

# **BUSINESS AND FINANCIAL REVIEW**

## **JANUARY – MARCH 2016**

**ANALYST PRESENTATION**  
**28 APRIL 2016**



**LIFE IS FOR SHARING.**

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## HIGHLIGHTS

### Financial

- Revenue at HRK 1,673 million, up 3.4%: supported by Wholesale, Energy, Handset sales and above average completion of projects in System solutions
- EBITDA before exceptional items stable at HRK 627 million; margin of 37.5% (Q1 2015: 38.8%)
  - Margin impacted with additional revenue mainly from low profit areas and due to investment in market
- Outlook 2016 unchanged

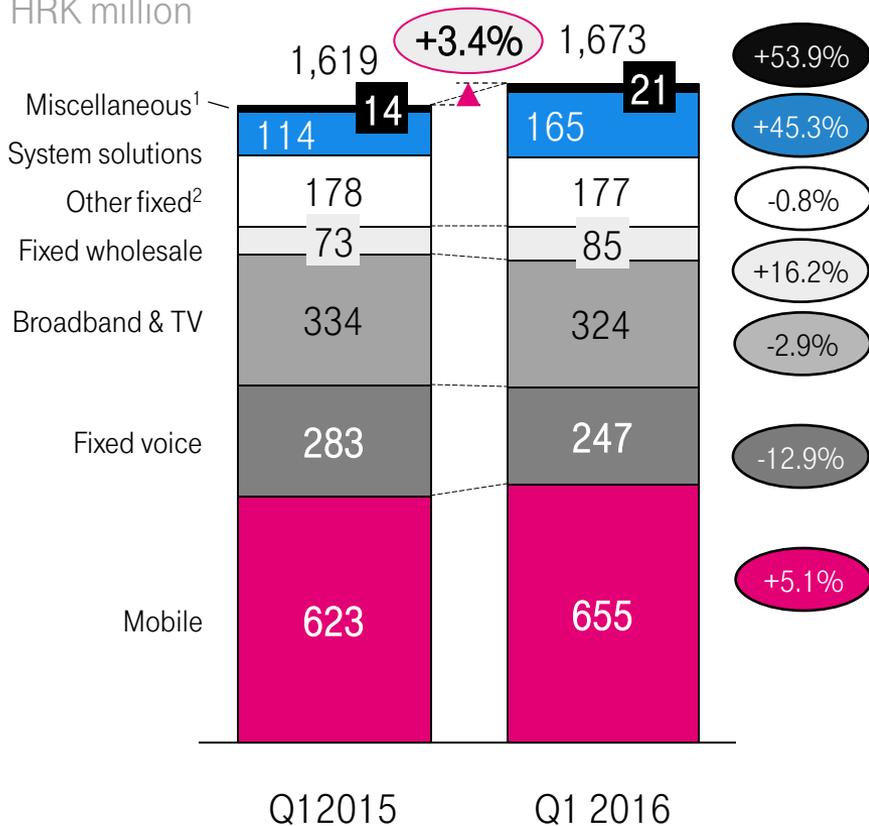
### Operational

- Leading market position across all areas of business maintained; transformation initiatives ongoing
  - Strong focus on customer experience continues
  - “Horizont 2016” initiatives cover broad area, from HR strategy to exploring specific growth opportunities
  - Magenta 1 launched; premium service and customer service for most loyal customers / households

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

### Revenue breakdown

HRK million

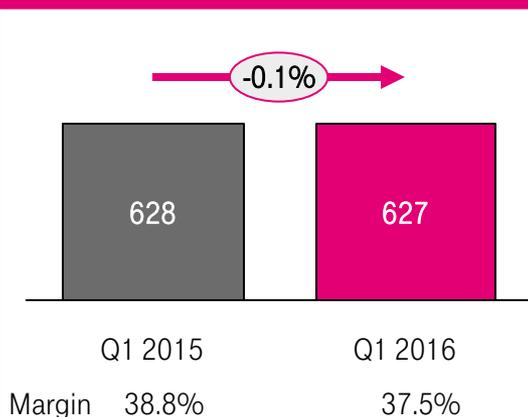


- **Mobile revenue** up mostly from handsets sales, higher data revenue and increased wholesale revenue following deregulation of certain non EU termination rates effective from 1 April 2015
- **Fixed voice** down due to fall in mainlines, traffic and ARPA
- **Broadband and TV revenue** down mainly following fall of broadband ARPA and customers; TV ARPU up
- **Fixed wholesale revenue** up mainly due to higher infrastructure revenue and above mentioned deregulation of certain non EU termination rates
- **Other fixed** roughly 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**: Q1 2016 at HRK 19 million vs Q1 2015 at HRK 11 million

