

# **BUSINESS AND FINANCIAL REVIEW JANUARY – SEPTEMBER 2019**

**ANALYST PRESENTATION  
31 OCTOBER 2019**



**LIFE IS FOR SHARING.**

# DISCLAIMER

- These materials and the oral presentation do not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the Company nor should they or any part of them or the fact of their distribution form the basis of, or be relied on in connection with, any contract or investment decision in relation thereto
- In particular, these materials and the oral presentation are not an offer of securities for sale in the United States. The Company's securities have not been, and will not be, registered under the US Securities Act of 1933, as amended
- The third party information contained herein has been obtained from sources believed by the Company to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated herein are complete and accurate and that opinions and expectations contained herein are fair and reasonable, no representation or warranty, expressed or implied, is made by the Group or its advisors, with respect to the completeness or accuracy of any information and opinions contained herein
- These materials and the oral presentation contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the Group's Annual Report
- These materials include non-IFRS measures, such as EBITDA. The Company believes that such measures serve as additional indicators of the Group's operating performance. However such measures are not replacements for measures defined by and required under IFRS. In addition, some key performance indicators utilised by the Company may be calculated differently by other companies operating in the sector. Therefore, the non-IFRS measures and key performance indicators used in these materials may not be directly comparable to those of the Group's competitors

# HIGHLIGHTS

## Business

- Strong investments in mobile and fixed broadband networks continue with the goal of ensuring superior customer experience and to maintain leading market position in connectivity:
  - Overall HT's 4G network reached 99% population coverage outdoors and 87% coverage indoors. In addition, through mobile network modernization program, in Jan-Sep 2019 additional 537 mobile locations have been equipped with "four carrier aggregation" configuration, increasing Gigabit capable LTE population coverage from 40% to 53%
  - Compared to previous year's tourist season, mobile data volume in the busiest week in HT network increased by 78%; in parallel, average download speed increased by 40%, from 43 Mbps to 60 Mbps, according to OOKLA measurements
  - 40,000 new households covered by FTTH technology in Jan-Sep 2019 – 2.5 fold increase vs Jan-Sep 2018; total coverage by Fiber to the Home (FTTH) technology increased to 270,000 households
  - 49,000 new Hybrid access customers added in Jan-Sep 2019 – 2.2 times more than in Jan-Sep 2018; customers now take advantage of speeds 2-3 times higher than before
- HT maintains major focus on its strategic goal to connect everyone in the country, including consumers, businesses and the public sector, with the opportunities of digitization
  - As part of the expansion of its biggest data center, HT has extended its data center services portfolio and is first in Croatia to implement Microsoft Azure Stack, the most popular public cloud platform
- Internal initiatives reversed negative trends in fixed operational KPIs leading, for example, to a rise in broadband customers

