

# BUSINESS AND FINANCIAL REVIEW

## JANUARY – JUNE 2014

**ANALYST PRESENTATION**

**30 JULY 2014**

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# CONTINUED CHALLENGING ENVIRONMENT DUE TO PROLONGED RECESSION IN CROATIA

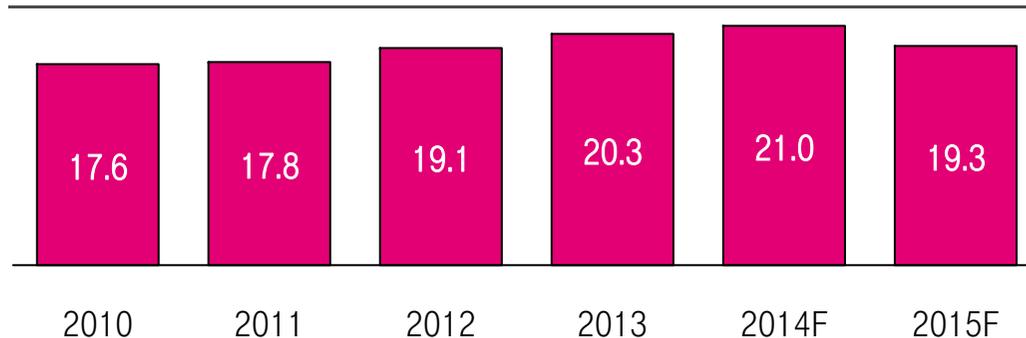
## Real GDP growth

Percent



## Unemployment

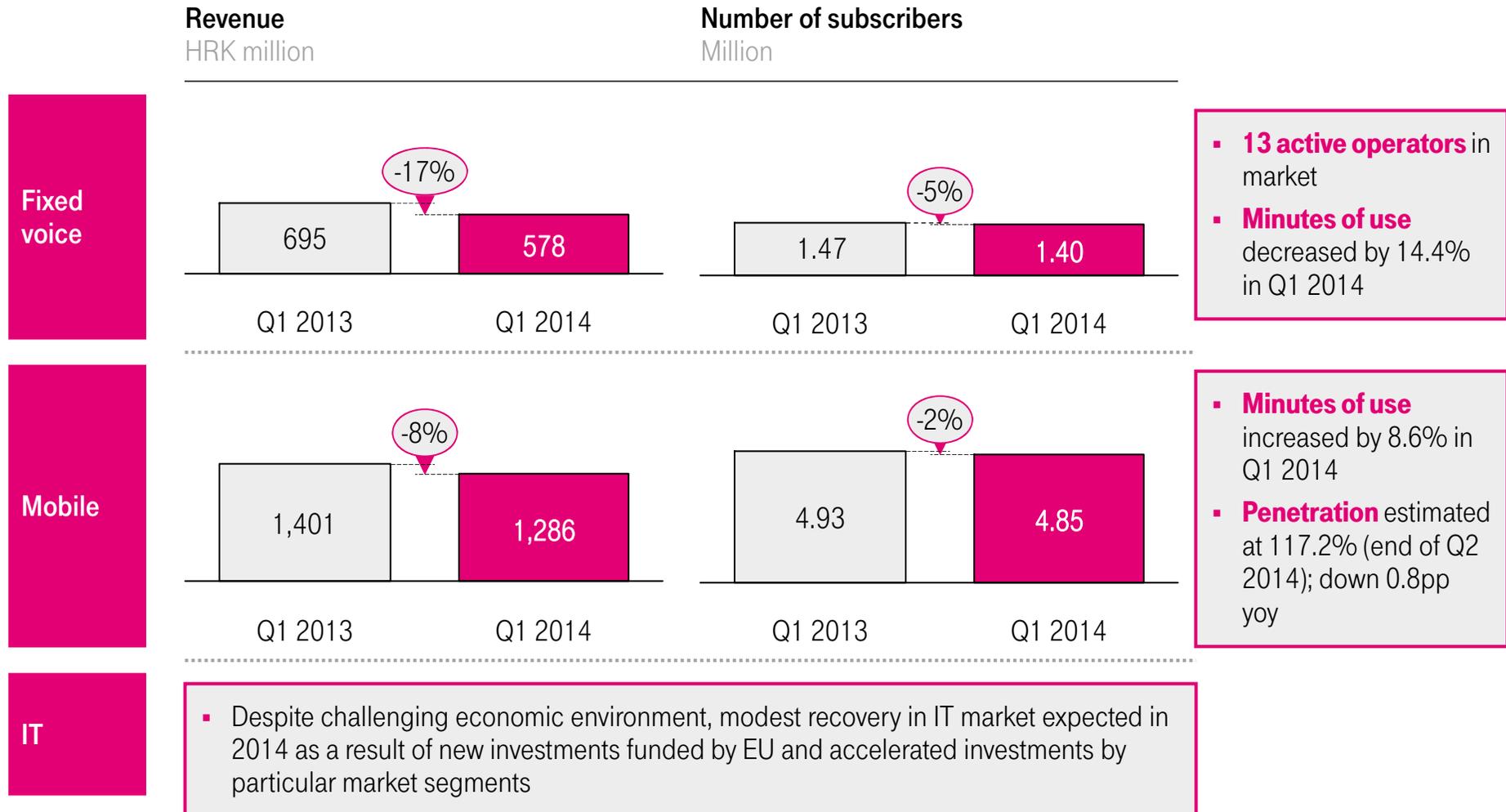
Percent



- 2014 forecast to be **6<sup>th</sup> consecutive year** with no real GDP growth
- Public debt and budget deficit **still on rising trend**
- Credit rating of **sub-investment grade** set by all three major rating agencies
- Croatia entered **Excessive Deficit Procedure** – EU supervision mechanism due to fiscal imbalance

