

BUSINESS AND FINANCIAL REVIEW

JANUARY – JUNE 2016

ANALYST PRESENTATION
28 JULY 2016



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HIGHLIGHTS

Financial

- Revenue at HRK 3,402 million, up 3.0%: supported by Wholesale, Energy, Handset sales and above average completion of projects in System solutions
- EBITDA before exceptional items up 1.4% to HRK 1,339 million; margin at 39.3% (H1 2015: 39.9%)
- Outlook 2016
 - Revenue and EBITDA margin unchanged; System solutions expected to be roughly at 2015 level, impacted by Government/public sector projects postponed
 - Capex adjusted from „moderately” to „slightly lower” than in 2015

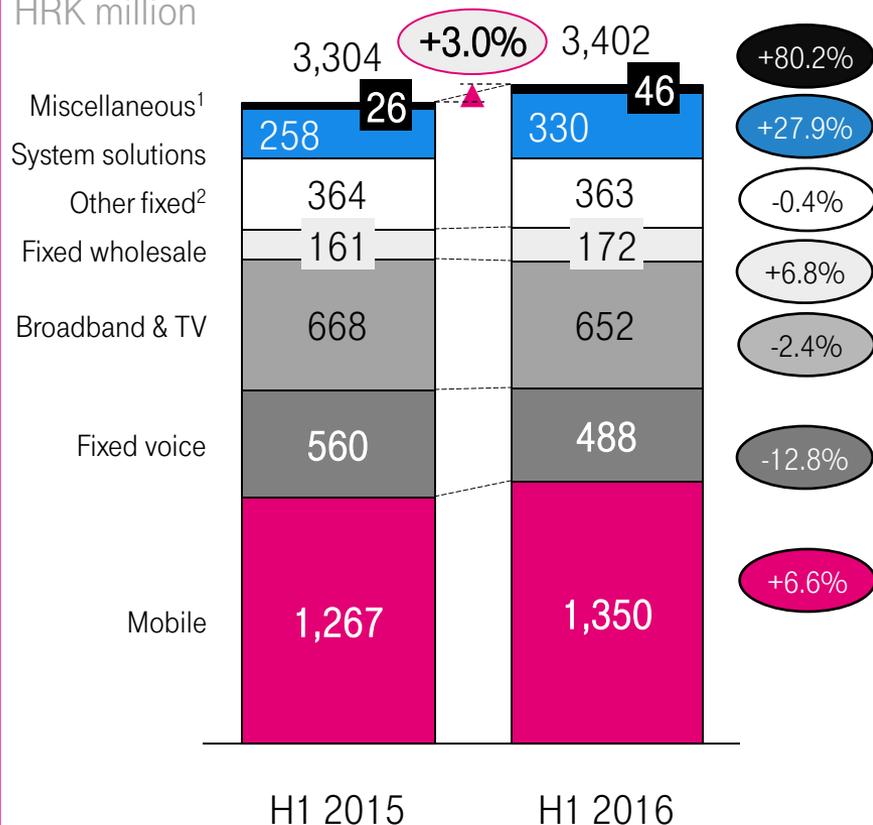
Operational

- Leading market position across all areas of business maintained; transformation initiatives ongoing
 - Magenta 1 boosted Broadband and TV customers
 - Energy segment continues to show strong growth; converged Telco-Energy proposition launched, first on market
 - Visitor revenue slightly up
 - “Horizont 2016” initiatives progressing well

