

BUSINESS AND FINANCIAL REVIEW JANUARY – DECEMBER 2013

14 FEBRUARY 2014

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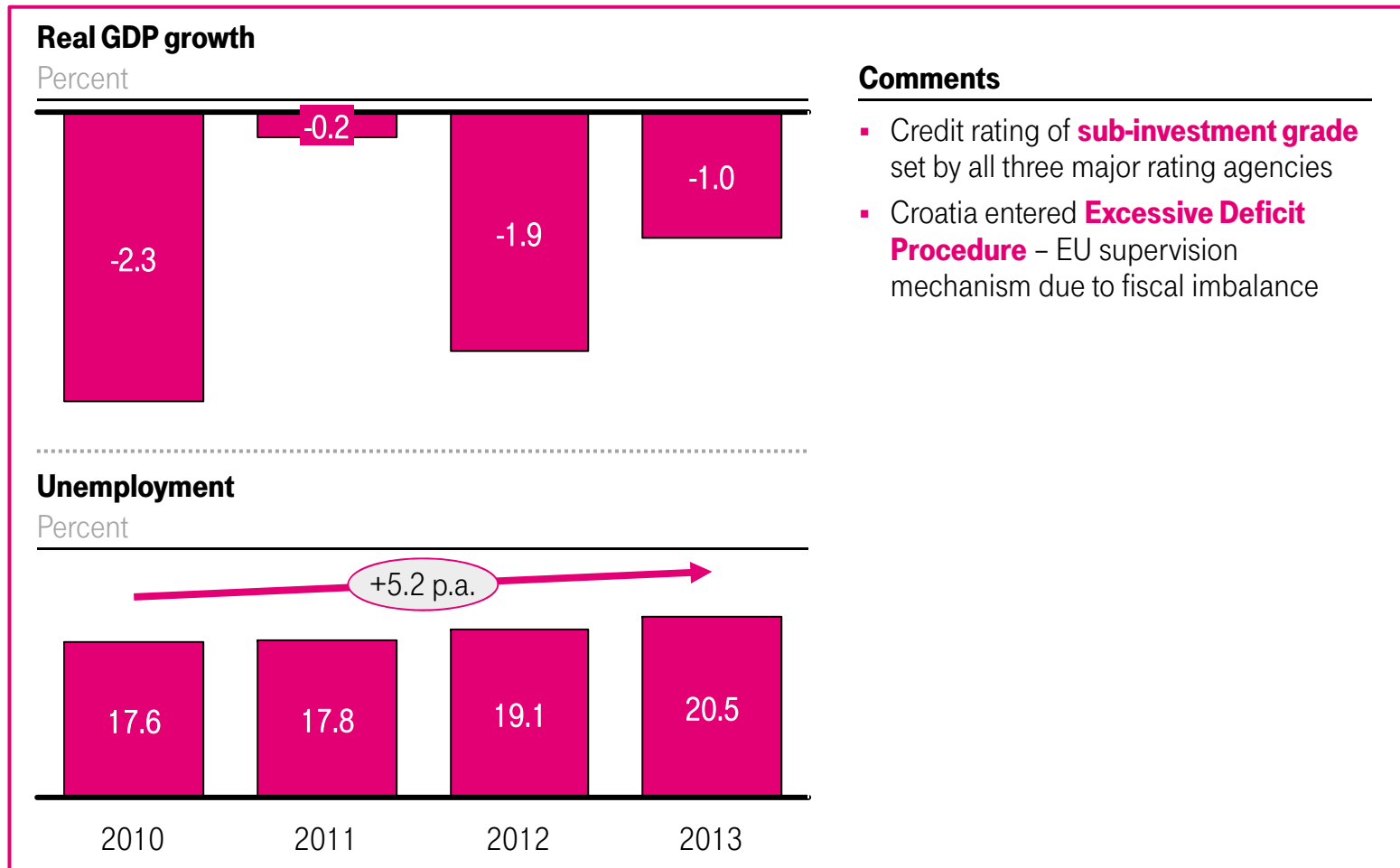
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Challenging environment due to prolonged recession in Croatia

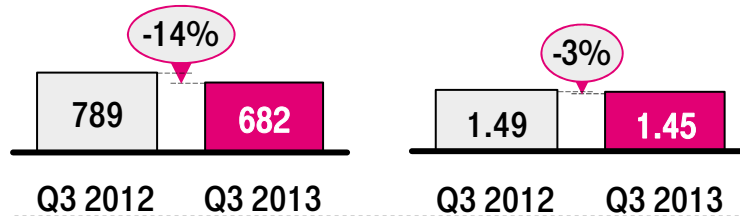


Fixed and mobile voice market in Croatia is shrinking...

