Business and Financial Review January – June 2011

29 July 2011



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Business Environment Highlights

Croatia at a glance

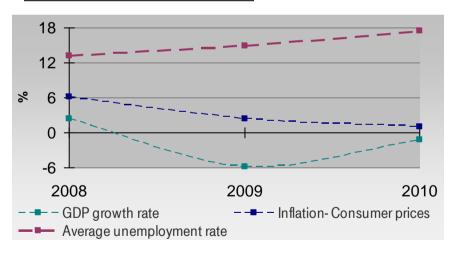
- 4.3 million population ⁽¹⁾
- 1.5 million households
- Largest 10 cities house 36% of population
- ~104,000 companies
- 3.2 million tourists in first six months 2011⁽²⁾

Croatian Economy

- Finished EU accession negotiations
- No relevant signs of real recovery
- Expected GDP growth in Q2 2011: ~1%⁽³⁾
- Inflation slows at 2.0% (4)
- Registered unemployment rate 16.9% in June 2011 (June 2010: 16.6%) (5)
- Overdue payments at the record level: HRK 39.9 bn⁽⁶⁾ in May 2011
- (1) Source: *First results of the new Census 2011", Central Bureau of Statistics
- (2) Source: Croatian National Tourist Board
- (3) Real GDP growth rate, source: estimates of PBZ, HAAB and EBRD
- (4) Annual inflation growth rate in June 2011; source: Croatian National Bank
- (5) Source: Croatian Central Bureau of Statistics
- (6) Source: Croatian Chamber of Economy



Macroeconomic indicators⁽⁵⁾





Croatian Telecom Market

Fixed telephony

- 21 licensed operators, of which 10 active (1)
- July 2011: introduced WLR and naked bitstream
- Liberalized since 2005; local loop unbundling started in 2006
- Usage declines in line with world-wide trends

Internet

- Internet penetration: ~64% of population (2)
- Broadband household penetration: 45%⁽²⁾⁽³⁾
- Significant growth opportunity

Mobile telephony

- 3 operators on the market, no mobile virtual network operators (MVNO)
- Mobile penetration: 151% (2)
- Growing demand for mobile data, driven by smartphones and mobile broadband

PayTv

- Satellite and cable underdeveloped
- Cable TV household penetration: 12%; cable TV broadband penetration: 4% (2)
- MAXtv most successful payTV in the market and one of most successful IPTV launches world-wide (top 3 ranking)⁽⁴⁾

Regulatory framework

- Amendments to the Law on Electronic Communications adopted: alignment with 2009 EU framework
- Hakom decision on automatic migration of CPS customers to WLR
- Ban on charging activation costs of WLR and full profile CPS
- T-HT may not reject alternative operators' requests for services and cannot collect payments until 90 days have passed, even where there are substantial undisputed debts
- Mandatory prepaid registration postponed
- (1) Including operators providing fixed line service over VoIP
- (2) Initial results of recent Census show Croatia's population fell to 4.3m from 4.4m with no. of households higher at 1,535,635 from 1,477,377. Using earlier figures, penetration rates would be mobile: 146%; Internet: 62%; broadband households: 47%; cable TV households and cable TV broadband remain unchanged.
- (3) Residential broadband lines per total households
- (4) Source: "Industry Outlook: Next-generation access regulation" published by Informa, 25 November 2010