POSITIVE DEVELOPMENT IN LOW MARGIN SYSTEM SOLUTIONS AND ENERGY, WHOLESALE AND HANDSET SALES

Revenue breakdown

HRK million

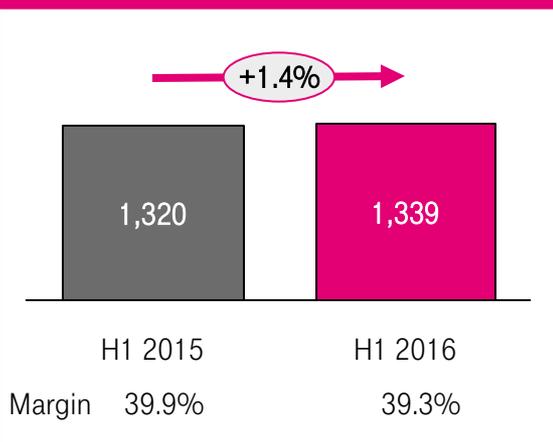


- **Mobile revenue** up mostly from handsets sales, higher data revenue and increased wholesale revenue following deregulation of certain non EU termination rates effective from 1 April 2015
- **Fixed voice** down due to fall in mainlines, traffic and ARPA
- **Broadband and TV revenue** down: broadband revenue down mainly due to fall in ARPU, offset by slight growth in TV revenue following rise in ARPU
- **Fixed wholesale revenue** up mainly due to higher infrastructure revenue and above mentioned deregulation of certain non EU termination rates
- **Other fixed** broadly stable
- **System solutions** strongly up following favourable yearly project dynamics vs last year, increase in sale of ICT equipment and demand for consulting services
- **Miscellaneous impacted** by development in **Energy revenues**: H1 2016 at HRK 41 million vs H1 2015 at HRK 21 million

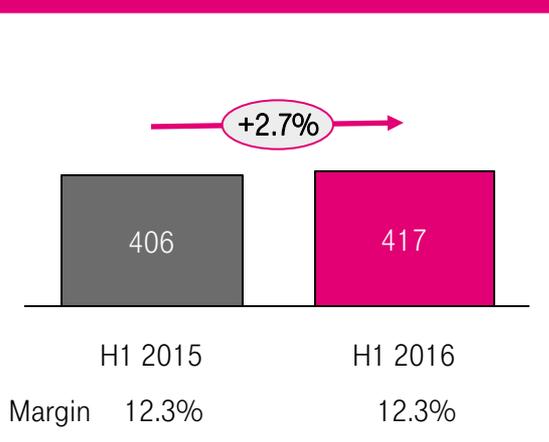
EBITDA, NET PROFIT AND OPERATING CASH FLOW UP; STRONG INVESTMENT IN NETWORK CONTINUES

