



Zagreb – 26 July 2018

Hrvatski Telekom Results for the first six months ended 30 June 2018

In Q2 2018 as well, Hrvatski Telekom saw the growth of EBITDA, investments, and net profit

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the first six months of 2018 ended 30 June 2018.

In the first six months of 2018, Hrvatski Telekom achieved growth of key financial indicators – EBITDA, net profit, and investments.

In the first six months of 2018, EBITDA before exceptional items increased by HRK 13 million, or 0.9%, compared to the same period of the previous year, to HRK 1,471 million. The EBITDA margin is at a level of 40%, which is an increase by 0.5 percentage points compared to H1 2017. Crnogorski Telekom also contributed to the profitability growth by realising EBITDA in the amount of HRK 109 million, which is by HRK 5 million more than EBITDA realised in H1 2017. Excluding Crnogorski Telekom's contribution, HT Group's EBITDA in Croatia increased by 0.6% compared to the same period of the previous year, amounting to HRK 1,362 million, along with an EBITDA margin at a level of 40.3%.

Compared to the same period in 2017, net profit increased by HRK 37 million, or 9.1%, to HRK 447 million.

Total consolidated revenue generated in H1 2018 amounts to HRK 3,681 million, representing a 0.3% decrease compared to the same period of the previous year.

Continued investment in network infrastructure, advanced technology, and innovative services

Realisation of capital expenditures increased by 8.7% compared to H1 2017, amounting to HRK 895 million, including the contribution by Crnogorski Telekom. Without this effect, capital expenditures of the HT Group in Croatia increased by 8.3% to HRK 822 million.

The next generation access network (NGA) covers 58.1% of households, while optical access coverage is available to 388 thousand households.

In the mobile network, investments provided 4G mobile network indoor coverage at a level of 77.6%, while outdoor coverage reached 98.4%. HT continued with the implementation of the high speed 4G network providing 350 Mbit/s in download.

Q1 2018 saw the start of a major investment programme to modernise the mobile network with a view to increasing the capacity for higher data traffic and improving the customer experience, including

even faster internet access and laying the groundwork for the implementation of 5G technology. By the end of June, phase 1 was successfully completed in Istria, resulting in the modernisation of 137 locations of the mobile radio and transport networks and an increase in the capacity of the mobile access network at 250 locations along the coast. Since the beginning of July, activities have continued on the territory of the City of Zagreb. The main prerequisites have been created for the implementation of 5G technology as soon as the respective required radio frequency spectrum is allocated.

Magenta 1, the unique concept of service offering on the telecommunications market, which marked its second anniversary, has been accepted by more than 150 thousand households, and this figure is continuously rising.

The increase of the TV customer base to a level of 415 thousand confirms that the offer by Hrvatski Telekom is a standard for a premium TV service, recognising the needs of our customers.

For additional improvement of customer experience and as an important step towards intensified digitalisation, HT offered its customers the new One App application. It has been implemented on a new technology concept and features faster response time, user-friendliness, and a range of new functionalities – easier to use by customers for activation of tariff options, one-click payment of invoices etc.

In 2018, continued focus on growth, new technology concepts, and improved customer experience

Commenting on the business results achieved in H1 2018, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, pointed out:

“At the end of the first semester, Hrvatski Telekom saw an increase of EBITDA and net profit, and ensured the continuation of major capital expenditures. We just completed one of the biggest investments in Croatia. By modernising the mobile network in Istria, we have provided its inhabitants and tourists with a state-of-the-art mobile network in Croatia and the region and created the prerequisites for the implementation of the 5G network. We will continue with the programme to implement the currently cutting-edge equipment in other parts of Croatia too, as well as with increasing speed in the fixed network and constructing fibre-optic infrastructure.

I am also extremely proud of the increase in the number of Magenta 1 users who enjoy top-class experience and benefits of the integrated Internet, mobile, and TV offering. Our focus is on further growth and maintaining of our technological superiority due to the best network and the best TV content offer, particularly in the sports section. For the seventh year already, HT have been supporting Croatian football, enabling MAXtv users to watch exclusive broadcasts of the Hrvatski Telekom First Football League, the league where most of our Fiery Ones have started their careers.”

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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

+44 (0) 2071 928 000

Conference ID

4585467

A replay of the call will be available until Thursday, 2 August 2018 using the following details:

International Dial In

+44 (0) 3333 009 785

Conference ID

4585467

A presentation covering results for the first six months of 2018 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Introduction

1.1. HT Group's solid performance in H1 2018

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in H1 2018 in spite of competitive pressure.