# HIGHLIGHTS - CONT'D

### Business - Cont'd

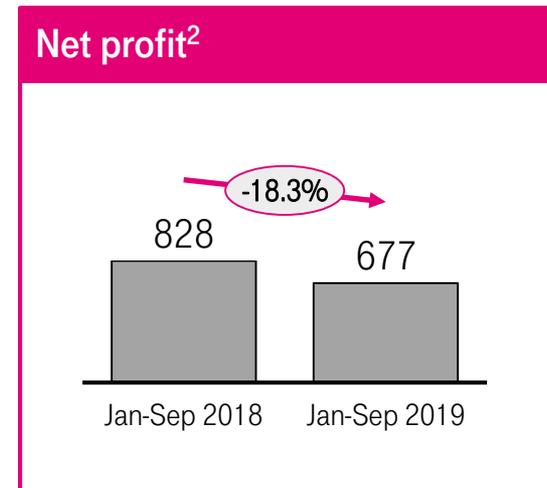
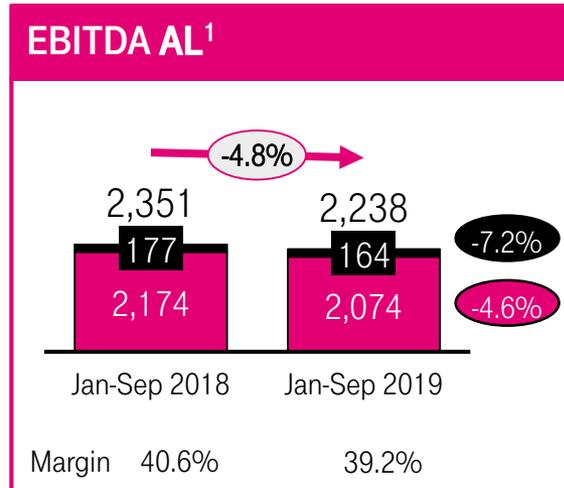
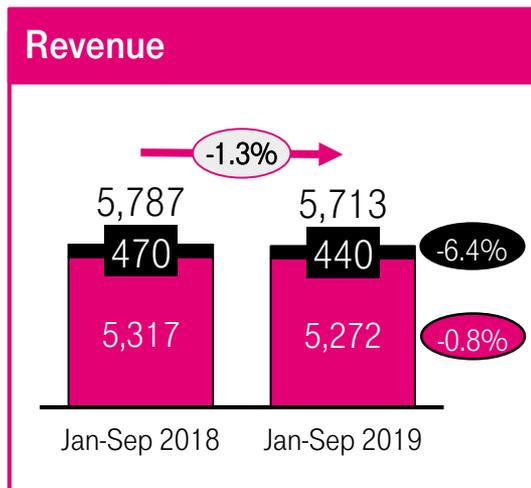
- Magenta1 continues to attract customers; 239,000 households (penetration of 55% <sup>1</sup>) and 30,000 business accounts (penetration of 39% <sup>2</sup>)
- One App digital service reached 338,000 monthly active users, penetration of 27% <sup>3</sup>
- EU funded tenders on broadband investments commenced; HT has applied to several tenders

### Financial

- Continuation of stable financial performance
- CAPEX/Sales ratio at high 19.0%
- Share buyback programme ongoing
- Outlook for FY 2019: revenue amended from „Around 2018 level” to „Slightly lower”

