

BUSINESS AND FINANCIAL REVIEW JANUARY – SEPTEMBER 2014

**ANALYST PRESENTATION
30 OCTOBER 2014**

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HIGHLIGHTS

Operational

- Leading market position across all areas of business maintained despite continued challenging environment
- Transformation initiatives continue, with first material impact evident in Q3 2014
- New fiber proposition on the market increasing competitiveness

Financial

- Optima Telekom consolidated for first time
- Underlying 2014 Outlook unchanged, with revenue modified due to Optima consolidation
- Revenue decline slows to 2.2% yoy in Jan-Sep 2014 compared to 5.2% yoy in H1 2014
- Solid third quarter results: EBITDA before exceptional items margin of 41.5% vs 38.9% in H1

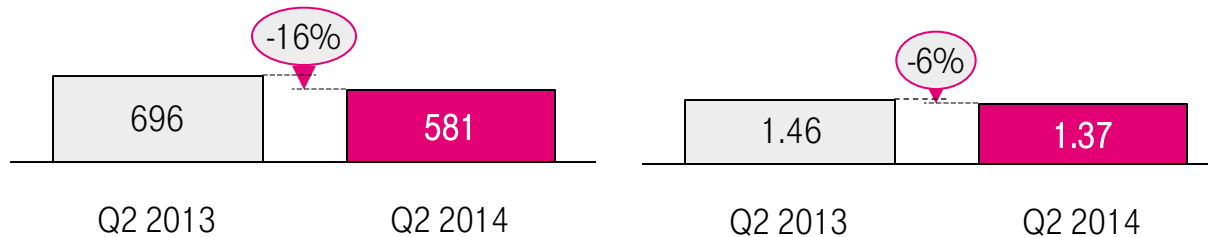
FIXED AND MOBILE VOICE MARKET IN CROATIA STILL SHRINKING...

○ Annual change

Revenue
HRK million

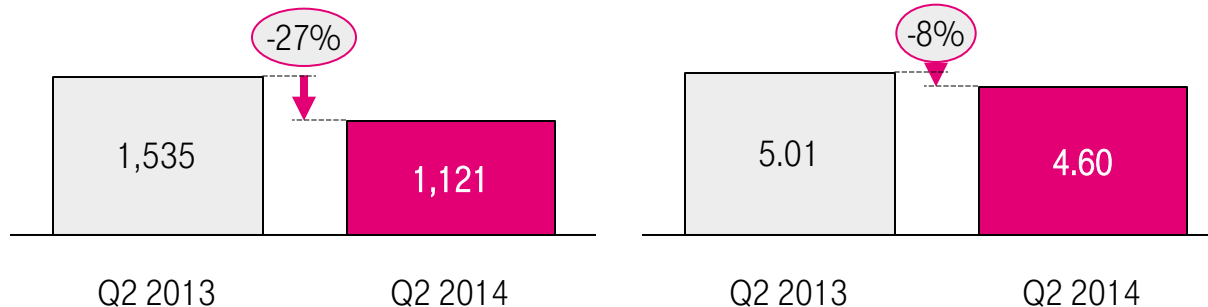
Number of subscribers
Million

Fixed voice



- **13 active operators** in market
- **Minutes of use** decreased by 14.2% in Q2 2014

Mobile



- **Minutes of use** increased by 5.9% in Q2 2014
- **Penetration** estimated at 118% (end of Q3 2014); down 2.9pp yoy

IT

- Despite challenging economic environment, modest recovery in IT market expected in 2014 as a result of new investments funded by EU and accelerated investments by particular market segments

