

# **BUSINESS AND FINANCIAL REVIEW JANUARY – SEPTEMBER 2015**

**ANALYST PRESENTATION  
29 OCTOBER 2015**



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# HIGHLIGHTS JAN-SEP 2015

## Financial

- Further positive revenue and EBITDA development
  - Revenue up 0.9%
    - Excl. Optima Telekom, revenue down 2.0% vs 3.6% decline in 2014
    - Third quarter revenue, excl. Optima Telekom, up 2.0%; strong contribution from ICT
  - EBITDA before exceptional items up 1.5%, even after increase in new regulatory driven costs
    - Excl. Optima Telekom, EBITDA before exceptional items down 1.3% vs 8.4% decline in 2014
  - EBITDA before exceptional items margin 40.1% vs 39.9% in 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: total operating expenses lower, even after full nine months 2015 with Optima Telekom consolidation and new regulatory driven costs
  
- Outlook 2015 unchanged

# HIGHLIGHTS JAN-SEP 2015 (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; in addition, new regulatory procedure commenced aiming to increase ULL and NBSA monthly fee prices in wholesale
- Continued strong investment in mobile and fixed broadband networks
  - Rollout activities to meet ambitious EOY 2015 targets on track, Q3 2015 status:
    - Household coverage in Next Generation Access (fixed Broadband >30Mbps) at 46% (EOY target: to reach around 50%)
    - 4G population coverage indoors at 59% (EOY target: to reach around 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 to be completed by the end of November, Q3 status: 98% of retail customers migrated

# TELECOM AND ICT MARKET IN CROATIA

## Mobile

- At end Q3 2015 mobile SIM penetration rate at 119.0%; up 0.4pp yoy following growth in summer visitors
- Consistent growth in contract customers
- Demand for mobile data accelerates; growth in mobile minutes of use slows (0.9% yoy growth in Q2 2015 vs 5.9% in Q2 2014)

## Fixed Voice

- Minutes of use decreased by 16.7% yoy in Q2 2015

## Fixed Broadband and PayTV

- Growth trend in both markets continues
- Total fixed broadband market lines at 966k (end Q2 2015); +3.1% yoy
- Total PayTV customers: 747k (end Q2 2015); + 3.2% yoy
- Convergent and bundled offers are still key market drivers

## ICT

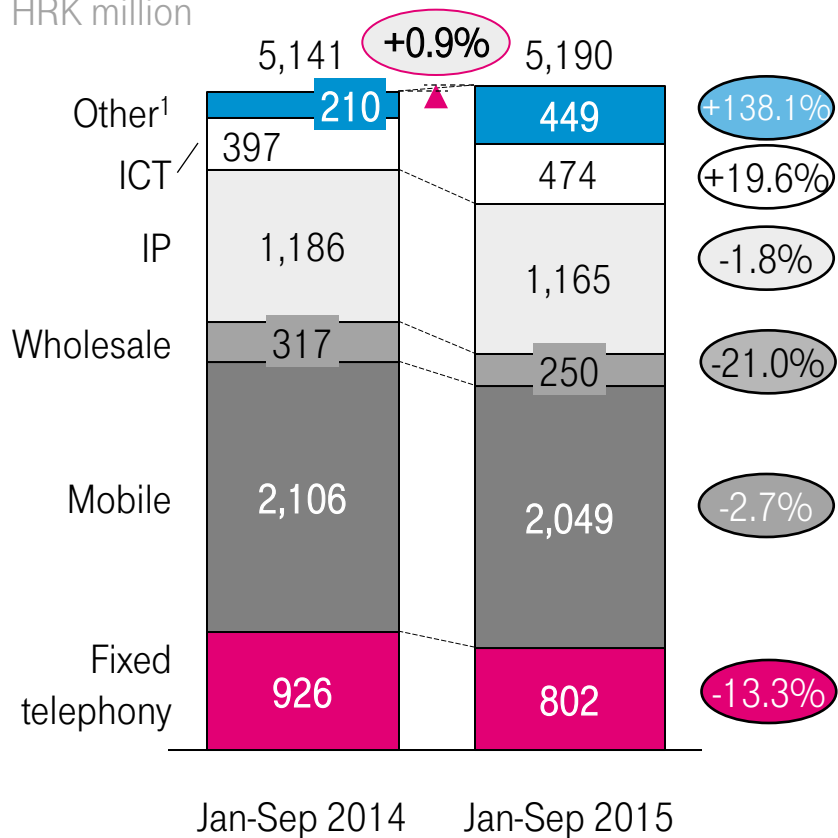
- Croatian ICT market grew around 4.1% in 2014; growth in 2015 expected to slow to 2.9%