# FIXED AND MOBILE VOICE MARKET IN CROATIA STILL SHRINKING...

○ Annual change



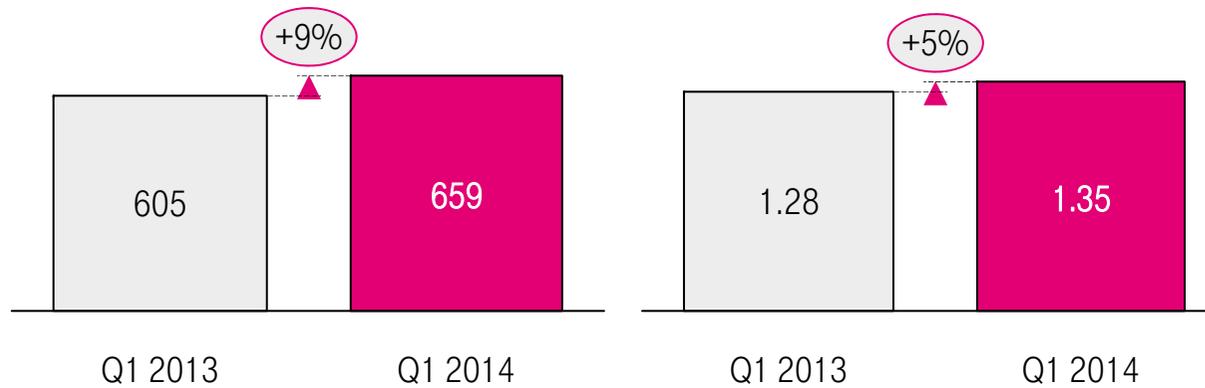
# ... PARTIALLY OFFSET BY GROWTH IN FIXED AND MOBILE BROADBAND AND IN PAYTV

○ Annual change

**Revenue**  
HRK million

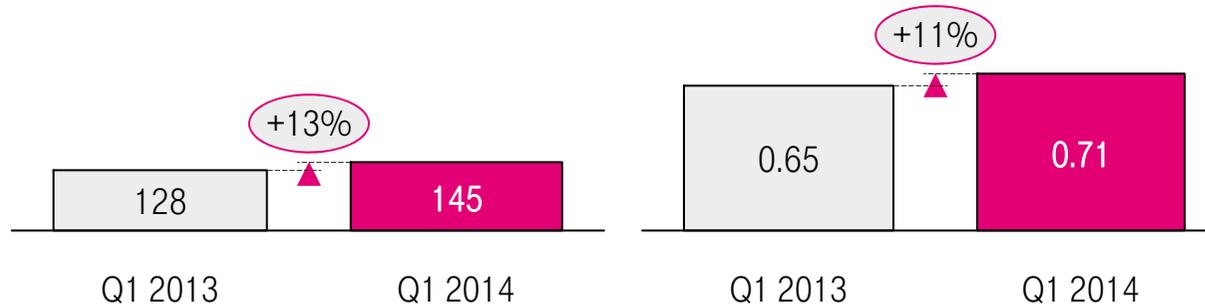
**Number of subscribers**  
Million

Fixed and Mobile Broadband



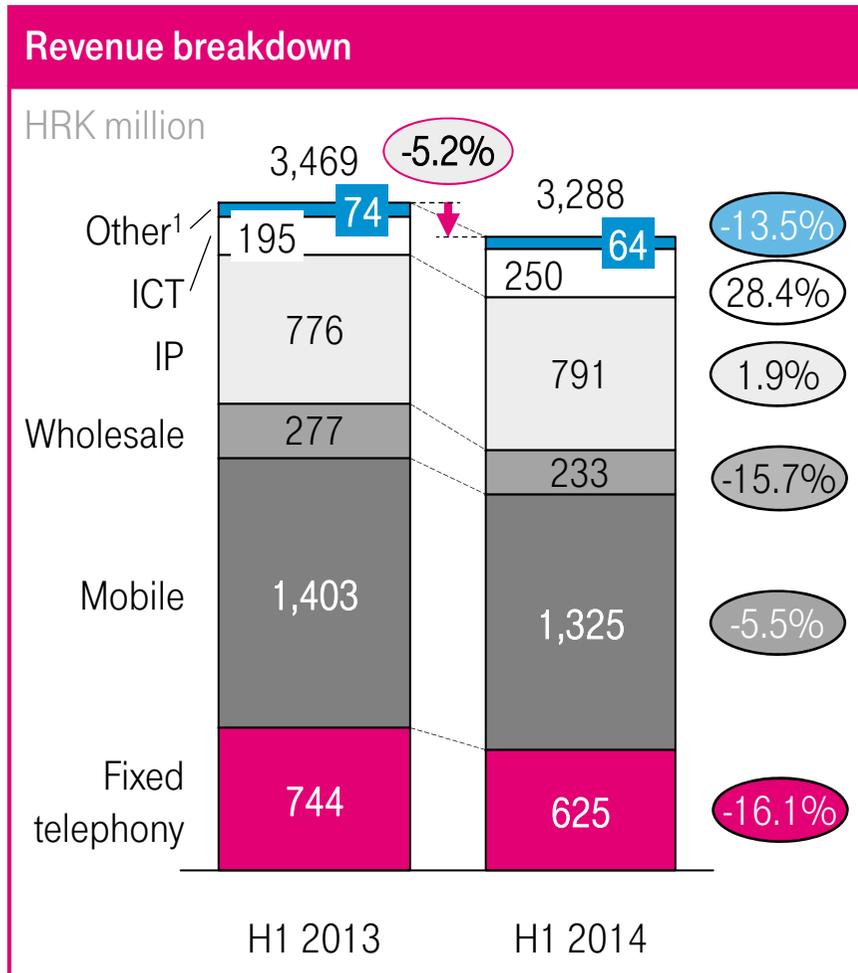
- **Fixed Broadband lines** at 933k in Q1 2014 (+4% yoy); Fixed BB household penetration at 60%
- **HT Smartphone penetration 34%**