All in HRK million, except where stated differently

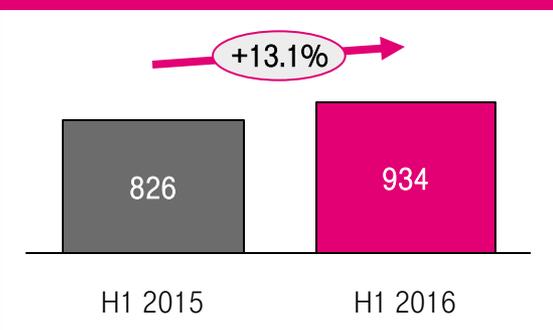
EBITDA before except. items¹



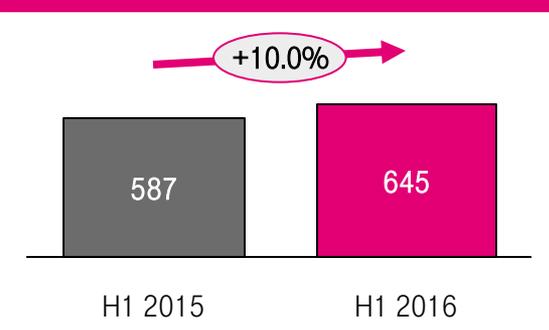
Net profit



Net cash flow from operations



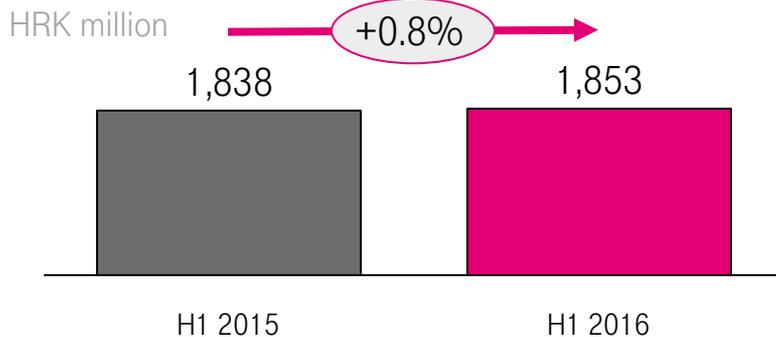
CAPEX



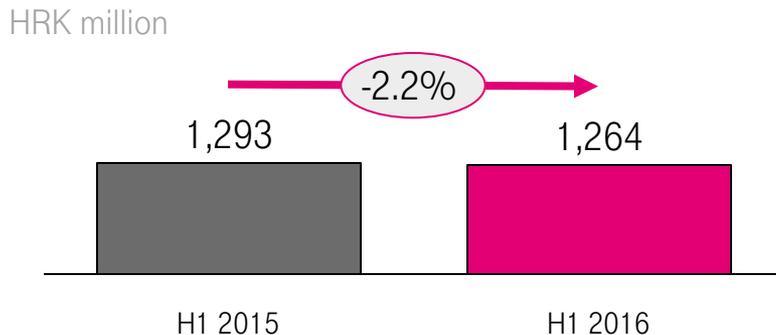
- **EBITDA** up following revenue growth, undertaken restructuring measures and sales of certain assets
- **Net profit up** mainly due to EBITDA development, lower depreciation and redundancy costs, offset by exchange rate losses, vast majority of which incurred in Q1 2016
- **Net cash flow from operations** up mainly due to positive working capital movements and lower tax paid
- **CAPEX** up following significant investments in mobile and fixed broadband networks, services platforms and transformation in IT area

RESIDENTIAL SEGMENT REVENUE SLIGHTLY UP

Revenue

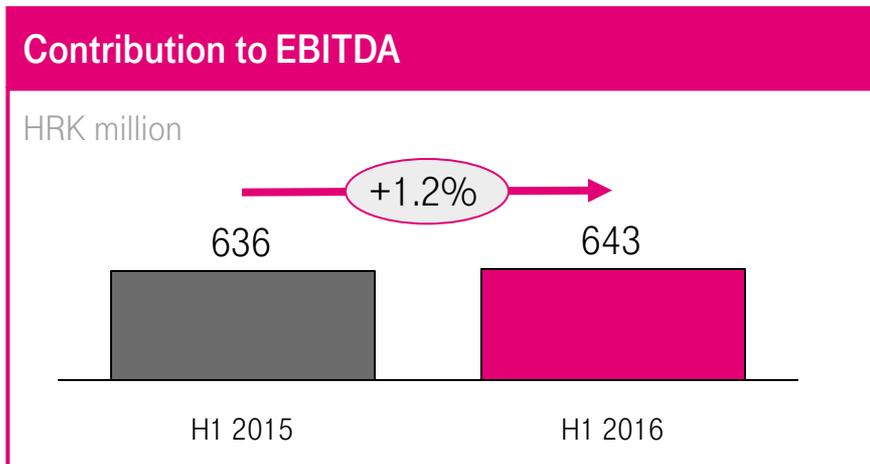
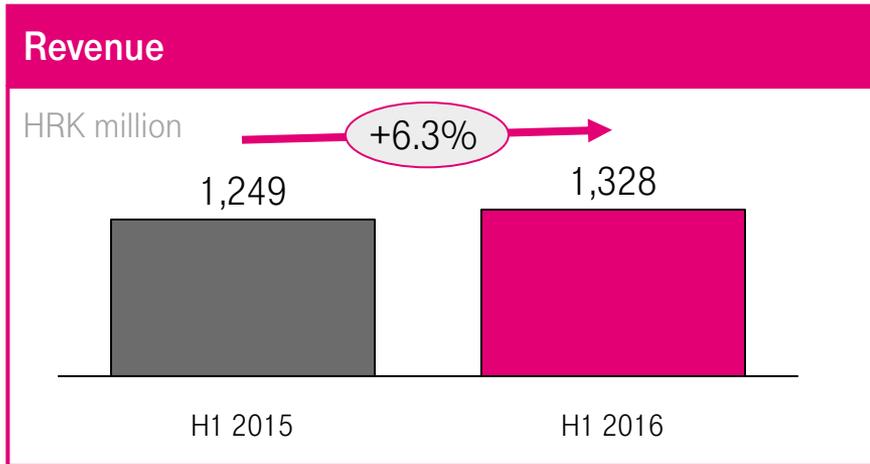


Contribution to EBITDA



- **Magenta 1**, customised offers and numerous benefits for private customers / households, yielded very good results
 - Attracted 20,000 customers
- Ongoing promotions of **MAX2/MAX3 packages** with exclusive TV content and premium TV packages