○ Annual change

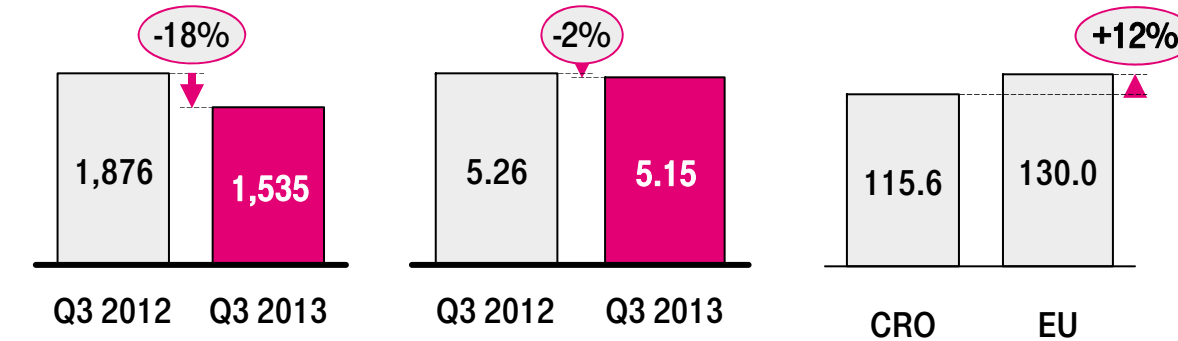
Revenue HRK million	Number of subscribers Million	Penetration %	Comments
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Fixed voice



- **13 active operators** in the market (incl. those providing fixed line over VOIP)
- **Minutes of use decreased by 17.7%** in Jan-Sep 2013

Mobile voice



- **3 active operators** in the market, 7 brands
- **Minutes of use increased by 24.8%** in Jan-Sep 2013
- **T-HT Smartphone penetration 32%** vs. 50% in Western Europe

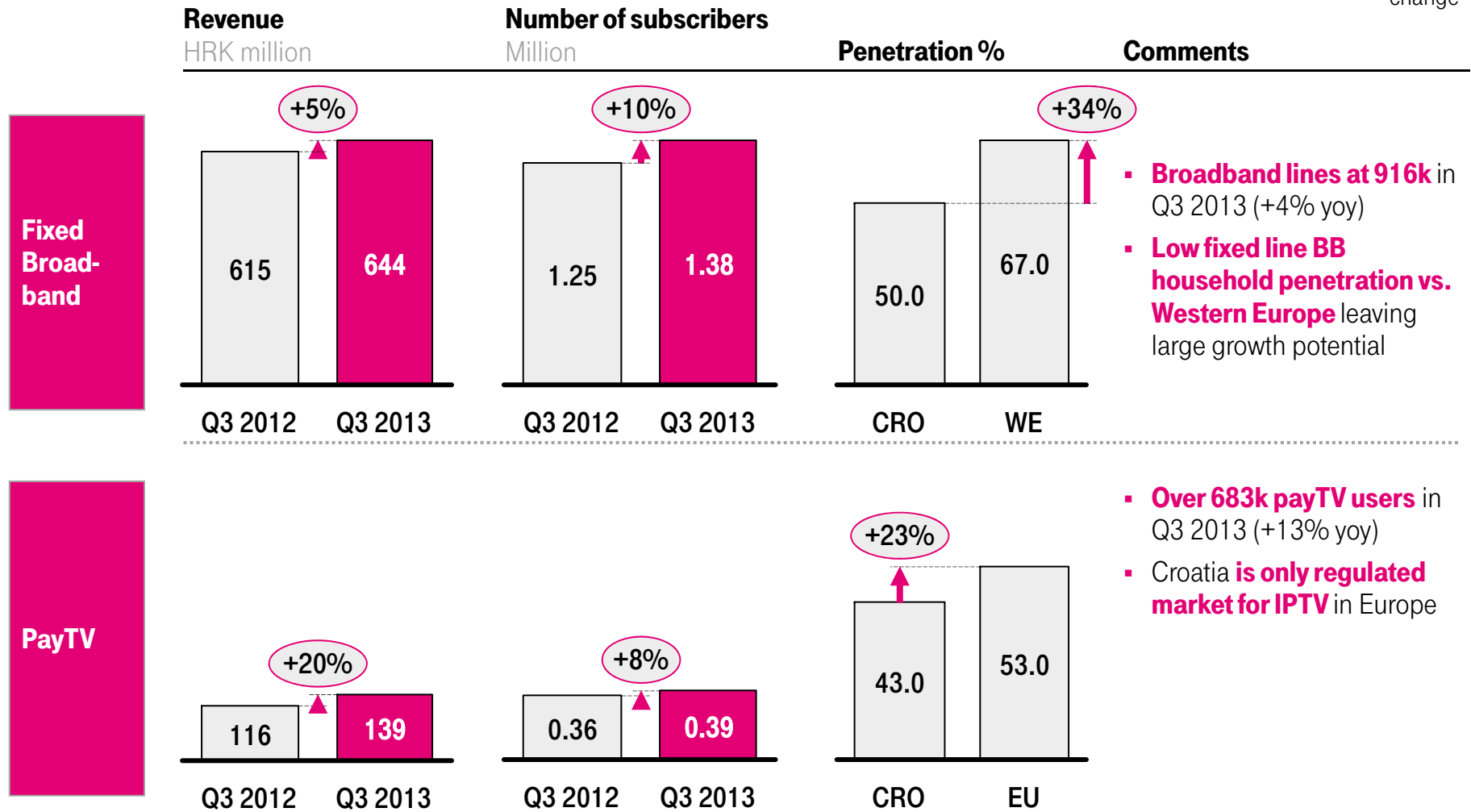
IT

- IT market declined by 3% impacted by continued recession, IT budget restrictions and business downsizing
- IT market's modest recovery expected in 2014 as a result of new investments funded by EU

