

BUSINESS AND FINANCIAL REVIEW JANUARY – MARCH 2015

**ANALYST PRESENTATION
30 APRIL 2015**



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HIGHLIGHTS

Operational

- Leading market position across all areas of business maintained despite more challenging environment in terms of economy, regulation and competition
- Strong investments in mobile and fixed broadband networks to ensure superior customer experience
 - Rollout activities to meet ambitious EOY 2015 targets on track
- Transformation initiatives continue with focus on running costs and long term market positioning
 - Previously announced headcount optimisation completed; HORIZONT programme under way

Financial

- Revenue and EBITDA favourable trends from 2014 continue
 - Including Optima Telekom, revenue up 0.7%
 - Good mobile performance: -2.2% vs -6.4% in Q1 2014
 - EBITDA before exceptional items decline slowed further to 1.2%
 - Transformation activities protect margin at market-leading 38.4%
- Outlook 2015 unchanged

TELECOM AND ICT MARKET IN CROATIA

Mobile

- Mobile market continues to contract*:
 - SIM penetration at 112% (end of Q1 2015), down 2.4 pp yoy
- Usage changes in favour of data:
 - Growing trend of mobile MOU slows (2.1% yoy growth in 2014 vs 21.1% in 2013)

Fixed Voice

- Minutes of use decreased by 15.8% yoy in 2014 at a same pace as in 2013

Fixed Broadband and PayTV

- Growth trend continues
- Total fixed broadband market lines at 952k (end Q4 2014); +3.1% yoy
- Total PayTV customers: 743k (end Q4 2014); + 5.6% yoy
- Convergent and bundled offers are key market drivers

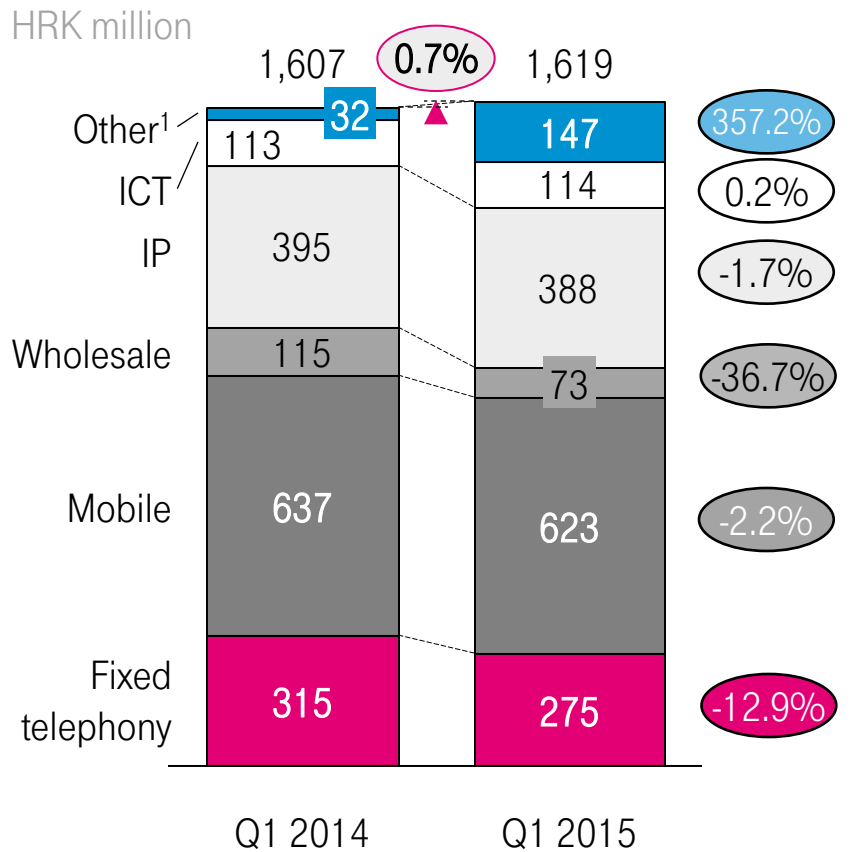
ICT

- Preliminary estimation: Croatian ICT market grew around 2.7% in 2014

Sources: Official competitors reports, NRA's reports (HAKOM) and IDC Adriatics for ICT market. Q1 2015 figures for the whole market published by HAKOM 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.

