

BUSINESS AND FINANCIAL REVIEW JANUARY – DECEMBER 2017

**ANALYST PRESENTATION
21 FEBRUARY 2018**



LIFE IS FOR SHARING.

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1. SUMMARY



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HIGHLIGHTS

Financial

- 2017 delivery in line with Outlook
- Revenue and EBITDA up at both HT Group and HT Croatia, with industry-leading EBITDA margin
- 2018 Outlook reiterated: “Revenue slightly higher vs 2017,” “EBITDA margin before exceptionals at around 40%” and CAPEX “slightly lower”
- Dividend of HRK 6 per share proposed to be paid out of 2017 net profit (58% pay-out ratio)
 - Minimum dividend of HRK 6 per share currently expected to be paid out of 2018 net profit
- Four-year Share Buyback Programme launched in June 2017 with maximum of 2.5 million shares scheduled for acquisition - 3% of total number of shares outstanding
 - Around 0.3% of total shares bought back by end of 2017

Operational

- Leading market position across all areas of business maintained
 - Consolidated position in fixed market; H1 Telekom merged into Optima Telekom
 - Technology leadership endorsed by P3 award for best mobile network in Croatia
 - Expansion into region; acquisition of Crnogorski Telekom
- Innovative services introduced including voice over LTE (VoLTE), NextTV platform and Hybrid Access
- Magenta1 continues to attract Broadband and TV customers; 118,000 households and 10,000 business accounts
- Company moves from “transformational” to “growth” mode



FY 2017 OUTLOOK AND RESULTS

	Outlook (as of 10 Nov 2017)	Results delivered
Revenue	Around HRK 7,650 million	HRK 7,756 million ✓
EBITDA before exceptional items	Margin of around 40%	40.5% ✓
CAPEX	Around HRK 1,900 million	HRK 1,885 million ✓
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	Acquisition of Crnogorski Telekom in Jan 2017 ✓

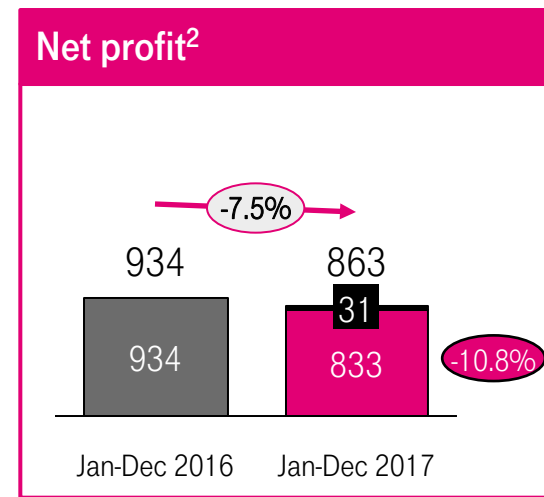
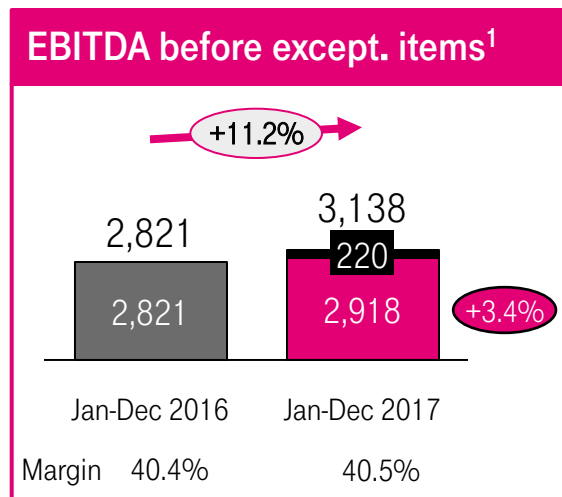
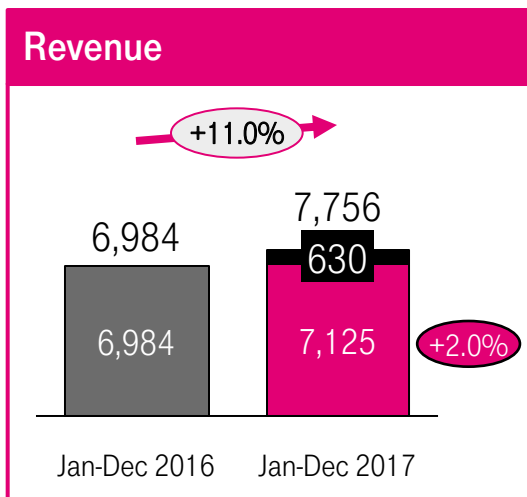
2. OVERVIEW 2017