SOURCE: HAKOM, EuroStat, World Bank, Analysys Mason, IDC Adriatics

...partly offset by growth in fixed Broadband and PayTV

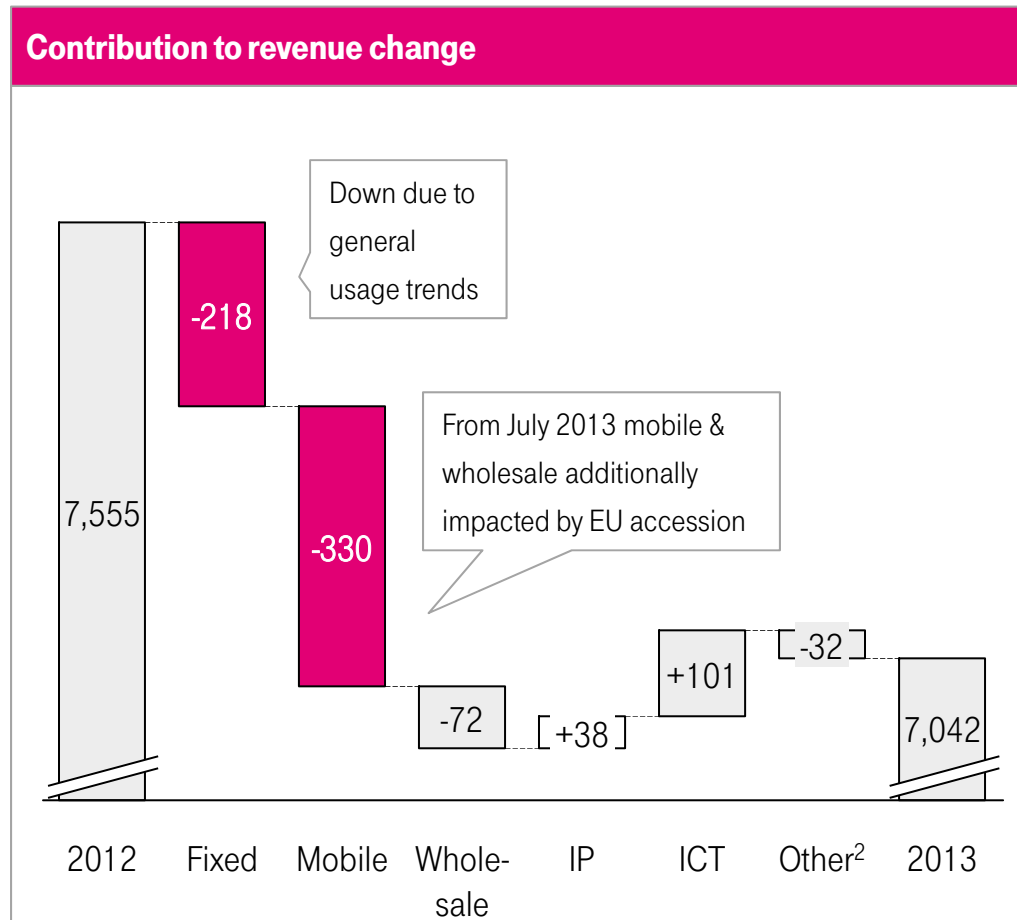
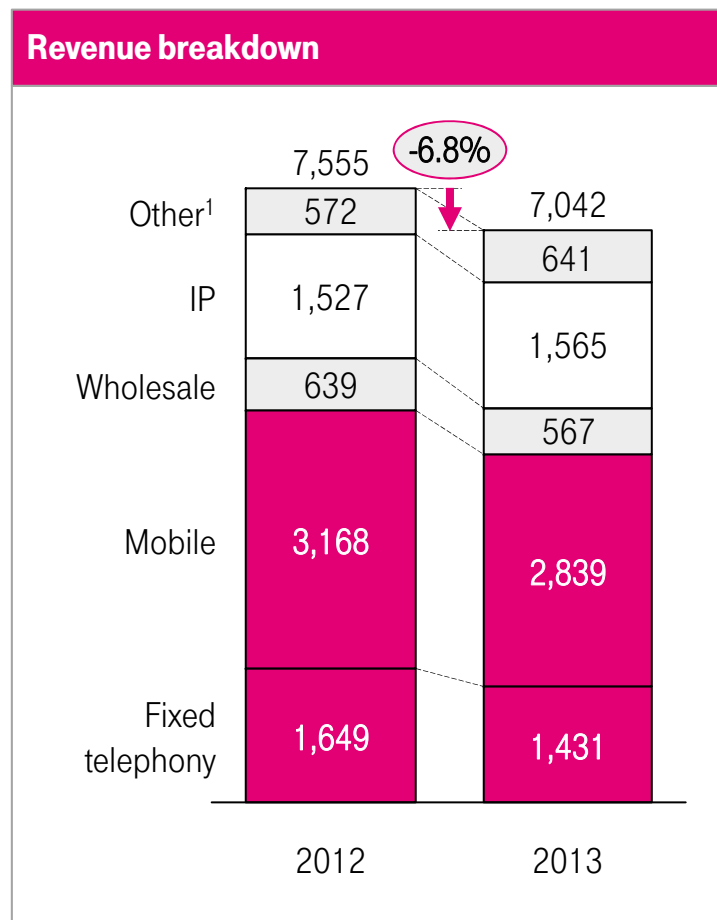
○ Annual change