REVENUE UP 0.7%, SUPPORTED BY OPTIMA TELEKOM CONSOLIDATION

Revenue breakdown



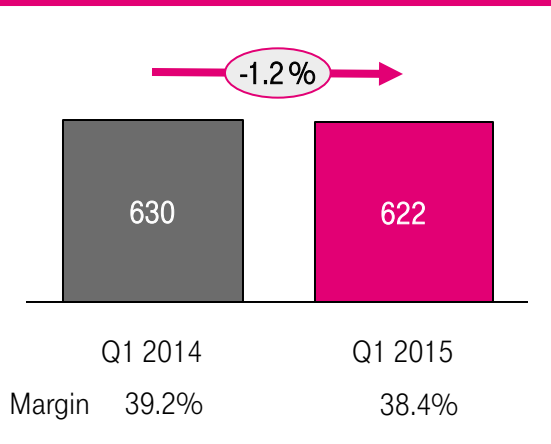
- Optima Telekom consolidated as of 1 July 2014 (under "Other"¹)

- Fixed telephony down due to general usage trends
- Mobile revenue decline slowed to 2.2% vs 6.4% in Q1 2014 mainly due to increase in mobile data and price adjustments as of July 2014
- Wholesale revenue decrease due to decline in termination rates and certain negative impact of consolidation of Optima seen in wholesale
- IP revenue slightly down following regulatory and competitive pressure
- Seasonal effect in IT infrastructure lowered ICT revenue growth rate to 0.2%
- Optima contribution to Other revenues is HRK 105 million; following above mentioned negative impact on wholesale revenues, net impact of consolidation totals HRK 75 million. Excluding Optima, Group revenue decline of 4.0% (vs Q1 2014 decline of 6.2%)

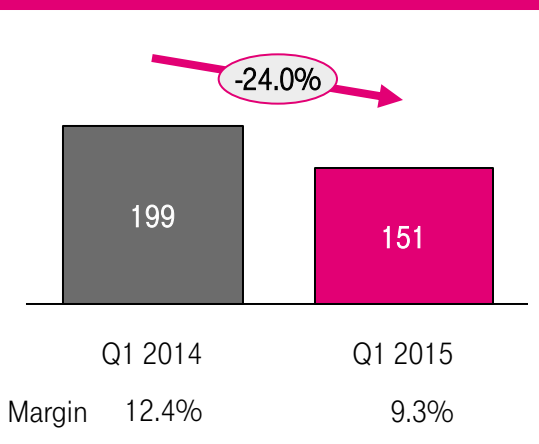
DESPITE WORSENING ECONOMIC ENVIRONMENT, GROUP DELIVERED SOLID EBITDA; PREVIOUSLY ANNOUNCED HEAVY INVESTMENT IN NETWORK COMMENCED

