

BUSINESS AND FINANCIAL REVIEW

JANUARY – JUNE 2019

ANALYST PRESENTATION
25 JULY 2019



LIFE IS FOR SHARING.

DISCLAIMER

- These materials and the oral presentation do not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the Company nor should they or any part of them or the fact of their distribution form the basis of, or be relied on in connection with, any contract or investment decision in relation thereto
- In particular, these materials and the oral presentation are not an offer of securities for sale in the United States. The Company's securities have not been, and will not be, registered under the US Securities Act of 1933, as amended
- The third party information contained herein has been obtained from sources believed by the Company to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated herein are complete and accurate and that opinions and expectations contained herein are fair and reasonable, no representation or warranty, expressed or implied, is made by the Group or its advisors, with respect to the completeness or accuracy of any information and opinions contained herein
- These materials and the oral presentation contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in the Group's Annual Report
- These materials include non-IFRS measures, such as EBITDA. The Company believes that such measures serve as additional indicators of the Group's operating performance. However such measures are not replacements for measures defined by and required under IFRS. In addition, some key performance indicators utilised by the Company may be calculated differently by other companies operating in the sector. Therefore, the non-IFRS measures and key performance indicators used in these materials may not be directly comparable to those of the Group's competitors

HIGHLIGHTS

Business

- Hrvatski Telekom introduced a new brand positioning in the market under the pay off „Svijet boljih mogućnosti“ (“A world of better opportunities”), aiming to connect everyone in the country, including consumers, businesses and the public sector, with the opportunities of digitization.
- Strong investments in mobile and fixed broadband networks continue with the goal of ensuring superior customer experience and to maintain leading position in connectivity:
 - HT aims to enable 1.2 million of Croatia's total 1.5 million households with Next Generation Access (speeds above 30 Mbps) over next 2.5 years through further significant investments in fiber network
 - From July HT introduced Hybrid access to customers in rural areas enabling them significantly higher speeds through combination of fixed and mobile network
 - Awarded OOKLA certificates for fastest mobile network and best mobile coverage, based on real customer experience
- Magenta1 continues to attract customers; 227,000 households (penetration of 53% ¹) and 30,000 business accounts (penetration of 38% ²)
- One App digital service reached 233,000 monthly active users, penetration of 21% ³
- HT and partners implemented smart parking solution within „Dubrovnik Smart City“ umbrella project developed on HT's NB-IoT network
- HT named as Microsoft's partner of the Year in Croatia for 2019
- Evotv service, offered through DVBT technology, incorporated into HT portfolio

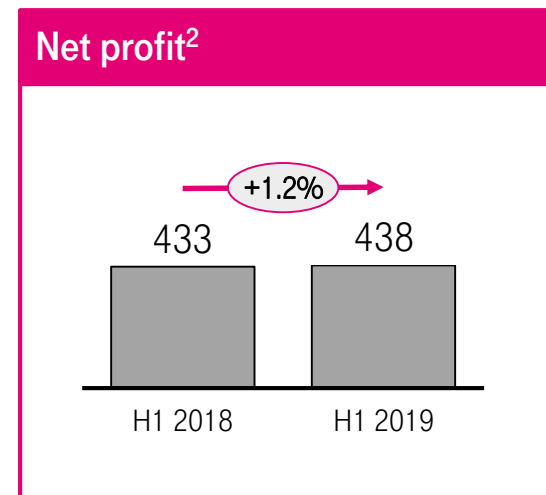
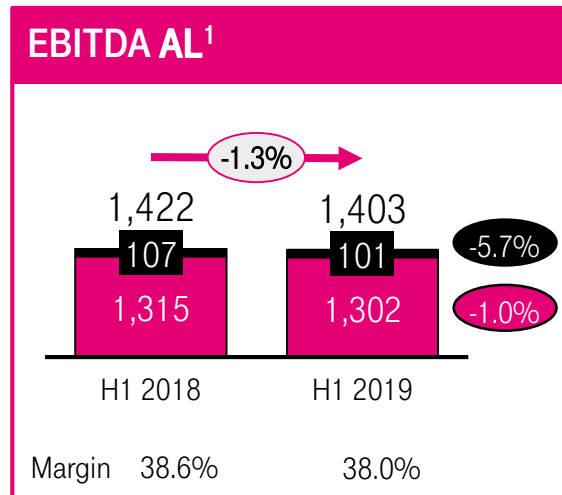
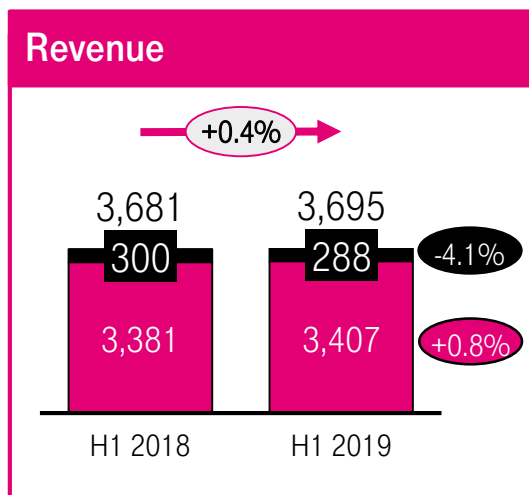
Financial

