

BUSINESS AND FINANCIAL REVIEW JANUARY – MARCH 2014

ANALYST CONFERENCE CALL, APRIL 30, 2014

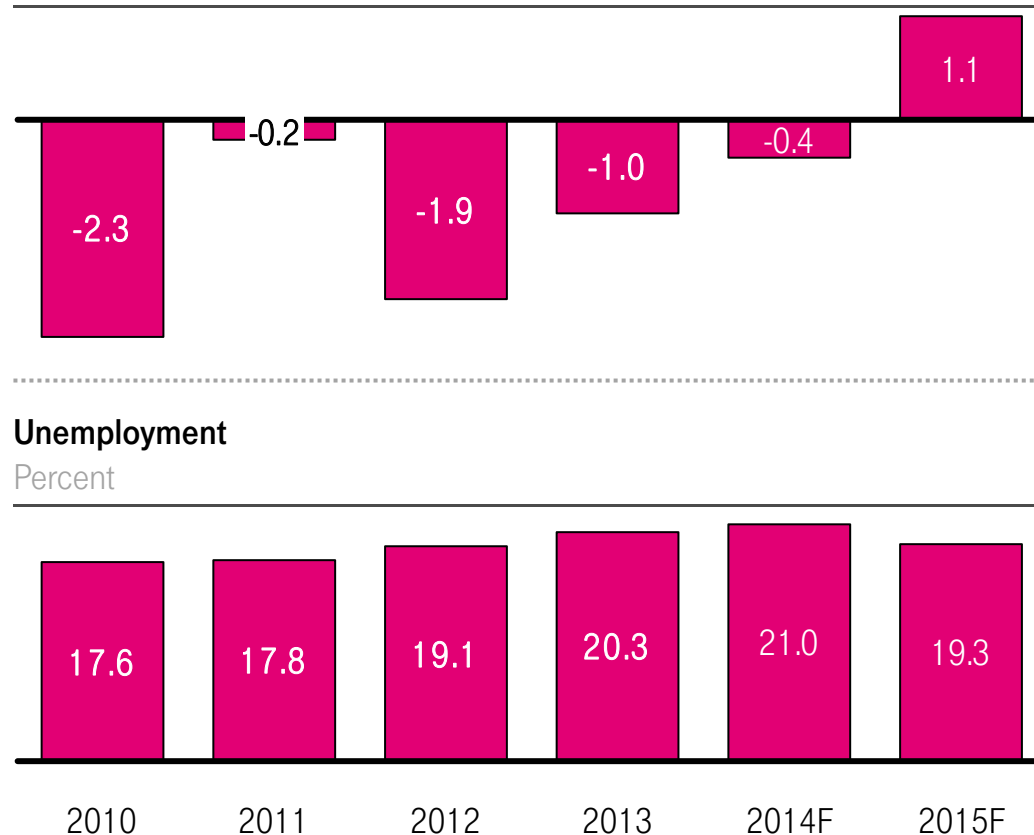
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CHALLENGING ENVIRONMENT DUE TO PROLONGED RECESSION IN CROATIA

