BUSINESS AND FINANCIAL REVIEW JANUARY – DECEMBER 2016

ANALYST PRESENTATION
23 FEBRUARY 2017

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1. SUMMARY

HIGHLIGHTS

Financial

- 2016 delivery in line with Outlook
- Revenue up 0.7% to HRK 6,970 million, with no one-off consolidation impact from Optima Telekom in 2016
  - Encouraging trends in mobile, broadband & TV and system solutions
- EBITDA before exceptional items up 1.4% to HRK 2,821 million; margin at 40.5% (Jan-Dec 2015: 40.2%)
- Outlook 2017: “revenue around 2016 level” and “EBITDA margin before exceptionals maintained at around 40%”
- Dividend of HRK 6 per share proposed to be paid out of 2016 net profit (54% pay-out ratio); in addition, launch of Share buy back programme intended in 2017
  - Minimum dividend of HRK 6 per share currently expected to be paid out of 2017 net profit

Operational

- Leading market position across all areas of business maintained
  - Magenta1 continues to attract Broadband and TV customers and
  - Energy segment continues to show strong growth supported by converged Telco-Energy proposition
- Crnogorski Telekom acquisition completed; strategy alignment and operational control in progress
  - Financials will be added to HT Group Outlook 2017 as of Q1 2017

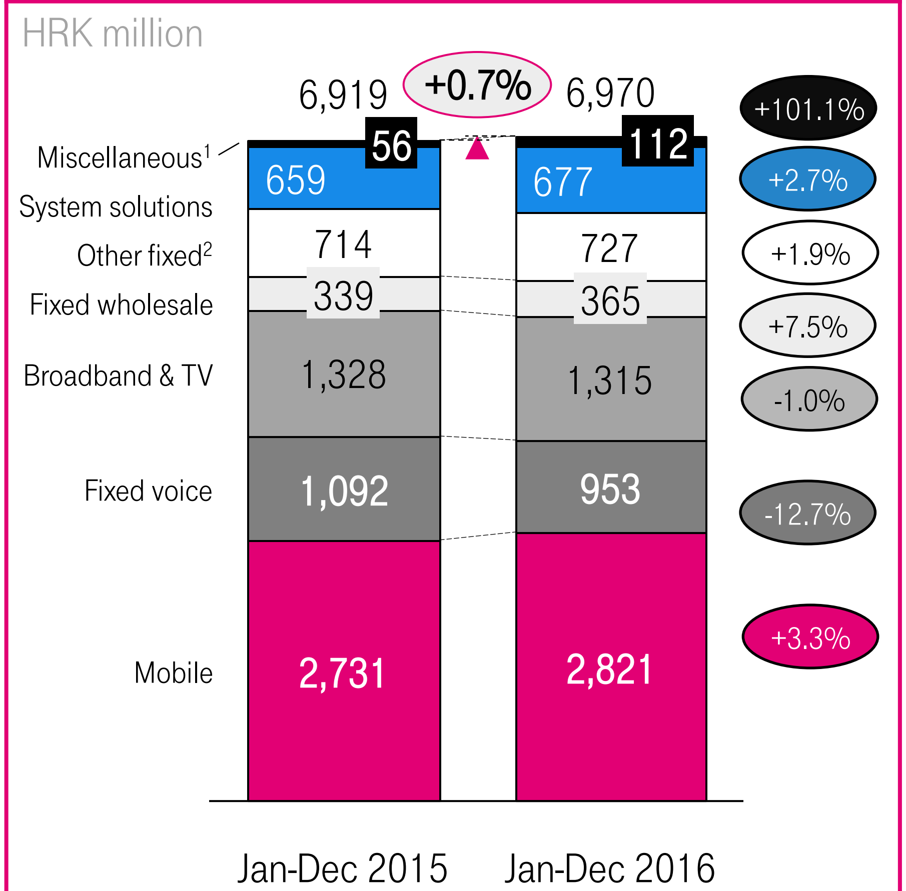
FY 2016 OUTLOOK AND RESULTS

	Outlook (as of 27 Oct 2016)	Results delivered
Revenue	Around 2015 level	Up 0.7% ✓
EBITDA before exceptional items	Margin of around 40%	40.5% ✓
CAPEX	Around 2015 level (of HRK 1,474 million)	Up 9.1% following intensified investments in fibre and ECI costs ✓
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	Preparations for Crnogorski telekom acquisition in Jan 2017 ✓