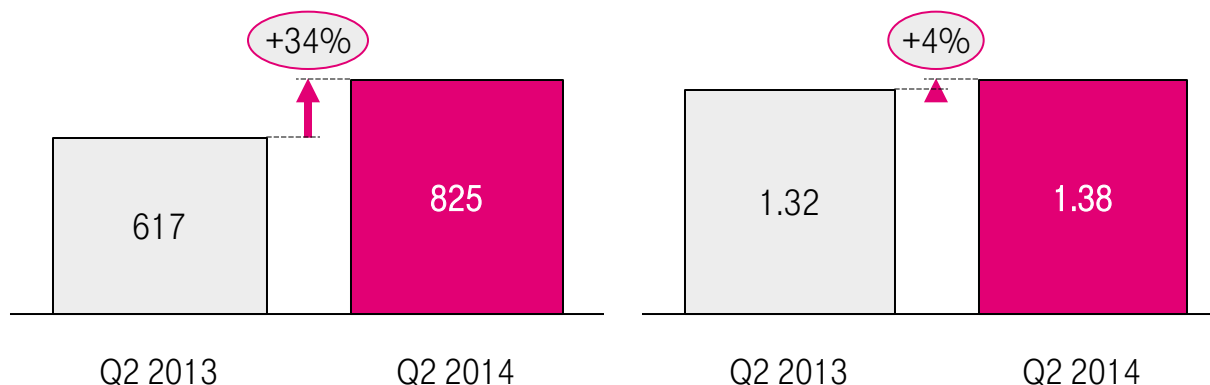
... PARTIALLY OFFSET BY GROWTH IN FIXED AND MOBILE BROADBAND AND IN PAYTV

○ Annual change

Revenue
HRK million

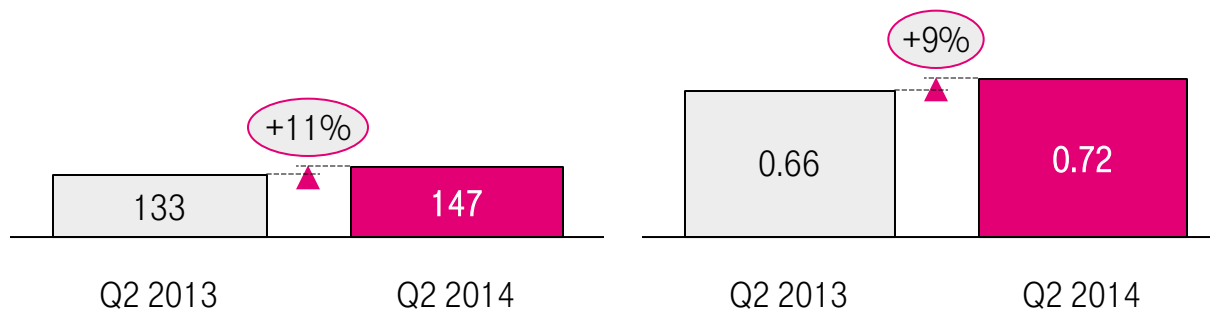
Number of subscribers
Million

Fixed and Mobile Broadband



- **Fixed Broadband lines** at 937k in Q2 2014 (+3% yoy); Fixed BB household penetration at 60%
- **HT Smartphone penetration 35%**

PayTV



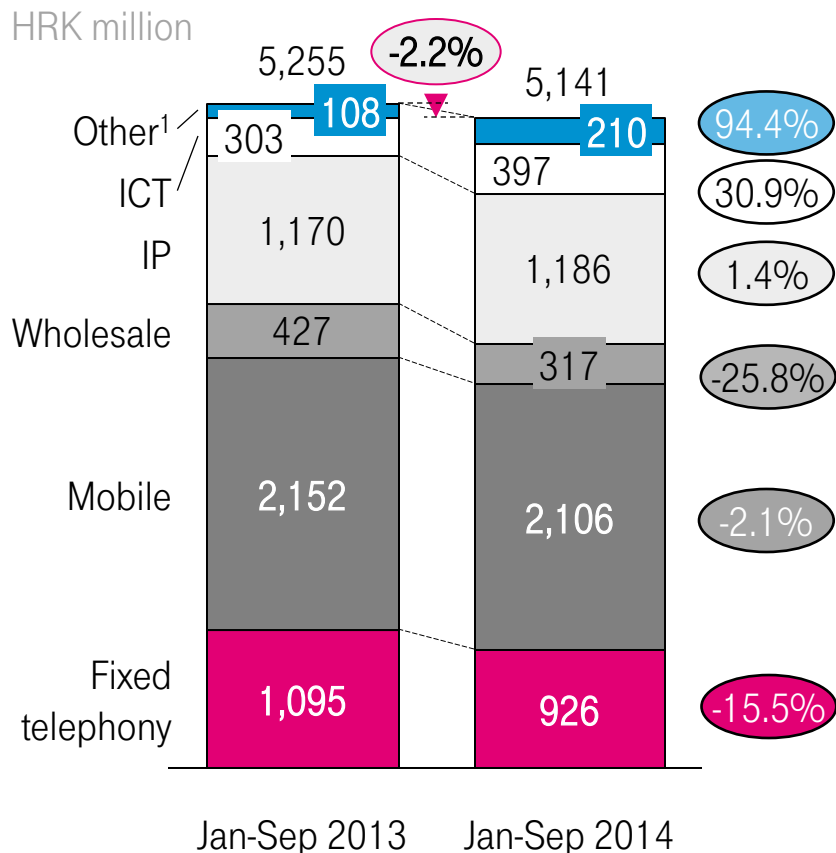
- **Positive trend** expected to continue in 2014
- Croatia is **only regulated market for IPTV** in Europe
- Pay TV household penetration at 47%

SOURCE: HAKOM

LIFE IS FOR SHARING.

