

HRVATSKI TELEKOM CAPITAL MARKETS DAY

10 November 2017



LIFE IS FOR SHARING.

CMD 2017 AGENDA

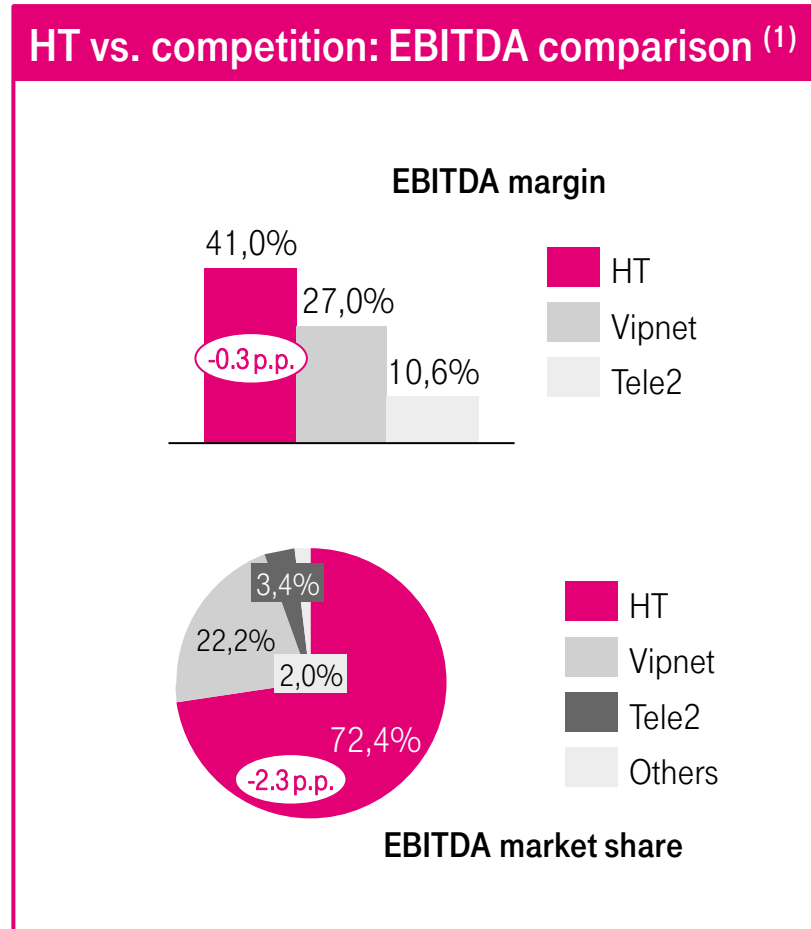
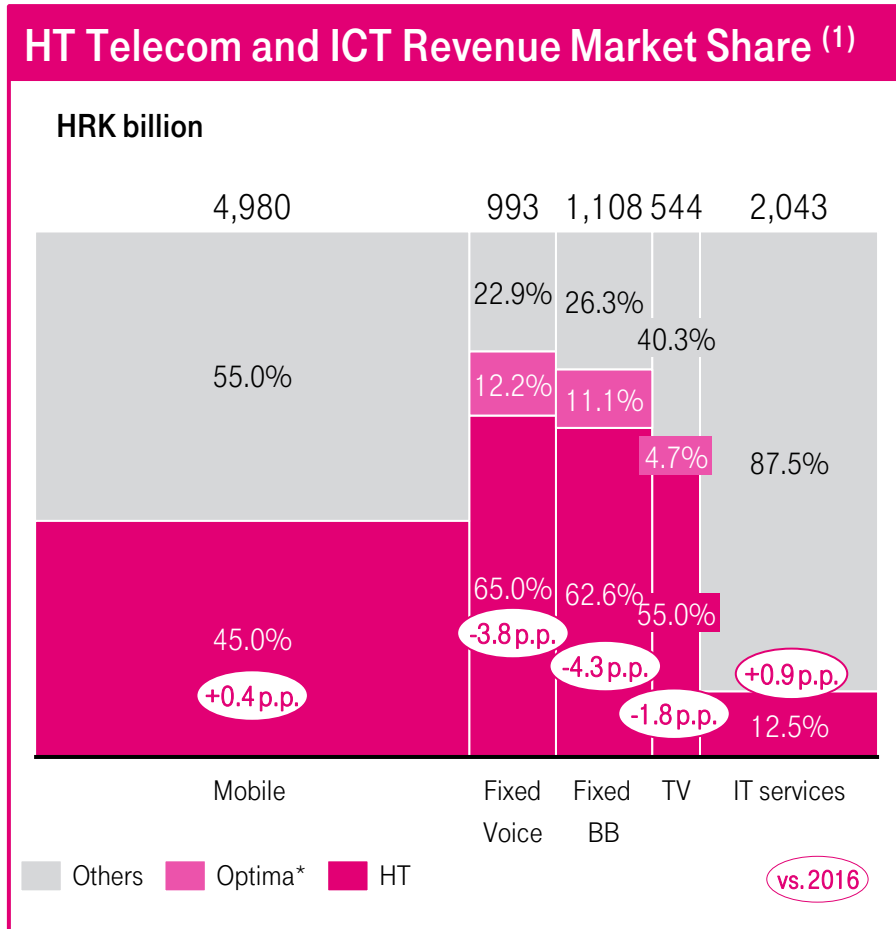
CORE STRATEGIC INITIATIVES AND TECHNOLOGY LEADERSHIP

11.00 – 11.40	Davor Tomašković, CEO Core strategic initiatives
11.40 – 12.00	Daniel Daub, CFO Financials and historical performance of Crnogorski Telekom
12.00 – 12.30	Boris Drilo, CTIO Technology leadership
12.30 – 13.00	Davor Tomašković, CEO Wrap up & Q&A session
13.00 – 14.00	Informal lunch



CORE STRATEGIC INITIATIVES

HT IS UNDISPUTED NUMBER 1 IN CROATIAN MARKET ACROSS ALL SEGMENTS



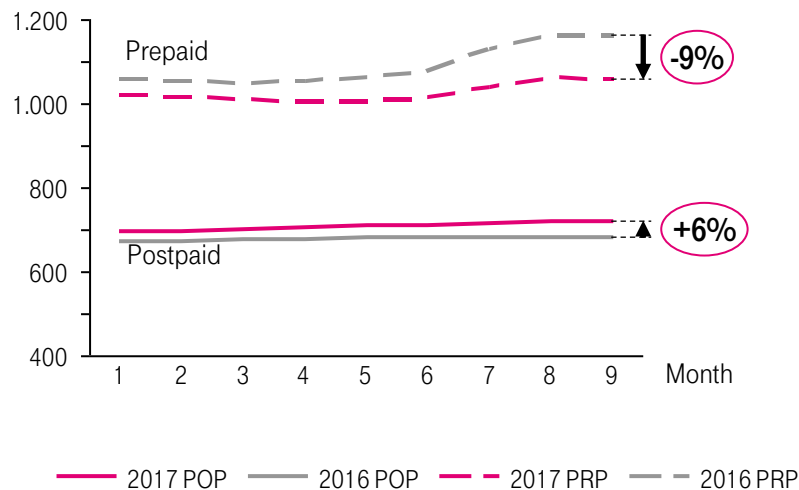
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* H1 telekom revenues included in Optima's revenues (from Q3 2017)

(1) Sources: Official competitors reports, HAKOM, IDC Adriatic and HT Group estimations for Jan-Sep 2017.

LESS MOBILE CUSTOMERS DUE TO DECLINE OF PREPAID MARKET

HT GROUP RES MOBILE CUSTOMERS (in 000)



MARKET TRENDS

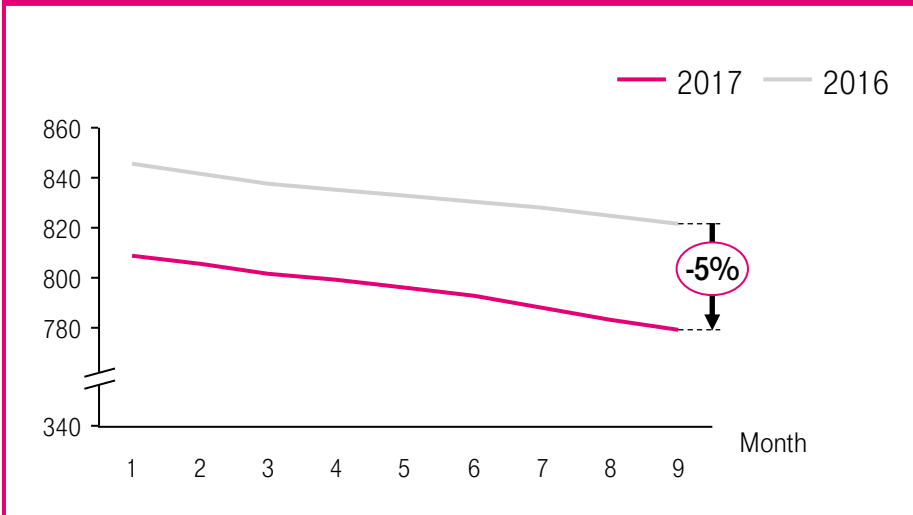
- **Prepaid market in decline (-10% yoy)** while HT showing better performance (-9% yoy)
 - less visitors due to regulatory changes and 2nd SIM cancellation
 - overall bigger focus of all operators on migrating prepaid customers to postpaid leading to increase of overall value
- **Postpaid market growing (+11% yoy)** while HT growth is slower than market due to FMS (Homebox and Pokućni) effects (6% yoy)

