

BUSINESS AND FINANCIAL REVIEW JANUARY – JUNE 2015

**ANALYST PRESENTATION
30 JULY 2015**



LIFE IS FOR SHARING.

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HIGHLIGHTS

Financial

- Positive revenue and EBITDA development
 - Revenue up 0.5%
 - excl. Optima Telekom, revenue down 4.1% vs 5.2% decline in H1 2014
 - EBITDA before exceptional items up 2.1%
 - excl. Optima Telekom, EBITDA before exceptional items down 1.8% vs 10.0% decline in H1 2014
 - EBITDA before exceptional items margin 39.6% vs 38.9% in H1 2014

- Transformation initiatives ongoing with focus on running costs and long term market positioning
 - Strategic program HORIZONT is developing according to plan and is delivering tangible results
 - Further cost efficiency achieved: operating expenses HRK 40 million lower than in H1 2014
 - excl. Optima Telekom, operating expenses down HRK 143 million vs H1 2014 (-6.9% yoy)

- Outlook 2015 unchanged

HIGHLIGHTS (CONT'D)

Operational

- Leading market position across all areas of business maintained
 - Strong focus on customer satisfaction continues
 - HT launched several activities to stabilise both fixed and mobile market, incl. new mobile subscription plans
- Continued strong investment in mobile and fixed broadband networks
 - Rollout activities to meet ambitious EOY 2015 targets on track, H1 2015 status:
 - Household coverage in Next Generation Access (fixed Broadband >30Mbps) at 40% (EOY target: 50%)
 - 4G population coverage indoors at 54% (EOY target: 60%)
 - In July HT was awarded “Best in test” certificate by independent and well respected company P3 Communications for the highest speed mobile Internet and the best mobile network in Croatia
 - All IP transformation almost completed: 92% of retail customers migrated
- HT to participate in Deutsche Telekom PAN IP Group concept which is currently under preparation, with the goal of creating single Pan European service production model

TELECOM AND ICT MARKET IN CROATIA

Mobile

- At end Q2 2015 mobile SIM penetration rate contracted by 3.0pp yoy to 113.9%*
- Consistent growth in contract customers
- Demand for mobile data accelerates; growth in mobile minutes of use slows (3.3% yoy growth in Q1 2015 vs 8.6% in Q1 2014)

Fixed Voice

- Minutes of use decreased by 12.1% yoy in Q1 2015

Fixed Broadband and PayTV

- Growth trend in both markets continues; further market consolidation seen (Vipnet acquired Amis)
- Total fixed broadband market lines at 955k (end Q1 2015); +2.4% yoy
- Total PayTV customers: 747k (end Q1 2015); + 4.7% yoy
- Convergent and bundled offers are key market drivers

ICT

- Croatian ICT market grew around 4.1% in 2014; growth in 2015 expected to slow to 2.9%

Sources: Official competitor reports, NRA reports (HAKOM) and IDC Adriatics for ICT market. Q1 2015 figures for the whole market published by HAKOM are still outstanding.