1.2. Economic background

Croatia's economic yearly growth reached 2.5% in Q1 2018. Growth was driven by private consumption and a recovery in total fixed investment. Promising early booking indicators and growing pre-season arrivals signal another strong tourist season.¹

The registered unemployment rate keeps decreasing during 2018, starting from 12.5% (reported for January 2018) to 9.2% in May 2018. This is the result of increased employment as well as constant emigration trend.¹

The full effects of last year's wage increases are kicking in this year. The average monthly net wage in April 2018 amounted to 6,220 HRK, which was growth by 3.8% in real terms in comparison to April 2017. Inflation remains low with Consumer Price Index (CPI) growth by 1.3% in April 2018.¹

1.3. Croatian 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 121.9% at the end of June 2018. The Company maintains leading market position with estimated mobile SIM market share of 45.8% at the end of June 2018.

Total number of sent SMS messages continued to decrease on an annual basis by 12.6% in Q1 2018. Total broadband traffic grew year-on-year by 47.5% in Q1 2018. Total mobile market minutes of use (MOU) continued to increase on an annual basis by 1.8% in Q1 2018.²

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 7.3% in Q1 2018.²

¹ Sources: Croatian Bureau of Statistics, Spring forecast for Croatia, European Commission, May 2018

² Source: Croatian Post and Electronic Communications Agency's quarterly report for Q1/2018

The Croatian fixed broadband market continued to grow at a yearly rate by 4.0% reaching 1.1 million fixed broadband connections at the end of March 2018.² 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 621 thousand of broadband access lines at the end of June 2018.

The Croatian Pay TV market continued to grow in Q1 2018, reaching 831 thousand customers at the end of March 2018 (growth by 2.9% on yearly level).³

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2018 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 129 thousand at the end of June 2018 that is decrease of 9.1% 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 as a result of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 128 thousand of ULL access and 57 thousand of WLRs at the end of June 2018.

IT market

According to latest IDC report, Croatian IT market is expected to grow by 5.7% on annual basis in 2018.⁴ The strongest growth is expected in IT services by 10.7%. Software is expected to grow 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.

³ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q1/2018

⁴ Source: IDC Adriatics, July 2018

1.4. Regulatory overview

Amendments to the Ordinance on the Certificate and Fee for Right of way (OCFRW)

On September 20th, 2017, HAKOM adopted the amendments to the OCFRW.

Among other, the most significant changes are following: (i) HAKOM issues certificate only on the infrastructure operator's request, while in the case of request of the owner of private property or the manager of public property, HAKOM does not issue certificate but decision in which it determines the infrastructure operator, quantity and sort of the electronic communications infrastructure build on the properties and the annual amount of fee for the right of way; (ii) according to the OCFRW, the obligation to pay the fee for the right of way starts from submitting the request to HAKOM.

Amendments entered into force on September 30th, 2017 (Official Gazette No. 95/17).

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

On December 15th, 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, applicable from 2019. On June 23rd 2018 the relevant Ministry of the Sea, Transport and Infrastructure adopted amendments to the Ordinance on fees introducing several changes. The crucial change is that the fee reduction from December 2017 will be applicable for the year 2018.

Positive steps towards friendlier FTTH roll-out environment

At the beginning of 2018 HAKOM sent to the EU Commission proposal to repeal the existing Ordinance on fiber-optic distribution networks, which prescribes strict technological rules of roll-out of FTTH networks in Croatia. EU Commission commented on the proposal in March 2018 therewith requesting HAKOM to reconsider the possibility of amending the Ordinance (instead of repealing it) with aim to ensure effective access to the terminating fibre segment together with providing required incentives for investments.

HAKOM is considering changes to the Ordinance. Final decision of HAKOM on this issue is expected in Q3 2018.

National Program for the Development of Broadband Backhaul Infrastructure in Areas Lacking Sufficient Commercial Interest for Investments (the Aggregation scheme)

European Commission (EU COM) by its Decision SA.41065 approved the Aggregation Scheme, (published on July 10th, 2017) the project of the Croatian Government with the aim to use EU funds to build aggregation part of the network connecting minimum 540 targeted settlements in total value of EUR 775 mil. OIv has been foreseen as an administrator of the Aggregation Scheme in the name and on behalf of the Republic of Croatia (through a separate organizational unit). OIv will not be allowed to commercially exploit the new aggregation network or be active at the retail level.