All in HRK million, except where stated differently

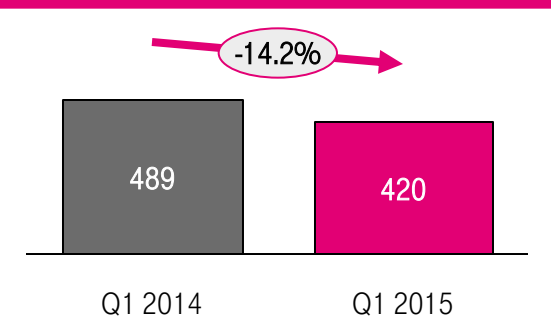
EBITDA before except. items¹



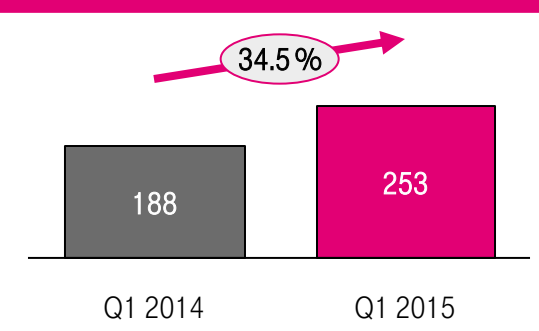
Net profit



Net cash flow from operations



CAPEX

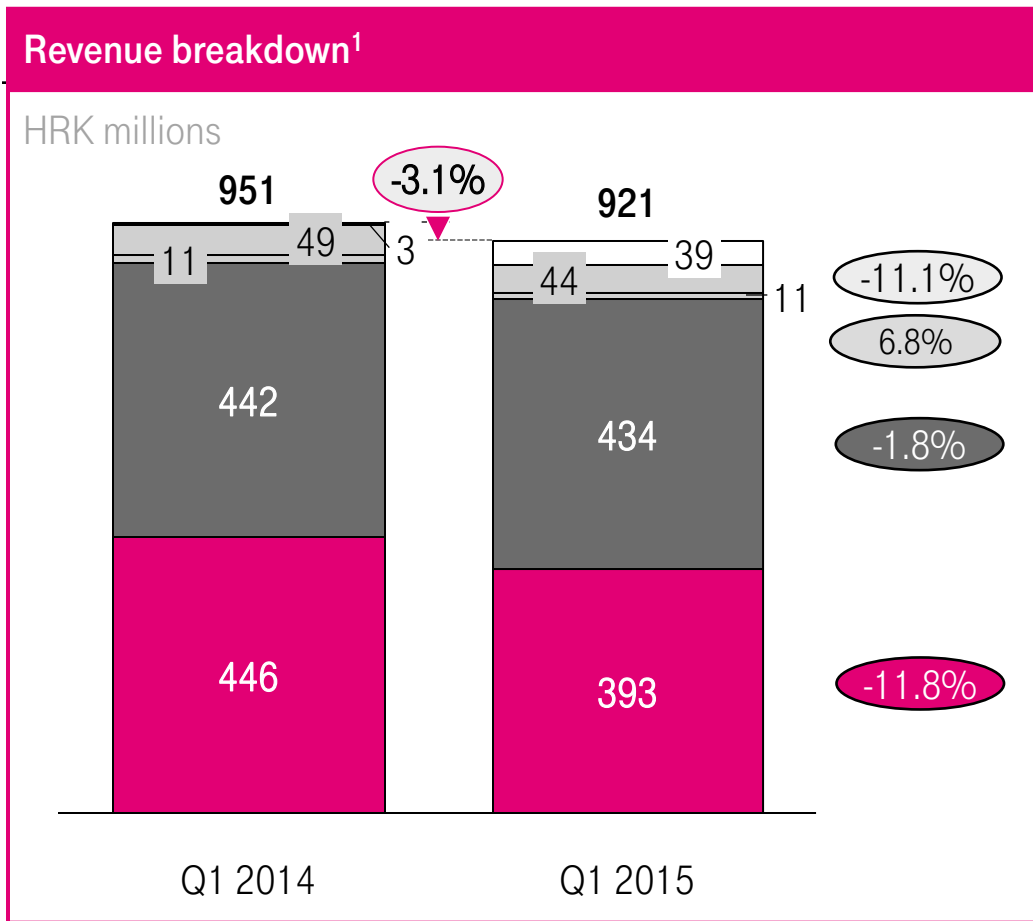
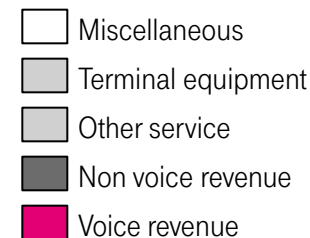


- EBITDA before e.i. **decline slowed** compared to Q1 2014* supported by transformation initiatives and Optima consolidation
- Net profit mainly impacted by **exceptional items** (redundancy costs with different seasonal pattern) and **higher depreciation, offset by lower taxation**
- Net cash flow from operations down **due to lower profit before tax and adverse working capital movements**
- CAPEX higher following significant **investments in mobile and fixed broadband networks and IP transformation**

¹ Exceptional items in Q1 2015 refer to redundancy costs totalling HRK 73 million. Exceptional items in Q1 2014 refer to redundancy costs totalling HRK 54 million.

