

BUSINESS AND FINANCIAL REVIEW JANUARY – DECEMBER 2018

**ANALYST PRESENTATION
15 FEBRUARY 2019**



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1. SUMMARY



HIGHLIGHTS

Financial

- 2018 delivery in line with Outlook
- Revenue, EBITDA and Net profit up, with industry-leading EBITDA margin
- 2019 Outlook: “Revenue around 2018 level,” “EBITDA margin before exceptionals at around 40%” and “CAPEX around 2018 level”
- Dividend of HRK 10 per share proposed, thereof:
 - HRK 7 per share proposed to be paid out of 2018 net profit and, in addition,
 - HRK 3 per share proposed to be paid following improved economic and investment climate in Croatia
- 0.55% of total shares bought back in 2018 as a part of four-year Share Buyback Programme launched in June 2017

Operational

- Leading market position across all areas of business maintained
- Technology leadership endorsed by P3 award for best mobile network in Croatia, second consecutive year
- Innovative digital services introduced including One App with 101,000 monthly active users
- Magenta1 continues to attract Broadband and TV customers; 191,000 households and 16,000 business accounts

FY 2018 OUTLOOK AND RESULTS

	Outlook (amended as of 31 Oct 2018)	Results delivered
Revenue	Around HRK 7,756 million	HRK 7,783 million (+0.4%) ✓
EBITDA before exceptional items	Margin of around 40%	40.9% (+0.9p.p.) ✓
CAPEX	Slightly lower than 2017 level (of HRK 1,885 million)	HRK 1,826 million (-3.1%) ✓
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	Purchase Agreement to buy evotv service signed; pending regulatory approval ✓

2. OVERVIEW 2018

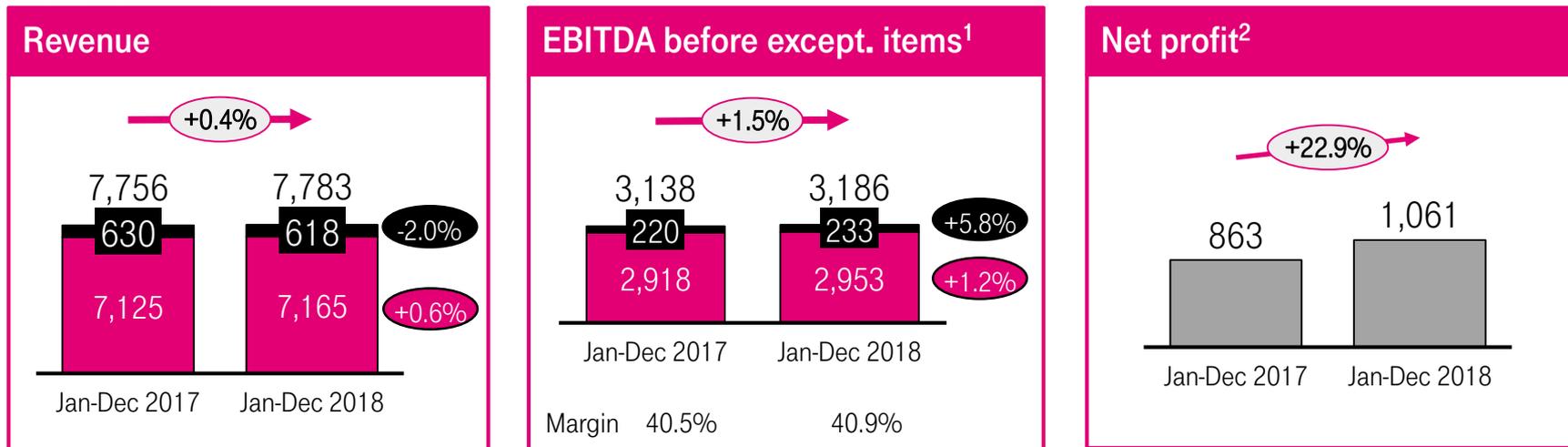


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GROUP REVENUE, EBITDA AND NET PROFIT UP WITH IMPROVED TRENDS AT CRNOGORSKI TELEKOM

