

BUSINESS AND FINANCIAL REVIEW

JANUARY – SEPTEMBER 2016

ANALYST PRESENTATION
27 OCTOBER 2016



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HIGHLIGHTS

Financial

- Revenue stable at HRK 5,184 million (-0.1%)
- EBITDA before exceptional items up 0.6% to HRK 2,112 million; margin at 40.7% (Jan-Sep 2015: 40.5%)
- Outlook 2016
 - Revenue slightly improved from “within range 0% - (-2%) vs 2015” to „around 2015 level”
 - EBITDA margin unchanged
 - Capex adjusted from „slightly lower than in 2015” to „around 2015 level”, following increase in broadband related regulatory expenses

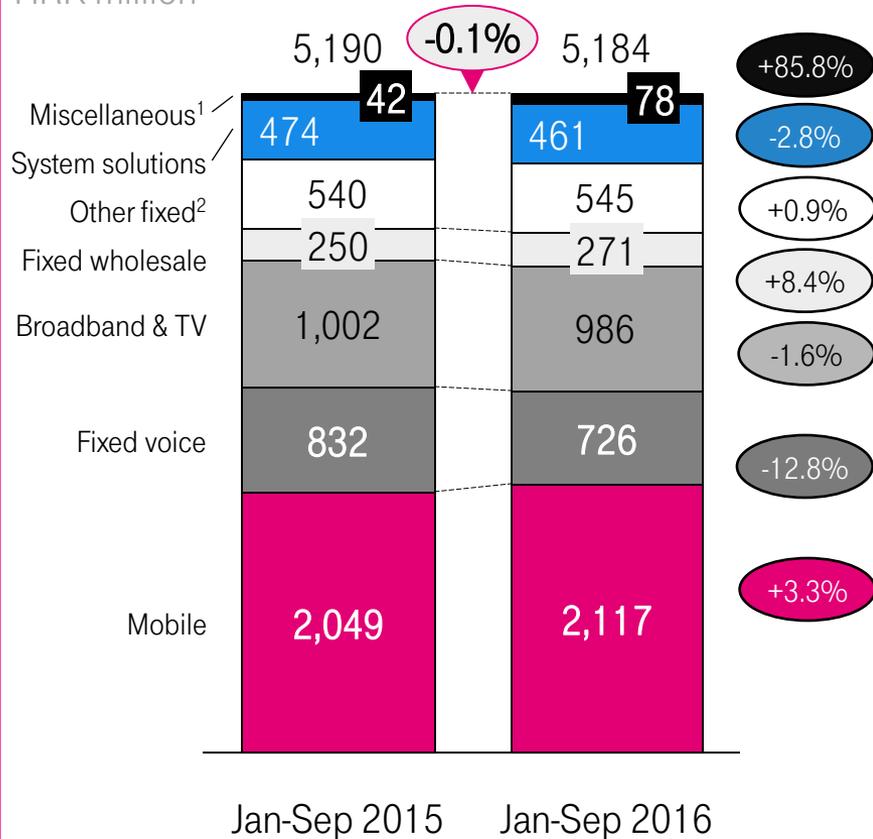
Operational

- 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

REVENUE STABLE; POSITIVE DEVELOPMENT IN MOBILE AND ENERGY OFFSET BY FIXED VOICE AND SYSTEM SOLUTIONS

Revenue breakdown

HRK million

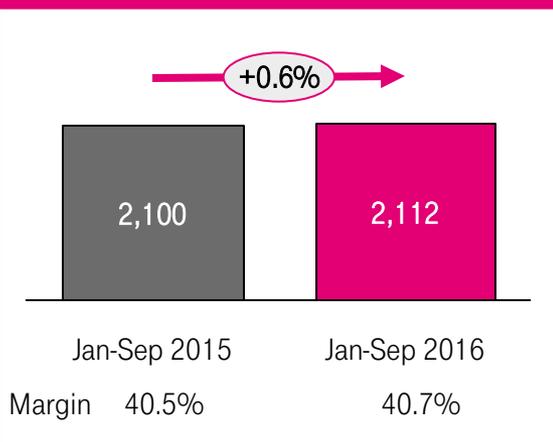


- **Mobile revenue** up largely from higher data revenue, increased wholesale revenue following deregulation of certain non EU termination rates effective from 1 April 2015 and low margin handsets sales (although the performance of the latter in Q3 2016 was lower vs Q3 2015)
- **Fixed voice** down due to fall in mainlines, traffic and ARPA
- **Broadband and TV revenue** down: broadband revenue lower mainly due to fall in ARPU, offset by slight growth in TV revenue following rise in customer base and ARPU
- **Fixed wholesale revenue** up mainly due to higher infrastructure revenue
- **Other fixed revenue** broadly stable
- **System solutions** slightly down, as expected, on unfavourable project dynamics and deferral of Government/public sector projects in Q3
- **Miscellaneous revenue** boosted by development in **Energy revenue**: Jan-Sep 2016 at HRK 71 million vs Jan-Sep 2015 at HRK 34 million