2. OVERVIEW 2016

REVENUE UP FOLLOWING POSITIVE TREND IN MOBILE, SYSTEM SOLUTIONS AND ENERGY; GOOD Q4 2016 PERFORMANCE

Revenue breakdown



- **Mobile revenue** up largely from higher data revenue, visitors revenue and low margin handsets sales
- **Fixed voice** down due to fall in mainlines, traffic and ARPA
- **Broadband and TV revenue** slightly down: broadband revenue lower mainly due to fall in ARPU, offset by slight growth in TV revenue following rise in customer base and ARPU
  - Momentum seen in Q4 2016
- **Fixed wholesale revenue** up mainly due to higher infrastructure revenue
- **Other fixed revenue** up mainly due to 3.8% increase in Optima Telekom consolidated revenue
- **System solutions** is back on track; up 2.7% following strong growth in Q4 2016
- **Miscellaneous revenue** boosted by development in **Energy revenue:** Jan-Dec 2016 at HRK 102 million vs Jan-Dec 2015 at HRK 47 million

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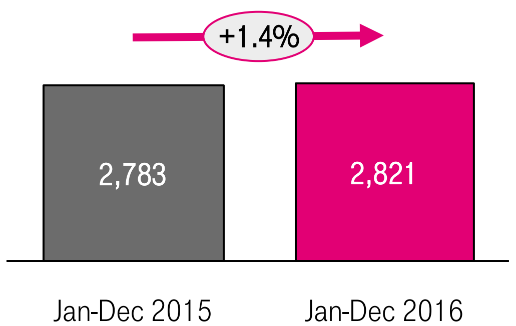
1 Energy and Other non telco services.
2 Optima Telekom revenue included.

EBITDA AND NET PROFIT UP; STRONG INVESTMENT IN NETWORK CONTINUES

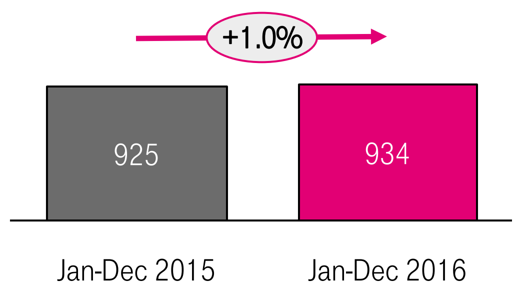
All in HRK million, except where stated differently

EBITDA before except. items[1]



