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Zagreb – 15 February 2019

Croatian Telecom Inc.

Management Report

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Ordinary share: HT (ISIN: HRHT00RA0005)

LEI: 097900BFHJ0000029454

Listing: Zagreb Stock Exchange, Official market

Member State: Republic of Croatia

## **Hrvatski Telekom Results for the year ended 31 December 2018**

### **Growth of all financial indicators and strong investment cycle reinforced HT's leadership position**

- *Net profit up 22.9%*
- *Proposal for dividend distribution in the amount of HRK 10 per share,*
  - o *HRK 7 per share proposed to be paid out of 2018 net profit and, in addition*
  - o *HRK 3 per share proposed to be paid following improved economic and investment climate in Croatia*

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its audited results for the year ended 31 December 2018.

In 2018, revenue was generated in the amount of HRK 7.783 billion, which is by 0.4% above the results of 2017. Excluding Crnogorski Telekom's contribution, revenue has increased by 0.6% as compared to the previous year.

EBITDA before exceptional items amounts to HRK 3.186 billion, which is a 1.5% increase compared to 2017, along with a strong EBITDA margin of 40.9%, which is 0.5 percentage points more than in the previous year. Excluding Crnogorski Telekom's contribution, EBITDA has increased by 1.2% as compared to the previous year.

2018 net profit amounts to HRK 1.061 billion, a 22.9% increase compared to 2017.

### **More than HRK 1.8 billion of investment in infrastructure and innovative services**

In 2018, Hrvatski Telekom invested HRK 1,826 billion in infrastructure and development of innovative services. Investment in the fixed network resulted in fibre optic access for 400 thousand households. HT continued increasing access speeds for customers, resulting in NGA speeds enabled for 58.2% of Croatian households.

4G network indoor coverage in the mobile network is at 82.0%, while outdoor coverage has reached 98.5%. In early 2018, Hrvatski Telekom initiated modernisation of the radio access network across the entire Croatian territory. This network will enable the introduction of 5G technology as soon as the required radio frequency spectrum is allocated to it. Completion of this project is planned for the end of 2019, and in the course of last year, the project was successfully completed at almost 1000 locations in the areas of Istria and Zagreb, Kvarner and Dalmatia.

The end of the year was marked by HT's win of the independent international P3 Certificate for the best mobile network in Croatia and one of the best mobile Internet services worldwide. In this measurement, Hrvatski Telekom has achieved the best result in the P3 measurement history in Croatia, and with as much as 948 out of the possible 1000 points, it has reinforced its position as a provider of the highest quality service.

#### **Stabilisation of operations of Crnogorski Telekom and increased profitability**

Crnogorski Telekom, governed by HT, also achieved good business results in the previous year. The implemented transformation programmes, expansion of broadband access, reduction of direct costs and increase of employee satisfaction have reversed the trends in operations and contributed to the profitability of Crnogorski Telekom. For the first time after a number of years, despite a 1.9% revenue decrease compared to 2017 (2017/2016: -7.1%), Crnogorski Telekom saw a 5.8% EBITDA increase compared to the year 2017 (2017/2016: -5.2%), and a 40.7% net profit increase compared to 2017 (2017/2016: -45.5%).

#### **More than half of the profit for dividend distribution, along with an additional payment out of retained earnings from previous periods**

The Management Board and the Supervisory Board have made a proposal to the General Assembly that dividend be distributed in the amount of HRK 10 per share. HRK 7 per share shall be paid out of the year-end profit of 2018, in the amount of HRK 568,536,829.00. In addition, HRK 3 per share shall be paid out of retained earnings from previous periods, in the amount of HRK 243,658,641.00.

The remaining part of year-end profit of 2018, in the amount of HRK 422,123,890.00, has been proposed for allocation to subscribed share capital, by increase of the subscribed share capital of the Company without issuing new shares, by proportionate increase of participation of all issued shares in the Company's subscribed share capital.

The final decision shall be adopted by the General Assembly. This proposal for dividend distribution is based on the Company's excellent financial results in 2018. The proposal has been made under the conditions of improved economic and investment environment in Croatia. The decision of Croatia's Government to reduce fees for the radio frequency spectrum has had a particularly positive impact on the telecommunications sector.

HT will continue to apply its Dividend Policy, which remains unchanged for the year 2019 and according to which dividends shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs in the relevant period, including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors, including tax and regulatory considerations, payment practices of other European telecommunications operators, and general economic climate.

At the beginning of each year, HT announces a minimum target dividend for the year concerned, within the Dividend Policy range. For the financial year 2019, the Management Board currently expects the payment of dividends to a minimum amount of HRK 6 per share. HT will be monitoring impacts of the above-mentioned measures, development of results achieved, increased investment needs for fibre optics and the 5G network, potential opportunities for acquisitions, and the general economic and investment climate.

In July 2017, a Share Buyback Programme ("Programme") was launched, with 2.5 million shares scheduled for acquisition, and the maximum amount assigned to the Programme amounts to HRK 500 million. The Share Buyback Programme comes as a continuation of the current dividend distribution policy, which further shows the Company's intention to return part of the generated value to its shareholders. Company shares acquired in 2017, for which an equivalent value of HRK 37.6 million was given, which is 0.26% of share capital, were withdrawn in March 2018 without reducing the share capital, so that the total number of shares was reduced from 81,888,535 to 81,670,064 shares without nominal value, thus the remaining shares' participation in the share capital was increased. In the course of 2018, HT acquired an additional 450,517 Company shares, which is 0.55% of share capital. For this acquisition of Company shares, an equivalent value of HRK 71,062,380.96 was given.

Commenting on the business results of 2018, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, said:

*"Hrvatski Telekom looks back at another successful business year in which it reinforced its leading position in all segments of the telecommunications market. I am particularly pleased that, for the second year in a row, we have won the P3 – Best in Test Certificate for our mobile network, which is the best in Croatia and among the best worldwide. Good financial results were also generated by Crnogorski Telekom, governed by HT. Along with the growth of key financial indicators, the previous year was also marked by a strong investment cycle. The operations of Hrvatski Telekom as one of the leading Croatian investors were also positively influenced by changes of the investment climate, where the decision of the Government to reduce fees for the radio frequency spectrum was particularly important for the telecommunications sector. Further improvement of the investment environment forms a basis for providing additional impetus to new investment, which is important for the digitalisation of Croatia".*

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A conference call for analysts and investors will be held at 11:00 UK time / 12:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In  
Conference ID

**+44 (0) 207 1928 000**  
**5679343**

A replay of the call will be available until Friday, 22 February 2019 using the following details:

International Dial In  
Conference ID

**+44 (0) 333 300 9785**  
**5679343**

Full audited accounts for HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2018 financial year, can be downloaded from the HT web site. ([www.t.ht.hr/en/investor-relations/](http://www.t.ht.hr/en/investor-relations/)) and are fully available in the Official Register of Prescribed Information (SRPI).

## **1. Review**

### **1.1 Introduction**

#### **HT Group's good performance in 2018**

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 2018 in spite of competitive pressure.

### **1.2 Economic background**

Real GDP growth in Croatia is estimated to reach 2.7% in 2018. Private consumption is expected to remain the main growth driver, supported by stellar tourist season, solid external demand and easy monetary policy. Private consumption does not only rest on tourism spill-overs and World Cup fever, but citizens benefit from higher real wages (+4% yoy on top of 2.5%-alike employment growth), re-leveraging, tax cuts and remittances.<sup>1</sup>

The registered unemployment rate keeps decreasing during 2018 as the result of increased employment as well as constant emigration trend. Estimated average unemployment rate for 2018 could reach 9.9%, while reported average unemployment rate for 2017 was 12.1%.<sup>1</sup>

The recent strong increases in energy and tourism prices pushed inflation to the average 1.6% of Consumer Price Index (CPI) value for 2018.<sup>1</sup>

### **1.3 Market overview**

The Croatian highly saturated mobile market continues to adjust to the effects of increasing affordability of contract offers with different tariff packages and increasing popularity of attractive devices /smartphones and OTT services. Estimated mobile SIM penetration rate reached 123.1% at the end of 2018. The Company maintains leading market position with estimated mobile SIM market share of 45.4% at the end of 2018.

Total number of sent SMS messages continued to decrease on an annual basis by 12.7% in the first nine months of 2018. Total broadband traffic grew year-on-year by 32.0% in the first nine months of 2018. In the same period total mobile market minutes of use (MOU) continued to increase on an annual basis by 1.8%.<sup>2</sup>

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 8.6% in the first nine months of 2018.<sup>2</sup>

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<sup>1</sup> Sources: Croatian Bureau of Statistics, latest macroeconomic forecasts of the Croatian National Bank and Addiko Bank

<sup>2</sup> Source: Croatian Post and Electronic Communications Agency's quarterly reports

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of September 2018. The year-on-year growth of FTTx (11.5%), Fixed Wireless Access (49.0%) and Cable Broadband (4.6%) connections drive total fixed broadband market connection growth (2.6%).<sup>2</sup> Telecommunication operators have been making significant investments in FTTH footprints, advanced technology and innovative services.

HT Group has set a strong focus on further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 618 thousand of broadband access lines at the end of 2018.

The Croatian Pay TV market continued to grow in 2018, reaching 845 thousand customers at the end of September 2018 (year-on-year growth by 3.3%).<sup>3</sup>

## **Wholesale**

Following liberalization of the fixed line market, demand for infrastructure services, requested by alternative operators, has been mostly focused on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 129 thousand at the end of 2018, which is a decrease of 1.8% compared to the same period last year. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased because of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 121 thousand of ULL accesses and 53 thousand of WLRs at the end of 2018.