* Excluding Optima Telekom Q1 2015 decline amounts to 5.1% (Q1 2014 decline amounts to 5.8%). Optima Q1 2015 contribution to Group EBITDA equals HRK 25 million

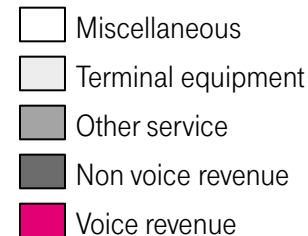
RESIDENTIAL SEGMENT REVENUE DOWN; DECREASE IN VOICE PARTIALLY OFFSET BY INCREASE IN MISCELLANEOUS REVENUE



- Revenue down 3.1% mainly as a result of **11.8% lower voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers), **offset by Miscellaneous revenue** (up mainly following price adjustments in mobile as of July 2014)
- **Terminal equipment revenue down 11.1%** following lower prices of handsets and higher share of customers on lower value tariffs

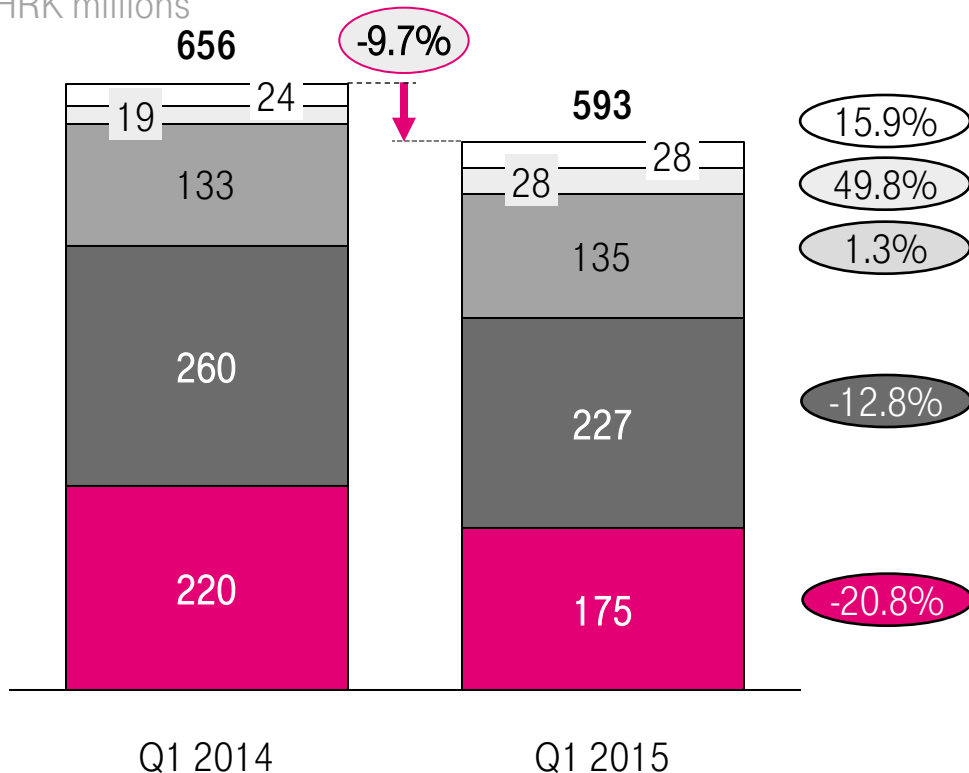
¹ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -9 million) to Other service revenue (HRK +9 million) was made for Q1 2014.