PayTV



- **Positive trend** expected to continue in 2014
- Croatia is **only regulated market for IPTV** in Europe
- Pay TV household penetration at 46%

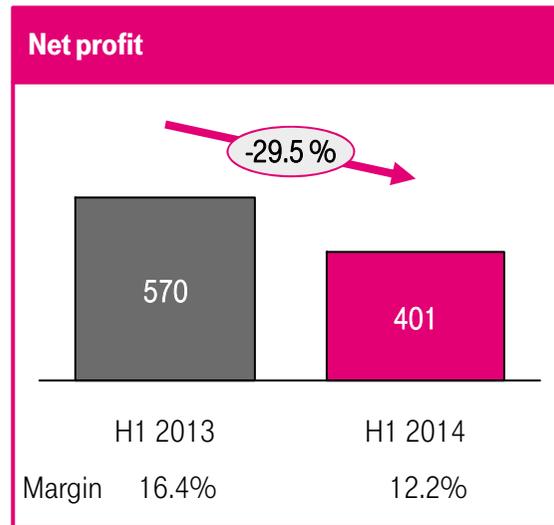
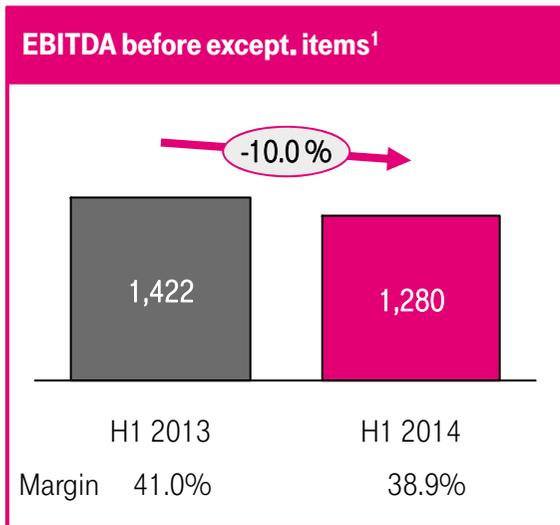
# DECREASE IN HT REVENUE LED BY FIXED AND MOBILE, PARTIALLY OFFSET BY ICT AND IP



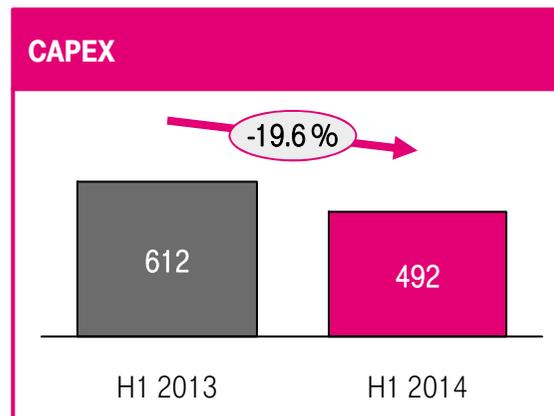
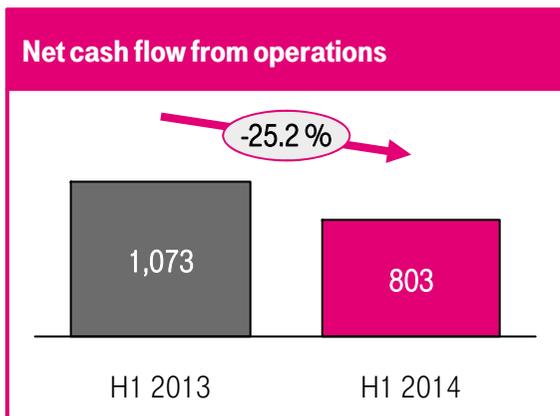
- **Fixed telephony down** due to general usage trends
- **Mobile revenue under pressure** mostly from EU roaming regulation, cut in termination rates and flat rate tariff offers **but declining at a slower rate**
  - **Mobile data growing strongly**
- Lower hubbing traffic coupled with decline in termination rates **in wholesale partly offset** by higher infrastructure revenue (ULL, BSA and WLR)
- **IP: increase in TV revenue more than compensated for** lower broadband revenue
- **Strong growth in ICT** mainly in IT infrastructure and professional services as well as in specific ICT solutions for key accounts

# HT'S FINANCIAL PERFORMANCE IMPACTED ALSO BY TRANSFORMATION PROJECTS AND NET FINANCIAL RESULT

All in HRK million, except where stated differently



As well as by the decline in revenue, net profit impacted also by **redundancy and other transformation costs and lower net financial result**



Capex lower in **absence of one-off real estate investments** and shift of investments **in IT and Network platforms areas** to H2 2014