REVENUE AND EBITDA UP AT BOTH HT GROUP AND HT CROATIA; NET PROFIT DOWN

All in HRK million

■ CT contribution
■ HT Croatia

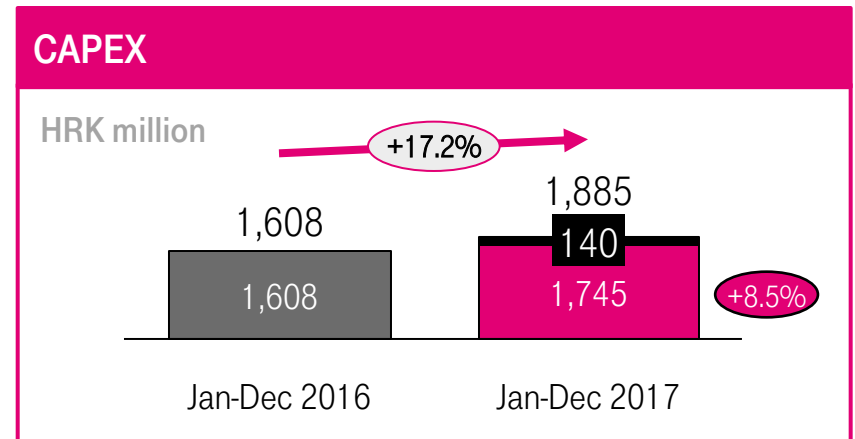
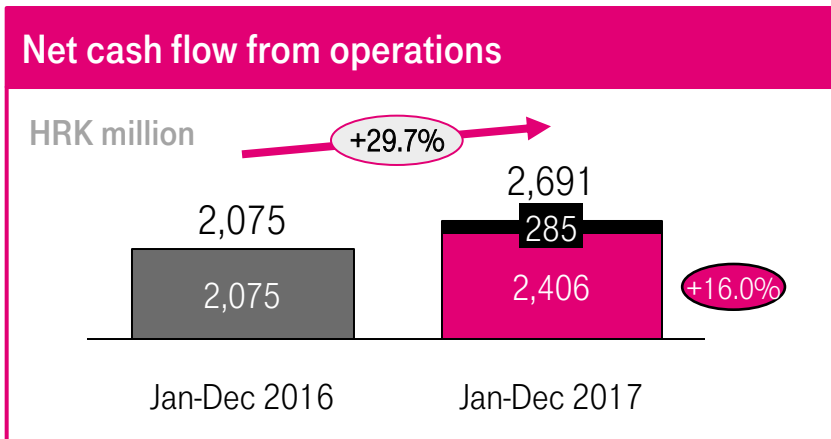


- Revenue up 11.0% to HRK 7,756 million
 - Robust performance and consolidation of H1 Telekom (H1), which was merged with Optima Telekom as of 1 July 2017, resulted in HT Croatia revenue growth of 2.0%. Excluding H1, revenue up 1.5%
 - Crnogorski Telekom (CT) revenue, consolidated as of 1 January, 2017, remained under pressure; however, profitability has improved following introduction of efficiency initiatives
- EBITDA before exceptional items up 11.2% to HRK 3,138 million following CT and H1 consolidation, revenue increase and real estate sales in HT Croatia, as well as continued successful transformation of Group; despite lower profitability at CT, margin stable at industry-leading level of 40.5%
 - HT Croatia EBITDA before exceptional items rose 3.4%. Excluding H1, it increased 2.8%
- Net profit down 7.5% to HRK 863 million, mainly due to higher depreciation of infrastructure investments and lower net financial income as well as larger exceptional items including extraordinary impairment of receivables, all in HT Croatia