## **IT market**

Croatian IT market continues with growth in 2018 at estimated 5.7% yearly growth rate.<sup>4</sup> All three segments of the IT market contribute to the market growth: IT services with estimated yearly growth by 10.7%, Software with estimated growth by 7.3% and Hardware by 2.6%. HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

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<sup>3</sup> Source: Croatian Post and Electronic Communications Agency's quarterly reports

<sup>4</sup> Source: IDC Adriatics, July 2018

## **1.4 Supervisory Board Decisions**

### **1.4.1 Financial Statements**

The Management Board and Supervisory Board of Hrvatski Telekom d.d. have adopted the Annual Financial Statements of the Company and the Consolidated Financial Statements of HT Group, with the auditor's report, for the 2018 financial year.

The Annual Financial Statements will be forwarded to the General Assembly.

### **1.4.2 Net profit distribution proposal**

The Company Hrvatski Telekom d.d. in the business year ending with 31 December 2018 realized the net profit in the amount of HRK 990.660.719,25.

The distribution of the net profit from 2018 is proposed in the following manner:

- A part of net profit in the amount of HRK 568,536,829.00 shall be paid out as dividend to shareholders, in the amount of HRK 7.00 per share
- A part of net profit in the amount of HRK 422.123.890,25 shall be allocated to share capital

A part of retained earnings from previous years in amount of 243,658,641.00 HRK shall also be paid out as dividend to shareholders, in amount of HRK 3.00 per share.

The proposed dividend payout from the net profit from 2018, amounting to HRK 568,536,829.00 or HRK 7.00 per share, is within the range declared as a dividend policy, and is equivalent to 57.42% payout of the distributable profits earned in the preceding year.

This dividend payout ratio is in line with existing dividend policy. According to the policy, dividends can be in range between 50% and 100% of net profit from previous year. Any dividend will depend on total financial position of Company and its needs for working capital in relevant period.

Since the General Assembly is planned to be held on May 6<sup>th</sup> 2019, the dates are proposed to be determined as follows:

- The dividend payment right would have all shareholders that are registered in the Central Depository and Clearing Company (SKDD) on May 21<sup>st</sup>, 2019 (record date).
- The date on which the share of Hrvatski Telekom d.d. will be traded without the dividend payment right is May 20<sup>th</sup>, 2019 (ex date).
- The dividend payment claim matures on May 27<sup>th</sup> 2019 (payment date).

HT announces dividend payout guideline for each year which has to be in line with dividend policy. For 2019, Management Board has set the guideline of HRK 6 per share. Company will monitor the effects of above mentioned government's measures, development of business results, increased needs for investments in optics and 5G network, potential acquisitions opportunities together with economical and investment climate and according to those or some additional parameters finally decide on dividend amount.

## **1.5 Regulatory environment**

### **Amendments to the Ordinance on the Certificate and Fee for Right of way**

On November 9<sup>th</sup>, 2018, HAKOM published the information on starting the procedure of amending Ordinance on the Certificate and Fee for Right of Way (Official Gazette 152/11, 151/14, 95/17) and invited all interested parties to submit proposals of amendments of specific provisions of the Ordinance. Public call was open until December 6<sup>th</sup>, 2018. HT submitted its proposals to HAKOM.

### **New rounds of analysis of relevant electronic communications markets**

In 2018 HAKOM initiated new procedures of analysis of relevant regulated electronic communications markets:

- a) Wholesale central access provided at a fixed location for mass-market products
- b) Wholesale local access provided at a fixed location
- c) Wholesale call termination on individual public telephone networks provided at a fixed location
- d) Wholesale voice call termination on individual mobile networks
- e) Wholesale call origination on the public telephone network provided at a fixed location
- f) Wholesale high-quality access provided at a fixed location
- g) Wholesale trunk segments of leased lines

End of the procedures and adopting of final decisions is expected in first and second quarter of 2019.

### **Reduction of the annual fee for use of radio-frequency spectrum in mobile network**

On December 15<sup>th</sup>, 2017 the relevant Ministry of the Sea, Transport and Infrastructure adopted amendments to the Ordinance on payment of fees for the right of use of addresses, numbers and radio-frequencies (hereinafter: Ordinance on fees), by which it imposed reduction of the annual fee for use of radio-frequency spectrum in mobile networks by one third of the current fee.

Amendments to the Ordinance on fees entered into force on December 19<sup>th</sup>, 2017. After amendments from December 2017, in 2018 the Ministry adopted two additional amendments of the same Ordinance, on June 23<sup>rd</sup>, abolishing and decreasing fees for use of particular radiofrequency spectrum bands and on November 9<sup>th</sup>, 2018, decreasing the annual fee for use of radio-frequency spectrum in mobile networks by additional 50%.



## **New regulatory framework for electronic communications on the European Union level**

New regulatory framework on the European Union level was published on December 17<sup>th</sup>, 2018 – Directive (EU) 2018/1972 of the European parliament and the Council of December 11<sup>th</sup>, 2018 establishing the European Electronic Communications Code and Regulation (EU) 2018/1971 of the European Parliament and of the Council of December 11<sup>th</sup>, 2018 establishing the Body of European Regulators for Electronic Communications (BEREC) and the Agency for Support for BEREC (BEREC Office), amending Regulation (EU) 2015/2120 and repealing Regulation (EC) No 1211/2009.

European Union member states are obliged to transpose the Directive into national law in two years after its publication, while the Regulation, which is directly applicable in all member states, sets maximum retail prices of international calls within European Union (0,19 €/min) and SMS messages (0,06 €/SMS), applicable in all member states from May 15<sup>th</sup>, 2019.

## **Amendments to the Margin Squeeze Methodology**

On December 17<sup>th</sup>, 2018 HAKOM published public call for delivery of comments on the current Margin squeeze methodology. Public call is open until February 5<sup>th</sup>, 2019. Depending on received proposals, HAKOM will decide on potential changes of the methodology in proscribed procedure.

### **1.6 Changes in reporting**

In 2014 Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom, among which is the implementation of so called “Chinese wall” between Optima Telekom and HT employees involved in Optima Telekom’s business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively, only financial statements are consolidated while, due to limited access to Optima Telekom’s information, non-financial KPIs are not consolidated in the Group results.

In January 2017, HT acquired Crnogorski Telekom that is consolidated in HT Group financial results starting with 2017. Operational highlights that relate to achievement of the main non-financial key performance indicators on the following pages are presented without consolidation impact of Crnogorski Telekom in 2017 and 2018. Impact of Crnogorski Telekom on main non-financial key performance indicators is presented in separate chapter.

IFRS 15 Revenue from contracts with customer is applied from January 1<sup>st</sup>, 2018. The Group utilized the option for simplified initial application, i.e., contracts that are not completed by January 1<sup>st</sup>, 2018 are accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition is recognized as an adjustment to the opening balance of equity in the year of initial application. Accounting effects of the changeover to the new standard are

recognized directly in equity, the only effects on profit or loss in 2018 are related to changes in the point in time at which revenue and expenses are realized.

in HRK million	2018 as reported	2018 without IFRS 15 effects	Q4 2018 as reported	Q4 2018 without IFRS 15 effects
Revenue	7,783	7,715	1,996	1,957
Operating expenses	4,819	4,856	1,311	1,331
<b>EBITDA before exceptional items</b>	<b>3,186</b>	<b>3,080</b>	<b>758</b>	<b>699</b>

IFRS 9 Financial instruments is applied from January 1<sup>st</sup>, 2018. IFRS 9 primarily has effects on HT's financial statements in classification and measurement of equity instruments which were available for sale financial assets as to IAS 39 with effects of fair value measurement in profit or loss. As to IFRS 9, equity instruments are measured as FVOCI with effects of fair value measurement through other comprehensive income without reclassification in profit or loss of the cumulative gains and losses on disposal (OCI option). The company adopted the general expected credit loss model for loans, debt instruments carried at amortized cost and debt instruments carried at fair value through other comprehensive income. The company recognized effects of general expected credit loss model as of first application of IFRS 9 in equity. The company adopted the simplified expected credit loss model for trade receivables and contract assets (which were recognized for the first time as of January 1<sup>st</sup>, 2018 in accordance with IFRS 15), which lead to earlier recognition of impairment losses in some cases.

## 1.7 Summary of key financial indicators

### HT Group (including Crnogorski Telekom), in HRK million

in HRK million

INCOME STATEMENT	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Revenue	7,756	7,783	0.4%	1,971	1,996	1.3%
Mobile	3,305	3,450	4.4%	827	840	1.6%
Fixed voice	927	809	-12.7%	219	193	-11.9%
Broadband & TV	1,439	1,411	-1.9%	355	348	-2.0%
Fixed wholesale	369	318	-13.8%	78	75	-3.7%
Other fixed	835	878	5.1%	224	231	3.5%
System solutions	731	801	9.6%	229	286	24.7%
Miscellaneous	151	118	-22.0%	39	22	-43.0%
EBITDA before exceptional items	3,138	3,186	1.5%	793	758	-4.4%
Exceptional items	151	55	-63.7%	50	17	-66.3%
EBITDA after exceptional items	2,986	3,131	4.8%	743	742	-0.2%
EBIT (Operating profit)	1,118	1,401	25.4%	130	278	114.5%
Net profit after non controlling interests	863	1,061	22.9%	128	189	47.5%
EBITDA margin before exceptional items	40.5%	40.9%	0.5 p.p.	40.2%	38.0%	-2.2 p.p.
EBITDA margin after exceptional items	38.5%	40.2%	1.7 p.p.	37.7%	37.2%	-0.6 p.p.
EBIT margin	14.4%	18.0%	3.6 p.p.	6.6%	14.0%	7.4 p.p.
Net profit margin	11.1%	13.6%	2.5 p.p.	6.5%	9.5%	3.0 p.p.

