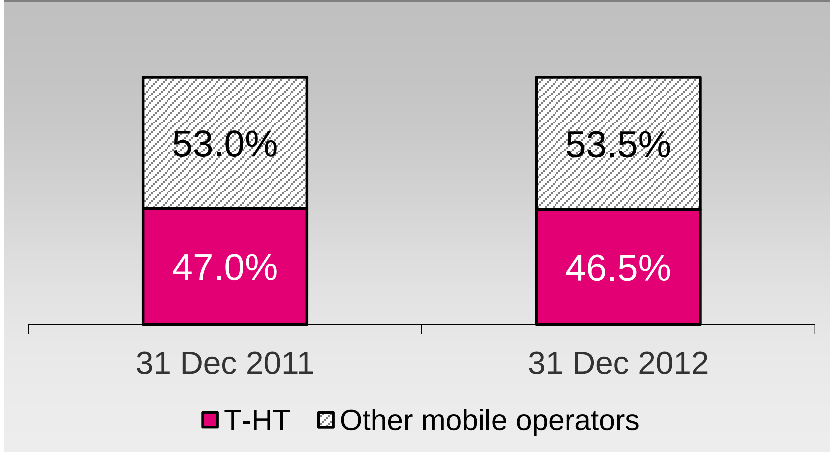
(1) Excluding other operating income



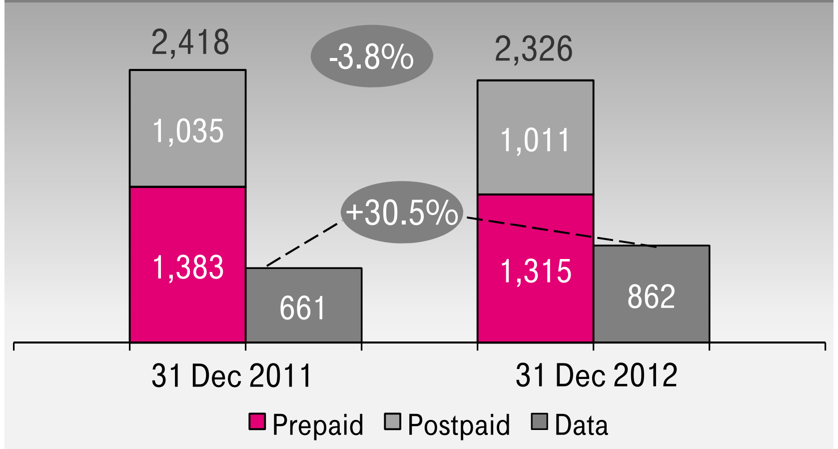
- Continued recesssion, regulatory measures and intensifying competition impact revenue
- Fixed revenue additionally impacted by WLR introduced in August 2011; mobile revenue declined primarily as a result of competitive pressures and continued recession; ICT revenue additionally down on lower public sector spending
- Continued growth in IP revenue; wholesale revenue up driven primarily by infrastructure services
- Combis contributed HRK 351 million (2011: HRK 413 million) and Iskon: HRK 297 million (2011: HRK 252 million)

Mobile

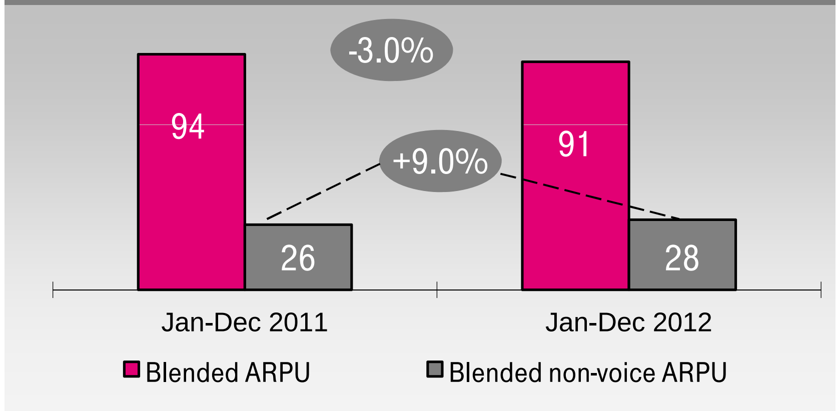
Market share by subscribers (%) [1]



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



ARPU (HRK/month) [2]