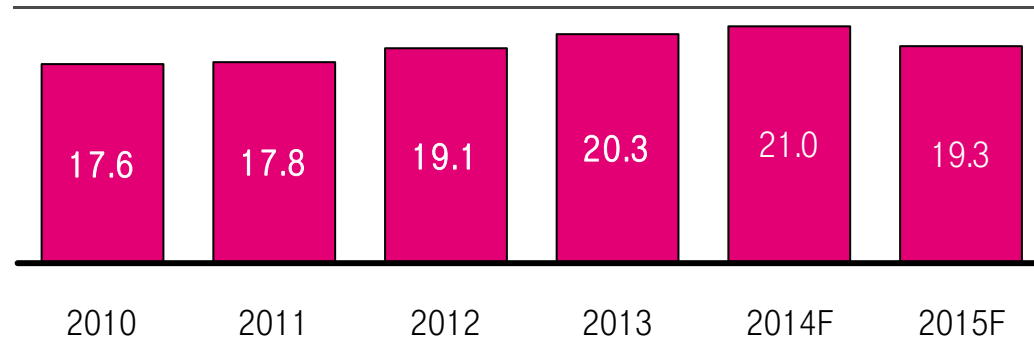
Real GDP growth

Percent



Unemployment

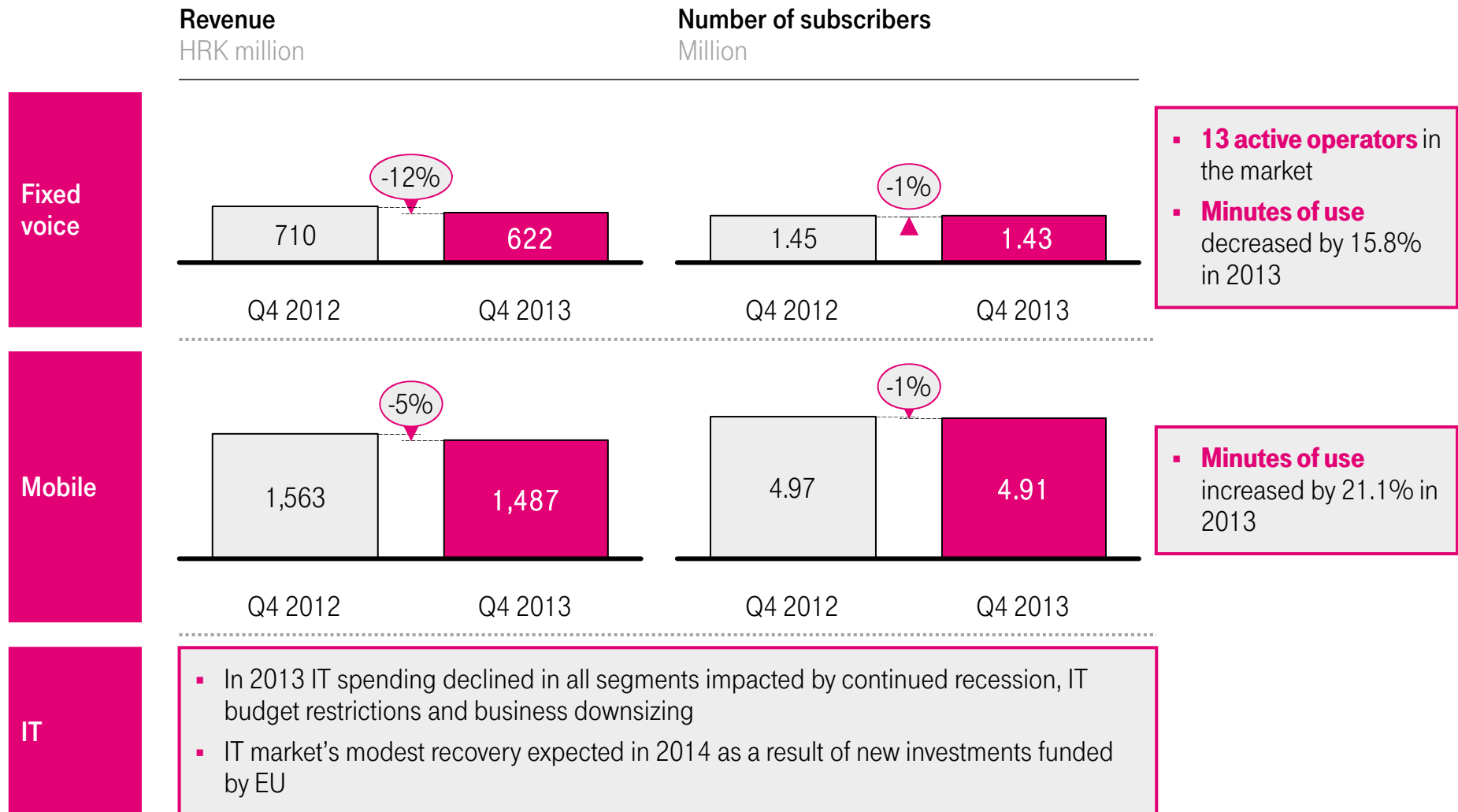
Percent



- 2014 forecast to be **6th consecutive year** with no real GDP growth
- Credit rating of **sub-investment grade** set by all three major rating agencies
- Croatia entered **Excessive Deficit Procedure** – EU supervision mechanism due to fiscal imbalance

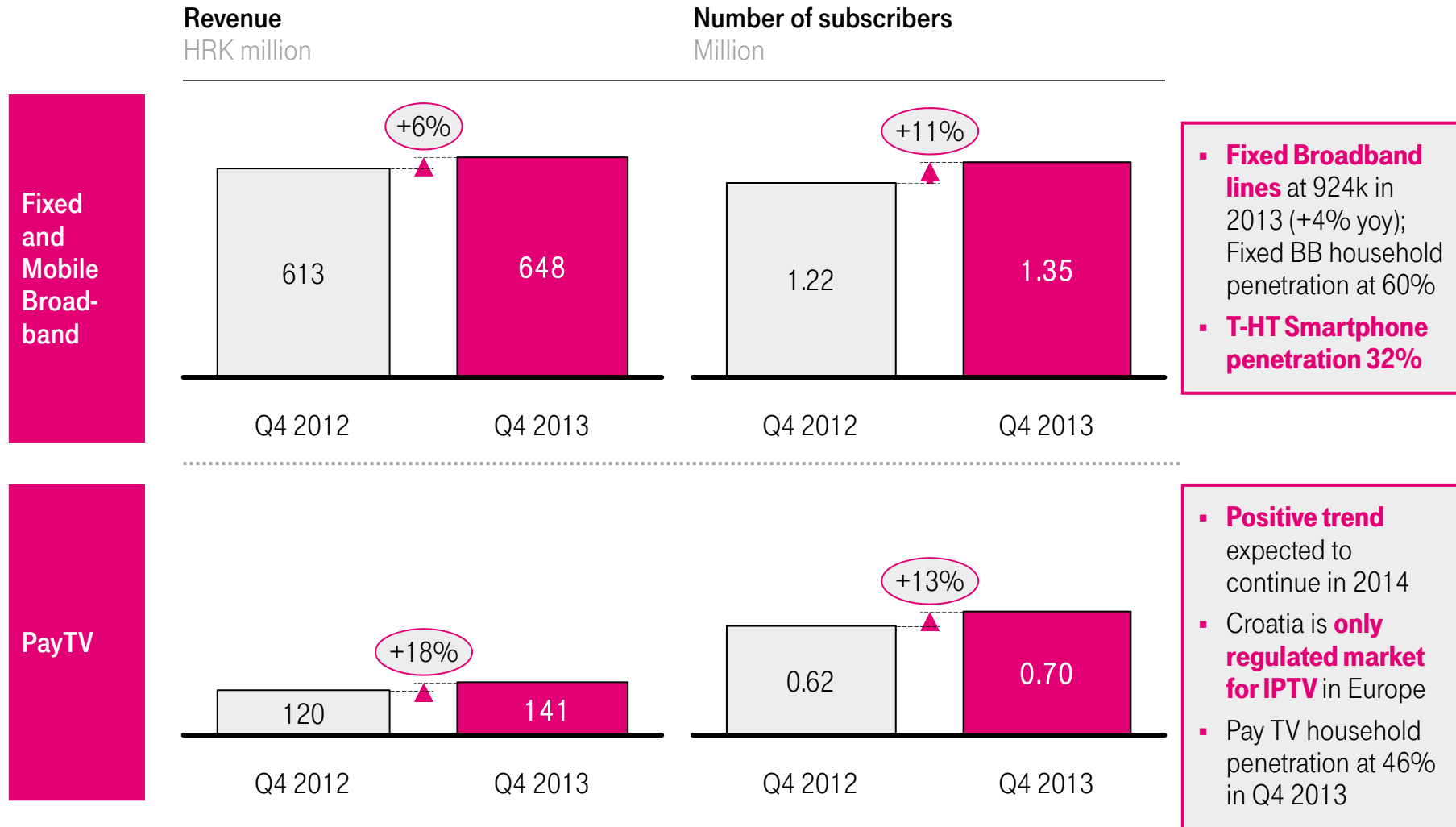
FIXED AND MOBILE VOICE MARKET IN CROATIA ARE SHRINKING...