# TO PROTECT RESULTS AND STABILITY OF OPERATIONS, HT UNDERTOOK THREE MAJOR TRANSFORMATION INITIATIVES IN H1 2014

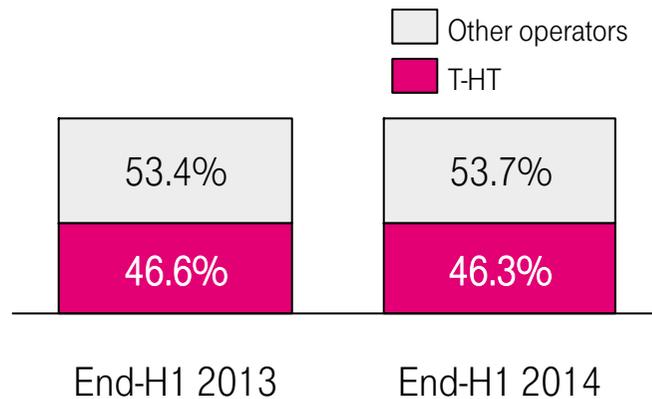
## HT adapting cost base

- 1) New organisational structure, cut in number of management positions and voluntary redundancy
- 2) Signed new Collective Agreement valid from 1 July 2014
- 3) Started outsourcing of construction and maintenance services of HT's infrastructure

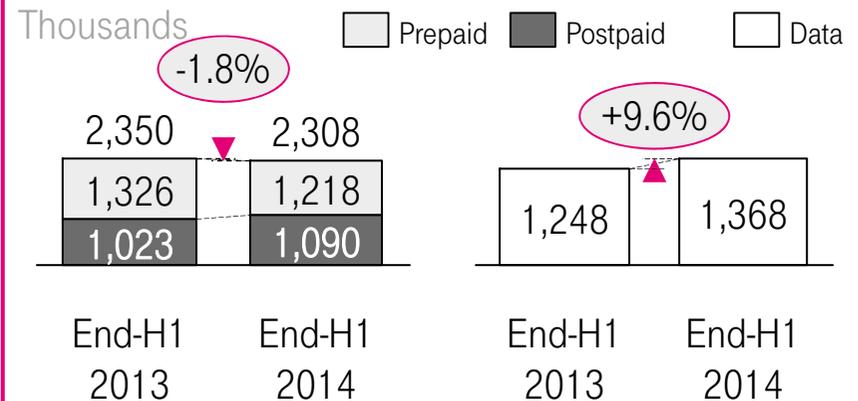
Despite recently imposed radio frequency fees and worsening economic climate, HT has maintained its 2014 Outlook

# SUCCESSFUL VALUE STRATEGY IN MOBILE; MORE CUSTOMERS CHOOSING HT'S MORE ADVANCED SERVICES

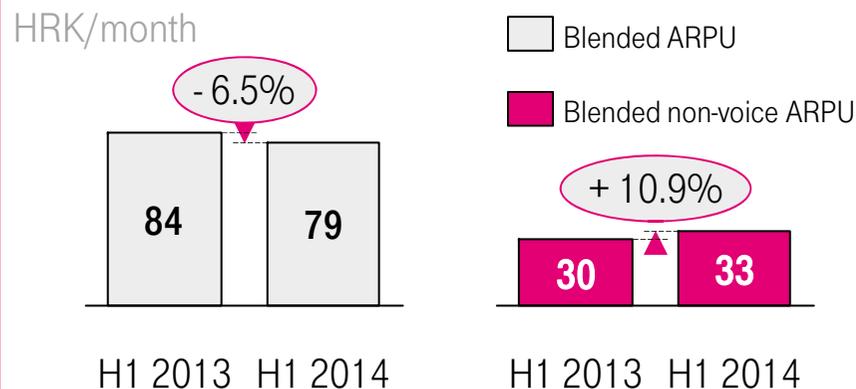
## Market share by subscribers<sup>1</sup>



## Number of subscribers

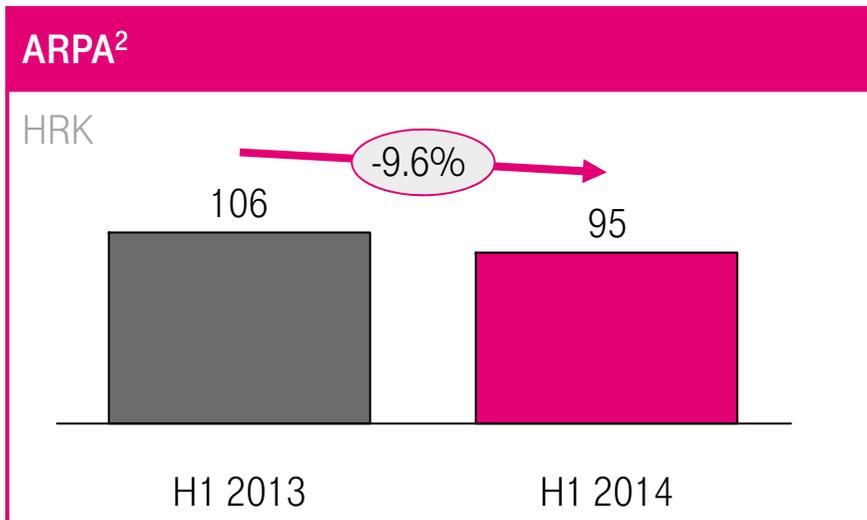
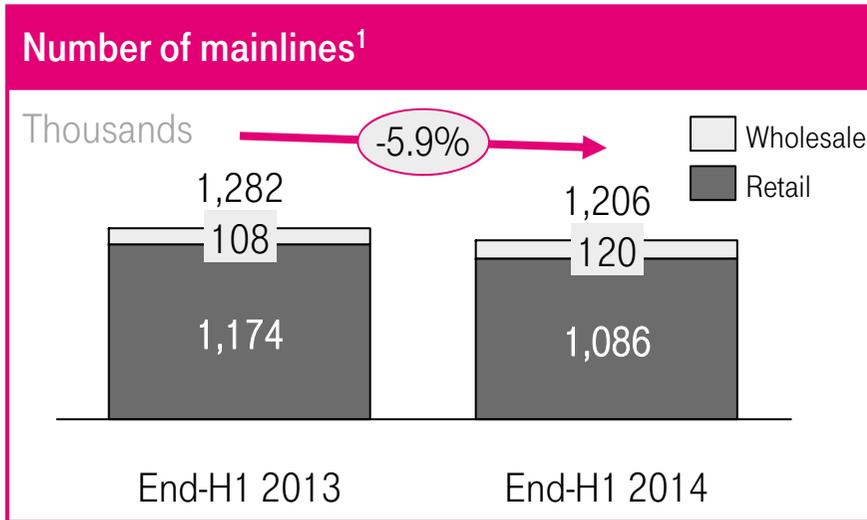