HT

- **Launch of new mobile postpaid tariffs** → focus on content and data to fully utilize network technology leadership
- **4G speed** with the highest speed **up to 350 mbps** in all new postpaid tariffs
- Best offer for **Young** on the market and special offers for **kids & elderly**
- Introducing **Hybrid Postpaid** in Simpa
- Launch of Hybrid access to tackle FMS

HT RESULTS SHOWING DECLINE IN FIXED VOICE LINES DUE TO OVERALL TRENDS ON THE MARKET

HT GROUP RES VOICE CUSTOMERS (in 000)



MARKET TRENDS

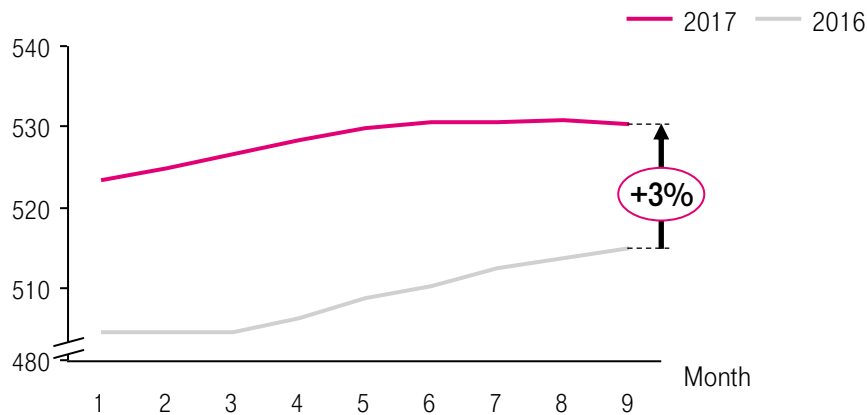
- **Continuation of declining market trend;** HT shows -5% decrease vs last year
- **Customers' and ARPU decline** is driven by the market trend of fixed to mobile and IP substitution and lower fixed voice usage
- Attractive offers of competitors on FMS solution **driving ARPU down** even further

HT

- Fixed voice packages incl. **more minutes** towards mobile and fixed
- **Digitalization** of Fixed voice only customers (all Halo Zovem Sve customers get fixed broadband access)
- Continuation of push of elderly offers in order to **faster upgrade voice line** with more relevant service - BB

HT CONTINUES WITH GROWTH IN FIXED BROADBAND BUT LESS THAN THE OVERALL MARKET DUE TO FMS TECHNOLOGY

HT GROUP RES FIXED BB CUSTOMERS (in 000)



MARKET TRENDS

- FMS changing the traditional view of fixed BB market
- HT shows **3% growth** vs last year outperforming competition in **fixed line broadband**
- HT lower growth than market if FMS included in overall BB market*

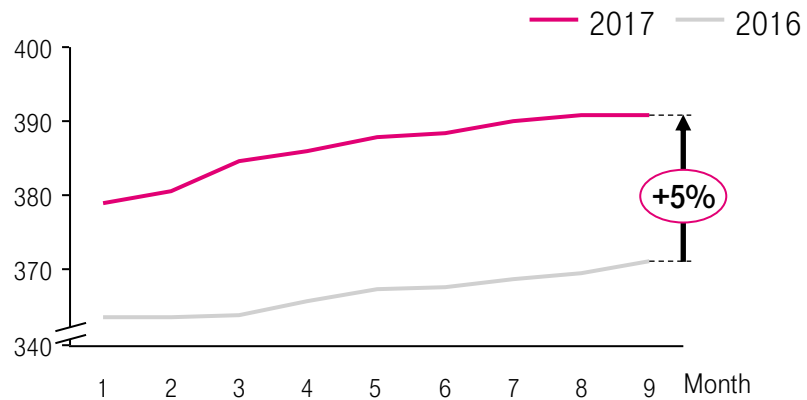
HT

- **New simplified Fixed BB portfolio** with key new features:
 - Pick and choose content option – **BIRAM**
 - New BB+TV package without Fixed Voice
- **Magenta1**- unique FMC concept of premium customer experience
- **Hybrid access** offer → ensure higher speed coverage to all low speed BB customers
- Additional **increase of speed** through FTTH & FTTC
- Bucket of attractive FMC and mobile offers for **elderly segment**



HT TV GROWS MORE THAN THE MARKET DUE TO PREMIUM CONTENT AND NEW TV PLATFORM

HT GROUP RES TV CUSTOMERS (in 000)



MARKET TRENDS

- HT shows **5% growth** vs last year outperforming competition on TV market
- Tele 2 **partnering** with evotv – low end TV provider
- Rest of the TV market showing stagnation* on all platforms based on internal indicators

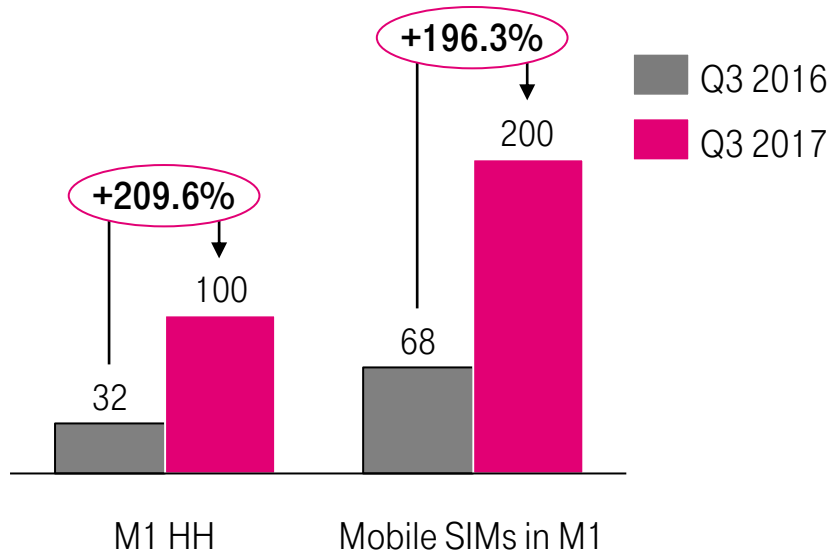
HT

- New advanced TV platform** - improved picture quality, multiscreen and interoperability functionalities, new STB)
 - 90% of CB migrated to new platform until EOY
- Exclusive and premium content** (sport, movies, series)
- Innovative formats** for consuming content on all screens: new MAXtv To Go application, Stream on

MAGENTA 1 EXCEEDS ALL EXPECTATIONS, WHICH CONFIRMS FMC AS ONE OF THE MAIN MARKET DRIVERS



MAGENTA 1 HH and SIMs (in 000)



HT MAGENTA1 SUCCESS RESULTS - best offer for entire household on the market

Main goals achieved:

- Provided **additional value to all HH members** (double mobile data, higher fixed Internet speed, free EU minutes and additional TV content packages)
- Significantly **increased customer experience**
- **Increased household ARPU** for 15 EUR total

Way forward:

- **Increasing M1 eligibility** further more to Prepaid mobile customers with goal to enter into more than **50% of BB households**

1ST IN CROATIA IMPLEMENTING COMBINED FIXED AND MOBILE TECHNOLOGY IN ONE PRODUCT AND ONE DEVICE – HYBRID ACCESS

WHO CAN USE IT?