OPERATING CASH FLOW INCREASES; STRONG INVESTMENT IN NETWORK AND CUSTOMER EXPERIENCE CONTINUES

■ CT contribution
■ HT Croatia

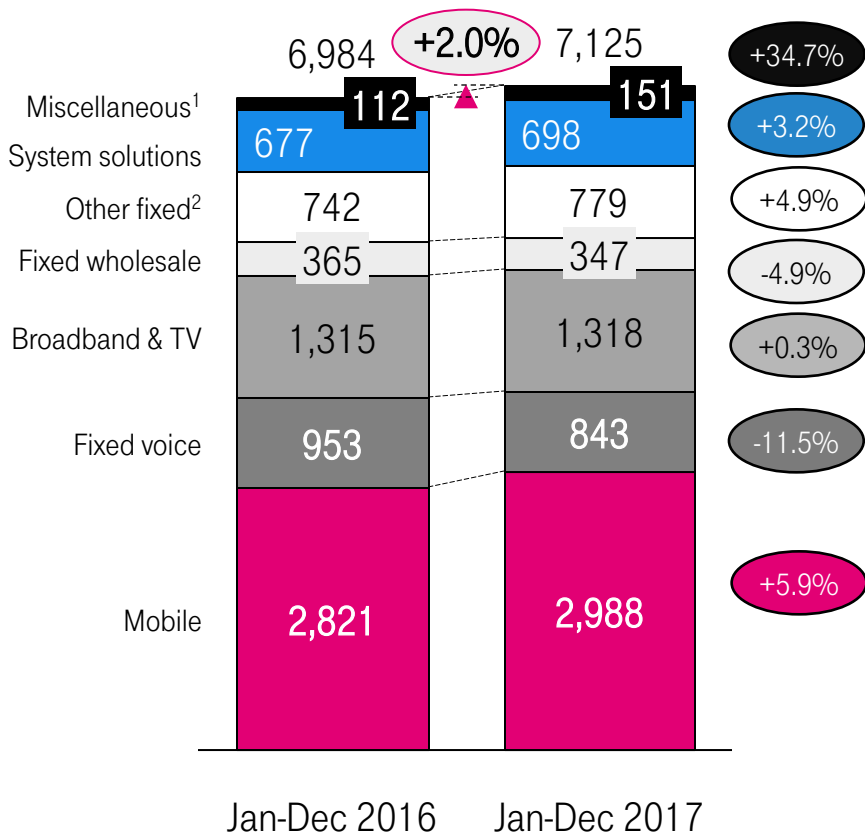


- Cash flow from operating activities up due to consolidation of Crnogorski Telekom as well as higher EBITDA and improved working capital management in HT Croatia
- CAPEX up following consolidation of Crnogorski Telekom, significant investment in mobile and fixed broadband network and investments in IT transformation by HT Croatia, as well as increase in capitalisation of contracts for TV content and newly installed TV platform

SOLID REVENUE GROWTH FOLLOWING GOOD PERFORMANCE IN MOBILE, SYSTEM SOLUTIONS AND ENERGY, SUPPORTED BY CONSOLIDATION OF H1

Revenue breakdown

HRK million



- **Mobile revenue** up largely from higher postpaid revenue, visitors to Croatia and handsets sales
- **Fixed voice** down due to fall in mainlines, traffic and ARPU
- **Broadband and TV revenue** up; slight fall in broadband revenue more than offset by TV revenue
- **Fixed wholesale revenue** down mainly due to revenue deduction from H1 Telekom, merged with Optima Telekom as of 1 July 2017, offset by higher national infrastructure revenue and higher international voice service revenue
- **Other fixed revenue** up largely on increase in Optima Telekom revenue, resulting from H1 Telekom consolidation and an increase in digital advertising revenue
- **System solutions** showed good growth
- **Miscellaneous revenue** boosted by development in **Energy revenue**: Jan-Dec 2017 at HRK 141 million vs Jan-Dec 2016 at HRK 102 million

