Business and Financial Review
January – September 2013

30 October 2013

Živjeti zajedno

Hrvatski Telekom

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Business environment highlights

Croatian Economy

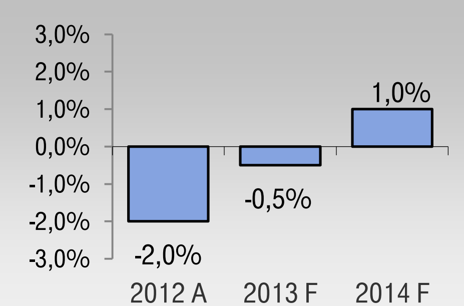
Croatian economy - facts (1)

- Recession continues; 2013 to be fifth consecutive year with no real GDP growth
  - GDP contraction in Q2 2013 of 0.7% and FY 2013 estimated at 0.5% decline
- Credit rating of sub-investment grade set by all three major rating agencies
- Registered unemployment rate 19.1% in Sep 2013 (Sep 2012: 18.3%)
- Inflation(2) at 1.1% in September 2013
- Continuously falling disposable income
- Good tourist season: tourist arrivals in Jan-Sep 2013 up 5.2% at 11.6 million

Croatian economy - prospects

- Budget deficit under pressure: intention of large privatisations (CO & HPB) and highways' monetization announced (30-50 years concession)
- Croatia to enter Excessive Deficit Procedure, EU supervision mechanism
- Still awaiting far-reaching structural reforms and improvements in investment environment
- EU membership
  - Structural and other funds
  - Foreign direct investments expected to increase

Real GDP growth (1)



(1) Source: Central Bureau of Statistics, Croatian National Tourist Board, Croatian National Bank; Raiffeisen Research
(2) Annual inflation growth rate, measured by changes in consumer prices

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 16.5% in Q2 2013 (4)

Mobile
- 3 operators on the market, 7 brands
- Mobile penetration at 121% in Q3 2013, -2pp yoy
- Minutes of use increased by 21.7% in Q2 2013 (4), but revenue continues to decline
- Growth in mobile broadband
- HT Smartphone penetration 31% (3) vs 46% in WE(4)

Fixed Broadband
- Broadband lines at 909,000 in Q2 2013, +3.8% yoy(4)
- Fixed line BB household penetration(3) : 49% vs 68% in Western Europe (WE)(4)
- Variety of bundled offers on the market

PayTV
- Over 662,000 payTV users in Q2 2013, +11.2% yoy(4)
- PayTV HH penetration (3): 43% vs 56% in WE (4)
- Croatia is only regulated IPTV market in Europe

ICT
- Impacted by continued negative economic development and business downsizing; remaining flat in 2013
- IT market's modest recovery expected in 2014 as a result of new investments
- Combis, member of the Group, has maintained leading position in Croatian IT services market in 2012(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) Sources: HAKOM Q2 2013 report on Croatian telecommunication market, Analysys Mason for WE data
(5) „Croatia IT Services Market 2013-2017 Forecast and 2012 Vendor Shares", IDC Adriatics, 2013

Group highlights

Financial

- Revenue down 8.0%; tough economic, competitive and regulatory environment continues
- EBITDA before exceptional items [1] down 17.0%; margin at 42.5%
- Net profit down 30.6%; margin at 18.5%
- Capex up 39.8%
- Dividend of HRK 20.51 per share approved and paid out in July 2013