- Continuation of strong financial performance
- CAPEX/Sales ratio at high 19.7%
- Dividend of HRK 10 per share paid out (82% payout ratio)
- Share buyback ongoing at accelerated pace; around 0.6% of total shares bought back in 2018 were recently withdrawn
- Outlook for FY 2019 remains unchanged



REVENUE AND NET PROFIT UP; EBITDA SLIGHTLY DOWN

All in HRK million

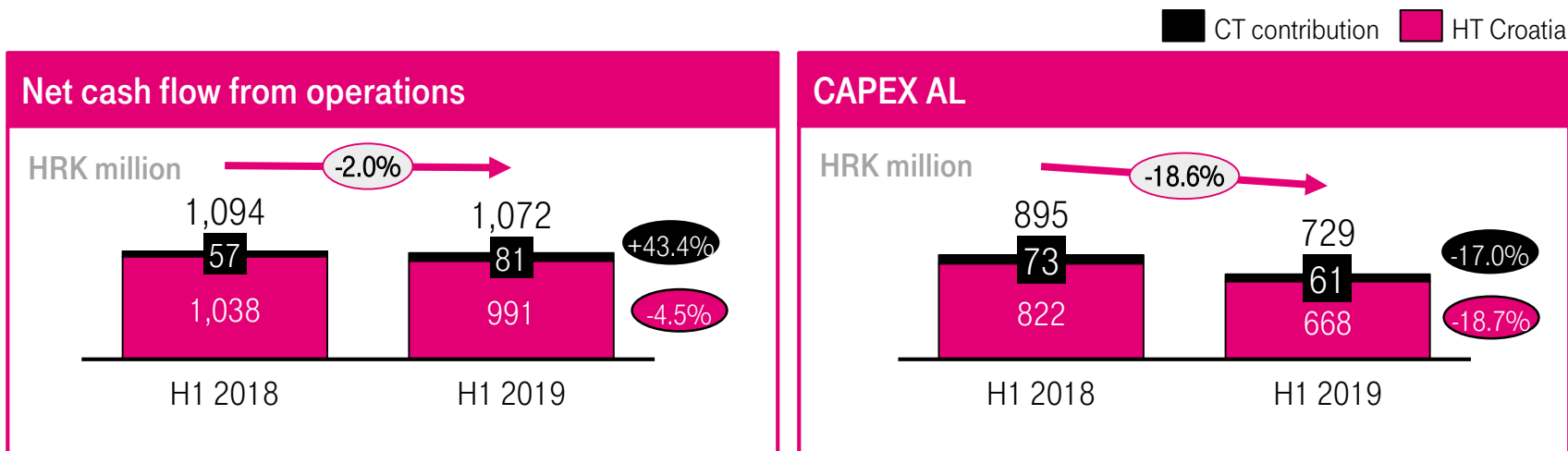


- Revenue up 0.4% to HRK 3,695 million
 - Small increase in revenue at HT Croatia despite exit from energy business
 - Crnogorski Telekom (CT) revenue remained under pressure; however, negative trends from previous years significantly decreased
- EBITDA AL down 1.3% to HRK 1,403 million, following increase in merchandise and roaming costs as well as higher employee benefits, partially offset by one off positive impact from Evtv purchase transaction
 - EBITDA AL margin decreased by 0.7 p.p. to 38.0%
- Net profit up 1.2% to HRK 438 million, due to better net financial result, lower depreciation and redundancy costs, offset by lower EBITDA AL and higher taxation

1. EBITDA before exceptional items after leases. Exceptional items mainly refer to restructuring redundancy costs. 2. Net profit after non controlling interests.