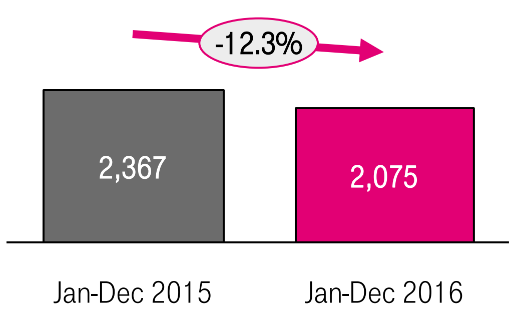
Margin 40.2% 40.5%

Net profit

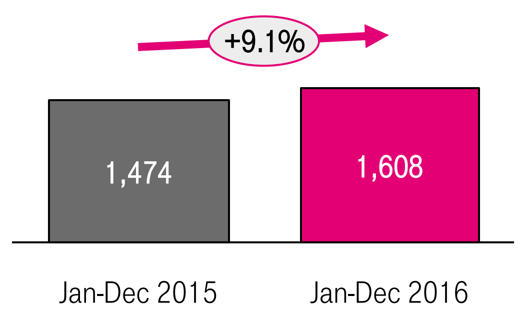


Margin 13.4% 13.4%

Net cash flow from operations



CAPEX

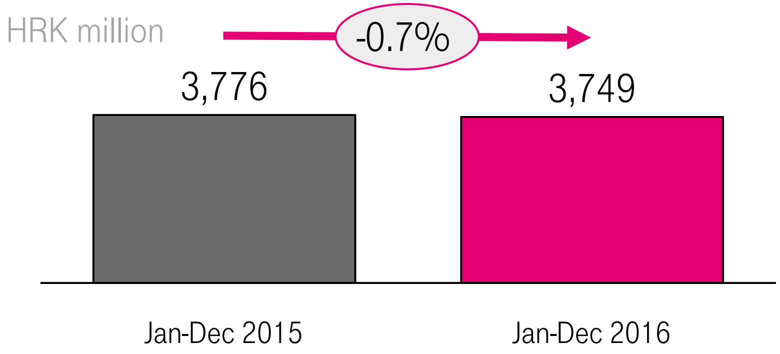


- **EBITDA** slightly up as a result of increased revenue, positive contribution of restructuring measures and sales of certain assets, offset by increased costs in merchandise and energy business
- **Net profit up:** impairment loss and increased financial expenses more than offset by higher EBITDA, lower amortisation from software licences, lower exceptional items and higher financial income
- **Net cash flow from operations** down mainly due to negative movements in working capital
- **CAPEX** up following significant investments in mobile and fixed broadband networks and ECI (Electronic Communication Infrastructure) costs

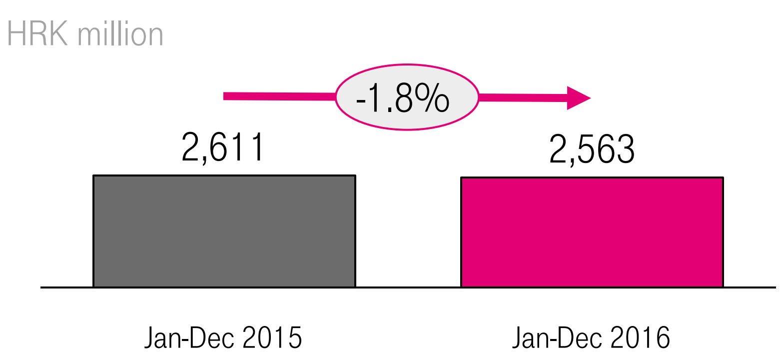
1 Exceptional items in Jan-Dec 2016 refer to redundancy costs totalling HRK 85 million. Exceptional items in Jan-Dec 2015 refer to redundancy costs totalling HRK 91 million.

RESIDENTIAL SEGMENT REVENUE SLIGHTLY LOWER

Revenue



Contribution to EBITDA

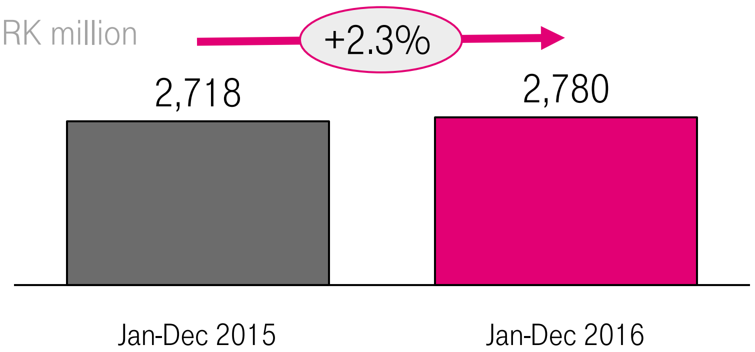


- **Magenta1,** customised offers and numerous benefits for private customers / households, yielded strong results
  - Attracted 53,000 households
- Ongoing promotions of **MAX2/MAX3 packages** with exclusive TV content and premium TV packages

