

# **BUSINESS AND FINANCIAL REVIEW JANUARY – DECEMBER 2014**

**ANALYST PRESENTATION  
12 FEBRUARY 2015**



**LIFE IS FOR SHARING.**

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# *1. SUMMARY*



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# HIGHLIGHTS

## Operational

- Leading market position across all areas of business maintained despite continued challenging environment
- Our fiber proposition on the market increased overall competitiveness; mobile data usage trend up strongly
  - Significant investments planned for 2015 in fixed and mobile broadband to maintain premium provider position long term (following recent changes in regulatory environment)
- Transformation initiatives continue through 2015, with further material impact in 2015 and beyond

## Financial

- 2014 delivery in line with Outlook
- Revenue decline in 2014 slowed to 1.9% yoy (w/o Optima 4.0%) compared to 6.8% decline yoy in 2013
  - Major driver - mobile revenues: almost stable at -1.2% in 2014 vs -10.4% in 2013
- Despite worsening environment, new imposed fees, transformation costs and changes in revenue structure - EBITDA before exceptionals margin solid at 40.3%
- Net profit distribution proposal:
  - 83.1% to be reinvested into business development, resulting in additional net profit of HRK 188 million in 2014
  - 17.9% to be distributed to retained earnings and legal reserves as required by Law
- Dividend of HRK 7.00 per share proposed to be paid out of 2009 retained earnings (equivalent to 50.7% payout of net profit 2014)
- Outlook 2015: “revenue stabilisation” and “EBITDA margin before exceptionals at around 40%”



# FY 2014 OUTLOOK AND RESULTS

	Outlook (as of 30 Oct 2014)	Results delivered
Revenue	Decline of around 2%	Decline of 1.9% ✓
EBITDA before exceptional items	Between 39% - 41%	40.3% ✓
CAPEX	Over HRK 1 billion	HRK 1.1 billion ✓
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	✓



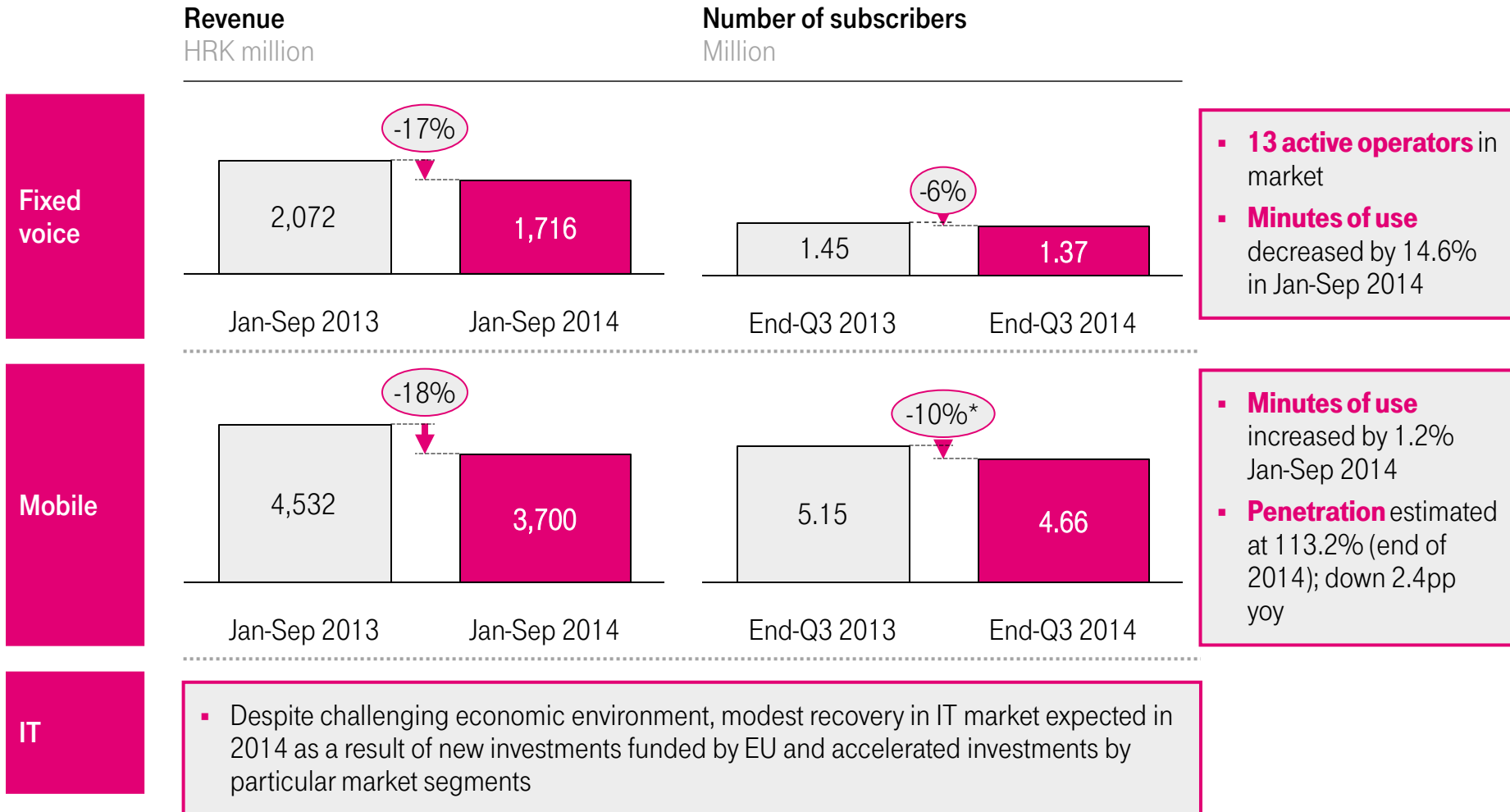
## *2. OVERVIEW 2014*



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

○ Annual change



SOURCE: HAKOM, IDC Adriatics. Q4 figures for the whole market published by HAKOM, regulatory agency, are still outstanding.

\*Mainly due to decrease in customers with double SIM cards due to the continuing trend of attractive flat and cross net offers.

