

BUSINESS AND FINANCIAL REVIEW JANUARY – MARCH 2019

**ANALYST PRESENTATION
26 APRIL 2019**



LIFE IS FOR SHARING.

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EXECUTIVE SUMMARY - HIGHLIGHTS



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HIGHLIGHTS

Business

- Magenta1 continues to attract customers; 209,000 households and 21,000 business accounts in Croatia
- Strong investments in mobile and fixed broadband networks to ensure superior customer experience
- Continuous increase in NGA coverage and access speed in fixed broadband; intensive modernization of mobile network throughout Croatia
 - Pilot 5G network and data sessions established in real production network environment
- HT participated in 2600Mhz spectrum award and acquired block of 2x20Mhz
- Purchase of HP Produkcija, provider of evotv service through DVBT technology, completed
- Preparations for Telekom Banking services finalised; official launch soon
- One App digital service with 113,000 monthly active users and average rating of 4.5 on Google Play platform

Financial

- Continuation of strong financial performance
- CAPEX/Sales ratio at high 21.8% supporting strong investments
- Group applied new accounting standard IFRS 16 Leases as of 1 January 2019; „After leases” concept (AL) introduced to enable comparability
- Outlook 2019 unchanged
- Share buyback ongoing at accelerated pace

ACCOUNTING CHANGES AND NEW REPORTING KPIS; BRIEF OVERVIEW



APPLICATION OF NEW IFRS 16 TO ELIMINATE DIFFERENT TREATMENT OF FINANCE AND OPERATING LEASES

„AL“ OR „AFTER LEASES“ STEERING KPIS INTRODUCED TO ENSURE COMPARABILITY

IFRS 16 in general

- Effective for annual reporting periods starting on 1 January 2019
- Major impact on Telecoms on Lessee side
- Lease contracts usually relate to rentals of: buildings, retail shops, collocation space, rooftop space for cell sites, network infrastructure, vehicles, etc.
- All IFRS 16 relevant leases will be recognized in essence as finance leases (Right of Use Asset and Lease Liabilities) instead of previously recognized operating lease (OPEX)

Q1 2019 HT Group reporting

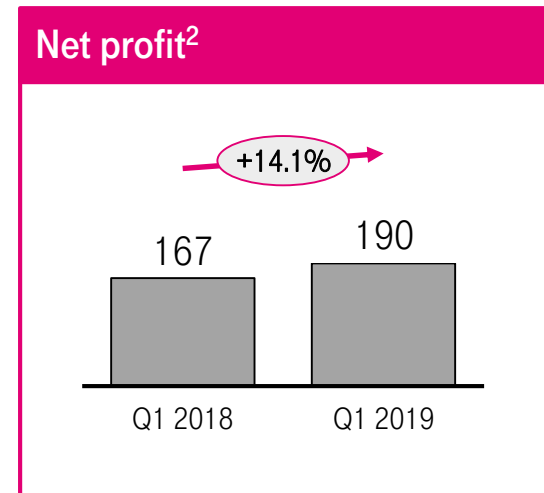
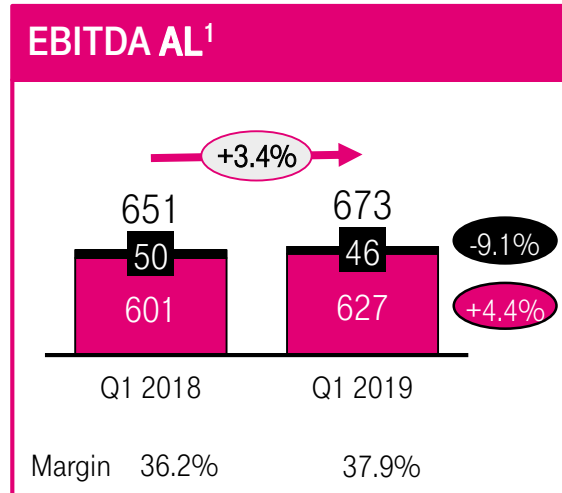
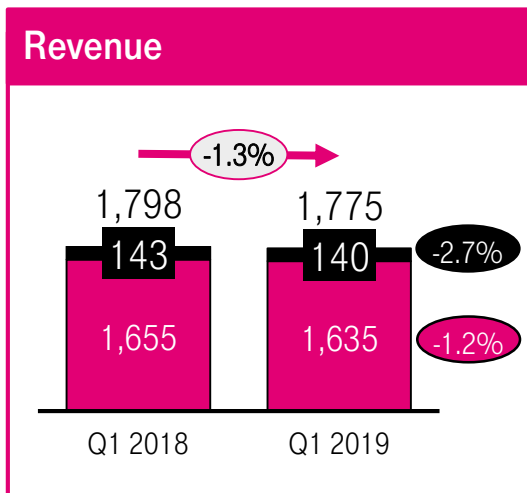
- 2019 accounts under new IFRS 16
 - Year 2018 not restated; only income statement, cash flow and the respective KPIs are proforma adjusted for IFRS 16 effects
 - Outlook 2019 on after-lease AL basis
- As of 2019, the steering logic will be based on an „AL“ view, meaning that all main Financials which are impacted by IFRS16 will be adjusted for lease transactions to eliminate IFRS16 impact
- New steering relevant „AL“ KPIs for both, 2018 and 2019
 - EBITDA AL
 - CAPEX AL