## REVENUE AND PROFIT DECLINE; MARGINS STRONG

All in HRK million



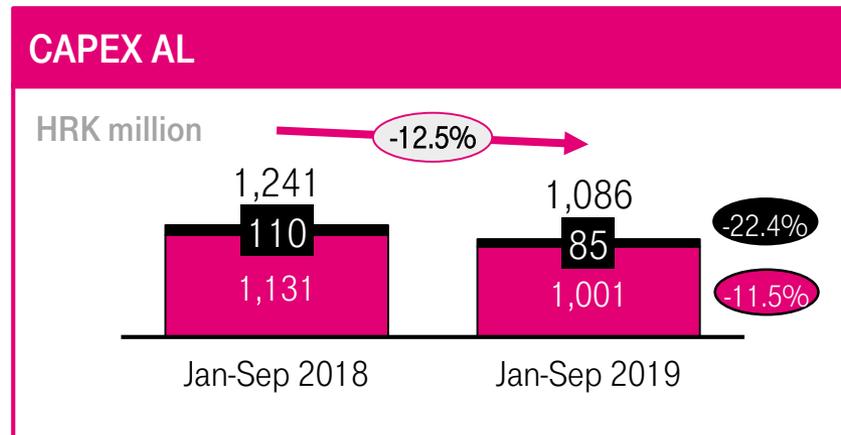
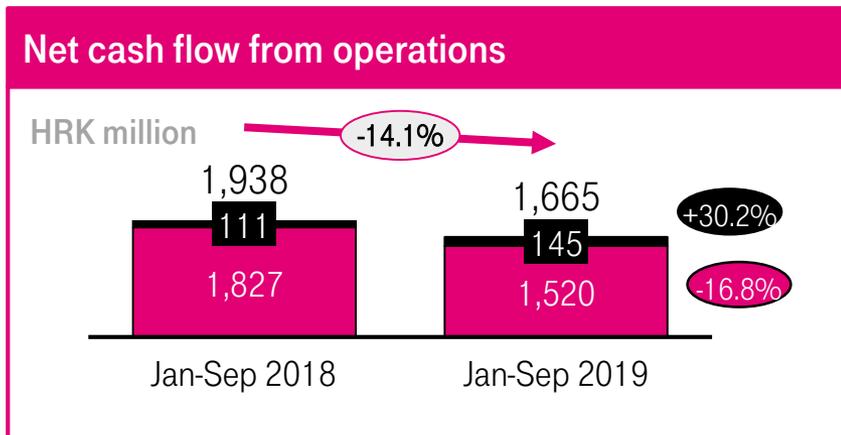
- Revenue down 1.3% to HRK 5,713 million
  - Small decrease in revenue at HT Croatia mainly due to exit from energy business, declining fixed voice and adverse visitor revenue allocation; in addition, growth in System Solutions slowed
  - Crnogorski Telekom (CT) revenue down following negative development in fixed voice and mobile prepaid
- EBITDA AL down 4.8% to HRK 2,238 million, following above stated revenue decline, increase in merchandise and roaming costs as well as higher employee benefits, partially offset by one off positive impact from Evotv purchase transaction
  - EBITDA AL margin decreased by 1.4p.p. to 39.2%
- Net profit fell 18.3% to HRK 677 million, mainly following above mentioned EBITDA AL performance and higher depreciation and exceptional items

1. EBITDA before exceptional items after leases. Exceptional items mainly refer to restructuring redundancy costs. 2. Net profit after non controlling interests.

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects

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

■ CT contribution ■ HT Croatia

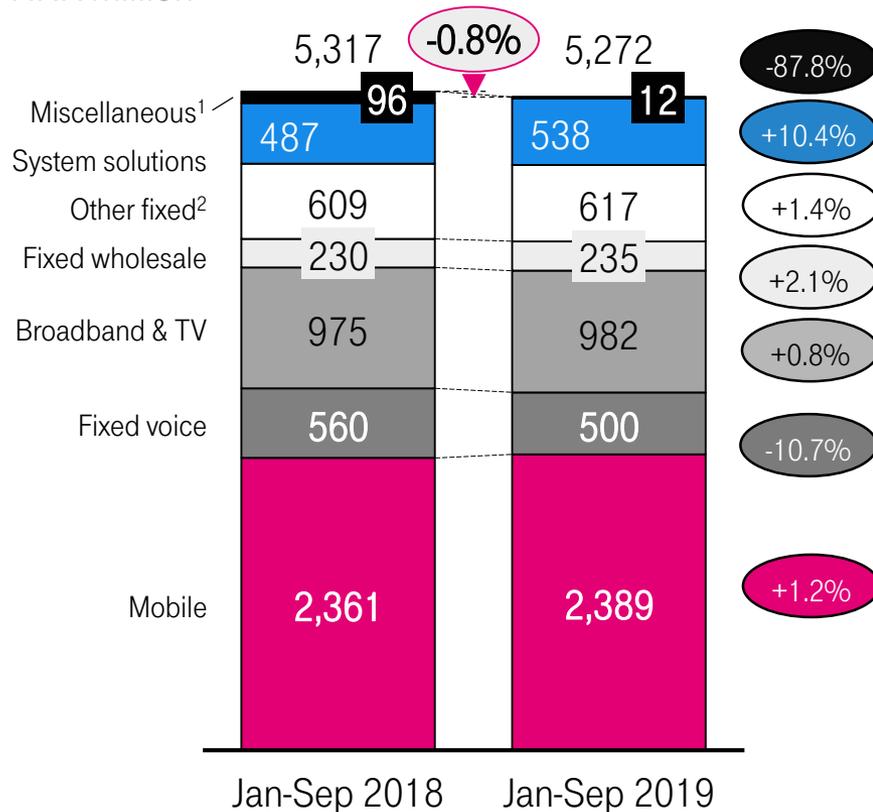


- Cash flow from operating activities down mainly due lower earnings before taxes, unfavourable working capital movement and higher tax paid
- CAPEX down following change in yearly distribution; however, significant investment in mobile and fixed broadband network continues