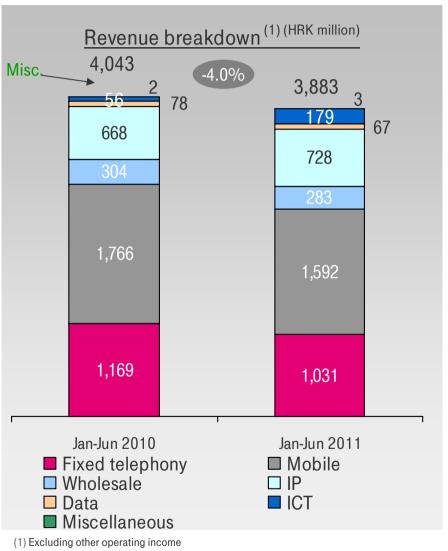
Group Highlights

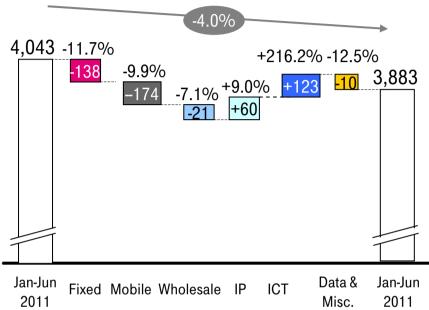
- Maintained leading market position in all business segments
- Revenue decreased 4.0% to HRK 3,883 million due to continuing recession as well as strong competitive pressure
- EBITDA ⁽¹⁾ down 3.1% to HRK 1,668 million with EBITDA margin increased to 43.0%
- Capex increased 73.2% to HRK 499 million
- Dividend paid in the amount of 22.76 HRK/share on 17 May 2011
- Launched new ICT services: tCloud, first cloud based service in Croatia, and eBook store Planet9
- Further participation in process of privatisation of Post and Telecommunications of Kosovo (PTK)
 under review

(1) Before exceptional items



Revenue Development



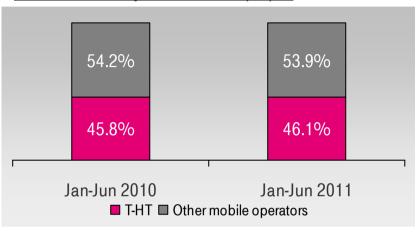


- Revenue still affected by recession and continued competitive pressure
- Lower revenue continues to be driven mainly by lower revenue from fixed and mobile telephony
- Internet revenue continues to grow
- Combis contributed HRK 161 million (vs HRK 53 million in H1 2010, consolidated from May 2010)

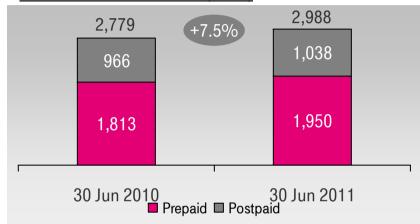


Mobile Telephony

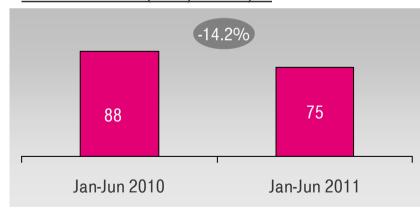
Market share by subscribers (%) (1)



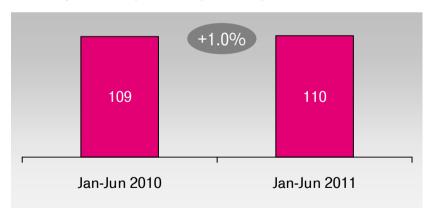
Number of subscribers ('000)



Blended ARPU (HRK/month) (2)



Average MOU (minutes/month)

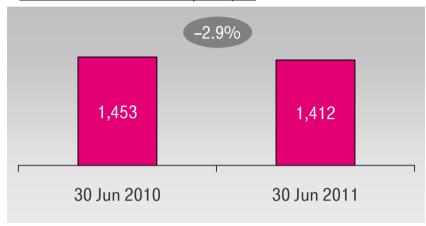


- (1) Source: published VIPnet's and Tele2's report for Q2 2010 and Tele 2 report for Q2 2011. Number of VIPnet's subscribers for Q2 2011 is internally estimated
- (2) Due to elimination of intercompany transactions previous preiods have been restated and are not comparable with already published results

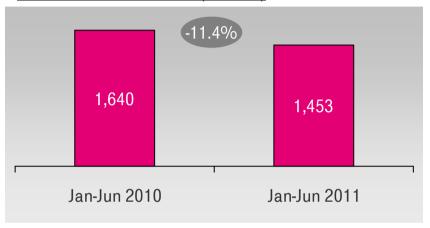


Fixed Telephony

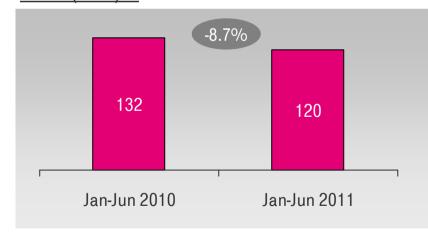
Number of mainlines ('000) (1)