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EBITDA AND NET PROFIT UP; REVENUE SLIGHTLY DOWN

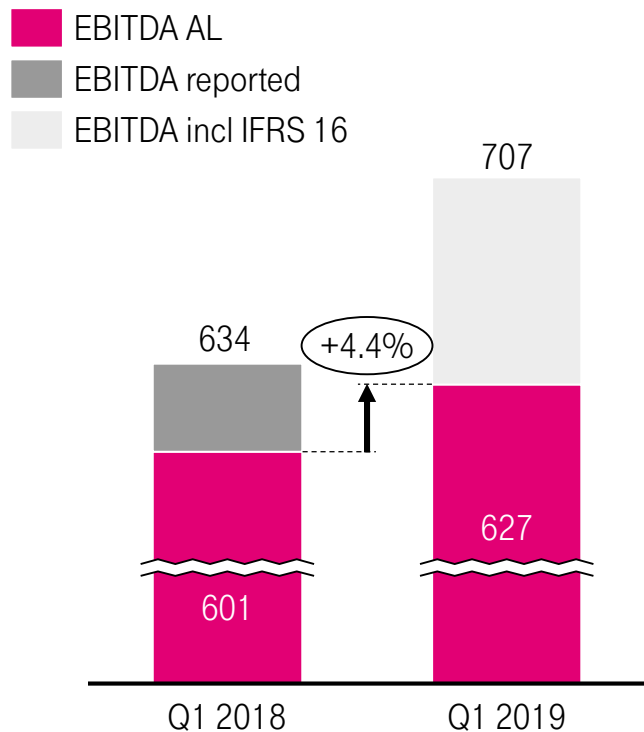
All in HRK million



- Revenue down 1.3% to HRK 1,775 million
 - HT Croatia revenue performance impacted by exit from Energy business in September 2018; Evotv service consolidated as of 1 March 2019
 - Crnogorski Telekom (CT) revenue remained under pressure; however, negative trends from previous years significantly decreased
- EBITDA AL up 3.4% to HRK 673 million, partially influenced by one off positive impact from Evotv purchase transaction
 - EBITDA AL margin increased by 1.7 p.p. to 37.9%
- Net profit up 14.1% to HRK 190 million, mainly due to higher EBITDA AL and lower redundancy costs

NEW ACCOUNTING IMPACTS EBITDA SIGNIFICANTLY

Movement in HT Croatia EBITDA



EBITDA after leases (AL) concept (two step approach):

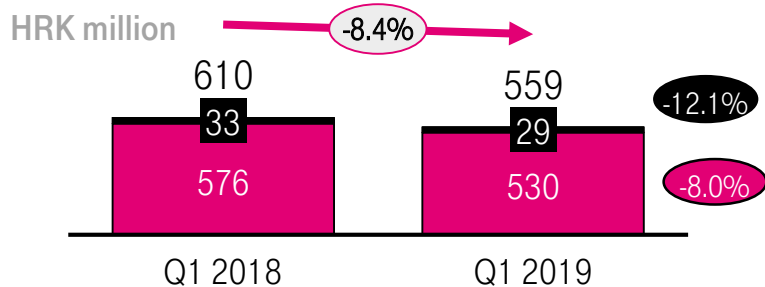
- IFRS 16 → increase in EBITDA for previously booked OPEX due to elimination of operating lease expenses
- AL → adding back lessee depreciation and lessee interest to EBITDA
- *IFRS 16 and AL concept has no material impact on Net revenue and Net profit*