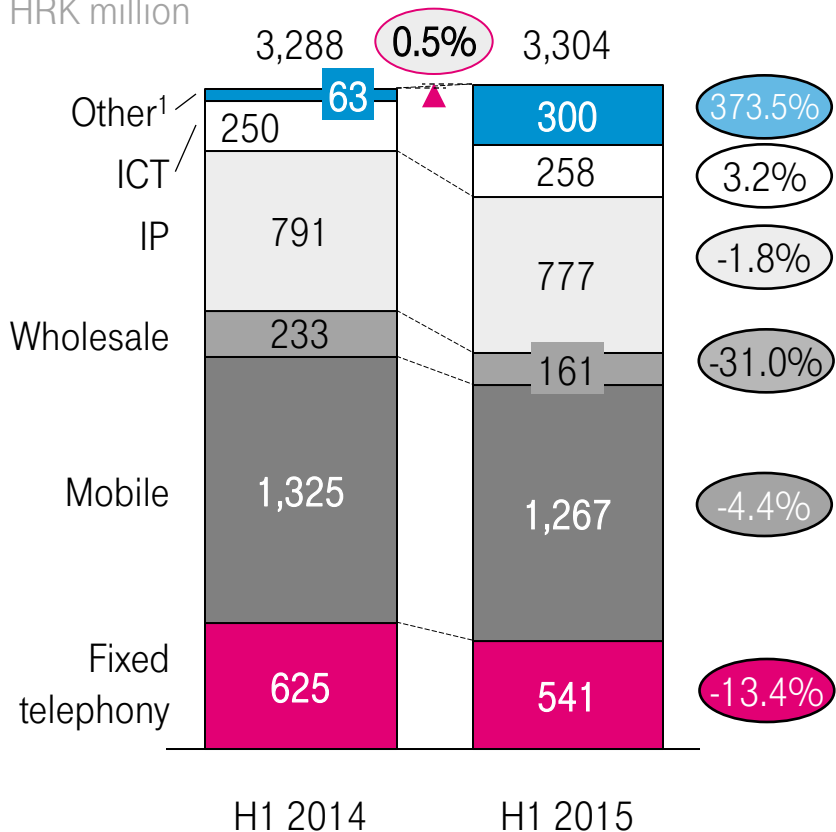
*Mainly due to decrease in customers with double SIM cards due to the continuing trend of attractive flat and cross net offers.



REVENUE UP 0.5%, SUPPORTED BY OPTIMA TELEKOM CONSOLIDATION

Revenue breakdown

HRK million



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

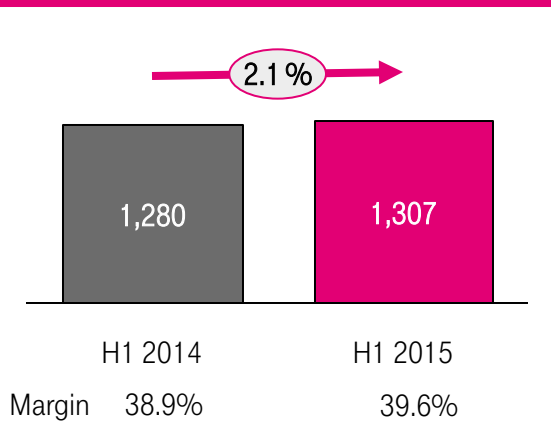
- Fixed telephony down** due to fall in mainlines, traffic and ARPA
- Mobile revenue decline 4.4% vs 5.5% in H1 2014;** some positive momentum diminished as customers selected lower value tariffs and lower end handsets
- Wholesale revenue decrease** mainly due to wholesale revenues from Optima now considered internal transactions so not recognised (around HRK 33 million quarterly); in addition, general prices and traffic declined, offset by de-regulation of certain non EU termination rates
- 3.2% growth in ICT** mainly in IP communications and ICT solutions as well as in cloud and managed services, an area where this new business model is seeing increasing adoption by the market
- Net revenue impact of Optima consolidation totals HRK 151 million:** Optima gross contribution to Other revenues of HRK 218 million minus above mentioned negative impact on Group wholesale revenues. Excluding Optima, Group revenue decline of 4.1% (vs H1 2014 decline of 5.2%)