REVENUE DECLINE SLOWS: DECREASE IN FIXED AND WHOLESALE, PARTIALLY OFFSET BY ICT AND OPTIMA CONSOLIDATION

Revenue breakdown

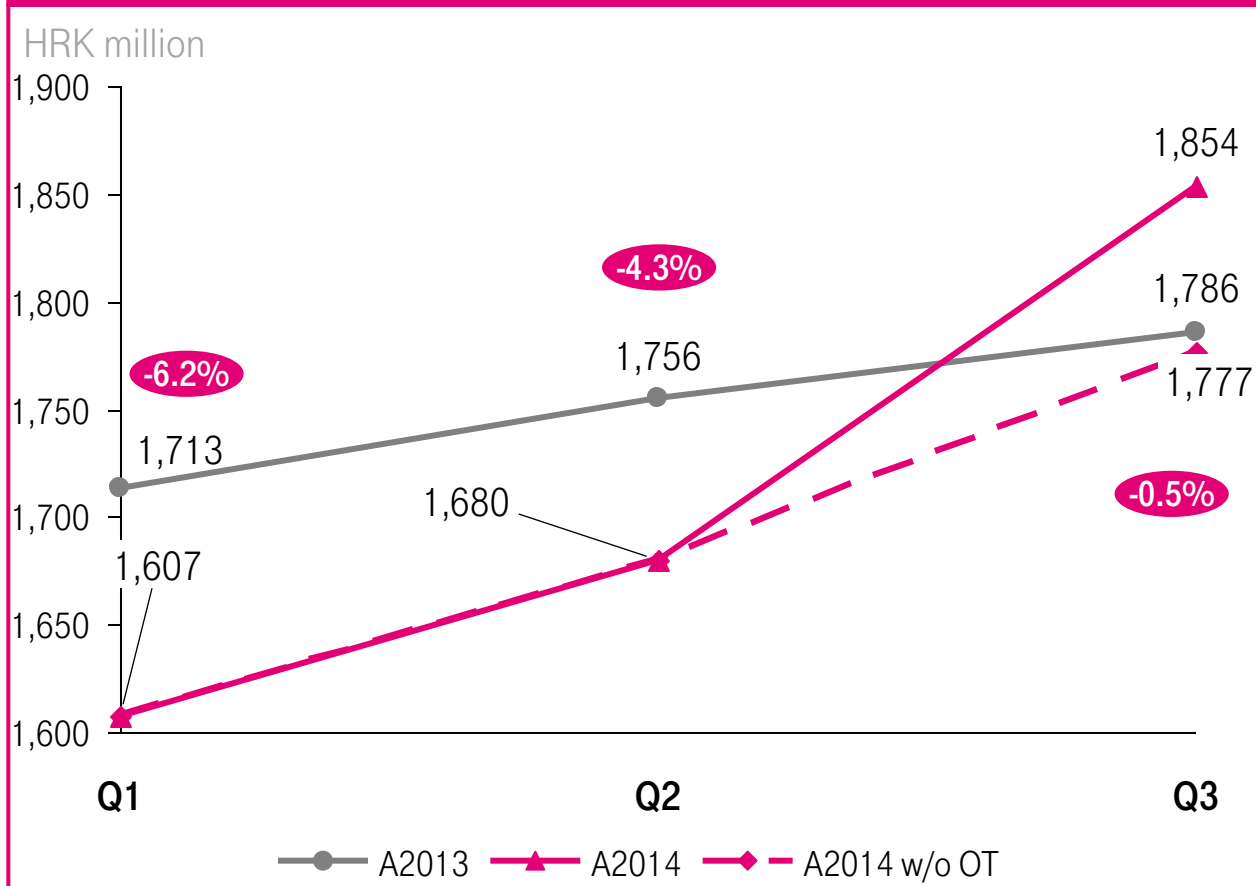


- Optima Telekom's financial statements (not operational data) consolidated as of 1 July 2014

- 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 with **positive growth rate of 4.3% in Q3 yoy**
- Lower hubbing traffic (due to change in business model), negative effects of Optima consolidation 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
- Optima contribution** to Other revenues is HRK 113 million; following above mentioned negative impact on wholesale revenues, net impact of consolidation totals HRK 77 million. Excluding Optima, Group revenue decline of 3.7%

SOLID Q3 2014 ADJUSTED REVENUE: ALMOST FLAT TO Q3 2013

Quarterly revenue development, 2014 vs 2013

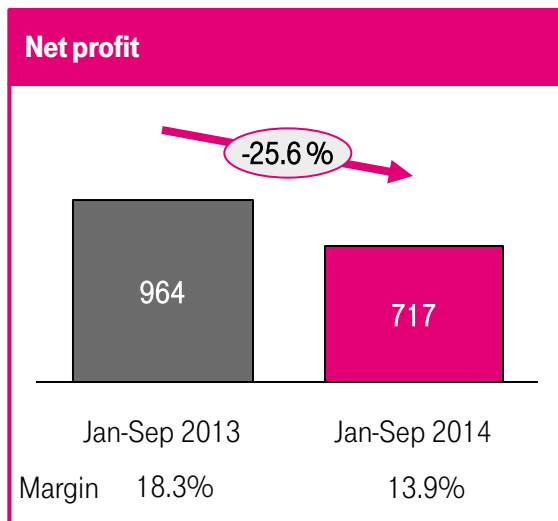
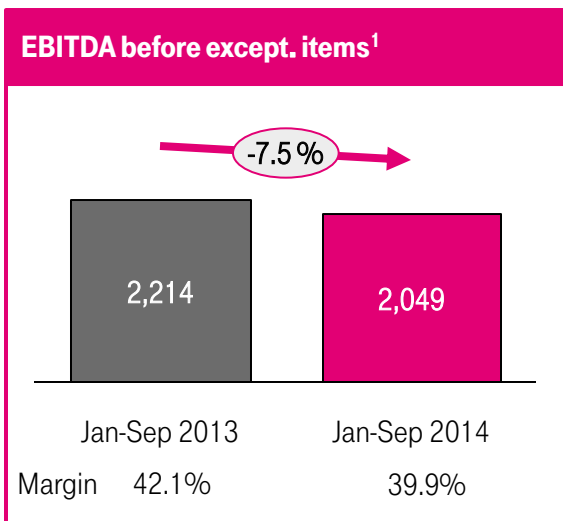