- 2018 adjusted for like for like comparison reasons with 2019 effect (no restatement of 2018)
- EBITDA AL with larger deviations to old EBITDA compared with other Telcos mainly due to already previous capitalization of ECI which is now deducted in AL view

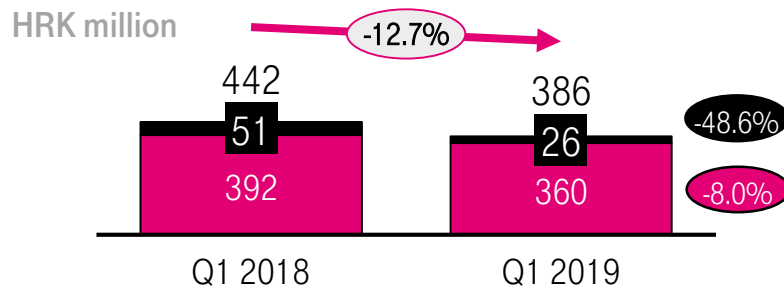
OPERATING CASH FLOW DECREASES; STRONG INVESTMENT IN NETWORK AND CUSTOMER EXPERIENCE CONTINUES

■ CT contribution ■ HT Croatia

Net cash flow from operations



CAPEX AL

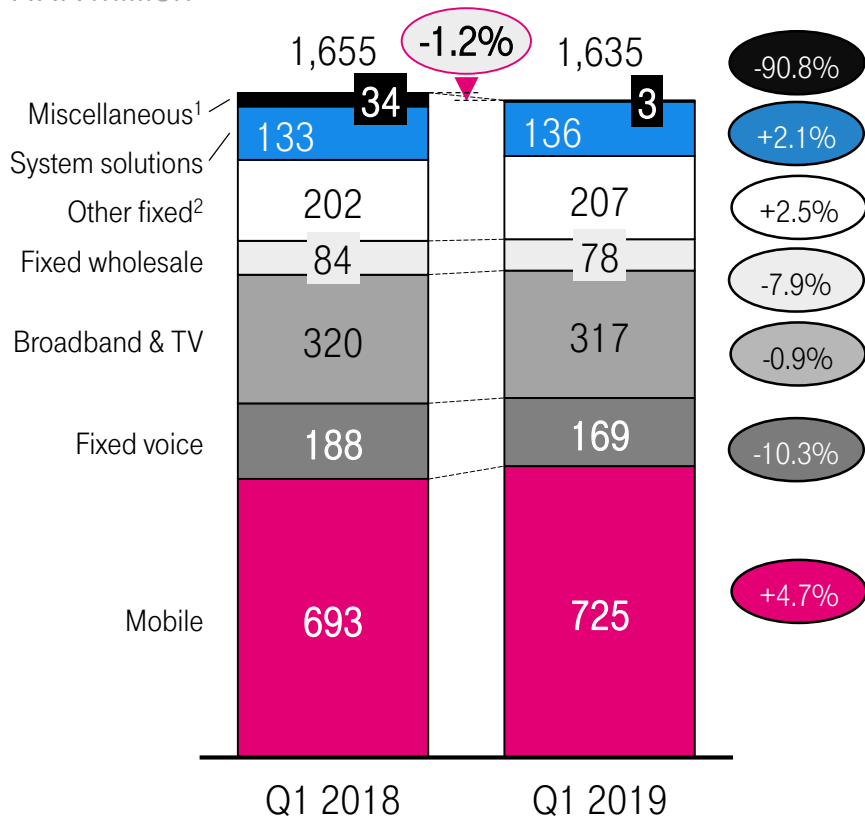


- Cash flow from operating activities down mainly due to adverse movements in working capital
- CAPEX down following lower content capitalisation; however, significant investment in mobile and fixed broadband network continues