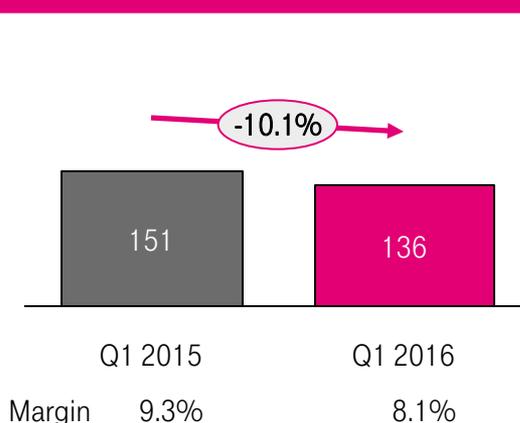
## EBITDA STABLE WITH OPERATING CASH FLOW UP; NET PROFIT IMPACTED BY EXCHANGE RATE MOVEMENTS

All in HRK million, except where stated differently

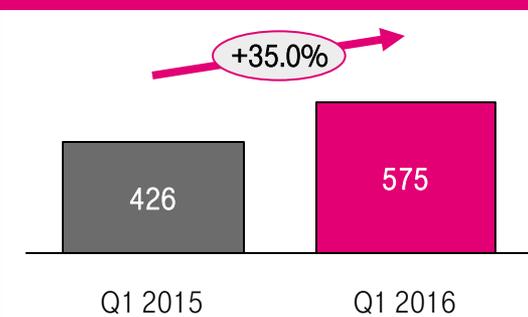
### EBITDA before except. items<sup>1</sup>



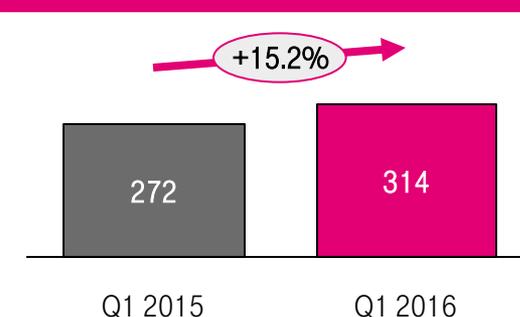
### Net profit



### Net cash flow from operations



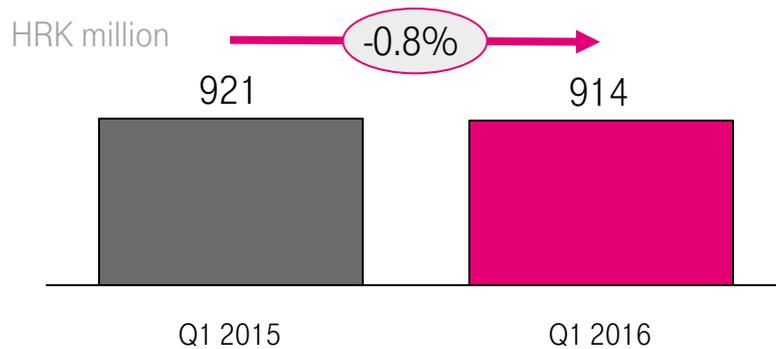
### CAPEX



- **EBITDA** stable at HRK 627 million
  - Margin impacted by large proportion of additional revenue from low profit areas and, investment in market, seen mainly in mobile merchandise costs, aimed at protecting customer base
- **Net profit** down mainly due to higher exchange rate losses partially offset by lower redundancy costs
- **Net cash flow from operations** up mainly due to positive working capital movements, lower tax paid and lower redundancy payments
- **CAPEX** up following significant investments in mobile and fixed broadband networks