x% YOY growth rate

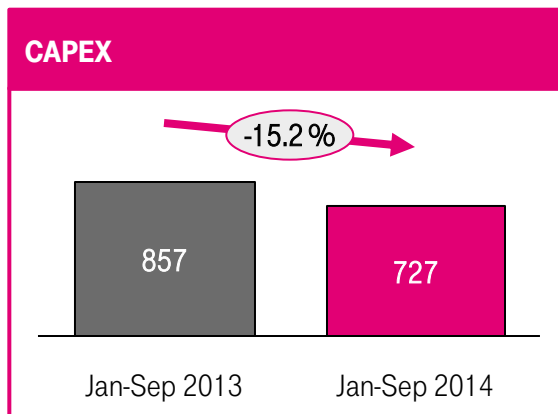
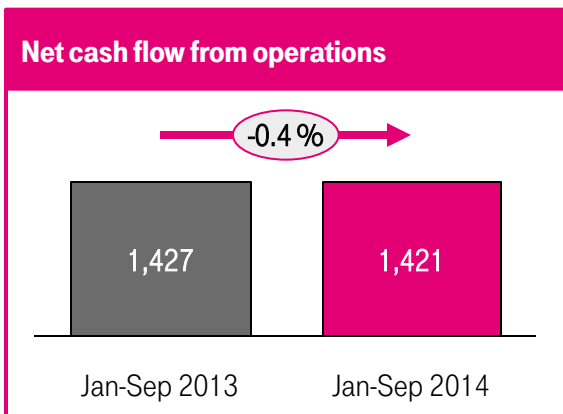
- Major contributor is mobile business, mostly due to: mobile data, strong growth in seasonal visitors, price increases due to new Government spectrum fee and split contract
- Strong quarter in ICT: up 35.5%

TRANSFORMATION EFFORTS IMPACT PROFITABILITY; CASH FLOW FROM OPERATIONS STABLE

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**

¹ Exceptional items refer to redundancy costs totalling HRK 115 million in Jan-Sep 2014 and HRK 66 million in Jan-Sep 2013

TRANSFORMATION INITIATIVES WILL POSITIVELY IMPACT FUTURE RESULTS

> x Yearly EBITDA impact in HRK million;
years 2015-17 against 2014 F

OUTSOURCING

- On 18 Aug 2014 T-HT signed contract for outsourcing of Managed Services with Ericsson NT servisi d.o.o.
- 638 employees started to work in the new company as of 1 September 2014

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HEADCOUNT RESTRUCTURING

- Reduced the size of managerial level & employees: total number of employees reduced by 374. 224 have left by 30 Sep 2014
- Creation of more customer-centric and decision-oriented organization continue

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COLLECTIVE AGREEMENT

- New Collective agreement valid from 1 July 2014
- Reduced severance payments, length of service bonus and similar payments
- More flexibility in organizational sizing; Conditions aligned with market

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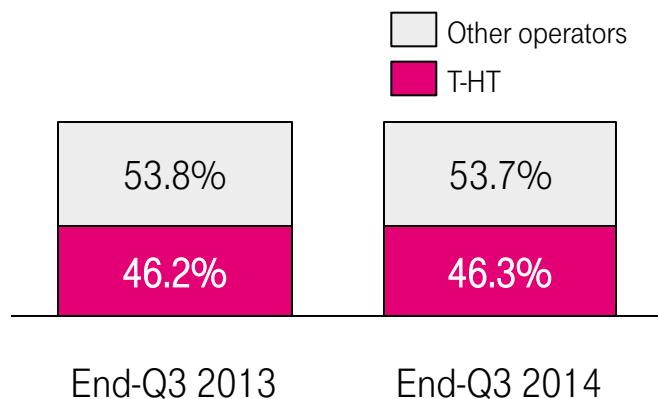
IP MIGRATION

- Complete migration of PSTN lines to full IP continues according to plan, >90% of eoy target achieved

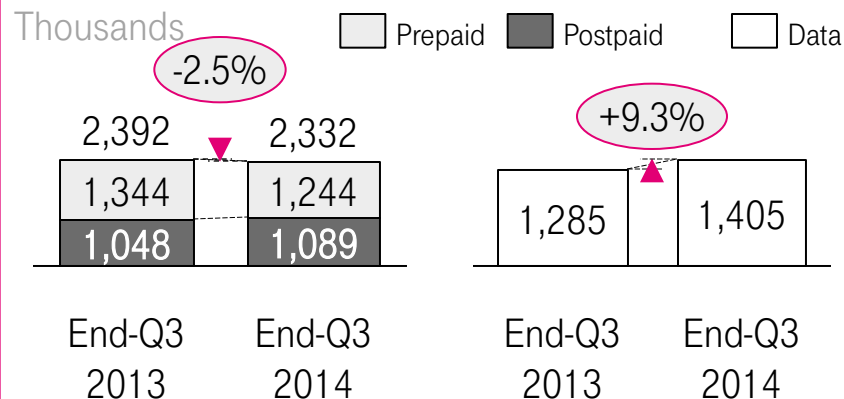
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SUCCESSFUL VALUE STRATEGY IN MOBILE; MORE CUSTOMERS CHOOSING HT'S MORE ADVANCED SERVICES