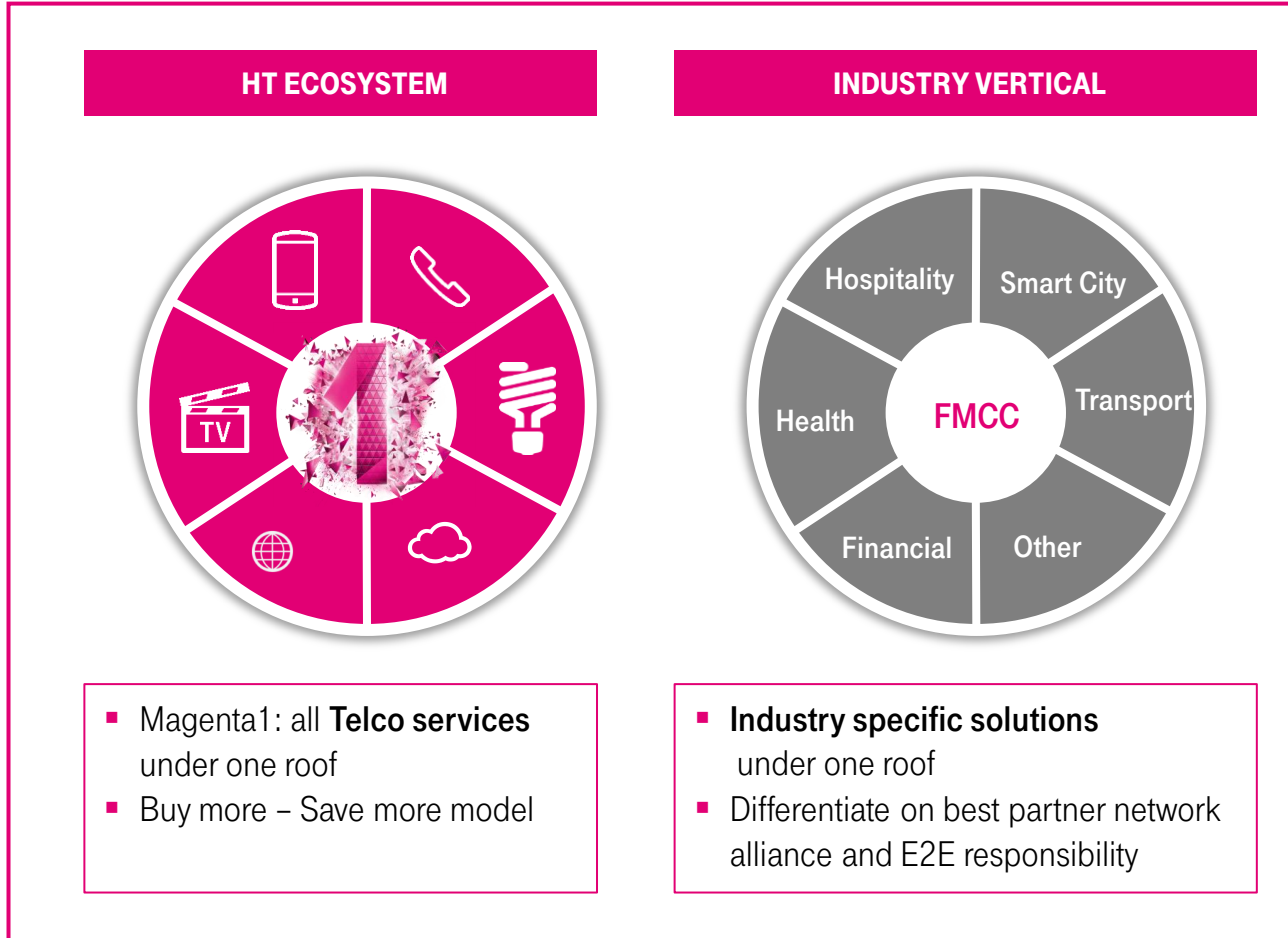
- **Customers with low ADSL speed** (4 mbps) without technical capabilities for higher speeds

HOW DOES IT WORK?

- **Ensures higher speed coverage to all low speed BB customers**
- Option for HRK 10 **increases speed of Internet services up to 35 mbps** using combination of mobile and fixed network



DEVELOPING OUR OWN ECOSYSTEMS WILL ENABLE US TO BE ONE STOP SHOP FOR BUSINESS CUSTOMERS



Customers benefit from:

- Simplicity
- Customization
- Security
- Savings

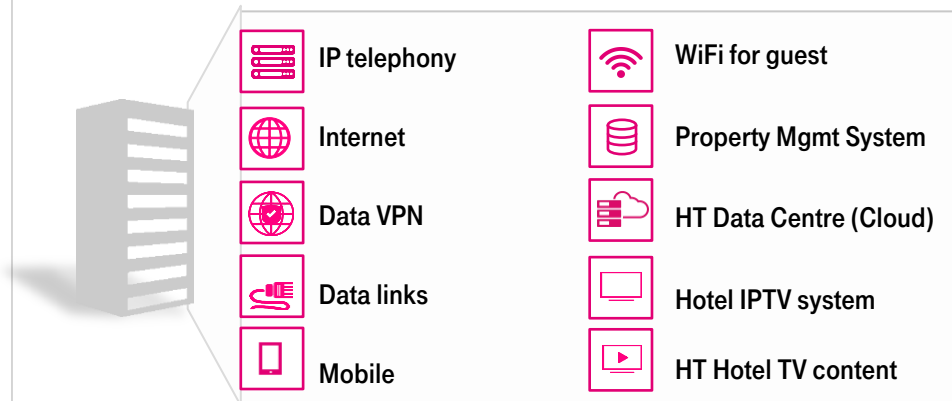
HT HAS DEVELOPED SIX KEY INDUSTRY VERTICAL ECOSYSTEMS WITH HOSPITALITY BEING THE MOST ADVANCED

		BETTING	RETAIL	HOSPITALITY	TRANSPORT	INSURANCE	HORECA	
ICT	INDUSTRY SPECIFIC	Display Management	📍	📍	📍		📍	
		Wi-Fi Solutions	📍		📍	📍	📍	
		HotelTV			📍			
		Hotel PMS			📍			
		Industry specific Applications		📍	📍	📍	📍	📍
		e-Charging stations		📍	📍			
CORE ICT		POS (Fiscal register)	📍	📍	📍		📍	
		Software	📍	📍	📍	📍	📍	
		Hardware	📍	📍	📍	📍	📍	
TELCO	VOICE	M1		📍			📍	
		Mobile	📍	📍	📍	📍	📍	
		Fixed	📍	📍	📍	📍	📍	
	CONNECTIVITY	Broadband Internet Access (M/F)	📍	📍		📍		📍
Professional Internet Access		📍	📍	📍		📍		
Private Networks		📍	📍			📍		
E2E responsibility		📍	📍	📍	📍	📍		



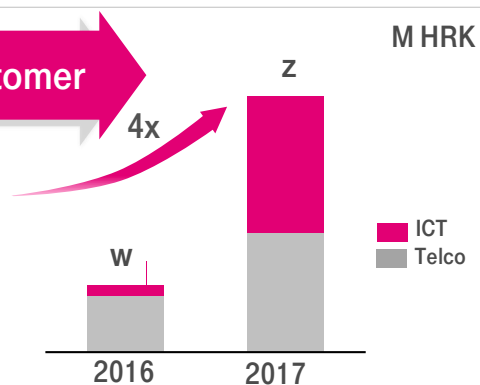
RECENT DEAL WITH LEADING HOTEL CHAIN AND INDUSTRY'S FEATURES SUGGEST STRONG GROWTH POTENTIAL

HT SERVICES WITHIN CUSTOMER'S ECOSYSTEM



4x increase in sales to the customer

+ Potential upsell for other technologies (Security, Big Data, IOT, etc.)



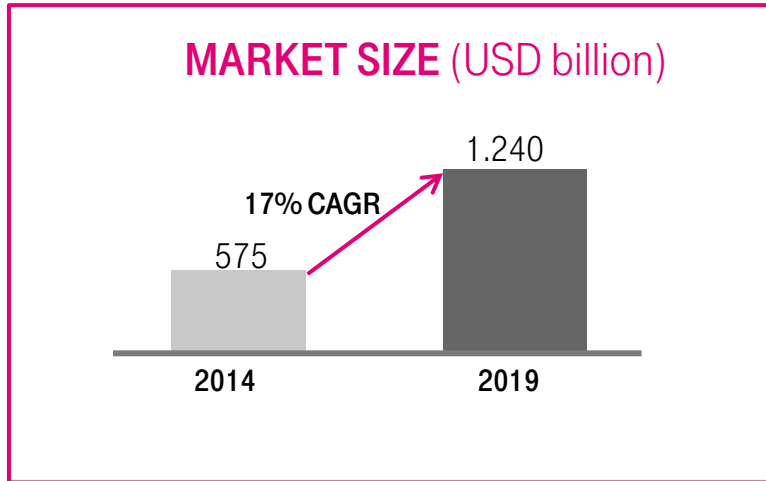
HT'S POSITIONING IN HOSPITALITY VERTICAL

- More than 150 projects in Hospitality industry
- Fixed, mobile and ICT solutions from one provider
- Turn key solutions – from analysis, to solution design, delivery, implementation and support
- Ecosystem of strong and reliable regional partners and industry's most advanced technology





MARKET POTENTIAL

- Hospitality industry is forced to invest in new technologies due to guest demand
- Hospitality is one of the fastest growing industries in Croatia with more than 1 million accommodation units