SOURCE: HAKOM, EuroStat, World Bank, Analysys Mason

Decrease in revenue led by fixed and mobile services, partially offset by ICT

HRK million

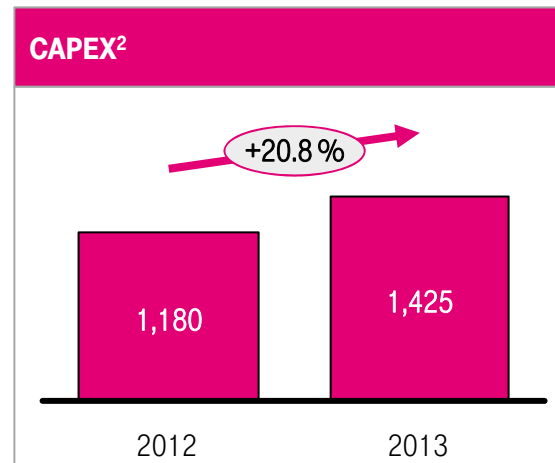
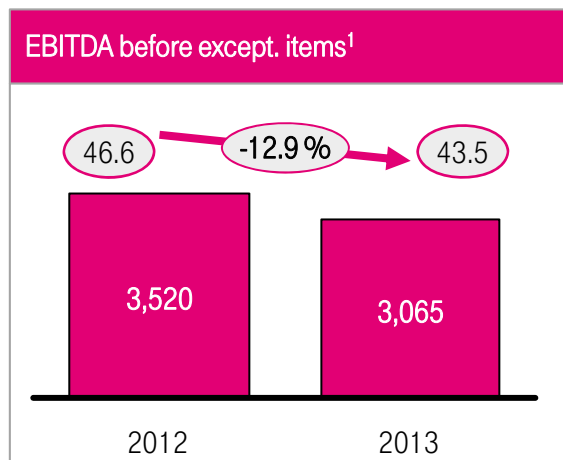


1 Data, ICT and miscellaneous
2 Data and miscellaneous revenue

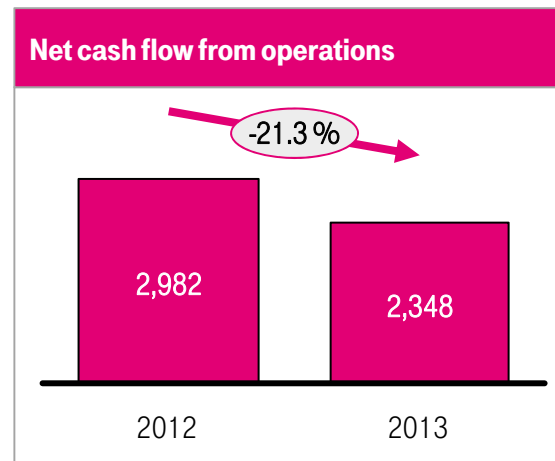
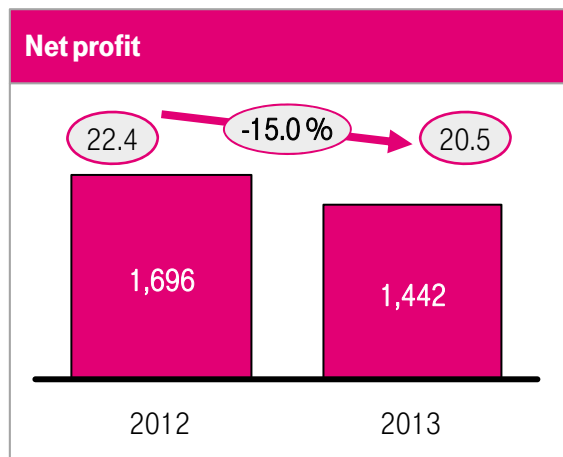
T-HT's financial results reflect market conditions

○ Margin %

All in HRK million, except where stated differently



- **Fall in profitability due to change in product mix** (increasing share in revenues of lower-margin products, such as ICT)

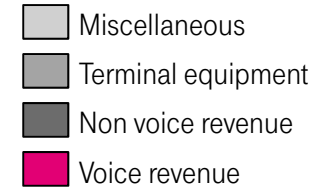


- **Cash flow decrease mainly reflects the decrease in net profit, adjusted for tax shields** (net profit decreased less due to tax shield)

¹ Exceptional items in 2013 refer to redundancy provisions totaling HRK 66 million. Exceptional items in 2012 refer to redundancy provisions totaling HRK 144 million.

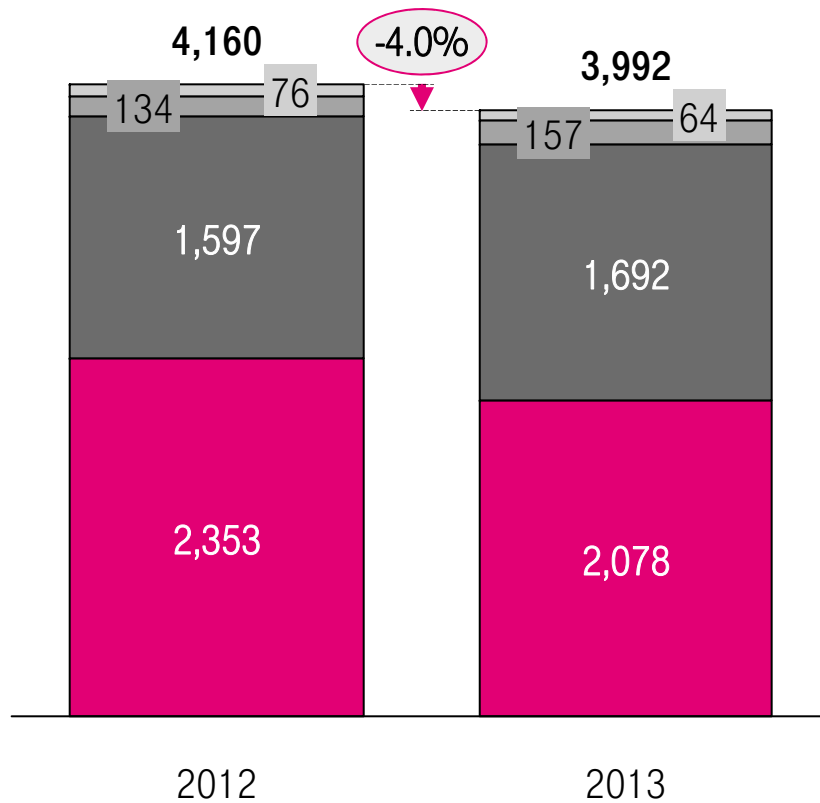
² Including investment in spectrum license: HRK 149 million in 2013 and HRK 150 million 2012