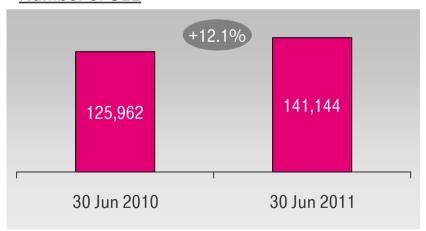
Total traffic in minutes (million)



ARPA (HRK) (2)



Number of ULL

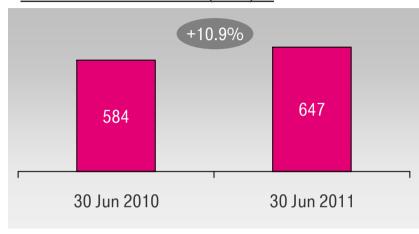


- (1) Includes POTS+FGSM + ISDN + payphones
- (2) Voice revenue per voice acces monthly average for the period

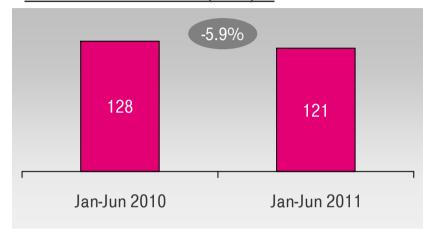


IP Services

No. of ADSL mainlines ('000) (1)



ADSL mainlines ARPA (HRK) (2)



Number of IPTV customers ('000) (3)



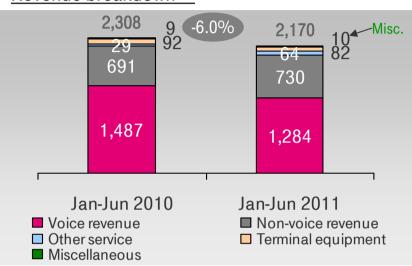
- Growth of MAXtv (3): more than 5,000 net adds in Q2 2011
 - Expanded Sport package and introduced new pay per view service
- T-portal's Facebook page acquired 100,000th fan in May 2011

- (1) Including Iskon ADSL mainlines(2) Monthly average for the period(3) Including Iskon IPTV customers

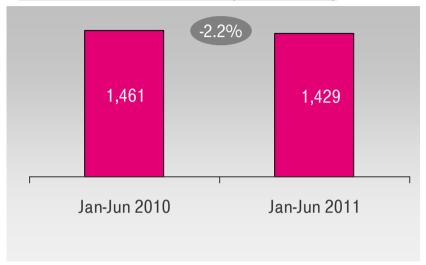


Residential Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)

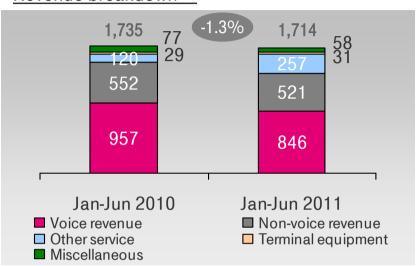


- Voice revenue down as a result of highly competitive mobile market with consistently downward trend of prices, demanding economic environment and lower mobile termination rates
- Non-voice revenue increased due to increased fixed IP and mobile data revenue but other non-voice mobile revenue decreased
- Other service revenue increased due to a different tariff structure in mobile
- Revenue from terminal equipment decreased mainly due to different treatment of CPE
- Contribution to EBITDA decreased as a result of revenue decrease partly off-set with decreased operating expenses
- (1) In the financial reports, the Group's segments are reported on contribution to EBITDA level. The revenues and expenses of the segments include primary results
- (2) Before exceptional items

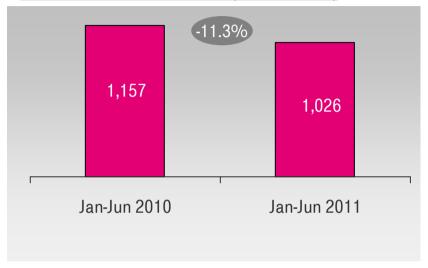


Business Segment

Revenue breakdown (1)



Contribution to EBITDA (2) (HRK million)