POSITIVE IMPACT ON QUALITY OF LIFE AND SOUND ECONOMICS RESULTED IN STRONG SMART CITIES GROWTH EXPECTATIONS



GLOBAL SMART CITIES MARKET SHOWS GROWTH TREND*

-  **50%** ENERGY CONSUMPTION REDUCTION
-  **20%** TRAFFIC DECREASE
-  **80%** WATER USAGE IMPROVEMENT
-  **20%** CRIME RATE REDUCTION

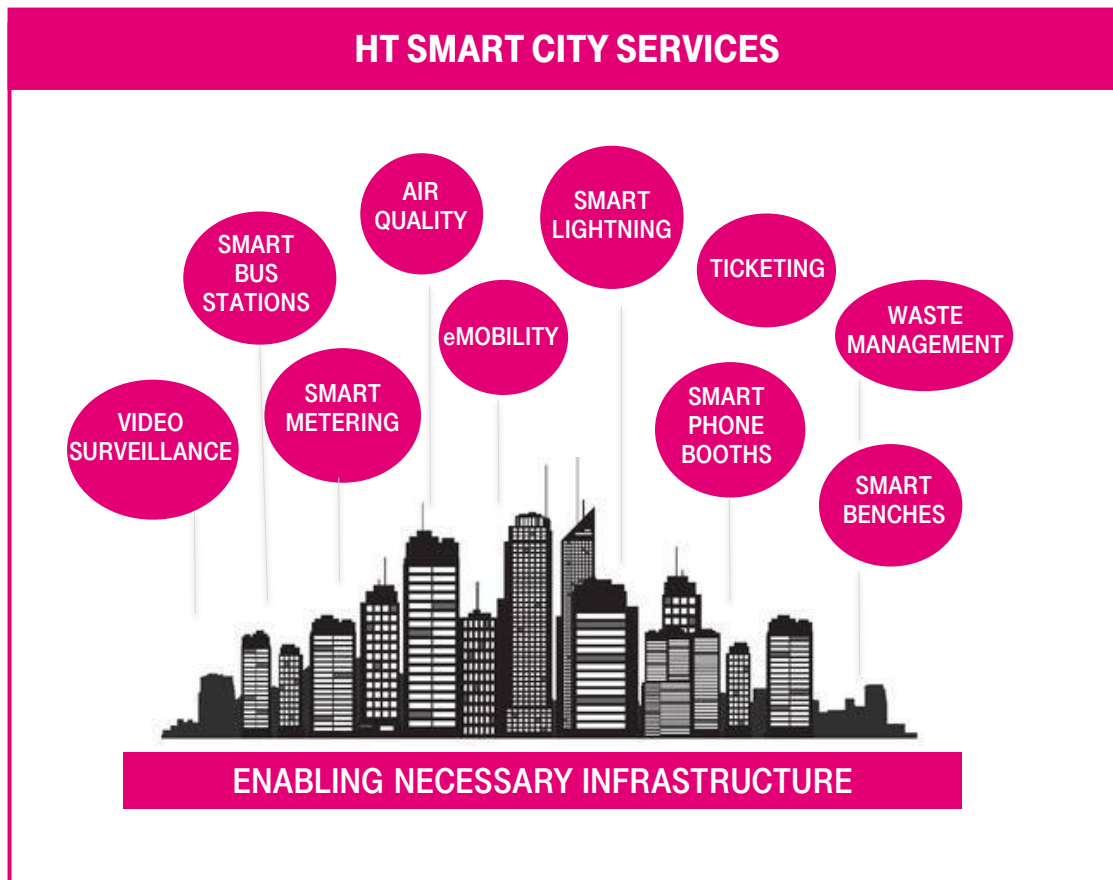
OVERALL ECONOMIC REGENERATION
IN BARCELONA SMART CITY 45,000 NEW JOBS CREATED AND 1,500 NEW COMPANIES ATTRACTED



SMART CITIES SOLUTIONS IMPROVE OVERALL QUALITY OF LIFE AND BRING MEASURABLE ECONOMIC BENEFITS**



WITH ITS TRACK RECORD AND INFRASTRUCTURE CAPABILITY HT HAS BECOME LEADING PARTNER TO SMART CITIES IN CROATIA

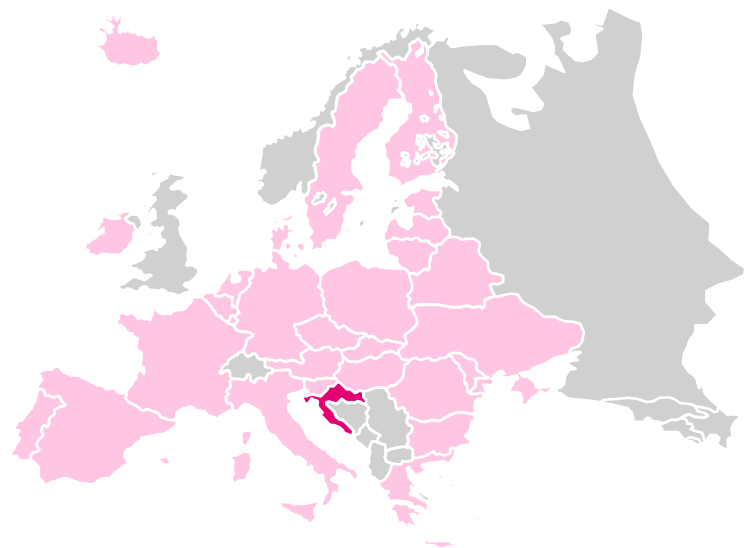


20+ SMART SOLUTIONS IN SMART CITY PORTFOLIO

14 HIGHLY COMPLEX PROJECTS IN OVER 22 CITIES REALIZED (INCLUDING ZAGREB, DUBROVNIK, KOPRIVNICA, ...)

30 ICT PARTNERSHIPS

ICT B2B POTENTIAL GROWTH STRONGLY ACCELERATED THROUGH EU FUNDS



OVER 400 MILLION EUR AVAILABLE BY 2020 FOR ICT SOLUTIONS

EU fundable ICT areas include Smart Cities solutions, E-Health, E-Government, E-School, Intelligent transport system, Energy and Environment improvements etc

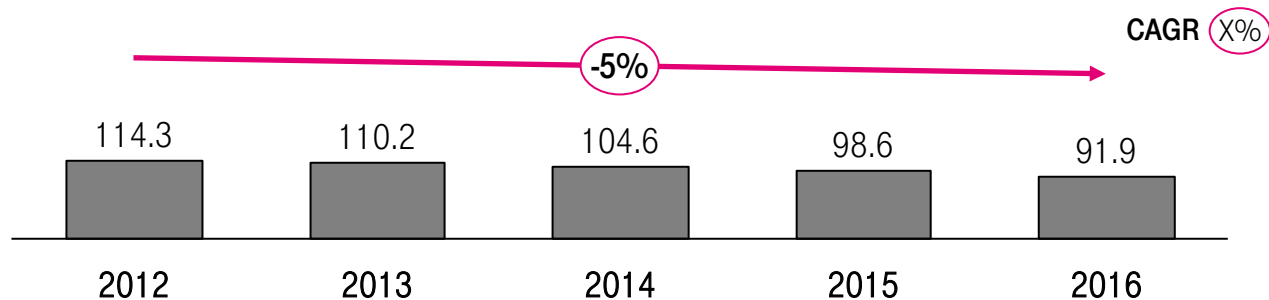
One of the largest **EU funded projects** – **CEKOM** submitted Competence Centre for smart cities in Rijeka

HT WILL MAINTAIN MARKET **LEADERSHIP POSITION AS TRUSTED ADVISOR AND PARTNER** BY BRINGING **INNOVATIVE SMART CITY SOLUTIONS** TO THE MARKET

CRNOGORSKI TELEKOM HISTORICAL PERFORMANCE

CT IS THE MARKET LEADER; HOWEVER, ITS FINANCIAL PERFORMANCE HAS BEEN DECLINING FOR SOME YEARS DUE TO COMPETITION AND REGULATORY PRESSURE