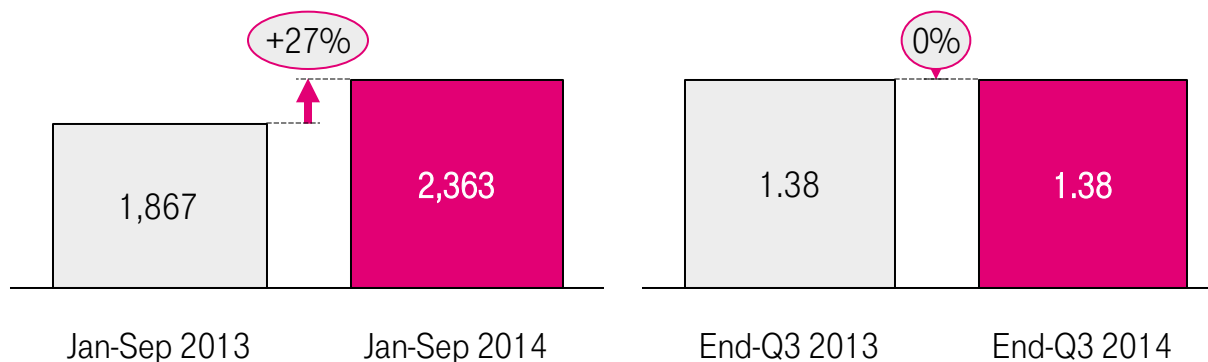
# ... PARTIALLY OFFSET BY GROWTH IN FIXED AND MOBILE BROADBAND AND IN PAYTV

○ Annual change

**Revenue**  
HRK million

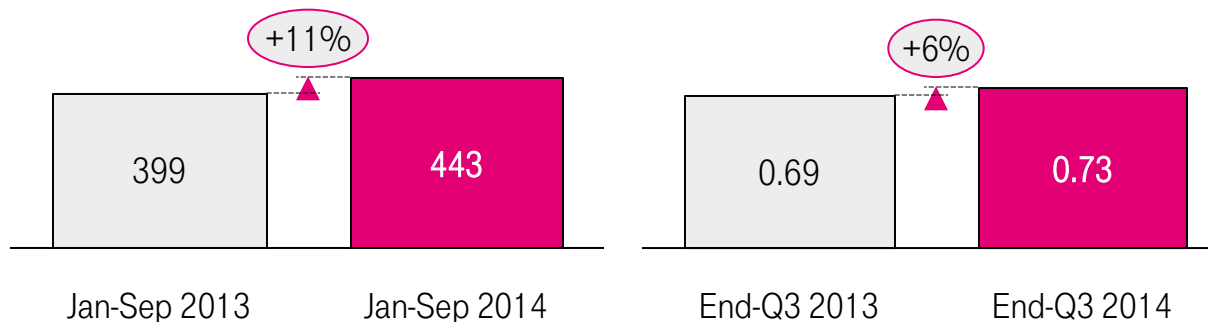
**Number of subscribers**  
Million

Fixed and Mobile Broadband



- **Fixed Broadband lines** at 944k in Q3 2014 (+3.1% yoy); Fixed BB household penetration at 61%
- **HT Smartphone penetration 41%**

PayTV

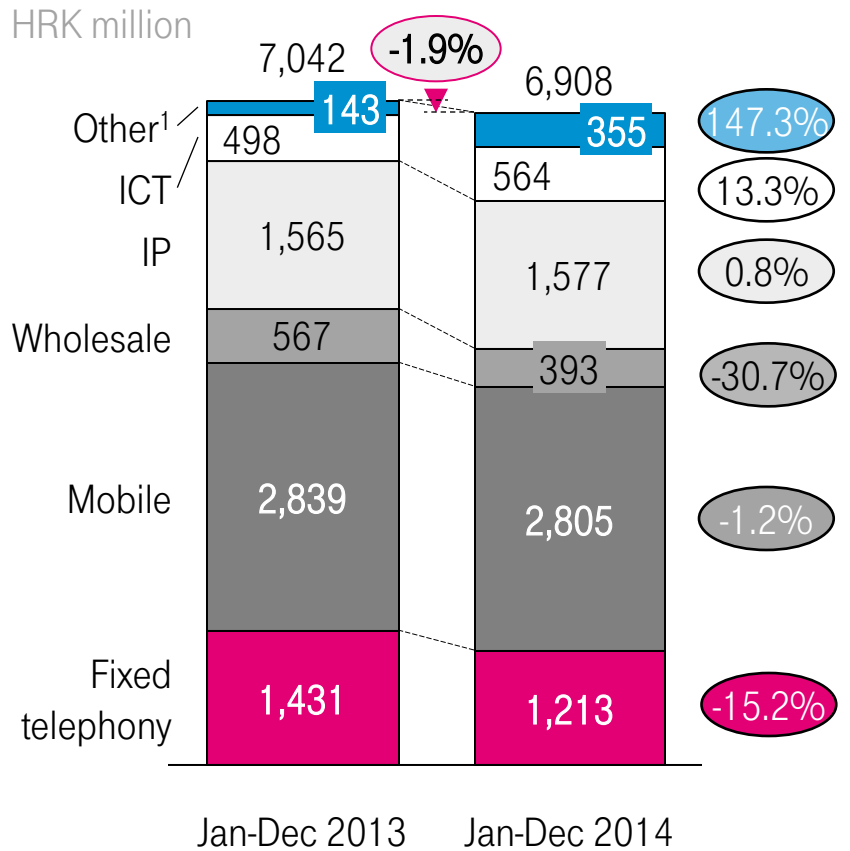


- **Positive trend** expected to continue
- Croatia is **only regulated market for IPTV** in Europe
- Pay TV household penetration at 47%



# REVENUE DECLINE SLOWS TO 1.9% COMPARED TO 6.8% IN 2013, HELPED BY MOBILE GROWTH IN H2 2014

## Revenue breakdown



• Optima Telekom consolidated as of 1 July 2014

- **Fixed telephony down** due to general usage trends
- **Mobile revenue almost stable** due to strong increase in mobile data and terminal equipment (handset) revenue; +3.1% in H2 2014 vs H2 2013
- Lower hubbing traffic (due to change in business model), negative consolidation impact of Optima 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
- **Solid growth in ICT** mainly in specific ICT solutions for key accounts, Cloud and Managed services and IT infrastructure and System Solutions
- **Optima contribution** to Other revenues is HRK 221 million; following above mentioned negative impact on wholesale revenues, net impact of consolidation totals HRK 149 million. Excluding Optima, Group revenue decline of 4.0%