All in HRK million

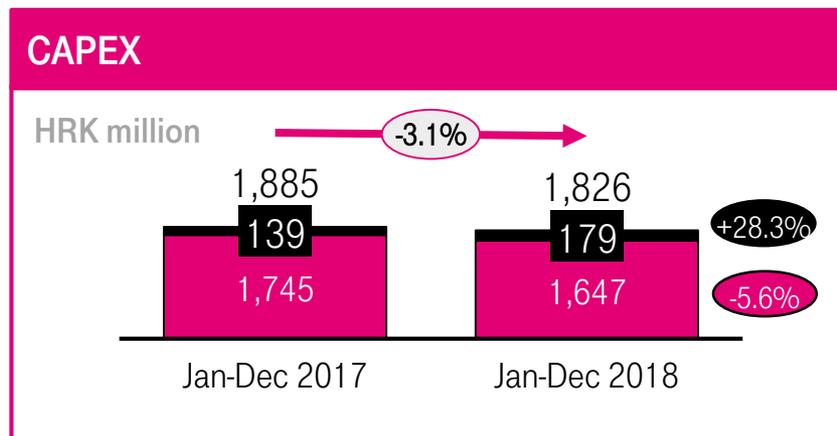
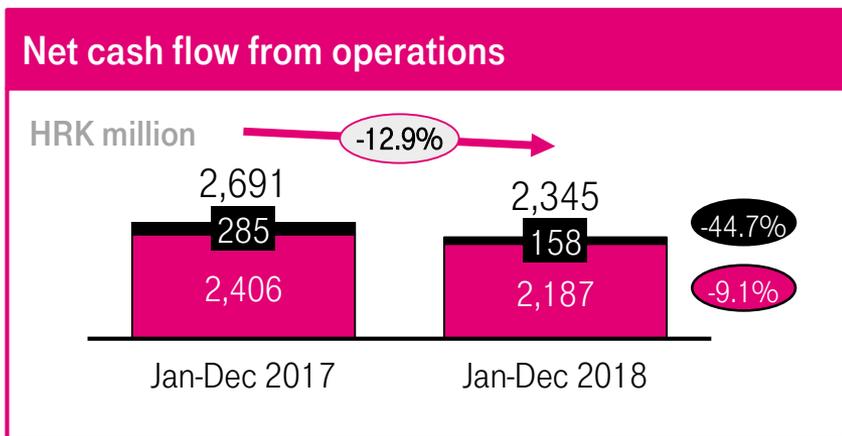
CT contribution
 HT Croatia
 HT Group



- Revenue up 0.4% to HRK 7,783 million
 - Small increase in revenue at HT Croatia despite exit from energy business and slowing of extra high growth rates in visitors data traffic
 - Crnogorski Telekom (CT) revenue slightly down as the business remains under pressure from tough competitive and regulatory environment
- EBITDA before exceptional items up 1.5% to HRK 3,186 million with margin of 40.9%, both mainly as a result of:
 - continued successful transformation and cost saving measures implemented across the Group, reduction in notably high spectrum fees in Croatia (effective 1 Jan 2018) including certain amount attributable to prior periods and implementation of IFRS 15³
- Net profit up 22.9% to HRK 1,061 million, mainly due to higher EBITDA before exceptionals, absence of extraordinary receivables impairment, lower depreciation and amortisation expenses and higher net financial income, all in HT Croatia