Sources: Official competitor reports, NRA reports (HAKOM) and IDC Adriatics for ICT market. Q3 2015 figures for the whole market published by HAKOM are still outstanding.

## REVENUE UP 0.9%, SUPPORTED BY OPTIMA TELEKOM CONSOLIDATION AND GROWTH IN ICT

### Revenue breakdown

HRK million

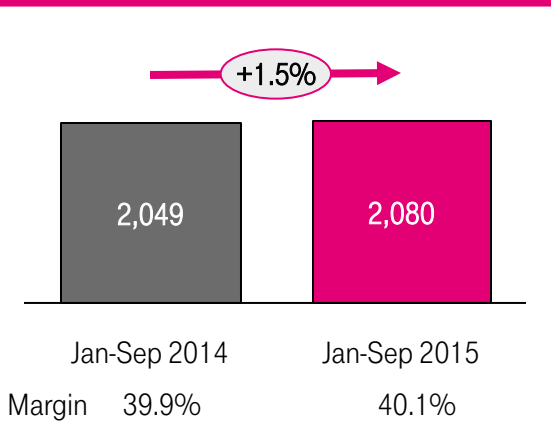


- **Fixed telephony down** due to fall in mainlines, traffic and ARPA
- **Mobile revenue decline of 2.7%**; some positive momentum diminished as customers selected lower value tariffs and lower end handsets
- **Wholesale revenue decrease** mainly due to wholesale revenues from Optima now considered internal 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 effective from 1 April 2015
- **19.6% growth in ICT with “catch up” effect in Q3**; growth recorded mainly in IP communications and ICT solutions as well as in cloud and managed services
- **Net revenue impact of Optima consolidation<sup>2</sup> totals HRK 225 million (Jan-Sep 2014: HRK 77 million)**: Optima gross contribution to Other revenues of HRK 323 million minus above mentioned negative impact on Group wholesale revenues. Excluding Optima, Group revenue decline of 2.0% (vs Jan-Sep 2014 decline of 3.6%)

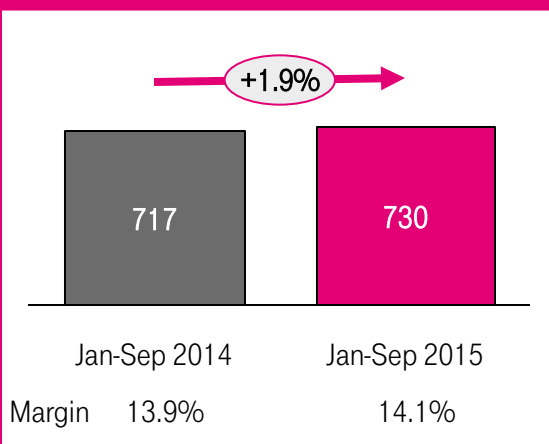
## EBITDA, NET PROFIT AND CASH FLOW FROM OPERATIONS RISE; EBITDA MARGIN 40.1%

All in HRK million, except where stated differently

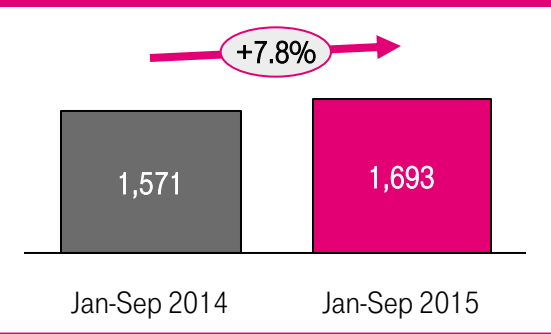
### EBITDA before except. items<sup>1</sup>