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects

OPERATING CASH FLOW DECREASES; STRONG INVESTMENT IN NETWORK AND CUSTOMER EXPERIENCE CONTINUES

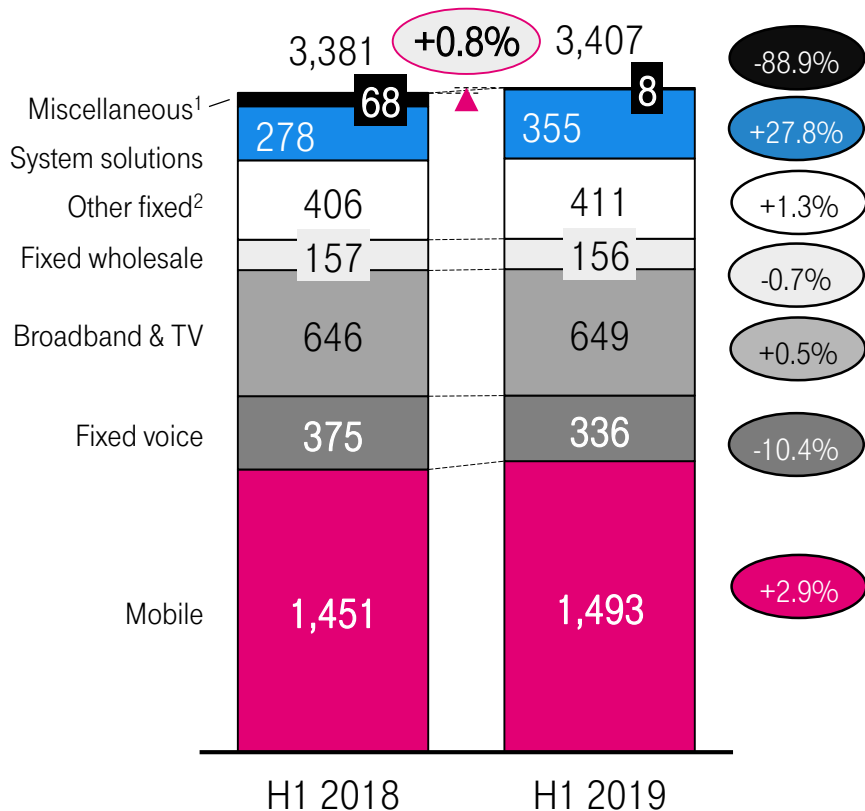


- Cash flow from operating activities down mainly due to adverse movements in working capital
- CAPEX down following different yearly distribution; however, significant investment in mobile and fixed broadband network continues