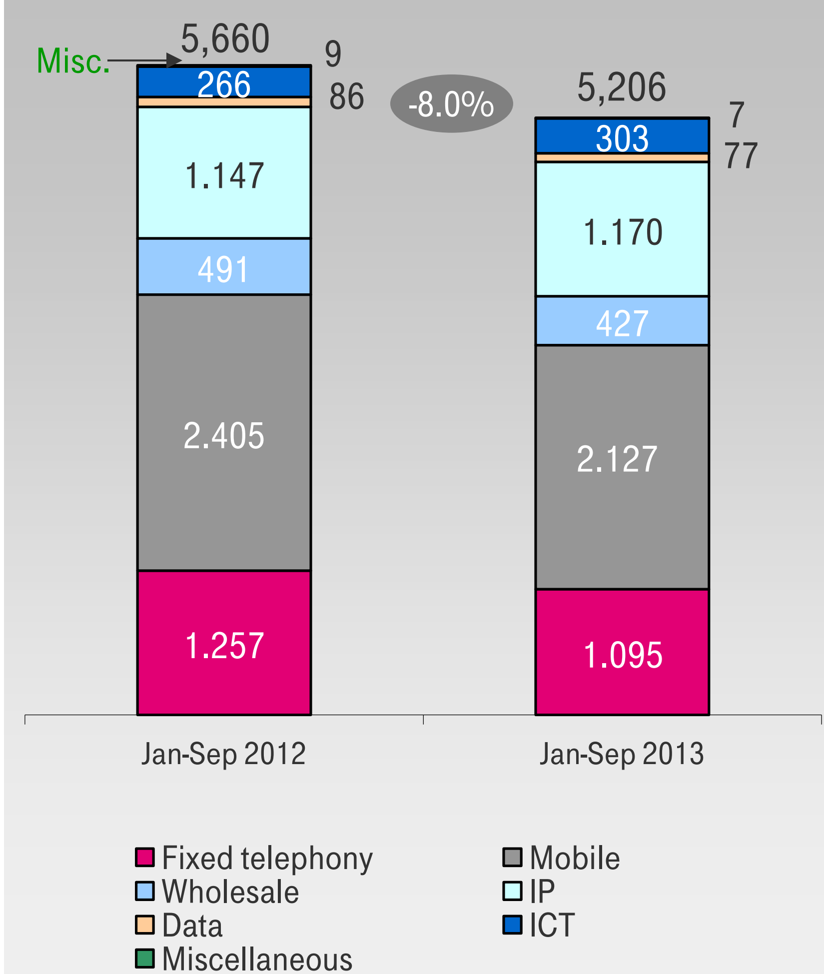
Operational

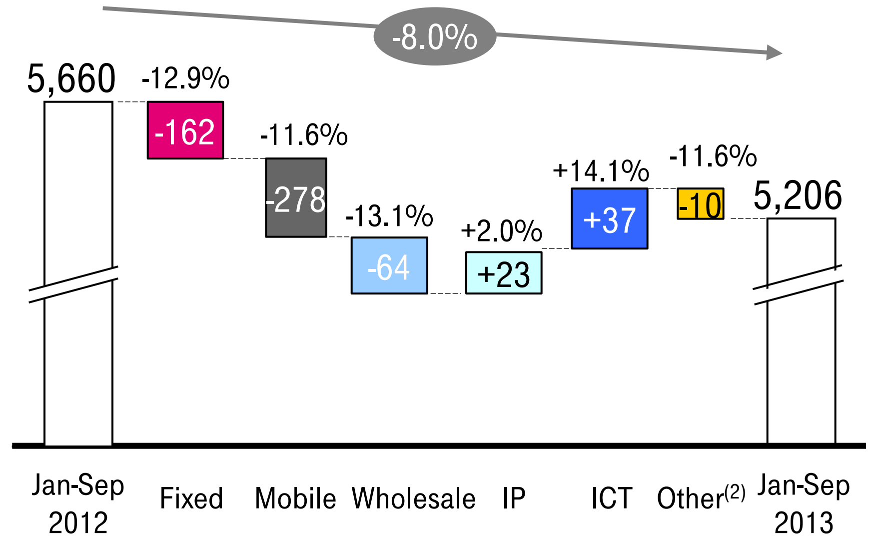
- Leading market position across all areas of business maintained
- Continued promotion of 4G mobile internet tariffs; largest coverage in country
- Continued growth in TV customers
- Transformation initiatives in progress
- Headcount decreased to 5,626 employees[2]
- Optima Telekom proposed restructuring plan; asked for T-HT involvement
- EU roaming regulation applied as of 1 July 2013
- T-HT applied for additional radio frequency spectrum assignment

(1) Exceptional items in Jan-Sep 2013 refer to redundancy provisions totalling HRK 66 million. No exceptional items in Jan-Sep 2012.
(2) Full time employees

Revenue development

Revenue breakdown (HRK million) (1)