REVENUE AND CONTRIBUTION TO EBITDA SLIGHTLY HIGHER

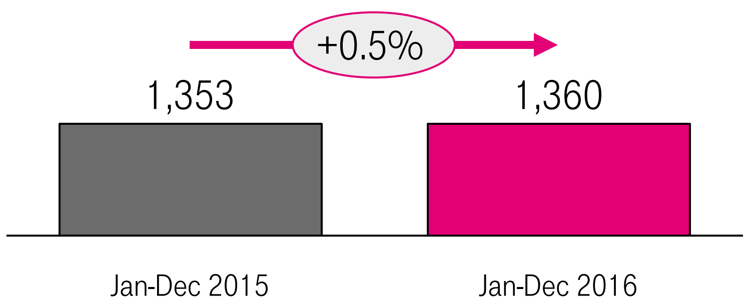
Revenue

HRK million



Contribution to EBITDA

HRK million

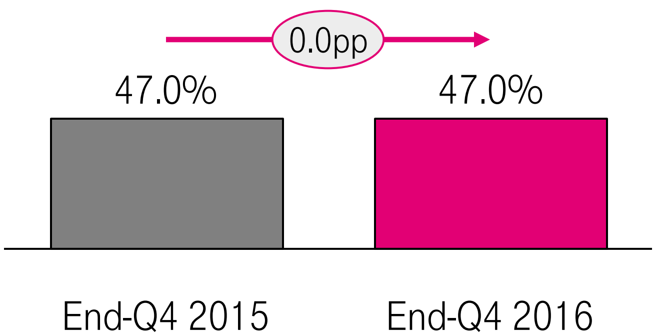


- Ongoing efforts in **value management and customer retention:**
  - Specific benefits for B2B through **Magenta1**: highest available speeds, 4G backup, network security and Cloud storage
  - **Energy bundles** with attractive pricing

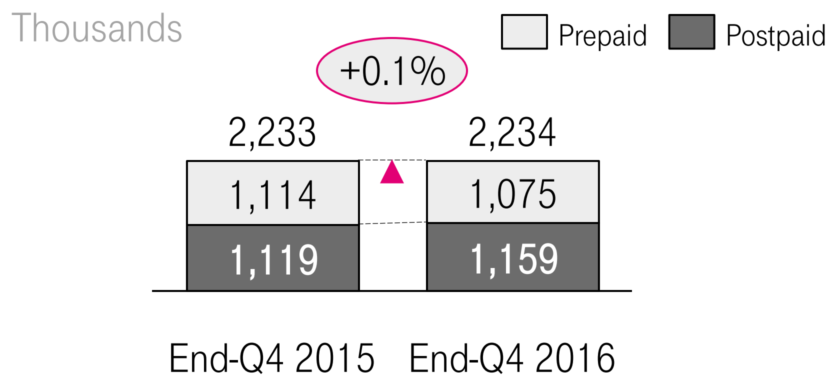
MOBILE BUSINESS

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

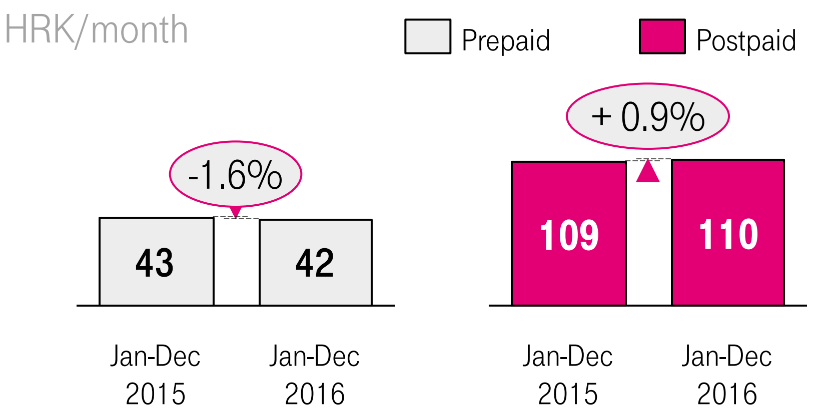
HT market share by subscribers[1]