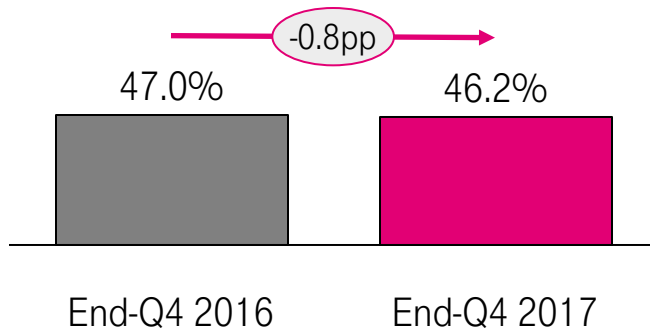


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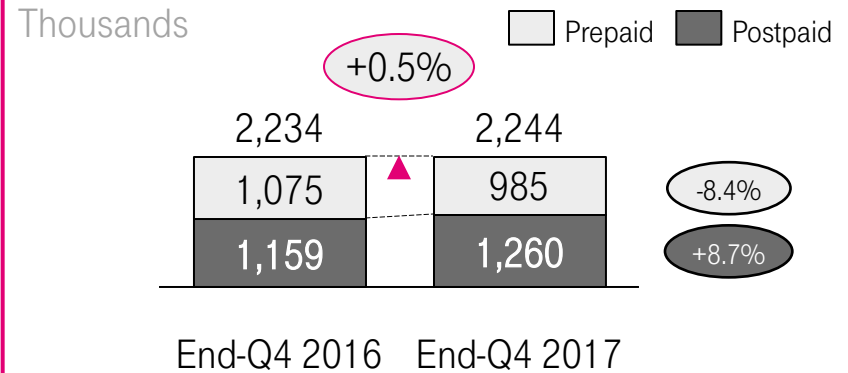
1 Energy and Other non telco services.
2 Optima Telekom revenue included.

MARKET AND TECHNOLOGY LEADERSHIP MAINTAINED

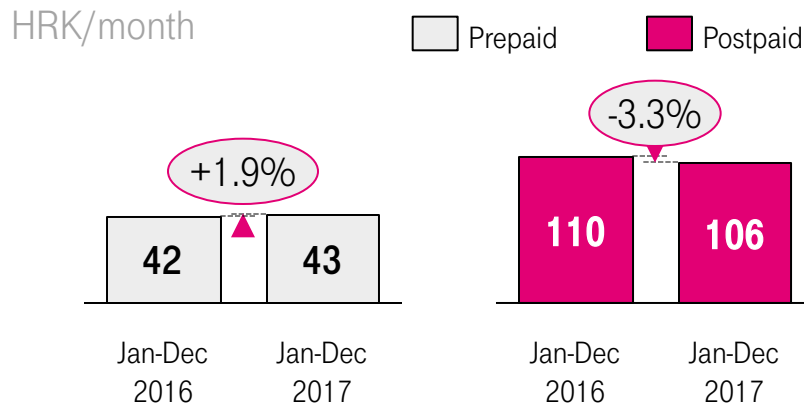
HT market share by subscribers^{1, 2}



Number of subscribers



ARPU



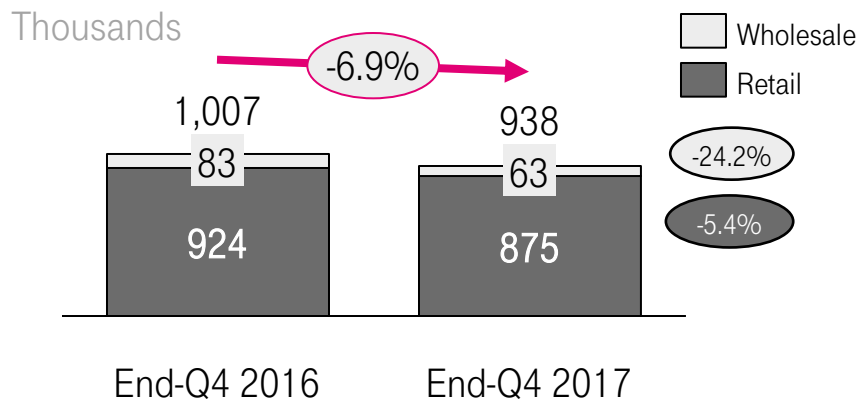
- **Average MOU** (minutes of use) up 4.8% to 216
- **Smartphone proportion** of total handset sales at 84% in postpaid segment (2016: 79%); **HT smartphone customers** at 58%
- **HT's 4G network** reached 76% population coverage indoors and 98% coverage outdoors
 - Average speeds continuously increasing despite notable increase in mobile network traffic following EU RLH regulation
- P3 award for the best mobile voice and data network in Croatia