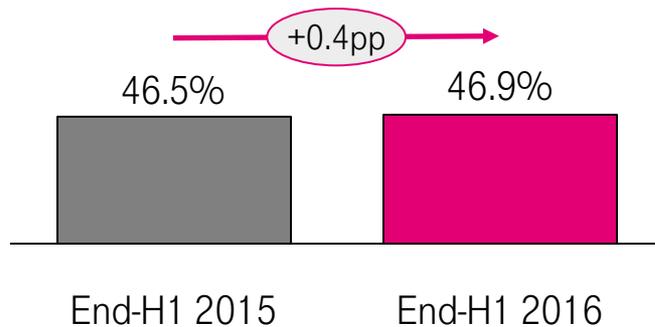
REVENUE UP DUE TO SYSTEM SOLUTIONS, WHOLESALE AND ENERGY



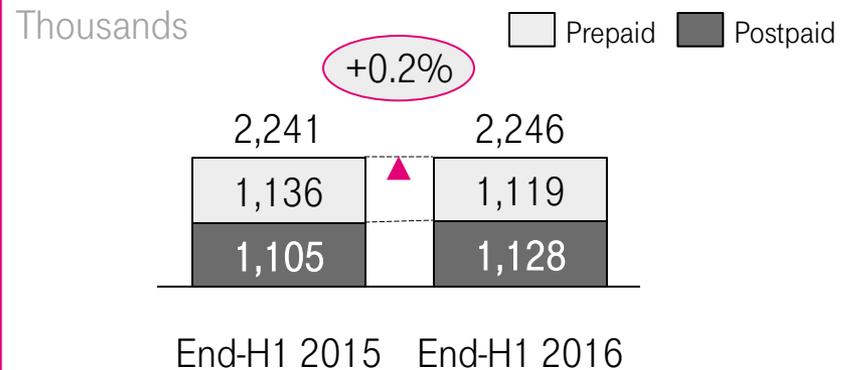
- Ongoing efforts on **value management and customer retention**:
 - Specific benefits for B2B through **Magenta 1**: highest available speeds, 4G backup, network security and Cloud storage
 - **Energy bundles** with attractive pricing