BALANCE SHEET	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Total non current assets	10,385	10,694	3.0%	10,385	10,694	3.0%
Total current assets	5,353	5,337	-0.3%	5,353	5,337	-0.3%
<b>TOTAL ASSETS</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>
Total issued capital and reserves	12,573	13,208	5.1%	12,573	13,208	5.1%
Total non current liabilities	737	498	-32.5%	737	498	-32.5%
Total current liabilities	2,429	2,326	-4.2%	2,429	2,326	-4.2%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>

CASH FLOW	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Net cash flow from operating activities	2,691	2,345	-12.9%	804	545	-32.3%
Net cash flow from investing activities	-1,215	-1,368	-12.6%	-351	-222	36.9%
Net cash flow from financing activities	-981	-992	-1.1%	-119	-120	-0.8%
<b>Cash and cash equivalents at the end of period</b>	<b>3,152</b>	<b>3,137</b>	<b>-0.5%</b>	<b>276</b>	<b>203</b>	<b>-26.4%</b>

CAPEX	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
CAPEX	1,885	1,826	-3.1%	635	585	-7.9%
CAPEX / Revenue ratio	24.3%	23.5%	-0.8 p.p.	32.2%	29.3%	-2.9 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Number of employees (FTEs)	5,110	5,447	6.6%	5,110	5,447	6.6%

## 1.8 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Twelve months to 31 Dec 2017	7.46	7.51	6.62	6.27
Twelve months to 31 Dec 2018	7.41	7.42	6.28	6.47

## 2. Business Review

HT Croatia, in HRK million

in HRK million

INCOME STATEMENT	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Revenue	7,125	7,165	0.6%	1,814	1,848	1.9%
Mobile	2,988	3,125	4.6%	750	765	2.0%
Fixed voice	843	736	-12.7%	199	177	-11.1%
Broadband & TV	1,318	1,294	-1.8%	326	320	-1.8%
Fixed wholesale	347	301	-13.2%	73	71	-1.9%
Other fixed	779	827	6.3%	210	218	4.2%
System solutions	698	763	9.2%	220	276	25.5%
Miscellaneous	151	118	-22.0%	39	22	-43.0%
EBITDA before exceptional items	2,918	2,953	1.2%	741	703	-5.2%
Exceptional items	144	50	-65.0%	46	14	-70.1%
EBITDA after exceptional items	2,774	2,903	4.6%	695	689	-0.9%
EBIT (Operating profit)	1,066	1,341	25.8%	121	273	126.1%
Net profit after non controlling interests	833	1,045	25.5%	123	185	50.3%
EBITDA margin before exceptional items	41.0%	41.2%	0.3 p.p.	40.9%	38.0%	-2.8 p.p.
EBITDA margin after exceptional items	38.9%	40.5%	1.6 p.p.	38.3%	37.3%	-1.0 p.p.
EBIT margin	15.0%	18.7%	3.8 p.p.	6.7%	14.8%	8.1 p.p.
Net profit margin	11.7%	14.6%	2.9 p.p.	6.8%	10.0%	3.2 p.p.

Key operational data	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
<b>Mobile customers in 000</b>						
<b>Number of customers</b>	<b>2,244</b>	<b>2,273</b>	<b>1.3%</b>	<b>2,244</b>	<b>2,273</b>	<b>1.3%</b>
- Prepaid	985	951	-3.4%	985	951	-3.4%
- Postpaid	1,260	1,322	4.9%	1,260	1,322	4.9%
<b>minutes of use (MOU) per average customer</b>	<b>216</b>	<b>225</b>	<b>4.0%</b>	<b>216</b>	<b>230</b>	<b>6.5%</b>
<b>Blended ARPU <sup>4)</sup></b> (monthly average for the period in HRK)	<b>77</b>	<b>68</b>	<b>-11.7%</b>	<b>75</b>	<b>66</b>	<b>-11.9%</b>
- Prepaid	43	43	0.9%	42	40	-3.1%
- Postpaid	106	86	-18.6%	102	85	-17.0%
<b>Blended non-voice ARPU <sup>4)</sup></b> (monthly average for the period in HRK)	<b>40</b>	<b>38</b>	<b>-5.8%</b>	<b>40</b>	<b>38</b>	<b>-4.0%</b>
<b>SAC per gross add in HRK</b>	<b>109</b>	<b>126</b>	<b>15.4%</b>	<b>82</b>	<b>144</b>	<b>76.1%</b>
<b>Churn rate (%)</b>	<b>3</b>	<b>2</b>	<b>-0.1 p.p.</b>	<b>3</b>	<b>3</b>	<b>0.1 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>118</b>	<b>123</b>	<b>4.9 p.p.</b>	<b>118</b>	<b>123</b>	<b>4.9 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>46</b>	<b>45</b>	<b>-0.8 p.p.</b>	<b>46</b>	<b>45</b>	<b>-0.8 p.p.</b>
<b>Smartphone customers (%) <sup>2)</sup></b>	<b>58</b>	<b>67</b>	<b>8.8 p.p.</b>	<b>58</b>	<b>67</b>	<b>8.8 p.p.</b>
<b>Smartphones sold (%) <sup>3)</sup></b>	<b>84</b>	<b>91</b>	<b>7.4 p.p.</b>	<b>88</b>	<b>93</b>	<b>5.0 p.p.</b>

<sup>1)</sup> Source: internal estimation of the competitors customers for EO December 2018

<sup>2)</sup> Number of customers using a smartphone handsets in total number of mobile customers

<sup>3)</sup> Number of smartphones sold in total number of handsets sold (postpaid only)

<sup>4)</sup> ARPU for 4Q 2018 includes IFRS 15 effects

Key operational data	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
<b>Fixed mainlines in 000</b>						
<b>Fixed mainlines - retail <sup>1)</sup></b>	<b>875</b>	<b>819</b>	<b>-6.3%</b>	<b>875</b>	<b>819</b>	<b>-6.3%</b>
<b>Fixed mainlines - wholesale</b> (WLR - wholesale line rental)	<b>63</b>	<b>53</b>	<b>-15.5%</b>	<b>63</b>	<b>53</b>	<b>-15.5%</b>
<b>ARPU voice per user <sup>5)</sup></b> (monthly average for the period in HRK) <sup>2)</sup>	<b>78</b>	<b>73</b>	<b>-7.3%</b>	<b>75</b>	<b>71</b>	<b>-5.2%</b>
<b>IP mainlines/customers in 000</b>						
<b>Broadband access lines - retail <sup>3)</sup></b>	<b>624</b>	<b>618</b>	<b>-0.9%</b>	<b>624</b>	<b>618</b>	<b>-0.9%</b>
<b>Broadband access lines - wholesale <sup>4)</sup></b>	<b>131</b>	<b>129</b>	<b>-1.8%</b>	<b>131</b>	<b>129</b>	<b>-1.8%</b>
<b>TV customers</b>	<b>417</b>	<b>418</b>	<b>0.3%</b>	<b>417</b>	<b>418</b>	<b>0.3%</b>
<b>Broadband retail ARPU <sup>5)</sup></b> (monthly average for the period in HRK)	<b>117</b>	<b>111</b>	<b>-5.4%</b>	<b>113</b>	<b>107</b>	<b>-5.2%</b>
<b>TV ARPU <sup>5)</sup></b> (monthly average for the period in HRK)	<b>81</b>	<b>84</b>	<b>2.7%</b>	<b>82</b>	<b>85</b>	<b>4.3%</b>
<b>Wholesale customers in 000</b>						
<b>ULL (Unbundled Local Loop)</b>	<b>135</b>	<b>121</b>	<b>-10.3%</b>	<b>135</b>	<b>121</b>	<b>-10.3%</b>

<sup>1)</sup> Includes PSTN, FGSM, old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones

<sup>2)</sup> Payphones excluded

<sup>3)</sup> Includes ADSL, VDSL, FTTH i Naked DSL

<sup>4)</sup> Includes Naked Bitstream + Bitstream

<sup>5)</sup> ARPU for 4Q 2018 includes IFRS 15 effects

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

## HT Group highlights:

### Significant efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable estimated portion of 45.4%
- Magenta1 achieved 191 thousand of consumer households (3Q 2018: 168) while in business area there are 16 thousand active accounts (3Q 2018: 14 thousand active accounts)
- In CT, Magenta1 achieved almost 15% (3Q 2018: 14%) of consumer households, while in business area there are more than 1,800 active accounts (3Q 2018: 1,600 active accounts)

### Strong financial performance of main financial KPIs

- Revenue amounts to HRK 7,783 million and is above 2017 by HRK 27 million or 0.4% driven by HT Group in Croatia (HRK 40 million or 0.6%), while CT contribution is below 2017 by HRK 13 million or 2.0%
- EBITDA amounts to HRK 3,186 million and is above 2017 by HRK 48 million or 1.5% driven by both HT Group in Croatia (HRK 35 million or 1.2%) and CT (HRK 13 million or 5.8%)
- Capex amounts to HRK 1,826 million and is below 2017 by HRK 59 million or 3.1% driven by HT Group in Croatia (HRK 98 million or 5.6%), while CT contributed with higher capex by HRK 40 million or 28.3%

### Continued significant investments in network infrastructure

- "Indoor" 4G population coverage increased to 82.0% (3Q 2018: 78.7%), while "Outdoor" coverage reached 98.5% (3Q 2018: 98.4%)
- Coverage of NGA access available for 58.2% of Croatian households (3Q 2018: 58.1%)
- FTTx access is enabled for 400 thousand households (3Q 2018: 399 thousand households)
- In CT broadband access expansion continued, FTTH rollout: Underground - expected flats coverage in urban areas over 93% (3Q 2018: 91%); AIR - already three municipalities/suburban areas; 4G Rollout 2018 finished as planned. Milestone of 96% LTE postpaid outdoor coverage reached.