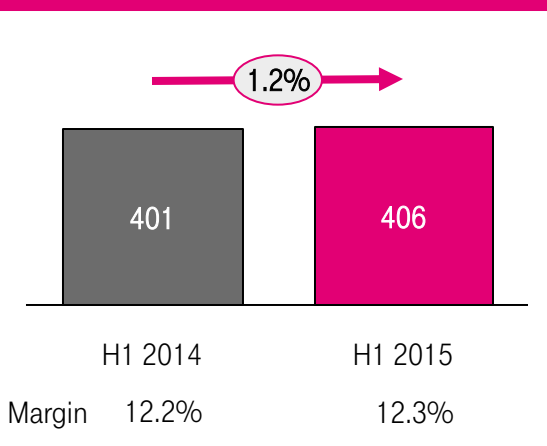
EBITDA AND NET PROFIT INCREASED SLIGHTLY, EBITDA MARGIN ALMOST 40%

All in HRK million, except where stated differently

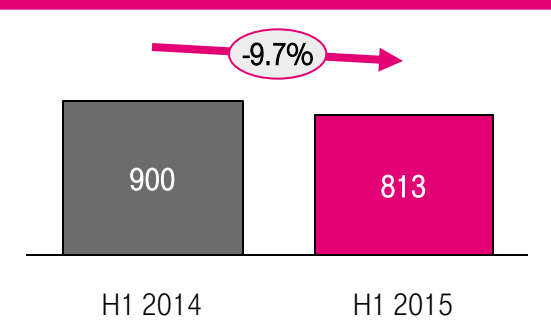
EBITDA before except. items¹



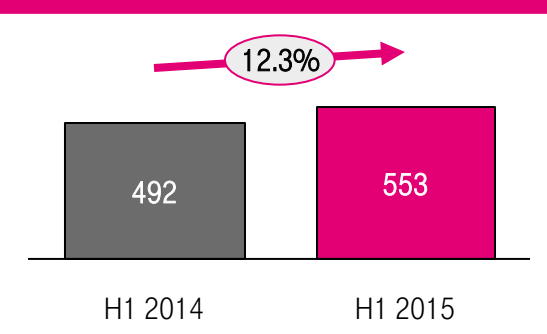
Net profit



Net cash flow from operations

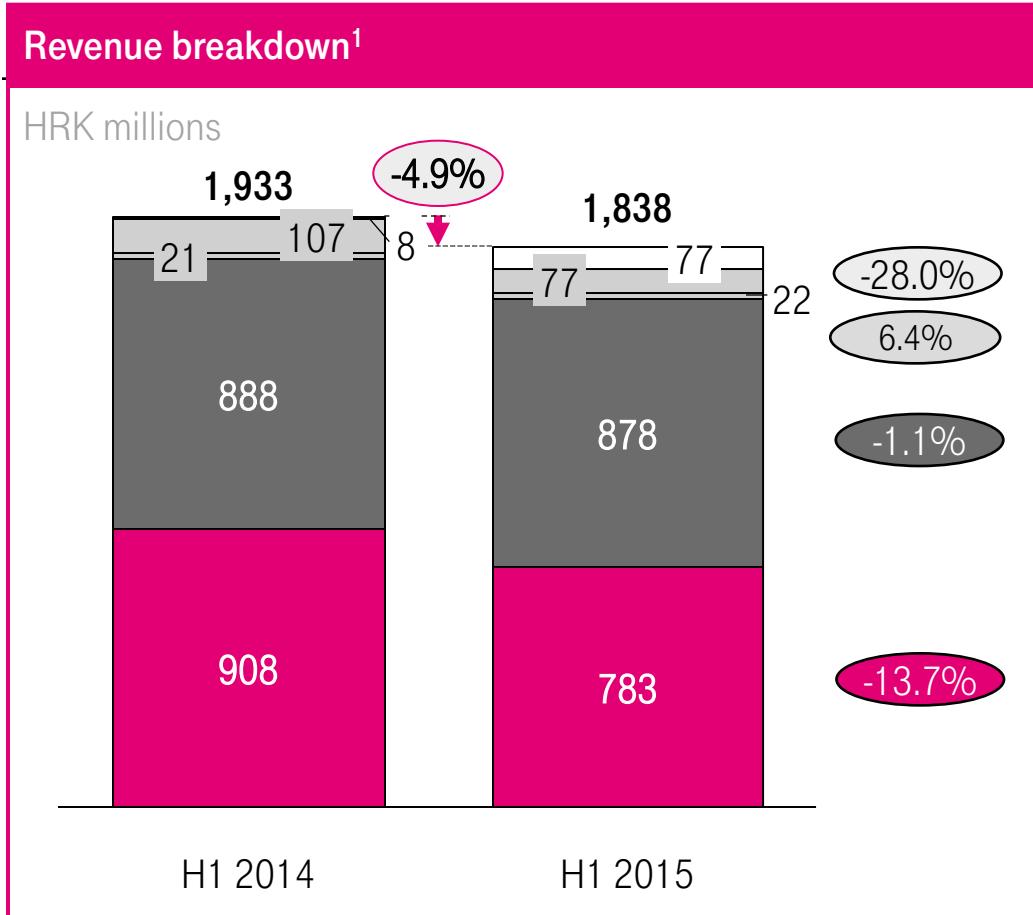
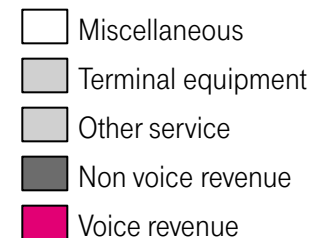