○ Annual change

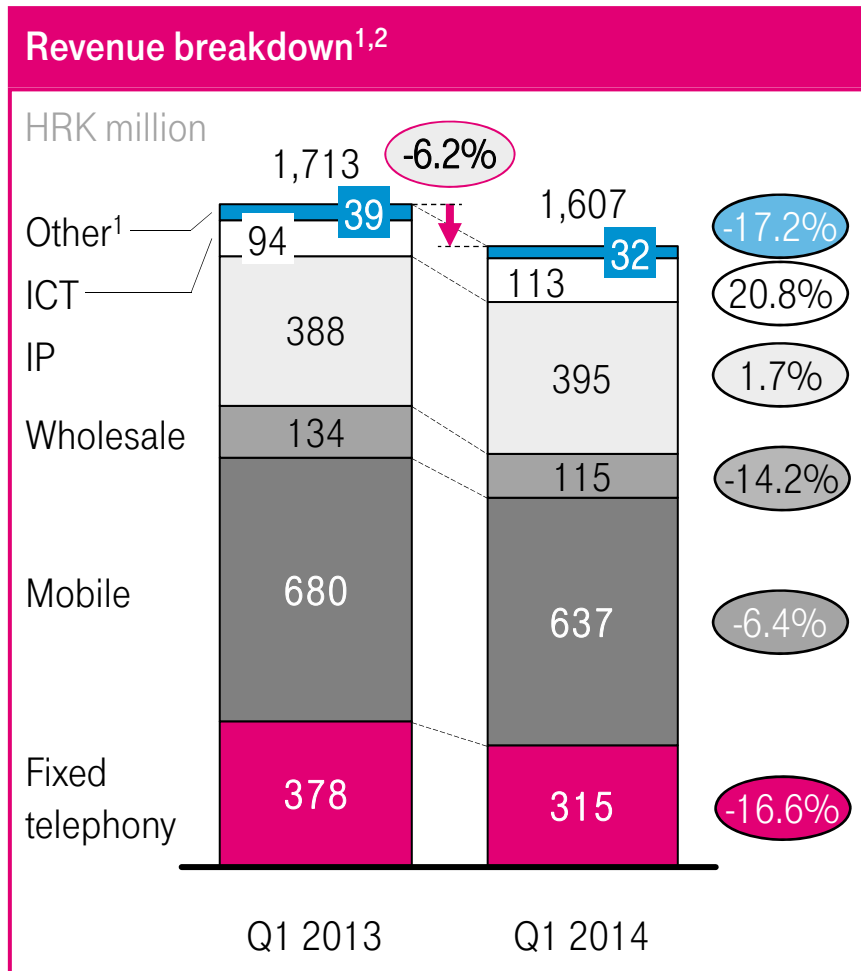


... PARTIALLY OFFSET BY GROWTH IN FIXED AND MOBILE BROADBAND AND PAYTV

○ Annual change



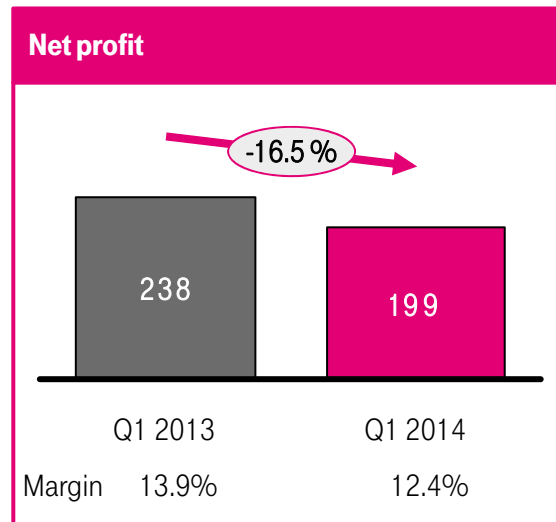
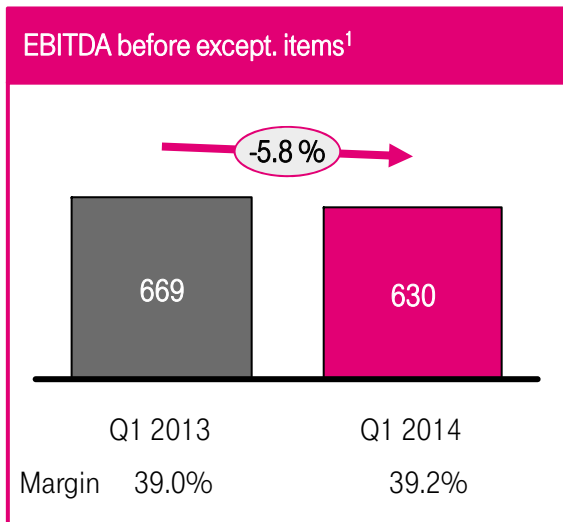
DECREASE IN T-HT REVENUE LED BY FIXED AND MOBILE SERVICES, PARTIALLY OFFSET BY ICT AND IP



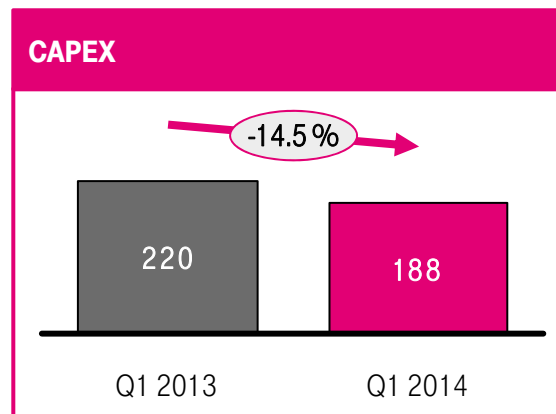
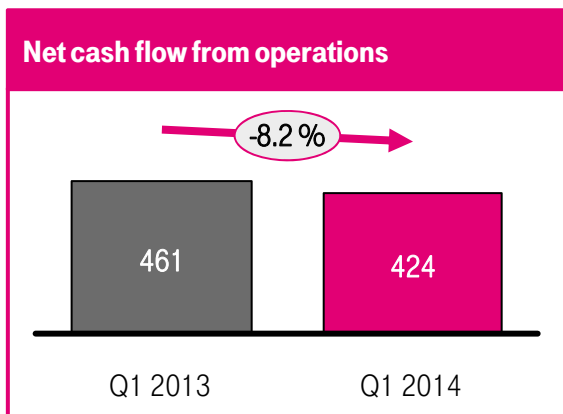
- **Fixed telephony down** due to general usage trends
- **Mobile revenue is under pressure** mostly from EU roaming regulation, cut in termination rates and flat rate tariff offers
- Lower hubbing traffic coupled with decline in termination rates **in wholesale partly offset** by higher infrastructure revenue (ULL, BSA and WLR)