BUSINESS SEGMENT VOICE AND NON VOICE REVENUE DOWN



Revenue breakdown¹

HRK millions

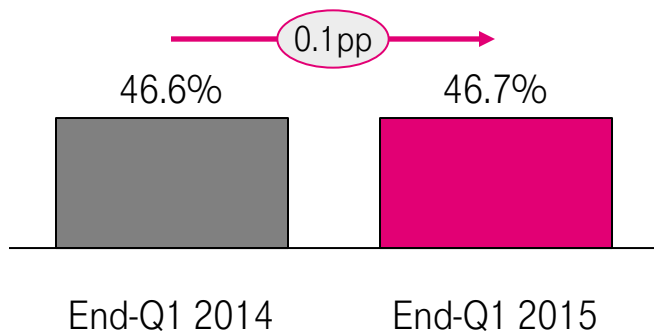


- **Voice revenue 20.8% lower:** decline equally split between fixed, mobile and wholesale
- **Non-voice revenue decreased 12.8%,** mainly following significantly lower wholesale revenue (regulated prices and absence of revenues from Optima consolidation as of Q3 2014 (Q1 2015 impact: HRK 28 million))

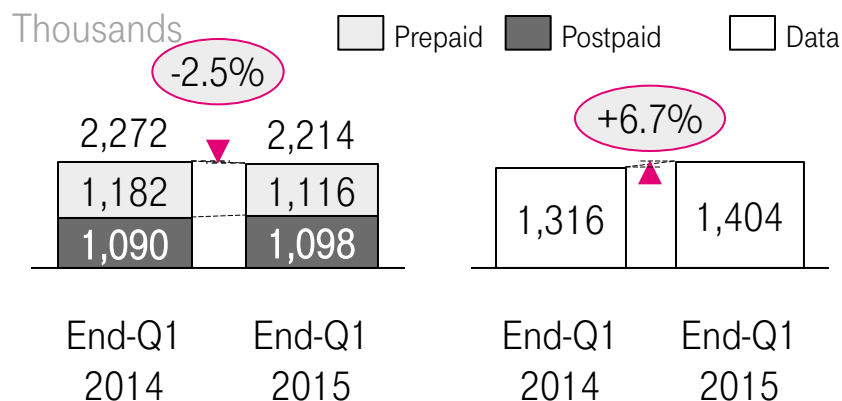
¹⁾ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -6 million) to Other service revenue (HRK +6 million) was made for Q1 2014.