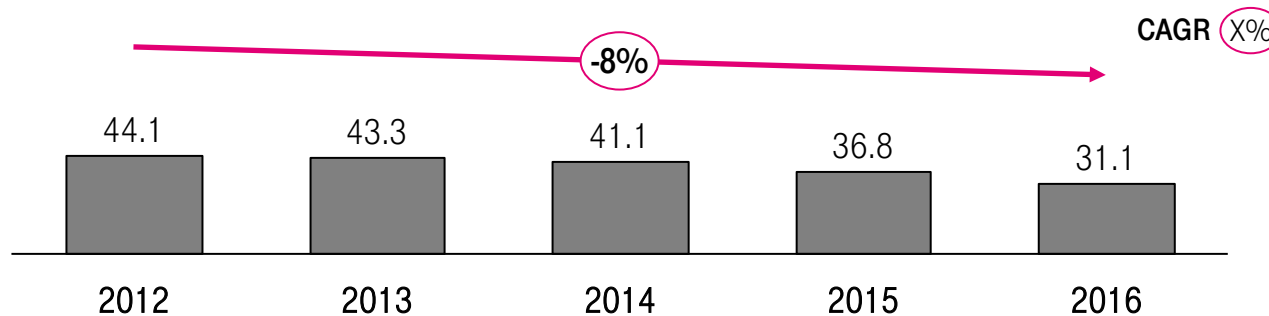
Revenue, in EUR Million



Market shares, Sept 2017

- **87%** Fixed Voice
- **52%** Fixed Broadband
- **31%** TV
- **40%** Postpaid
- **27%** Prepaid

EBITDA, in EUR Million



Regulation:

- 1) Regulation on **retail price** for **Fixed Voice** and **Fixed BB**
 - 2) **Balkan roaming** regulation
- Total effect of regulation: **EUR 7 Million loss** (2014-2017)



IN 2017, WE FOCUSED ON SLOWING DOWN OF DECLINE IN PROFITABILITY TO ESTABLISH FOUNDATIONS FOR FUTURE GROWTH

EBITDA growth rate yoy (%)



Actions to secure CT turnaround:

Already implemented:

- 1) **Structural changes:** new organizational set-up and new management
- 2) **Improved operational efficiency**
- 3) **Redefined Fixed market approach:** Fixed Market Recovery increased value of voice customers; Fixed BB portfolio refresh reduced churn
- 4) **Exchange of best practices with HT:** improved sales productivity in Shops, Call Center and D2D channels; ensured platform for Revenue Assurance; differentiating proposition on the market; ICT portfolio

Way forward:

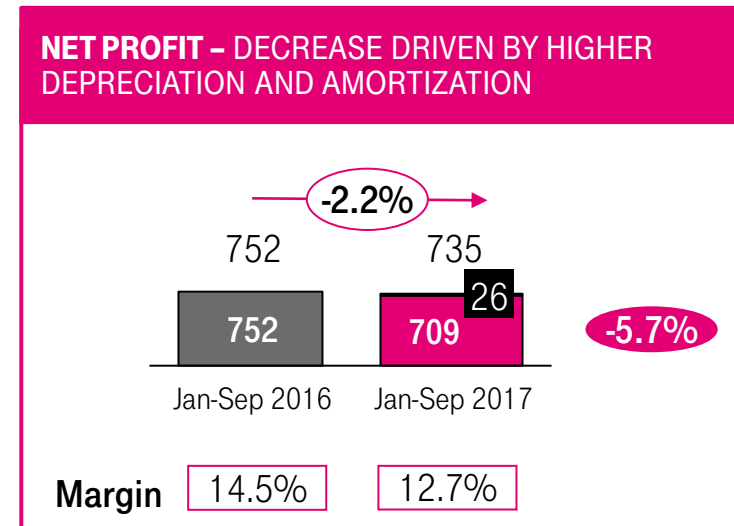
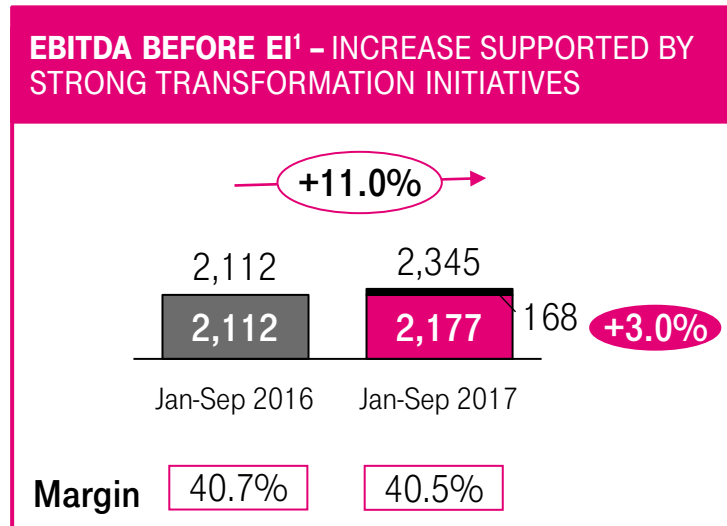
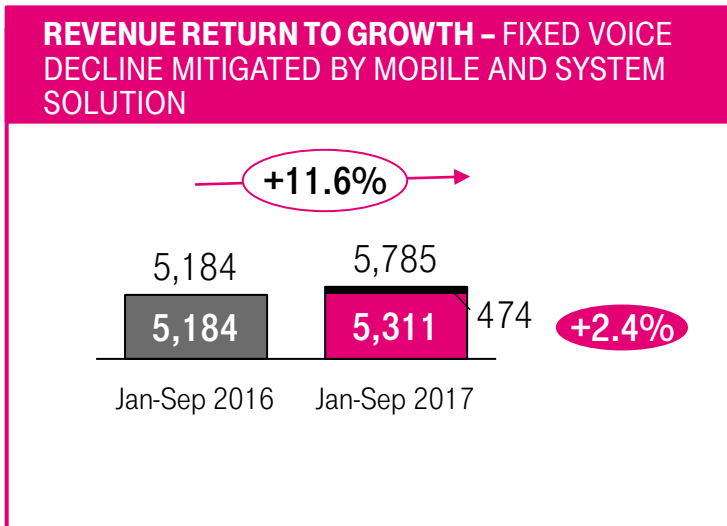
- 1) **Postpaid:** volume and value growth through 4G monetization - leverage on 95% LTE coverage
- 2) **Prepaid:** redefine proposition and sales approach to stabilize PrP revenue and customer base affected by intensive PrP2PoP migration
- 3) **FMC** as churn prevention tool („more for more”)
- 4) **Further VDSL rollout** in suburban areas to protect BB and TV base

FINANCIALS

STRONG FINANCIAL PERFORMANCE DELIVERED

HRK million

■ CT contribution ■ HT Croatia



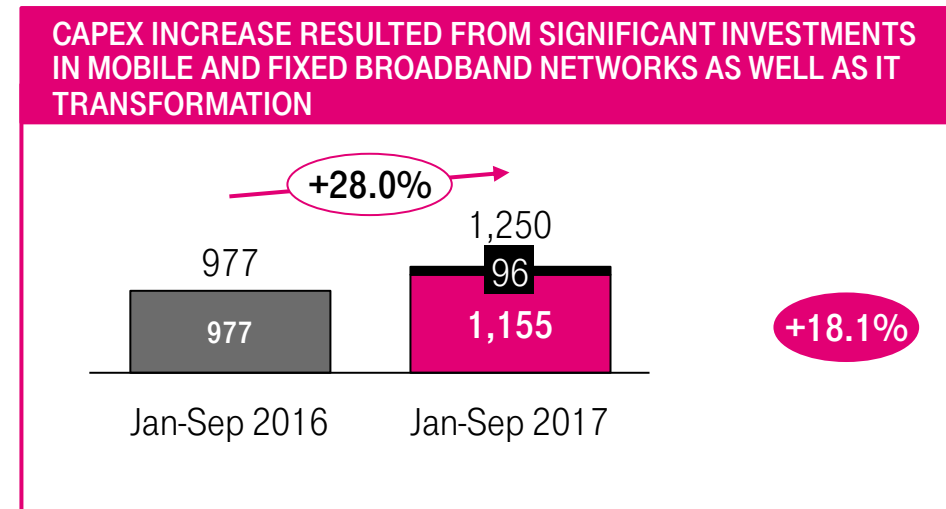
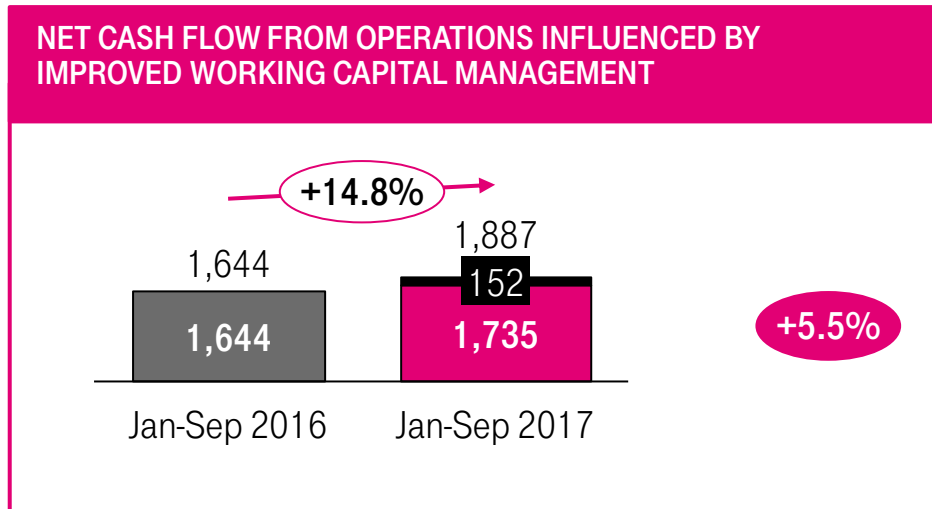
- Strong revenue performance and consolidation of H1 Telekom (H1), which was merged with Optima Telekom, as of 1 July, 2017, helped HT Croatia return to growth in revenue
- EBITDA before exceptional items up following revenue increase in HT Croatia, continued successful transformation of the Group and H1 consolidation
- Despite lower profitability at Crnogorski Telekom, margin stable at industry-leading level of 40.5%
- Net profit down mainly due to higher depreciation and amortization