Number of subscribers



ARPU

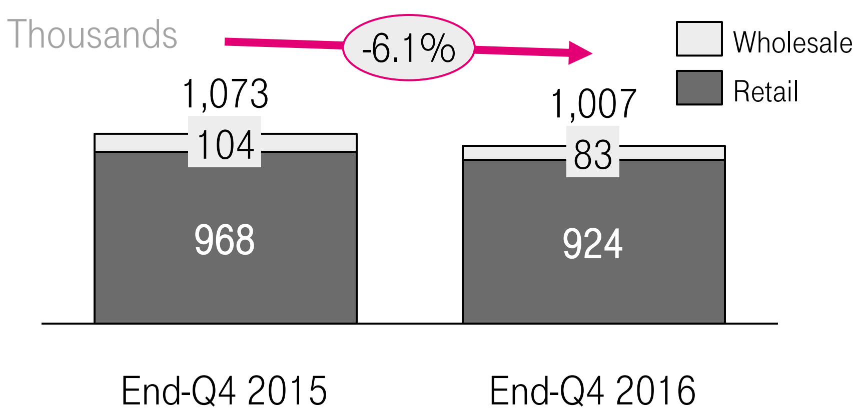


- **Average MOU** (minutes of use) up 5.7% to 206
- **Smartphone proportion** of total handset sales at 79% in postpaid segment (Jan-Dec 2015: 79%); **HT smartphone penetration** 57%
- **HT's 4G network** reached 68.2% population coverage indoors and 96.9% coverage outdoors
  - 4G population coverage with download speed of up to 225 Mbps at 51%

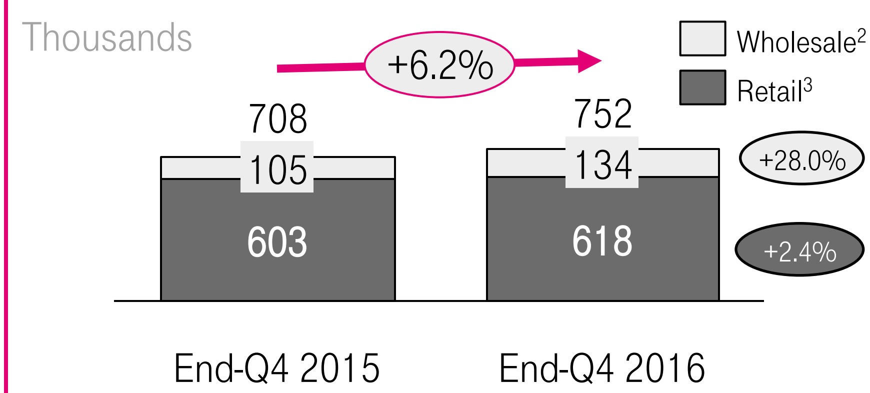
1 Internal estimation

BROADBAND LINES AND TV CUSTOMERS UP; FIXED MAINLINES DECREASE

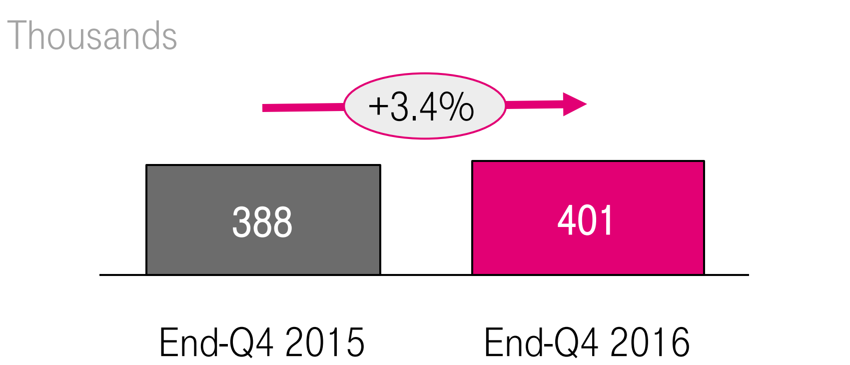
Number of fixed mainlines[1]