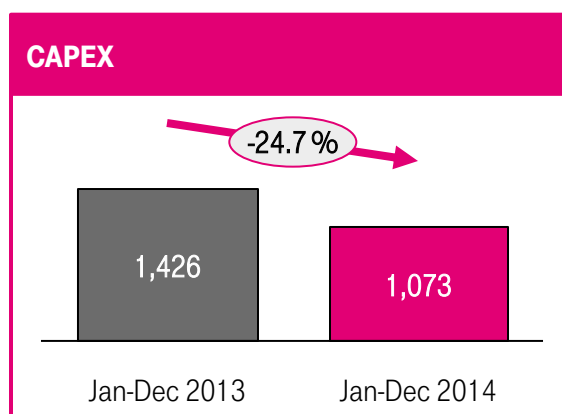
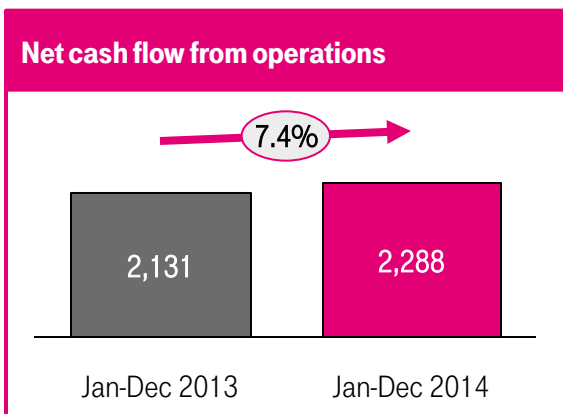
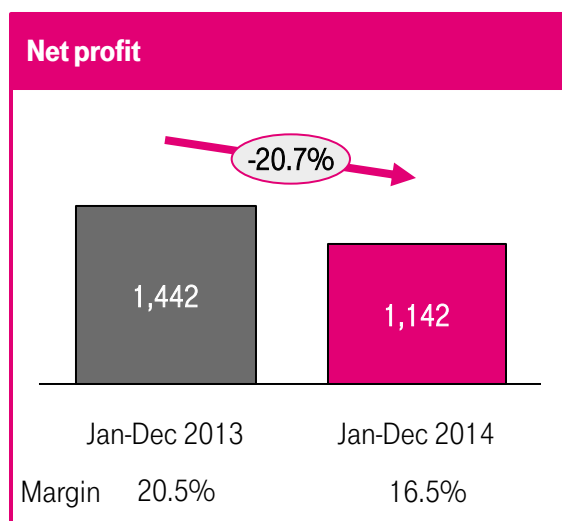
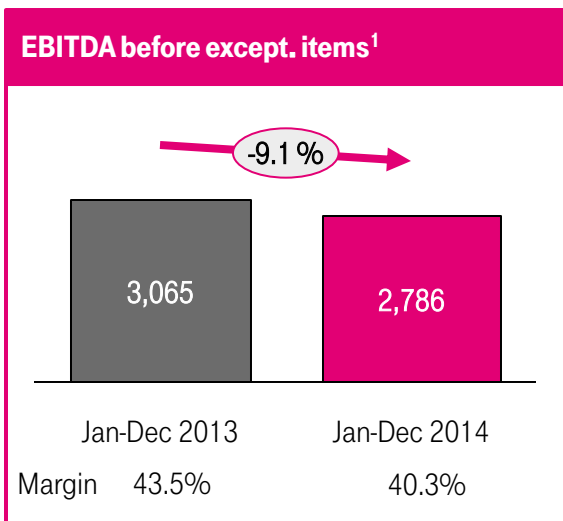


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<sup>1</sup> Data, miscellaneous, energy and other non telco services. Optima revenues are consolidated within miscellaneous revenues.

# DESPITE WORSENING ECONOMIC ENVIRONMENT, COMPANY TRANSFORMATION INITIATIVES AND CHANGES IN REVENUE STRUCTURE – EBITDA MARGIN SOLID AT 40.3%

All in HRK million, except where stated differently



- EBITDA **decline slowed** compared to 2013 (-9.1% vs -12.9%)
- Net profit impacted in addition by **exceptional items** (mainly redundancy costs) **and lower net financial result** (mainly content capitalisation and joint ventures) **offset by higher tax benefits**
- Net cash flow from operations **up due to improvements in working capital**
- CAPEX **lower in absence of spectrum investments and one-off real estate investments from 2013**

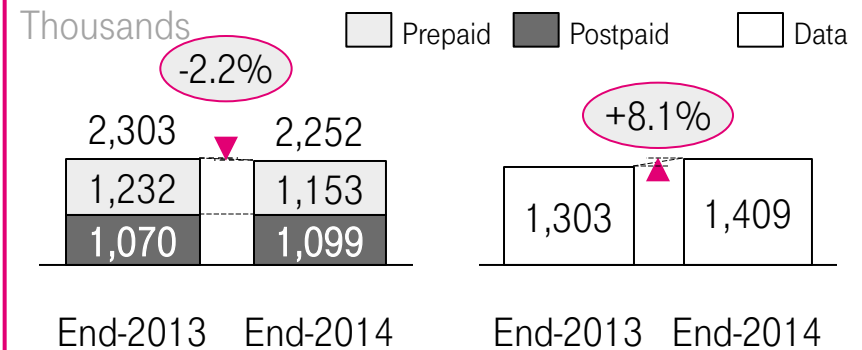
<sup>1</sup> Exceptional items in 2014 refer to redundancy costs totalling HRK 138 million and transformation consultancy costs totalling HR 14 million. Exceptional items in 2013 refer to redundancy costs totalling HRK 66 million.