EXIT FROM ENERGY BUSINESS IMPACTS REVENUE PERFORMANCE

Revenue breakdown

HRK million

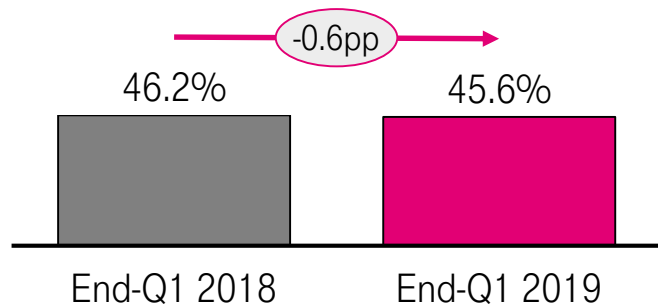


- **Mobile revenue** up from higher postpaid revenue, especially mobile data contribution, and handset sales
- **Fixed voice** down due to fall in mainlines, traffic and ARPU
- **Broadband and TV revenue** slightly down; growth in TV revenue, following successful Magenta 1 offers, overall higher TV customer base and addition of one month of Evotv revenue, partly offset fall in broadband revenue
- **Fixed wholesale revenue** down mainly due to lower transit traffic
- **System solutions** up on more favourable yearly project dynamics in Q1 2019 vs same period in previous year
- **Miscellaneous revenue** down in the absence of **Energy, revenue** totalling HRK 31 million in Q1 2018, which was sold in Q3 2018

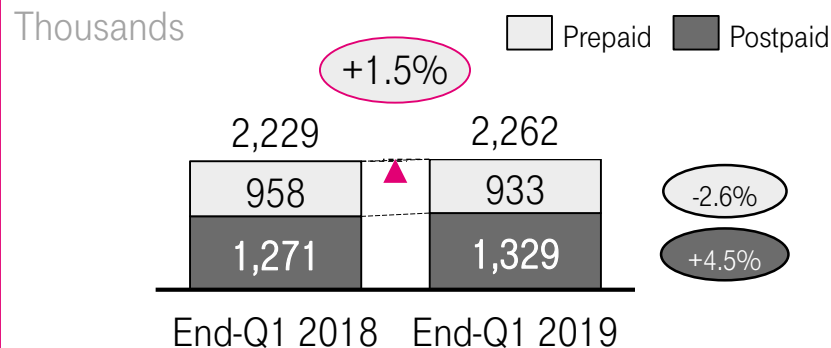


MARKET AND TECHNOLOGY LEADERSHIP MAINTAINED

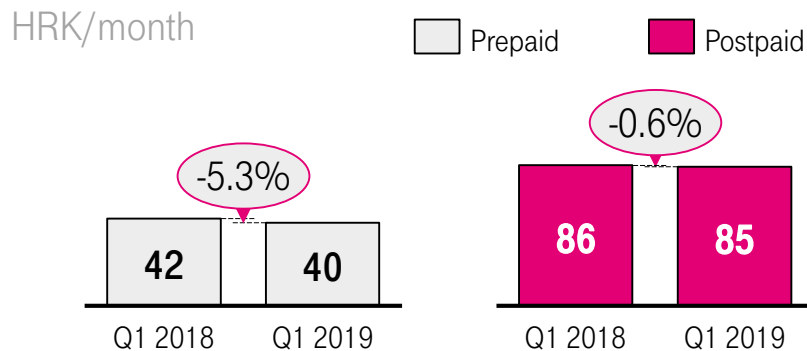
HT market share by subscribers^{1, 2}



Number of subscribers



ARPU



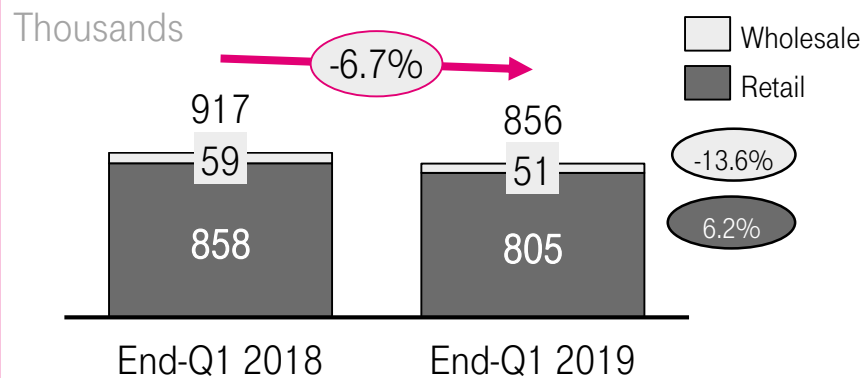
- **Smartphone proportion** of total handset sales at 94% in postpaid segment (Q1 2018: 90%); **HT smartphone customers** at 67%
- **HT's 4G network** reached 99% population coverage outdoors and 83% coverage indoors
- HT continues **modernization of mobile network** throughout Croatia; building foundation for introduction of 5G
- **P3 award** for best mobile data and crowdsourcing network in Croatia for second consecutive year