1 Internal estimation

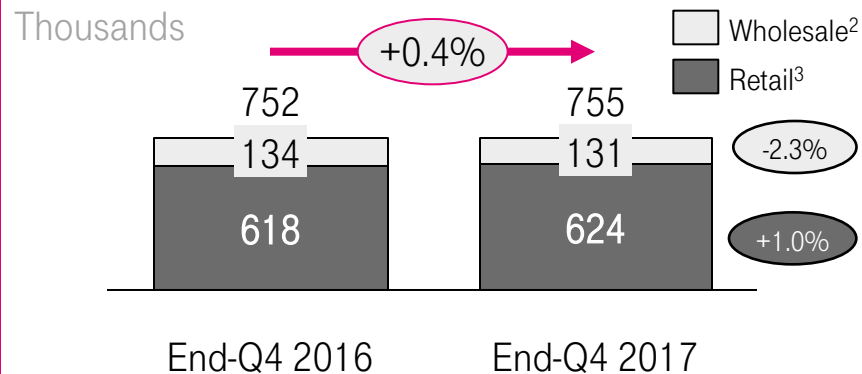
2 Based on the total number of SIMs, which includes handset SIMs, M2M, mobile broadband and other SIMs which may be used to create a service that traditionally has been considered as „fixed service”

RETAIL BROADBAND LINES AND TV CUSTOMERS RISE; FIXED MAINLINES DECREASE

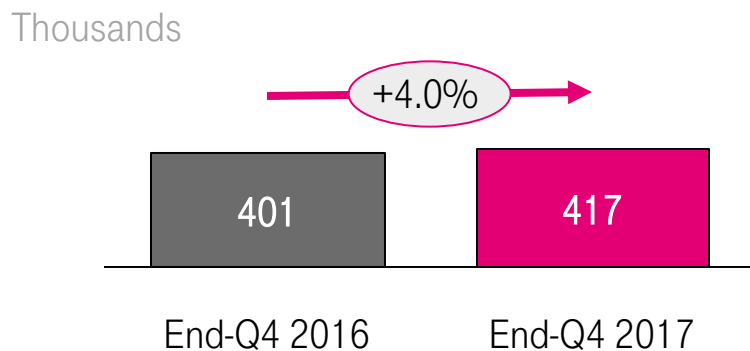
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



- **Fixed voice ARPU** down 6.9% at HRK 78
- **Broadband retail ARPU** at HRK 117, down 3.8%
- **TV ARPU** down 1.4% at HRK 81
- **Household coverage in Next Generation Access** (fixed Broadband >30 Mbps) at 58%; 20% of households enabled by speeds of 100 Mbps

¹ Includes PSTN, FGSM and old PSTN voice customers migrated to IP platform; payphones excluded