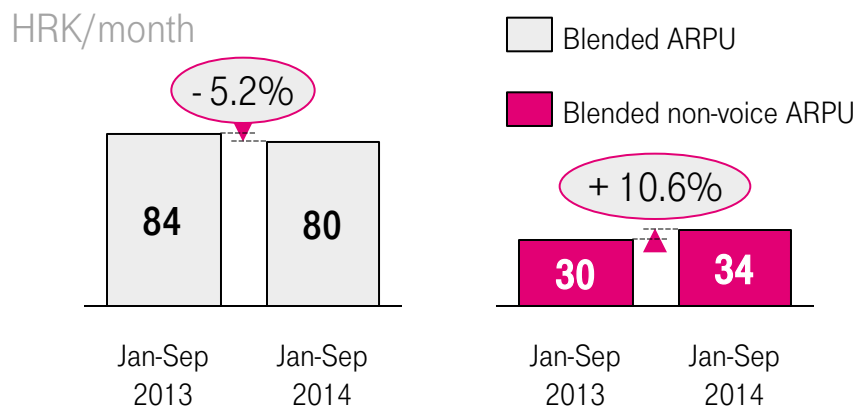
Market share by subscribers¹



Number of subscribers



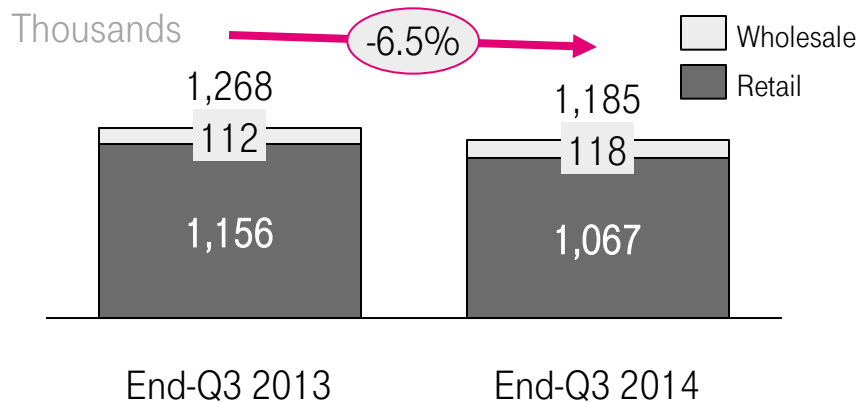
ARPU



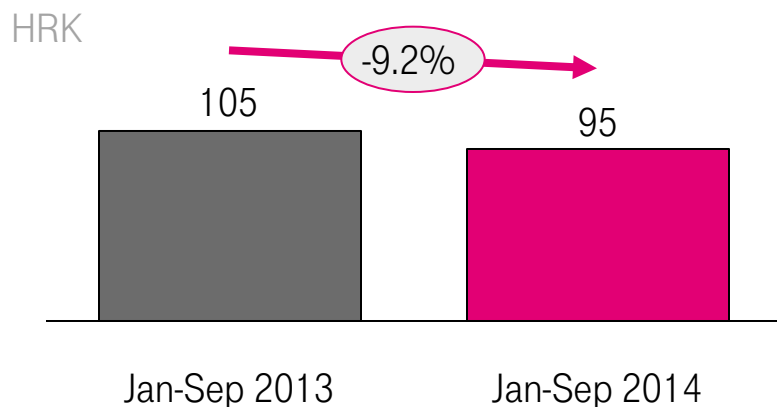
- **Average MOU** (minutes of use) up 8.4% to 188
- **Smartphone proportion** of total handset sales at 73% in postpaid segment (Jan-Sep 2013: 58%)
- Significant increase in **Annual Radio Frequency fees imposed**; HT adjusted mobile services prices

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

Number of mainlines¹



ARPA²



Optima consolidation

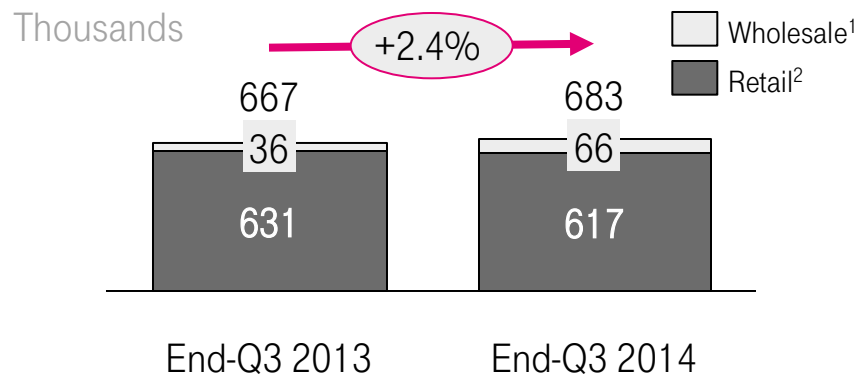
Agreement on conversion of rights into share capital, resulting in an increase of share capital of Optima Telekom, was signed on 30 July 2014. HT gained additional 10.88% stake and now holds 19.11% of the share capital of Optima Telekom. Based on the agreement with Zagrebačka banka, HT exercises control over Optima.