In residential segment, decrease in voice partially offset by increase in non-voice



Revenue break-down

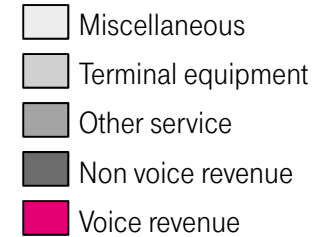
HRK million



Comments

- Revenue down mainly as a result of **11.7% lower voice revenue**, in both fixed and mobile
- Non-voice revenue increased 6.0%** due to higher fixed IP revenue (**broadband and TV**) and **higher mobile data revenue**
- Strong growth in **MAXtv Satellite; up 68.6%** yoy to 43,000 customers

In business segment, strong growth in ICT softened decrease in voice revenue



Revenue break-down¹

HRK million



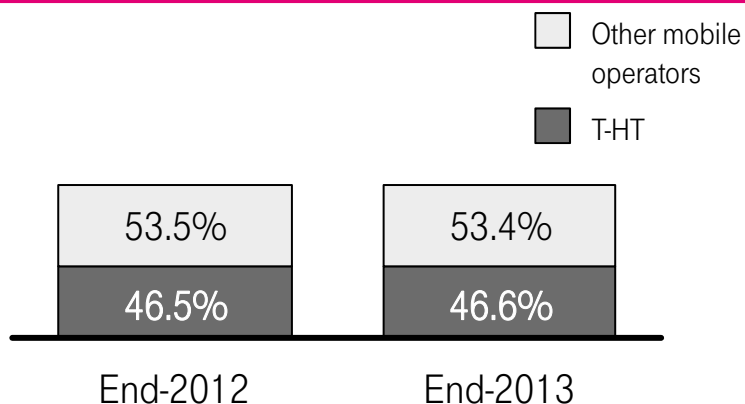
Comments

- **25.4% lower voice revenue**, in fixed and mobile, in both retail and wholesale
- **Non-voice revenue decreased 1.5%** - lower fixed data and wholesale revenues partly offset by revenue growth in mobile data
- Other service revenue up 20.6% due to **25.5% growth in ICT revenue**, in both HT and Combis

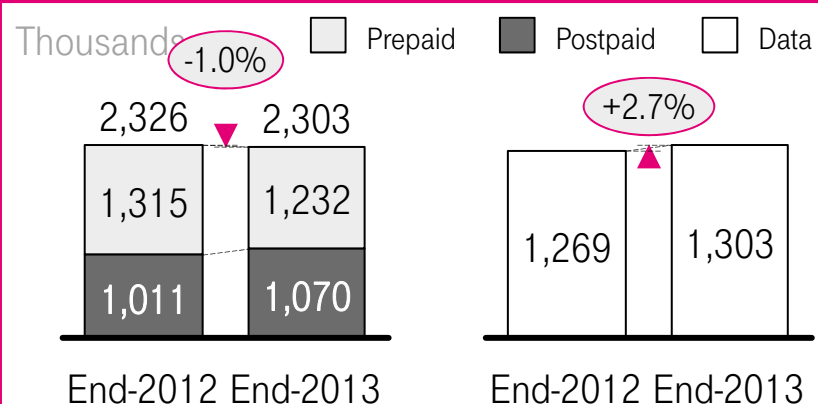
¹ Revenue structure restated for 2012 to be in line with segment reporting in 2013 (Iskon contribution to Group interconnection revenue reclassified from non-voice to voice revenue).