## ARPU



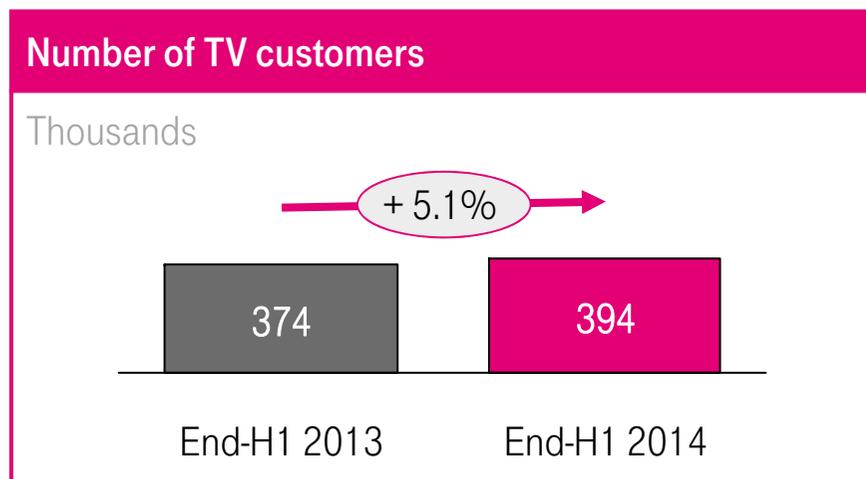
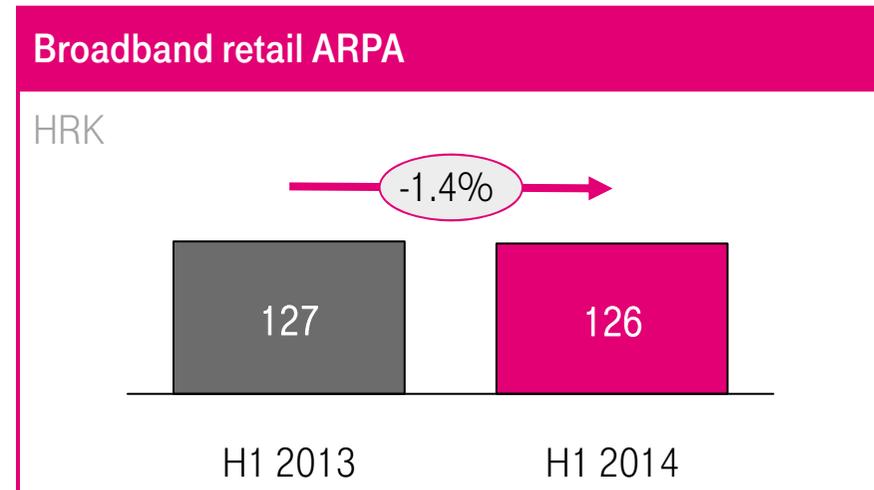
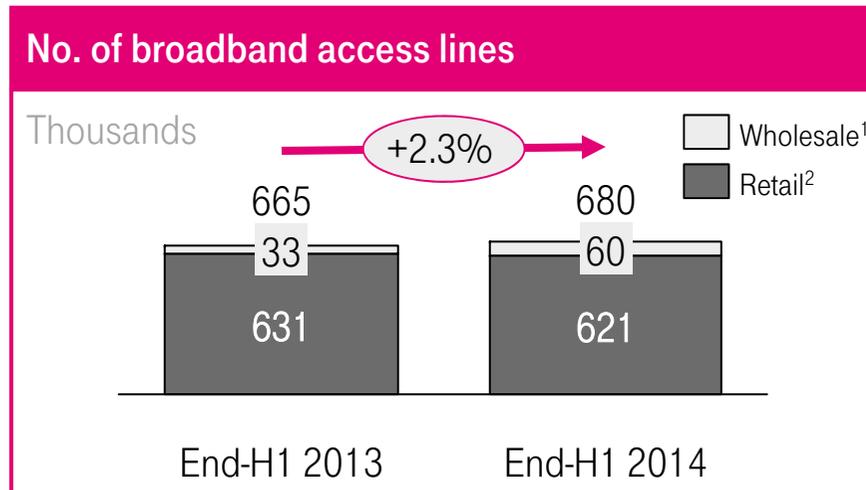
- **Average MOU** (minutes of use) up 8.9% to 186
- **Smartphone proportion** of total handset sales at 73% in postpaid segment (H1 2013: 56%)
- Significant increase in **Annual Radio Frequency fees imposed**; HT adjusted mobile services prices