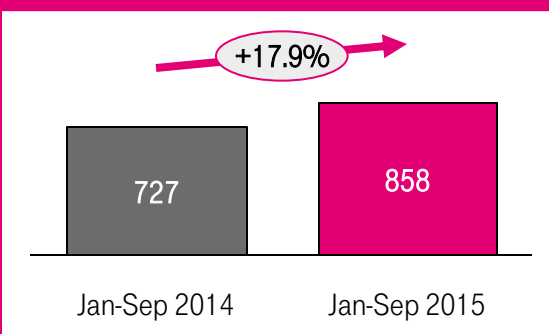
### Net profit



### Net cash flow from operations

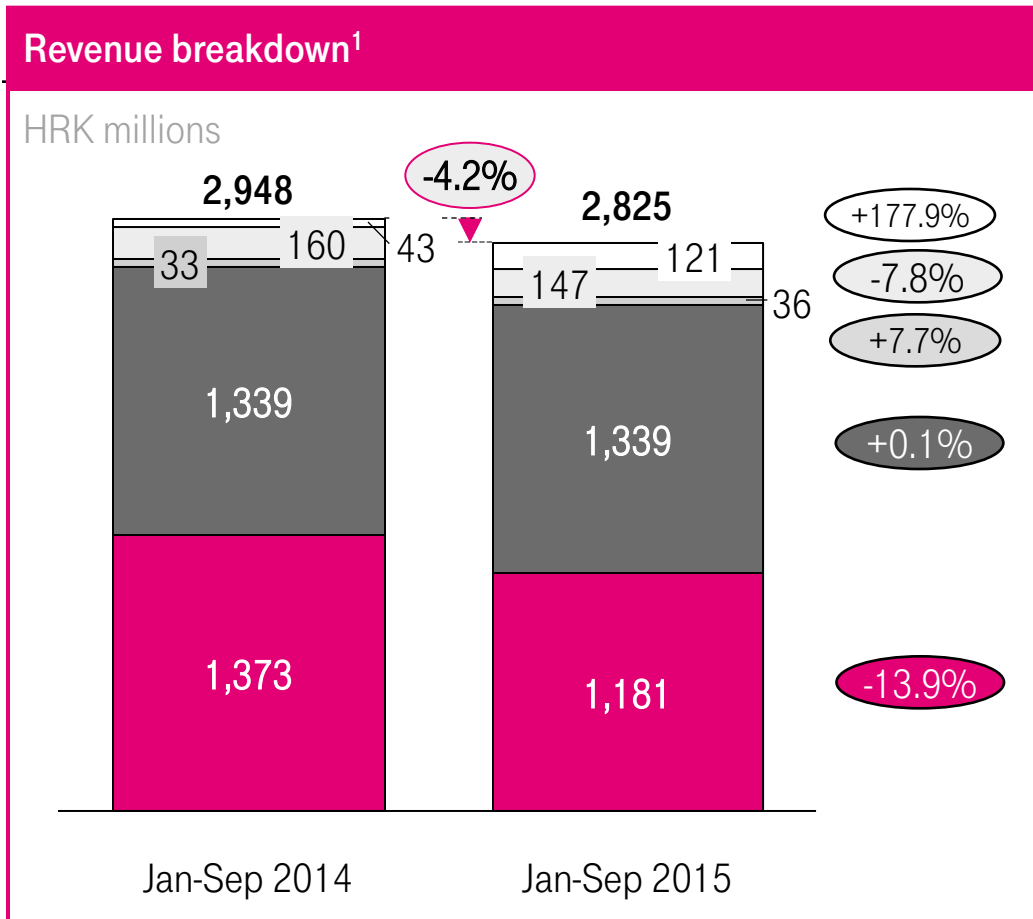
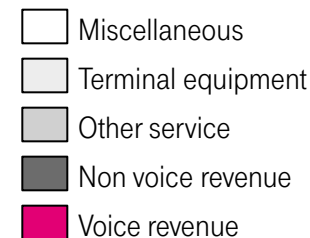


### CAPEX



- **EBITDA before exceptional items increased compared to 2014** supported by strong transformation initiatives and Optima consolidation
  - Excl. Optima Telekom<sup>2</sup>, **EBITDA before exceptional items fell 1.3% vs 8.4%** decline in 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 up** mainly due to higher EBITDA and positive working capital movements
- **CAPEX higher** following significant investments in mobile and fixed broadband networks and IP transformation