¹ Internal estimation

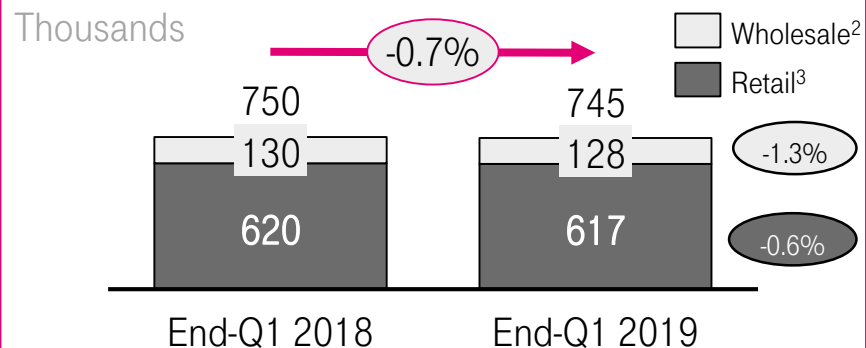
² Based on the total number of SIMs, which includes handset SIMs, M2M, mobile broadband and other SIMs which may be used to create a service that traditionally has been considered as „fixed service”

EVOTV ACQUISITION BOOSTS TV CUSTOMER NUMBERS; FIXED MAINLINES AND BROADBAND LINES DECREASE

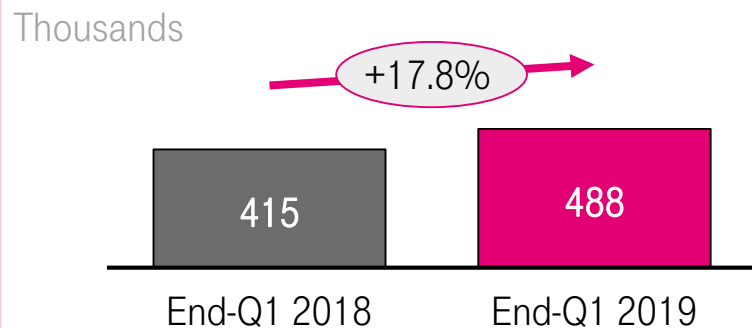
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



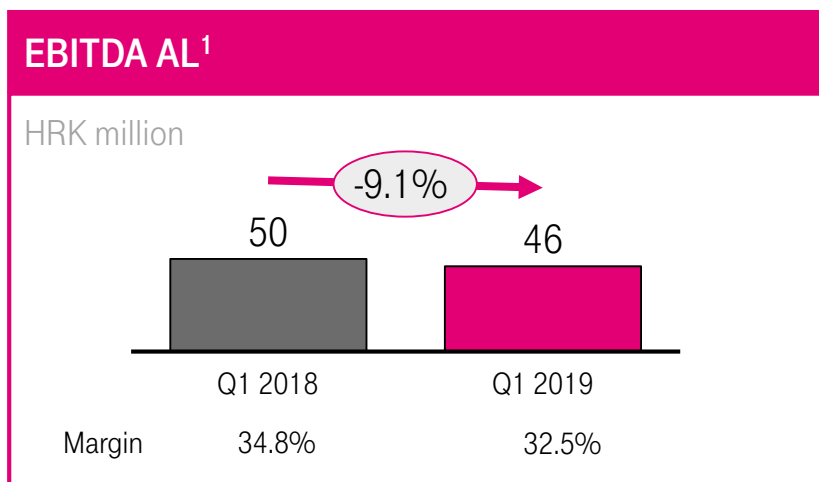
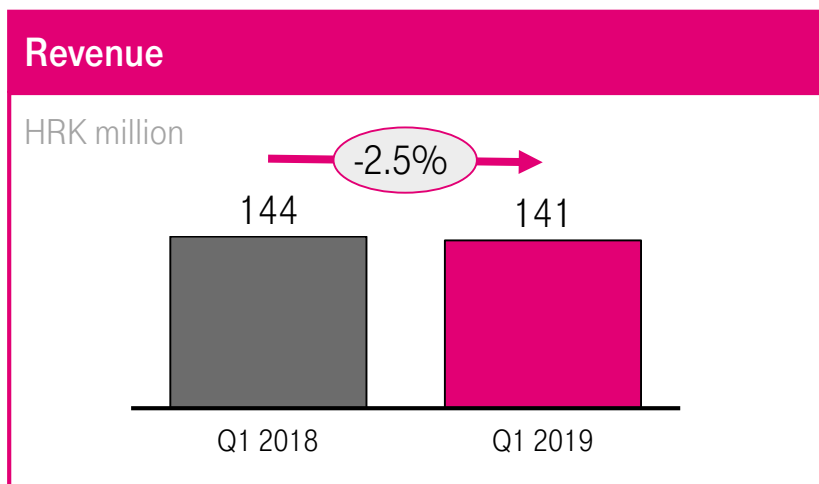
- **Fixed voice ARPU** down 4.2% at HRK 69
- **Broadband retail ARPU** at HRK 104, down 6.4%
- **TV ARPU** up 6.7% to HRK 87
- As a result of investments into fixed infrastructure, **NGA coverage** for speeds above 30 Mbps reached level of 59% and above 100 Mbps level of 22% of Croatia's total 1.5 million HH