CAPEX



- **EBITDA before exceptional items increased compared to H1 2014** supported by strong transformation initiatives and Optima consolidation
 - excl. Optima Telekom*, **EBITDA before exceptional items down 1.8% vs 10.0%** decline in H1 2014
- **Net profit slightly up** following EBITDA growth, lower exceptional items and higher net financial result, offset by higher depreciation
- **Net cash flow from operations down** mainly due to adverse working capital movements
- **CAPEX higher** following significant investments in mobile and fixed broadband networks and IP transformation

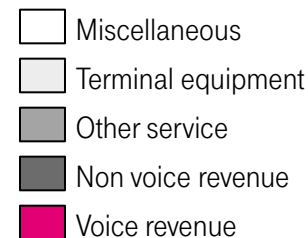
RESIDENTIAL SEGMENT REVENUE DOWN, WITH NON VOICE REVENUE ALMOST STABLE SUPPORTED BY GROWTH IN MOBILE DATA



- Revenue down 4.9% mainly as a result of:
 - **13.7% fall in voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
 - **28.0% fall in terminal equipment revenue** following lower prices of handsets and higher share of customers on lower value tariffs
 - **Revenue decline offset by higher Miscellaneous revenue** (up strongly mainly as imposed new spectrum fees were passed on to customers from July 2014 and energy)

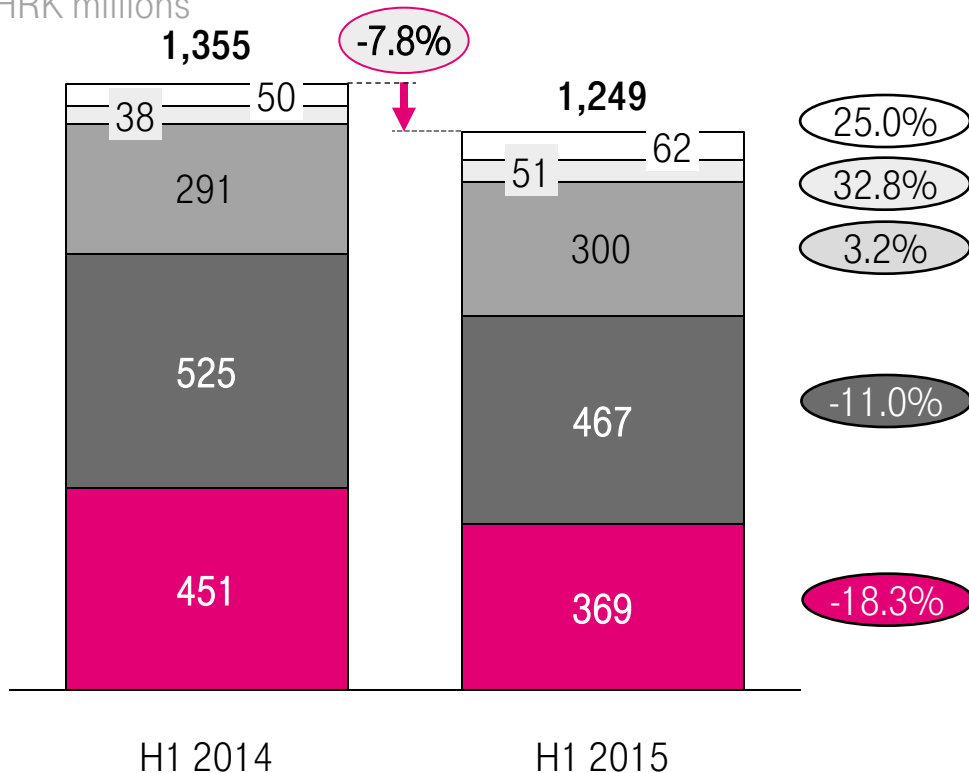
¹ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -18 million) to Other service revenue (HRK +18 million) was made for H1 2014.