CONTINUED FOCUS ON MOBILE DATA BUNDLES AND CUSTOMER EXPERIENCE; SPEEDS OFFERED UP TO 262 MBPS

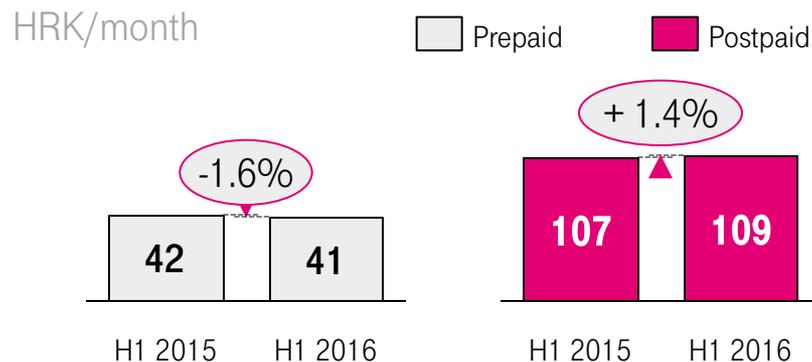
HT market share by subscribers¹



Number of subscribers



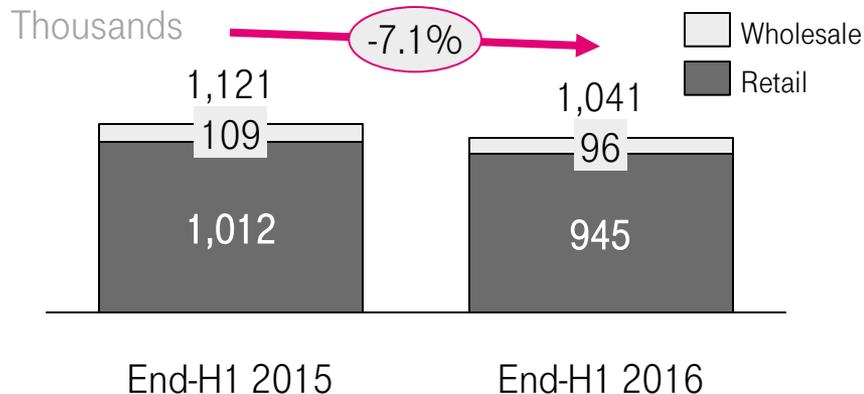
ARPU



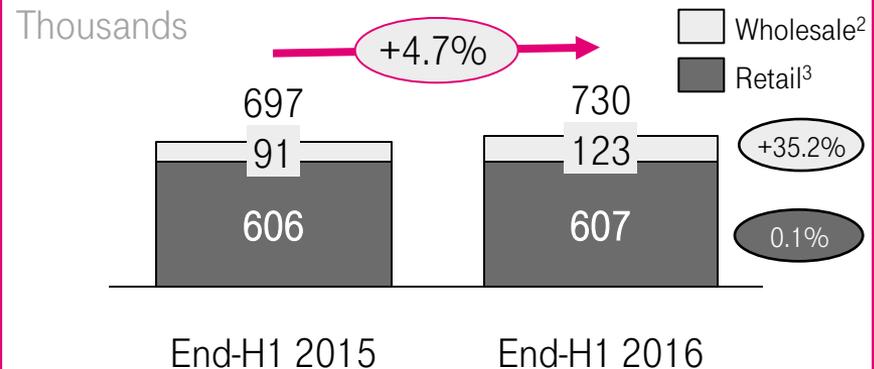
- **Average MOU** (minutes of use) up 6.0% to 205
- **Smartphone proportion** of total handset sales at 81% in postpaid segment (H1 2015: 76%); **HT smartphone penetration** 56%
- **HT's 4G network** reached 67% population coverage indoors and 95% coverage outdoors

BROADBAND LINES AND TV CUSTOMERS UP; FIXED MAINLINES DOWN

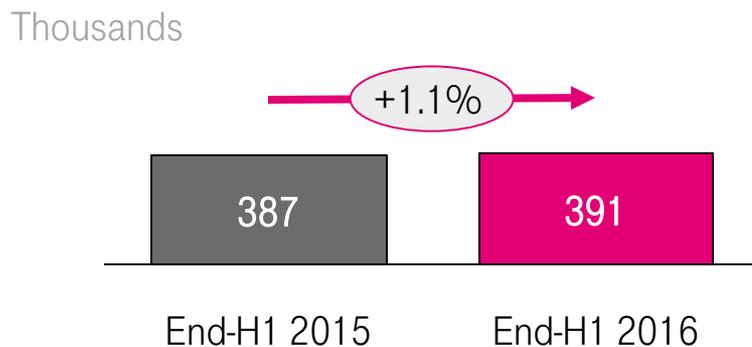
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



- **Fixed line ARPU** down 6.2% to HRK 85
- **Broadband retail ARPU** at HRK 122, down 2.6%
- **TV ARPU** up 1.3% to HRK 82

¹ Includes PSTN, FGSM and old PSTN voice customers migrated to IP platform; payphones excluded

² Includes Naked Bitstream + Bitstream

³ Includes ADSL, FTTH and Naked DSL

GROUP 2016 OUTLOOK

	2015 Results	Outlook 2016 vs 2015
Revenue	HRK 6,919 million	Within range 0% – (-2%)
EBITDA before exceptional items	Margin of 40.2%	Margin of around 40%
CAPEX	HRK 1,473 million	Slightly lower
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

in HRK million	H1 2015	H1 2016	% of change A16/A15
Mobile revenue	1,267	1,350	6.6%
Fixed revenue	1,753	1,675	-4.5%
System solutions	258	330	27.9%
Miscellaneous	26	46	80.2%
Revenue	3,304	3,402	3.0%
Other operating income	38	69	81.0%
Total operating revenue	3,343	3,472	3.9%
Operating expenses	2,104	2,195	4.3%
Material expenses	887	1,023	15.3%
Merchandise, material and energy expenses	530	658	24.1%
Services expenses	357	366	2.4%
Employee benefits expenses	538	503	-6.4%
Other expenses ¹⁾	673	688	2.2%
Work performed by the Group and capitalised	-34	-44	-28.9%
Write down of assets	40	24	-39.8%
EBITDA	1,239	1,277	3.1%
Depreciation and amortization ¹⁾	719	691	-3.9%
EBIT	520	586	12.6%
Financial income	23	30	27.7%
Income/loss from investment in joint ventures	7	-2	-126.2%
Income from investment in associates	0	0	-
Financial expenses ¹⁾	59	98	64.8%
Profit before taxes	491	516	5.1%
Taxation	98	105	7.7%
Net profit	394	411	4.5%
Non controlling interests	-12	-6	52.9%
Net profit after non controlling interests	406	417	2.7%
Exceptional items ²⁾	81	62	-23.8%
EBITDA before exceptional items	1,320	1,339	1.4%