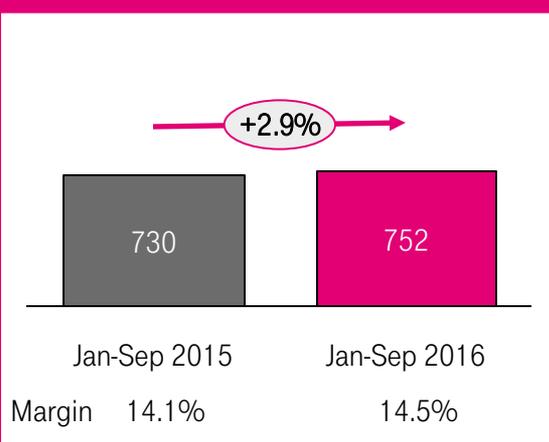
EBITDA AND NET PROFIT UP; STRONG INVESTMENT IN NETWORK CONTINUES

All in HRK million, except where stated differently

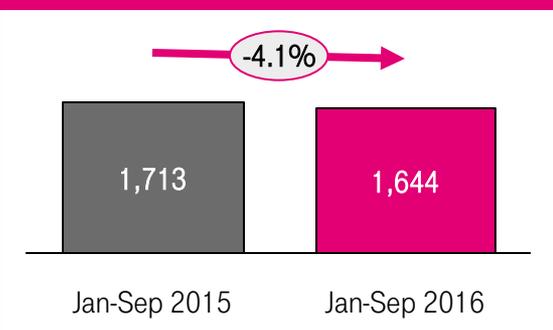
EBITDA before except. items¹



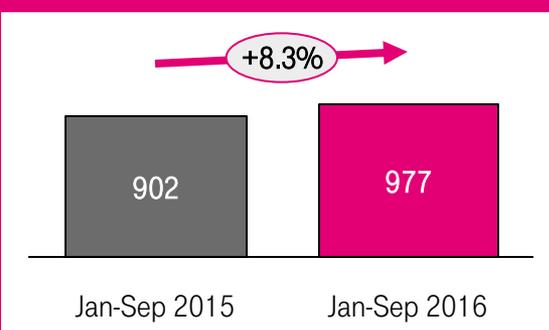
Net profit



Net cash flow from operations



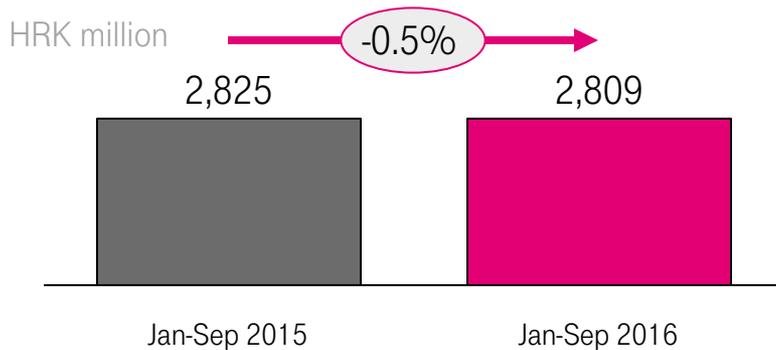
CAPEX



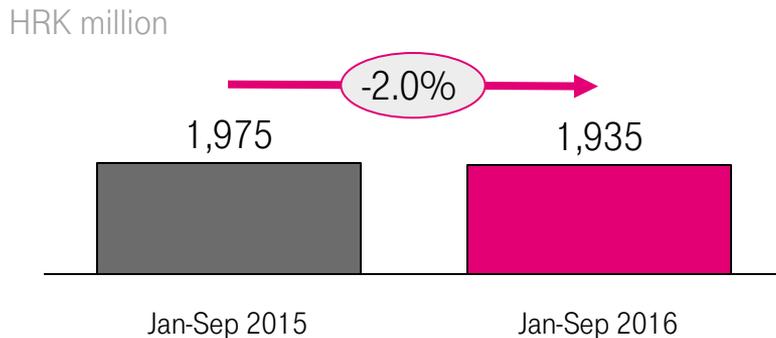
- **EBITDA** slightly up as a result of stable revenue, positive contribution of restructuring measures and sales of certain assets, offset by increasing costs in energy business