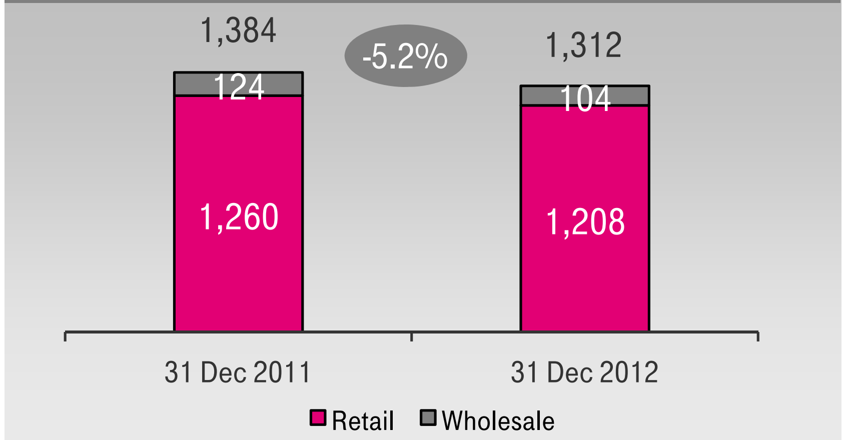


- Average MOU (minutes of use) up 13.7% to 146
- Smartphone proportion of total handset sales at 52%
- Test phase of mobile payments on NFC technology introduced
- As of 1 Jan 2013 mobile termination rate set at 19.5 lp/min, down 35.2%

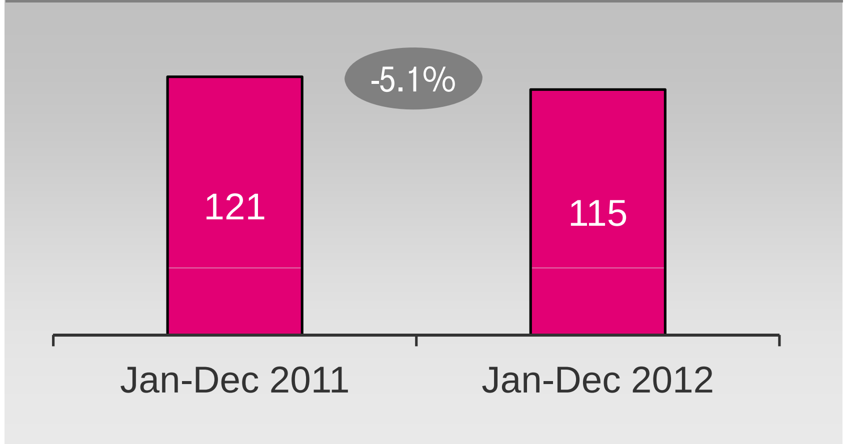
(1) Source: published VIPnet report for Q4 2011 and Tele2 reports for Q4 2011 and Q4 2012. Number of VIPnet subscribers at Q4 2012 is internally estimated.
(2) In September 2011 definition of prepaid subscribers was changed in order to be aligned with HAKOM definition. Number of subscribers Jan-Dec 2011 as well as all respective KPIs were restated accordingly. Blended non-voice ARPU for Jan-Dec 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

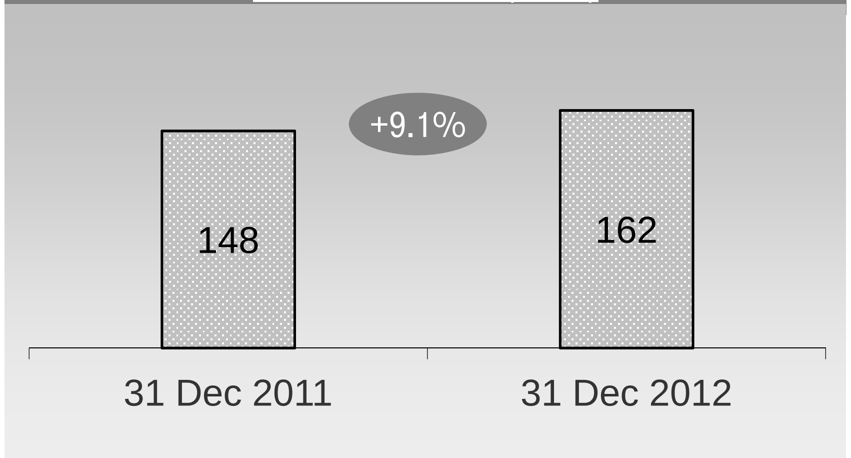
Number of mainlines ('000) (1)