- **IP: increase in TV revenue more than compensated for** lower broadband revenue
- **Strong growth in ICT** following successful Cloud and Hardware solutions as well as positive development in IT infrastructure area

T-HT'S FINANCIAL RESULTS ARE IN DECLINE COMPARED TO PREVIOUS YEAR

All in HRK million, except where stated differently



EBITDA: decrease in most major cost categories **partially offset revenue decline**

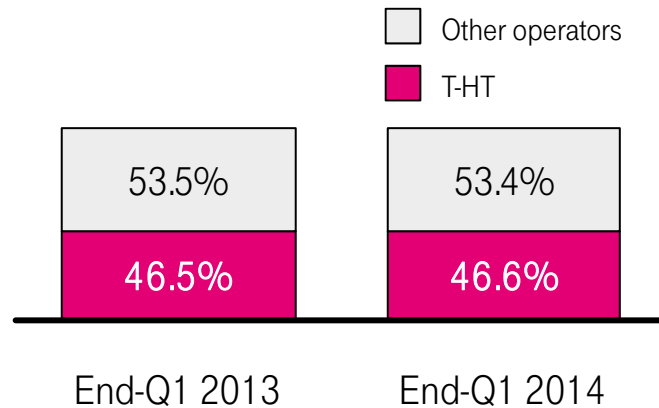


Capex lower **in the absence of one-off real estate investments** from Q1 2013

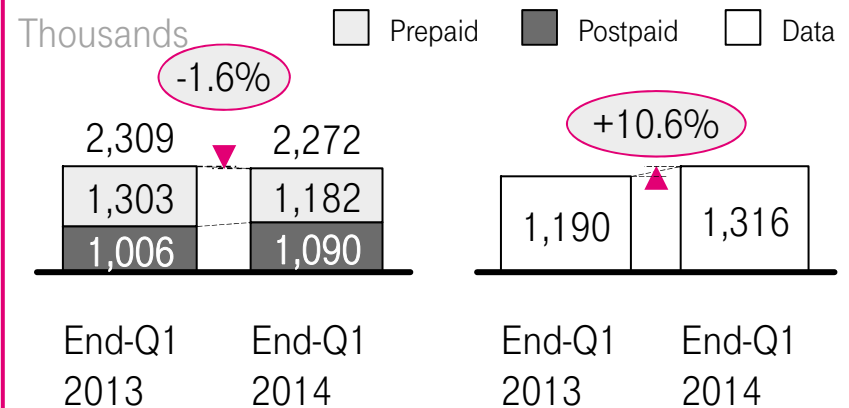
¹ Exceptional items in Q1 2014 refer to redundancy provisions totaling HRK 54 million. Exceptional items in Q1 2013 refer to redundancy provisions totaling HRK 60 million.