# NUMBER OF FIXED LINES AND ARPA DECLINE; HT STABILISES OVERALL TELEKOM MARKET



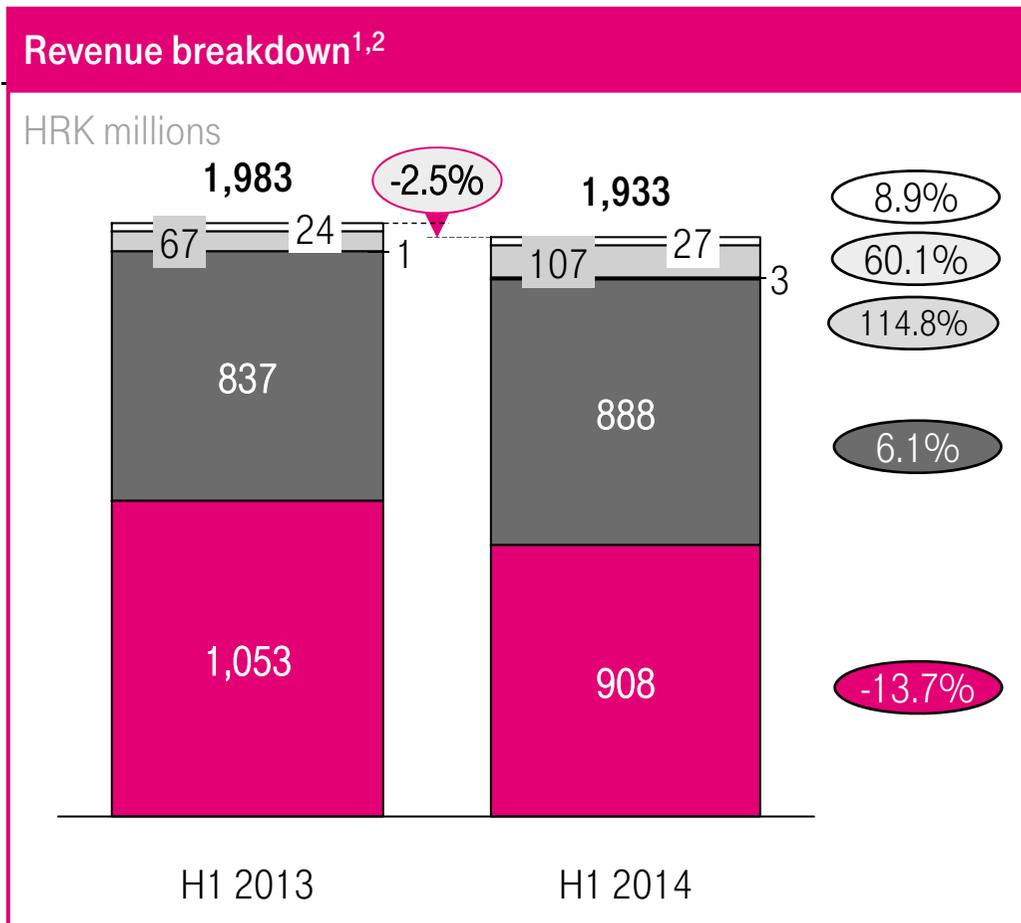
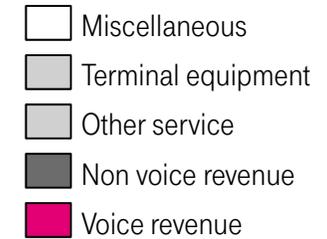
- **Substitution of fixed traffic with mobile and IP traffic;** total traffic down 22.2% to 819 million minutes
- In June, **HT took over management of OT-Optima telekom** in accordance with AZTN conditions