# RESIDENTIAL SEGMENT REVENUE DOWN WITH STABLE NON VOICE REVENUE

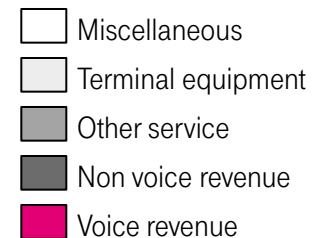


- Revenue down 4.2% mainly as a result of:
  - **13.9% fall in voice revenue, in both fixed** (general usage trends) **and mobile** (EU roaming regulation, cut in termination rates and flat rate tariff offers)
  - **7.8% fall in terminal equipment revenue** following lower prices of handsets and higher 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)

<sup>1)</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK - 28 million) to Other service revenue (HRK +28 million) was made for Jan-Sep 2014

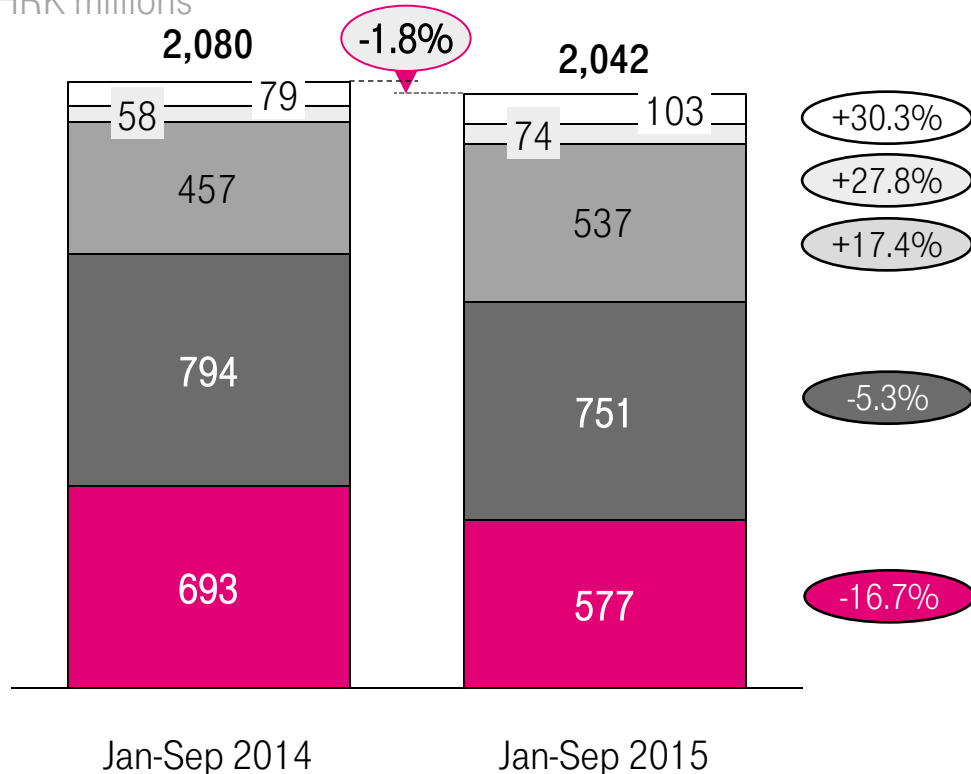


# FALL IN VOICE AND NON VOICE REVENUE OFFSET MAINLY BY STRONG ICT PERFORMANCE



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

HRK millions



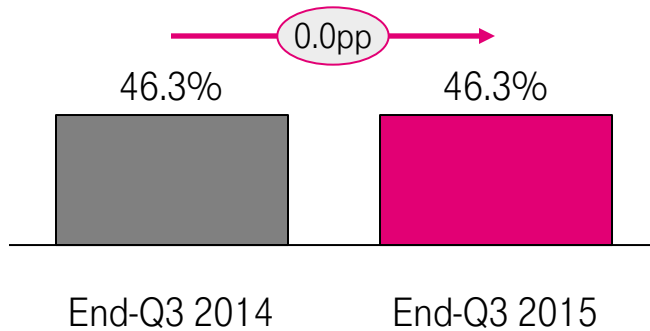
- Revenue down 1.8% mainly as a result of:
  - Voice revenue 16.7% lower** with contributors both, mobile and fixed
  - Non voice revenue decreased 5.3%**, mainly following significantly lower wholesale revenue (general decrease in prices and traffic and absence of revenues from Optima after consolidation as of Q3 2014)
  - Other revenue, mainly driven by ICT, up 17.4%**
  - Growth achieved also in Terminal equipment** (mobile) and **Miscellaneous** (energy and increased prices in mobile)



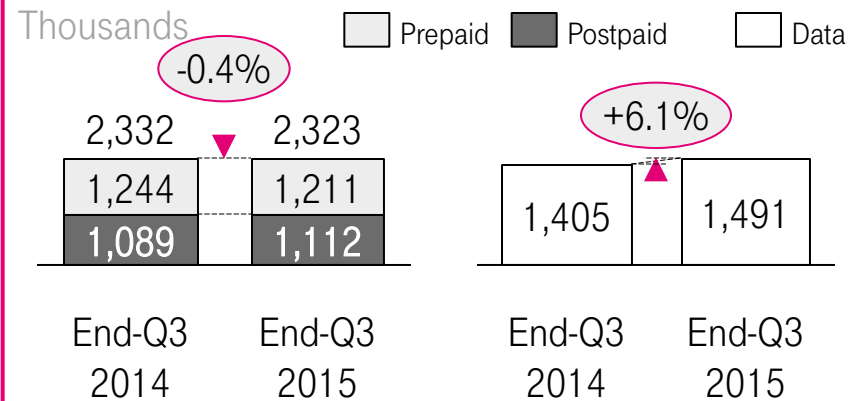
<sup>1</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -19 million) to Other service revenue (HRK +19 million) was made for Jan-Sep 2014

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

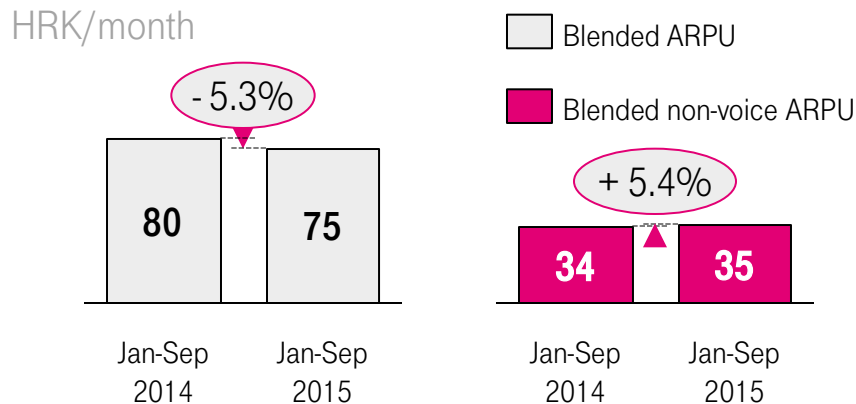
## HT market share by subscribers<sup>1</sup>