BUSINESS SEGMENT VOICE AND NON VOICE REVENUE DOWN



Revenue breakdown¹

HRK millions

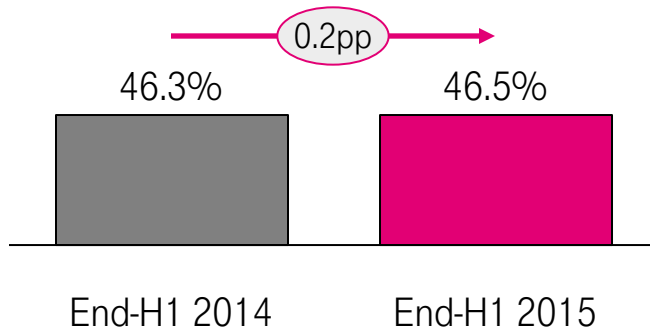


- Revenue down 7.8% mainly as a result of:
 - **Voice revenue 18.3% lower:** decline equally split between fixed, mobile and wholesale
 - **Non-voice revenue decreased 11.0%,** mainly following significantly lower wholesale revenue (general decrease of prices and traffic and the absence of revenues from Optima after consolidation as of Q3 2014)
 - **Other revenue, mainly driven by ICT, up 3.2%**

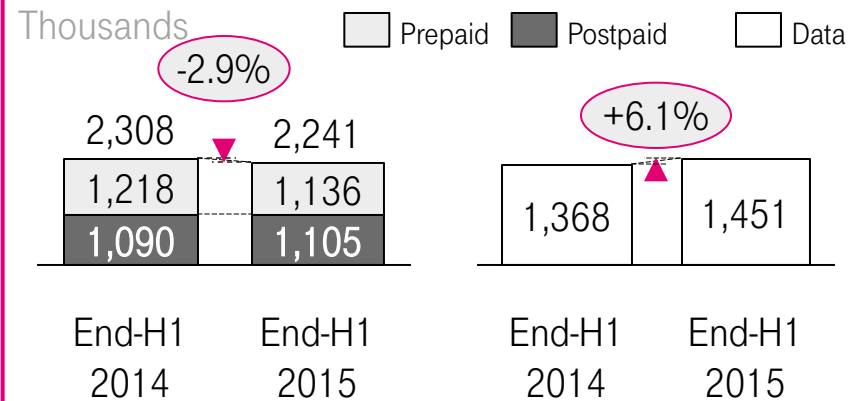
¹⁾ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -13 million) to Other service revenue (HRK +13 million) was made for H1 2014.