ARPA (HRK) (2)



Number of ULL ('000)

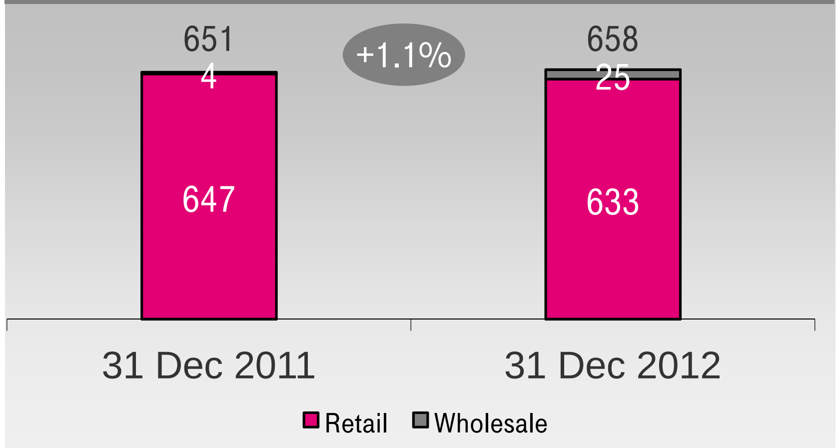


- Total traffic down 13.8% to 2,405 million minutes
- Successful win-back initiatives across the board reversed the trend and regained customers; significantly decreased WLR numbers in H2 2012, from 132,000 to 104,000

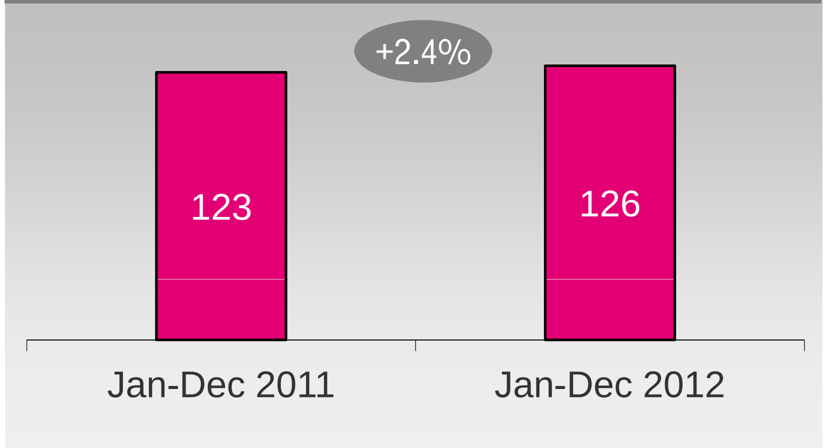
(1) Includes POTS + FGSM + ISDN. 2011 number restated according to the new definition; payphones excluded from total number of mainlines .
(2) Voice revenue per voice acces – monthly average for the period; 2011 number restated in line with new mainlines definition in 2012.

IP services

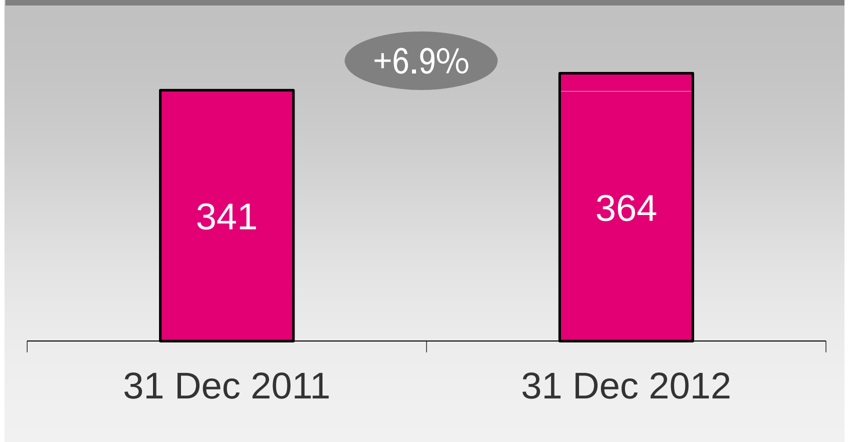
No. of broadband access lines ('000) (1)