### Mobile network modernization

- After successful completion of modernization in Istria (138 locations) and in Q4 2018 with modernization in Zagreb area (428 locations) we continued with modernization of mobile and transport network in Kvarner region – radio equipment swapped at 47 locations – reaching total of 613 locations with swapped radio equipment
- Capacity expansion of the mobile access network continues reaching in total 356 locations (3Q 2018: 332 locations)
- Modernization of IP/MPLS network significantly improved stability of network - resulted in Prio1 network incident reduction of 80% compared to 2017
- HT finished 2018 with P3 award proving the best mobile network in the data and crowdsourcing segment in Croatia

- New technological concept – Virtual packet core (virtual EPC) implemented in 5 months and successfully served all traffic needs during the summer

Launch of One App application in 2018, as a first in the DT Group:

- OneApp is substitute for “Moj Telekom” application in relation to which it is faster, easier to use with a range of new functionalities (One Click Payment, PayPal solution)
- Currently application has 101,000 monthly active users (3Q 2018: 47,000) and has average rating of 4.4 on Google Play platform (3Q 2018: 3.96)

### **Mobile telecommunications**

Mobile revenue above 2017 by HRK 137 million or 4.6% under influence of higher handsets (HRK 376 million or 81.2%) that offset lower postpaid (HRK 190 million or 12.5%) and decline in prepaid (HRK 27 million or 5.1%). Excluding IFRS 15 effects, handset revenue above 2017 by HRK 38 million or 8.2%, and postpaid above by HRK 79 million or 5.2%.

Mobile customer base slightly increased by 1.3%, to 2,273 thousand customers at the end 2018 in comparison to 2017 mainly as a result of great overall performance of postpaid, higher by 4.9%. Great postpaid performance is a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns and further M2M growth, as well as migration from prepaid to postpaid M2M due to regulation (numeration). Increase in postpaid was partially offset by lower prepaid segment performance by 3.4%.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as attractive TV packages, fastest Internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta 1 campaign and offer “In Magenta 1 everyone gets double amount of minutes, SMS and GBs” continued through 2018.

HT continued with push of new postpaid portfolio with high value offers focused on content, data and zero rated offers to fully utilize network leadership – 4G with the highest speed up to 350 Mbit/s in all new postpaid tariffs. All tariffs include offer for MAXtv To Go mobile application, 1 zero rated app and possibility of unlimited access to entertainment content without spending traffic included in tariff package. All mobile offers include a broad range of best handsets and innovative gadgets with possibility to choose 36 monthly installments.

In Q1 2018 Samsung has presented the new generation Smartphone - Samsung Galaxy S9 and S9+ available for purchase in HT.

New offer started in Q3 for Najbolja L tarifa autumn promo 6 months for HRK 1 as extra benefit for customers. Visible positive development of mobile postpaid gross adds (+12% MoM) with increased share of L tariff in M1.

Xmass campaign was launched in November – We make New Year's wishes come true! Accent is put on Magenta 1 (M1 knows how to give) through: hardware offers with smartphones for HRK 1 in Najbolje XL tariff in M1 and new Samsung and Huawei smartphones with tablets giveaway in Najbolja tariffs in

M1 and introduction of surprise and delight activities with Xmas content for free. Additionally, all postpaid customers who download Moj Telekom App in this period get 50GB for free.

Number of prepaid customers was 3.4% lower than in 2017 due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

HT continued with promotion of Simpa Hybrid tariff with main message “Best of both worlds”. New Hybrid tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world – enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. Except Hybrid offers Simpa customers can choose between different tariff options and VAS services (MAXtv To Go); for example *Simpa Veliki Glanc* option which includes 5,000 MB/ 1,000 MIN /1,000 SMS which users can use for HRK 74 per month.

Simpa launched its new Glanc options which became preferred option plan resulting in ARPU increase.

Bonbon continued with bringing its customers additional value, this time through two new weekly options for MB, MIN, SMS for HRK 10 or HRK 20 which Bonbon customers can combine with monthly options. Furthermore, Bonbon continued with 20GB package offer for all postpaid customers which can be purchased alone or combined with current minutes and/or SMS packages as well as other well-known benefits like Bonbon agents 0-24h availability, “Rollover” and 4G speed Internet. Bonbon is now presented as part of the T family in all customer communications.

HT continued with promotion of VOLTE, new service which enables voice calls over the superfast LTE network. Users will enjoy among many other benefits clear and natural sound, much faster call set up time and longer battery life without any additional charges. Furthermore, HT is among the first companies in Europe to launch eSIM – the future standard of mobile devices. It will fully replace the use of physical SIM cards and provide Internet connection to a large number of devices.

Minutes of usage per average customer in 2018 increased by 4.0% compared to 2017 while blended ARPU decreased due to introduction of IFRS 15. Excluding IFRS 15 effects, blended ARPU slightly above 2017 at level of HRK 77 (1.2% above).

## **Fixed line**

By the end of December 2018, total fixed access of 819 thousand are 6.3% lower than in December 2017. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro- and reactive churn prevention offers and activities.

To mitigate the on-going decline promo offer for fixed line was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs. Fixed telephony users



generated 1,107 million of minutes in 2018. That is 9.0% lower than in the same period in 2017 as a result of customer base shrinking and F2M substitution.

HT continued with attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks as well as mobile tariff with 2,000 MB/MIN/SMS for HRK 248 per month. Offer was further accompanied by tablet for HRK 99 with special simplified applications and screen for easy use, Huawei phone and SOS bracelet. Another offer for elderly introduced in 2017 continued through 2018 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPU decreased by 7.3% compared to 2017 as a result of mentioned general market trends and is slightly affected by introduction of IFRS 15. Excluding IFRS 15 effects, fixed voice ARPU is 6.5% below 2017.

## **Broadband**

At the end of 2018 broadband customer base was in line with the end of 2017 amounting to 618 thousand.

At the same time broadband retail ARPU was 5.4% below 2017 at the level of HRK 111 due to stronger competition and aggressive offers in the market, as well as IFRS 15 introduction. Excluding IFRS 15 effects, broadband retail ARPU is 4.5% below 2017.

HT continued with Max 2P and 3P packages “Biraj i mijenjaj” bringing its customers the possibility of choosing what services they want. Also, customers can choose one or more TV packages which they can change every 3 months (or each month in Magenta1) without any additional charges.

HT continues with push of Ultra MAX packages on FTTH with additional speed increase up to 500 Mbps (or up to 1000 Mbps with Turbo+ option). These packages are based on FTTH technology which enables multiple times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical Internet zones. To ensure higher Internet speeds to all low speed Broadband customers for only HRK 10 per month HT continued with offering combined fixed and mobile technology in one product and one device – Hybrid access. Hybrid access option ensuring higher Internet speeds from mid September is included in all M1 packages for customers on low Broadband speed.

In H1 2018 HT introduced Internet Posvuda offer for HRK 49/month for all new and existing HT users of fixed Internet. Offer includes data package of 30 GB (60GB in promo period until end of January) and zero rated MAXtv To Go and was accompanied by hardware options e.g. attractive Mini smart projector M6000, Samsung TV, 4G/Wifi Router and Samsung Galaxy Tab 10.1 LTE for extra charge. Prior to 2018 World Cup in Russia HT launched football campaign with Croatian supporting song and Goran Ivanišević as a main star of the whole campaign.

In Q3 HT introduced two new offers - MAX 2 Mini package for HRK 149 per month in M1 and 6 months mobile L tariff promotion for HRK 1 per month. MAX2 Mini package includes even faster Internet with 100GB data (flat Internet in promo period until mid-December) and 100 xnet minutes (flat towards fixed

and 1,000 min towards mobile networks in promo period until mid-December). Direct and simple communication through autumn campaign was emphasizing availability, speed and price of our offers with parallel communication of great hardware offers.

New Smart Wi Fi offer for all fixed Internet users which includes AirTies devices that enable better and wider range of Wi Fi signal through entire home. The offer is priced HRK 49 per month with MCD 24 and assures fast and reliable Internet connection at any time.

In September 2018, HT launched new, simplified fixed and mobile portfolios and convergent M1 proposition, followed by big ATL campaign.

The key benefit is M1 Bonus innovative concept that differentiates MAGENTA 1 BUSINESS from other convergent offers on Croatian market. Main goal of M1 Bonus is boosting ICT in VSE segment – the more fixed and mobile services customers have, the more M1 Bonus they get. M1 Bonus can be spent on ICT services and equipment.

Within new fixed/M1 offer, HT also introduced Professional modem for VSE customers. By introducing Professional modem, HT became first in the market to offer professional Internet access equipment to small business customers.

## **TV**

TV customer base is at the level of 418 thousand as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content. TV ARPU is at level of HRK 84 and above 2017 by 2.7%. Excluding IFRS 15 effects, ARPU is 3.8% above 2017.

MAXtv Sat customer base has declined by 5.4% compared to the same period last year due to competitors' aggressive promo campaigns with discounted prices, while we were trying to keep stable prices on market by abolishing promo discounts and keeping/increasing ARPU. On the other hand, MAXtv customer base is slightly higher by 1.5% than in 2017 as a result of continuous service and program offer improvements through premium and enriched exclusive TV content.

In 2018 MAXtv is still standard for the premium television service. Richest content, premium picture quality, interactivity, new interface and full integration with mobile devices provide customers a unique TV viewing experience fully adapted to their habits. In order to introduce pay tv service to all Broadband users, HT has launched new MAXtv Mini TV package. MAXtv Mini is IPTV service that includes free to air national, local and regional channels, Arena sport with the best content from national sport and one of the most popular pay tv channels PickboxTV. It also includes Snimalica and all on-demand pay tv features (Pay Per View, Video on Demand).

## **Wholesale**

At the end of 2018 there were 121 thousand of active ULL lines, which was lower by 10.3% in comparison to the same period last year. Number of ULL lines decreased due to focus of alternative operators to broadband services, usage of own infrastructure and overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 129 thousand at the end of period, which was 1.8% below last year realization with driver being higher usage of operator's own infrastructure.

Number of WLR lines at the end of period decreased by 15.5% compared to previous year and reached 53 thousand as a result of declining voice market and migration to broadband services.