T-HT maintained market share in mobile

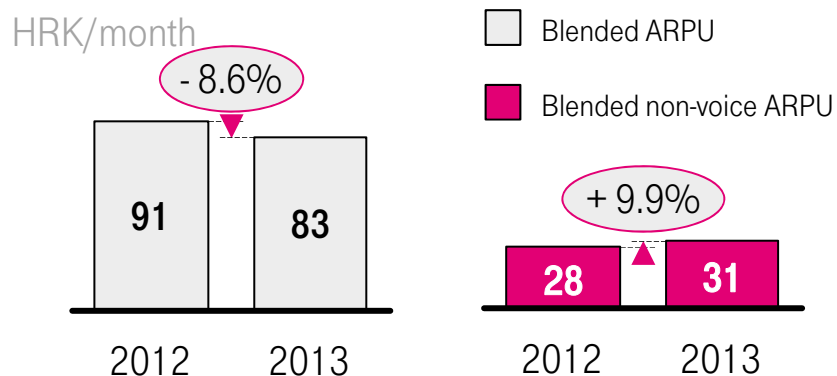
Market share by subscribers¹



Number of subscribers



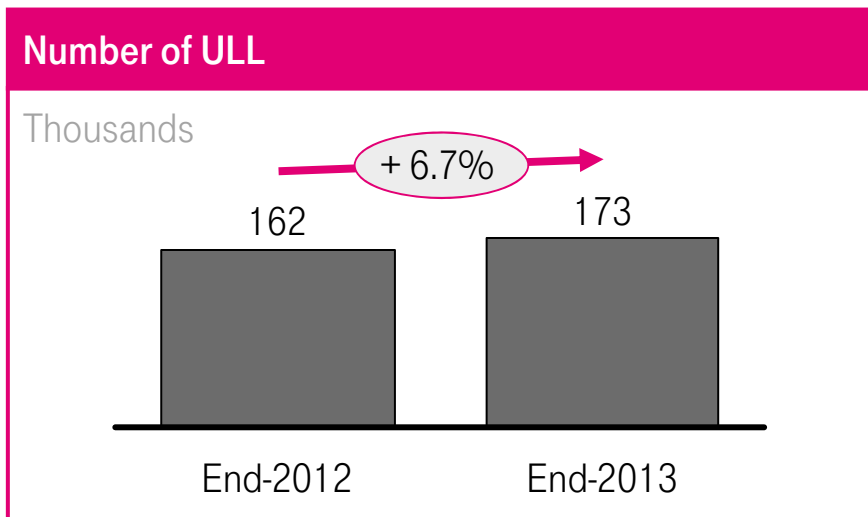
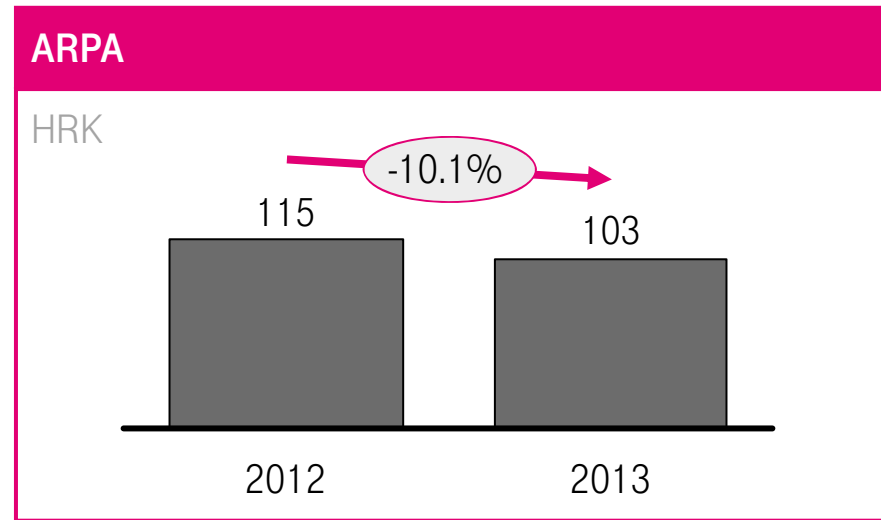
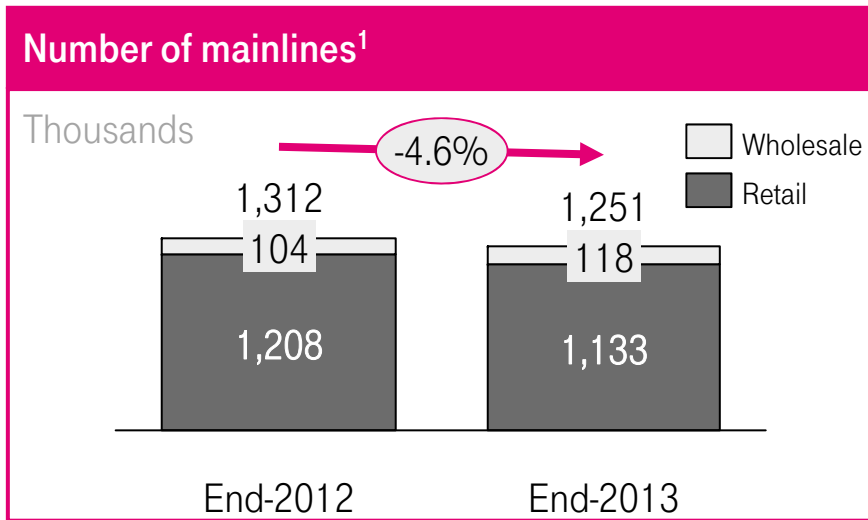
ARPU



- Average MOU (minutes of use) up 19.2% to 174
- Smartphone proportion of total handset sales at 60% in postpaid segment
- National mobile termination rate of 12.8 lp/min valid from 1 Jan 2014 to be decreased further as of 1 Jan 2015 to 6.3 lp/min

¹ Source: VIPnet quarterly report for Q4 2012 and Tele2 quarterly report for Q4 2012 and Q4 2013. Number of subscribers for VIPnet and Tele2 for Q4 2013 are internally estimated