T-HT MAINTAINS MARKET SHARE IN MOBILE; POSTPAID SUBSCRIBERS UP 8.4%

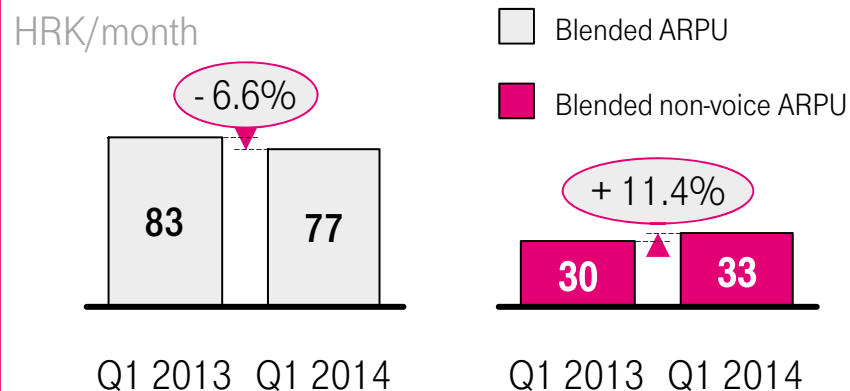
Market share by subscribers¹



Number of subscribers

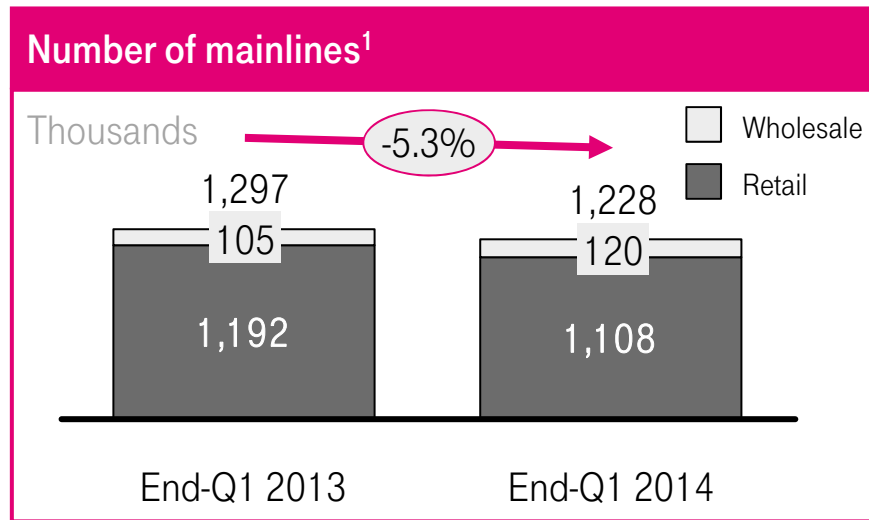


ARPU

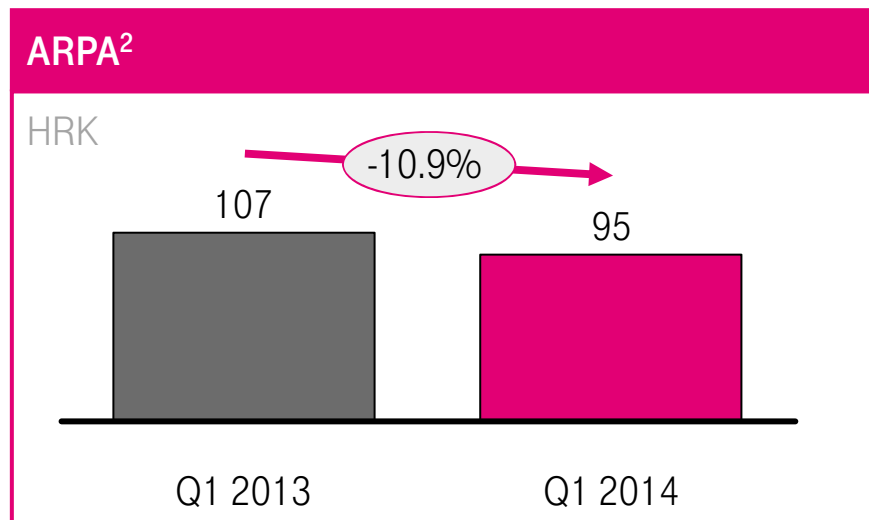


- **Average MOU** (minutes of use) up 10.3% to 179
- **Smartphone proportion** of total handset sales at 71% in postpaid segment
- **National mobile termination** rate of 12.8 lp/min valid from 1 Jan 2014 to be decreased further as of 1 Jan 2015 to 6.3 lp/min