## GOOD PERFORMANCE IN MOBILE AND SYSTEM SOLUTIONS ALMOST OFFSET REVENUE DECLINE FOLLOWING EXIT FROM ENERGY BUSINESS AND FIXED VOICE DEVELOPMENT

### Revenue breakdown

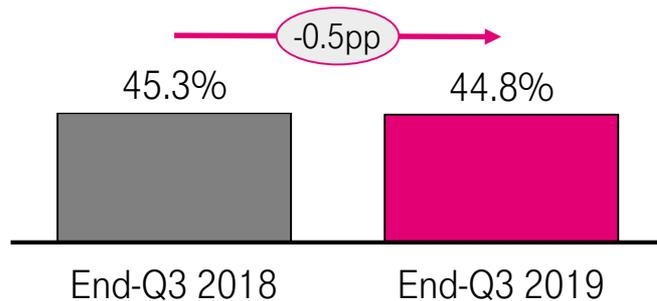
HRK million



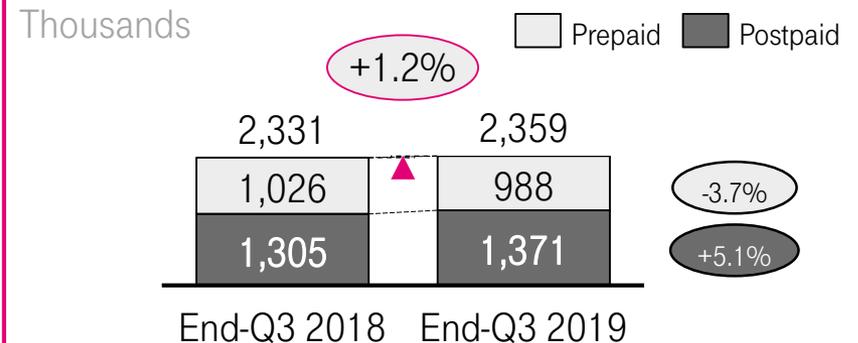
- **Mobile revenue** up, boosted by higher postpaid revenue, following increase in both customer base and ARPU, and handset sales; partly offset by revenue decrease due to cancellation of network access fee
- **Fixed voice** down due to fall in mainlines, traffic and ARPU
- **Broadband and TV revenue** up; growth in TV revenue, following overall higher TV customer base and ARPU, including positive impact from seven months of Evotv consolidation, more than offset fall in broadband revenue
- **Fixed wholesale revenue** up mainly due to higher transit traffic
- **Other fixed revenue** up, due to higher terminal equipment and slightly better Optima Telekom performance
- Good growth in **System solutions** on more favourable yearly project dynamics in Jan-Sep 2019 vs same period in previous year.
- **Miscellaneous revenue** down following withdrawal from **Energy business** as of Q3 2018, with related revenue of HRK 80 million in Jan-Sep 2018