Broadband retail ARPA (HRK) (2)



Number of TV customers ('000) (3)

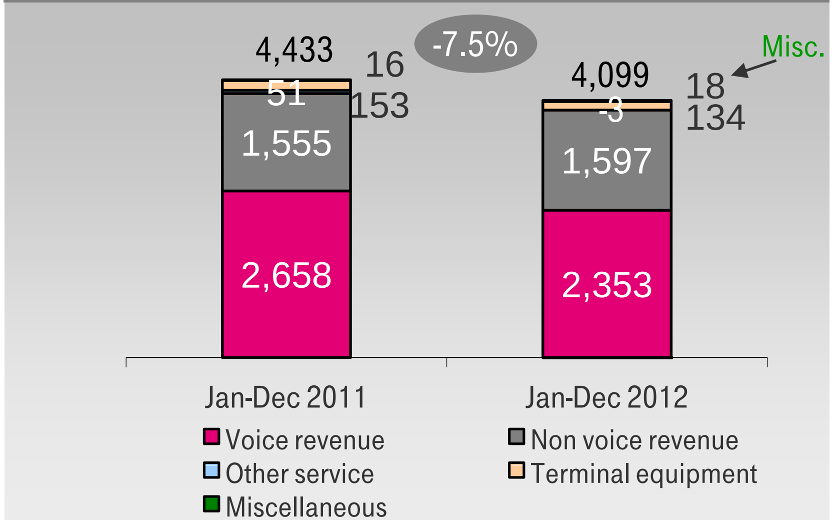


- Number of retail broadband lines impacted by wholesale bitstream offer and regulatory measures introduced in Q1 2012
- MAXtv exclusive content as differentiator: MAXtv HNL Croatian football league, Champions League, Europa League
- T-HT leader in IP transformation; almost 30% of retail customer migrated by end of 2012

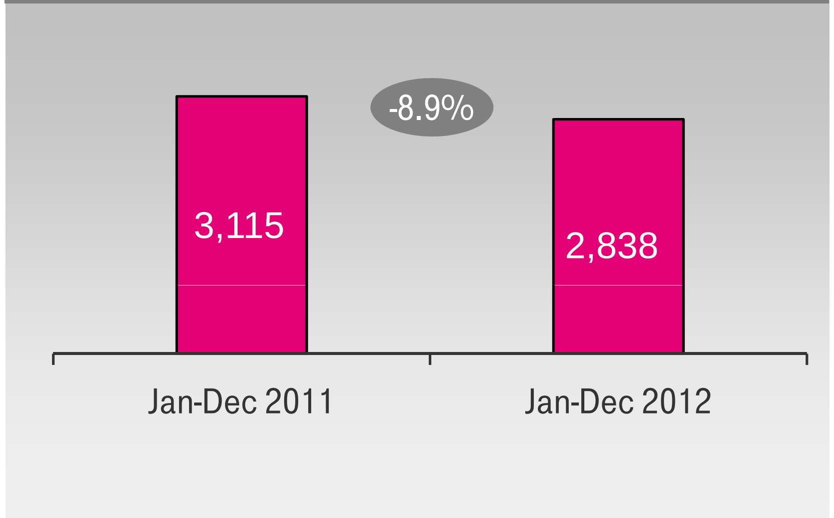
(1) Including Iskon ADSL mainlines
(2) Monthly average for the period; 2011 restated due to subsequent split of revenues from internet bundle packages to ADSL and IPTV
(3) Including Iskon IPTV customers, DTH and Cable TV customers

Residential segment

Revenue breakdown (1) (HRK million)



Contribution to EBITDA (1)(2) (HRK million)