There were no price changes for regulated wholesale fixed services during 2018.

In 2018 successful sales of IP and data services continued in spite of competitive domestic wholesale market of data and IP services. In the international wholesale market total capacity of sold IP increased by 10.4% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2018, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 11.6% more voice originating minutes and 80.8% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 90.8% more roaming voice traffic in foreign countries and 250.7% more data traffic.

Another significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 34.9% in 2018 compared to the last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.0% and from HT mobile network users increased by 29.1%.

### **System solutions**

System solution revenue increased by HRK 64 million or 9.2%.

System solutions revenue is continuously growing in all portfolio segments. Strategic focus remains on Cloud and Managed Solutions. The strongest growth achievement is in area of customized ICT solutions. Launched promo offer for ICT Equipment, Cloud Fleet Management and Fiscalisation (seasonal offer) and sales push of ICT services included in M1 Business VSE offer (Cloud storage, Office 365, ICT equipment, Mini and Maxi fiscal register, Antivirus, Mini CRM, Cloud Exchange mail, Cloud fax).

Combis is maintaining positive trends for previous quarters in revenue and profitability. Additional resources and bigger market coverage will bring new revenue in following quarters.

### **Energy**

Revenues from energy were lower by HRK 44 million or 31.3% when compared to 2017 as a result of lower consumption of business customers and the sale of HT's energy business segment.

In May 2018 Hrvatski Telekom concluded a contract with the company RWE Hrvatska d.o.o., thereby initiating the process of the sale of its electric energy business segment to RWE Hrvatska d.o.o..

Upon the obtaining of all necessary regulatory approvals and following the payout of the purchase price, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018.

### **3. HT Group financial performance**

#### **3.1 Revenue**

Total consolidated revenue increased by HRK 27 million or 0.4% to HRK 7,783 million in 2018 in comparison to 2017. Revenue increase is driven by HT Group in Croatia (HRK 40 million or 0.6%), while Crnogorski Telekom contribution was lower by HRK 13 million or 2.0%.

On HT Group level, revenue increase is driven by higher realization in mobile revenue (HRK 145 million or 4.4%) and system solutions (HRK 70 million or 9.6%); partially offset by lower fixed (HRK 154 million or 4.3%) and miscellaneous revenue (HRK 33 million or 22.0%).

Optima Telekom contribution to HT Group was above by HRK 19 million in comparison to 2017 and amounted to HRK 328 million in 2018. Contribution consisted of HRK 526 million of Optima Telekom third party contribution (2017: HRK 483 million) that was presented in the whole amount under fixed other revenue and HRK 197 million of intercompany relations that decreased mainly fixed wholesale revenue (2017: HRK 173 million).

Contribution of subsidiaries in Group revenue in 2018 amounted for Iskon HRK 382 million (2017: HRK 378 million) and for Combis HRK 526 million (2017: HRK 471 million).

#### **Mobile revenue**

Mobile revenue rose by HRK 145 million or 4.4% to HRK 3,450 million in 2018 in comparison to 2017. Growth is driven by HT Group in Croatia by HRK 137 million or 4.6%, while Crnogorski Telekom contributed with increase of HRK 7 million or 2.3%.

The growth resulted mainly from higher handset revenue (HRK 387 million or 77.5%) that offset decline in postpaid revenue (HRK 184 million or 10.7%) and prepaid (HRK 35 million or 5.8%). Such revenue development in handsets and postpaid is strongly influenced by introduction of IFRS 15. If IFRS 15 effects were excluded, handset revenue is above 2017 by HRK 38 million or 8.2%, while postpaid revenue is above 2017 by HRK 79 million or 5.2%.

The handset revenue growth was mainly driven by higher share of more valuable handsets, additionally supported by growing convergent offers.

Without IFRS 15 effects, postpaid increased mainly due to higher mobile data revenue as a result of continuous substitution trend of traditional services with data, higher number of data traffic included in tariff bundles and increasing share of customers having smartphones. HT continued with push of new postpaid portfolio with high value offers focused on content, data and zero rated offers to fully utilize network leadership, while Crnogorski Telekom offered refreshed postpaid portfolio.

Prepaid revenue decrease was a result of lower voice and SMS revenue which are only partially compensated by mobile data growth as a result of continuous promotional offers with focus on data traffic and 4G speed.

### **Fixed revenue**

Fixed revenue decreased by HRK 154 million or 4.3% to HRK 3,415 million in 2018 in comparison to 2017. Decline in fixed revenue for HT Group in Croatia amounts to HRK 128 million or 3.9%, while Crnogorski Telekom contributed with decline of HRK 26 million of 9.2%. Introduction of IFRS 15 further declined fixed revenue by HRK 8 million.

The fall resulted mainly from lower voice revenue (HRK 118 million or 12.7%), wholesale (HRK 51 million or 13.8%) and broadband (HRK 45 million or 4.6%) but it was partially compensated by higher other revenue (HRK 38 million or 6.3%) and TV revenue (HRK 17 million or 3.7%).

In 2018, fixed line voice retail revenue decreased in comparison to 2017 mainly as a result of continuous decline in the number of revenue producing fixed mainlines due to ongoing fixed to mobile substitution trend coming from strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment.

Fixed wholesale revenue decrease comes mostly from HT Group in Croatia, primarily under influence of Optima Telekom H1 acquisition in July 2017 and decrease in number of NBSA access lines.

Broadband revenue decline in comparison to the same period last year is a result of lower broadband retail ARPU which is a result of stronger competition and aggressive offers in the market.

Other fixed revenue increase was mainly driven by Optima Telekom under influence of H1 acquisition in July 2017.

TV revenue increased in comparison to the same period last year as a result of higher ARPU in HT Group in Croatia as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content. Crnogorski Telekom contribution is in line with 2017.

### **System Solutions**

System solution revenue increased by HRK 70 million or 9.6% in comparison to 2017 driven by both HT Group in Croatia (HRK 64 million or 9.2%) and Crnogorski Telekom contribution (HRK 6 million or 17.6%) due to more projects realization.

Introduction of IFRS 15 increased system solution revenue by HRK 4 million.

### **Miscellaneous revenue**

Decrease in miscellaneous revenue is mainly driven by energy business due to sale of energy business.

### **Other operating income**

Other operating income decreased by HRK 8 million or 4.4% compared to 2017. Decrease comes from HT Group in Croatia (HRK 10 million or 5.8%) driven by higher sale of land and buildings in 2017, while Crnogorski Telekom contributed with higher other operating income by HRK 2 million or 55.6% as a result of real estate sale.

## **3.2 Operating expenses**

Total consolidated operating expenses decreased by HRK 125 million or 2.5% to HRK 4,819 million in 2018 driven by both HT Group in Croatia (HRK 99 million or 2.2%) and Crnogorski Telekom contribution (HRK 26 million or 6.2%).

Decrease is a result of lower other expenses (HRK 220 million or 14.3%), lower write down of assets (HRK 23 million or 21.5%) partially offset by higher material expenses (HRK 74 million or 3.1%), higher employee benefits expenses (HRK 14 million or 1.3%) and lower amount of work performed by the Group and capitalized (HRK 30 million or 19.2%).

Excluding from operating expenses costs treated as exceptional items (which in 2018 amounted to HRK 55 million, while in 2017 amounted to HRK 151 million), mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation, operating expenses decreased by HRK 28 million or 0.6%.

### **Material expenses**

Material expenses increased to HRK 2,461 million in 2018 (HRK 74 million or 3.1%) as a result of higher merchandise, material and energy expenses (HRK 37 million or 2.3%) and service expenses (HRK 37 million or 4.7%). Increase in material expenses is driven by both HT Group in Croatia (HRK 70 million or 3.2%) and Crnogorski Telekom HRK 4 million or 2.2%.

Merchandise, material and energy expenses increased primarily due to higher merchandise costs offset with decrease in energy sales costs.

Merchandise costs increase (HRK 89 million or 7.0%) is mainly driven by higher system solution merchandise and higher mobile merchandise under influence of business segment as a result of higher contribution from retention activities. In the same time business mobile net handset revenue (without IFRS) is by 9.6% higher than in 2017.

Energy sales costs decrease is mainly due to lower consumption of large business customers and the sale of HT's energy business segment.

Service expenses increase is influenced by higher telecommunication costs, online costs and copyright fees.

Telecommunication cost increased mainly as a result of RLH regulation and consequently much higher traffic (higher data roaming, voice) which was partially offset by lower cost of international outgoing traffic due to decrease of average unit price.

Online costs increase is driven by additional push in media and digital business.

Copyright fees increased due to lower share of capitalized content rights contracts.

### **Employee benefits expenses**

Total employee benefits expenses increased by HRK 14 million or 1.3% in 2018 as a result of higher personnel costs (HRK 43 million or 4.3%) driven by higher number of FTEs, primarily by HT Group in Croatia, partially offset by lower redundancy costs (HRK 30 million or 41.4%).

Total number of FTEs amounts to 5,447 FTEs, which is an increase of 337 FTEs compared to 2017, mainly coming from HT Group in Croatia as a result of project execution in customer care area.

### **Other expenses**

Other expenses decreased by HRK 220 million or 14.3% to HRK 1,315 million in 2018, mainly driven by HT Group in Croatia (HRK 195 million or 14.1%). Crnogorski Telekom contributed also with lower other expenses by HRK 25 million or 16.4%. Decrease of other expenses is driven by spectrum fee decrease (according to the Ordinance on fees adopted on June 23<sup>rd</sup>, 2018), introduction of IFRS 15 and implemented savings measures.

### **Write down of assets**

The assets write down decreased by HRK 23 million or 21.5% to HRK 83 million in 2018 driven by HT Group in Croatia (HRK 25 million or 26.0%) mainly due to higher value adjustment of receivables driven by market influences in 2017. Crnogorski Telekom contributed with increase of HRK 3 million or 28.2%.