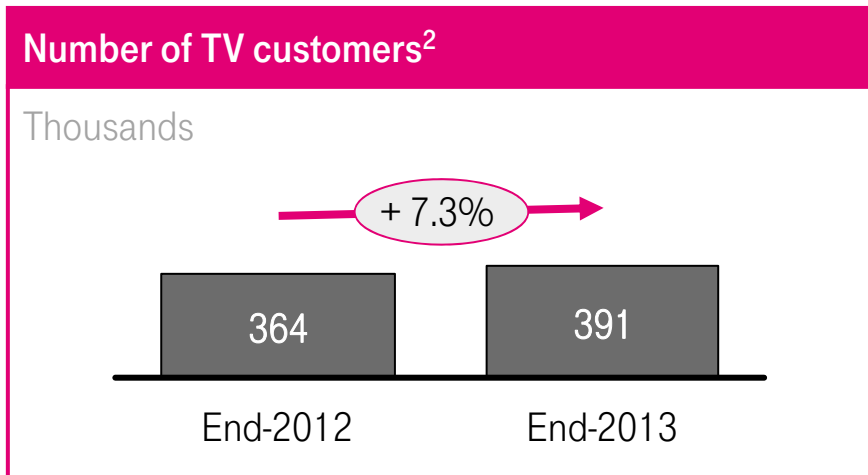
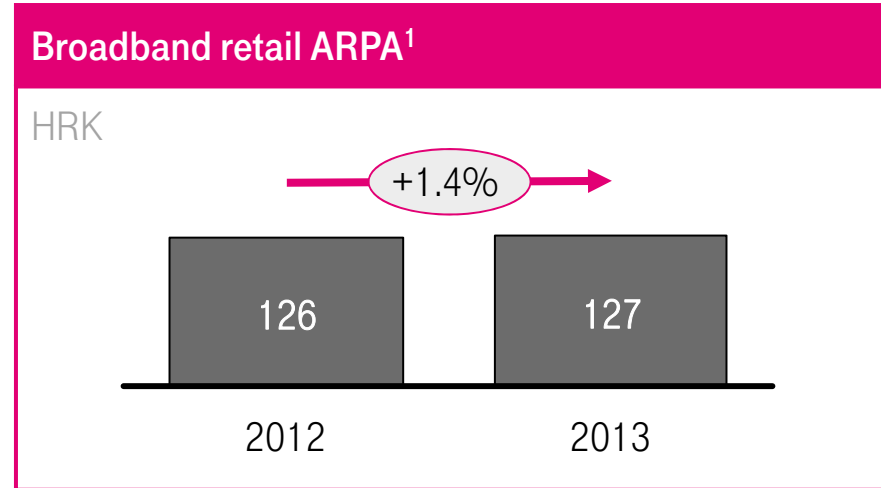
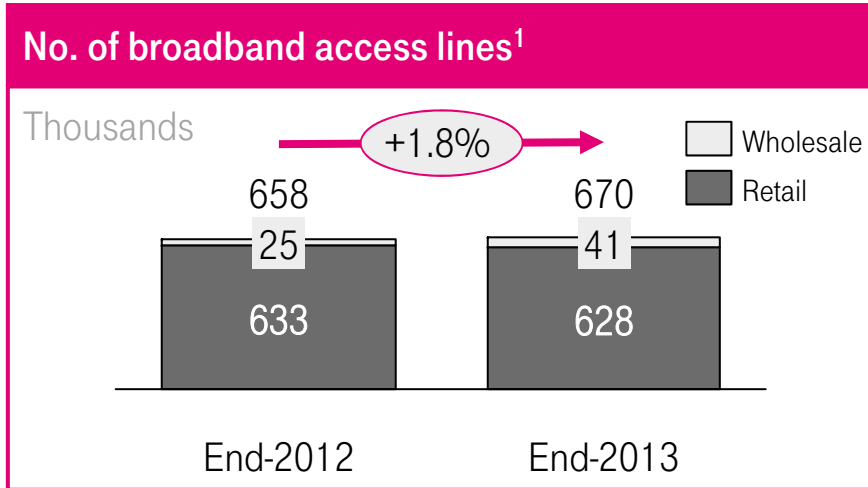
Number of fixed lines and ARPA decreased in 2013



- Substitution of fixed traffic with mobile and IP traffic; total traffic down 18.0% to 1,967 million minutes
- Growth in ULL slowing

¹ Includes PSTN, FGSM and IP Voice customers migrated to IP platform; Payphones excluded

Number of BB and TV customers continues to grow



- MaxADSL “double speed” promotion launched in May in residential segment ; Poslovni Ultra packages, based on FttH technology, launched in business segment
- T-HT leader in IP transformation; 38.5% of retail customers migrated

¹ Including Iskon ADSL mainlines
² Including Iskon IPTV customers, DTH and Cable TV customers

HT will retain 48.5% of 2013 net profit in order to intensify investments in infrastructure and regional expansion

- HT will **pay 51.5% of 2013 net profit** (HRK 737 million) **to shareholders** via dividend, or **HRK 9 per share**
- HT will **re-invest 48.5% of 2013 net profit** (HRK 694 million)
- Outlook for 2014
 - Slow declining trend in revenue
 - EBITDA margin before exceptional items between 39% and 41%
 - Investments: in order to **reverse the negative business trend, HT intends to invest over HRK 1 billion CAPEX** in 2014, specifically targeting:
 - **Infrastructure development** and improvement of service quality, especially in growing segments (Broadband, TV and Cloud services)
 - Increased **product offering in the region**
 - In parallel, HT is monitoring and evaluating **potential M&A opportunities**