## MARKET AND TECHNOLOGY LEADERSHIP MAINTAINED; PUBLIC CONSULTATIONS ON FUTURE 5G SPECTRUM ASSIGNMENT STARTED

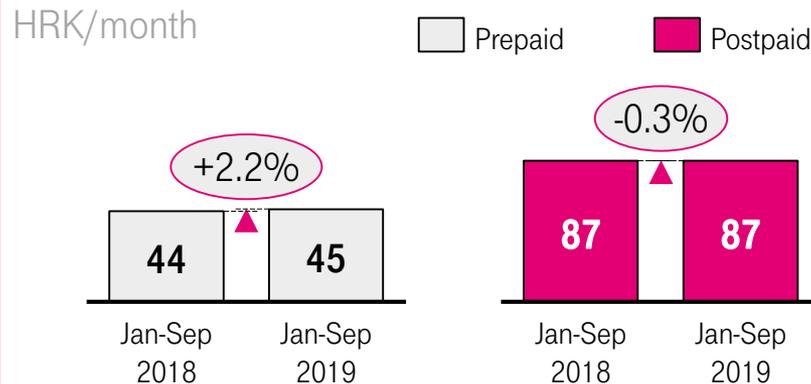
### HT market share by subscribers<sup>1</sup>



### Number of subscribers



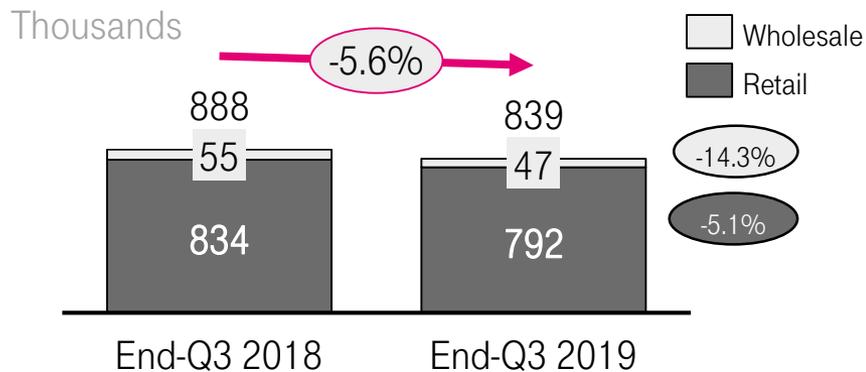
### ARPU



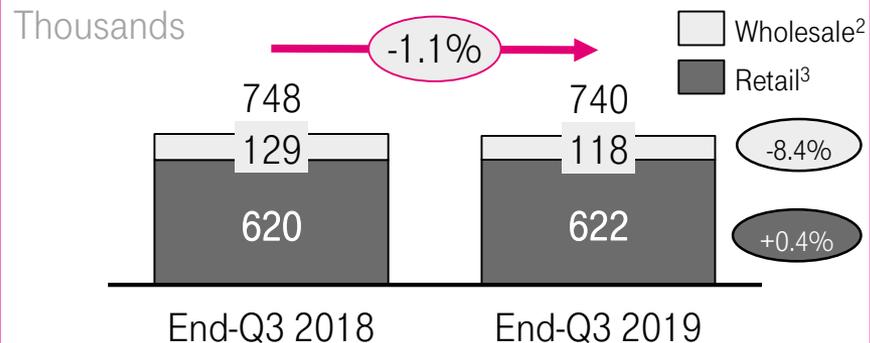
- **Smartphone proportion** of total handset sales at 91% in postpaid segment (Jan-Sep 2018: 91%); **HT smartphone customers** at 68%
- **HT's 4G network** reached 99% population coverage outdoors and 87% coverage indoors
- HT continues **modernization of mobile network** throughout Croatia; 85% of the network has been modernised
  - Building foundation for introduction of **5G**; the Regulator has recently published proposal and started public consultations on future 5G assignment
  - In addition, capacity expansion on 4G network sites to support traffic growth continued

# RETAIL BROADBAND LINES TURNED TO GROWTH; EVOTV ACQUISITION BOOSTS TV CUSTOMER NUMBERS

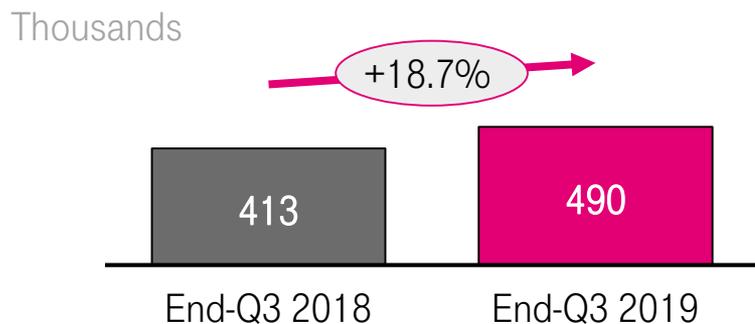
## Number of fixed mainlines<sup>1</sup>