1) Other expenses, Depreciation and amortization, as well as Financial expenses are restated for H1 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs

2) Related to redundancy restructuring costs



CONSOLIDATED BALANCE SHEET

in HRKmillion	At 31 Dec 2015	At 30 Jun 2016	% of change A16/A15
Intangible assets	1,651	1,608	-2.6%
Property, plant and equipment	5,616	5,595	-0.4%
Non-current financial assets	1,033	1,061	2.7%
Receivables	98	103	5.0%
Deferred tax asset	46	56	21.9%
Total non-current assets	8,444	8,422	-0.3%
Inventories	104	120	15.1%
Receivables	1,215	1,309	7.7%
Current financial assets	869	727	-16.4%
Cash and cash equivalents	3,175	2,916	-8.2%
Prepayments and accrued income	272	182	-33.1%
Total current assets	5,636	5,254	-6.8%
TOTALASSETS	14,079	13,676	-2.9%
Subscribed share capital	9,823	9,823	0.0%
Reserves	445	492	10.6%
Revaluation reserves	4	39	
Retained earnings	268	655	
Net profit for the period	925	417	-54.9%
Non controlling interests	177	163	-8.0%
Total issued capital and reserves	11,641	11,589	-0.5%
Provisions	68	57	-16.6%
Non-current liabilities	443	469	5.8%
Deferred tax liability	45	42	-6.0%
Total non-current liabilities	556	568	2.1%
Current liabilities	1,775	1,420	-20.0%
Deferred income	103	94	-8.2%
Provisions for redundancy	4	5	
Total current liabilities	1,882	1,520	-19.3%
Total liabilities	2,438	2,088	-14.4%
TOTAL EQUITY AND LIABILITIES	14,079	13,676	-2.9%

CONSOLIDATED CASH FLOW STATEMENT

in HRK million (IFRS)	H1 2015	H1 2016	% of change A16/A15
Profit before tax	491	516	5.1%
Profit/Loss attributable to NCI			
Depreciation and amortization	719	691	-3.9%
Increase / decrease of current liabilities	-251	-128	49.0%
Increase / decrease of current receivables	47	-6	-113.4%
Increase / decrease of inventories	-7	-16	-112.7%
Other cash flow increases / decreases	-173	-123	28.7%
Net cash inflow/outflow from operating activities	826	934	13.1%
Proceeds from sale of non-current assets	4	44	1130.0%
Proceeds from sale of non-current financial assets	1	1	-12.9%
Interest received	10	9	-6.3%
Dividend received	0	3	.
Other cash inflows from investing activities	1,521	991	-34.8%
Total increase of cash flow from investing activities	1,535	1,048	-31.7%
Purchase of non-current assets	-526	-696	-32.5%
Purchase of non-current financial assets	-75	-75	1.2%
Other cash outflows from investing activities	-580	-781	-34.5%
Total decrease of cash flow from investing activities	-1,181	-1,551	-31.3%
Net cash inflow/outflow from investing activities	354	-503	-242.2%
Total increase of cash flow from financing activities	0	0	.
Repayment of loans and bonds	-13	-14	-3.9%
Dividends paid	-573	-491	14.3%
Repayment of finance lease	-4	-4	-4.1%
Other cash outflows from financing activities	-108	-155	-43.4%
Total decrease in cash flow from financing activities	-698	-664	4.9%
Net cash inflow/outflow from financing activities	-698	-664	4.9%
Exchange gains/losses on cash and cash equivalents	1	-26	
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	482	-259	-153.8%
Cash and cash equivalents at the end of period	2,674	2,916	9.1%

Note: H1 2015 Cash flow restated, changes were made on Net cash inflow/ outflow from operating activities and Net cash inflow/ outflow from financing activities due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs at 2015 year end



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