### **Depreciation and amortization**

Depreciation and amortization decreased to HRK 1,730 million by HRK 139 million or 7.5% compared to 2017 mainly influenced by HT Group in Croatia (HRK 146 million or 8.6%) primarily driven by impairment for SRAN and IPTV terminal equipment (HRK 98 million).

### **3.3 HT Group profitability**

#### **EBITDA before exceptional items**

EBITDA before exceptional items increased by HRK 48 million or 1.5% to HRK 3,186 million in 2018 driven by both HT Group in Croatia (HRK 35 million or 1.2%) and Crnogorski Telekom (HRK 13 million or 5.8%).

HT Group in Croatia EBITDA before exceptional items increase is influenced by increase of revenue (HRK 40 million or 0.6%); and lower operating expenses (before exceptional items) (HRK 5 million or 0.1%) coming from spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd, 2018), energy sales costs decrease as a result of lower consumption of business customers and transfer of HT's energy business segment and implemented savings measures; that have offset decline of other operating income (HRK 10 million or 5.8%).

Crnogorski Telekom EBITDA before exceptional items increase is result of lower operating expenses (before exceptional items) (HRK 23 million or 5.6%) and higher other operating income (HRK 2 million or 55.6%); that have offset revenue decline (HRK 13 million or 2.0%).

Optima Telekom contribution to 2018 Group EBITDA was above by HRK 22 million in comparison to 2017. It amounted to HRK 134 million (2017: HRK 112 million) and consisted of HRK 320 million of Optima Telekom third party contribution (2017: HRK 275 million) and HRK 186 million of intercompany relations (2017: HRK 164 million).

#### **Net profit after non controlling interests**

In comparison to 2017 consolidated net profit after non controlling interests increased by HRK 198 million or 22.9% to HRK 1,061 million in 2018.

Except higher EBITDA before exceptional items realization (HRK 48 million or 1.5%), net profit after non controlling interests increased due to lower depreciation and amortization (HRK 139 million or 7.5%), lower exceptional items (HRK 96 million or 63.7%), lower net financial loss (HRK 26 million or 19.4%) mainly due to lower exchange rate loss that have compensated higher taxation (HRK 55 million or 30.6%) as well as higher non controlling interest (HRK 57 million or 95.5%).

Optima Telekom brought to HT Group net profit loss of HRK 3 million (2017: loss of HRK 14 million).

### **3.4 Balance sheet**

In comparison to 2017 year end, there is only minor increase in the total asset value of 1.9% or HRK 293 million under the influence of recognizing contract assets and contract costs as a result of introduction of IFRS 15.



Total issued capital and reserves increased from HRK 12,573 million at 31 December 2017 to HRK 13,208 million at 31 December 2018 mainly driven by realized net profit for 2018 in the amount of HRK 1,061 million as well as catch-up effect of introduction of IFRS 15 that is recognized within retained earnings in amount of HRK 179 million that is offset with dividend payment for 2017 in amount of HRK 497 million and purchase of own share in amount of HRK 71 million.

Total non-current liabilities decreased by HRK 240 million or 32.5% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities decreased by HRK 103 million to HRK 2,326 million at 31 December 2018 mainly driven by lower volume of trade payables.

### 3.5 Cash flow

Cash flow from operating activities is HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

Net cash flow from operating activities decreased by HRK 346 million or 12.9% mainly due to unfavourable movement of working capital.

Cash flow from investing activities decreased by HRK 153 million or 12.6%, mainly due to higher net REPO arrangements proceeds in 2017 partially offset with acquisition into Crnogorski Telekom in 2017.

Cash flow from financing activities decreased by HRK 11 million or 1.1% due to higher financial repayments in 2018 partially offset by early finance lease repayment in 2017.

### 3.6 HT Group capital expenditure

HT Group including Crnogorski Telekom

in HRK million

CAPEX	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
CAPEX	1,885	1,826	-3.1%	635	585	-7.9%
CAPEX / Revenue ratio	24.3%	23.5%	-0.8 p.p.	32.2%	29.3%	-2.9 p.p.

Crnogorski Telekom

CAPEX	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
CAPEX	139	179	28.3%	44	69	58.3%

Capital expenditure realization decreased by HRK 59 million or 3.1% driven by lower realization of HT Group in Croatia by HRK 98 million or 5.6%, while CT contributed with higher capex by HRK 40 million or 28.3% due to higher access investments. Main drivers for lower HT Group realization are lower

content capitalization in 2018 and higher investment in Next TV in 2017 (Next TV project included replacement of STB CPE in 2017).

In total HT achieved coverage available for 58.2% households with a speed >30 Mbps from which 21% with speed > 100 Mbps. Optical access network (FTTx) is available for 400 thousand households.

In mobile network, "indoor" 4G population coverage is 82.0% and "outdoor" coverage reached 98.5%. Implementation of 4G speed increase to 350 Mbps download speeds continued to population coverage of 51% and speed to 300 Mbps download speeds continued to population coverage of 26%.

As a result of mobile network modernization activities HT finished 2018 with P3 "Best In Test" certificate proving the best mobile network in the data and crowdsourcing segment in Croatia.

In 2018 Program for Business and IT Transformation continued with focus on replacement of current mobile billing system and introduction of new Order Management system which will enable to support all end to end processes over mobile products. New Order Management system (STORM) will be first in DT Group to implement digital services (using microservices architecture).

## 4. Crnogorski Telekom stand-alone financial and non-financial highlights

in HRK million

INCOME STATEMENT	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Revenue	636	625	-1.9%	160	150	-6.1%
Mobile	317	324	2.2%	78	76	-2.5%
Fixed voice	83	73	-12.8%	21	17	-20.3%
Broadband & TV	120	117	-3.1%	30	29	-3.5%
Fixed wholesale	24	19	-19.8%	6	4	-25.6%
Other fixed	57	53	-5.9%	14	15	2.3%
System solutions	35	39	10.7%	12	11	-12.1%
EBITDA before exceptional items	220	233	5.8%	52	56	7.8%
Exceptional items	7	5	-37.3%	3	3	-15.5%
EBITDA after exceptional items	213	228	7.3%	48	53	9.4%
EBIT (Operating profit)	49	58	17.4%	9	5	-41.7%
Net profit after non controlling interests	38	54	40.7%	6	5	-24.1%
EBITDA margin before exceptional items	34.5%	37.2%	2.7 p.p.	32.4%	37.1%	4.8 p.p.
EBITDA margin after exceptional items	33.4%	36.5%	3.1 p.p.	30.2%	35.2%	5.0 p.p.
EBIT margin	7.7%	9.3%	1.5 p.p.	5.4%	3.3%	-2.0 p.p.
Net profit margin	6.0%	8.6%	2.6 p.p.	3.8%	3.1%	-0.7 p.p.
Key operational data	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
<b>Mobile customers in 000</b>	<b>352</b>	<b>369</b>	<b>4.9%</b>	<b>352</b>	<b>369</b>	<b>4.9%</b>
- Prepaid	141	142	0.9%	141	142	0.9%
- Postpaid	211	227	7.6%	211	227	7.6%
<b>Fixed mainlines - retail in 000</b>	<b>123</b>	<b>114</b>	<b>-7.3%</b>	<b>123</b>	<b>114</b>	<b>-7.3%</b>
<b>Broadband access lines - retail in 000</b>	<b>70</b>	<b>70</b>	<b>0.9%</b>	<b>70</b>	<b>70</b>	<b>0.9%</b>
<b>TV customers in 000</b>	<b>56</b>	<b>65</b>	<b>15.1%</b>	<b>56</b>	<b>65</b>	<b>15.1%</b>

Note: customer base as reported to Crnogorski Telekom local regulatory agency

Mobile revenues increased compared to 2017 by HRK 7 million or 2.2% influenced by higher handsets and postpaid, partially offset by lower prepaid and visitors.

Crnogorski Telekom has set its focus on postpaid segment. Postpaid revenues increased by HRK 6 million or 3.1% compared to 2017, mainly driven by residential segment (as a result of customer base increase by 15%, due to Magenta 2<sup>nd</sup> SIM introduction, Mobile Internet and postpaid portfolio refresh), which more than compensated lower prepaid revenue (mainly a result of pre2post base migration).

Challenge continued in prepaid segment, though the situation improved. Prepaid revenues declined by HRK 8 million or 11.1% compared to 2017 is showing a more positive trend as compared to previous years, when CT has experienced decline over 20%.

Postpaid market leadership was remained at the end of 2018.

Fixed revenues declined compared to 2017 by HRK 23 million or 7.9% coming mainly from the decline in the fixed voice, wholesale and broadband segment.

Fixed voice declined by HRK 11 million or 12.8%. Decrease is driven by ongoing fixed to mobile substitution and lower customer base by 7.3%.

Broadband revenue below 2017 by HRK 5 million or 7.1% driven by lower ARPU due to intensive acquisition and retention promotions provoked by aggressive pricing strategy on the market. Customer base was 0.9% above 2017 level, due to positive development throughout 2018.

TV revenues 1.7% higher than in 2017.

System solution revenue above 2017, by HRK 4 million or 10.7%.

## **5. Overview of segment profitability**

As of January 2017, Crnogorski Telekom was consolidated and respectively Group operating segments extended to Residential business unit, Business business unit, Network and support functions, Optima consolidated unit and Crnogorski Telekom consolidated unit.

The Residential business unit (RBU) includes marketing, sales and customer care activities, focused on providing mobile, fixed line telecommunications and TV distribution services to residential customers.

The Business business unit (BBU) includes marketing, sales and customer care activities, focused on providing mobile and fixed line telecommunications, system integration services to corporate customers, small and medium business and public sector. In addition, BBU is responsible for wholesale business for both, fixed and mobile services.

The Network and support function (NSF) performs cross-segment management and support functions, including Technology department, Procurement, Accounting, Treasury, Legal and other central functions.