INCREASE IN REVENUE DESPITE EXIT FROM ENERGY BUSINESS; GOOD PERFORMANCE IN MOBILE AND SYSTEM SOLUTIONS

Revenue breakdown

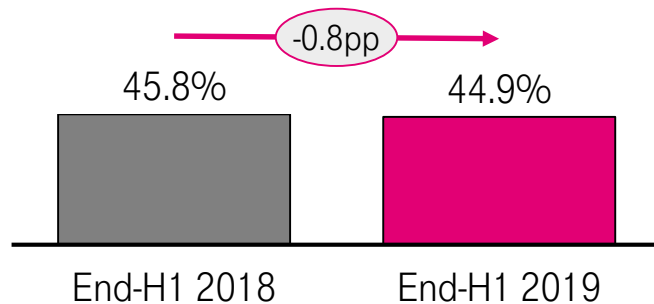
HRK million



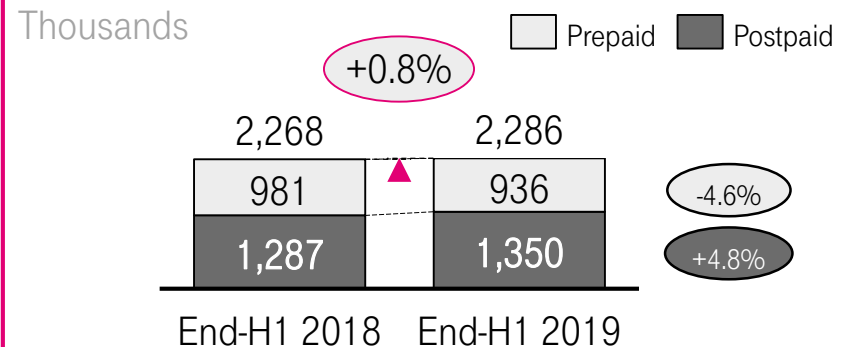
- **Mobile revenue** up, boosted by higher postpaid revenue, following increase in both customer base and ARPU, and handset sales
- **Fixed voice** down due to fall in mainlines, traffic and ARPU
- **Broadband and TV revenue** up; growth in TV revenue, following overall higher TV customer base and ARPU, including positive impact from four months of Evtv consolidation, more than offset fall in broadband revenue
- **Fixed wholesale revenue** slightly down mainly due to lower transit traffic
- **Other fixed revenue** up, due to factors including higher terminal equipment and digital advertising revenue
- **System solutions** strongly up on more favourable yearly project dynamics in H1 2019 vs same period in previous year.
- **Miscellaneous revenue** down following withdrawal from **Energy business** as of Q3 2018, with related revenue totalled HRK 58 million in H1 2018