FOCUS ON DATA MOBILE BUNDLES AND CUSTOMER EXPERIENCE; SPEEDS OFFERED UP TO 150 MBPS

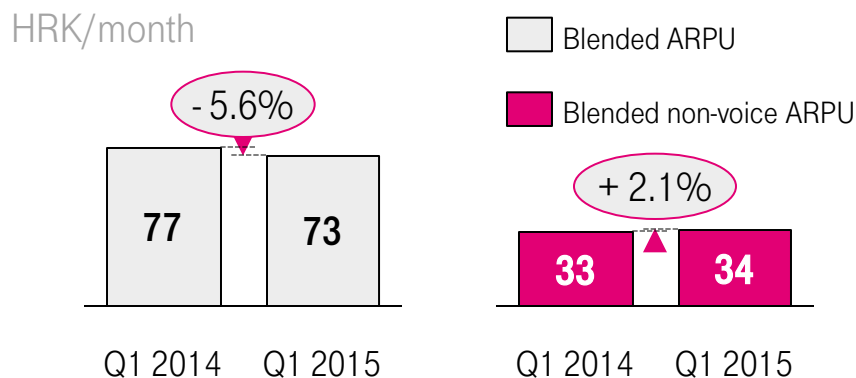
HT market share by subscribers¹



Number of subscribers



ARPU²

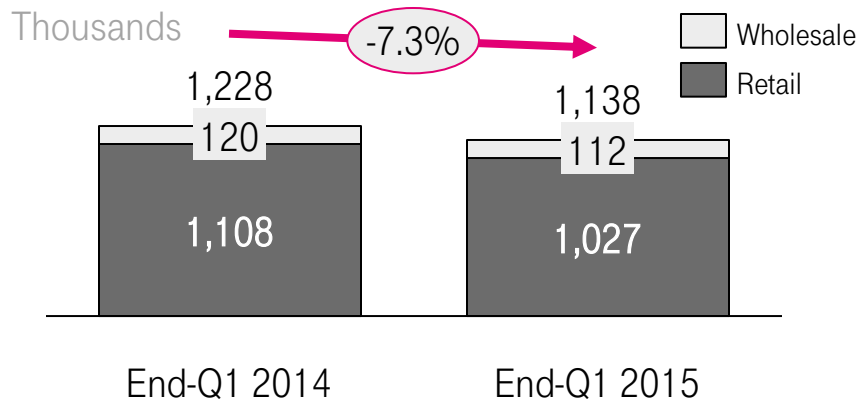


- **Average MOU** (minutes of use) up 4.5% to 187
- **Smartphone proportion** of total handset sales at 74% in postpaid segment (Q1 2014: 71%); **HT Smartphone penetration 44%**
- Newly acquired spectrum enabled **doubling of maximum download speed in mobile network, up to 150 Mbps**