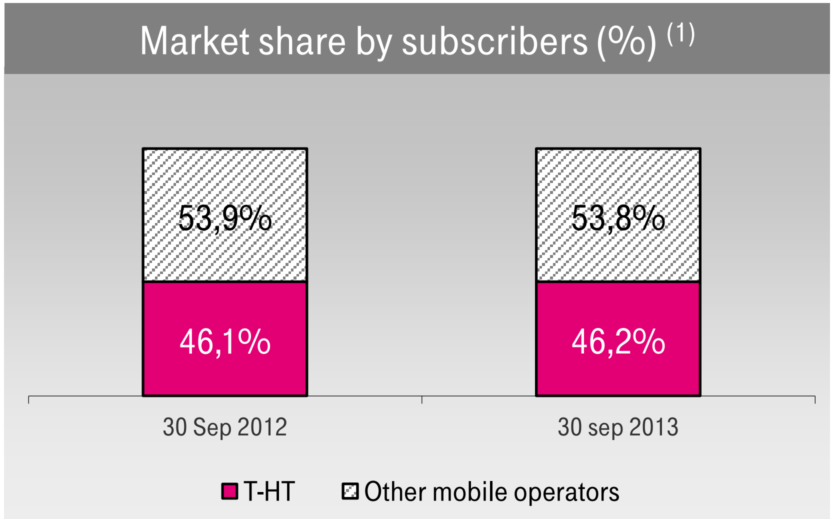


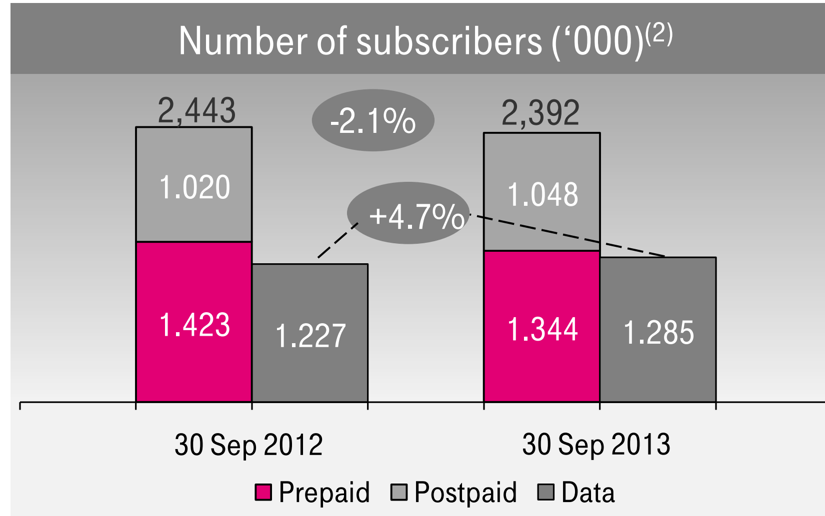


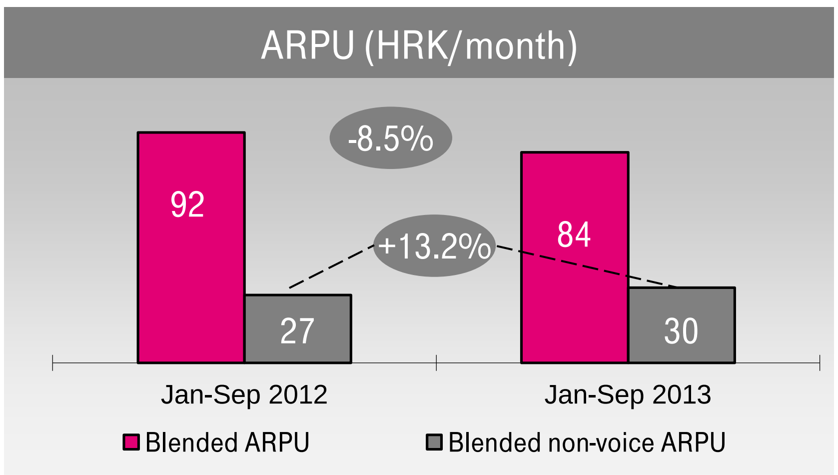
- Continued recesssion, regulatory measures and intensifying competition impact revenue
- Fixed revenue down due to general usage trends, but at a slower rate compared to 2012
- From July 2013 mobile and wholesale additionally impacted by EU accession
- Continued growth in IP revenue; ICT revenue up 14.1% following uptake in customised solutions
- Combis contributed HRK 237 million (Jan-Sep 2012: HRK 234 million) and Iskon: HRK 250 million (Jan-Sep 2012: HRK 221 million)

(1) Excluding other operating income
(2) Data and Miscellaneous revenue

Mobile





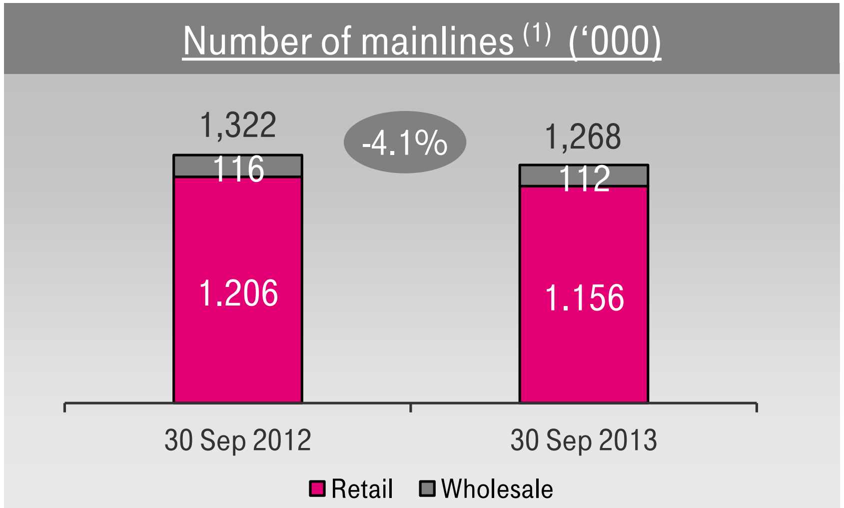


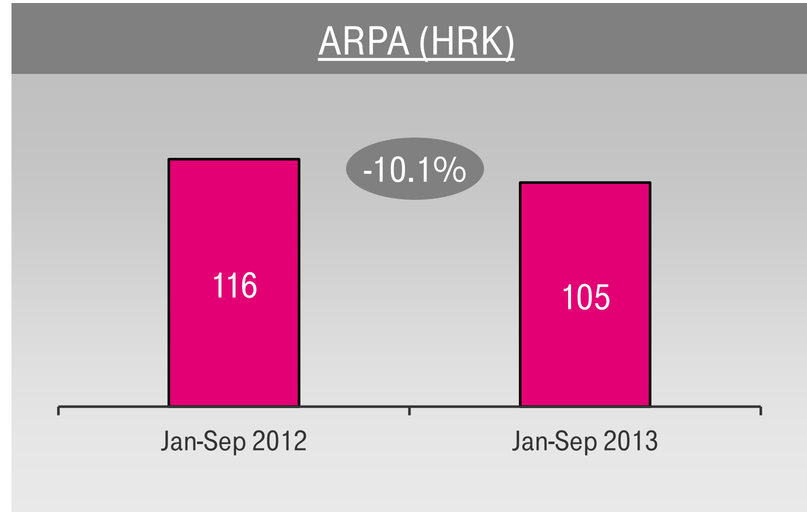
- Average MOU (minutes of use) up 21.4% to 173
- Smartphone proportion of total handset sales at 58% in postpaid segment
- National mobile termination rate of 19.3 lp/min valid from 1 July 2013 decreased further, as of:
  - 1 Jan 2014 to 12.8 lp/min and
  - 1 Jan 2015 to 6.3 lp/min