- **Net profit up** mainly due to EBITDA development, lower depreciation and redundancy costs, offset by exchange rate losses, largely incurred in Q1 2016
- **Net cash flow from operations** down mainly due to negative working capital movements
- **CAPEX** up mainly following significant investments in mobile and fixed broadband networks and related expenses

RESIDENTIAL SEGMENT REVENUE SLIGHTLY DOWN

Revenue

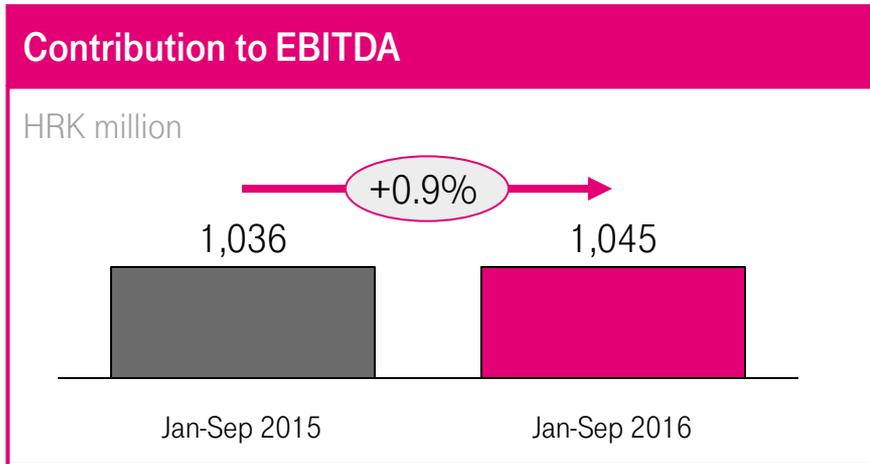
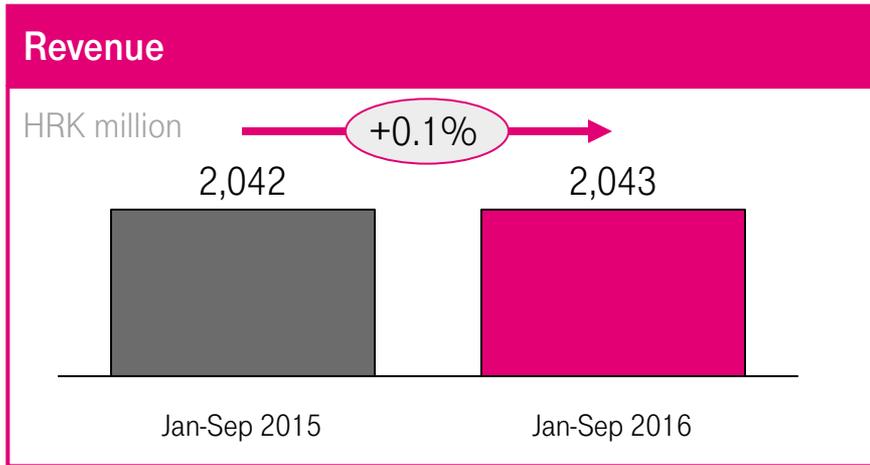