NUMBER OF FIXED LINES AND ARPA DECREASED

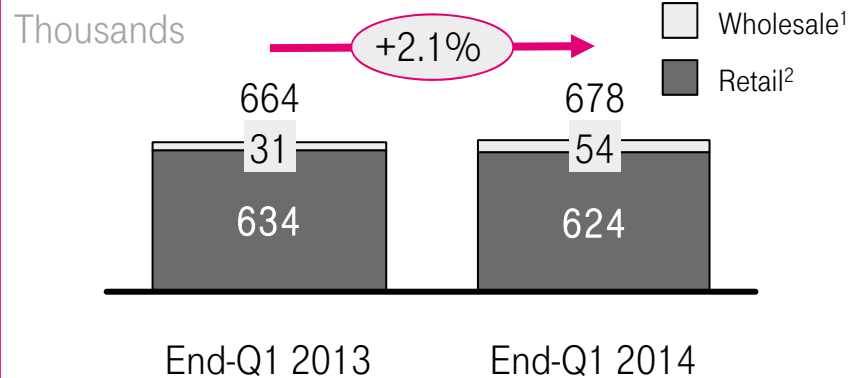


Substitution of fixed traffic with mobile and IP traffic; total traffic down 22.3% to 427 million minutes

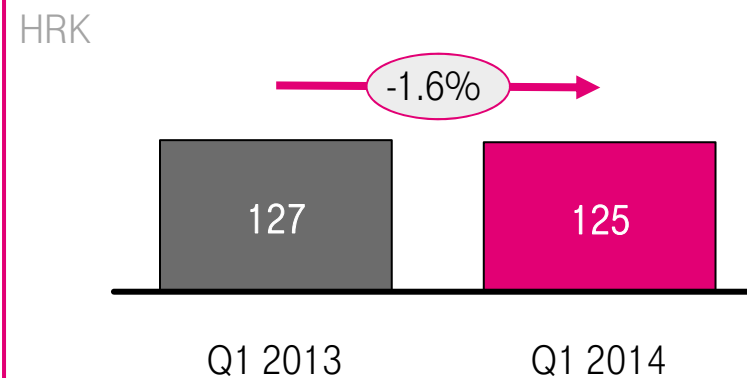


NUMBER OF BB AND TV CUSTOMERS CONTINUES TO GROW

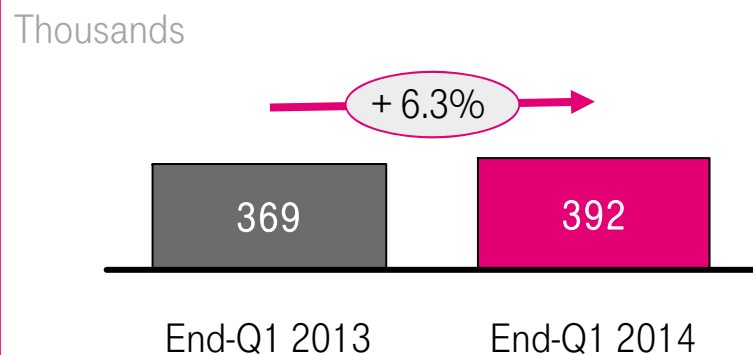
No. of broadband access lines



Broadband retail ARPA

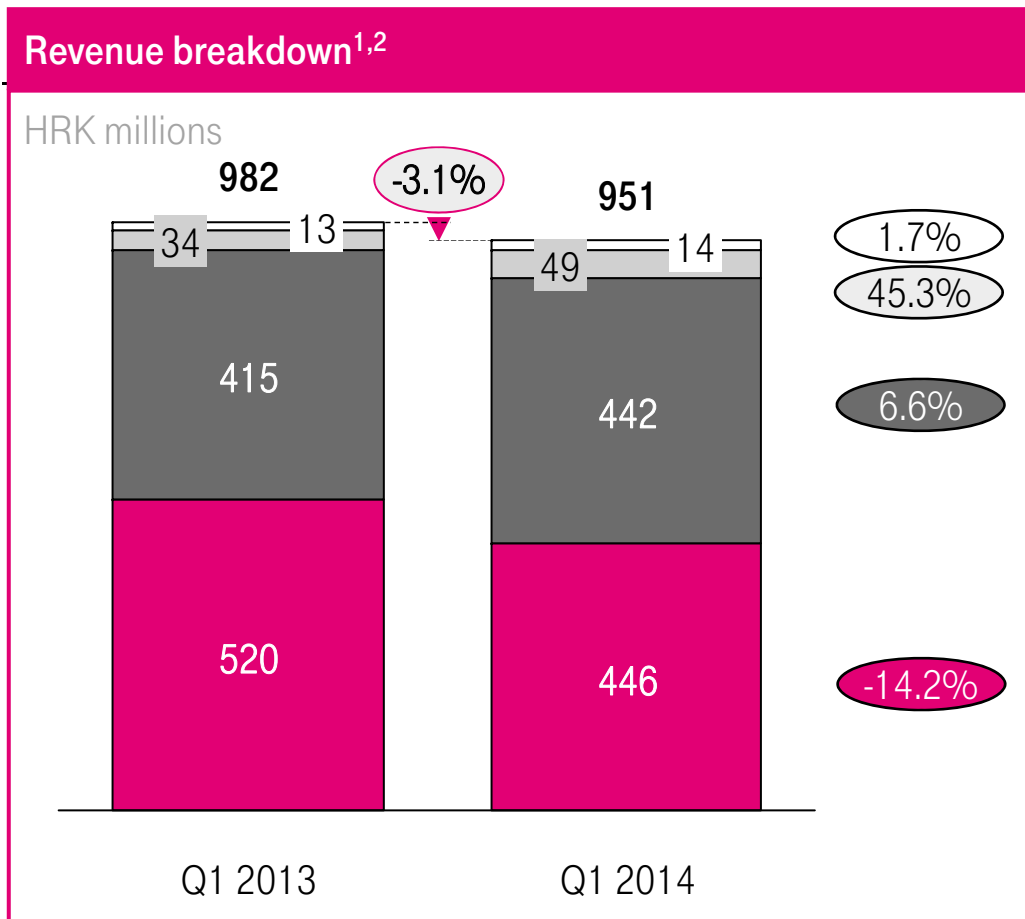
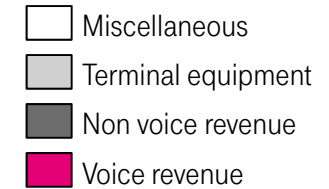