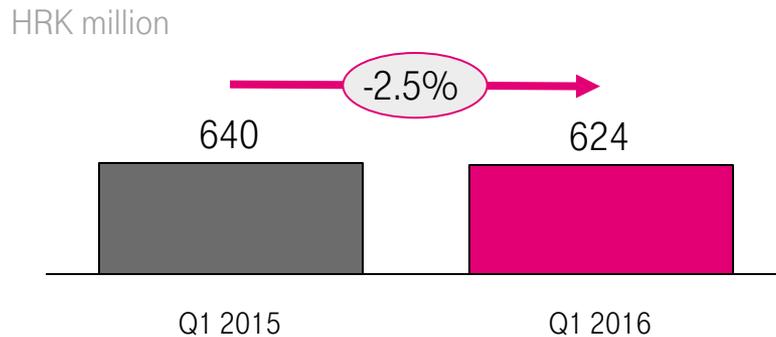
# RESIDENTIAL SEGMENT REVENUE STABLE; MAGENTA 1 LAUNCHED

## Revenue

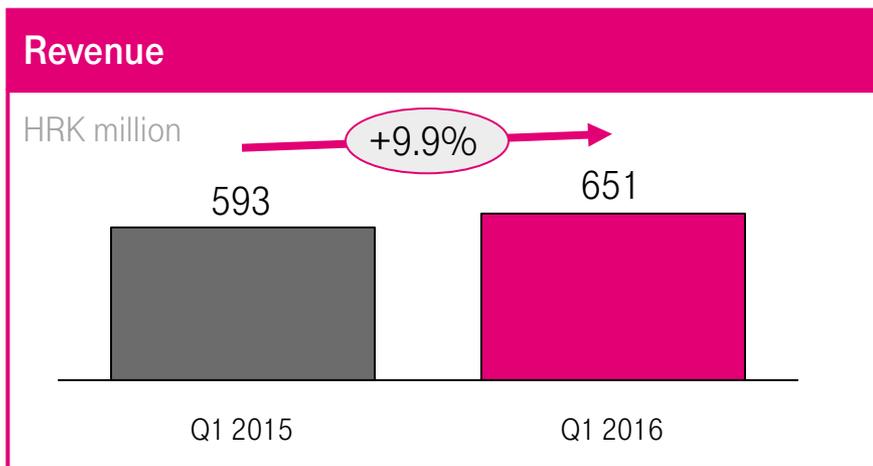


- Focus on **Magenta 1** launched in March; custom-made offers and numerous benefits for private customers / households
- Ongoing promotions of **MAX2/MAX3 packages** with exclusive TV content and premium TV packages