No. of broadband access lines



Number of TV customers



- **Fixed line ARPU** down 6.8% at HRK 84
- **Broadband retail ARPU** at HRK 122, down 2.3%
- **TV ARPU** up 1.4% at HRK 82
- **Household coverage in Next Generation Access** (fixed Broadband >30Mbps) at 54%

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

3. OUTLOOK 2017 AND DIVIDEND 2016 & 2017

GROUP 2017 OUTLOOK; CRNOGORSKI TELEKOM FINANCIALS WILL BE INCLUDED AS OF Q1 2017

	2016 Results	Outlook 2017 vs 2016
Revenue	HRK 6,970 milion	Around 2016 level
EBITDA before exceptional items	Margin of 40.5%	Margin of around 40%
CAPEX	HRK 1,608 million	Moderately lower
Regional expansion	HT is monitoring and evaluating potential M&A opportunities	HT is monitoring and evaluating potential M&A opportunities

DIVIDEND 2016 AND 2017

Dividend proposal 2016

- Minimum target dividend announced in Feb 2016: HRK 6 per share
- Final dividend proposal: HRK 6 per share (54% pay-out ratio)
- In addition, in 2017 HT intends to launch Share buy back programme pending detailed market assessment

Dividend Expectation for year 2017

HT currently expects to pay out a minimum dividend of HRK 6 per share

APPENDIX I

ABOUT CRNOGORSKI TELEKOM (CT)

Transaction and Financials

THE COMPANY

- Largest telecom operator in Rep. of Montenegro (population of 0.6 million)
- No of employees: 588

TRANSACTION

- Stake acquired: 76.53%
- Seller: Magyar Telekom
- HT rationale: regional expansion and substantial potential synergies

FINANCIALS

- Crnogorski Telekom Jan-Sep 2016 results:
    - Revenue: EUR 69.4 million
    - EBITDA before EI: EUR 24 million
- Purchase price: EUR 123.5 million (approximately HRK 933 million)

Market

MOBILE

- Penetration 182%
- Players and market share: Telenor (38.3%), Crnogorski Telekom (32.7%) and M:Tel (29.0%)
    - CT is market leader in post-paid segment with 40% market share

FIXED TELEPHONY

- Total of 150,000 customers on the market
- CT has 93.6% market share

FIXED BROADBAND AND PAYTV

- Total of 110,000 fixed broadband customers; CT has 66% market share
- Total of 183,000 payTV customers; CT has market share of 33%

APPENDIX II

CONSOLIDATED INCOME STATEMENT

in HRK million	2015	2016	% of change A16/A15
Mobile revenue	2,731	2,821	3.3%
Fixed revenue	3,473	3,360	-3.3%
System solutions	659	677	2.7%
Miscellaneous	56	112	101.1%
Revenue	**6,919**	**6,970**	**0.7%**
Other operating income	98	159	62.8%
Total operating revenue	**7,017**	**7,129**	**1.6%**
Operating expenses	**4,326**	**4,392**	**1.5%**
Material expenses	1,982	2,096	5.8%
Merchandise, material and energy expenses	1,272	1,354	6.5%
Services expenses	710	742	4.5%
Employee benefits expenses	1,023	986	-3.6%
Other expenses	1,342	1,373	2.3%
Work performed by the Group and capitalised	-88	-101	-13.9%
Write down of assets	67	38	-43.7%
EBITDA	**2,691**	**2,736**	**1.7%**
Depreciation and amortization	1,492	1,497	0.3%
EBIT	**1,199**	**1,239**	**3.4%**
Financial income	53	63	18.4%
Income/loss from investment in joint ventures	4	4	-3.4%
Financial expenses	88	144	63.3%
Profit before taxes	**1,168**	**1,162**	**-0.5%**
Taxation	227	234	3.3%
Net profit	**941**	**928**	**-1.4%**
Non controlling interests	16	-6	-134.1%
Net profit after non controlling interests	**925**	**934**	**1.0%**
Exceptional items [1)]	91	85	-7.1%
EBITDA before exceptional items	**2,783**	**2,821**	**1.4%**