Number of TV customers



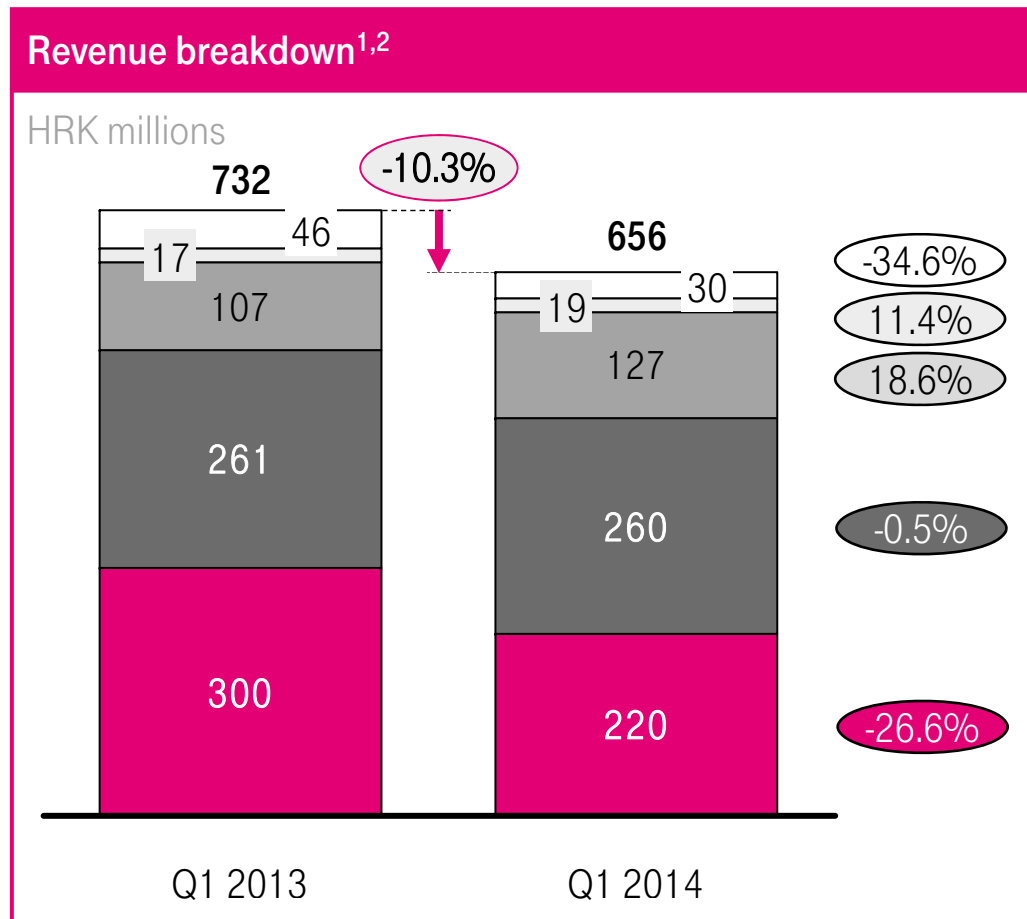
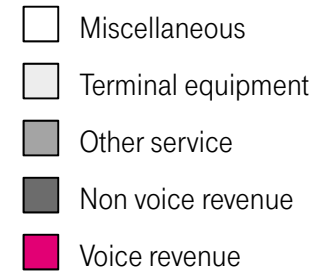
- **Ongoing promotion of MAX2/MAX3 packages** and Ultra MAX packages, based on FttH technology
- **T-HT leader in IP transformation**; 46.4% of retail customers migrated

IN RESIDENTIAL SEGMENT, DECREASE IN VOICE PARTIALLY OFFSET BY INCREASE IN NON-VOICE



- Revenue down mainly as a result of **14.2% lower voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
- Non-voice revenue increased 6.6%** due to higher fixed IP revenue (**mainly TV**) and **higher mobile data revenue**

IN BUSINESS SEGMENT, STRONG GROWTH IN ICT SOFTENS DECREASE IN VOICE REVENUE



- **26.6% lower voice revenue**, in fixed and mobile, in both retail and wholesale
- **Non-voice revenue decreased 0.5%**, lower fixed and mobile (mainly due to SMS) partly offset by wholesale revenues
- Other service revenue up 18.6% mainly due to **growth in ICT revenue**, in both HT and Combis