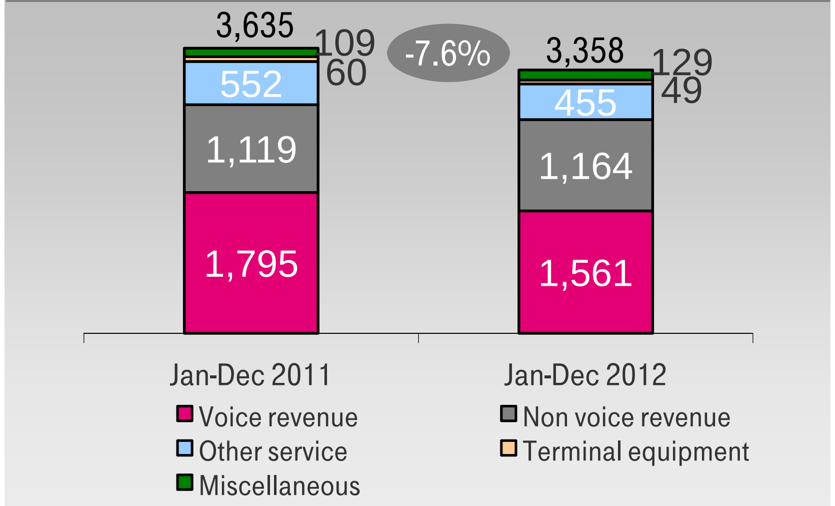


- Revenue down mainly as a result of lower voice revenue in both fixed and mobile; general declining trend in fixed, further economic deterioration and competitive pressures
- Non-voice revenue increased 2.7% due to higher fixed IP revenue and higher mobile data revenue
- Terminal equipment revenue lower due to reduced mobile acquisition campaigns compared to previous year
- MAX3 bundled packages promotions in fixed
- MAXtv TO GO service launched, for use on smartphones and tablets
- Promotion of mobile internet tariffs based on 4G network, network expanded beyond major cities
- Visitors offered "All inclusive package" that includes flat internet via HT Hot Spots

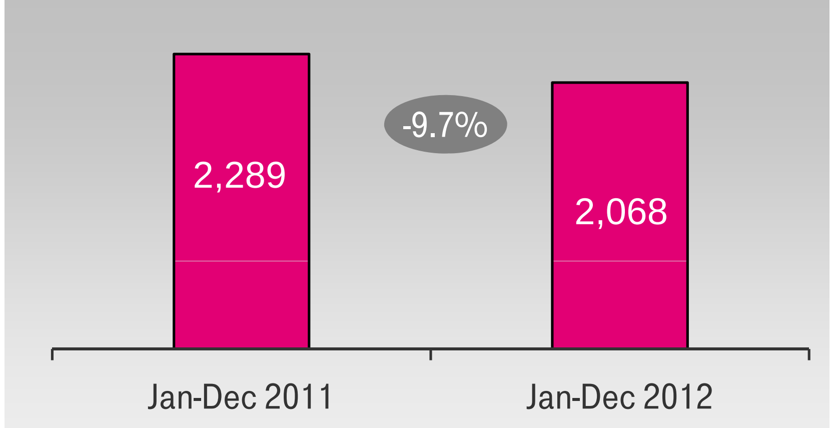
1) Revenue structure and Contribution to EBITDA restated for 2011 results to be in line with segment reporting in 2012 (mobile usage bundle allocation from other service revenue to voice and non voice revenue and allocation of consolidation items on Group level between segments)
2) EBITDA before exceptional items

Business segment

Revenue breakdown (1) (HRK million)



Contribution to EBITDA (1)(2)(HRK million)



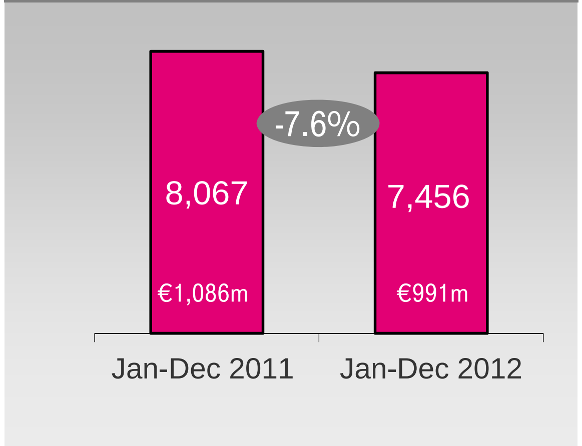
- Voice revenue down mainly due to lower fixed retail revenue following 21.5% decline in total minutes; fall also seen in wholesale fixed revenue, as well as in mobile retail and wholesale
- Non-voice revenue increased primarily due to higher fixed infrastructure revenue (WLR, ULL and BSA) as well as mobile retail revenue
- Other service revenue down mainly due to different mobile tariff structures and lower ICT revenue as a result of lower number of public sector projects and prolonged recession
- Convergent offers: packages including fixed, mobile and ICT services introduced in May
- Further development of Cloud services and launch of ICT market place