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

² Includes Naked Bitstream + Bitstream

³ Includes ADSL, VDSL, FTTH, FTTB, FTTC

REVENUE AND PROFITABILITY UNDER PRESSURE MAINLY DUE TO FIXED VOICE DEVELOPMENT



- **Revenue** down mainly following negative development in **Fixed Voice** and **Mobile Prepaid** offset by rise in **System solutions** revenue
- **Mobile Postpaid** revenue up; market leadership remained
- **Broadband and TV revenue** broadly stable
- Decline in **EBITDA** mainly following the absence of one-off positive effects in Q1 2018 (sale of real estates and accounting standards change) and lower revenues from fixed voice

GROUP 2019 OUTLOOK REMAINS UNCHANGED; NOW SET ON „AFTER LEASES” (AL) BASIS

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Around 2018 level
EBITDA AL	Margin of 38.6%	Margin of around 38%
CAPEX AL	HRK 1,826 million	Around 2018 level
Regional expansion	Acquisition of Evotv service	HT is monitoring and evaluating potential M&A opportunities

APPENDIX I



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IFRS 16 ALSO IMPACTS OTHER ACCOUNTS

CAPEX TO BE PRESENTED IN FUTURE ON „AFTER LEASES” PRINCIPLE

Balance sheet

- IFRS 16 will increase total „Right of Use Asset” and Financial Lease Liabilities. Creation of
 - Right of Use Assets
 - Regular Depreciation
 - Financial Lease Liabilities
 - Amortized in line with repayment w/o interest
- AL principle not applied

Net cash flow from operations (NCFO)

- IFRS 16 → increase in NCFO with corresponding increase in cash outflows from financing activities (total cash flow remains unchanged)
- AL principle not applied.

CAPEX AL

- IFRS 16 → increase in Capex due to all IFRS 16 related leased contracts being capitalized (previously disclosed under P&L)
- AL → back to pre IFRS 16 level (remains unchanged)

APPENDIX II



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HT GROUP CONSOLIDATED INCOME STATEMENT

in HRK million	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Mobile revenue	766	766	797	4.1%
Fixed revenue	859	859	830	-3.4%
System solutions	139	139	144	4.0%
Miscellaneous	34	34	3	-90.8%
Revenue	1,798	1,798	1,775	-1.3%
Other operating income	26	26	80	212.3%
Total operating revenue	1,823	1,823	1,855	1.7%
Operating expenses	1,162	1,111	1,102	-0.9%
Material expenses	561	561	544	-2.9%
Employee benefits expenses	263	263	278	5.5%
Other expenses	352	301	277	-7.8%
Work performed by the Group and capitalised	-24	-24	-23	-3.0%
Write down of assets	11	11	25	132.1%
EBITDA	661	712	753	5.8%
Depreciation and amortization	427	473	497	5.1%
EBIT	233	239	256	7.2%
Financial income	14	14	7	-49.6%
Income/loss from investment in joint ventures	-3	-3	-2	-17.7%
Financial expenses	47	52	30	-41.3%
Profit before taxes	197	198	230	16.2%
Taxation	37	37	45	20.6%
Net profit	160	161	186	15.2%
Non controlling interests	-6	-6	-5	-17.5%
Net profit after non controlling interests	166	167	190	14.1%
Exceptional items ¹⁾	23	23	7	-68.4%
EBITDA before exceptional items	684	735	760	3.4%
EBITDA before exceptional items after leases		651	673	3.4%