## Number of subscribers



## ARPU<sup>2</sup>

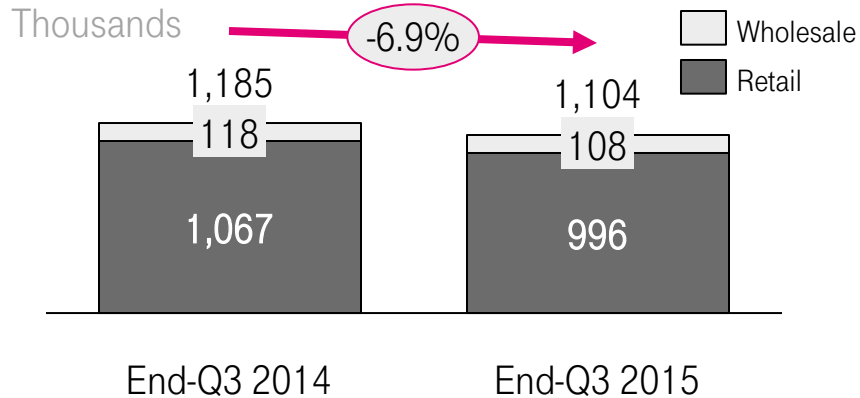


- **Average MOU** (minutes of use) up 3.9% to 195
- **Smartphone proportion** of total handset sales at 78% in postpaid segment (Jan-Sep 2014: 73%); **HT smartphone penetration** 47%
- **HT's 4G network** reached 59% and its **3G network** had 77% **population coverage indoors**