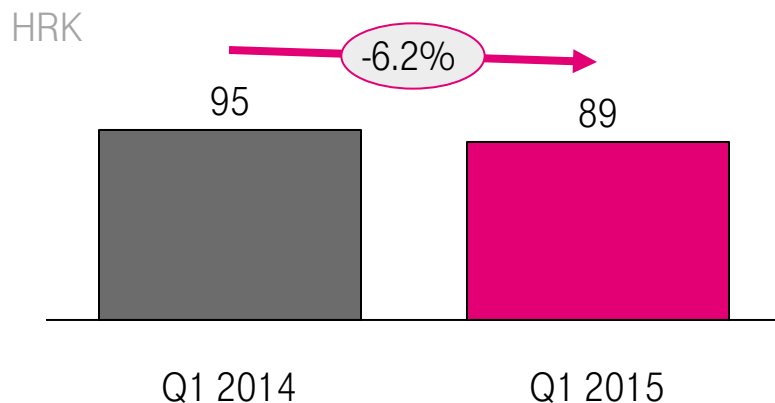
NUMBER OF FIXED LINES AND ARPA DECLINE; INTENSE MARKETING INITIATIVES UNDERWAY

Number of mainlines¹

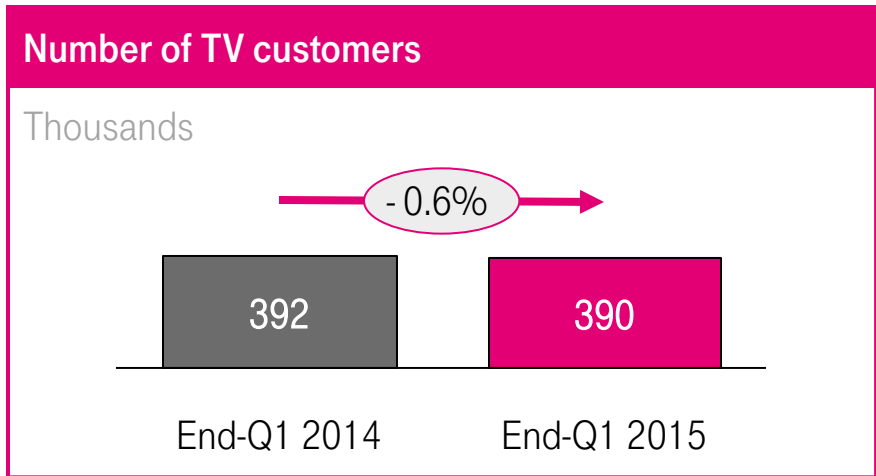
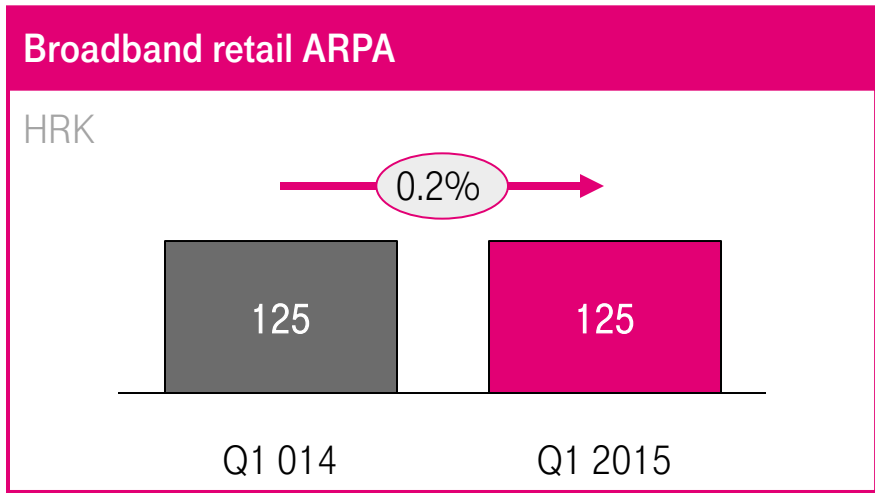
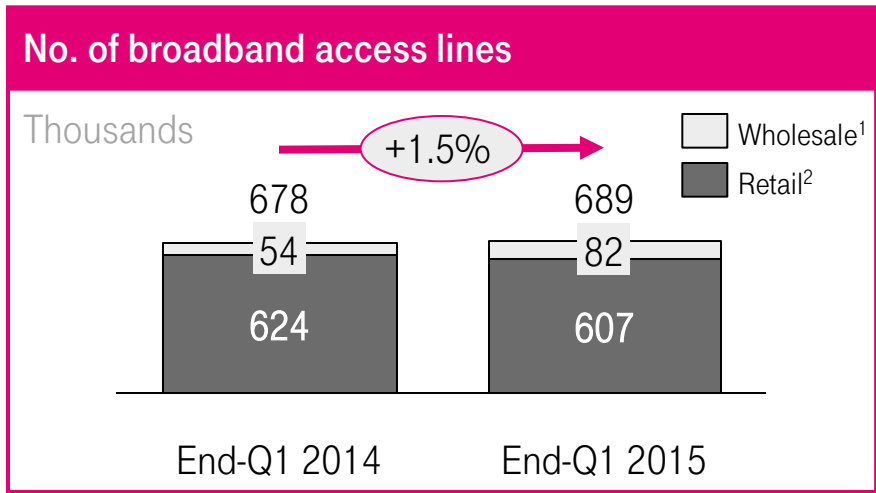


- Continued **proactive and reactive churn prevention offers and activities**
- Phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs

ARPA²



HT LEADS IN CONVERGENT OFFERS AND CONTENT



- **Network rollout in line with plan**, EOY 2015 targets:
 - **HH coverage in Next Generation Access - NGA** (fixed BB >30Mbps) to reach around 50%
 - **LTE population coverage** indoors to reach around 60% by EOY 2015
- **Exclusive TV content**: Pickbox, MAX Auto Moto GP (Formula One) and HBO premium TV packages
- **HT leader in IP transformation**: 83% of retail customers migrated

GROUP 2015 OUTLOOK UNCHANGED

	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)	Q1 2014	Q1 2015	% of change A15/A14
Mobile	637	623	-2.2%
Fixed telephony	315	275	-12.9%
Wholesale	115	73	-36.7%
IP Revenue	395	388	-1.7%
Data	23	20	-10.7%
ICT	113	114	0.2%
Miscellaneous	8	113	
Energy	0	11	
Other non telco services	1	3	147.3%
Revenue	1,607	1,619	0.7%
Other operating income	41	22	-45.9%
Total operating revenue	1,648	1,641	-0.5%
Operating expenses	1,073	1,092	1.7%
Material expenses	457	436	-4.6%
Employee benefits expenses	316	304	-3.6%
Other expenses	288	343	19.1%
Work performed by the Group and capitalised	-13	-13	1.8%
Write down of assets	25	21	-17.6%
EBITDA	575	549	-4.6%
Depreciation and amortization	325	358	10.2%
EBIT	250	191	-23.7%
Financial income	13	18	36.1%
Income/loss from investment in joint ventures	0	-2	
Financial expenses	18	27	48.0%
Profit before taxes	246	180	-26.7%
Taxation	48	38	-19.8%
Net profit	199	142	-28.3%
Non controlling interests	0	-9	-
Net profit after non controlling interests	199	151	-24.0%
Exceptional items ¹⁾	54	73	34.3%
EBITDA before exceptional items	630	622	-1.2%