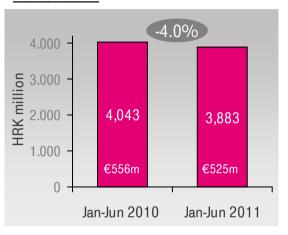


- Voice revenue down mainly due to decline in fixed network traffic and number of mainlines, fixed to mobile substitution, lower mobile service usage and decreased MTRs
- Non-voice revenue affected largely by lower national leased line revenue and migration to IP-based services
- Other service revenue strongly up mainly as a result of Combis contribution
- Revenue from terminal equipment slightly up as a result of mobile push campaign
- Miscellaneous revenue decrease resulted from lower national roaming prices and lower usage as well as due to mobile disconnection fee revenue being a part of service revenue starting from 2011
- Contribution to EBITDA affected by higher merchandise costs and Combis contribution to indirect costs
- (1) In the financial reports, the Group's segments are reported on contribution to EBITDA level. The revenues and expenses of the segments include primary results
- (2) Before exceptional items

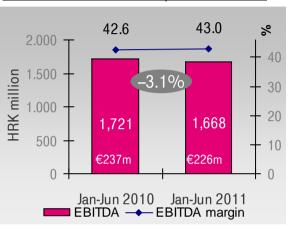


Group Highlights

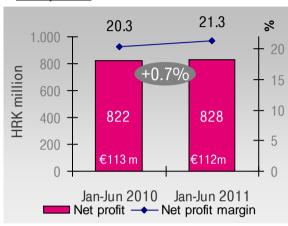
Revenue⁽¹⁾



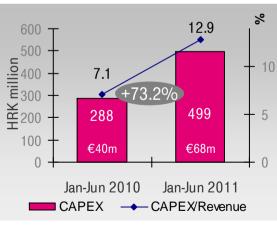
EBITDA before exceptional items



Net profit



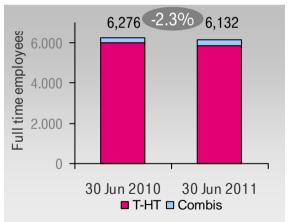
CAPEX



Net cash flow from operations



Headcount



- (1) Excluding other operating income
- Kuna per Euro average rate of exchange: Jan-Jun 2010: 7.27; Jan-Jun 2011: 7.39



Group 2011 Outlook

Revenue

■ As stated in the Q1 results on 28 April 2011, the Group's performance for the current financial year is influenced by the strength of the tourist season in Croatia and recovery in the national economy. The economic turnaround that had been predicted earlier this year has not materialized, while unemployment remains high and the amount of overdue payments has reached record levels. At the same time, the government's 6% tax on mobile services, originally imposed in 2009, has not been removed, whilst the recent introduction of regulations governing wholesale line rental and naked DSL will further impact the Group's business.

The Group continues to maintain its focus on exploiting new growth opportunities and maximising existing ones. However, given the tough economic conditions and accelerated regulatory pressures the Group expects 2011 revenue to be moderately lower than the 2010 level.

EBITDA before exceptional items

In light of continued challenging economic conditions in Croatia, regulatory impact and consequently lower expectations for revenue, the Group no longer expects 2011 EBITDA to be above the 2010 level. However, the Group is committed to maintaining the year-on-year EBITDA margin through efficiencies gained so far and continuing strong cost controls.

CAPEX

While the current regulatory regime remains a disincentive to T-HT's potential investment in fiber infrastructure, the Group expects 2011 capital expenditure to be lower than 2010. However, T-HT will continue to invest in its fixed core network transformation and service platforms development, as well as in infrastructure necessary to support the growing demand for mobile broadband.

Regional Expansion

■ The Group continues to monitor and evaluate expansion opportunities to increase shareholder value.