# SUCCESSFUL VALUE STRATEGY IN MOBILE; FOCUS ON DATA MOBILE BUNDLES

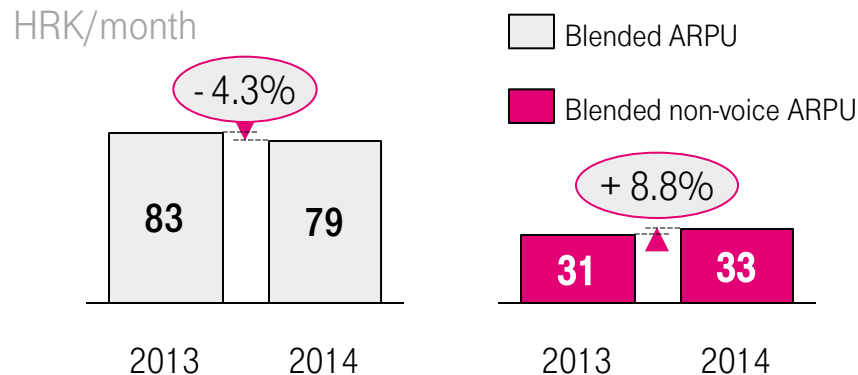
## T-HT market share by subscribers<sup>1)</sup>



## Number of subscribers



## ARPU<sup>2)</sup>



- **Average MOU** (minutes of use) up 8.2% to 188
- **Smartphone proportion** of total handset sales at 73% in postpaid segment (2013: 60%)
- Significant increase in **Annual Radio Frequency fees imposed**; HT adjusted mobile services prices



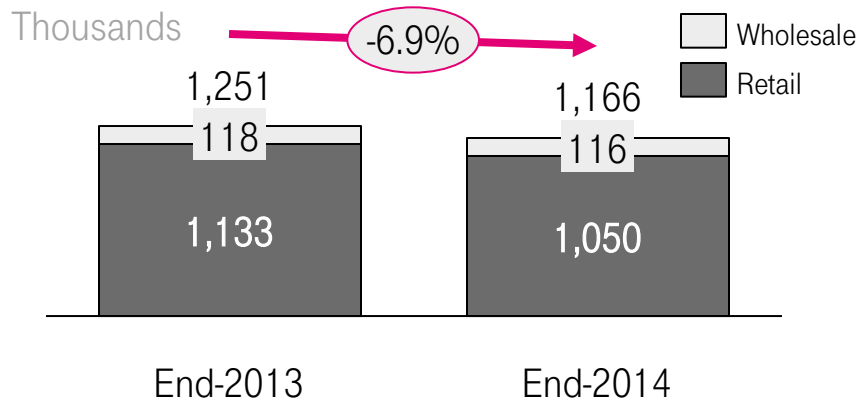
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<sup>1</sup> VIPnet's and Tele2's published quarterly report for Q4 2014.

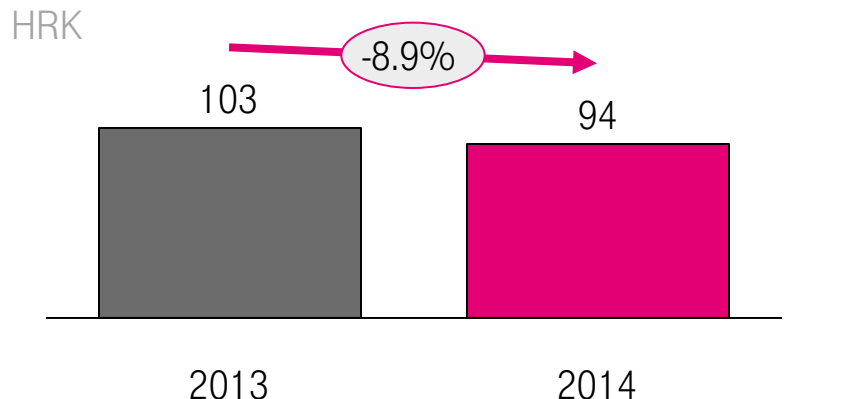
<sup>2</sup> HT does not include new fee charged to customers as of July 2104 in any ARPU related revenues

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

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



## ARPA<sup>2</sup>



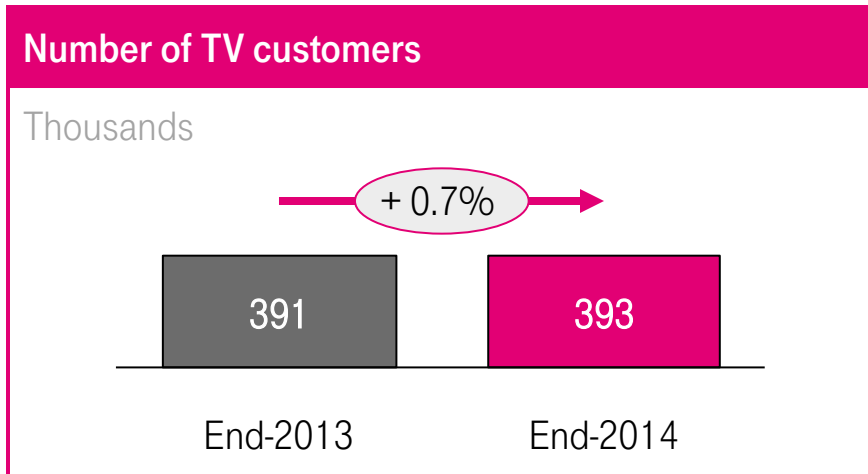
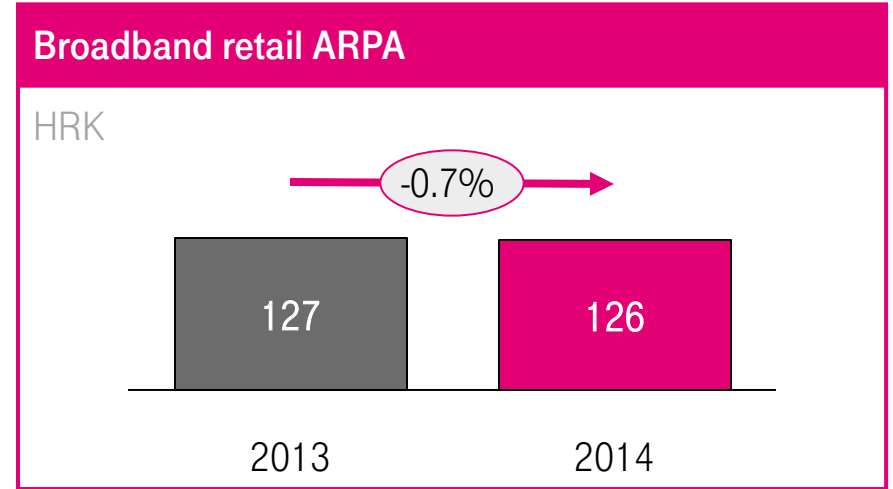
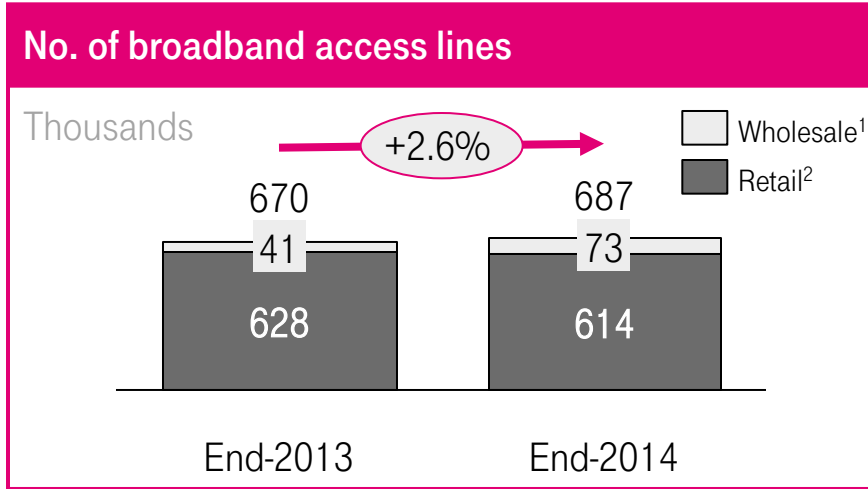
## Optima consolidation