² Includes Naked Bitstream + Bitstream

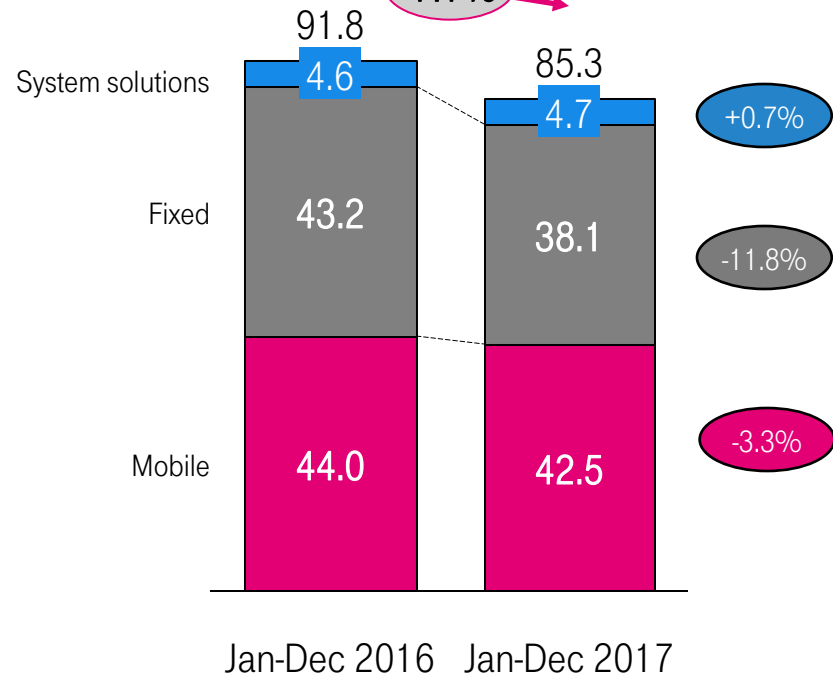
³ Includes ADSL, FTTH and Naked DSL

REVENUE REMAINS UNDER PRESSURE FROM REGULATORY AND COMPETITIVE ENVIRONMENT; HOWEVER, TRANSFORMATION INITIATIVES BOOST EBITDA MARGIN

Note: Crnogorski Telekom standalone revenue; Jan-Dec 2016 data presented for illustrative purposes to indicate key trends in Crnogorski Telekom performance versus Jan-Dec 2017; EUR is the official reporting currency of Crnogorski Telekom