Contribution to EBITDA



- **Magenta 1**, customised offers and numerous benefits for private customers / households, yielded very good results
 - Attracted 32,000 households
- Ongoing promotions of **MAX2/MAX3 packages** with exclusive TV content and premium TV packages

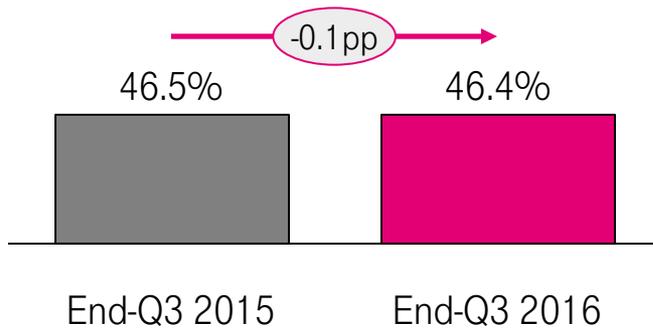
REVENUE AND CONTRIBUTION TO EBITDA SLIGHTLY UP



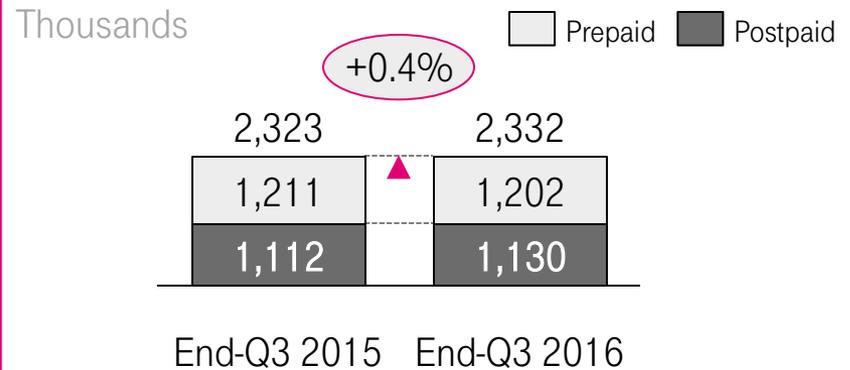
- Ongoing efforts in **value management and customer retention**:
 - Specific benefits for B2B through **Magenta 1**: highest available speeds, 4G backup, network security and Cloud storage
 - **Energy bundles** with attractive pricing