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

■ CT contribution ■ HT Croatia

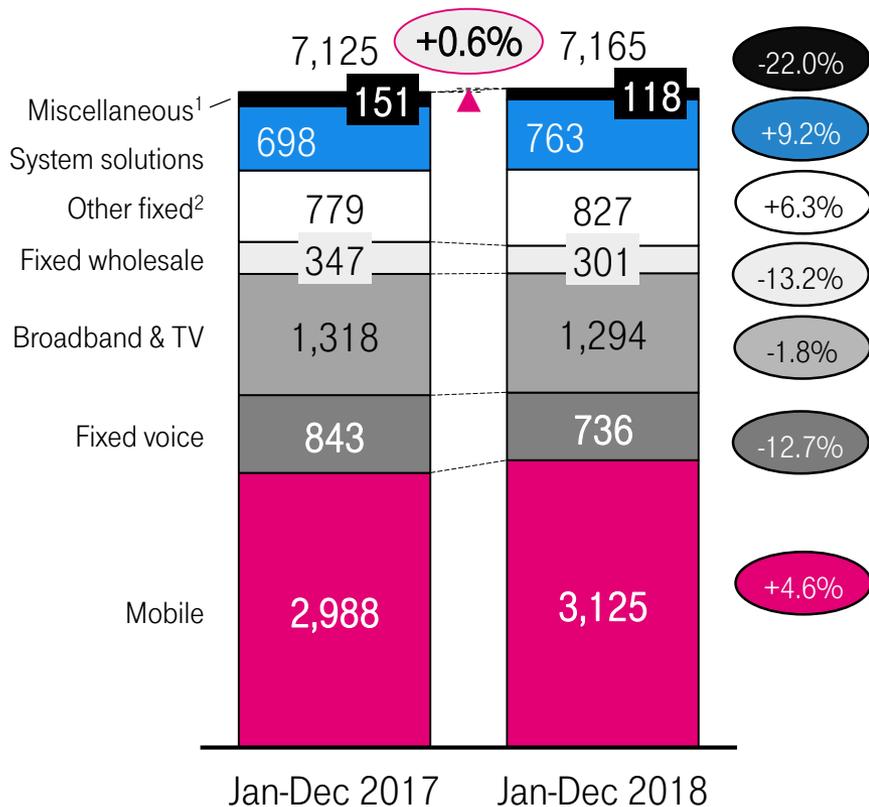


- Cash flow from operating activities down mainly due to adverse movements in working capital
- CAPEX slightly decreased; continued significant investments in mobile and fixed broadband, notably in modernization of mobile radio and transport networks in Istria, Kvarner and city of Zagreb, investments in IT transformation, product development and regulatory related CAPEX by HT Croatia. Crnogorski Telekom increased access investments.

SMALL INCREASE IN REVENUE DESPITE EXIT FROM ENERGY BUSINESS AND LOWER GROWTH RATES IN VISITORS DATA TRAFFIC; GOOD MOBILE AND SYSTEM SOLUTIONS PERFORMANCE