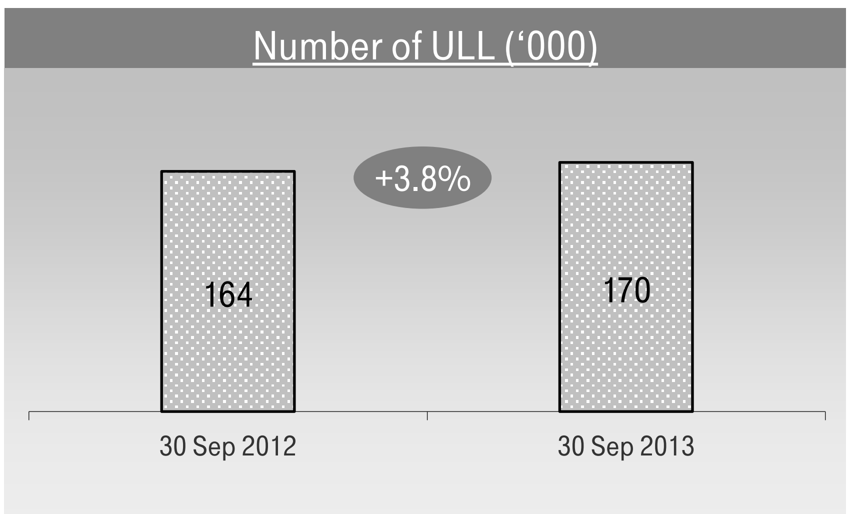
(1) Source: VIPnet's quarterly report for 3Q 2012 and Tele2's quarterly report for 3Q 2012. Number of subscribers for VIPnet and Tele2 for 3Q 2013 are internally estimated.

(2) In 2013, the definition of mobile data subscribers was amended. Previously, data subscribers consisted of mobile broadband subscribers with internet tariffs, and handset internet subscribers related to the data tariffs and options with recurring payments on a fixed period contract of more than one month and with predefined data volumes. According to the new definition of mobile data subscribers, handset internet subscribers are counted at the SIM level with reference to both non-recurring and recurring data usage. Additionally, the new definition includes M2M subscribers while mobile broadband subscribers are calculated the same way. The Q3 2012 data is estimated.

Fixed telephony





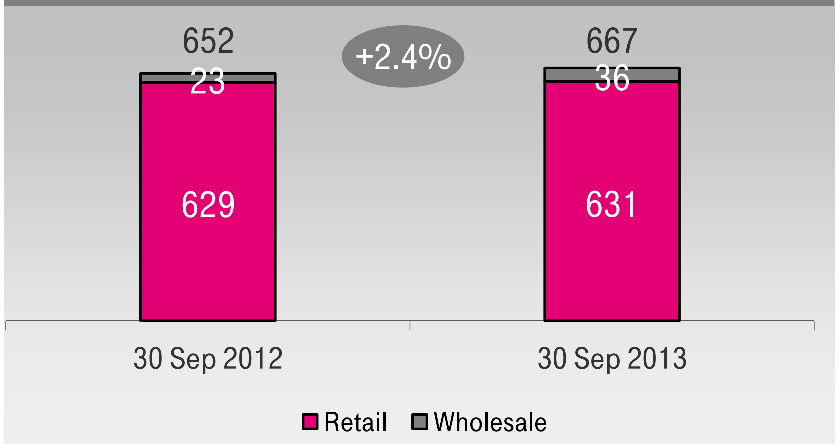


- Substitution of fixed traffic with mobile and IP traffic; total traffic down 17.5% to 1,503 million minutes
- Growth in ULL slowing; Q3 2013 net adds of 1,000

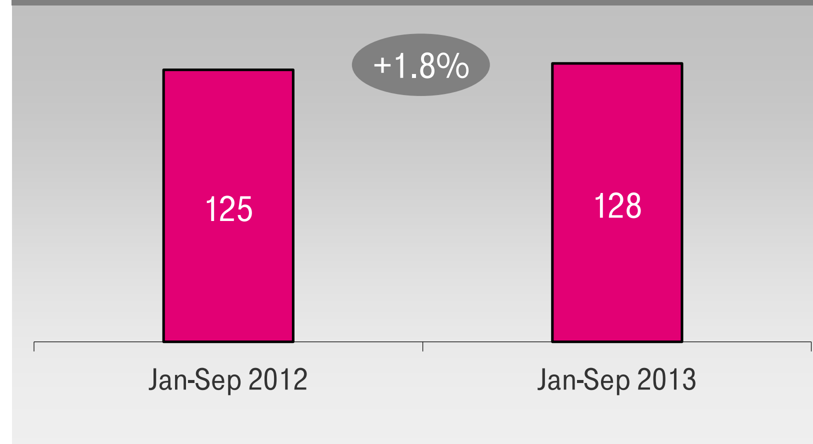
(1) Includes PSTN, FGSM and IP Voice customers migrated to IP platform; Payphones excluded