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

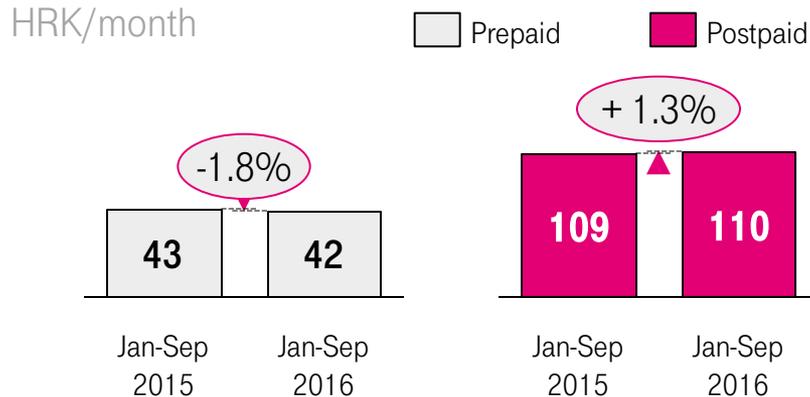
HT market share by subscribers¹



Number of subscribers



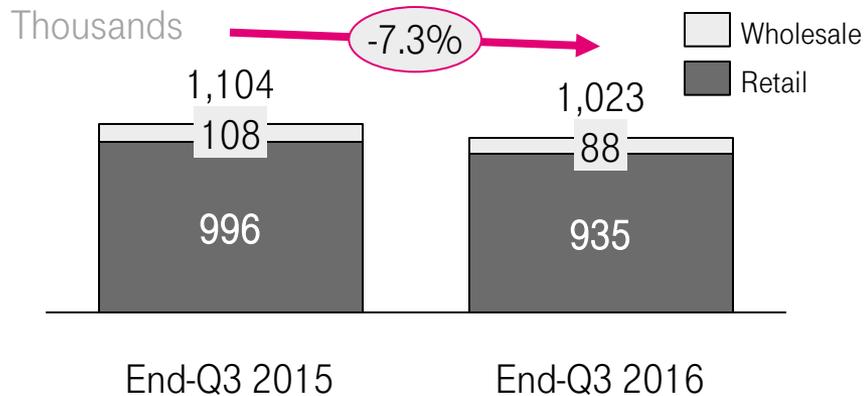
ARPU



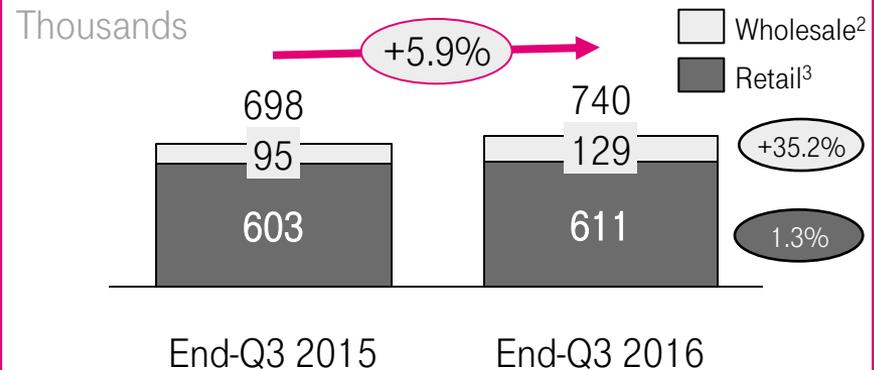
- **Average MOU** (minutes of use) up 2.4% to 200
- **Smartphone proportion** of total handset sales at 80% in postpaid segment (Jan-Sep 2015: 76%); **HT smartphone penetration** 58%
- **HT's 4G network** reached 68% population coverage indoors and 96% coverage outdoors
 - 4G population coverage with download speed of 225 Mbps at 51%

BROADBAND LINES AND TV CUSTOMERS UP; FIXED MAINLINES DOWN

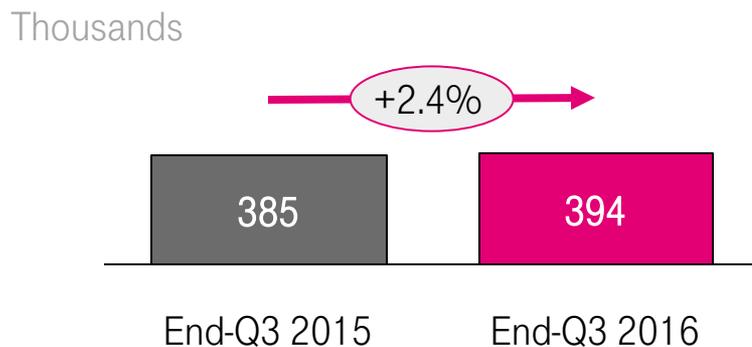
Number of fixed mainlines¹



No. of broadband access lines



Number of TV customers



- **Fixed line ARPU** down 6.4% to HRK 85
- **Broadband retail ARPU** at HRK 122, down 2.3%
- **TV ARPU** up 1.3% to HRK 82
- **Household coverage in Next Generation Access** (fixed Broadband >30Mbps) at 52%