- **Acquired spectrum** enabled doubling of maximum download speed in mobile network, up to 150 Mbps, available to nearly 60% of the population

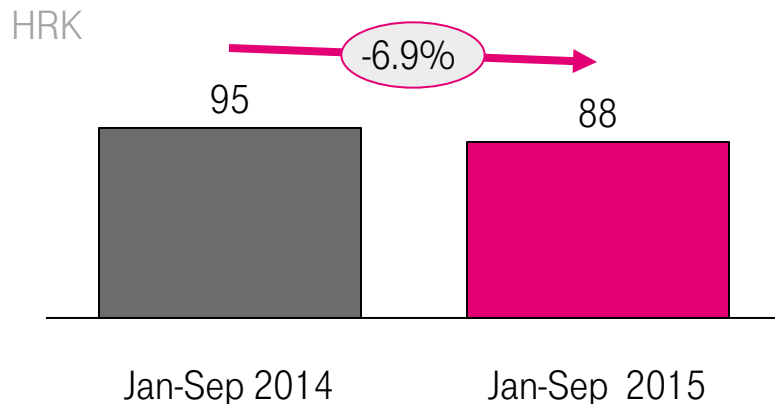


# NUMBER OF FIXED LINES AND ARPA DECLINE; MARKETING INITIATIVES CONTINUE

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



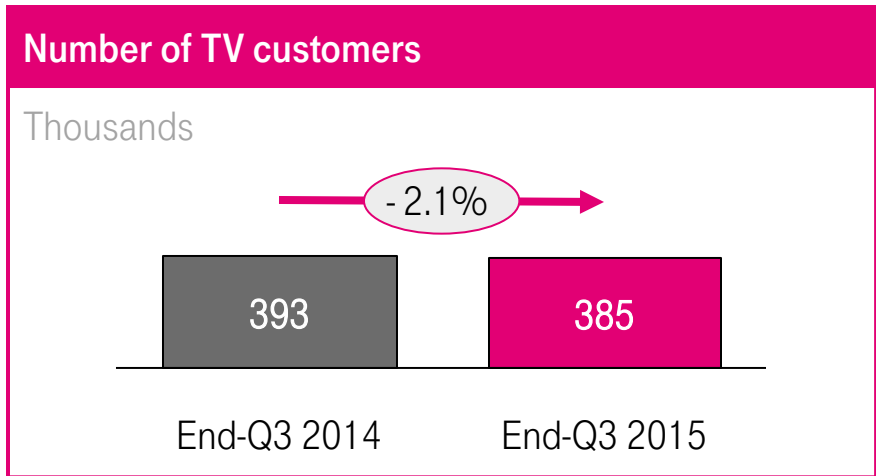
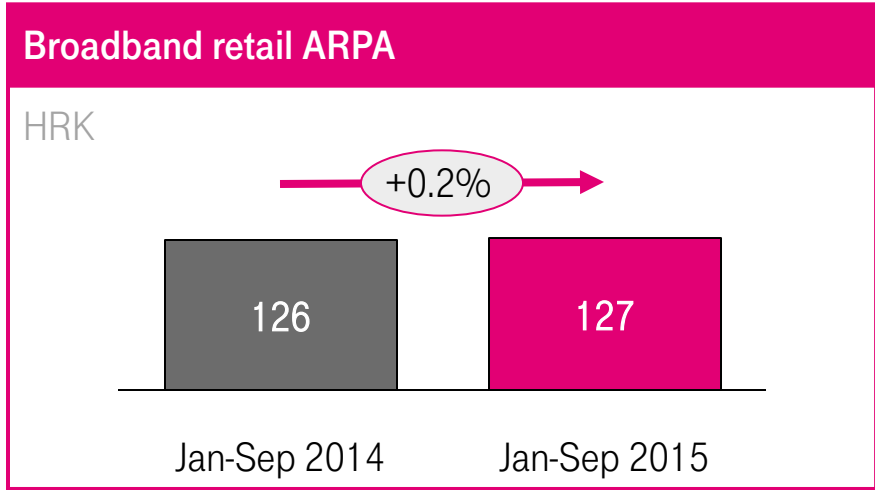
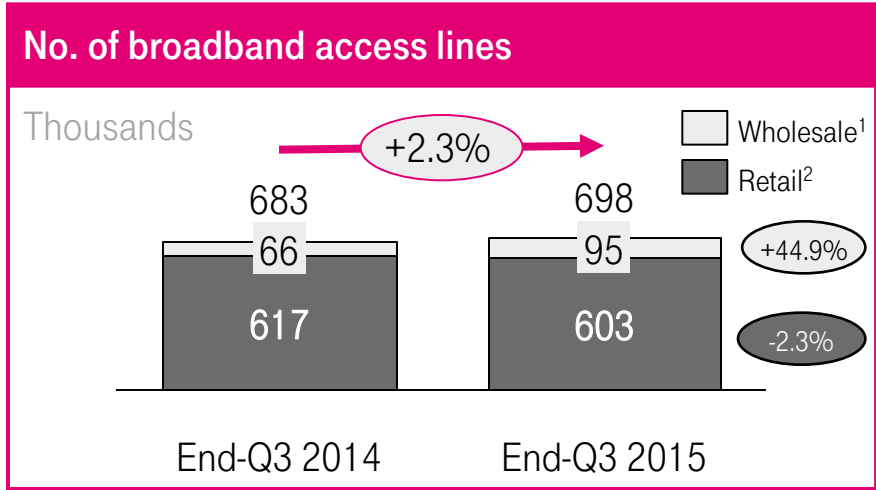
## ARPA<sup>2</sup>