Companies in the HT's full ownership Iskon, Combis, KDS and E-tours are part of above-mentioned segments, following the same structure as the Mother Company.

Optima consolidated unit includes contribution of all Optima Telekom's functions to the Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on fixed other revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. Only financial consolidation is performed, while Optima Telekom non financial KPIs are not included into Group achievements.

Crnogorski Telekom consolidated unit includes contribution of all Crnogorski Telekom's functions to the Group financial results following the same reporting structure as used for other operating segments.

In the financial reports, the Group's segments are reported on contribution to EBITDA before EI level. The revenue and expenses of the segments include primary results.

Depreciation is not allocated to the segments, except the part related to Optima Telekom and Crnogorski Telekom, as the majority is related to the fixed and mobile network, which is part of NSF. Depreciation and amortization is not allocated to the segments.

## 5.1 Residential Segment

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Mobile revenue	1,953	2,031	4.0%	510	552	8.1%
Fixed revenue	1,764	1,651	-6.4%	429	403	-5.9%
Miscellaneous	37	38	3.7%	9	6	-36.5%
<b>Revenue</b>	<b>3,754</b>	<b>3,720</b>	<b>-0.9%</b>	<b>949</b>	<b>961</b>	<b>1.3%</b>
<b>Operating expenses</b>	<b>1,208</b>	<b>1,282</b>	<b>6.1%</b>	<b>312</b>	<b>384</b>	<b>23.0%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>2,546</b>	<b>2,438</b>	<b>-4.2%</b>	<b>636</b>	<b>577</b>	<b>-9.3%</b>

## 5.2 Business Segment

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Mobile revenue	1,035	1,094	5.7%	239	213	-11.0%
Fixed revenue	1,038	977	-5.9%	244	243	-0.4%
System solution	696	762	9.5%	217	275	26.8%
Miscellaneous	114	80	-30.3%	29	16	-45.1%
<b>Revenue</b>	<b>2,883</b>	<b>2,912</b>	<b>1.0%</b>	<b>730</b>	<b>747</b>	<b>2.4%</b>
<b>Operating expenses</b>	<b>1,554</b>	<b>1,547</b>	<b>-0.4%</b>	<b>425</b>	<b>440</b>	<b>3.7%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>1,329</b>	<b>1,365</b>	<b>2.7%</b>	<b>305</b>	<b>307</b>	<b>0.7%</b>

## 5.3 Network and support functions

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
<b>Other operating income</b>	<b>166</b>	<b>152</b>	<b>-8.7%</b>	<b>50</b>	<b>52</b>	<b>3.1%</b>
<b>Operating expenses</b>	<b>1,402</b>	<b>1,329</b>	<b>-5.2%</b>	<b>332</b>	<b>332</b>	<b>0.1%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>-1,236</b>	<b>-1,177</b>	<b>4.8%</b>	<b>-282</b>	<b>-280</b>	<b>0.4%</b>

#### 5.4. Segment Optima Telekom consolidated

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Fixed revenue	483	526	8.9%	133	137	3.3%
<b>Revenue</b>	<b>483</b>	<b>526</b>	<b>8.9%</b>	<b>133</b>	<b>137</b>	<b>3.3%</b>
<b>Other operating income</b>	<b>4</b>	<b>8</b>	<b>126.8%</b>	<b>1</b>	<b>3</b>	<b>185.8%</b>
<b>Operating expenses</b>	<b>211</b>	<b>214</b>	<b>1.7%</b>	<b>53</b>	<b>44</b>	<b>-17.3%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>275</b>	<b>320</b>	<b>16.1%</b>	<b>81</b>	<b>96</b>	<b>19.4%</b>

#### 5.5. Segment Crnogorski Telekom consolidated

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Mobile revenue	317	325	2.5%	78	76	-2.4%
Fixed revenue	284	261	-8.1%	70	64	-9.0%
System solution	35	39	10.7%	12	11	-12.1%
<b>Revenue</b>	<b>636</b>	<b>625</b>	<b>-1.8%</b>	<b>160</b>	<b>150</b>	<b>-6.0%</b>
<b>Other operating income</b>	<b>4</b>	<b>6</b>	<b>55.6%</b>	<b>2</b>	<b>2</b>	<b>-24.2%</b>
<b>Operating expenses</b>	<b>417</b>	<b>392</b>	<b>-6.1%</b>	<b>110</b>	<b>94</b>	<b>-14.4%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>223</b>	<b>239</b>	<b>7.4%</b>	<b>53</b>	<b>58</b>	<b>10.5%</b>

#### 5.6. Segment P&L Bridge to HT Group EBITDA

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Segment Result (Contribution to EBITDA)						
Residential Segment	2,546	2,438	-4.2%	636	577	-9.3%
Business Segment	1,329	1,365	2.7%	305	307	0.7%
Network and Support Functions	-1,236	-1,177	4.8%	-282	-280	0.4%
Segment Optima consolidated	275	320	16.1%	81	96	19.4%
Segment Crnogorski telekom consolidated	223	239	7.4%	53	58	10.5%
<b>Total Contribution to EBITDA before exceptional items</b>	<b>3,138</b>	<b>3,186</b>	<b>1.5%</b>	<b>793</b>	<b>758</b>	<b>-4.4%</b>
Exceptional items	151	55	-63.7%	50	17	-66.3%
<b>Total EBITDA</b>	<b>2,986</b>	<b>3,131</b>	<b>4.8%</b>	<b>743</b>	<b>742</b>	<b>-0.2%</b>

## **6. Hrvatski Telekom Inc. financial highlights**

### **Revenue**

Revenue decreased by HRK 45 million or 0.7% to HRK 6,028 million in 2018 when compared to 2017. Decrease was driven by lower fixed revenue (HRK 146 million or 5.4%) mostly as a result of declining voice, wholesale, broadband and lower miscellaneous (HRK 43 million or 30.5%) coming from energy business. Decrease was partially offset by higher mobile revenue (HRK 136 million or 4.5%) mainly influenced by increased handset revenue and higher system solution (HRK 8 million or 3.4%).

### **EBITDA before exceptional items**

EBITDA before exceptional items decreased by HRK 4 million or 0.1% to HRK 2,688 million in 2018, mainly as a result of lower net revenue realization (HRK 45 million or 0.7%) and lower other operating income (HRK 11 million or 7.0%), partially compensated with lower operating expenses (before exceptional items) (HRK 52 million or 1.5%). Operating expenses decreased due to spectrum fee decrease (according to the three Ordinance on fees), energy sales costs decrease as a result of lower consumption of business customers and transfer of HT's energy business segment, implemented savings measures, while lower revenue realization is primarily under influence of declining fixed voice.

### **Net profit after non controlling interests**

Net profit after non-controlling interests increased by HRK 149 million or 17.8% to HRK 991 million in 2018. Increase was primarily a result of lower depreciation and amortization (HRK 92 million or 6.3%), lower exceptional items (HRK 89 million or 67.8%), lower net financial loss (HRK 6 million or 7.0%); slightly offset by higher taxation (HRK 34 million or 18.3%) and lower EBITDA before exceptional items (HRK 4 million or 0.1%).

## **7. Risk management**

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2018 made public, there were no material changes to the Group's risk profile in the period under review.

## 8. HT Group 2019 outlook

	<b>2018 Results</b>	<b>Outlook 2019 vs 2018</b>
<b>Revenue</b>	HRK 7,783 million	Around 2018 level
<b>EBITDA before exceptional items</b>	Margin of 40.9%	Margin of around 40%
<b>CAPEX</b>	HRK 1,826 million	Around 2018 level
<b>Regional expansion</b>	Purchase Agreement to buy evotv service signed; pending regulatory approval	HT is monitoring and evaluating potential M&A opportunities

Note: Outlook 2019 is before new standard IFRS 16 implementation



## 9. HT Group Financial statements

### 9.1 Consolidated Income Statement

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Mobile revenue	3,305	3,450	4.4%	827	840	1.6%
Fixed revenue	3,569	3,415	-4.3%	876	847	-3.2%
System solutions	731	801	9.6%	229	286	24.7%
Miscellaneous	151	118	-22.0%	39	22	-43.0%
<b>Revenue</b>	<b>7,756</b>	<b>7,783</b>	<b>0.4%</b>	<b>1,971</b>	<b>1,996</b>	<b>1.3%</b>
Other operating income	174	167	-4.4%	54	57	5.6%
<b>Total operating revenue</b>	<b>7,930</b>	<b>7,950</b>	<b>0.2%</b>	<b>2,024</b>	<b>2,052</b>	<b>1.4%</b>
<b>Operating expenses</b>	<b>4,943</b>	<b>4,819</b>	<b>-2.5%</b>	<b>1,281</b>	<b>1,311</b>	<b>2.3%</b>
Material expenses	2,387	2,461	3.1%	651	703	7.9%
Employee benefits expenses	1,073	1,087	1.3%	305	287	-5.9%
Other expenses	1,535	1,315	-14.3%	386	319	-17.3%
Work performed by the Group and capitalised	-158	-128	-19.2%	-67	-32	-51.7%
Write down of assets	106	83	-21.5%	6	34	464.0%
<b>EBITDA</b>	<b>2,986</b>	<b>3,131</b>	<b>4.8%</b>	<b>743</b>	<b>742</b>	<b>-0.2%</b>
Depreciation and amortization	1,869	1,730	-7.5%	614	463	-24.5%
<b>EBIT</b>	<b>1,118</b>	<b>1,401</b>	<b>25.4%</b>	<b>130</b>	<b>278</b>	<b>114.5%</b>
Financial income	38	28	-27.1%	7	3	-54.4%
Income/loss from investment in joint ventures	2	3	79.1%	-4	-1	-81.3%
Financial expenses	174	139	-20.0%	36	42	18.7%
<b>Profit before taxes</b>	<b>984</b>	<b>1,293</b>	<b>31.5%</b>	<b>97</b>	<b>239</b>	<b>145.3%</b>
Taxation	180	235	30.6%	19	44	135.2%
<b>Net profit</b>	<b>804</b>	<b>1,059</b>	<b>31.6%</b>	<b>78</b>	<b>194</b>	<b>147.7%</b>
Non controlling interests	-59	-3	-95.5%	-50	5	-110.2%
<b>Net profit after non controlling interests</b>	<b>863</b>	<b>1,061</b>	<b>22.9%</b>	<b>128</b>	<b>189</b>	<b>47.5%</b>
Exceptional items <sup>1)</sup>	151	55	-63.7%	50	17	-66.3%
<b>EBITDA before exceptional items</b>	<b>3,138</b>	<b>3,186</b>	<b>1.5%</b>	<b>793</b>	<b>758</b>	<b>-4.4%</b>