1) Revenue structure and Contribution to EBITDA restated for 2011 results to be in line with segment reporting in 2012 (mobile usage bundle allocation from other service revenue to voice and non voice revenue and miscellaneous to other service revenues and allocation of consolidation items on Group level between segments)
2) EBITDA before exceptional items

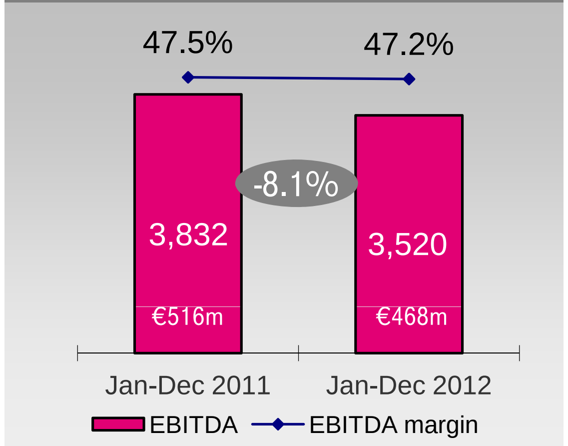
Financial highlights

all in HRK million, except where stated differently

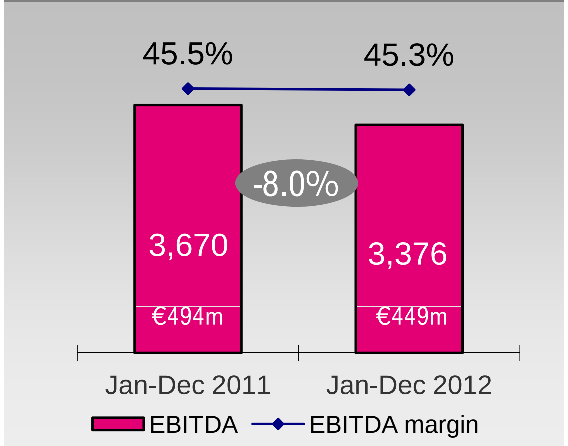
Revenue(1)



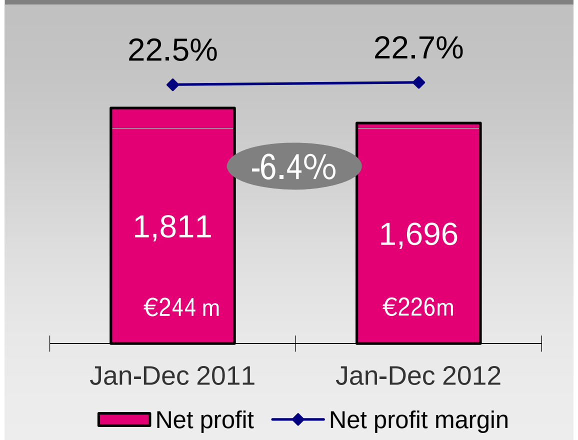
EBITDA before except. items(2)