IP services

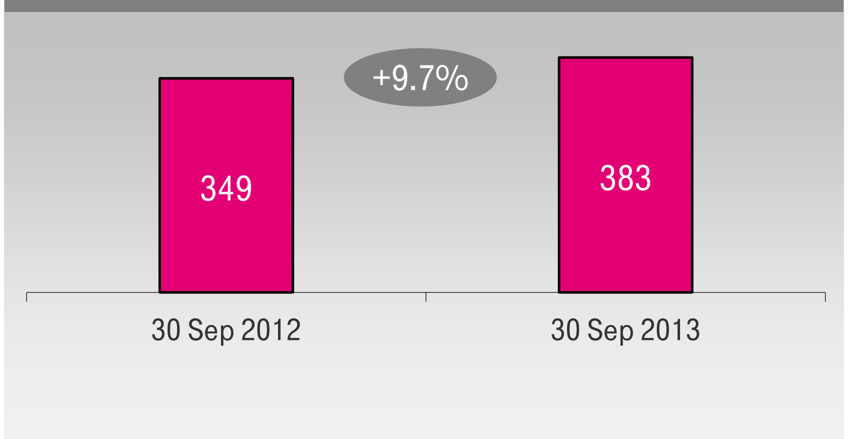
No. of broadband access lines ('000) (1)



Broadband retail ARPA (HRK) (1)



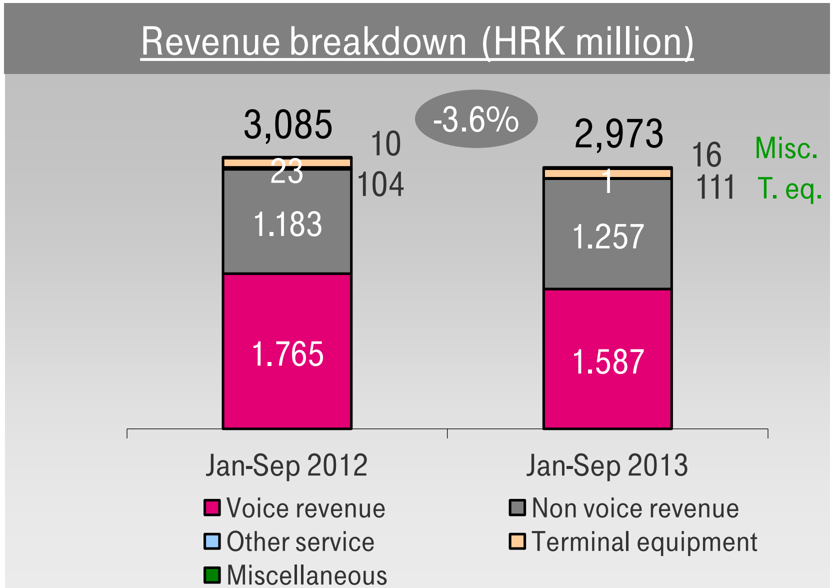
Number of TV customers ('000) (2)

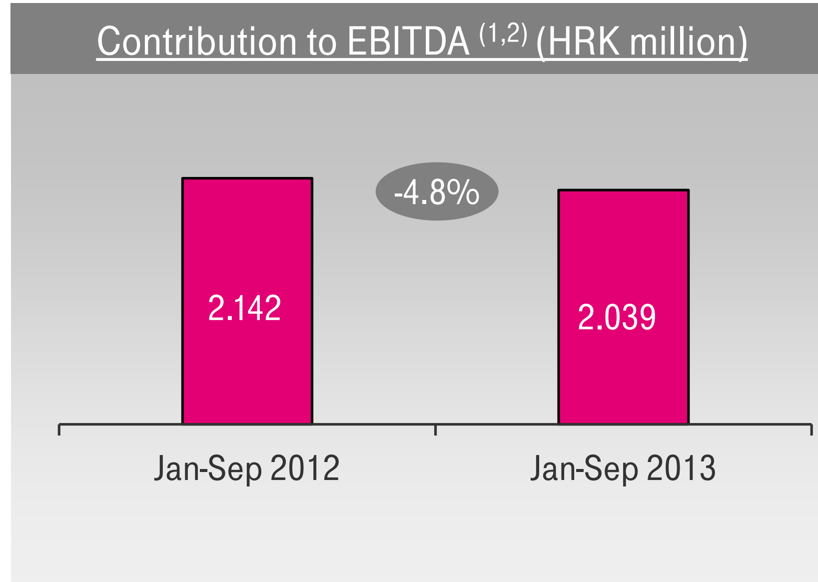


- The MaxADSL "double speed" promotion was launched in May in residential segment and Poslovni Ultra packages, based on FttH technology in business segment
- T-HT leader in IP transformation; 36% of retail customers migrated