Revenue breakdown

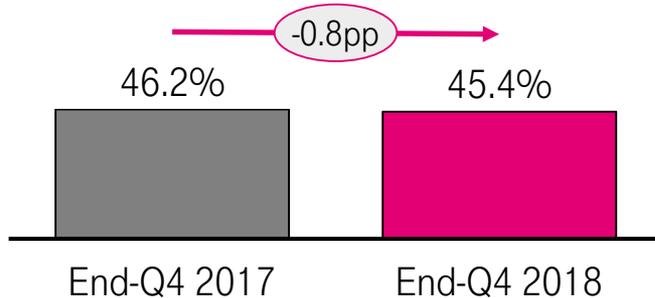
HRK million



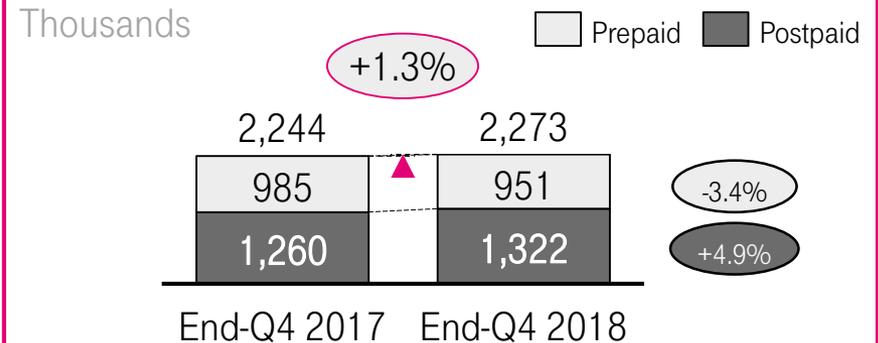
- **Mobile revenue** up largely from higher postpaid revenue (excluding IFRS 15), visitors to Croatia and handset sales
- **Fixed voice** down due to fall in mainlines, traffic and ARPU
- **Broadband and TV revenue** slightly down; growth in TV revenue partly offset fall in broadband revenue
- **Fixed wholesale revenue** down mainly due to revenue deduction from H1 Telekom, merged with Optima Telekom as of 1 July 2017
- **Other fixed revenue** up largely on increase in Optima Telekom revenue, resulting from H1 Telekom consolidation
- **System solutions** showed very good growth
- **Miscellaneous revenue** down; exit from marginally profitable contracts at Q1 2018 as well as its divestment in Q3 2018 resulted in **Energy business revenue** fall from HRK 141 million in Jan-Dec 2017 to HRK 97 million in Jan-Dec 2018

MARKET AND TECHNOLOGY LEADERSHIP MAINTAINED

HT market share by subscribers^{1, 2}

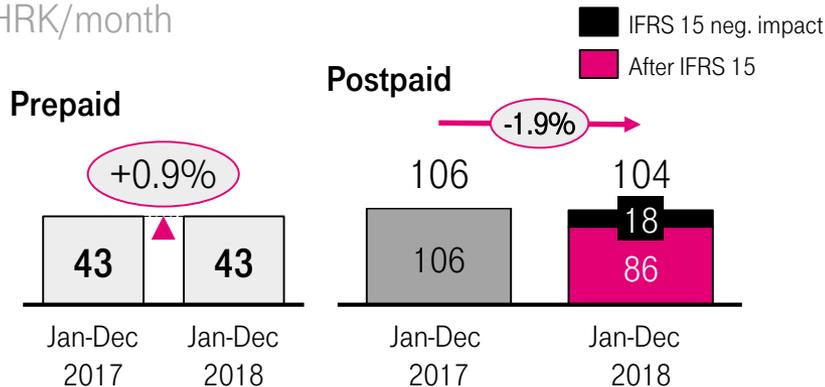


Number of subscribers



ARPU

HRK/month



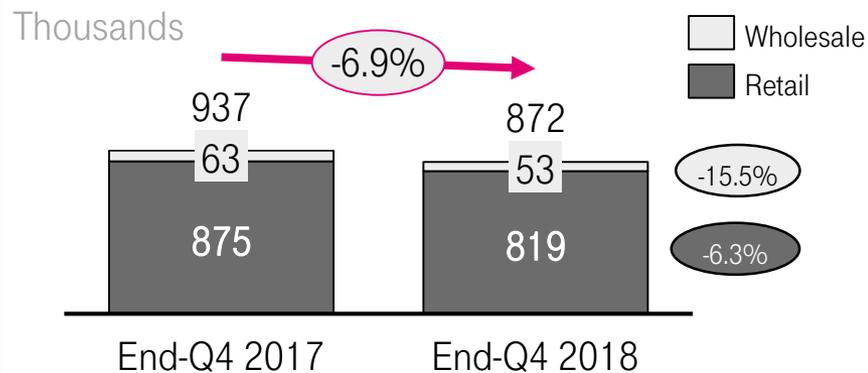
- **Average MOU** (minutes of use) up 4.0% to 225
- **Smartphone proportion** of total handset sales at 91% in postpaid segment (Jan-Dec 2017: 84%); **HT smartphone customers** at 67%
- **HT's 4G network** reached 82.0% population coverage indoors and 98.5% coverage outdoors
- **Modernization and capacity extension of mobile network** continued; building foundation for introduction of 5G
- P3 award for the best mobile data and crowdsourcing network in Croatia for second consecutive year