## No. of broadband access lines



## Number of TV customers



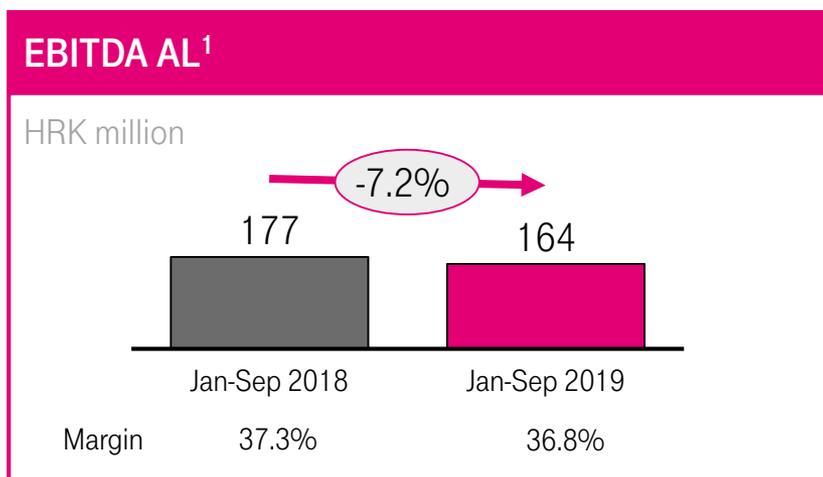
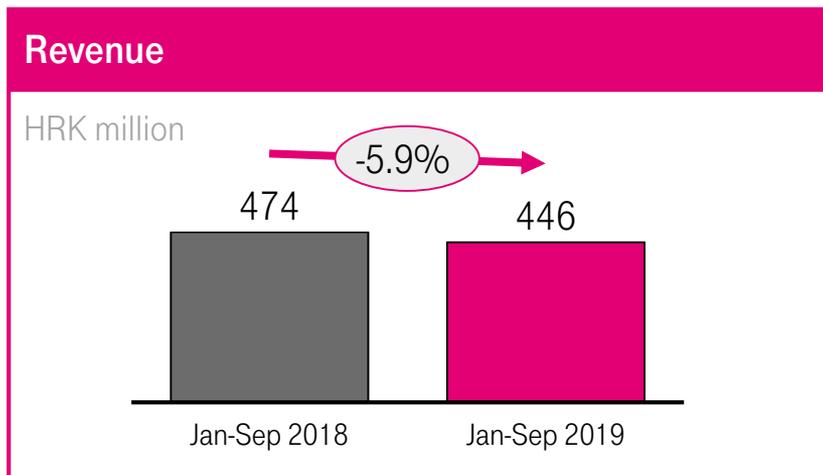
- **Fixed voice ARPU** down 5.1% at HRK 69
- **Broadband retail ARPU** at HRK 104, down 7.3%
- **TV ARPU** up 3.0% to HRK 86
- As a result of investments into fixed infrastructure, **NGA coverage** for speeds above 30 Mbps reached level of 60% and above 100 Mbps reached 23% of Croatia's total 1.5 million HH
  - Customers in rural areas upgraded to higher speeds through **Hybrid access**

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 DECLINE



- **Revenue** down mainly following negative development in **Fixed Voice** and **Mobile Prepaid** offset by rise in **System solutions** revenue
- Market leadership in **Mobile Postpaid** maintained
- **Broadband and TV revenue** stable
- Decline in **EBITDA** due to revenue development outlined above and the absence of one-off positive effects in Jan-Sep 2018 (sale of real estates and accounting standards change)

# GROUP 2019 OUTLOOK; REVENUE AMENDED FROM „AROUND 2018 LEVEL” TO „SLIGHTLY LOWER”

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Slightly lower
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**

**FINANCIAL STATEMENTS**



LIFE IS FOR SHARING.