# NUMBER OF BB AND TV CUSTOMERS CONTINUES TO GROW; HT LEADS IN CONVERGENT OFFERS AND CONTENT



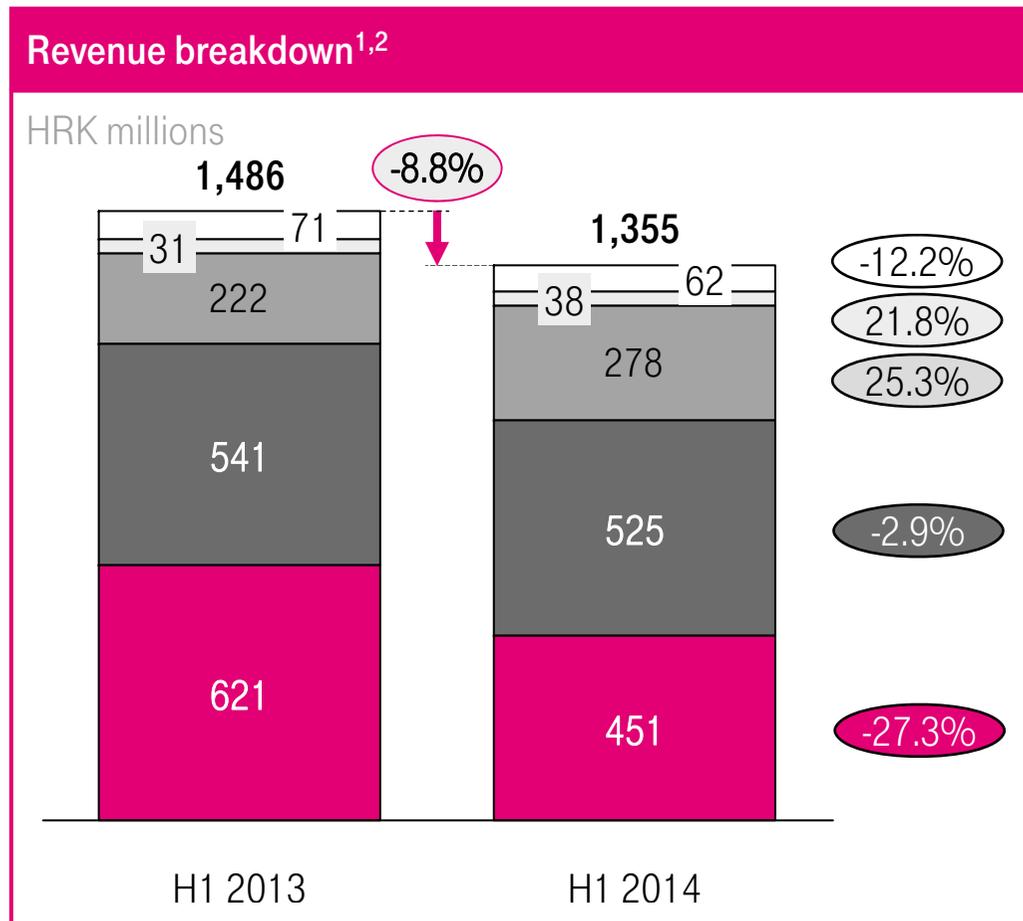
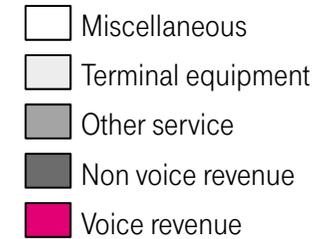
- **Ongoing promotion of MAX2/MAX3 packages** and Ultra MAX packages, based on FttH technology
- **New exclusive TV content: MAX** Auto Moto GP (Formula One) and HBO premium TV packages
- **HT leader in IP transformation;** 58.1% of retail customers migrated

# IN RESIDENTIAL SEGMENT, DECREASE IN VOICE PARTIALLY OFFSET BY INCREASE IN NON-VOICE AND TERMINAL EQUIPMENT



- Revenue down mainly as a result of **13.7% lower voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
- Non-voice revenue **increased 6.1%** due to higher fixed IP revenue (**mainly TV**) and **higher mobile data revenue**
  - Non voice revenue **almost level** with Voice revenue
- Terminal equipment revenue **up 60.1%** mainly due to **higher mobile handset revenues** as a result of introduction of split contracts (entire handset revenue recognized at the moment of handset sale to the customer)

# IN BUSINESS SEGMENT, STRONG GROWTH IN ICT SOFTENS IMPACT OF DECREASE IN VOICE REVENUE



- **27.3% lower voice revenue**, in fixed and mobile, in both retail and wholesale
- **Non-voice revenue decreased 2.9%**, lower fixed and mobile (mainly due to SMS) partly offset by wholesale revenues
  - Non-voice revenue **exceeded** Voice revenue
- Other service revenue up 25.3% due to **growth in ICT revenue**, in both HT and Combis

1 Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +17 million) made for H1 2013.

2 Due to new classification of revenue 2013 slightly changed in structure.

# 2014 OUTLOOK UNCHANGED

- Outlook for 2014 maintained
  - Slow declining trend in revenue
  - EBITDA margin before exceptional items between 39% and 41%
  - Investments: in order to **reverse the negative business trend, HT intends to invest over HRK 1 billion capex** in 2014, specifically targeting
    - **Infrastructure development** and improvement of service quality, especially in growing segments (Broadband, TV and Cloud services)
    - Increased **product offering in the region**
    - In parallel, HT is monitoring and evaluating **potential M&A opportunities**

# APPENDIX

# CONSOLIDATED INCOME STATEMENT

HRK millions

in HRK million	Q2 2013	Q2 2014	change	Jan-Jun 2013	Jan-Jun 2014	change
Mobile <sup>1)</sup>	722	688	-4.8%	1,403	1,325	-5.5%
Fixed Telephony	366	309	-15.4%	744	625	-16.1%
Wholesale	142	118	-17.0%	277	233	-15.7%
IP Revenue	389	397	2.1%	776	791	1.9%
Data	26	20	-20.7%	53	43	-17.9%
ICT	101	137	35.5%	195	250	28.4%
Miscellaneous <sup>1)</sup>	10	8	-15.8%	22	16	-24.1%
Energy	0	2	-	0	2	-
Other non telco services	0	1	-	0	2	-
<b>Revenue</b>	<b>1,756</b>	<b>1,680</b>	<b>-4.3%</b>	<b>3,469</b>	<b>3,288</b>	<b>-5.2%</b>
Other operating income <sup>1)</sup>	48	28	-41.5%	65	69	6.1%
<b>Total operating revenue</b>	<b>1,803</b>	<b>1,708</b>	<b>-5.3%</b>	<b>3,534</b>	<b>3,356</b>	<b>-5.0%</b>
<b>Operating expenses</b>	<b>1,050</b>	<b>1,093</b>	<b>4.1%</b>	<b>2,172</b>	<b>2,166</b>	<b>-0.3%</b>
Material expenses	458	476	3.8%	950	933	-1.8%
Merchandise, material and energy expenses	228	288	26.2%	491	562	14.5%
Services expenses	230	188	-18.5%	459	371	-19.2%
Employee benefits expenses	277	307	10.9%	603	623	3.3%
Other expenses	308	315	2.4%	605	603	-0.3%
Work undertaken by the Group and capitalised	-20	-25	-27.1%	-27	-38	-40.2%
Write down of assets	26	20	-25.0%	42	45	8.9%
<b>EBITDA</b>	<b>753</b>	<b>615</b>	<b>-18.4%</b>	<b>1,362</b>	<b>1,190</b>	<b>-12.6%</b>
Depreciation and amortization	320	335	4.7%	637	660	3.6%
<b>EBIT</b>	<b>433</b>	<b>280</b>	<b>-35.4%</b>	<b>725</b>	<b>530</b>	<b>-26.9%</b>
Financial income	10	2	-84.6%	29	15	-47.8%
Income/loss from investment in joint ventures	7	4	-46.9%	10	4	-61.5%
Financial expenses	34	31	-11.2%	48	49	0.2%
<b>Profit before taxes</b>	<b>416</b>	<b>255</b>	<b>-38.8%</b>	<b>716</b>	<b>501</b>	<b>-30.1%</b>
Taxation	84	52	-38.3%	146	99	-32.0%
<b>Net profit</b>	<b>332</b>	<b>203</b>	<b>-38.9%</b>	<b>570</b>	<b>401</b>	<b>-29.5%</b>
Exceptional items	0	36	-	60	90	50.1%
<b>EBITDA before exceptional items</b>	<b>753</b>	<b>651</b>	<b>-13.6%</b>	<b>1,422</b>	<b>1,280</b>	<b>-10.0%</b>