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

Residential segment

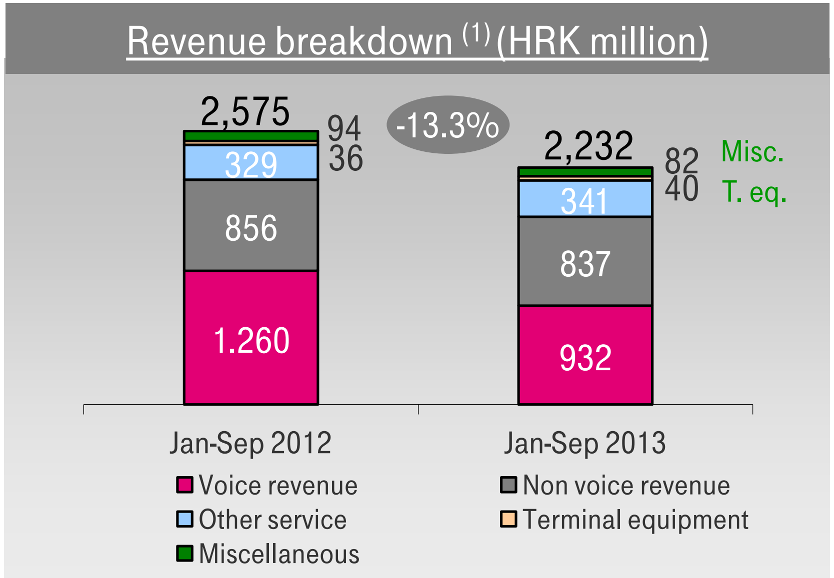


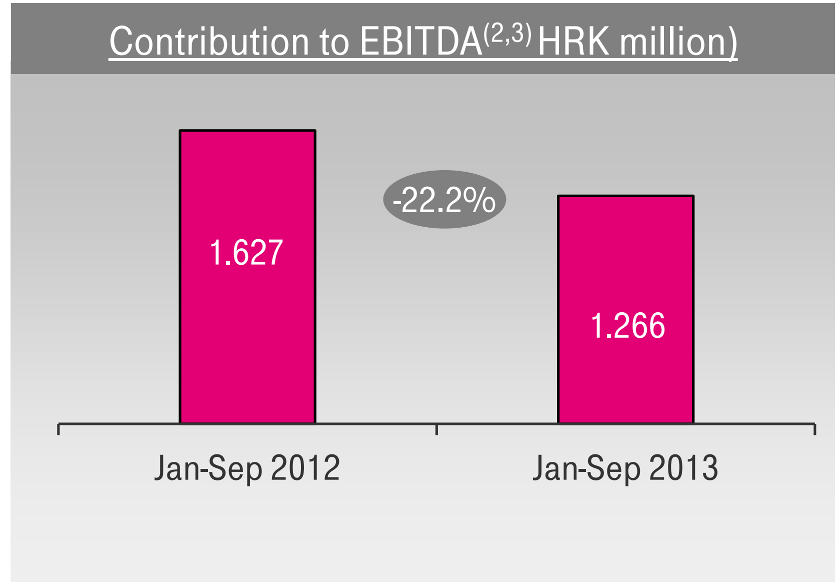


- Revenue down mainly as a result of 10.1% lower voice revenue, in both fixed and mobile; general declining trend in fixed, further economic deterioration and regulatory tightening, as well as competitive pressures
- Non-voice revenue increased 6.3% due to higher fixed IP revenue (broadband and TV) and higher mobile data revenue
- Terminal equipment revenue higher due to lower mobile handset subsidies and extended Christmas 2012 promotional activities in fixed
- T-HT awarded gold QUDAL medal for best provider in 11 different categories
- Strong growth in MAXtv Satellite; up 83.8% yoy to 38,000 customers

1) Operating expenses per segment for 2012 restated due to the changed recognition of content provider costs at the end of 2012 and due to organisational changes in 2013.
2) EBITDA before exceptional items

Business segment





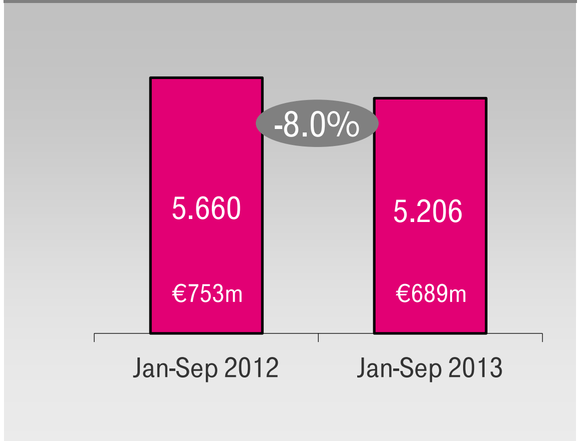
- Revenue down due to 26.0% lower voice revenue, in fixed and mobile, in both retail and wholesale
- Non-voice revenue decreased 2.2%; lower fixed traditional data and wholesale revenues were partly offset by revenue growth in mobile data in postpaid segment
- Other service revenue up 3.6% due to 14.1% growth in ICT revenue following successful offers in customised ICT solutions; this was partially offset by lower postpaid subscription revenue after changes in mobile tariff structures
- Further development of Cloud services; more than 1,450 companies / customers
- New mobile tariff portfolio launched

1) Revenue structure restated for 2012 to be in line with segment reporting in 2013 (Iskon contribution to Group interconnection revenue reclasified from non-voice to voice revenue).
2) Operating expenses per segment for 2012 changed restated due to changed recognition of content provider costs at the end of 2012 and due to organisational changes in 2013.
3) EBITDA before exceptional items