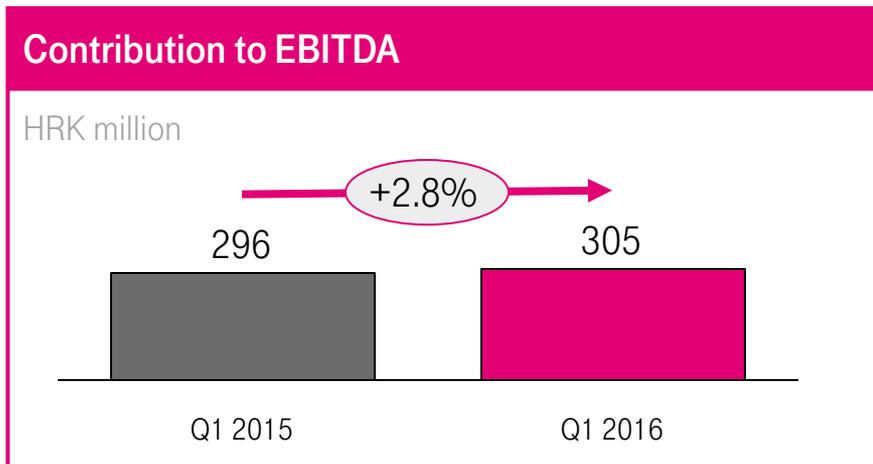
## Contribution to EBITDA



# REVENUE UP DUE TO SYSTEM SOLUTIONS, WHOLESALE AND ENERGY

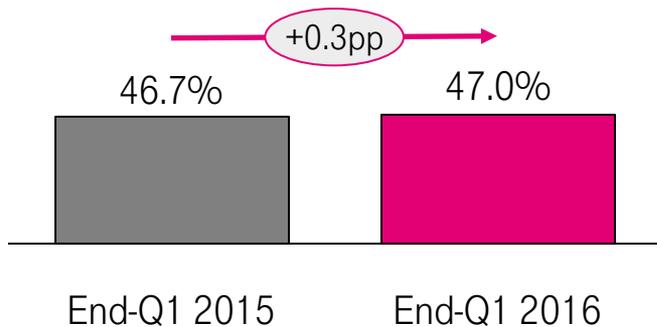


- Specific benefits for B2B through **Magenta 1**: highest available speeds, 4G backup, network security and Cloud storage
- Ongoing efforts on **value management, customer retention** and **system solutions growth**



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

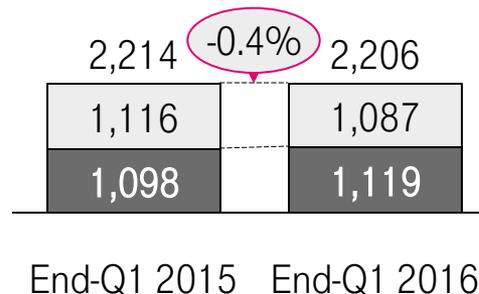
HT market share by subscribers<sup>1</sup>



Number of subscribers

Thousands

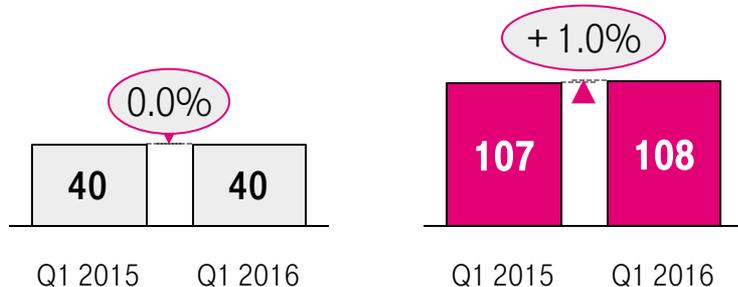
Prepaid Postpaid



ARPU

HRK/month

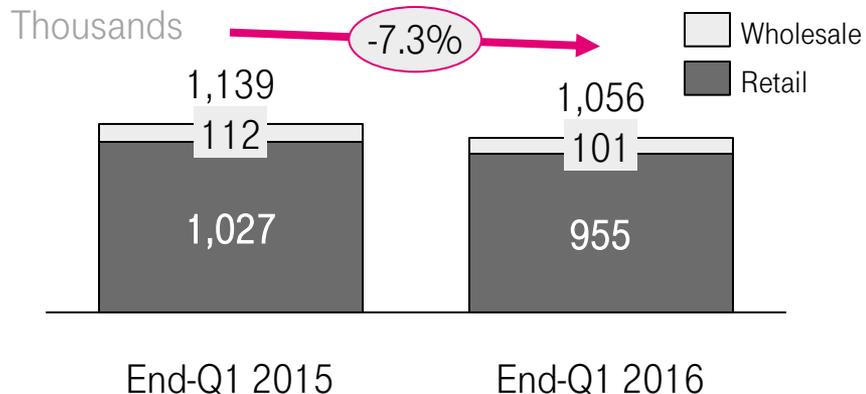
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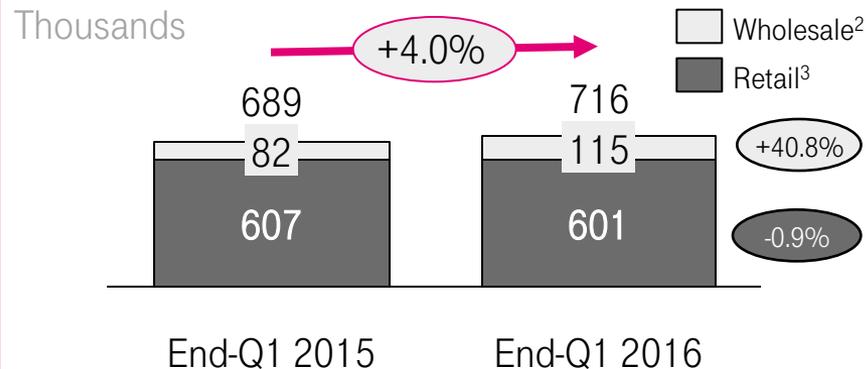
- **Average MOU** (minutes of use) up 4.9% to 196
- **Smartphone proportion** of total handset sales at 80% in postpaid segment (Q1 2015: 74%); **HT smartphone penetration** 55%
- **HT's 4G network** reached 66% population coverage indoors and 94% coverage outdoors