HT objectives for this transaction were as follows:

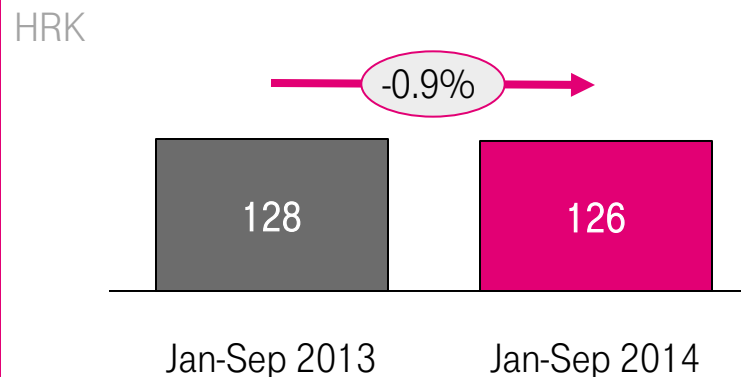
- Prevent disruptive moves which could further reduce market value and customer base for fixed telecommunication services
- Safeguard existing receivables and improve likelihood of collection of future receivables arising from regulatory obligations to provide wholesale services

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

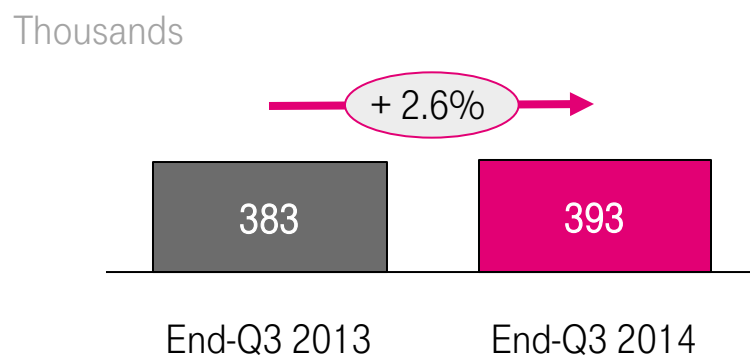
No. of broadband access lines



Broadband retail ARPA

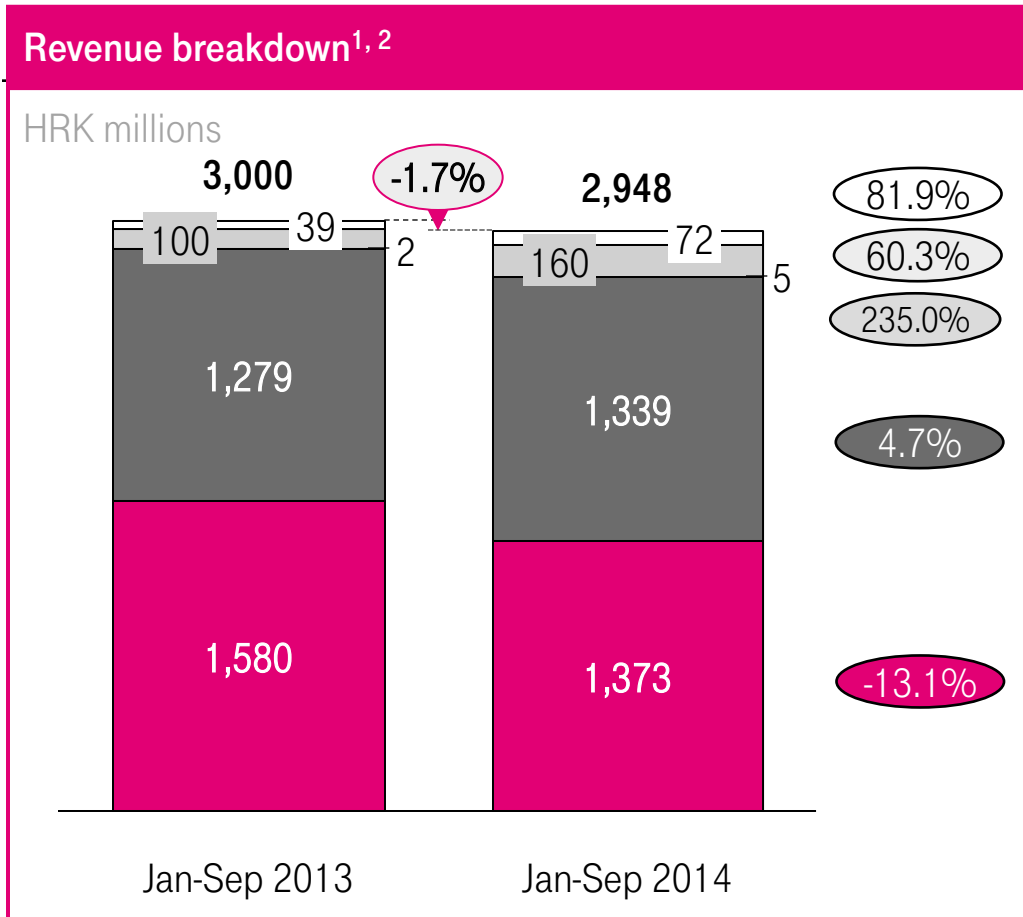
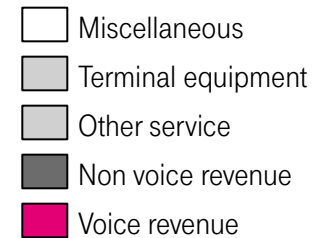