# CONSOLIDATED BALANCE SHEET

HRK millions

in HRK million (IFRS)	At 31 Dec 2013	At 30 Jun 2014	Change
Intangible assets	1,358	1,358	0.0%
Property, plant and equipment	5,570	5,402	-3.0%
Non-current financial assets	594	650	9.3%
Receivables	126	143	13.7%
Deferred tax asset	60	60	0.2%
<b>Total non-current assets</b>	<b>7,708</b>	<b>7,612</b>	<b>-1.2%</b>
Inventories	115	136	18.5%
Receivables	1,457	1,335	-8.4%
Current financial assets	1,352	431	-68.1%
Cash and cash equivalents	2,039	2,551	25.1%
Prepayments and accrued income	149	128	-14.4%
<b>Total current assets</b>	<b>5,112</b>	<b>4,581</b>	<b>-10.4%</b>
<b>TOTAL ASSETS</b>	<b>12,820</b>	<b>12,193</b>	<b>-4.9%</b>
Subscribed share capital	8,189	8,883	8.5%
Reserves	409	409	0.1%
Revaluation reserves	-1	0	109.7%
Retained earnings	662	672	1.6%
Net profit for the period	1,442	401	-72.2%
<b>Total issued capital and reserves</b>	<b>10,700</b>	<b>10,366</b>	<b>-3.1%</b>
Provisions	132	132	-0.6%
Non-current liabilities	142	180	26.9%
Deferred tax liability	2	2	0.0%
<b>Total non-current liabilities</b>	<b>276</b>	<b>314</b>	<b>13.5%</b>
Current liabilities	1,724	1,371	-20.5%
Deferred income	120	117	-2.8%
Provisions for redundancy	0	26	-
<b>Total current liabilities</b>	<b>1,844</b>	<b>1,513</b>	<b>-17.9%</b>
Total liabilities	2,120	1,827	-13.8%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,820</b>	<b>12,193</b>	<b>-4.9%</b>

# CONSOLIDATED CASH FLOW STATEMENT

HRK millions

in HRK million (IFRS)	Jan-Jun 2013	Jan-Jun 2014	change
Profit before tax	716	501	-30.1%
Depreciation and amortization	637	660	3.6%
Increase / (decrease) of current liabilities	179	-216	-220.3%
(Increase) / decrease of current receivables	-120	83	168.9%
(Increase) / decrease of inventories	-45	-21	52.4%
Other cash flow increases/ decreases	-294	-204	30.7%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,073</b>	<b>803</b>	<b>-25.2%</b>
Proceeds from sale of non-current assets	44	0	-99.4%
Proceeds from sale of non-current financial assets	1	1	-16.7%
Interest received	16	11	-34.6%
Other cash inflows from investing activities	493	1,098	122.9%
<b>Total increase of cash flow from investing activities</b>	<b>554</b>	<b>1,110</b>	<b>100.4%</b>
Purchase of non-current assets	-612	-492	19.6%
Purchase of non-current financial assets	-75	-76	-0.9%
Other cash outflows from investing activities	-7	-93	
<b>Total decrease of cash flow from investing activities</b>	<b>-694</b>	<b>-661</b>	<b>4.7%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-140</b>	<b>448</b>	<b>419.6%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	-2	0	99.7%
Dividends paid	0	-736	-
Repayment of finance lease	-3	-2	39.4%
Other cash outflows from financing activities	0	0	-100.0%
<b>Total decrease in cash flow from financing activities</b>	<b>-5</b>	<b>-738</b>	
<b>Net cash inflow/outflow from financing activities</b>	<b>-5</b>	<b>-738</b>	
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-10</b>	<b>-2</b>	<b>83.2%</b>
Cash and cash equivalents at the beginning of period	3,146	2,039	-35.2%
Net cash (outflow) / inflow	918	511	-44.3%
<b>Cash and cash equivalents at the end of period</b>	<b>4,064</b>	<b>2,551</b>	<b>-37.2%</b>

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

London Stock Exchange GDR trading symbol: THTC

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

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HTRA CZ