- Mainlines rate of decline at the level of Jan-Sep 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 46% (EOY target: around 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

1 Includes Naked Bitstream + Bitstream  
 2 Includes ADSL, FTTH and Naked DSL

# 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)	Jan-Sep 2014	Jan-Sep 2015	% of change A15/A14
Mobile	2,106	2,049	-2.7%
Fixed telephony	926	802	-13.3%
Wholesale	317	250	-21.0%
IP Revenue	1,186	1,165	-1.8%
Data	63	62	-1.2%
ICT	397	474	19.6%
Miscellaneous	138	345	150.0%
Energy	5	34	628.2%
Other non telco services	4	8	87.3%
<b>Revenue</b>	<b>5,141</b>	<b>5,190</b>	<b>0.9%</b>
Other operating income	85	63	-26.2%
<b>Total operating revenue</b>	<b>5,226</b>	<b>5,252</b>	<b>0.5%</b>
<b>Operating expenses</b>	<b>3,292</b>	<b>3,260</b>	<b>-1.0%</b>
Material expenses	1,439	1,462	1.6%
Employee benefits expenses	914	774	-15.3%
Other expenses	940	1,021	8.6%
Work performed by the Group and capitalised	-67	-54	19.2%
Write down of assets	67	57	-14.0%
<b>EBITDA</b>	<b>1,934</b>	<b>1,992</b>	<b>3.0%</b>
Depreciation and amortization	1,012	1,075	6.1%
<b>EBIT</b>	<b>922</b>	<b>918</b>	<b>-0.4%</b>
Financial income	23	41	77.1%
Income/loss from investment in joint ventures	12	11	-3.3%
Financial expenses	64	76	18.3%
<b>Profit before taxes</b>	<b>892</b>	<b>894</b>	<b>0.2%</b>
Taxation	178	177	-0.5%
<b>Net profit</b>	<b>714</b>	<b>717</b>	<b>0.4%</b>
Non controlling interests	-2	-13	-478.4%
<b>Net profit after non controlling interests</b>	<b>717</b>	<b>730</b>	<b>1.9%</b>
Exceptional items <sup>1)</sup>	115	87	-23.9%
<b>EBITDA before exceptional items</b>	<b>2,049</b>	<b>2,080</b>	<b>1.5%</b>