HT WILL RETAIN 48.5% OF 2013 NET PROFIT IN ORDER TO INTENSIFY INVESTMENTS; OUTLOOK FOR 2014 UNCHANGED

- HT General Assembly approved net profit utilization proposal: HT will **pay 51.5% of 2013 net profit** (HRK 737 million) **to shareholders via dividend**, or **HRK 9 per share and will re-invest 48.5% of 2013 net profit** (HRK 694 million)
- Outlook for 2014 maintained
 - 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

in HRK million	Q1 2014	Q1 2013	change	Jan-Mar 2014	Jan-Mar 2013	change
Mobile ¹⁾	637	680	-6.4%	637	680	-6.4%
Fixed Telephony	315	378	-16.6%	315	378	-16.6%
Wholesale	115	134	-14.2%	115	134	-14.2%
IP Revenue	395	388	1.7%	395	388	1.7%
Data	23	27	-15.3%	23	27	-15.3%
ICT	113	94	20.8%	113	94	20.8%
Miscellaneous ¹⁾	8	12	-31.0%	8	12	-31.0%
Energy	0	0	-	0	0	-
Other non telco services	1	0	-	1	0	-
Revenue	1,607	1,713	-6.2%	1,607	1,713	-6.2%
Other operating income ¹⁾	41	17	139.9%	41	17	139.9%
Total operating revenue	1,648	1,730	-4.7%	1,648	1,730	-4.7%
Operating expenses	1,073	1,122	-4.3%	1,073	1,122	-4.3%
Material expenses	457	491	-6.9%	457	491	-6.9%
Merchandise, material and energy ex.	274	262	4.4%	274	262	4.4%
Services expenses	183	229	-19.9%	183	229	-19.9%
Employee benefits expenses	316	326	-3.1%	316	326	-3.1%
Other expenses	288	297	-3.0%	288	297	-3.0%
Work undertaken by the Group and capitalised	-13	-8	-74.3%	-13	-8	-74.3%
Write down of assets	25	15	67.9%	25	15	67.9%
EBITDA	575	609	-5.5%	575	609	-5.5%
Depreciation and amortization	325	317	2.6%	325	317	2.6%
EBIT	250	292	-14.2%	250	292	-14.2%
Financial income	13	19	-28.6%	13	19	-28.6%
Income/loss from investment in joint v.	0	3	-95.6%	0	3	-95.6%
Financial expenses	18	14	28.1%	18	14	28.1%
Profit before taxes	246	300	-18.0%	246	300	-18.0%
Taxation	48	62	-23.6%	48	62	-23.6%
Net profit	199	238	-16.5%	199	238	-16.5%
Exceptional items	54	60	-9.3%	54	60	-9.3%
EBITDA before exceptional items	630	669	-5.8%	630	669	-5.8%

CONSOLIDATED BALANCE SHEET

HRK millions

in HRK million (IFRS)	At 31 Mar 2014	At 31 Dec 2013	Change
Intangible assets	1,334	1,358	-1.8%
Property, plant and equipment	5,458	5,570	-2.0%
Non-current financial assets	595	594	0.2%
Receivables	146	126	15.7%
Deferred tax asset	57	60	-4.6%
Total non-current assets	7,589	7,708	-1.5%
Inventories	139	115	21.2%
Receivables	1,409	1,457	-3.3%
Current financial assets	524	1,352	-61.3%
Cash and cash equivalents	3,110	2,039	52.5%
Prepayments and accrued income	150	149	0.5%
Total current assets	5,332	5,112	4.3%
TOTAL ASSETS	12,922	12,820	0.8%
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.0%
Revaluation reserves	-1	-1	35.3%
Retained earnings	2,103	662	217.8%
Net profit for the period	199	1,442	-86.2%
Total issued capital and reserves	10,899	10,700	1.9%
Provisions	127	132	-4.3%
Non-current liabilities	151	142	6.8%
Deferred tax liability	2	2	0.0%
Total non-current liabilities	280	276	1.4%
Current liabilities	1,578	1,724	-8.4%
Deferred income	123	120	2.6%
Provisions for redundancy	41	0	-
Total current liabilities	1,742	1,844	-5.5%
Total liabilities	2,023	2,120	-4.6%
TOTAL EQUITY AND LIABILITIES	12,922	12,820	0.8%

CONSOLIDATED CASH FLOW STATEMENT

HRK millions

in HRK million (IFRS HT accounting policies)	Jan-Mar 2014	Jan-Mar 2013	change
Profit before tax	246	300	-18.0%
Depreciation and amortization	325	317	2.6%
Increase / (decrease) of current liabilities	-142	-64	-121.3%
(Increase) / decrease of current receivables	111	62	80.3%
(Increase) / decrease of inventories	-24	-22	-10.8%
Other cash flow decreases	-92	-131	29.9%
Net cash inflow/outflow from operating activities	424	461	-8.2%
Proceeds from sale of non-current assets	0	13	-98.9%
Proceeds from sale of non-current financial assets	1	1	-14.5%
Interest received	7	12	-43.0%
Other cash inflows from investing activities	918	464	97.9%
Total increase of cash flow from investing activities	926	490	89.0%
Purchase of non-current assets)	-188	-220	14.5%
Purchase of non-current financial assets	0	-75	100.0%
Other cash outflows from investing activities	-90	-7	-1,170.6%
Total decrease of cash flow from investing activities	-279	-303	7.9%
Net cash inflow/outflow from investing activities	647	187	245.3%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	0	-2	99.9%
Dividends paid	0	0	-99.0%
Repayment of finance lease	-1	-2	40.3%
Total decrease in cash flow from financing activities	-1	-3	69.5%
Net cash inflow/outflow from financing activities	-1	-3	69.5%
Exchange gains/losses on cash and cash equivalents	1	2	-43.8%
Cash and cash equivalents at the beginning of period	2,039	3,146	-35.2%
Net cash (outflow) / inflow	1,071	647	65.4%
Cash and cash equivalents at the end of period	3,110	3,793	-18.0%

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Reuters: THTC.L, HT.ZA

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