# BROADBAND LINES CONTINUE TO SHOW GROWTH; FIXED MAINLINES DOWN WHILE TV CUSTOMERS STABLE

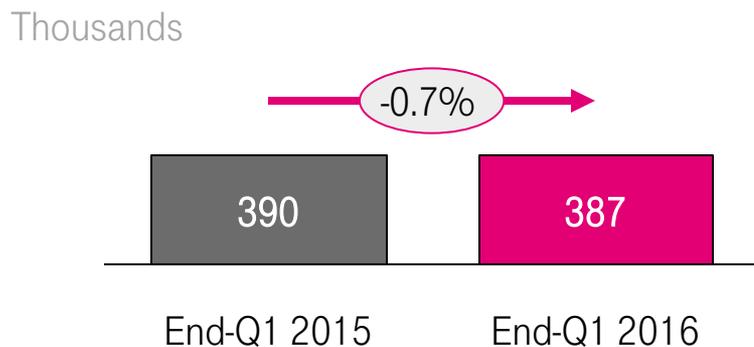
## Number of fixed mainlines<sup>1</sup>



## No. of broadband access lines



## Number of TV customers



- **Fixed line ARPU** down 6.1% to HRK 86
- **Broadband retail ARPA** at HRK 121, down 2.6%
- **TV ARPU** up 1.3% to HRK 81

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 UNCHANGED

	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	Moderately lower but above HT's long term average of approximately HRK 1.1 billion
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	Q1 2015	Q1 2016	% of change A16/A15
Mobile revenue	623	655	5.1%
Fixed revenue	868	832	-4.2%
System solutions	114	165	45.3%
Miscellaneous	14	21	53.9%
<b>Revenue</b>	<b>1,619</b>	<b>1,673</b>	<b>3.4%</b>
Other operating income	22	42	89.0%
<b>Total operating revenue</b>	<b>1,641</b>	<b>1,715</b>	<b>4.5%</b>
<b>Operating expenses</b>	<b>1,086</b>	<b>1,147</b>	<b>5.6%</b>
Material expenses	436	509	16.6%
Employee benefits expenses	304	289	-5.0%
Other expenses <sup>1)</sup>	337	347	3.1%
Work performed by the Group and capitalised	-13	-13	-2.2%
Write down of assets	21	14	-31.3%
<b>EBITDA</b>	<b>555</b>	<b>568</b>	<b>2.4%</b>
Depreciation and amortization <sup>1)</sup>	362	349	-3.7%
<b>EBIT</b>	<b>193</b>	<b>219</b>	<b>13.8%</b>
Financial income	18	19	3.1%
Income/loss from investment in joint ventures	-2	-3	-10.9%
Financial expenses <sup>1)</sup>	28	69	145.0%
<b>Profit before taxes</b>	<b>180</b>	<b>166</b>	<b>-7.8%</b>
Taxation	38	34	-10.7%
<b>Net profit</b>	<b>142</b>	<b>132</b>	<b>-7.0%</b>
Non controlling interests	-9	-3	60.7%
<b>Net profit after non controlling interests</b>	<b>151</b>	<b>136</b>	<b>-10.1%</b>
Exceptional items	73	59	-18.8%
<b>EBITDA before exceptional items</b>	<b>628</b>	<b>627</b>	<b>-0.1%</b>



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<sup>1)</sup> Other expenses, Depreciation and amortization, as well as Financial expenses are restated for Q1 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs <sup>2)</sup> Related to redundancy restructuring costs.

# CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2015	At 31 Mar 2016	% of change A16/A15
Intangible assets	1,651	1,638	-0.8%
Property, plant and equipment	5,616	5,576	-0.7%
Non-current financial assets	1,033	1,008	-2.4%
Receivables	98	99	1.4%
Deferred tax asset	46	44	-4.5%
<b>Total non-current assets</b>	<b>8,444</b>	<b>8,366</b>	<b>-0.9%</b>
Inventories	104	123	18.2%
Receivables	1,215	1,225	0.8%
Current financial assets	869	541	-37.8%
Cash and cash equivalents	3,175	3,654	15.1%
Prepayments and accrued income	272	227	-16.4%
<b>Total current assets</b>	<b>5,636</b>	<b>5,770</b>	<b>2.4%</b>
<b>TOTAL ASSETS</b>	<b>14,079</b>	<b>14,136</b>	<b>0.4%</b>
Subscribed share capital	9,823	9,823	0.0%
Reserves	445	445	0.0%
Revaluation reserves	4	27	
Retained earnings	268	1,193	
Net profit for the period	925	136	-85.3%
Non controlling interests	177	165	-6.5%
<b>Total issued capital and reserves</b>	<b>11,641</b>	<b>11,788</b>	<b>1.3%</b>
Provisions	68	60	-11.2%
Non-current liabilities	443	473	6.7%
Deferred tax liability	45	43	-3.0%
<b>Total non-current liabilities</b>	<b>556</b>	<b>576</b>	<b>3.7%</b>
Current liabilities	1,775	1,623	-8.6%
Deferred income	103	88	-14.5%
Provisions for redundancy	4	60	
<b>Total current liabilities</b>	<b>1,882</b>	<b>1,771</b>	<b>-5.9%</b>
<b>Total liabilities</b>	<b>2,438</b>	<b>2,347</b>	<b>-3.7%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,079</b>	<b>14,136</b>	<b>0.4%</b>

# CONSOLIDATED CASH FLOW STATEMENT

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Profit before tax	180	166	-7.8%
Depreciation and amortization	362	349	-3.7%
Increase / decrease of current liabilities	-191	11	105.8%
Increase / decrease of current receivables	124	63	-49.6%
Increase / decrease of inventories	-12	-19	-54.6%
Other cash flow increases / decreases	-38	5	114.4%
<b>Net cash inflow/outflow from operating activities</b>	<b>426</b>	<b>575</b>	<b>35.0%</b>
Proceeds from sale of non-current assets	3	33	
Proceeds from sale of non-current financial assets	0	0	-0.5%
Interest received	6	5	-4.2%
Other cash inflows from investing activities	1,001	596	-40.4%
<b>Total increase of cash flow from investing activities</b>	<b>1,011</b>	<b>635</b>	<b>-37.2%</b>
Purchase of non-current assets	-232	-400	-72.1%
Purchase of non-current financial assets	0	0	.
Other cash outflows from investing activities	-225	-233	-3.7%
<b>Total decrease of cash flow from investing activities</b>	<b>-457</b>	<b>-633</b>	<b>-38.5%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>553</b>	<b>1</b>	<b>-99.7%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	.
Repayment of loans and bonds	0	0	
Dividends paid	0	0	100.0%
Repayment of finance lease	-2	-2	17.7%
Other cash outflows from financing activities	-66	-67	-1.8%
<b>Total decrease in cash flow from financing activities</b>	<b>-68</b>	<b>-69</b>	<b>-1.2%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-68</b>	<b>-69</b>	<b>-1.2%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>7</b>	<b>-29</b>	
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	919	479	-47.9%
<b>Cash and cash equivalents at the end of period</b>	<b>3,111</b>	<b>3,654</b>	<b>17.4%</b>

Note: Q1 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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