¹ Exceptional items in Jan-Sep 2016 refer to HT Croatia's redundancy costs totalling HRK 62 million. Exceptional items in Jan-Sep 2017, totalling HRK 102 million, mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation

OPERATING CASH FLOW INCREASES; STRONG INVESTMENT IN NETWORK CONTINUES

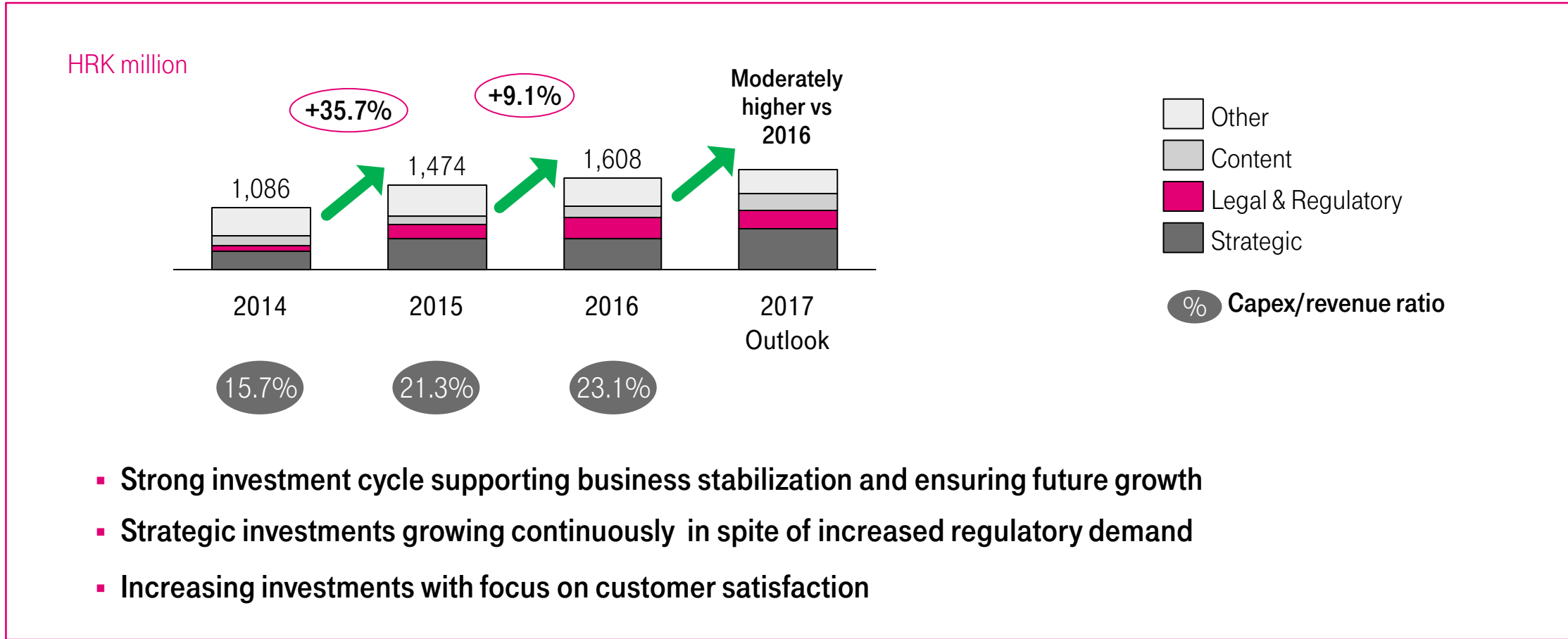
HRK million

■ CT contribution
■ HT Croatia



- Cash flow from operating activities up due to consolidation of Crnogorski Telekom and improved working capital management in HT Croatia
- CAPEX up following consolidation of Crnogorski Telekom, significant investment in mobile and fixed broadband network and investments in IT transformation by HT Croatia, as well as increase in capitalisation of contracts for TV content

INCREASING CAPITAL INVESTMENTS FORMS FOUNDATION FOR FUTURE GROWTH



GROUP 2017 OUTLOOK REMAINS UNCHANGED; 2018 OUTLOOK WITH GROWING REVENUE TREND

	2016 Results (w/o CT)	Outlook 2017 in more details (with CT and H1)	Outlook 2018 vs 2017 (with CT and H1)
Revenue	HRK 6,970 milion	Around HRK 7,650 million	Slightly higher
EBITDA before exceptional items	Margin of 40.5%	Margin of around 40%	Margin of around 40%
CAPEX	HRK 1,608 million	Around HRK 1,900 million	Slightly lower
Regional expansion	HT is monitoring and evaluating potential M&A opportunities		



TECHNOLOGY LEADERSHIP

HT IS MARKET LEADER AND FULLY CONVERGED OPERATOR FOCUSING ON PREMIUM SERVICES

ACCESS NETWORK

FIXED

MOBILE



**COVERAGE
CAPACITY
SPEED**

AGGREGATION IP CORE NETWORK



**MODERNIZATION
CAPACITIES**

SERVICE PLATFORMS & CLOUD



**NEXT TV
VOLTE ...**

IT SYSTEMS



**BUSINESS IT
TRANSFORMATION**

HT INVESTS IN ALL TECHNOLOGY SEGMENTS TO ENSURE PREMIUM MARKET POSITION

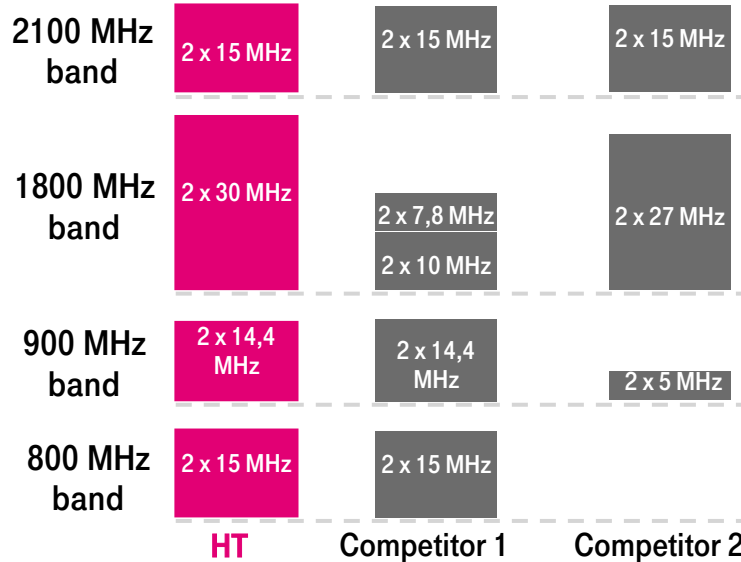


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PREMIUM POSITION IN CROATIAN TELECOM MARKET ACHIEVED WITH INVESTMENT IN STRATEGIC ASSETS