[1)] Related to redundancy restructuring costs

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2015	At 31 Dec 2016	*% of change A16/A15*
Intangible assets	1,651	1,738	*5.2%*
Property, plant and equipment	5,616	5,619	*0.1%*
Non-current financial assets	1,033	1,352	*30.9%*
Receivables	98	121	*23.2%*
Deferred tax asset	46	59	*28.7%*
Total non-current assets	**8,444**	**8,889**	***5.3%***
Inventories	110	111	*1.1%*
Receivables	1,210	1,327	*9.7%*
Current financial assets	869	1,189	*36.7%*
Cash and cash equivalents	3,175	2,676	*-15.7%*
Prepayments and accrued income	272	262	*-3.7%*
Total current assets	**5,636**	**5,566**	***-1.2%***
TOTAL ASSETS	**14,079**	**14,455**	***2.7%***
Subscribed share capital	9,823	9,823	*0.0%*
Reserves	445	492	*10.6%*
Revaluation reserves	4	2	*-39.3%*
Retained earnings	268	633	*135.7%*
Net profit for the period	925	934	*1.0%*
Non controlling interests	177	163	*-7.8%*
Total issued capital and reserves	**11,641**	**12,046**	***3.5%***
Provisions	68	53	*-21.7%*
Non-current liabilities	435	472	*8.6%*
Deferred tax liability	45	35	*-20.9%*
Total non-current liabilities	**548**	**561**	***2.4%***
Current liabilities	1,783	1,741	*-2.4%*
Deferred income	103	89	*-13.2%*
Provisions for redundancy	4	17	
Total current liabilities	**1,890**	**1,847**	***-2.3%***
Total liabilities	**2,438**	**2,408**	***-1.2%***
TOTAL EQUITY AND LIABILITIES	**14,079**	**14,455**	***2.7%***

CONSOLIDATED CASH FLOW STATEMENT

in HRK million	2015	2016	% of change A16/A15
Profit before tax	1,168	1,162	-0.5%
Depreciation and amortization	1,492	1,497	0.3%
Increase / decrease of current liabilities	13	-151	
Increase / decrease of current receivables	-5	-112	
Increase / decrease of inventories	10	-1	-111.7%
Other cash flow increases / decreases	-312	-321	-2.8%
Net cash inflow/outflow from operating activities	**2,367**	**2,075**	**-12.3%**
Proceeds from sale of non-current assets	25	56	124.7%
Proceeds from sale of non-current financial assets	2	639	
Interest received	18	18	2.0%
Dividend received	0	3	-
Other cash inflows from investing activities	2,411	1,941	-19.5%
Total increase of cash flow from investing activities	**2,455**	**2,656**	**8.2%**
Purchase of non-current assets	-990	-1,173	-18.5%
Purchase of non-current financial assets	-384	-1,019	-165.5%
Other cash outflows from investing activities	-1,639	-2,207	-34.7%
Total decrease of cash flow from investing activities	**-3,013**	**-4,398**	**-46.0%**
Net cash inflow/outflow from investing activities	**-557**	**-1,742**	
Total increase of cash flow from financing activities			
Repayment of loans and bonds	-43	-38	11.9%
Dividends paid	-573	-491	14.3%
Repayment of finance lease	-4	-10	-129.1%
Other cash outflows from financing activities	-211	-294	-39.1%
Total decrease in cash flow from financing activities	**-832**	**-833**	**-0.1%**
Net cash inflow/outflow from financing activities	**-832**	**-833**	**-0.1%**
Exchange gains/losses on cash and cash equivalents	**5**	**2**	**-61.2%**
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	983	-498	-150.7%
Cash and cash equivalents at the end of period	**3,175**	**2,676**	**-15.7%**

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/

Zagreb Stock Exchange Share trading symbol: HT-R-A

Reuters: HT.ZA

Bloomberg: HTRA CZ