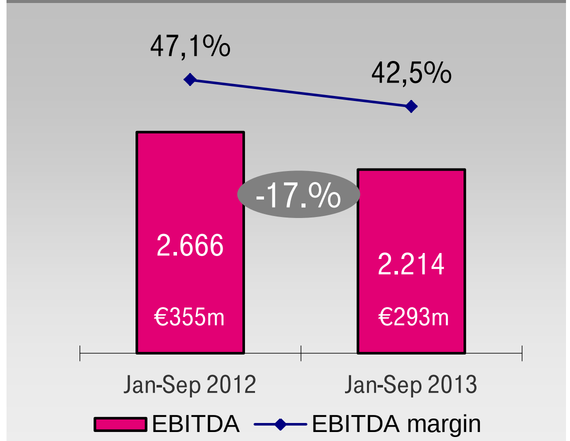
Financial highlights

all in HRK million, except where stated differently

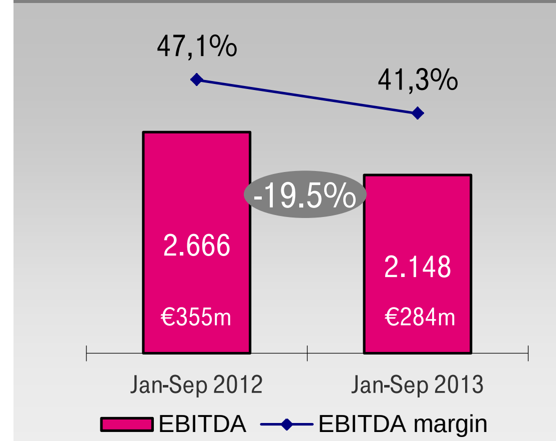
Revenue[1]



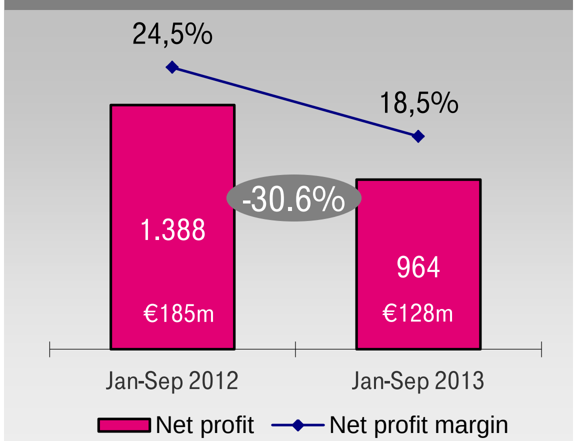
EBITDA before except.items[2]



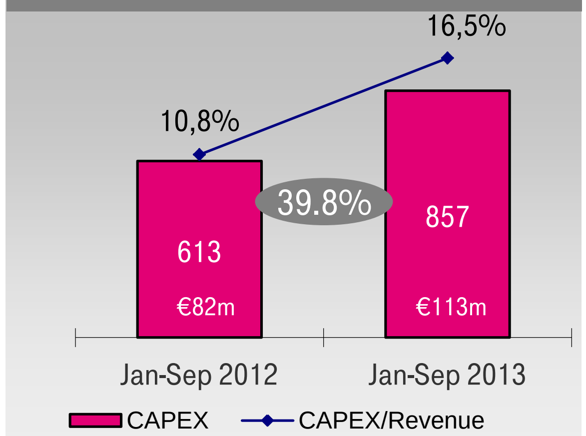
EBITDA



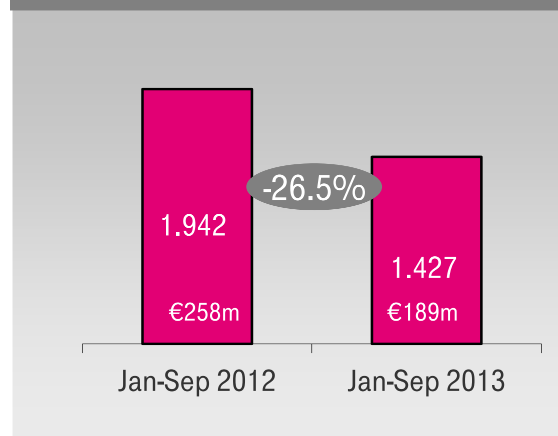
Net profit



CAPEX



Net cash flow from operations



(1) Excluding other operating income
(2) Exceptional items in Jan-Sep 2013 refer to redundancy provisions totalling HRK 66 million. No exceptional items in Jan-Sep 2012.
- HRK per Euro average rate of exchange: Jan – Sep 2012: 7.52; Jan – Sep 2013: 7.56

Group 2013 Outlook

	2012 Results	2013 Outlook as of 30 Oct 2013
Revenue	Decline: 7.6%	..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	Margin: 47.2%	..in light of the current market environment we expect the EBITDA margin to be between 42% and 43%.
CAPEX excl. spectrum	HRK 1,030 million	..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

Consolidated income statement

in HRK million (IFRS)	Q3 2013	Q3 2012	% of change A13/A12	Jan-Sep 2013	Jan-Sep 2012	% of change A13/A12
Mobile	741	923	-19.7%	2,127	2,405	-11.6%
Fixed Telephony	351	411	-14.6%	1,095	1,257	-12.9%
Wholesale	150	173	-13.3%	427	491	-13.1%
IP Revenue	394	380	3.7%	1,170	1,147	2.0%
Data	24	28	-14.3%	77	86	-11.0%
ICT	108	94	14.9%	303	266	14.1%
Miscellaneous	3	3	0.0%	7	9	-17.0%
Revenue	1,770	2,012	-12.0%	5,206	5,660	-8.0%
Other operating income	33	49	-32.5%	132	156	-15.3%
Total operating revenue	**1,803**	**2,060**	-12.5%	**5,337**	**5,816**	**-8.2%**
Operating expenses	1,018	1,051	-3.1%	3,190	3,149	1.3%
Material expenses [1)]	465	498	-6.6%	1,414	1,402	0.9%
Merchandise, material and energy expenses	213	224	-4.9%	704	635	10.9%
Services expenses	251	273	-8.0%	710	767	-7.4%
Employee benefits expenses	268	280	-4.0%	871	839	3.8%
Other expenses	286	270	5.8%	890	881	1.1%
Work performed by the Group and capitalised	-12	-27	-53.6%	-40	-56	28.8%
Write down of assets	11	30	-62.3%	53	84	-36.7%
EBITDA	786	1,010	-22.2%	2,148	2,666	-19.5%
Depreciation and amortization [1)]	322	294	9.4%	959	975	-1.7%
EBIT	463	715	-35.2%	1,189	1,691	-29.7%
Financial income	9	18	-46.1%	38	63	-39.4%
Income/loss from investment in joint ventures	10	12	-13.9%	20	19	5.4%
Financial expenses [1)]	-6	21	-130.6%	42	51	-18.1%
Profit before taxes	489	724	-32.4%	1,205	1,722	-30.0%
Taxation	96	144	-33.5%	241	334	-27.7%
Net profit	394	580	-32.1%	964	1,388	-30.6%
Minority interest	0	0		0	0	-100.0%
Net profit after minority interest	394	580	-32.1%	964	1,388	-30.6%
Exceptional items	6	0	-	66	0	-
EBITDA before exceptional items	792	1,010	-21.6%	2,214	2,666	-17.0%