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

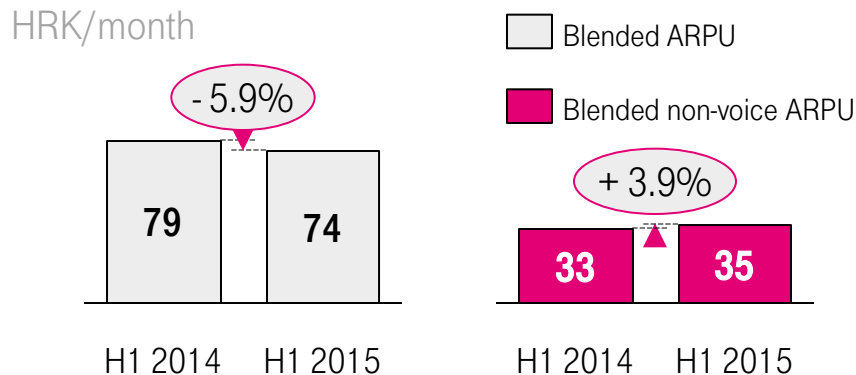
HT market share by subscribers¹



Number of subscribers



ARPU²

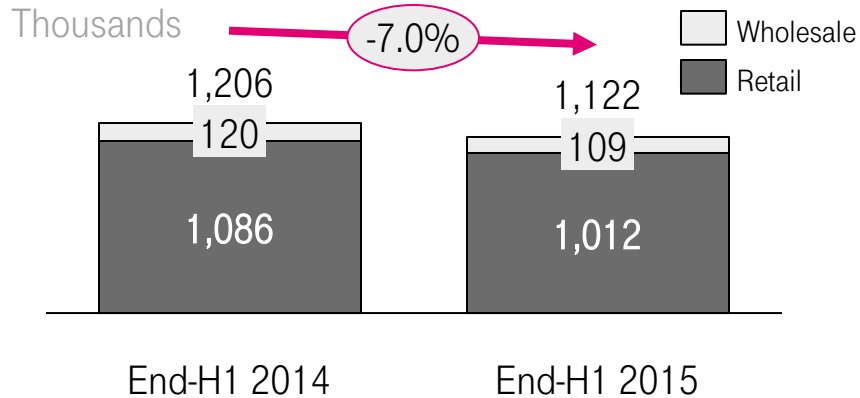


- **Average MOU** (minutes of use) up 4.1% to 194
- **Smartphone proportion** of total handset sales at 76% in postpaid segment (H1 2014: 73%); **HT smartphone penetration** 43%
- **HT's 4G network** reached 54% and its **3G network** had 77% **population coverage indoors**
- **Acquired spectrum** enabled doubling of maximum download speed in mobile network, up to 150Mbps