Number of TV customers



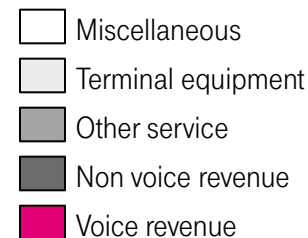
- **New fiber proposition** on the market and ongoing **promotion of MAX2/MAX3 packages**
- **New exclusive TV content: MAX** Auto Moto GP (Formula One) and HBO premium TV packages
- **HT leader in IP transformation; 67.0%** of retail customers migrated

RESIDENTIAL SEGMENT REVENUE STABLE; DECREASE IN VOICE PARTIALLY OFFSET BY INCREASE IN NON-VOICE AND TERMINAL EQUIPMENT



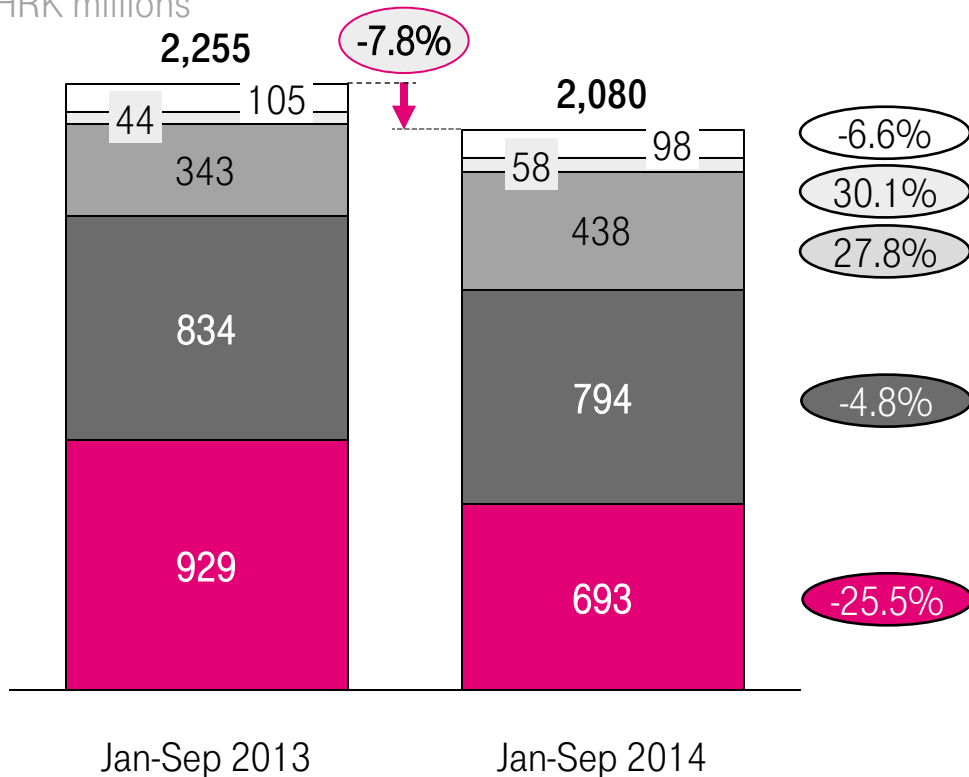
- Revenue down mainly as a result of **13.1% lower voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
- Non-voice revenue **increased 4.7%** due to higher fixed IP revenue (**mainly TV**) and **higher mobile data revenue**
 - Non voice revenue **almost level** with Voice revenue
- Terminal equipment revenue **up 60.3%** 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)

BUSINESS SEGMENT REVENUE STABLE, EXCLUDING WHOLESALE; STRONG GROWTH IN ICT SOFTENS IMPACT OF DECREASE IN VOICE AND NON VOICE REVENUE



Revenue breakdown^{1, 2}

HRK millions



- **25.5% lower voice revenue**, in fixed and mobile, in both retail and wholesale
- **Non-voice revenue decreased 4.8%**, lower fixed, mobile (mainly due to SMS) and wholesale revenue (regulated prices, decrease in hubbing traffic and revenues from Optima consolidated from Q3 2014)
 - Non-voice revenue **exceeded** Voice revenue
- Other service revenue up 30.9% due to **growth in ICT revenue**, in both HT and Combis