MARKET AND TECHNOLOGY LEADERSHIP MAINTAINED

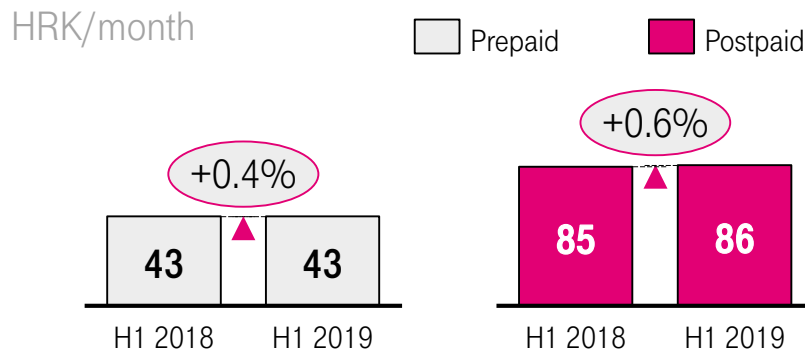
HT market share by subscribers¹



Number of subscribers



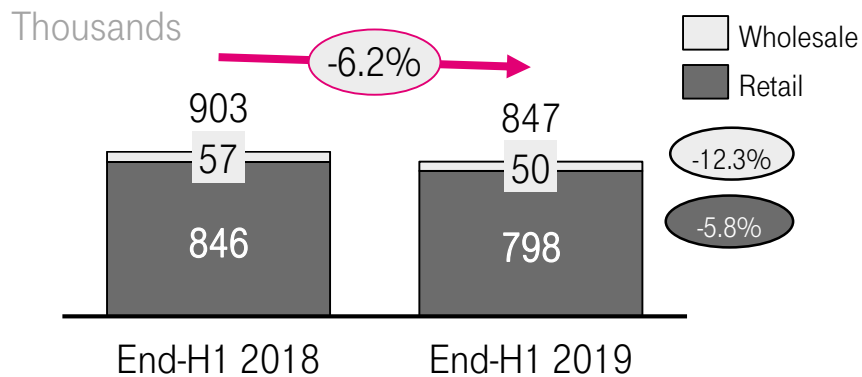
ARPU



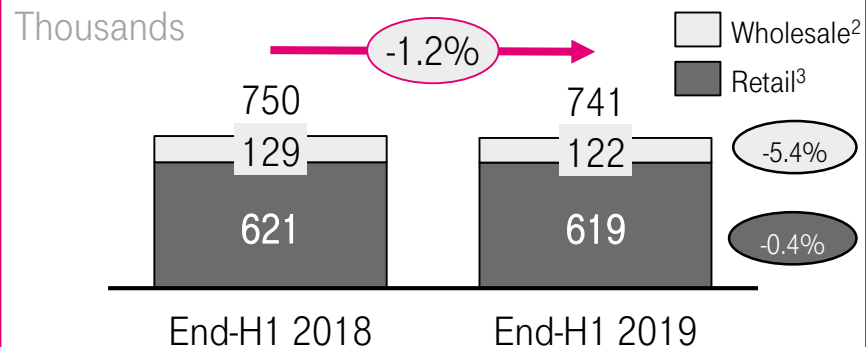
- **Smartphone proportion** of total handset sales at 92% in postpaid segment (H1 2018: 90%); **HT smartphone customers** at 68%
- **HT's 4G network** reached 99% population coverage outdoors and 85% coverage indoors
- HT continues **modernization of mobile network** throughout Croatia; building foundation for introduction of 5G; also, continues capacity expansion on 4G network sites to support traffic growth
- Awarded **OOKLA certificates** for fastest mobile network and best mobile coverage

EVOTV ACQUISITION BOOSTS TV CUSTOMER NUMBERS; FIXED MAINLINES AND BROADBAND LINES DECREASE

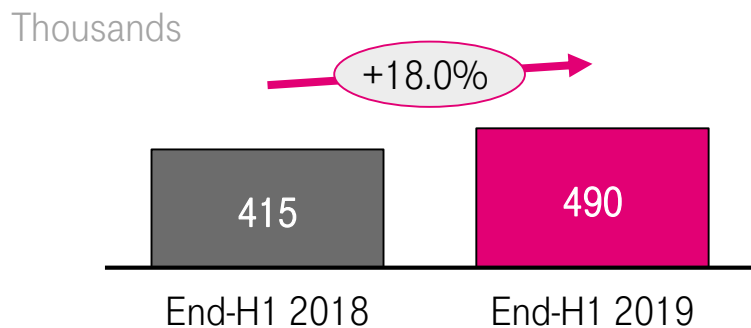
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



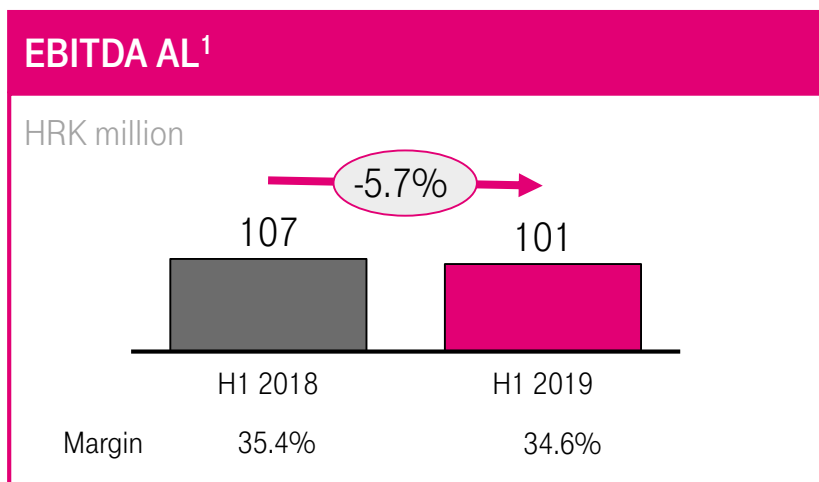
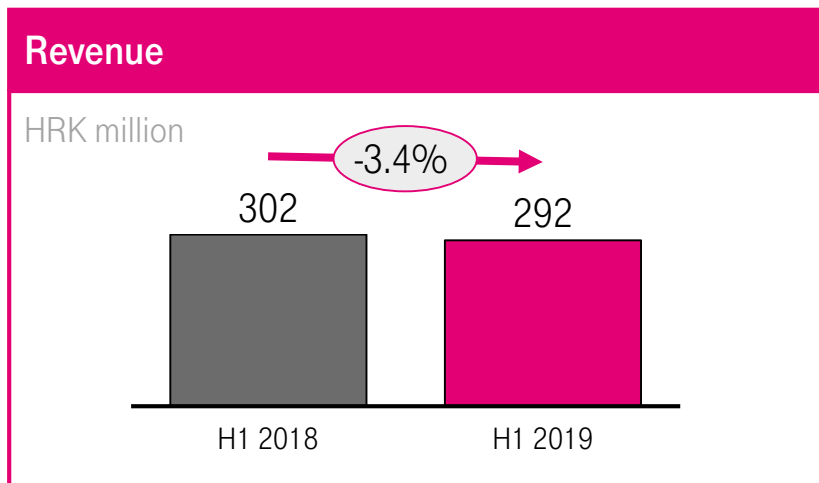
- **Fixed voice ARPU** down 4.5% at HRK 69
- **Broadband retail ARPU** at HRK 104, down 6.9%
- **TV ARPU** up 4.0% to HRK 86
- As a result of investments into fixed infrastructure, **NGA coverage** for speeds above 30 Mbps reached level of 59% and above 100 Mbps level of 22% of Croatia's total 1.5 million HH
 - Customers in rural areas upgraded to higher speeds through **Hybrid access**