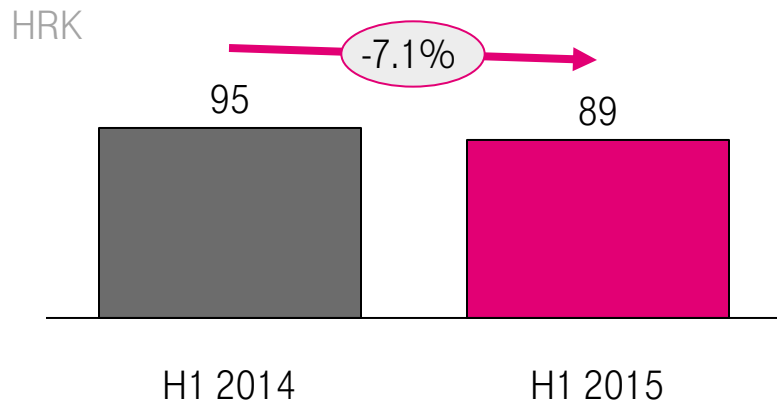


NUMBER OF FIXED LINES AND ARPA DECLINE; MARKETING INITIATIVES UNDERWAY

Number of mainlines¹



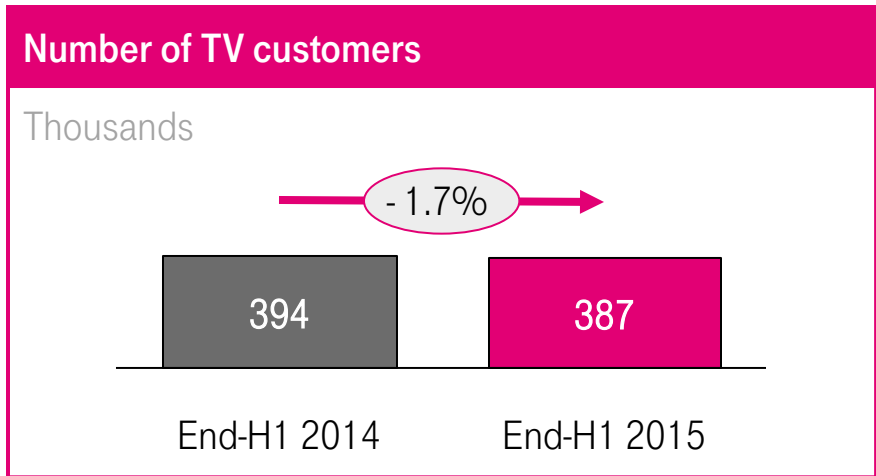
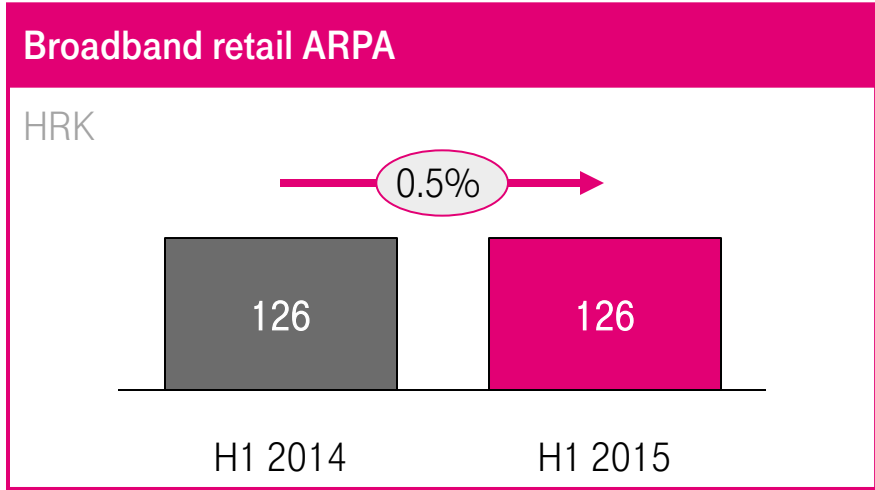
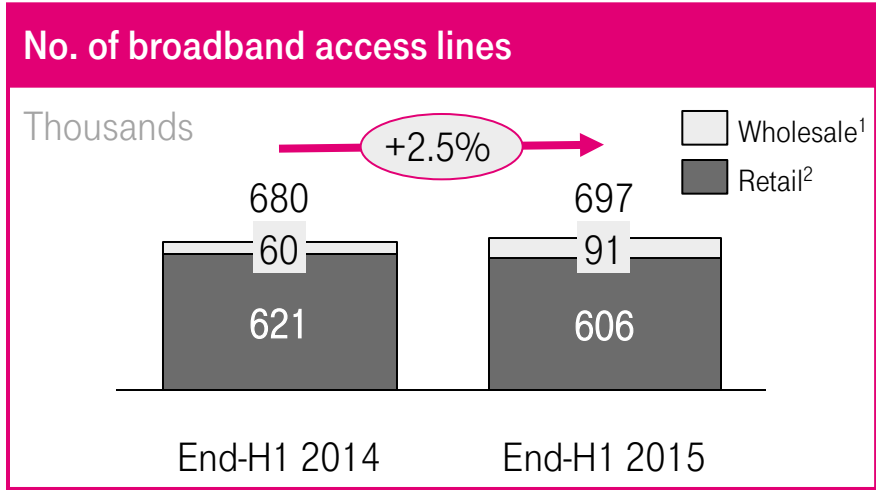
ARPA²



- Mainlines rate of decline at the level of H1 2014
- Continued **proactive and reactive churn prevention offers and activities**
 - Phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs
 - Double and Triple play offering
 - Multi-brand strategy



BROADBAND CONTINUES TO SHOW GROWTH



- **Household coverage in Next Generation Access** (fixed BB >30Mbps) at 40% (EOY target: 50%)
- **Exclusive TV content:** Pickbox, MAX Auto Moto GP (Formula One) and HBO premium TV packages
- Marketing activities include **promotion of TV DTH and mobile offerings**
- **TV content repackaging and addressing low-end TV segment** underway

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)	H1 2014	H1 2015	% of change A15/A14
Mobile	1,325	1,267	-4.4%
Fixed telephony	625	541	-13.4%
Wholesale	233	161	-31.0%
IP Revenue	791	777	-1.8%
Data	43	41	-4.1%
ICT	250	258	3.2%
Miscellaneous	16	233	
Energy	2	21	
Other non telco services	2	4	127.7%
Revenue	3,288	3,304	0.5%
Other operating income	69	38	-44.3%
Total operating revenue	3,356	3,343	-0.4%
Operating expenses	2,166	2,117	-2.3%
Material expenses	933	887	-4.9%
Employee benefits expenses	623	538	-13.7%
Other expenses	603	686	13.7%
Work performed by the Group and capitalised	-38	-34	11.1%
Write down of assets	45	40	-12.1%
EBITDA	1,190	1,226	3.0%
Depreciation and amortization	660	709	7.5%
EBIT	530	517	-2.5%
Financial income	15	23	55.1%
Income/loss from investment in joint ventures	4	7	76.0%
Financial expenses	49	56	14.8%
Profit before taxes	501	491	-1.9%
Taxation	99	98	-1.5%
Net profit	401	394	-1.9%
Non controlling interests	0	-12	-
Net profit after non controlling interests	401	406	1.2%
Exceptional items ¹⁾	90	81	-10.3%
EBITDA before exceptional items	1,280	1,307	2.1%