Appendix

Consolidated income statement

HRK millions

	Jan-Dec 2013	Jan-Dec 2012	Percent of change 13/12	Oct-Dec 2013	Oct-Dec 2012	Percent of change 13/12
Mobile ¹	2,839	3,168	-10.4%	712	763	-6.8%
Fixed Telephony	1,431	1,649	-13.2%	336	391	-14.2%
Wholesale	567	639	-11.3%	140	148	-5.4%
IP Revenue	1,565	1,527	2.5%	395	380	3.9%
Data	101	114	-11.6%	24	27	-13.5%
ICT	498	396	25.5%	195	131	48.8%
Miscellaneous ¹	43	62	-30.9%	36	53	-33.1%
Revenue	7,042	7,555	-6.8%	1,837	1,895	-3.1%
Other operating income ¹	137	160	-14.7%	5	5	7.3%
Total operating revenue	7,179	7,715	-7.0%	1,842	1,900	-3.0%
Operating expenses	4,181	4,339	-3.6%	992	1,190	-16.7%
Material expenses	1,898	1,914	-0.8%	484	513	-5.6%
Employee benefits expenses	1,114	1,208	-7.7%	243	368	-34.1%
Other expenses	1,205	1,213	-0.7%	314	332	-5.4%
Work performed by the Group and capitalized	-97	-84	-15.2%	-58	-29	-99.7%
Write down of assets	61	89	-31.2%	8	5	52.6%
EBITDA	2,998	3,376	-11.2%	850	710	19.8%
Depreciation and amortization	1,366	1,326	3.0%	408	351	16.3%
EBIT	1,632	2,050	-20.4%	443	359	23.3%
Financial income	48	77	-38.3%	10	14	-33.1%
Income/loss from investment in joint ventures	21	27	-23.5%	0	8	-96.5%
Financial expenses	71	63	13.3%	29	11	158.4%
Profit before taxes	1,629	2,092	-22.1%	424	370	14.5%
Taxation	188	396	-52.7%	-54	62	-186.2%
Net profit	1,442	1,696	-15.0%	478	308	55.3%
Minority interest	0	0	-	0	0	100.0%
Net profit after minority interest	1,442	1,696	-15.0%	478	308	55.3%
Exceptional items	66	144	-53.9%	0	144	-100.0%
EBITDA before exceptional items	3,065	3,520	-12.9%	850	854	-0.4%

¹ Revenue from dunning letters and default interests in 2013 presented in Revenue. Consequently, restatement from Other operating income to Mobile revenue (YE 2012 + HRK 46 million) and Miscellaneous (YE 2012 + HRK 53 million) for 2012

Consolidated balance sheet

HRK millions

	At Dec 31, 2013	At Dec 31, 2012	Percent of change 13/12
Intangible assets	1,358	1,142	18.8%
Property, plant and equipment	5,570	5,734	-2.8%
Non-current financial assets	594	897	-33.7%
Receivables	126	21	499.9%
Deferred tax asset	60	65	-8.1%
Total non-current assets	7,708	7,858	-1.9%
Inventories	115	155	-26.0%
Receivables	1,457	1,219	19.5%
Current financial assets	1,352	586	130.9%
Cash and cash equivalents	2,039	3,146	-35.2%
Prepayments and accrued income	149	148	0.5%
Total current assets	5,112	5,254	-2.7%
TOTAL ASSETS	12,820	13,113	-2.2%
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.0%
Revaluation reserves	-1	-1	-10.5%
Retained earnings	662	606	9.2%
Net profit for the period	1,442	1,696	-15.0%
Non-controlling interest	-	-	-
Total issued capital and reserves	10,700	10,899	-1.8%
Provisions	132	227	-41.6%
Non-current liabilities	142	52	171.3%
Deferred tax liability	2	0	-
Total non-current liabilities	276	279	-0.9%
Current liabilities	1,724	1,667	3.4%
Deferred income	120	122	-1.2%
Provisions for redundancy	0	146	-100.0%
Total current liabilities	1,844	1,935	-4.7%
Total liabilities	2,120	2,214	-4.2%
TOTAL EQUITY AND LIABILITIES	12,820	13,113	-2.2%

Consolidated cash flow statement

HRK millions

	Jan-Dec, 2013	Jan-Dec, 2012	Percent of change 13/ 12
Profit before tax	1,629	2,092	-22.1%
Depreciation and amortization	1,366	1,326	3.0%
Increase/decrease of current liabilities	55	105	-47.5%
Increase/decrease of current receivables	-56	83	-167.7%
Increase/decrease of inventories	40	20	103.2%
Other cash flow increases/decreases	-687	-644	-6.7%
Net cash inflow/outflow from operating activities	2,348	2,982	-21.3%
Proceeds from sale of non-current assets	70	64	10.0%
Proceeds from sale of non-current financial assets	2	2	-9.9%
Interest received	26	48	-47.1%
Dividend received	20	25	-17.3%
Other cash inflows from investing activities	702	1,441	-51.3%
Total increase of cash flow from investing activities	821	1,581	-48.1%
Purchase of non-current assets	-1,426	-1,180	-20.8%
Purchase of non-current financial assets	-75	-451	83.4%
Other cash outflows from investing activities	-1,090	-1,667	34.6%
Total decrease of cash flow from investing activities	-2,591	-3,298	21.4%
Net cash inflow/outflow from investing activities	-1,771	-1,717	-3.1%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-2	-6	69.9%
Dividends paid	-1,679	-1,813	7.4%
Repayment of finance lease	-5	-7	21.6%
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	-1,686	-1,825	7.6%
Net cash inflow/outflow from financing activities	-1,686	-1,825	7.6%
Exchange gains/losses on cash and cash equivalents	2	3	-33.7%
Cash and cash equivalents at the beginning of period	3,146	3,704	-15.1%
Net cash (outflow) / inflow	-1,107	-558	-98.4%
Cash and cash equivalents at the end of period	2,039	3,146	-35.2%

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Bloomberg: THTC LI, HTRA CZ