<sup>1)</sup> Related to redundancy restructuring costs



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# CONSOLIDATED BALANCE SHEET

HRK million

in HRK million (IFRS)	At 31 Dec 2014	At 30 Sep 2015	% of change A15/A14
Intangible assets	1,716	1,545	-10.0%
Property, plant and equipment	5,577	5,530	-0.8%
Non-current financial assets	735	964	31.2%
Receivables	121	102	-15.3%
Deferred tax asset	51	45	-11.8%
<b>Total non-current assets</b>	<b>8,200</b>	<b>8,186</b>	<b>-0.2%</b>
Inventories	115	124	7.3%
Receivables	1,525	1,302	-14.6%
Current financial assets	1,539	960	-37.6%
Cash and cash equivalents	2,192	2,715	23.9%
Prepayments and accrued income	264	112	-57.7%
<b>Total current assets</b>	<b>5,635</b>	<b>5,212</b>	<b>-7.5%</b>
<b>TOTAL ASSETS</b>	<b>13,835</b>	<b>13,399</b>	<b>-3.2%</b>
Subscribed share capital	8,883	9,823	10.6%
Reserves	409	444	8.6%
Revaluation reserves	2	5	146.7%
Retained earnings	673	268	-60.2%
Net profit for the period	1,142	730	-36.1%
Non controlling interests	125	114	-8.5%
<b>Total issued capital and reserves</b>	<b>11,235</b>	<b>11,385</b>	<b>1.3%</b>
Provisions	71	69	-3.1%
Non-current liabilities	590	480	-18.6%
Deferred tax liability	50	46	-8.2%
<b>Total non-current liabilities</b>	<b>711</b>	<b>595</b>	<b>-16.3%</b>
Current liabilities	1,742	1,306	-25.0%
Deferred income	111	105	-5.5%
Provisions for redundancy	35	8	-77.6%
<b>Total current liabilities</b>	<b>1,889</b>	<b>1,419</b>	<b>-24.9%</b>
<b>Total liabilities</b>	<b>2,600</b>	<b>2,014</b>	<b>-22.5%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,835</b>	<b>13,399</b>	<b>-3.2%</b>





# CONSOLIDATED CASH FLOW STATEMENT

HRK million

in HRK million (IFRS)	Jan-Sep 2014	Jan-Sep 2015	% of change A15/A14
Profit before tax	892	894	0.2%
Depreciation and amortization	1,012	1,075	6.1%
Increase / decrease of current liabilities	-74	-99	-33.8%
Increase / decrease of current receivables	119	71	-40.5%
Increase / decrease of inventories	-27	-8	69.2%
Other cash flow increases / decreases	-352	-239	32.1%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,571</b>	<b>1,693</b>	<b>7.8%</b>
Proceeds from sale of non-current assets	3	9	221.2%
Proceeds from sale of non-current financial assets	2	1	-41.7%
Interest received	15	15	4.7%
Other cash inflows from investing activities	1,444	1,872	29.7%
<b>Total increase of cash flow from investing activities</b>	<b>1,463</b>	<b>1,898</b>	<b>29.7%</b>
Purchase of non-current assets	-760	-833	-9.6%
Purchase of non-current financial assets	-76	-305	-299.0%
Other cash outflows from investing activities	-338	-1,193	-253.4%
<b>Total decrease of cash flow from investing activities</b>	<b>-1,174</b>	<b>-2,331</b>	<b>-98.5%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>289</b>	<b>-433</b>	<b>-250.0%</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	-23	
Dividends paid	-736	-573	22.1%
Repayment of finance lease	-3	-3	-6.1%
Other cash outflows from financing activities	-117	-146	-25.1%
<b>Total decrease in cash flow from financing activities</b>	<b>-857</b>	<b>-745</b>	<b>13.1%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-857</b>	<b>-745</b>	<b>13.1%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>3</b>	<b>8</b>	<b>167.7%</b>
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	1,005	523	-48.0%
<b>Cash and cash equivalents at the end of period</b>	<b>3,045</b>	<b>2,715</b>	<b>-10.8%</b>

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



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Reuters: HT.ZA

Bloomberg: HTRA CZ