¹⁾ Related to redundancy restructuring costs



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CONSOLIDATED BALANCE SHEET

HRK million

in HRK million (IFRS)	At 31 Dec 2014	At 31 Mar 2015	% of change A15/A14
Intangible assets	1,716	1,644	-4.2%
Property, plant and equipment	5,577	5,544	-0.6%
Non-current financial assets	735	739	0.5%
Receivables	121	108	-10.5%
Deferred tax asset	51	50	-1.2%
Total non-current assets	8,200	8,085	-1.4%
Inventories	115	128	10.6%
Receivables	1,525	1,465	-3.9%
Current financial assets	1,539	770	-49.9%
Cash and cash equivalents	2,192	3,111	41.9%
Prepayments and accrued income	264	247	-6.5%
Total current assets	5,635	5,720	1.5%
TOTAL ASSETS	13,835	13,806	-0.2%
Subscribed share capital	8,883	8,883	0.0%
Reserves	409	410	0.1%
Revaluation reserves	2	8	316.7%
Retained earnings	673	1,816	169.6%
Net profit for the period	1,142	151	-86.8%
Non controlling interests	125	119	-4.8%
Total issued capital and reserves	11,235	11,387	1.3%
Provisions	71	76	6.4%
Non-current liabilities	590	521	-11.6%
Deferred tax liability	50	49	-2.7%
Total non-current liabilities	711	646	-9.2%
Current liabilities	1,742	1,595	-8.5%
Deferred income	111	99	-11.0%
Provisions for redundancy	35	80	126.1%
Total current liabilities	1,889	1,774	-6.1%
Total liabilities	2,600	2,419	-6.9%
TOTAL EQUITY AND LIABILITIES	13,835	13,806	-0.2%



CONSOLIDATED CASH FLOW STATEMENT

HRK million

in HRK million (IFRS)	Q1 2014	Q1 2015	% of change A15/A14
Profit before tax	246	180	-26.7%
Depreciation and amortization	325	358	10.2%
Increase / decrease of current liabilities	-80	-191	-136.8%
Increase / decrease of current receivables	111	124	11.7%
Increase / decrease of inventories	-24	-12	49.6%
Other cash flow increases / decreases	-88	-40	54.9%
Net cash inflow/outflow from operating activities	489	420	-14.2%
Proceeds from sale of non-current assets	0	3	
Proceeds from sale of non-current financial assets	1	0	-20.5%
Interest received	7	6	-19.8%
Other cash inflows from investing activities	918	1,001	9.1%
Total increase of cash flow from investing activities	926	1,011	9.2%
Purchase of non-current assets	-208	-232	-11.9%
Purchase of non-current financial assets	0	0	-
Other cash outflows from investing activities	-90	-225	-149.0%
Total decrease of cash flow from investing activities	-298	-457	-53.4%
Net cash inflow/outflow from investing activities	628	553	-11.8%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	0	-8	
Dividends paid	0	0	21.1%
Repayment of finance lease	-1	-2	-95.1%
Other cash outflows from financing activities	-46	-52	-11.3%
Total decrease in cash flow from financing activities	-47	-62	-30.5%
Net cash inflow/outflow from financing activities	-47	-62	-30.5%
Exchange gains/losses on cash and cash equivalents	1	7	565.8%
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	1,071	919	-14.2%
Cash and cash equivalents at the end of period	3,110	3,111	0.0%

Note: 2014 Cash flow restated, changes were made in order to separately present cash outflows for content contract and regulatory licenses purchases within cash flows from financial activities and due to changes in cash flow methodology with regards to purchases of non-current assets



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Bloomberg: HTRA CZ