¹⁾ Mainly related to restructuring redundancy costs and legal cases

Note: Q1 2018 proforma adjusted for 2019 IFRS 16 effects



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HT GROUP CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2018	At 31 Mar 2019	% of change A19/A18
Intangible assets	2,539	2,468	-2.8%
Property, plant and equipment	6,218	6,205	-0.2%
Non-current financial assets	1,312	1,310	-0.1%
Receivables	391	383	-2.0%
Lessee use rights to leased assets (IFRS 16)	0	531	-
Contract assets (IFRS 15)	58	58	-1.4%
Contract costs (IFRS 15)	81	91	12.1%
Deferred tax asset	94	96	1.6%
Total non-current assets	10,694	11,142	4.2%
Inventories	136	146	7.8%
Receivables	1,549	1,445	-6.7%
Current financial assets	112	112	-0.2%
Contract assets (IFRS 15)	146	180	23.2%
Contract costs (IFRS 15)	57	59	2.4%
Cash and cash equivalents	3,137	3,193	1.8%
Prepayments and accrued income	201	165	-18.0%
Total current assets	5,337	5,299	-0.7%
TOTAL ASSETS	16,031	16,441	2.6%
Subscribed share capital	9,823	9,823	0.0%
Reserves	562	563	0.3%
Revaluation reserves	-14	14	-205.1%
Treasury shares	-71	-96	35.8%
Retained earnings	1,503	2,545	69.3%
Net profit for the period	1,061	190	-82.1%
Non controlling interests	344	331	-3.6%
Total issued capital and reserves	13,208	13,371	1.2%
Provisions	70	78	11.8%
Non-current liabilities	384	276	-28.1%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	68	-
Contract liabilities (IFRS 15)	0	0	-
Deferred tax liability	44	42	-3.2%
Total non-current liabilities	498	464	-6.7%
Current liabilities	2,223	2,089	-6.0%
Contract liabilities (IFRS 15)	52	439	-
Lessee lease liabilities due <= 1 year (IFRS 16)	0	51	-
Deferred income	39	27	-29.8%
Provisions for redundancy	13	0	-97.6%
Total current liabilities	2,326	2,606	12.1%
Total liabilities	2,823	3,070	8.8%
TOTAL EQUITY AND LIABILITIES	16,031	16,441	2.6%



HT GROUP CONSOLIDATED CASH FLOW STATEMENT

in HRK million	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Profit before tax	197	198	230	16.10%
Depreciation and amortization	427	473	497	4.99%
Increase / decrease of current liabilities	-140	-140	-149	6.37%
Increase / decrease of current receivables	185	185	114	-38.32%
Increase / decrease of inventories	-28	-28	-12	-58.40%
Other cash flow increases / decreases	-79	-79	-122	54.64%
Net cash inflow/outflow from operating activities	563	610	559	-8.40%
Proceeds from sale of non-current assets	10	10	1	-85.73%
Proceeds from sale of non-current financial assets	0	0	0	-4.48%
Interest received	6	6	4	-29.91%
Other cash inflows from investing activities	158	158	0	-100.00%
Total increase of cash flow from investing activities	174	174	6	-96.65%
Purchase of non-current assets	-375	-375	-280	-25.38%
Purchase of non-current financial assets	0	0	-30	-
Other cash outflows from investing activities	0	0	0	-
Total decrease of cash flow from investing activities	-375	-375	-310	-17.35%
Net cash inflow/outflow from investing activities	-201	-201	-304	51.38%
Total increase of cash flow from financing activities				
Repayment of loans and bonds	-32	-32	-23	-29.20%
Dividends paid	0	0	-1	
Repayment of finance lease	-1	-48	-56	17.03%
Other cash outflows from financing activities	-104	-104	-121	17.09%
Total decrease in cash flow from financing activities	-137	-184	-201	9.37%
Net cash inflow/outflow from financing activities	-137	-184	-201	9.37%
Exchange gains/losses on cash and cash equivalents	-4	-4	3	-179.22%
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.49%
Net cash (outflow) / inflow	222	222	57	-74.50%
Cash and cash equivalents at the end of period	3,374	3,374	3,193	-5.36%



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Bloomberg: HTRA CZ