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	Around 2015 level
EBITDA before exceptional items	Margin of 40.2%	Margin of around 40%
CAPEX	HRK 1,473 million	Around 2015 level
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	Jan-Sep 2015	Jan-Sep 2016	% of change 16/15
Mobile revenue	2,049	2,117	3.3%
Fixed revenue	2,624	2,527	-3.7%
System solutions	474	461	-2.8%
Miscellaneous	42	78	85.8%
Revenue	5,190	5,184	-0.1%
Other operating income	63	93	48.0%
Total operating revenue	5,252	5,277	0.5%
Operating expenses	3,240	3,227	-0.4%
Material expenses	1,462	1,508	3.1%
Employee benefits expenses	774	725	-6.3%
Other expenses ¹⁾	1,001	1,028	2.7%
Work performed by the Group and capitalised	-54	-64	-18.3%
Write down of assets	57	29	-49.1%
EBITDA	2,012	2,050	1.9%
Depreciation and amortization ¹⁾	1,089	1,038	-4.7%
EBIT	923	1,012	9.6%
Financial income	41	35	-15.0%
Income/loss from investment in joint ventures	11	4	-65.6%
Financial expenses ¹⁾	81	123	50.9%
Profit before taxes	894	928	3.8%
Taxation	177	184	4.0%
Net profit	717	744	3.7%
Non controlling interests	-13	-8	40.7%
Net profit after non controlling interests	730	752	2.9%
Exceptional items ²⁾	87	62	-28.9%
EBITDA before exceptional items	2,100	2,112	0.6%

1) Other expenses, Depreciation and amortization, as well as Financial expenses are restated for 3Q 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 HRK million	At 31 Dec 2015	At 30 Sept 2016	% of change 16/15
Intangible assets	1,651	1,614	-2.2%
Property, plant and equipment	5,616	5,573	-0.8%
Non-current financial assets	1,033	1,090	5.5%
Receivables	98	105	7.5%
Deferred tax asset	46	54	16.8%
Total non-current assets	8,444	8,436	-0.1%
Inventories	104	120	15.1%
Receivables	1,215	1,272	4.7%
Current financial assets	869	949	9.1%
Cash and cash equivalents	3,175	3,072	-3.2%
Prepayments and accrued income	272	162	-40.4%
Total current assets	5,636	5,575	-1.1%
TOTAL ASSETS	14,079	14,011	-0.5%
Subscribed share capital	9,823	9,823	0.0%
Reserves	445	492	10.6%
Revaluation reserves	4	41	
Retained earnings	268	655	143.9%
Net profit for the period	925	752	-18.7%
Non controlling interests	177	161	-9.1%
Total issued capital and reserves	11,641	11,923	2.4%
Provisions	68	60	-12.1%
Non-current liabilities	443	477	7.6%
Deferred tax liability	45	41	-9.1%
Total non-current liabilities	556	577	3.8%
Current liabilities	1,775	1,417	-20.2%
Deferred income	103	92	-10.2%
Provisions for redundancy	4	1	-86.2%
Total current liabilities	1,882	1,510	-19.8%
Total liabilities	2,438	2,087	-14.4%
TOTAL EQUITY AND LIABILITIES	14,079	14,011	-0.5%



CONSOLIDATED CASH FLOW STATEMENT

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change 16/15
Profit before tax	894	928	3.8%
Depreciation and amortization	1,089	1,038	-4.7%
Increase / decrease of current liabilities	-99	-141	-43.1%
Increase / decrease of current receivables	71	52	-27.0%
Increase / decrease of inventories	-8	-16	-87.9%
Other cash flow increases / decreases	-234	-217	7.1%
Net cash inflow/outflow from operating activities	1,713	1,644	-4.1%
Proceeds from sale of non-current assets	9	46	
Proceeds from sale of non-current financial assets	1	1	-5.1%
Interest received	15	13	-17.5%
Dividend received	0	3	-
Other cash inflows from investing activities	1,872	1,121	-40.1%
Total increase of cash flow from investing activities	1,898	1,185	-37.6%
Purchase of non-current assets	-833	-957	-14.9%
Purchase of non-current financial assets	-305	-75	75.6%
Other cash outflows from investing activities	-1,193	-1,156	3.2%
Total decrease of cash flow from investing activities	-2,331	-2,187	6.2%
Net cash inflow/outflow from investing activities	-433	-1,003	-131.4%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-15	-14	3.7%
Dividends paid	-573	-491	14.3%
Repayment of finance lease	-3	-7	-104.6%
Other cash outflows from financing activities	-174	-219	-25.9%
Total decrease in cash flow from financing activities	-765	-731	4.4%
Net cash inflow/outflow from financing activities	-765	-731	4.4%
Exchange gains/losses on cash and cash equivalents	8	-13	
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	523	-103	-119.6%
Cash and cash equivalents at the end of period	2,715	3,072	13.2%

Note: 3Q 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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