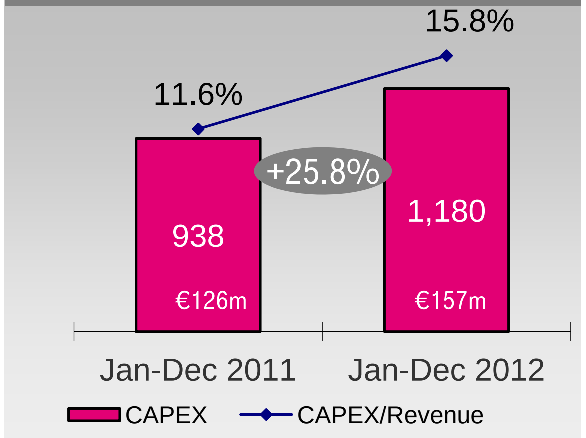
EBITDA



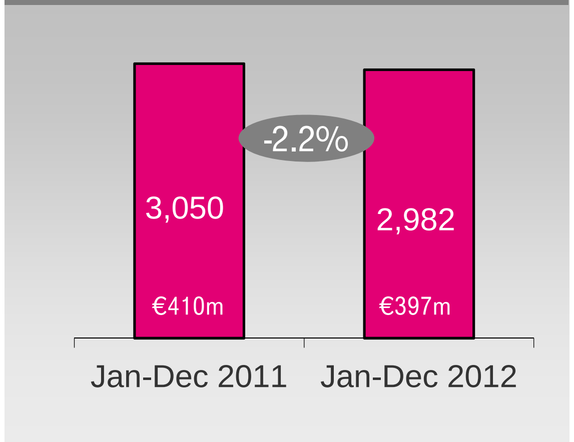
Net profit



CAPEX(3)



Net cash flow from operations



(1) Excluding other operating income
(2) Exceptional items in 2012 refer to redundancy provisions totalling HRK 144 million. Exceptional items in 2011 refer to redundancy provisions totalling HRK 162 million
(3) Including investment in spectrum licence of HRK 150 million in Q4 2012

- HRK per Euro average rate of exchange: Jan – Dec 2011: 7.43; Jan – Dec 2012: 7.52

Group 2013 Outlook

Revenue

Last year brought no recovery in the national economy; the recession persisted with GDP forecasts for 2012 at -1.8% and for 2013 at -0.2%. Unemployment and business payment arrears remained at high levels, public debt increased and industrial production declined further. Telecommunication spending in the residential and corporate sector has also tightened.

Competitive pressure and a stringent regulatory regime continue to exert pressure on the Group's business, whilst Croatia's entry to the European Union on 1 July 2013 is expected to have an additional negative impact on revenue.

In light of this tough economic environment, the Group's revenue will decline further in 2013. However, we expect our efforts to capitalise on certain areas of growth will help to slow the decline in Group revenue seen last year.

EBITDA before exceptional items

The economic environment and revenue trend outlined above will impact EBITDA accordingly. However, the EBITDA margin for 2013 is anticipated to remain robust at between 43% and 45%, supported by continuing cost management initiatives.

CAPEX

T-HT will focus its investment in 2013 on new service concepts, IP transformation and the development of mobile broadband, whilst the regulatory framework for planned fiber investments remains unfavourable. Excluding investment in the spectrum licence in 2012, capex in 2013 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 – Dec 2012

Consolidated income statement

in HRK million (IFRS)	Jan-Dec 2012	Jan-Dec 2011	% of change A12/A11
Mobile [1]	3,122	3,328	-6.2%
Fixed Telephony [2]	1,649	2,061	-20.0%
Wholesale	639	588	8.7%
IP Revenue	1,527	1,513	0.9%
Data [2]	114	126	-9.4%
ICT [1]	396	447	-11.3%
Miscellaneous	9	6	65.2%
Revenue	**7,456**	**8,067**	**-7.6%**
Other operating income [3]	259	204	26.7%
Total operating revenue	**7,715**	**8,272**	**-6.7%**
Operating expenses	**4,339**	**4,602**	**-5.7%**
Material expenses [3] [4]	1,914	2,104	-9.0%
Merchandise, material and energy expenses	872	1,013	-13.9%
Services expenses	1,042	1,091	-4.5%
Employee benefits expenses [3]	1,208	1,283	-5.9%
Other expenses [3]	1,213	1,229	-1.4%
Work performed by the Group and capitalised	-84	-82	-3.3%
Write down of assets	89	67	33.4%
EBITDA	**3,376**	**3,670**	**-8.0%**
Depreciation and amortization [4]	1,326	1,448	-8.4%
EBIT	**2,050**	**2,222**	**-7.7%**
Financial income	77	83	-6.3%
Income/loss from investment in joint ventures	27	15	73.7%
Financial expenses [4]	63	65	-3.6%
Profit before taxes	**2,092**	**2,255**	**-7.2%**
Taxation	396	444	-10.7%
Net profit	**1,696**	**1,811**	**-6.4%**
Minority interest	0	0	-100.0%
Net profit after minority interest	**1,696**	**1,811**	**-6.4%**
Exceptional items	144	162	-11.1%
EBITDA before exceptional items	**3,520**	**3,832**	**-8.1%**