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

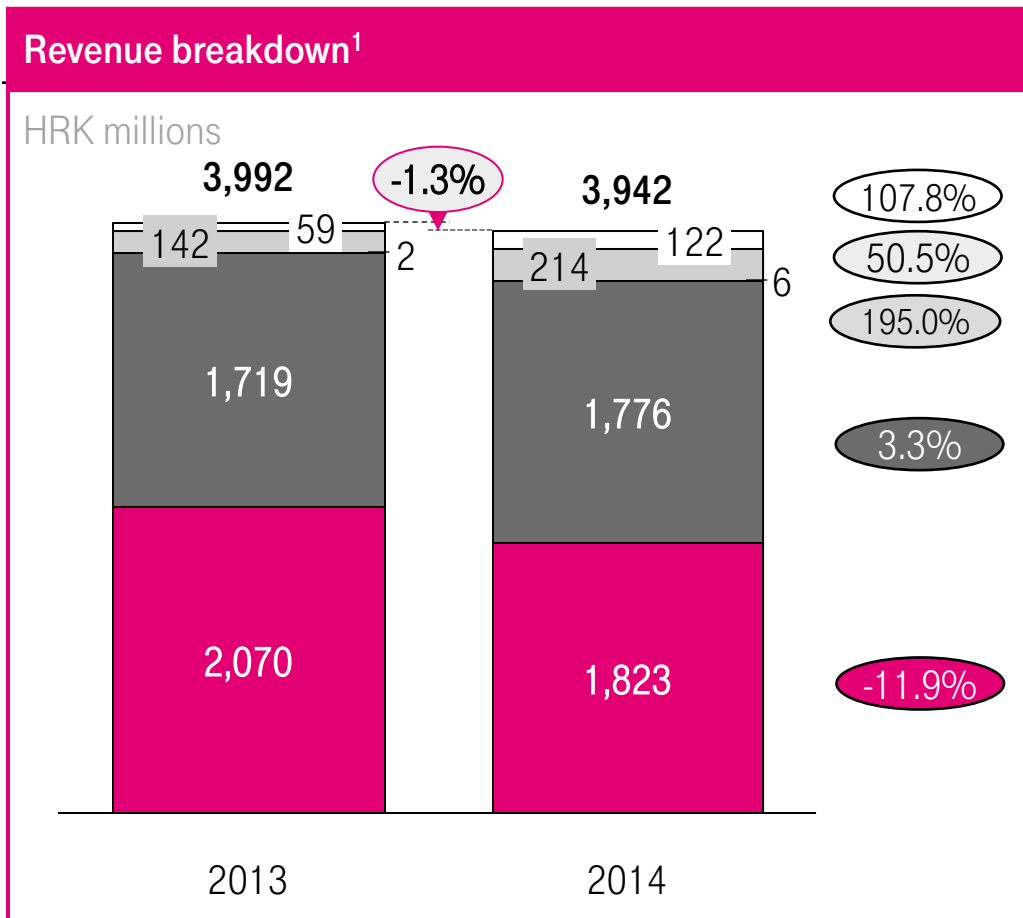
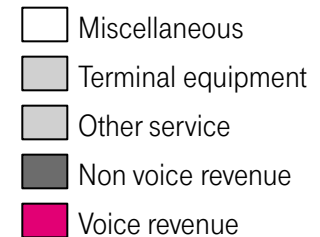
# NUMBER OF BB AND TV CUSTOMERS CONTINUES TO GROW; HT LEADS IN CONVERGENT OFFERS AND CONTENT



- **New fiber proposition Ultra MAX** on the market and ongoing **promotion of MAX2/MAX3 packages**
- **New exclusive TV content:** Pickbox, MAX Auto Moto GP (Formula One) and HBO premium TV packages
- **HT leader in IP transformation:** 75.4% of retail customers migrated

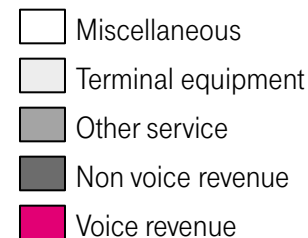


# RESIDENTIAL SEGMENT REVENUE STABLE; DECREASE IN VOICE PARTIALLY OFFSET BY INCREASE IN NON-VOICE, TERMINAL EQUIPMENT AND MISCELLANEOUS REVENUE