WE ENSURED **BEST SPECTRUM POSITION** ENABLING LTE
COMPETITIVE ADVANTAGE

SPECTRUM HOLDINGS IN CROATIAN MARKET



WE ARE BUILDING **MOBILE PREMIUM NETWORK** TO
OUTPERFORM COMPETITION

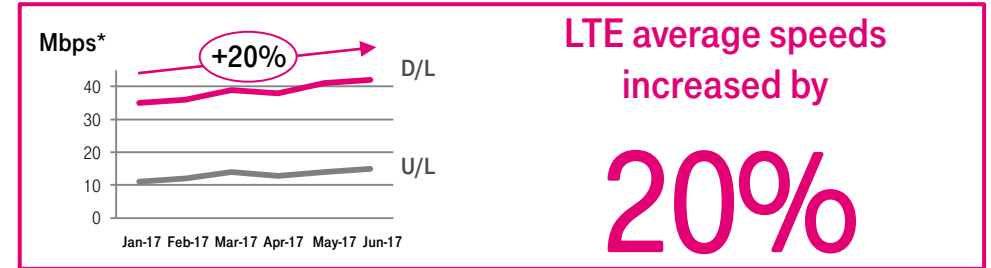
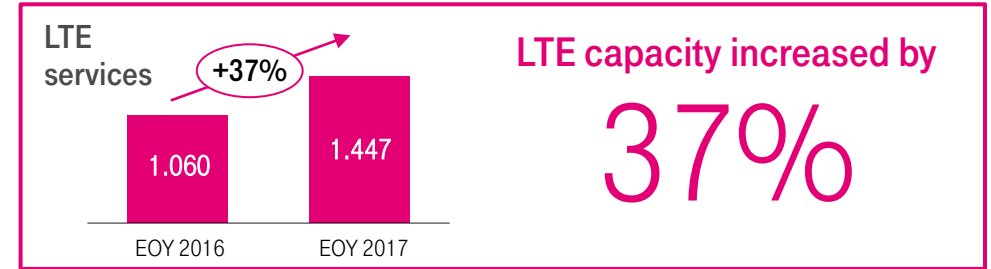
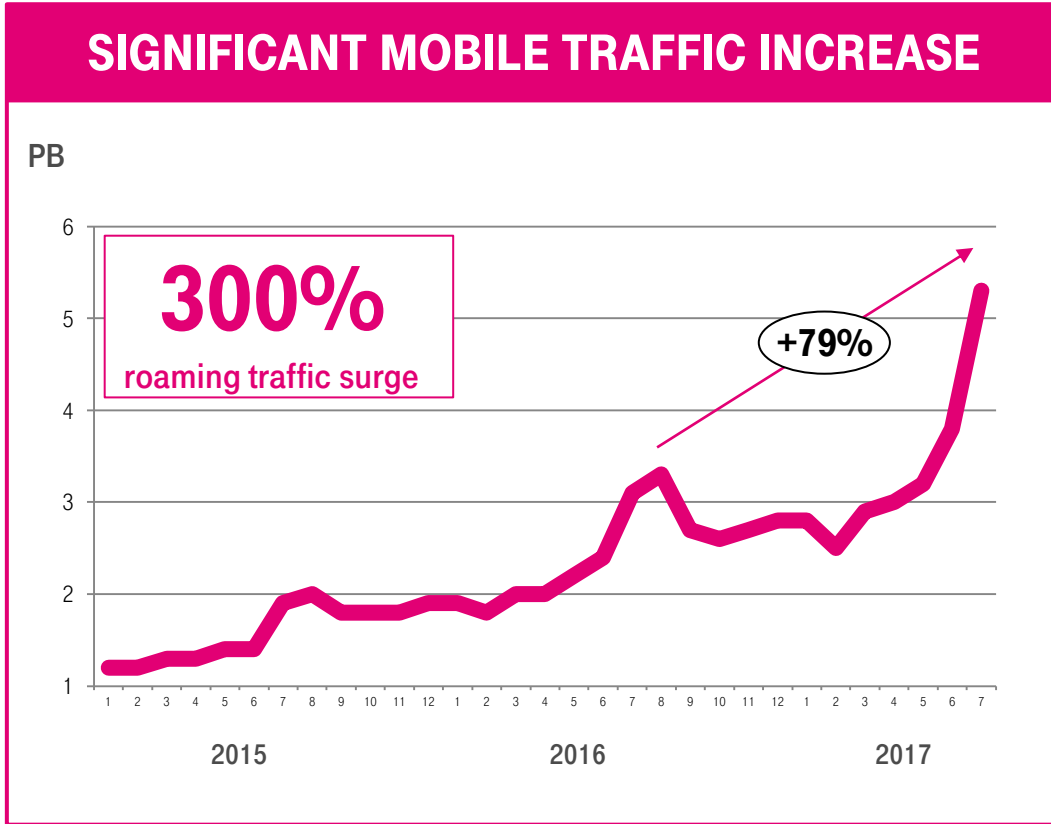
- Best position regarding spectrum assets
- Highest number of sites
- Fiber backhaul to 76% of mobile sites

TECHNOLOGY LEADER ROLE ENSURES GROWTH



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DESPITE DRAMATIC INCREASE IN MOBILE TRAFFIC WE BOOST CAPACITY AND SPEED



MIMO 4X4
QAM 256

LTE maximum speed
500 Mbps

PREMIUM MOBILE NETWORK TO OUTPERFORM COMPETITION



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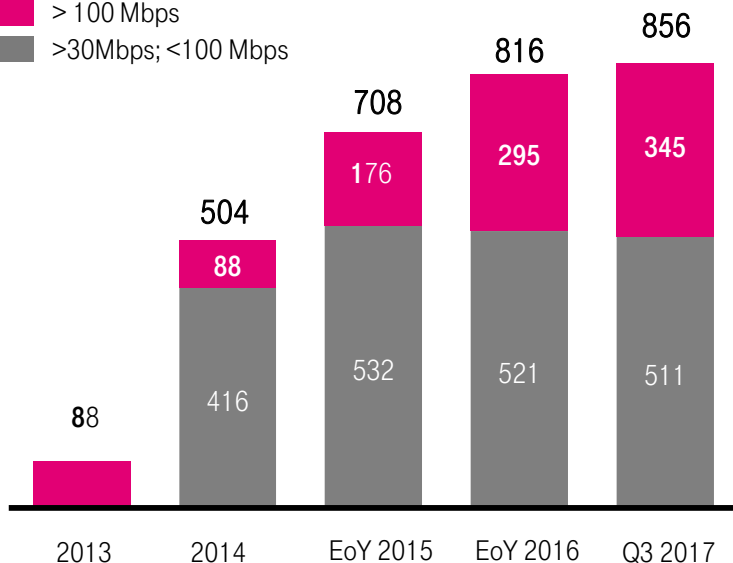
* Source: Ookla

SMART TECHNOLOGY MIX TO MAXIMIZE INVESTMENT & SHORTEN DEPLOYMENT OF FIXED BROADBAND

NGA SPEED DISTRIBUTION BY TECHNOLOGIES

Households in 1,000

- > 100 Mbps
- >30Mbps; <100 Mbps



EoY 2017 HT will enable NGA speed for

876,000

out of total 1.5M households in Croatia

EoY2017 HT will enable fiber access for

378,000

out of total 1.5M households in Croatia

HT Group alone will ensure almost

70%

of Digital agenda 2020 Croatian targets

RAISING CUSTOMER SPEEDS AND COVERAGE TO MAXIMIZE MARKET SHARE



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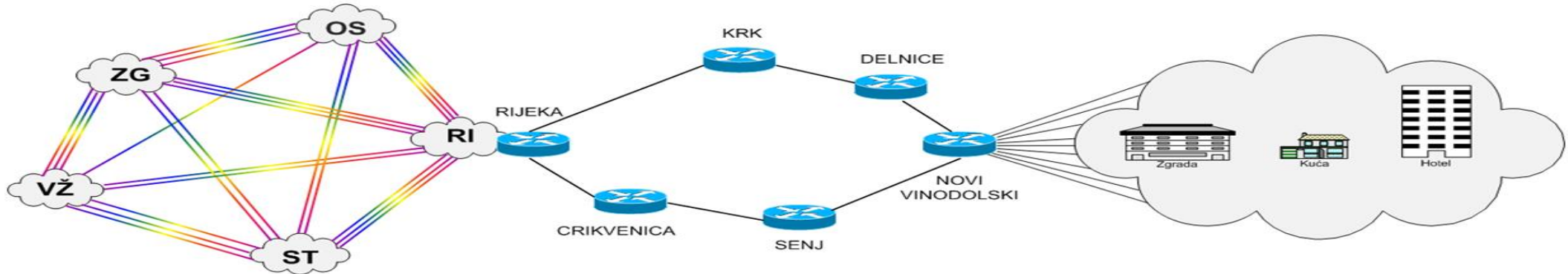
INCREASING CAPACITY AND STABILITY IN THE AGGREGATION AND IP CORE NETWORK

Over
90%
of settlements covered with
fiber aggregation network

Core network has
4 X
capacity increase

Aggregation network
70%
modernized – to be
finished by 1H 2018.

Over
87%
stability increase*



CORE AND AGGREGATION NETWORK WITH CAPACITY SUPPORTING FUTURE GROWTH ON WHOLE CROATIAN FOOTPRINT



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*Based on the number of recorded network incidents

INVESTING IN NEW GENERATION TELEVISION FOR THE ULTIMATE USER EXPERIENCE

MODERN IPTV PLATFORM...