[1] Due to change in reporting to one-company view ICT revenue previously shown in mobile revenue is now reclassified to ICT revenue for all respective periods [2] Due to change in methodology of reporting, terminal equipment for data services is reclassified from fixed telephony to data for all respective periods [3] Other operating income, Material expenses, Employee benefits expenses and Other expenses restated for 2011 in order to reconcile the presentation to 2012 [4] Material expenses, Depreciation and amortization, as well as Financial expenses restated in 2011 due to change of accounting policy of content provider costs, influencing Group result

Consolidated balance sheet

in HRK million (IFRS)	At 31 Dec 2012	At 31 Dec 2011	% of change A12/A11
Intangible assets [1]	1,142	1,087	5.1%
Property, plant and equipment	5,734	5,953	-3.7%
Non-current financial assets	897	435	106.2%
Receivables	21	23	-8.8%
Deferred tax asset	65	52	25.3%
Total non-current assets	**7,858**	**7,549**	**4.1%**
Inventories	155	175	-11.3%
Receivables	1,219	1,307	-6.7%
Current financial assets	586	363	61.1%
Cash and cash equivalents	3,146	3,704	-15.1%
Prepayments and accrued income	148	125	18.5%
Total current assets	**5,254**	**5,675**	**-7.4%**
TOTAL ASSETS	**13,113**	**13,224**	**-0.8%**
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	-0.1%
Revaluation reserves	-1	-3	69.8%
Retained earnings	606	612	-0.9%
Net profit for the period	1,696	1,811	-6.4%
Non-controlling interest	0	1	-100.0%
Total issued capital and reserves	**10,899**	**11,019**	**-1.1%**
Provisions	227	271	-16.4%
Non-current liabilities [1][2]	52	51	1.6%
Total non-current liabilities	**279**	**322**	**-13.5%**
Current liabilities [1]	1,667	1,563	6.7%
Accrued expenses and deferred income [2]	122	151	-19.3%
Provisions for redundancy	146	169	-13.7%
Total current liabilities	**1,935**	**1,883**	**2.8%**
Total liabilities	**2,214**	**2,205**	**0.4%**
TOTAL EQUITY AND LIABILITIES	**13,113**	**13,224**	**-0.8%**

1) Due to change in accounting policy of content provider costs restated in 2011 made for Intangible assets, Non-current liabilities and Current liabilities
2) Non-current liabilities and Accrued expenses and deferred income restated for 2011 in order to reconcile the presentation to 2012

T-HT Group Jan – Dec 2012

Consolidated cash flow statement

in HRK million (IFRS)	Jan-Dec 2012	Jan-Dec 2011	*% of change A12/A11*
Profit before tax	2,092	2,255	*-7.2%*
Depreciation and amortization	1,326	1,448	*-8.4%*
Increase / decrease of current liabilities	105	-347	*130.2%*
Increase / decrease of current receivables	83	65	*27.9%*
Increase / decrease of inventories	20	41	*-51.5%*
Other cash flow decreases	-644	-412	*-56.2%*
Net cash inflow/outflow from operating activities	**2,982**	**3,050**	***-2.2%***
Proceeds from sale of non-current assets	64	3	
Proceeds from sale of non-current financial assets	2	74	*-97.2%*
Interest received	48	57	*-15.9%*
Dividend received	25	0	-
Other cash inflows from investing activities	1,441	990	*45.6%*
Total increase of cash flow from investing activities	**1,581**	**1,125**	***40.6%***
Purchase of non-current assets	-1,180	-938	*-25.8%*
Purchase of non-current financial assets	-451	0	-
Other cash outflows from investing activities	-1,667	-944	*-76.5%*
Total decrease of cash flow from investing activities	**-3,298**	**-1,882**	*-75.2%*
Net cash inflow/outflow from investing activities	**-1,717**	**-758**	***-126.7%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	-6	-11	***49.9%***
Dividends paid	-1,813	-1,863	*2.7%*
Repayment of finance lease	-7	0	-
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	**-1,825**	**-1,874**	***2.6%***
Net cash inflow/outflow from financing activities	**-1,825**	**-1,874**	***2.6%***
Exchange gains/losses on cash and cash equivalents	3	4	*-23.7%*
Cash and cash equivalents at the beginning of period	3,704	3,282	*12.9%*
Net cash (outflow) / inflow	-558	422	*-232.1%*
Cash and cash equivalents at the end of period	**3,146**	**3,704**	***-15.1%***

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