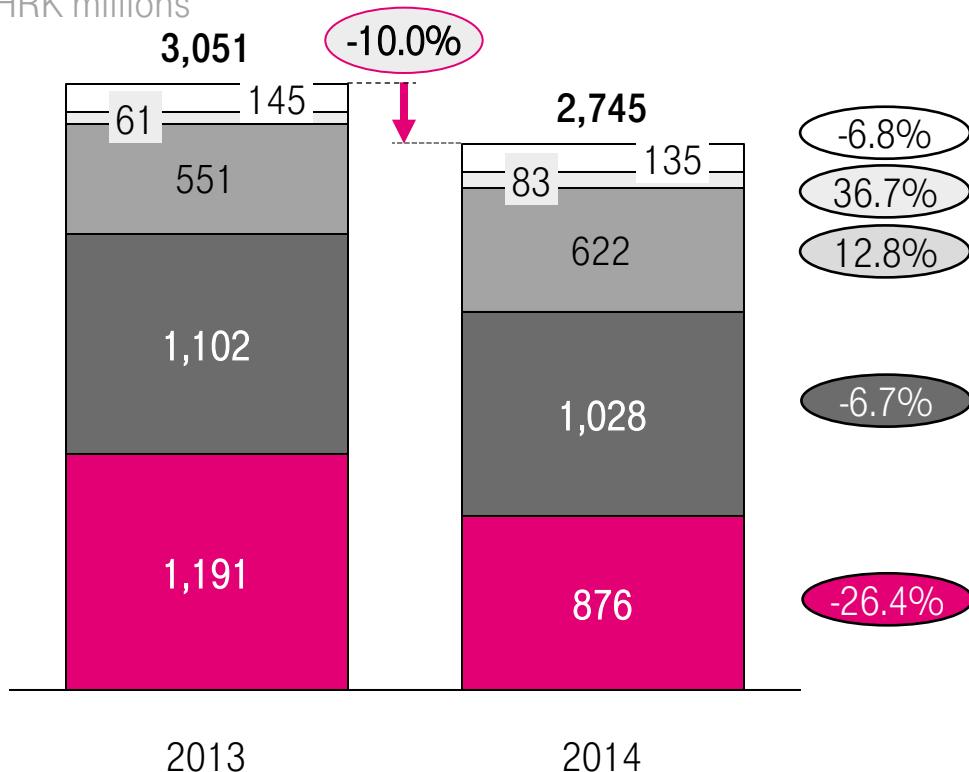
- Revenue down mainly as a result of **11.9% lower voice revenue**, in both **fixed** (general usage trends) and **mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
- Non-voice revenue **increased 3.3%** due to higher fixed IP revenue (**mainly TV**) and **higher mobile data revenue**
- Terminal equipment revenue **up 50.5%** 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)
- Miscellaneous revenue **rises 107.8%** mainly following **price adjustments in mobile as of July 2014**

# BUSINESS SEGMENT REVENUE DOWN MAINLY DUE TO 30.7% DECLINE IN WHOLESALE; GROWTH IN ICT SOFTENS IMPACT OF DECREASE IN VOICE AND NON VOICE REVENUE



## Revenue breakdown<sup>1</sup>

HRK millions



- **26.4% lower voice revenue**, in fixed and mobile, in both retail and wholesale
- **Non-voice revenue decreased 6.7%**, 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 12.8% due to **growth in ICT revenue**, in both HT and Combis

## ***3. OUTLOOK***



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# CLEAR STRATEGY TO MAINTAIN STRONG PROFITABILITY: FOCUS IN 2015 ON CUSTOMERS & ON NETWORK INVESTMENTS

## Mid-term strategic direction

- Enhancing value from the market
- Leveraging infrastructure
- Further strict cost management

### 2014: Build foundation

- Deliver 2014 Outlook ✓
- Initiate transformation ✓
- Set strategic priorities ✓

### 2015: Customers and network

- Deliver superior customer experience
- Value enhancement through further transformation
- Exploit pockets of growth
- Invest in network

# ENVIRONMENT REMAINS CHALLENGING; HT WILL LEVERAGE KEY OPPORTUNITIES

## Opportunities



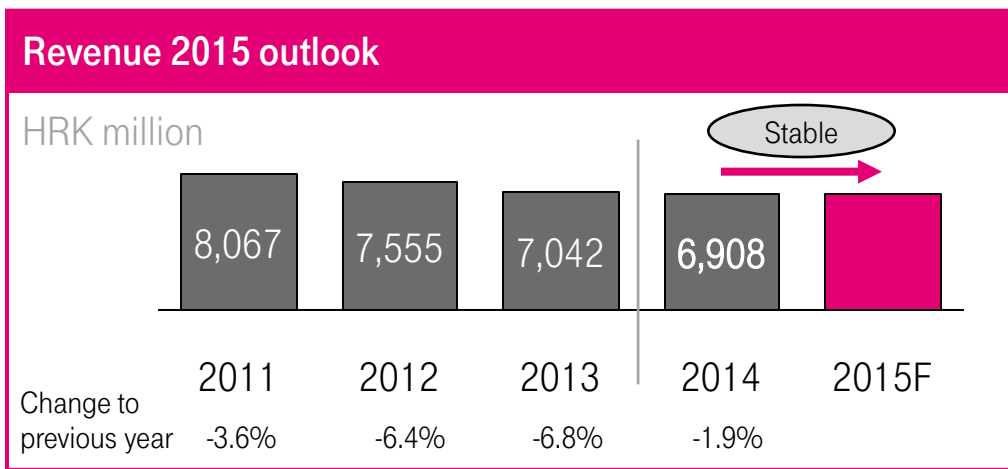
- Increasing demand for bundled offers
- Development of fixed mobile converged services available on multiple platforms and devices
- Increasing trend of Cloud services especially for business customers
- Broader service portfolio of telco operators: m/e Payment, m-Health,..
- Enhancement of telco infrastructure across Croatia