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

² Includes Naked Bitstream + Bitstream

³ Includes ADSL, VDSL, FTTH, FTTB, FTTC

REVENUE AND PROFITABILITY UNDER PRESSURE MAINLY DUE TO NEGATIVE TREND IN FIXED VOICE



- **Revenue** down mainly following negative development in **Fixed Voice** and **Mobile Prepaid** offset by rise in **System solutions** revenue
- Market leadership in **Mobile Postpaid** maintained
- **Broadband and TV revenue** stable
- Decline in **EBITDA** mainly due to absence of one-off positive effects in H1 2018 (sale of real estates and accounting standards change) and lower revenues from fixed voice

GROUP 2019 OUTLOOK REMAINS UNCHANGED; NOW SET ON „AFTER LEASES” (AL) BASIS

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Around 2018 level
EBITDA AL	Margin of 38.6%	Margin of around 38%
CAPEX AL	HRK 1,826 million	Around 2018 level
Regional expansion	Acquisition of Evotv service	HT is monitoring and evaluating potential M&A opportunities

APPENDIX I

REMINDER: CHANGES IN ACCOUNTING SLIDES



APPLICATION OF NEW IFRS 16 TO ELIMINATE DIFFERENT TREATMENT OF FINANCE AND OPERATING LEASES

„AL“ OR „AFTER LEASES“ STEERING KPIS INTRODUCED TO ENSURE COMPARABILITY

IFRS 16 in general

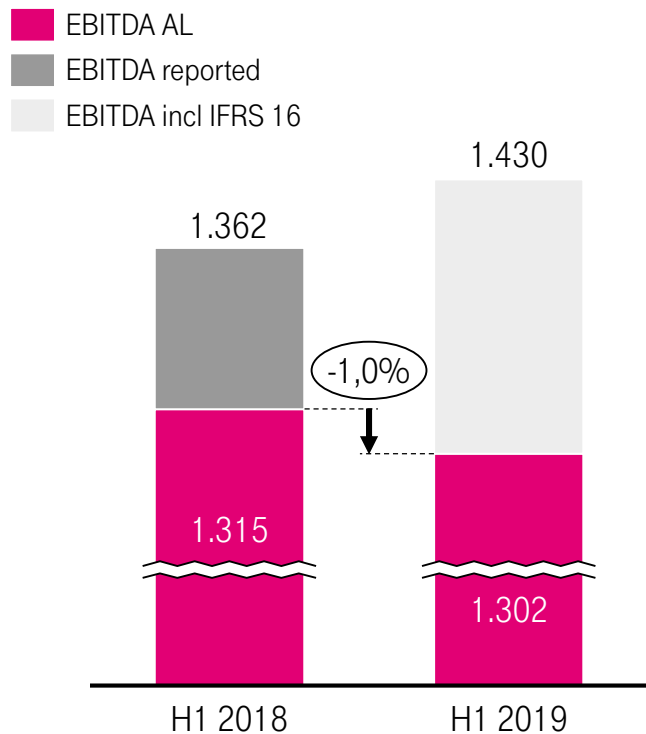
- Effective for annual reporting periods starting on 1 January 2019
- Major impact on Telecoms on Lessee side
- Lease contracts usually relate to rentals of: buildings, retail shops, collocation space, rooftop space for cell sites, network infrastructure, vehicles, etc.
- All IFRS 16 relevant leases will be recognized in essence as finance leases (Right of Use Asset and Lease Liabilities) instead of previously recognized operating lease (OPEX)