# HT GROUP CONSOLIDATED INCOME STATEMENT

in HRK million	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted
Mobile revenue	2,609	2,609	2,622	0.5%
Fixed revenue	2,568	2,568	2,514	-2.1%
System solutions	515	515	564	9.7%
Miscellaneous	96	96	12	-87.8%
<b>Revenue</b>	<b>5,787</b>	<b>5,787</b>	<b>5,713</b>	<b>-1.3%</b>
Other operating income	110	110	121	9.4%
<b>Total operating revenue</b>	<b>5,897</b>	<b>5,898</b>	<b>5,833</b>	<b>-1.1%</b>
<b>Operating expenses</b>	<b>3,508</b>	<b>3,351</b>	<b>3,451</b>	<b>3.0%</b>
Material expenses	1,758	1,744	1,756	0.7%
Employee benefits expenses	800	800	889	11.1%
Other expenses	996	853	819	-3.9%
Work performed by the Group and capitalised	-95	-95	-76	-19.6%
Write down of assets	49	49	62	26.5%
<b>EBITDA</b>	<b>2,389</b>	<b>2,547</b>	<b>2,383</b>	<b>-6.4%</b>
Depreciation and amortization	1,266	1,452	1,471	1.3%
<b>EBIT</b>	<b>1,123</b>	<b>1,094</b>	<b>912</b>	<b>-16.7%</b>
Financial income	25	26	16	-36.0%
Income/loss from investment in joint ventures	4	4	-3	-
Financial expenses	97	118	93	-20.8%
<b>Profit before taxes</b>	<b>1,055</b>	<b>1,006</b>	<b>831</b>	<b>-17.4%</b>
Taxation	190	186	157	-15.7%
<b>Net profit</b>	<b>864</b>	<b>820</b>	<b>675</b>	<b>-17.7%</b>
Non controlling interests	-8	-8	-2	-74.0%
<b>Net profit after non controlling interests</b>	<b>872</b>	<b>828</b>	<b>677</b>	<b>-18.3%</b>
Exceptional items <sup>1)</sup>	38	38	89	133.4%
<b>EBITDA before exceptional items</b>	<b>2,427</b>	<b>2,585</b>	<b>2,472</b>	<b>-4.4%</b>
<b>EBITDA before exceptional items after leases</b>		<b>2,351</b>	<b>2,238</b>	<b>-4.8%</b>

<sup>1)</sup> Mainly related to restructuring redundancy costs and legal cases

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects



LIFE IS FOR SHARING.