¹⁾ Related to redundancy restructuring costs



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CONSOLIDATED BALANCE SHEET

HRK million

in HRK million (IFRS)	At 31 Dec 2014	At 30 Jun 2015	% of change A15/A14
Intangible assets	1,716	1,579	-8.0%
Property, plant and equipment	5,577	5,556	-0.4%
Non-current financial assets	735	717	-2.4%
Receivables	121	97	-19.7%
Deferred tax asset	51	48	-5.4%
Total non-current assets	8,200	7,998	-2.5%
Inventories	115	123	6.4%
Receivables	1,525	1,440	-5.6%
Current financial assets	1,539	702	-54.4%
Cash and cash equivalents	2,192	2,674	22.0%
Prepayments and accrued income	264	202	-23.4%
Total current assets	5,635	5,140	-8.8%
TOTAL ASSETS	13,835	13,138	-5.0%
Subscribed share capital	8,883	9,823	10.6%
Reserves	409	444	8.6%
Revaluation reserves	2	-5	-371.2%
Retained earnings	673	268	-60.2%
Net profit for the period	1,142	406	-64.5%
Non controlling interests	125	115	-8.0%
Total issued capital and reserves	11,235	11,051	-1.6%
Provisions	71	71	0.5%
Non-current liabilities	590	488	-17.3%
Deferred tax liability	50	47	-5.5%
Total non-current liabilities	711	607	-14.7%
Current liabilities	1,742	1,381	-20.8%
Deferred income	111	94	-15.7%
Provisions for redundancy	35	6	-83.2%
Total current liabilities	1,889	1,480	-21.6%
Total liabilities	2,600	2,087	-19.7%
TOTAL EQUITY AND LIABILITIES	13,835	13,138	-5.0%



CONSOLIDATED CASH FLOW STATEMENT

HRK million

in HRK million (IFRS)	H1 2014	H1 2015	% of change A15/A14
Profit before tax	501	491	-1.9%
Depreciation and amortization	660	709	7.5%
Increase / decrease of current liabilities	-81	-251	-211.2%
Increase / decrease of current receivables	83	47	-43.2%
Increase / decrease of inventories	-21	-7	65.1%
Other cash flow increases / decreases	-242	-176	27.0%
Net cash inflow/outflow from operating activities	900	813	-9.7%
Proceeds from sale of non-current assets	0	4	
Proceeds from sale of non-current financial assets	1	1	-5.6%
Interest received	11	10	-5.6%
Other cash inflows from investing activities	1,098	1,521	38.5%
Total increase of cash flow from investing activities	1,110	1,535	38.3%
Purchase of non-current assets	-523	-526	-0.5%
Purchase of non-current financial assets	-76	-75	0.4%
Other cash outflows from investing activities	-93	-580	-522.1%
Total decrease of cash flow from investing activities	-692	-1,181	-70.7%
Net cash inflow/outflow from investing activities	418	354	-15.3%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	0	-22	
Dividends paid	-736	-573	22.1%
Repayment of finance lease	-2	-4	-78.8%
Other cash outflows from financing activities	-66	-87	-31.2%
Total decrease in cash flow from financing activities	-804	-685	14.8%
Net cash inflow/outflow from financing activities	-804	-685	14.8%
Exchange gains/losses on cash and cash equivalents	-2	1	144.8%
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	511	482	-5.8%
Cash and cash equivalents at the end of period	2,551	2,674	4.8%

Note: 2014 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 CONTACTS

- Marina Bengez Sedmak

- Elvis Knežević

Tel: + 385 1 4911 114

- e-mail: ir@t.ht.hr

- www.t.ht.hr/eng/investors/

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