1 Internal estimation

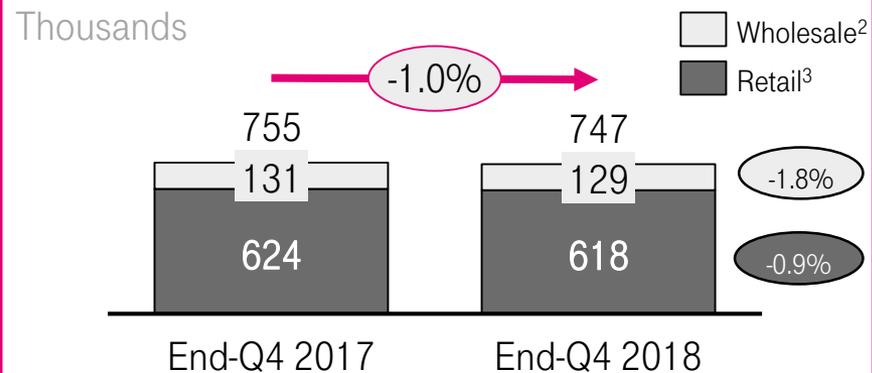
2 Based on the total number of SIMs, which includes handset SIMs, M2M, mobile broadband and other SIMs which may be used to create a service that traditionally has been considered as „fixed service“

TV CUSTOMERS AND ARPU RISE; FIXED MAINLINES AND BROADBAND LINES DECREASE

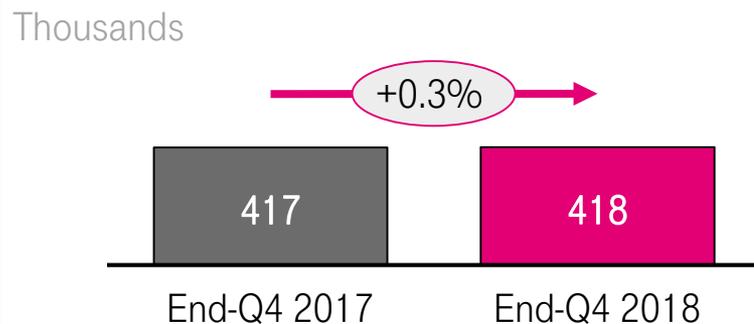
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



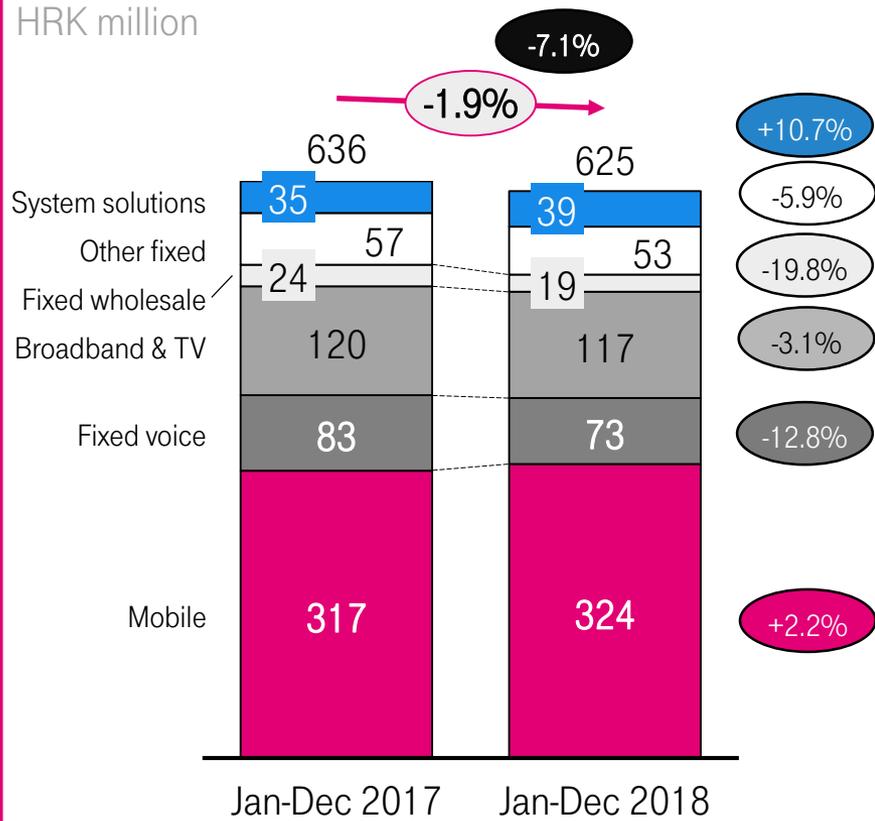
- **Fixed voice ARPU** down 7.3% at HRK 72.5
- **Broadband retail ARPU** at HRK 110.7, down 5.4%
- **TV ARPU** up 2.7% to HRK 83.6
- **Household coverage in Next Generation Access** (fixed Broadband >30 Mbps) at 58.2%; **FTTx access** enabled for 400,000 households