UNDERLYING 2014 OUTLOOK UNCHANGED, WITH REVENUE MODIFIED TO REFLECT OPTIMA CONSOLIDATION

- Outlook for 2014 maintained
 - Revenue decline of around 2%
 - 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 (IFRS)	Jan-Sep 2013	Jan-Sep 2014	% of change A14/A13
Mobile ¹⁾	2,152	2,106	-2.1%
Fixed telephony	1,095	926	-15.5%
Wholesale	427	317	-25.8%
IP Revenue	1,170	1,186	1.4%
Data	77	63	-18.0%
ICT	303	397	30.9%
Miscellaneous ¹⁾	31	138	338.2%
Energy	0	5	-
Other non telco services	0	4	-
Revenue	5,255	5,141	-2.2%
Other operating income ¹⁾	82	85	2.8%
Total operating revenue	5,337	5,226	-2.1%
Operating expenses	3,190	3,292	3.2%
Material expenses	1,414	1,439	1.8%
Employee benefits expenses	871	914	4.9%
Other expenses	890	940	5.5%
Work performed by the Group and capitalised	-40	-67	-69.9%
Write down of assets	53	67	25.8%
EBITDA	2,148	1,934	-9.9%
Depreciation and amortization	959	1,012	5.6%
EBIT	1,189	922	-22.5%
Financial income	38	23	-38.8%
Income/loss from investment in joint ventures	20	12	-42.7%
Financial expenses	42	64	52.5%
Profit before taxes	1,205	892	-26.0%
Taxation	241	178	-26.3%
Net profit	964	714	-25.9%
Non controlling interests	0	-2	-
Net profit after non controlling interests	964	717	-25.6%
Exceptional items	66	115	73.1%
EBITDA before exceptional items	2,214	2,049	-7.5%

¹⁾ Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. To improve comparability, restatement from Other operating income to Mobile revenue (HRK +25 million) and Miscellaneous (HRK +24 million) made for 3Q 2013.

CONSOLIDATED BALANCE SHEET

HRK millions

in HRK million (IFRS)	At 31 Dec 2013	At 30 Sep 2014	% of change A14/A13
Intangible assets	1,358	1,476	8.7%
Property, plant and equipment	5,570	5,661	1.6%
Non-current financial assets	594	607	2.1%
Receivables	126	102	-19.0%
Deferred tax asset	60	54	-9.5%
Total non-current assets	7,708	7,900	2.5%
Inventories	115	144	25.0%
Assets held for sale	0	6	-
Receivables	1,457	1,334	-8.4%
Current financial assets	1,352	359	-73.5%
Cash and cash equivalents	2,039	3,045	49.3%
Prepayments and accrued income	149	135	-9.3%
Total current assets	5,112	5,023	-1.8%
TOTAL ASSETS	12,820	12,922	0.8%
Subscribed share capital	8,189	8,883	8.5%
Reserves	409	409	0.1%
Revaluation reserves	-1	2	266.5%
Retained earnings	662	672	1.6%
Net profit for the period	1,442	717	-50.3%
Non controlling interests	0	-18	-
Total issued capital and reserves	10,700	10,665	-0.3%
Provisions	132	131	-1.4%
Non-current liabilities	142	617	335.9%
Deferred tax liability	2	2	0.0%
Total non-current liabilities	276	751	171.4%
Current liabilities	1,724	1,344	-22.0%
Deferred income	120	135	12.4%
Provisions for redundancy	0	27	-
Total current liabilities	1,844	1,506	-18.3%
Total liabilities	2,120	2,257	6.5%
TOTAL EQUITY AND LIABILITIES	12,820	12,922	0.8%

CONSOLIDATED CASH FLOW STATEMENT

HRK millions

in HRK million (IFRS)	Jan-Sep 2013	Jan-Sep 2014	% of change A14/A13
Profit before tax	1,205	895	-25.8%
Profit/Loss attributable to NCI	0	-2	-
Depreciation and amortization	959	1,012	5.6%
Increase / decrease of current liabilities	-209	-239	-14.4%
Increase / decrease of current receivables	-64	119	287.6%
Increase / decrease of inventories	-31	-27	13.8%
Other cash flow increases / decreases	-433	-337	22.2%
Net cash inflow/outflow from operating activities	1,427	1,421	-0.4%
Proceeds from sale of non-current assets	45	3	-93.7%
Proceeds from sale of non-current financial assets	1	2	44.5%
Interest received	22	15	-32.8%
Other cash inflows from investing activities	548	1,444	163.3%
Total increase of cash flow from investing activities	616	1,463	137.5%
Purchase of non-current assets	-857	-727	15.2%
Purchase of non-current financial assets	-75	-76	-1.8%
Other cash outflows from investing activities	-525	-338	35.7%
Total decrease of cash flow from investing activities	-1,458	-1,142	21.7%
Net cash inflow/outflow from investing activities	-842	322	138.2%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-1	-2	-17.3%
Dividends paid	-1,679	-736	56.2%
Repayment of finance lease	-4	-3	24.1%
Other cash outflows from financing activities	0	0	100.0%
Total decrease in cash flow from financing activities	-1,685	-741	56.0%
Net cash inflow/outflow from financing activities	-1,685	-741	56.0%
Exchange gains/losses on cash and cash equivalents	3	3	9.9%
Cash and cash equivalents at the beginning of period	3,146	2,039	-35.2%
Net cash (outflow) / inflow	-1,096	1,005	191.7%
Cash and cash equivalents at the end of period	2,050	3,045	48.5%

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Bloomberg: HTRA CZ