- Converged IPTV and OTT platform with joint customer base launched
- All customers to be migrated to new platform by Q1/2018

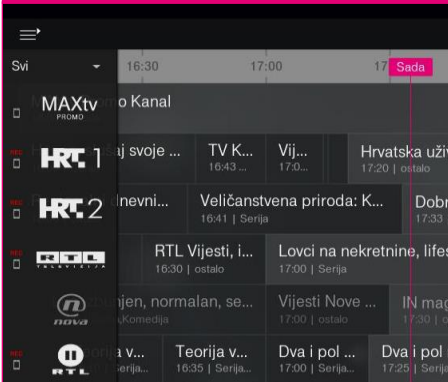
...AND ULTIMATE RECEIVER...



SAMSUNG

- New powerful STB with DVB-T2 and HEVC
- STB client with more flexibility

... EASY ACCESS TO CONTENT ...



- Redesigned UI for both IPTV and OTT
- More channels, VoD, SVoD and PPV content for OTT
- 4k content

...ANYWHERE ON ANY DEVICE



- Full multiscreen functionality and content sharing
Android STB as gadget for new TV experience



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INTRODUCING VOLTE, HT CONTINUES TO PROVIDE HIGHEST QUALITY VOICE SERVICES IN THE MARKET

TECHNOLOGICAL LEADER



- Speech via 4G network
- Simultaneous conversations and surfing

HIGH QUALITY



- HD speech
- Extended battery life
- Geo-redundancy

CERTIFICATION



- Samsung S7
- Soon on other devices

1.

VoLTE in Croatia

70%

faster call setup

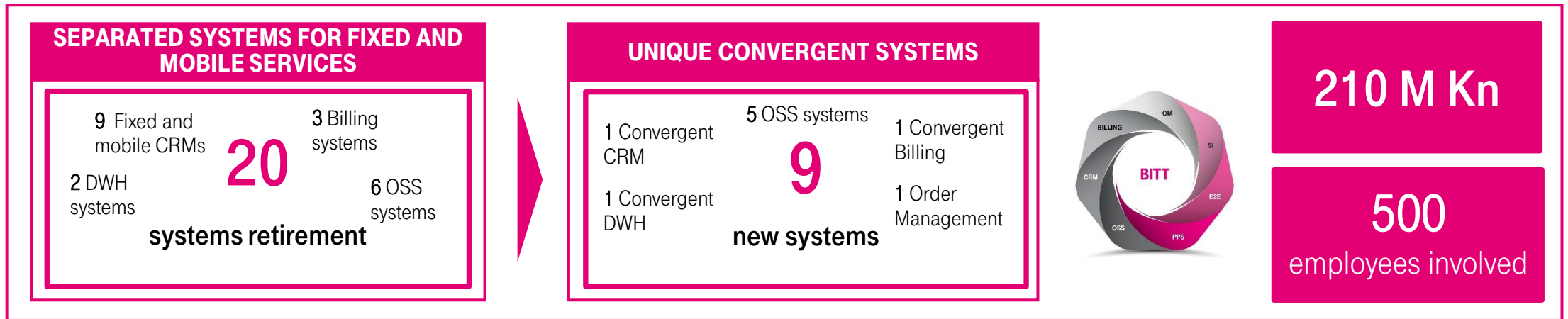
SAMSUNG

HT VoLTE network certificate



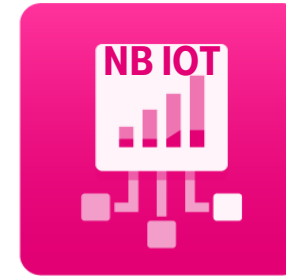
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BUSINESS IT TRANSFORMATION (BITT) IS LARGEST IT INVESTMENT IN REGION



SIMPLER PRODUCT PORTFOLIO & CONVERGENT SYSTEMS LEADS TO LESS EXPENSIVE IT SYSTEMS

HT IS FOCUSED ON INVESTMENTS THAT WILL PROVIDE STRONG COMPETITIVE POSITION INTO THE FUTURE



BEST NETWORK AND PREMIUM SERVICES ENSURE STRONG COMPETITIVE POSITION



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Q&A

HRVATSKI TELEKOM CAPITAL MARKETS DAY

10 November 2017



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APPENDIX



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CONSOLIDATED INCOME STATEMENT

in HRK million (IFRS)	3Q 2016	3Q 2017	% of change A17/A16
Mobile revenue	2,117	2,478	17.0%
Fixed revenue	2,527	2,693	6.6%
System solutions	461	501	8.7%
Miscellaneous	78	112	43.3%
Revenue	5,184	5,785	11.6%
Other operating income	93	121	30.3%
Total operating revenue	5,277	5,906	11.9%
Operating expenses	3,227	3,663	13.5%
Material expenses	1,508	1,736	15.1%
Employee benefits expenses	725	769	6.0%
Other expenses	1,028	1,149	11.7%
Work performed by the Group and capitalised	-64	-91	41.3%
Write down of assets	29	100	242.1%
EBITDA	2,050	2,243	9.4%
Depreciation and amortization	1,038	1,255	20.9%
EBIT	1,012	988	-2.4%
Financial income	35	31	-11.4%
Income/loss from investment in joint ventures	4	6	51.3%
Financial expenses	123	138	12.6%
Profit before taxes	928	887	-4.5%
Taxation	184	161	-12.7%
Net profit	744	726	-2.5%
Non controlling interests	-8	-9	19.5%
Net profit after non controlling interests	752	735	-2.2%
Exceptional items ¹⁾	62	102	63.3%
EBITDA before exceptional items	2,112	2,345	11.0%



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1) Mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2016	At 30 Sep 2017	% of change A17/A16
Intangible assets	1,738	2,463	41.8%
Property, plant and equipment	5,619	6,237	11.0%
Non-current financial assets	1,352	1,336	-1.2%
Receivables	121	210	73.7%
Deferred tax asset	59	57	-4.2%
Total non-current assets	8,889	10,302	15.9%
Inventories	111	144	29.5%
Receivables	1,327	1,659	25.0%
Current financial assets	1,189	159	-86.6%
Cash and cash equivalents	2,676	2,876	7.5%
Prepayments and accrued income	262	122	-53.4%
Total current assets	5,566	4,960	-10.9%
TOTAL ASSETS	14,455	15,263	5.6%
Subscribed share capital	9,823	9,817	-0.1%
Reserves	492	470	-4.5%
Revaluation reserves	2	6	155.8%
Retained earnings	633	1,061	67.7%
Net profit for the period	934	735	-21.3%
Non controlling interests	163	434	166.2%
Total issued capital and reserves	12,046	12,523	4.0%
Provisions	53	61	15.1%
Non-current liabilities	472	590	24.8%
Deferred tax liability	35	48	35.7%
Total non-current liabilities	561	699	24.6%
Current liabilities	1,741	1,942	11.5%
Deferred income	89	97	9.1%
Provisions for redundancy	17	2	-88.8%
Total current liabilities	1,847	2,041	10.5%
Total liabilities	2,408	2,740	13.8%
TOTAL EQUITY AND LIABILITIES	14,455	15,263	5.6%



CONSOLIDATED CASH FLOW STATEMENT

in HRK million	3Q 2016	3Q 2017	% of change A17/A16
Profit before tax	928	887	-4.5%
Depreciation and amortization	1,038	1,255	20.9%
Increase / decrease of current liabilities	-141	64	145.6%
Increase / decrease of current receivables	68	8	-87.5%
Increase / decrease of inventories	-32	-60	-88.8%
Other cash flow increases / decreases	-217	-267	-23.0%
Net cash inflow/outflow from operating activities	1,644	1,887	14.8%
Proceeds from sale of non-current assets	46	91	96.9%
Proceeds from sale of non-current financial assets	1	1	-2.8%
Interest received	13	7	-42.0%
Dividend received	3	0	-100.0%
Other cash inflows from investing activities	1,121	1,306	16.4%
Total increase of cash flow from investing activities	1,185	1,405	18.7%
Purchase of non-current assets	-957	-1,080	-12.8%
Purchase of non-current financial assets	-75	-924	
Other cash outflows from investing activities	-1,156	-266	77.0%
Total decrease of cash flow from investing activities	-2,187	-2,270	-3.8%
Net cash inflow/outflow from investing activities	-1,003	-865	13.8%
Total increase of cash flow from financing activities			-
Repayment of loans and bonds	-14	-57	-304.7%
Dividends paid	-491	-493	-0.4%
Repayment of finance lease	-7	-52	
Other cash outflows from financing activities	-219	-260	-18.9%
Total decrease in cash flow from financing activities	-731	-862	-17.9%
Net cash inflow/outflow from financing activities	-731	-862	-17.9%
Exchange gains/losses on cash and cash equivalents	-13	-19	-50.3%
Cash and cash equivalents at the beginning of period	3,175	2,734	-13.9%
Net cash (outflow) / inflow	-103	141	237.9%
Cash and cash equivalents at the end of period	3,072	2,876	-6.4%



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