H1 2019 HT Group reporting

- 2019 accounts under new IFRS 16
 - Year 2018 not restated; only income statement, cash flow and the respective KPIs are proforma adjusted for IFRS 16 effects
 - Outlook 2019 on after-lease AL basis
- As of 2019, the steering logic will be based on an „AL“ view, meaning that all main Financials which are impacted by IFRS16 will be adjusted for lease transactions to eliminate IFRS16 impact
- New steering relevant „AL“ KPIs for both, 2018 and 2019
 - EBITDA AL
 - CAPEX AL

NEW ACCOUNTING IMPACTS EBITDA SIGNIFICANTLY

Movement in HT Croatia EBITDA



EBITDA after leases (AL) concept (two step approach):

- IFRS 16 → increase in EBITDA for previously booked OPEX due to elimination of operating lease expenses
- AL → adding back lessee depreciation and lessee interest to EBITDA
- *IFRS 16 and AL concept has no material impact on Net revenue and Net profit*

- 2018 adjusted for like for like comparison reasons with 2019 effect (no restatement of 2018)
- EBITDA AL with larger deviations to old EBITDA compared with other Telcos mainly due to already previous capitalization of ECI which is now deducted in AL view

IFRS 16 ALSO IMPACTS OTHER ACCOUNTS

CAPEX TO BE PRESENTED IN FUTURE ON „AFTER LEASES” PRINCIPLE

Balance sheet

- IFRS 16 will increase total „Right of Use Asset” and Financial Lease Liabilities. Creation of
 - Right of Use Assets
 - Regular Depreciation
 - Financial Lease Liabilities
 - Amortized in line with repayment w/o interest
- AL principle not applied

Net cash flow from operations (NCFO)

- IFRS 16 → increase in NCFO with corresponding increase in cash outflows from financing activities (total cash flow remains unchanged)
- AL principle not applied.

CAPEX AL

- IFRS 16 → increase in Capex due to all IFRS 16 related leased contracts being capitalized (previously disclosed under P&L)
- AL → back to pre IFRS 16 level (remains unchanged)

APPENDIX II

FINANCIAL STATEMENTS



HT GROUP CONSOLIDATED INCOME STATEMENT

in HRK million	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted
Mobile revenue	1,605	1,605	1,641	2.2%
Fixed revenue	1,713	1,713	1,671	-2.4%
System solutions	295	295	376	27.3%
Miscellaneous	68	68	8	-88.9%
Revenue	3,681	3,681	3,695	0.4%
Other operating income	56	53	100	87.9%
Total operating revenue	3,737	3,734	3,795	1.6%
Operating expenses	2,300	2,203	2,267	2.9%
Material expenses	1,121	1,117	1,151	3.1%
Employee benefits expenses	539	539	571	6.0%
Other expenses	672	579	552	-4.6%
Work performed by the Group and capitalised	-59	-59	-47	-20.3%
Write down of assets	27	27	40	46.1%
EBITDA	1,437	1,531	1,528	-0.2%
Depreciation and amortization	840	942	930	-1.2%
EBIT	597	590	598	1.4%
Financial income	24	25	14	-43.6%
Income/loss from investment in joint ventures	0	0	-4	-
Financial expenses	82	93	70	-25.2%
Profit before taxes	538	521	538	3.3%
Taxation	98	95	103	8.5%
Net profit	440	426	435	2.1%
Non controlling interests	-7	-7	-3	-54.9%
Net profit after non controlling interests	447	433	438	1.2%
Exceptional items ¹⁾	34	34	19	-44.5%
EBITDA before exceptional items	1,471	1,566	1,547	-1.2%
EBITDA before exceptional items after leases		1,422	1,403	-1.3%

¹⁾ Mainly related to restructuring redundancy costs and legal cases

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects



LIFE IS FOR SHARING.