REVENUE DECLINE SLOWS WITH GOOD PERFORMANCE IN MOBILE AND SYSTEM SOLUTIONS; TRANSFORMATION INITIATIVES BOOST EBITDA MARGIN

Jan-Dec 2017 / Jan-Dec 2016 growth rate %

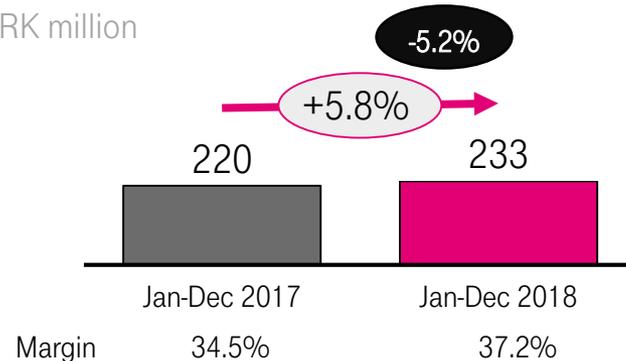
Revenue breakdown

HRK million



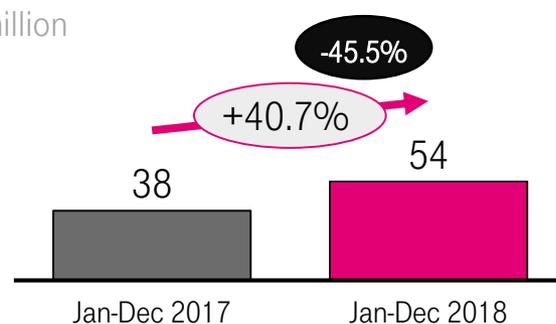
EBITDA before exceptional items

HRK million



Net profit

HRK million

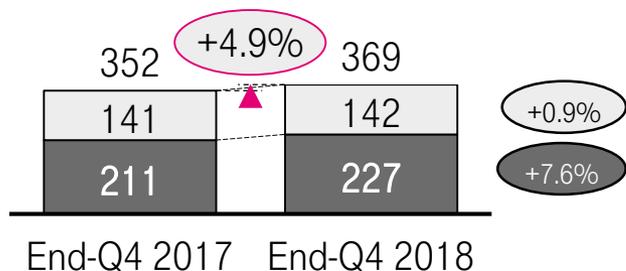


RISE IN ALL CUSTOMER SEGMENTS EXCEPT FIXED MAINLINES

Number of mobile subscribers

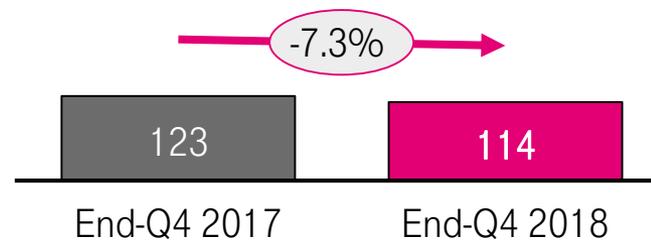
Thousands

Prepaid Postpaid



Number of fixed retail mainlines

Thousands



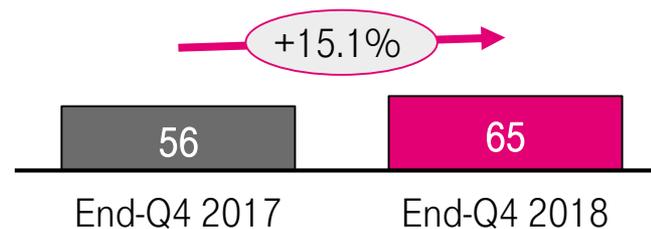
No. of broadband retail access lines

Thousands



Number of TV customers

Thousands



3. OUTLOOK 2019 , DIVIDEND 2018 & 2019 AND SHARE BUY-BACK 2018

GROUP 2019 OUTLOOK, BEFORE NEW STANDARD IFRS 16 IMPLEMENTATION

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Around 2018 level
EBITDA before exceptional items	Margin of 40.9%	Margin of around 40%
CAPEX	HRK 1,826 million	Around 2018 level
Regional expansion	Purchase Agreement to buy evotv service signed; pending regulatory approval	HT is monitoring and evaluating potential M&A opportunities

Note: the implementation of the IFRS 16 Standard starts as of 1 Jan 2019 and consequently the first set of results under new accounting treatment will be first quarter 2019 report. HT plans to issue within that report IFRS 16 impact on first quarter results.

DIVIDEND 2018 & 2019 AND SHARE BUYBACK 2018

Dividend proposal 2018

- Minimum target dividend announced in Feb 2018: HRK 6 per share
- Final dividend proposal of HRK 10 per share, thereof:
 - HRK 7 per share (57% pay-out ratio) to be paid out of 2018 net profit related to above mentioned regular practise of announcing yearly minimum target dividend and, in addition
 - HRK 3 per share as a result of improved economic and investment climate including Government's measures implemented which will positively impact whole telecom sector in Croatia (spectrum fees decrease)

Dividend Expectation for year 2019

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

Share Buy Back

- In 2018 HT bought back 450,517 own shares or 0.55% of total shares within its Share Buyback Programme launched in 2017. In addition, 216,005 own shares or 0.26% of total shares were bought back in 2017.

APPENDIX



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HT GROUP CONSOLIDATED INCOME STATEMENT

in HRK million	2017	2018	% of change A18/A17
Mobile revenue	3,305	3,450	4.4%
Fixed revenue	3,569	3,415	-4.3%
System solutions	731	801	9.6%
Miscellaneous	151	118	-22.0%
Revenue	7,756	7,783	0.4%
Other operating income	174	167	-4.4%
Total operating revenue	7,930	7,950	0.2%
Operating expenses	4,943	4,819	-2.5%
Material expenses	2,387	2,461	3.1%
Employee benefits expenses	1,073	1,087	1.3%
Other expenses	1,535	1,315	-14.3%
Work performed by the Group and capitalised	-158	-128	-19.2%
Write down of assets	106	83	-21.5%
EBITDA	2,986	3,131	4.8%
Depreciation and amortization	1,869	1,730	-7.5%
EBIT	1,118	1,401	25.4%
Financial income	38	28	-27.1%
Income/loss from investment in joint ventures	2	3	79.1%
Financial expenses	174	139	-20.0%
Profit before taxes	984	1,293	31.5%
Taxation	180	235	30.6%
Net profit	804	1,059	31.6%
Non controlling interests	-59	-3	-95.5%
Net profit after non controlling interests	863	1,061	22.9%
Exceptional items ¹⁾	151	55	-63.7%
EBITDA before exceptional items	3,138	3,186	1.5%