[1)] Material expenses, depreciation and amortization, as well as financial expenses restated in 2012 due to change of accounting policy of content provider costs, influencing Group profitability

Consolidated balance sheet

in HRK million (IFRS)	At 30 Sep 2013	At 31 Dec 2012	% of change A13/A12
Intangible assets	1,149	1,142	*0.6%*
Property, plant and equipment	5,621	5,734	*-2.0%*
Non-current financial assets	614	897	*-31.5%*
Receivables	19	21	*-7.1%*
Deferred tax asset	59	65	*-9.3%*
Total non-current assets	**7,462**	**7,858**	***-5.0%***
Inventories	187	155	*20.3%*
Receivables	1,364	1,219	*11.9%*
Current financial assets	941	586	*60.7%*
Cash and cash equivalents	2,050	3,146	*-34.8%*
Prepayments and accrued income	99	148	*-33.6%*
Total current assets	**4,640**	**5,254**	***-11.7%***
TOTAL ASSETS	**12,102**	**13,113**	***-7.7%***
Subscribed share capital	8,189	8,189	*0.0%*
Reserves	409	409	*0.0%*
Revaluation reserves	-1	-1	*24.3%*
Retained earnings	637	606	*5.0%*
Net profit for the period	964	1,696	*-43.2%*
Non-controlling interest			-
Total issued capital and reserves	**10,197**	**10,899**	***-6.4%***
Provisions	197	227	*-13.2%*
Non-current liabilities	125	52	*138.5%*
Deferred tax liability	4	0	-
Total non-current liabilities	**325**	**279**	***16.4%***
Current liabilities	1,457	1,667	*-12.6%*
Dividend payable			-
Deferred income	123	122	*0.9%*
Provisions for redundancy	0	146	*-100.0%*
Total current liabilities	**1,580**	**1,935**	***-18.3%***
Total liabilities	**1,905**	**2,214**	***-14.0%***
TOTAL EQUITY AND LIABILITIES	**12,102**	**13,113**	***-7.7%***

Consolidated cash flow statement

in HRK million (IFRS)	Jan-Sep 2013	Jan-Sep 2012	*% of change A13/A12*
Profit before tax	1,205	1,722	*-30.0%*
Depreciation and amortization [1)]	959	975	*-1.7%*
Increase / decrease of current liabilities [1)]	-209	-160	*-30.9%*
Increase / decrease of current receivables	-64	-51	*-25.1%*
Increase / decrease of inventories	-31	17	*-280.7%*
Other cash flow decreases [1)]	-433	-562	*23.0%*
Net cash inflow/outflow from operating activities	**1,427**	**1,942**	***-26.5%***
Proceeds from sale of non-current assets	45	3	
Proceeds from sale of non-current financial assets	1	2	*-9.3%*
Interest received	22	41	*-46.9%*
Dividend received	0	0	-
Other cash inflows from investing activities	548	818	*-33.0%*
Total increase of cash flow from investing activities	**616**	**863**	***-28.6%***
Purchase of non-current assets [1)]	-857	-613	*-39.8%*
Purchase of non-current financial assets	-75	-225	*66.7%*
Other cash outflows from investing activities	-525	-1,666	*68.5%*
Total decrease of cash flow from investing activities	**-1,458**	**-2,505**	***41.8%***
Net cash inflow/outflow from investing activities	**-842**	**-1,641**	***48.7%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	-1	-4	*65.5%*
Dividends paid	-1,679	-1,813	*7.4%*
Repayment of finance lease	-4	-5	*23.9%*
Other cash outflows from financing activities	0	0	-
Total decrease in cash flow from financing activities	**-1,685**	**-1,823**	***7.6%***
Net cash inflow/outflow from financing activities	**-1,685**	**-1,823**	***7.6%***
Exchange gains/losses on cash and cash equivalents	3	-2	*264.7%*
Cash and cash equivalents at the beginning of period	3,146	3,704	*-15.1%*
Net cash (outflow) / inflow	-1,096	-1,523	*28.0%*
Cash and cash equivalents at the end of period	**2,050**	**2,181**	***-6.0%***

1) 2012 is restated due to change of accounting policy of content provider costs

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Zagreb Stock Exchange Share trading symbol: HT-R-A

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HTRA CZ