## Threats

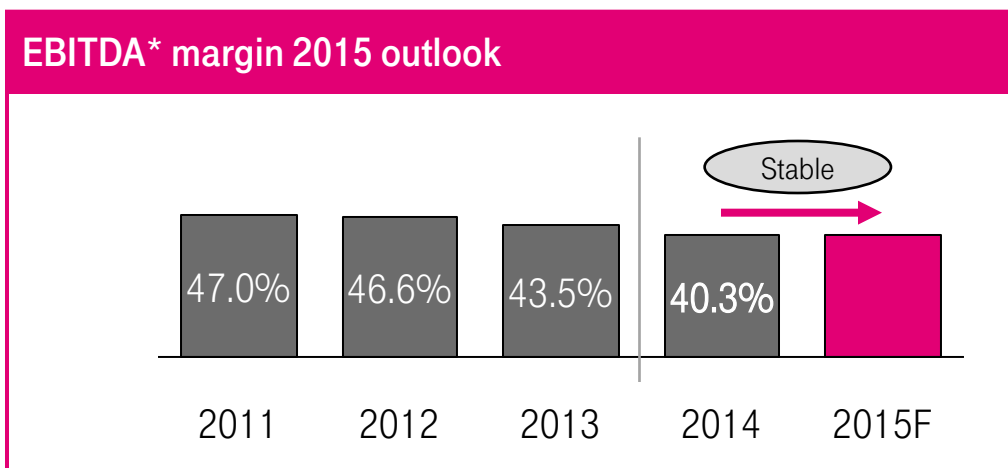


- Croatian economy still in recession
  - GDP
  - Unemployment
- Regulation
  - National
  - EU
- Further value distortion of market
- OTT and other rival services

# HT AIMS TO CHANGE TOPLINE TREND WHILE MAINTAINING ABOVE AVERAGE MARGINS



- Downward trend, which started in 2009, **expected to halt in 2015** following expected positive development in core telco and growth areas



- Due mainly to transformation initiatives, **EBITDA margin level expected to be maintained**



# 3 MAJOR AREAS OF FOCUS IN 2015 AND BEYOND

## Value enhancement through further transformation

- Transformation activities started in early 2014 with first tangible effects in the same year – full impact in 2015
- Mid-term transformation programme “Horizont” launched, including additional measures to protect profitability

## Growth in some areas

- 5 major growth areas will help stabilise topline and maintain overall market share
  - Mobile data, fixed broadband, TV, online consumer services and ICT

## Exploit infrastructure advantage

- Network strategy
  - Accelerated roll out of fixed and mobile broadband in 2015
  - One-off capex increase in 2015 by 26%

# 2015 AND BEYOND: RESULTS TO BE STRONGLY IMPACTED BY TRANSFORMATION INITIATIVES

\*Yearly EBITDA impact in HRK million; 2015-17 vs 2014

## Completed initiatives from 2014\*

- Outsourcing >20
- Headcount restructuring >32
- Collective agreement > 8

- Transformation initiatives successfully implemented in 2014

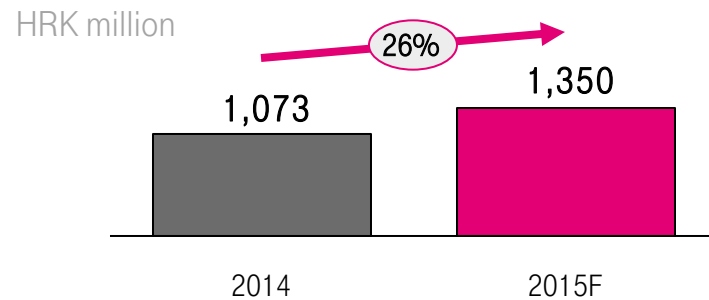
## Continuing initiatives in 2015

- Indirect opex >25

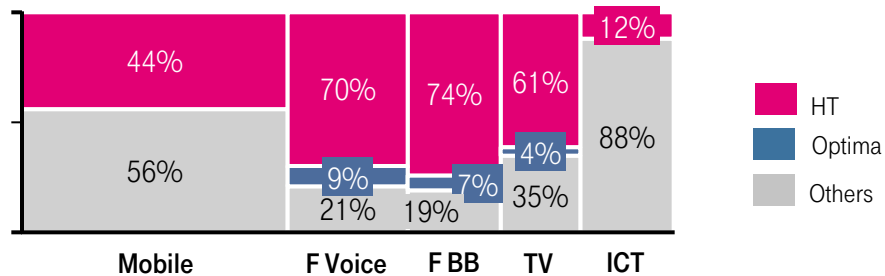
- New group wide operational excellence programme “Horizont” launched in Q4 2014
  - Measure “indirect opex” to create significant savings
  - IP migration to be completed by EOY 2015
  - Other initiatives to deliver from Q2 2015

# FIXED AND MOBILE BB INVESTMENTS WILL HELP ENHANCE OVERALL LONG TERM POSITIONING OF HT AND MAINTAIN OVERALL MARKET SHARE

## CAPEX plan



## Jan-Sep 2014F revenue market share<sup>1)</sup>



- **Significantly increased CAPEX** in 2015 will be dedicated mainly to **fixed and mobile broadband**. That will help Croatia in fulfilling **Europe 2020 digital agenda** and enable HT to maintain position of **premium provider in long term**:
  - EOY 2015 planned HH coverage in Next Generation Access - **NGA** - (fixed BB >30Mbps) **to reach around 50%**
  - **LTE** population coverage indoor to reach **around 60%** by EOY 2015
    - Will enable user downlink speed of **up to maximum 150 Mbps** in some instances
- Current overall strong market position **expected to remain stable**

# GROUP 2015 OUTLOOK

	2014 Results	Outlook 2015 vs 2014
Revenue	HRK 6,908 million	Revenue stabilisation
EBITDA before exceptional items	Margin of 40.3%	Margin of around 40%
CAPEX	HRK 1,073 million	Around HRK 1,350 million
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	HT is monitoring and evaluating potential M&A opportunities



# APPENDIX



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# CONSOLIDATED INCOME STATEMENT