Appendix



Consolidated Income Statement

in HRK million (IFRS HT accounting policies)	Jan-Jun	Jan-Jun	% of change
	2011	2010	A11/A10
Mobile	1.592	1.766	-9,9%
Fixed Telephony	1.031	1.169	-11,7%
Wholesale	283	304	-7,1%
IP Revenue	728	668	9,0%
Data	67	78	-13,9%
ICT	179	56	216,2%
Miscellaneous	3	2	76,4%
Revenue	3.883	4.043	-4,0%
Other operating income	127	76	67,2%
Total operating revenue	4.011	4.119	-2,6%
Operating expenses	2.342	2.398	-2,4%
Material expenses	1.112	1.116	-0,4%
Employee benefits expenses	569	579	-1,8%
Other expenses	649	658	-1,3%
Work performed by the Group and capitalised	-32	-23	-43,0%
Write down of assets	44	68	-34,7%
EBITDA	1.668	1.721	-3,1%
Depreciation and amortization	665	666	-0,1%
EBIT	1.004	1.056	-4,9%
Financial income	28	37	-24,9%
Income/loss from investment in joint ventures	15	6	155,6%
Financial expenses	25	71	-65,3%
Profit before taxes	1.022	1.027	-0,5%
Taxation	193	205	-5,6%
Net profit	828	822	0,7%
Minority interest	0	0	0,3%
Net profit after minority interest	828	822	0,7%
Exceptional items	0	0	
EBITDA before exceptional items	1.668	1.721	-3,1%



Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 30 Jun	At 31 Dec	% of change
	2011	2010	A11/A10
Intangible assets	916	1.162	-21,2%
Property, plant and equipment	6.249	6.336	-1,4%
Non-current financial assets	162	422	-61,5%
Receivables	438	31	1312,7%
Deferred tax asset	81	57	41,7%
Total non-current assets	7.846	8.008	-2,0%
Inventories	255	216	18,1%
Receivables	1.396	1.504	-7,2%
Current financial assets	525	465	13,0%
Cash and cash equivalents	1.861	3.282	-43,3%
Prepayments and accrued income	143	110	30,4%
Total current assets	4.181	5.577	<i>-25,0%</i>
TOTAL ASSETS	12.027	13.585	-11,5%
Subscribed share capital	8.189	8.189	0,0%
Reserves	409	409	0,1%
Revaluation reserves	-2	-1	-55,7%
Retained earnings	598	626	-4,5%
Net profit for the period	828	1.831	-54,8%
Minority interest	1	0	-
Total issued capital and reserves	10.023	11.054	-9,3%
Provisions	342	293	16,9%
Non-current liabilities	31	117	-73,2%
Total non-current liabilities	374	410	-8,8%
Current liabilities	1.320	1.871	-29,4%
Accrued expenses and deferred income	310	250	23,9%
Total current liabilities	1.630	2.121	-23,2%
Total liabilities	2.004	2.531	-20,8%
TOTAL EQUITY AND LIABILITIES	12.027	13.585	-11,5%



Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Jun	Jan-Jun	% of change
	2011	2010	A11/A10
Profit before tax	1.021	1.027	-0,5%
Depreciation and amortization	665	666	-0,1%
Decrease of inventories	68	9	689,1%
Total increase of cash flow from operating activities	1.755	1.701	<i>3,2%</i>
Decrease of current liabilities	-384	-354	-8,6%
Increase of current receivables	0	0	-
Increase of inventories	-39	-9	-322,8%
Other cash flow decreases	-353	-220	-60,6%
Total decrease of cash flow from operating activities	-776	-583	<i>-33,1%</i>
Net cash inflow/outflow from operating activities	979	1.118	-12,5%
Proceeds from sale of non-current assets	9	6	43,8%
Proceeds from sale of non-current financial assets	74	0	-
Proceeds from sale of current financial assets	0	0	-
Interest received	35	30	16,6%
Other cash inflows from investing activities	369	61	<i>505,1%</i>
Total increase of cash flow from investing activities	486	97	401,9%
Purchase of non-current assets	-499	-288	-73,2%
Other cash outflows from investing activities	-516	-182	-183,8%
Total decrease of cash flow from investing activities	-1.016	-470	-116,0%
Net cash inflow/outflow from investing activities	-529	-373	-41,8%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-8	-2	-304,3%
Dividends paid	-1.863	-2.788	33,2%
Total decrease in cash flow from financing activities	-1.871	-2.790	33,0%
Net cash inflow/outflow from financing activities	-1.871	-2.790	33,0%
Total increase of cash flow	979	1.118	-12,5%
Total decrease of cash flow	-2.400	-3.164	24,1%
Cash and cash equivalents at the beginning of period	3.282	4.195	-21,8%
Net cash (outflow) / inflow	-1.421	-2.045	30,5%
Cash and cash equivalents at the end of period	1.861	2.150	-13,4%



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

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HTRA CZ