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



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Telekom consolidation

HT GROUP CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Intangible assets	2,539	2,539	0.0%
Property, plant and equipment	6,175	6,218	0.7%
Non-current financial assets	1,333	1,312	-1.6%
Receivables	248	391	58.0%
Contract assets (IFRS 15)	0	58	
Contract costs (IFRS 15)	0	81	
Deferred tax asset	91	94	4.3%
Total non-current assets	10,385	10,694	3.0%
Inventories	128	136	6.2%
Receivables	1,631	1,549	-5.0%
Current financial assets	197	112	-43.2%
Contract assets (IFRS 15)	0	146	
Contract costs (IFRS 15)	0	57	
Cash and cash equivalents	3,152	3,137	-0.5%
Prepayments and accrued income	246	201	-18.3%
Total current assets	5,353	5,337	-0.3%
TOTAL ASSETS	15,738	16,031	1.9%
Subscribed share capital	9,823	9,823	0.0%
Reserves	530	562	5.9%
Revaluation reserves	2	-14	
Treasury shares	-38	-71	84.7%
Retained earnings	1,024	1,503	46.8%
Net profit for the period	863	1,061	22.9%
Non controlling interests	369	344	-6.8%
Total issued capital and reserves	12,573	13,208	5.1%
Provisions	73	70	-4.0%
Non-current liabilities	617	384	-37.8%
Contract liabilities (IFRS 15)	0	0	
Deferred tax liability	47	44	-7.6%
Total non-current liabilities	737	498	-32.5%
Current liabilities	2,310	2,223	-3.8%
Contract liabilities (IFRS 15)	0	52	
Deferred income	89	39	-56.6%
Provisions for redundancy	30	13	-58.2%
Total current liabilities	2,429	2,326	-4.2%
Total liabilities	3,166	2,823	-10.8%
TOTAL EQUITY AND LIABILITIES	15,738	16,031	1.9%



HT GROUP CONSOLIDATED CASH FLOW STATEMENT

in HRK million	2017	2018	% of change A18/A17
Profit before tax	984	1,293	31.5%
Depreciation and amortization	1,869	1,730	-7.5%
Increase / decrease of current liabilities	321	-181	-156.3%
Increase / decrease of current receivables	-105	11	110.9%
Increase / decrease of inventories	-57	-28	50.7%
Other cash flow increases / decreases	-320	-480	-49.8%
Net cash inflow/outflow from operating activities	2,691	2,345	-12.9%
Proceeds from sale of non-current assets	99	38	-61.2%
Proceeds from sale of non-current financial assets	2	1	-2.3%
Interest received	11	8	-28.7%
Other cash inflows from investing activities	1,302	625	-52.0%
Total increase of cash flow from investing activities	1,413	672	-52.4%
Purchase of non-current assets	-1,467	-1,536	-4.8%
Purchase of non-current financial assets	-867	0	100.0%
Other cash outflows from investing activities	-295	-504	-70.6%
Total decrease of cash flow from investing activities	-2,629	-2,040	22.4%
Net cash inflow/outflow from investing activities	-1,215	-1,368	-12.6%
Total increase of cash flow from financing activities			
Repayment of loans and bonds	-72	-58	19.0%
Dividends paid	-493	-497	-0.8%
Repayment of finance lease	-53	-2	96.9%
Other cash outflows from financing activities	-363	-435	-19.8%
Total decrease in cash flow from financing activities	-981	-992	-1.1%
Net cash inflow/outflow from financing activities	-981	-992	-1.1%
Exchange gains/losses on cash and cash equivalents	-19	0	98.8%
Cash and cash equivalents at the beginning of period	2,676	3,152	17.8%
Net cash (outflow) / inflow	476	-15	-103.2%
Cash and cash equivalents at the end of period	3,152	3,137	-0.5%

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Bloomberg: HTRA CZ