HRK million

in HRK million (IFRS)	2013	2014	% of change A14/A13
Mobile	2,839	2,805	-1.2%
Fixed telephony	1,431	1,213	-15.2%
Wholesale	567	393	-30.7%
IP Revenue	1,565	1,577	0.8%
Data	101	83	-17.2%
ICT	498	564	13.3%
Miscellaneous	43	255	494.8%
Energy	0	12	-
Other non telco services	0	5	-
<b>Revenue</b>	<b>7,042</b>	<b>6,908</b>	<b>-1.9%</b>
Other operating income	137	124	-9.4%
<b>Total operating revenue</b>	<b>7,179</b>	<b>7,032</b>	<b>-2.1%</b>
<b>Operating expenses</b>	<b>4,181</b>	<b>4,397</b>	<b>5.2%</b>
Material expenses	1,898	1,947	2.6%
Merchandise, material and energy expenses	1,009	1,165	15.5%
Services expenses	890	782	-12.1%
Employee benefits expenses	1,114	1,128	1.3%
Other expenses	1,205	1,317	9.4%
Work performed by the Group and capitalised	-97	-90	7.4%
Write down of assets	61	95	54.8%
<b>EBITDA</b>	<b>2,998</b>	<b>2,634</b>	<b>-12.1%</b>
Depreciation and amortization	1,366	1,411	3.3%
<b>EBIT</b>	<b>1,632</b>	<b>1,223</b>	<b>-25.0%</b>
Financial income	48	36	-25.1%
Income/loss from investment in joint ventures	21	14	-33.2%
Financial expenses	71	88	23.6%
<b>Profit before taxes</b>	<b>1,629</b>	<b>1,185</b>	<b>-27.2%</b>
Taxation	188	47	-74.8%
<b>Net profit</b>	<b>1,442</b>	<b>1,138</b>	<b>-21.1%</b>
Non controlling interests	0	-4	-
<b>Net profit after non controlling interests</b>	<b>1,442</b>	<b>1,142</b>	<b>-20.7%</b>
Exceptional items <sup>1)</sup>	66	152	128.7%
<b>EBITDA before exceptional items</b>	<b>3,065</b>	<b>2,786</b>	<b>-9.1%</b>

<sup>1)</sup> Related to redundancy restructuring costs and transformation consultancy costs



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# CONSOLIDATED BALANCE SHEET

HRK million

in HRK million (IFRS)	At 31 Dec 2013	At 31 Dec 2014	% of change A14/A13
Intangible assets	1,358	1,716	26.4%
Property, plant and equipment	5,570	5,577	0.1%
Non-current financial assets	616	735	19.4%
Receivables	126	121	-4.2%
Deferred tax asset	60	51	-14.8%
<b>Total non-current assets</b>	<b>7,729</b>	<b>8,200</b>	<b>6.1%</b>
Inventories	115	115	0.2%
Receivables	1,457	1,525	4.7%
Current financial assets	1,331	1,539	15.6%
Cash and cash equivalents	2,039	2,192	7.5%
Prepayments and accrued income	149	264	76.9%
<b>Total current assets</b>	<b>5,091</b>	<b>5,635</b>	<b>10.7%</b>
<b>TOTAL ASSETS</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>
Subscribed share capital	8,189	8,883	8.5%
Reserves	409	409	0.1%
Revaluation reserves	-1	2	273.8%
Retained earnings	662	673	1.8%
Net profit for the period	1,442	1,142	-20.7%
Non controlling interests	0	125	-
<b>Total issued capital and reserves</b>	<b>10,700</b>	<b>11,235</b>	<b>5.0%</b>
Provisions	132	71	-46.3%
Non-current liabilities	142	590	316.4%
Deferred tax liability	2	50	
<b>Total non-current liabilities</b>	<b>276</b>	<b>711</b>	<b>157.2%</b>
Current liabilities	1,724	1,742	1.1%
Deferred income	120	111	-7.6%
Provisions for redundancy	0	35	-
<b>Total current liabilities</b>	<b>1,844</b>	<b>1,889</b>	<b>2.4%</b>
<b>Total liabilities</b>	<b>2,120</b>	<b>2,600</b>	<b>22.6%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>

Note: 2013 Balance sheet restated for the effect of financial collaterals, previously presented as Current financial assets, now changed to Non-current financial assets



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# CONSOLIDATED CASH FLOW STATEMENT

HRK million

in HRK million (IFRS)	2013	2014	% of change A14/A13
Profit before tax	1,629	1,185	-27.2%
Depreciation and amortization	1,366	1,411	3.3%
Increase / decrease of current liabilities	-73	159	318.6%
Increase / decrease of current receivables	-56	-98	-74.7%
Increase / decrease of inventories	40	1	-96.8%
Other cash flow increases / decreases	-776	-370	52.4%
<b>Net cash inflow/outflow from operating activities</b>	<b>2,131</b>	<b>2,288</b>	<b>7.4%</b>
Proceeds from sale of non-current assets	70	13	-81.9%
Proceeds from sale of non-current financial assets	2	3	52.5%
Interest received	26	16	-39.0%
Dividend received	20	17	-19.2%
Other cash inflows from investing activities	702	1,585	125.7%
<b>Total increase of cash flow from investing activities</b>	<b>821</b>	<b>1,633</b>	<b>99.0%</b>
Purchase of non-current assets	-1,132	-939	17.0%
Purchase of non-current financial assets	-75	-243	-223.3%
Other cash outflows from investing activities	-1,090	-1,670	-53.1%
<b>Total decrease of cash flow from investing activities</b>	<b>-2,297</b>	<b>-2,852</b>	<b>-24.1%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-1,477</b>	<b>-1,218</b>	<b>17.5%</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	-16	-884.7%
Dividends paid	-1,679	-736	56.2%
Repayment of finance lease	-5	-7	-28.9%
Other cash outflows from financing activities	-78	-164	-111.2%
<b>Total decrease in cash flow from financing activities</b>	<b>-1,763</b>	<b>-923</b>	<b>47.6%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-1,763</b>	<b>-923</b>	<b>47.6%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>2</b>	<b>6</b>	<b>190.1%</b>
Cash and cash equivalents at the beginning of period	3,146	2,039	-35.2%
Net cash (outflow) / inflow	-1,107	152	113.8%
<b>Cash and cash equivalents at the end of period</b>	<b>2,039</b>	<b>2,192</b>	<b>7.5%</b>

Note: 2013 Cash flow restated, changes were made in order to separately present cash outflows for content contract and regulatory licences purchases within cash flows from financial activities and due to changes in cash flow methodology with regards to purchases of non-current assets.

# INVESTOR RELATIONS CONTACT

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