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

## 9.2 Consolidated Balance Sheet

in HRK million	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Intangible assets	2,539	2,539	0.0%	2,539	2,539	0.0%
Property, plant and equipment	6,175	6,218	0.7%	6,175	6,218	0.7%
Non-current financial assets	1,333	1,312	-1.6%	1,333	1,312	-1.6%
Receivables	248	391	58.0%	248	391	58.0%
Contract assets (IFRS 15)	0	58		0	58	
Contract costs (IFRS 15)	0	81		0	81	
Deferred tax asset	91	94	4.3%	91	94	4.3%
<b>Total non-current assets</b>	<b>10,385</b>	<b>10,694</b>	<b>3.0%</b>	<b>10,385</b>	<b>10,694</b>	<b>3.0%</b>
Inventories	128	136	6.2%	128	136	6.2%
Receivables	1,631	1,549	-5.0%	1,631	1,549	-5.0%
Current financial assets	197	112	-43.2%	197	112	-43.2%
Contract assets (IFRS 15)	0	146		0	146	
Contract costs (IFRS 15)	0	57		0	57	
Cash and cash equivalents	3,152	3,137	-0.5%	3,152	3,137	-0.5%
Prepayments and accrued income	246	201	-18.3%	246	201	-18.3%
<b>Total current assets</b>	<b>5,353</b>	<b>5,337</b>	<b>-0.3%</b>	<b>5,353</b>	<b>5,337</b>	<b>-0.3%</b>
<b>TOTAL ASSETS</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>
Subscribed share capital	9,823	9,823	0.0%	9,823	9,823	0.0%
Reserves	530	562	5.9%	530	562	5.9%
Revaluation reserves	2	-14	-919.4%	2	-14	-919.4%
Treasury shares	-38	-71	84.7%	-38	-71	84.7%
Retained earnings	1,024	1,503	46.8%	1,024	1,503	46.8%
Net profit for the period	863	1,061	22.9%	863	1,061	22.9%
Non controlling interests	369	344	-6.8%	369	344	-6.8%
<b>Total issued capital and reserves</b>	<b>12,573</b>	<b>13,208</b>	<b>5.1%</b>	<b>12,573</b>	<b>13,208</b>	<b>5.1%</b>
Provisions	73	70	-4.0%	73	70	-4.0%
Non-current liabilities	617	384	-37.8%	617	384	-37.8%
Contract liabilities (IFRS 15)	0	0		0	0	
Deferred tax liability	47	44	-7.6%	47	44	-7.6%
<b>Total non-current liabilities</b>	<b>737</b>	<b>498</b>	<b>-32.5%</b>	<b>737</b>	<b>498</b>	<b>-32.5%</b>
Current liabilities	2,310	2,223	-3.8%	2,310	2,223	-3.8%
Contract liabilities (IFRS 15)	0	52		0	52	
Deferred income	89	39	-56.6%	89	39	-56.6%
Provisions for redundancy	30	13	-58.2%	30	13	-58.2%
<b>Total current liabilities</b>	<b>2,429</b>	<b>2,326</b>	<b>-4.2%</b>	<b>2,429</b>	<b>2,326</b>	<b>-4.2%</b>
<b>Total liabilities</b>	<b>3,166</b>	<b>2,823</b>	<b>-10.8%</b>	<b>3,166</b>	<b>2,823</b>	<b>-10.8%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>	<b>15,738</b>	<b>16,031</b>	<b>1.9%</b>

### 9.3 Consolidated Cash Flow Statement

in HRK million	2017	2018	% of change A18/A17	Q4 2017	Q4 2018	% of change A18/A17
Profit before tax	984	1,293	31.5%	97	239	145.3%
Depreciation and amortization	1,869	1,730	-7.5%	614	463	-24.5%
Increase / decrease of current liabilities	321	-181	-156.3%	256	74	-71.0%
Increase / decrease of current receivables	-105	11	110.9%	-113	-54	52.2%
Increase / decrease of inventories	-57	-28	50.7%	3	-9	-403.8%
Other cash flow increases / decreases	-320	-480	-49.8%	-53	-168	-216.1%
<b>Net cash inflow/outflow from operating activities</b>	<b>2,691</b>	<b>2,345</b>	<b>-12.9%</b>	<b>804</b>	<b>545</b>	<b>-32.3%</b>
Proceeds from sale of non-current assets	99	38	-61.2%	8	13	76.3%
Proceeds from sale of non-current financial assets	2	1	-2.3%	0	0	1.1%
Interest received	11	8	-28.7%	4	-2	-152.5%
Other cash inflows from investing activities	1,302	625	-52.0%	-4	422	
<b>Total increase of cash flow from investing activities</b>	<b>1,413</b>	<b>672</b>	<b>-52.4%</b>	<b>8</b>	<b>434</b>	
Purchase of non-current assets	-1,467	-1,536	-4.8%	-387	-546	-41.2%
Purchase of non-current financial assets	-867	0	100.0%	58	0	-100.0%
Other cash outflows from investing activities	-295	-504	-70.6%	-30	-110	-271.6%
<b>Total decrease of cash flow from investing activities</b>	<b>-2,629</b>	<b>-2,040</b>	<b>22.4%</b>	<b>-359</b>	<b>-656</b>	<b>-82.9%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-1,215</b>	<b>-1,368</b>	<b>-12.6%</b>	<b>-351</b>	<b>-222</b>	<b>36.9%</b>
<b>Total increase of cash flow from financing activities</b>						
Repayment of loans and bonds	-72	-58	19.0%	-15	-15	-2.1%
Dividends paid	-493	-497	-0.8%	0	0	-42.4%
Repayment of finance lease	-53	-2	96.9%	-1	0	100.4%
Other cash outflows from financing activities	-363	-435	-19.8%	-103	-104	-1.2%
<b>Total decrease in cash flow from financing activities</b>	<b>-981</b>	<b>-992</b>	<b>-1.1%</b>	<b>-119</b>	<b>-120</b>	<b>-0.8%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-981</b>	<b>-992</b>	<b>-1.1%</b>	<b>-119</b>	<b>-120</b>	<b>-0.8%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-19</b>	<b>0</b>	<b>98.8%</b>	<b>0</b>	<b>0</b>	<b>-89.4%</b>
Cash and cash equivalents at the beginning of period	2,676	3,152	17.8%	-58	0	100.0%
Net cash (outflow) / inflow	476	-15	-103.2%	334	203	-39.2%
<b>Cash and cash equivalents at the end of period</b>	<b>3,152</b>	<b>3,137</b>	<b>-0.5%</b>	<b>276</b>	<b>203</b>	<b>-26.4%</b>

## 10. Statement of the Management Board of Hrvatski Telekom d.d

To the best of our knowledge, audited financial statements of the company Hrvatski Telekom d.d. (hereinafter: "Company") and audited consolidated financial statements of the Company and affiliated companies thereof (hereinafter: "Group"), which are prepared in accordance with International Financial Reporting Standards (IFRS), give a true and fair view of assets and obligations, profit and loss, financial position, and operations of both the Company and the Group.

The Management report for the year 2018 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

Mr. Davor Tomašković, President of the Management Board (CEO)

Mr. Daniel Daub, Member of the Management Board and Chief Financial Officer

Ms. Nataša Rapaić, Member of the Management Board and Chief Operating Officer Residential

Mr. Saša Kramar, Member of the Management Board and Chief Operating Officer Business

Mr. Boris Drilo, Member of the Management Board and Chief Technical and Chief Information Officer

Zagreb, 15 February 2019

## 11. Presentation of information

Unless the context otherwise requires, references in this publication to "HT Group" or "the Group" or "HT" are to the Company Hrvatski Telekom d.d., together with its subsidiaries.

Following the merger of T-Mobile d.o.o. with Hrvatski Telekom (HT d.d.), effective 1 January 2010, the Group is now organized into two business units: Business and Residential.

Therefore, references to "Business" are to business operations performed within the Company's Business Segment.

References to "Residential" are to business operations performed within the Company's Residential Segment.

References to "Iskon" are to the Company's wholly-owned subsidiary, Iskon Internet d.d.

References to "Combis" are to the Company's wholly-owned subsidiary, Combis d.o.o.

References to “KDS” are to the Company’s wholly-owned subsidiary, KDS d.o.o.

References to “E-tours” are to the Company’s wholly-owned subsidiary, E-tours d.o.o.

References to “Optima” are to Optima Telekom, the company fully consolidated into the Group’s financial statements as of 1 July 2014.

References to “Crnogorski” or “CT” are to Crnogorski Telekom, the company fully consolidated into the Group’s financial statements as of 1 January 2017.

References to “H1” are to H1 Telekom, the company fully consolidated into Optima’s and Group’s financial statements as of 1 July 2017.

References in this publication to “Agency” are to the Croatian Regulatory Authority for Network Industries (HAKOM).

## **12. Disclaimer**

This release contains 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 information concerning important factors that could cause actual results to differ materially is available in the Group’s reports which may be found at [www.t.ht.hr](http://www.t.ht.hr)