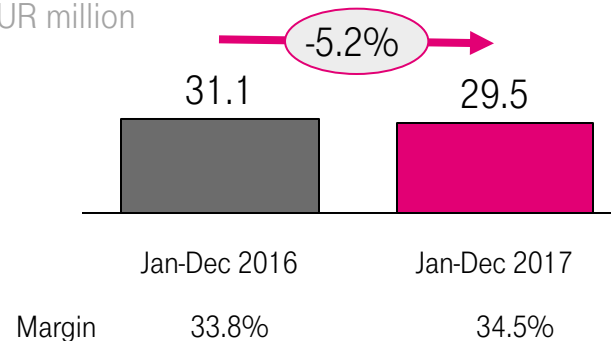
Revenue breakdown

EUR million



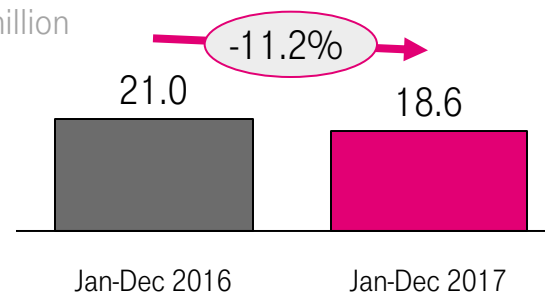
EBITDA before exceptional items

EUR million



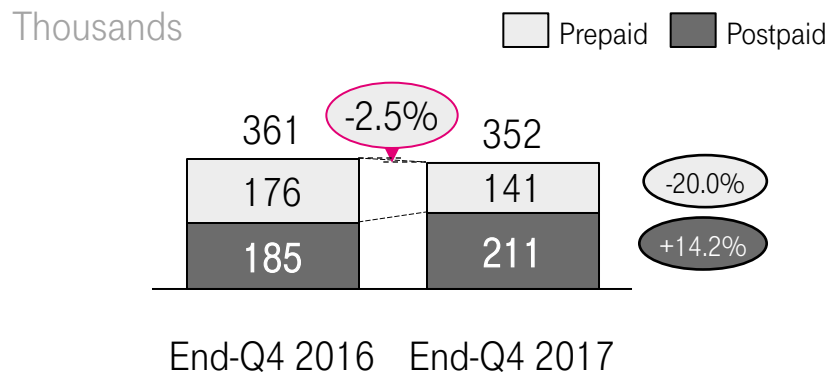
CAPEX

EUR million

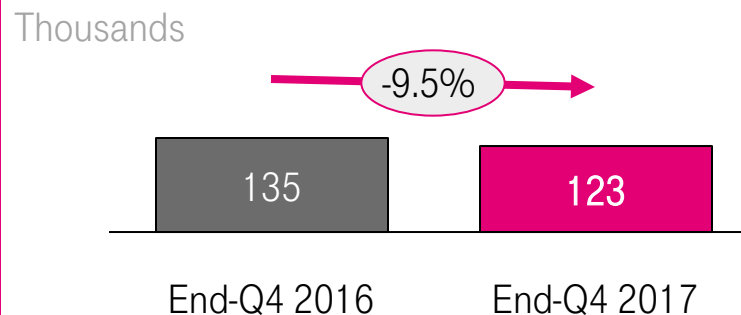


CUSTOMERS AND LINES DECREASE; HOWEVER, LEADING MARKET POSITION MAINTAINED IN MOBILE POSTPAID, FIXED VOICE AND BROADBAND

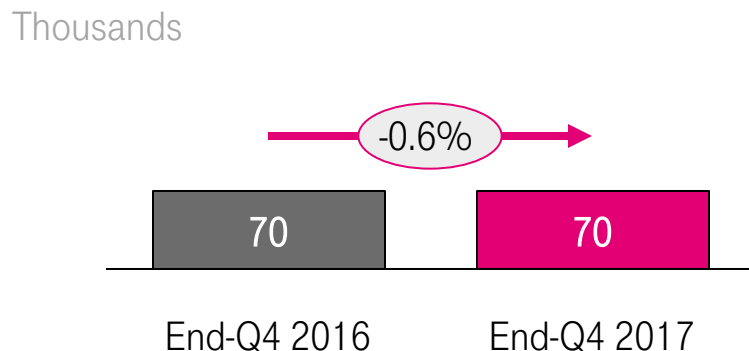
Number of mobile subscribers



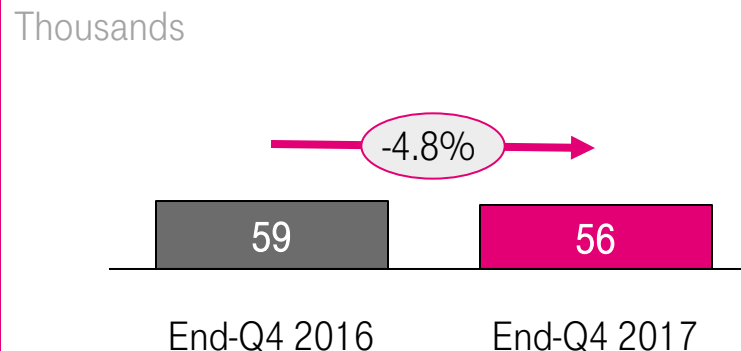
Number of fixed retail mainlines



No. of broadband retail access lines



Number of TV customers



3. OUTLOOK 2018 AND DIVIDEND 2017 & 2018



GROUP 2018 OUTLOOK

	2017 Results	Outlook 2018 vs 2017
Revenue	HRK 7,756 million	Slightly higher
EBITDA before exceptional items	Margin of 40.5%	Margin of around 40%
CAPEX	HRK 1,885 million	Slightly lower
Regional expansion	Acquisition of Crnogorski Telekom in Jan 2017	HT is monitoring and evaluating potential M&A opportunities

DIVIDEND 2017 AND 2018

Dividend proposal 2017

- Minimum target dividend announced in Feb 2017: HRK 6 per share
- Final dividend proposal: HRK 6 per share (58% pay-out ratio; 2016: 54%)
- In addition, in 2017 HT launched Share Buyback Programme (around 0.3% of total shares bought back)

Dividend Expectation for year 2018

HT currently expects to pay out a minimum dividend of HRK 6 per share

APPENDIX



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HT GROUP CONSOLIDATED INCOME STATEMENT

in HRK million	2016	2017	% of change A17/A16
Mobile revenue	2,821	3,305	17.2%
Fixed revenue	3,375	3,569	5.7%
System solutions	677	731	8.0%
Miscellaneous	112	151	34.7%
Revenue	6,984	7,756	11.0%
Other operating income	145	174	20.5%
Total operating revenue	7,129	7,930	11.2%
Operating expenses	4,392	4,943	12.5%
Material expenses	2,096	2,387	13.9%
Employee benefits expenses	986	1,073	8.8%
Other expenses	1,373	1,535	11.8%
Work performed by the Group and capitalised	-101	-158	56.7%
Write down of assets	38	106	181.7%
EBITDA	2,736	2,986	9.1%
Depreciation and amortization	1,497	1,869	24.8%
EBIT	1,239	1,118	-9.8%
Financial income	63	38	-39.7%
Income/loss from investment in joint ventures	4	2	-48.3%
Financial expenses	144	174	20.9%
Profit before taxes	1,162	984	-15.4%
Taxation	234	180	-23.3%
Net profit	928	804	-13.3%
Non controlling interests	-6	-59	958.1%
Net profit after non controlling interests	934	863	-7.5%
Exceptional items ¹⁾	85	151	78.0%
EBITDA before exceptional items	2,821	3,138	11.2%

1) Mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation



HT GROUP CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16
Intangible assets	1,738	2,539	46.1%
Property, plant and equipment	5,619	6,175	9.9%
Non-current financial assets	1,352	1,333	-1.4%
Receivables	121	248	105.3%
Deferred tax asset	59	91	52.7%
Total non-current assets	8,889	10,385	16.8%
Inventories	111	128	14.9%
Receivables	1,327	1,631	22.8%
Current financial assets	1,189	197	-83.4%
Cash and cash equivalents	2,676	3,152	17.8%
Prepayments and accrued income	262	246	-6.2%
Total current assets	5,566	5,353	-3.8%
TOTAL ASSETS	14,455	15,738	8.9%
Subscribed share capital	9,823	9,823	0.0%
Reserves	492	492	0.0%
Revaluation reserves	2	2	-31.9%
Retained earnings	633	1,024	61.9%
Net profit for the period	934	863	-7.5%
Non controlling interests	163	369	126.0%
Total issued capital and reserves	12,046	12,573	4.4%
Provisions	53	73	36.5%
Non-current liabilities	472	617	30.6%
Deferred tax liability	35	47	34.1%
Total non-current liabilities	561	737	31.4%
Current liabilities	1,741	2,310	32.6%
Deferred income	89	89	-0.2%
Provisions for redundancy	17	30	79.8%
Total current liabilities	1,847	2,429	31.5%
Total liabilities	2,408	3,166	31.5%
TOTAL EQUITY AND LIABILITIES	14,455	15,738	8.9%



HT GROUP CONSOLIDATED CASH FLOW STATEMENT

in HRK million	2016	2017	% of change A17/A16
Profit before tax	1,162	984	-15.4%
Depreciation and amortization	1,497	1,869	24.8%
Increase / decrease of current liabilities	-151	321	311.9%
Increase / decrease of current receivables	-112	-105	6.0%
Increase / decrease of inventories	-1	-57	-4811.2%
Other cash flow increases / decreases	-321	-320	0.1%
Net cash inflow/outflow from operating activities	2,075	2,691	29.7%
Proceeds from sale of non-current assets	56	99	78.0%
Proceeds from sale of non-current financial assets	639	2	-99.8%
Interest received	18	11	-39.6%
Dividend received	3	0	-100.0%
Other cash inflows from investing activities	1,941	1,302	-32.9%
Total increase of cash flow from investing activities	2,656	1,413	-46.8%
Purchase of non-current assets	-1,173	-1,467	-25.0%
Purchase of non-current financial assets	-1,019	-867	86.6%
Other cash outflows from investing activities	-2,207	-295	86.6%
Total decrease of cash flow from investing activities	-4,398	-2,629	40.2%
Net cash inflow/outflow from investing activities	-1,742	-1,215	30.2%
Total increase of cash flow from financing activities			-
Repayment of loans and bonds	-38	-72	-90.1%
Dividends paid	-491	-493	-0.4%
Repayment of finance lease	-10	-53	
Other cash outflows from financing activities	-294	-363	-23.6%
Total decrease in cash flow from financing activities	-833	-981	-17.8%
Net cash inflow/outflow from financing activities	-833	-981	-17.8%
Exchange gains/losses on cash and cash equivalents	2	-19	-1003.3%
Cash and cash equivalents at the beginning of period	3,175	2,676	-15.7%
Net cash (outflow) / inflow	-501	494	198.8%
Cash and cash equivalents at the end of period	2,676	3,152	17.8%

INVESTOR RELATIONS CONTACTS

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Bloomberg: HTRA CZ