# HT GROUP CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2018	At 30 Sep 2019	% of change A19/A18
Intangible assets	2,539	2,235	-12.0%
Property, plant and equipment	6,218	6,286	1.1%
Non-current financial assets	1,312	1,306	-0.4%
Receivables	391	388	-0.8%
Lessee use rights to leased assets (IFRS 16)	0	685	-
Contract assets (IFRS 15)	58	56	-4.7%
Contract costs (IFRS 15)	81	97	19.9%
Deferred tax asset	94	102	8.1%
<b>Total non-current assets</b>	<b>10,694</b>	<b>11,156</b>	<b>4.3%</b>
Inventories	136	154	13.5%
Receivables	1,549	1,639	5.8%
Current financial assets	112	1	-99.3%
Contract assets (IFRS 15)	146	224	53.6%
Contract costs (IFRS 15)	57	68	18.1%
Cash and cash equivalents	3,137	2,597	-17.2%
Prepayments and accrued income	201	118	-41.2%
<b>Total current assets</b>	<b>5,337</b>	<b>4,800</b>	<b>-10.1%</b>
<b>TOTAL ASSETS</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	492	-12.5%
Revaluation reserves	-14	-13	-1.9%
Treasury shares	-71	-66	-6.5%
Retained earnings	1,503	1,338	-11.0%
Net profit for the period	1,061	677	-36.2%
Non controlling interests	344	325	-5.4%
<b>Total issued capital and reserves</b>	<b>13,208</b>	<b>12,997</b>	<b>-1.6%</b>
Provisions	70	88	25.7%
Non-current liabilities	384	285	-25.9%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	64	-
Contract liabilities (IFRS 15)	0	1	-
Deferred tax liability	44	40	-8.0%
<b>Total non-current liabilities</b>	<b>498</b>	<b>477</b>	<b>-4.1%</b>
Current liabilities	2,223	1,852	-16.7%
Contract liabilities (IFRS 15)	52	60	15.3%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	519	-
Deferred income	39	50	29.3%
Provisions for redundancy	13	0	-97.6%
<b>Total current liabilities</b>	<b>2,326</b>	<b>2,482</b>	<b>6.7%</b>
<b>Total liabilities</b>	<b>2,823</b>	<b>2,959</b>	<b>4.8%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>



# HT GROUP CONSOLIDATED CASH FLOW STATEMENT

in HRK million	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted
Profit before tax	1,055	1,006	831	-17.4%
Depreciation and amortization	1,266	1,452	1,471	1.3%
Increase / decrease of current liabilities	-255	-255	-187	26.7%
Increase / decrease of current receivables	66	66	-79	-221.2%
Increase / decrease of inventories	-19	-19	-28	-47.8%
Other cash flow increases / decreases	-312	-312	-343	-10.1%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,801</b>	<b>1,938</b>	<b>1,665</b>	<b>-14.1%</b>
Proceeds from sale of non-current assets	25	25	87	249.7%
Proceeds from sale of non-current financial assets	1	1	11	849.7%
Interest received	10	10	9	-10.9%
Dividend received	0	0	0	-
Other cash inflows from investing activities	202	202	110	-45.3%
<b>Total increase of cash flow from investing activities</b>	<b>238</b>	<b>238</b>	<b>217</b>	<b>-8.8%</b>
Purchase of non-current assets	-990	-990	-908	8.4%
Purchase of non-current financial assets	0	0	-113	-
Other cash outflows from investing activities	-394	-394	0	100.0%
<b>Total decrease of cash flow from investing activities</b>	<b>-1,384</b>	<b>-1,384</b>	<b>-1,020</b>	<b>26.3%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-1,147</b>	<b>-1,147</b>	<b>-803</b>	<b>29.9%</b>
<b>Total increase of cash flow from financing activities</b>				
Repayment of loans and bonds	-43	-43	-43	0.4%
Dividends paid	-497	-497	-818	-64.5%
Repayment of finance lease	-2	-139	-249	-79.2%
Other cash outflows from financing activities	-331	-331	-295	10.8%
<b>Total decrease in cash flow from financing activities</b>	<b>-872</b>	<b>-1,010</b>	<b>-1,405</b>	<b>-39.1%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-872</b>	<b>-1,010</b>	<b>-1,405</b>	<b>-39.1%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>1375.0%</b>
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%
Net cash (outflow) / inflow	-219	-219	-540	-146.9%
<b>Cash and cash equivalents at the end of period</b>	<b>2,933</b>	<b>2,933</b>	<b>2,597</b>	<b>-11.5%</b>

# INVESTOR RELATIONS CONTACTS

■ Elvis Knežević

Tel: + 385 1 4911 114

■ e-mail: [ir@t.ht.hr](mailto:ir@t.ht.hr)

■ [www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)

Zagreb Stock Exchange Share trading symbol: HT

Reuters: HT.ZA

Bloomberg: HT CZ