HT GROUP CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2018	At 30 Jun 2019	% of change A19/A18
Intangible assets	2,539	2,376	-6.4%
Property, plant and equipment	6,218	6,250	0.5%
Non-current financial assets	1,312	1,305	-0.6%
Receivables	391	388	-0.8%
Lessee use rights to leased assets (IFRS 16)	0	520	-
Contract assets (IFRS 15)	58	59	0.3%
Contract costs (IFRS 15)	81	93	15.4%
Deferred tax asset	94	101	7.0%
Total non-current assets	10,694	11,092	3.7%
Inventories	136	146	7.9%
Receivables	1,549	1,557	0.5%
Current financial assets	112	1	-99.4%
Contract assets (IFRS 15)	146	206	40.9%
Contract costs (IFRS 15)	57	63	10.1%
Cash and cash equivalents	3,137	2,530	-19.3%
Prepayments and accrued income	201	150	-25.3%
Total current assets	5,337	4,653	-12.8%
TOTAL ASSETS	16,031	15,745	-1.8%
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	563	0.2%
Revaluation reserves	-14	-14	2.5%
Treasury shares	-71	-131	84.3%
Retained earnings	1,503	1,338	-11.0%
Net profit for the period	1,061	438	-58.7%
Non controlling interests	344	324	-5.8%
Total issued capital and reserves	13,208	12,763	-3.4%
Provisions	70	79	12.7%
Non-current liabilities	384	312	-18.9%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	47	-
Contract liabilities (IFRS 15)	0	1	-
Deferred tax liability	44	39	-10.4%
Total non-current liabilities	498	478	-3.9%
Current liabilities	2,223	2,042	-8.1%
Contract liabilities (IFRS 15)	52	64	24.4%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	374	-
Deferred income	39	23	-40.5%
Provisions for redundancy	13	0	-97.6%
Total current liabilities	2,326	2,503	7.6%
Total liabilities	2,823	2,982	5.6%
TOTAL EQUITY AND LIABILITIES	16,031	15,745	-1.8%



HT GROUP CONSOLIDATED CASH FLOW STATEMENT

in HRK million	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted
Profit before tax	538	521	538	3.3%
Depreciation and amortization	840	942	930	-1.2%
Increase / decrease of current liabilities	-282	-282	-107	62.2%
Increase / decrease of current receivables	142	142	-1	-100.7%
Increase / decrease of inventories	-3	-3	-17	-489.5%
Other cash flow increases / decreases	-226	-226	-271	-20.0%
Net cash inflow/outflow from operating activities	1,010	1,094	1,072	-2.0%
Proceeds from sale of non-current assets	23	23	81	246.6%
Proceeds from sale of non-current financial assets	1	1	13	1567.7%
Interest received	8	8	7	-10.1%
Other cash inflows from investing activities	199	199	113	-43.0%
Total increase of cash flow from investing activities	230	230	214	-7.2%
Purchase of non-current assets	-671	-671	-562	16.2%
Purchase of non-current financial assets	0	0	-113	-
Other cash outflows from investing activities	0	0	0	100.0%
Total decrease of cash flow from investing activities	-671	-671	-675	-0.6%
Net cash inflow/outflow from investing activities	-441	-441	-461	-4.6%
Total increase of cash flow from financing activities				
Repayment of loans and bonds	-43	-43	-34	21.6%
Dividends paid	-489	-489	-810	-65.5%
Repayment of finance lease	-1	-85	-166	-93.8%
Other cash outflows from financing activities	-221	-221	-207	6.4%
Total decrease in cash flow from financing activities	-755	-839	-1,217	-45.0%
Net cash inflow/outflow from financing activities	-755	-839	-1,217	-45.0%
Exchange gains/losses on cash and cash equivalents	-2	-2	-1	57.0%
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%
Net cash (outflow) / inflow	-188	-188	-606	-223.2%
Cash and cash equivalents at the end of period	2,964	2,964	2,530	-14.6%

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects



INVESTOR RELATIONS CONTACTS

■ 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

Reuters: HT.ZA

Bloomberg: HTRA CZ