Amendments to the Margin Squeeze Methodology

On November 30th, 2016, HAKOM adopted amendments to the Margin Squeeze Methodology (MSQ) that applies to HT's retail prices for fixed network access, fixed broadband access and IPTV services. As a follow up to the amended MSQ methodology, in December 2016, HT delivered requested data to HAKOM for the purpose of updating the MSQ model. On January 18th, 2017, HAKOM adopted the decision regarding the first phase of alignment with the new MSQ model. In February 2017, HAKOM initiated second phase of alignment with the MSQ methodology, which was finalized in Q2 2018 without negative impact on HT's retail offers.

1.5. 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 1st, 2018. The Group utilized the option for simplified initial application, i.e., contracts that are not completed by January 1st, 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	H1 2018 as reported	H1 2018 without IFRS 15 effects	Q2 2018 as reported	Q2 2018 without IFRS 15 effects
Revenue	3,681	3,668	1,883	1,870
Operating expenses	2,300	2,313	1,138	1,142
EBITDA before exceptional items	1,471	1,446	787	769

IFRS 9 Financial instruments is applied from January 1st, 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 1st, 2018 in accordance with IFRS 15), which lead to earlier recognition of impairment losses in some cases.

1.6. Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Six months to 30 Jun 2017	7.45	7.41	6.89	6.49
Six months to 30 Jun 2018	7.42	7.38	6.12	6.34

2. Business review

2.1. Summary of key financial indicators – HT Group (including Crnogorski Telekom)

in HRK million

INCOME STATEMENT	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Revenue	3,691	3,681	-0.3%	1,874	1,883	0.5%
Mobile	1,542	1,605	4.1%	797	839	5.3%
Fixed voice	477	413	-13.4%	236	206	-13.0%
Broadband & TV	719	704	-2.1%	361	355	-1.8%
Fixed wholesale	205	165	-19.2%	102	77	-24.4%
Other fixed	387	430	11.1%	191	216	12.7%
System solutions	292	295	1.0%	151	156	3.1%
Miscellaneous	69	68	-0.8%	34	35	2.2%
EBITDA before exceptional items	1,458	1,471	0.9%	784	787	0.3%
Exceptional items	51	34	-33.0%	19	11	-42.2%
EBITDA after exceptional items	1,406	1,437	2.2%	765	776	1.4%
EBIT (Operating profit)	582	597	2.6%	353	363	3.0%
Net profit after non controlling interests	410	447	9.1%	262	281	7.5%
EBITDA margin before exceptional items	39.5%	40.0%	0.5 p.p.	41.8%	41.8%	-0.1 p.p.
EBITDA margin after exceptional items	38.1%	39.0%	0.9 p.p.	40.8%	41.2%	0.4 p.p.
EBIT margin	15.8%	16.2%	0.5 p.p.	18.8%	19.3%	0.5 p.p.
Net profit margin	11.1%	12.2%	1.0 p.p.	14.0%	14.9%	1.0 p.p.

BALANCE SHEET	At 31 Dec 2017	At 30 Jun 2018	% of change A18/A17	At 31 Dec 2017	At 31 Mar 2018	% of change A18/A17
Total non current assets	10,385	10,584	1.9%	10,385	10,501	1.1%
Total current assets	5,353	4,980	-7.0%	5,353	5,418	1.2%
TOTAL ASSETS	15,738	15,564	-1.1%	15,738	15,919	1.1%
Total issued capital and reserves	12,573	12,620	0.4%	12,573	12,870	2.4%
Total non current liabilities	737	724	-1.7%	737	784	6.4%
Total current liabilities	2,429	2,219	-8.6%	2,429	2,265	-6.7%
TOTAL EQUITY AND LIABILITIES	15,738	15,564	-1.1%	15,738	15,919	1.1%

CASH FLOW	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Net cash flow from operating activities	1,230	1,010	-17.9%	576	447	-22.5%
Net cash flow from investing activities	-429	-441	-2.7%	195	-240	-223.0%
Net cash flow from financing activities	-743	-755	-1.6%	-568	-618	-8.9%
Cash and cash equivalents at the end of period	2,770	2,964	7.0%	194	-410	-311.1%

CAPEX	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
CAPEX	824	895	8.7%	458	453	-1.2%
CAPEX / Revenue ratio	22.3%	24.3%	2.0 p.p.	24.4%	24.0%	-0.4 p.p.

NUMBER OF EMPLOYEES	At 30 Jun 2017	At 30 Jun 2018	% of change A18/A17	At 31 Mar 2017	At 31 Mar 2018	% of change A18/A17
Number of employees (FTEs)	4,993	5,473	9.6%	4,885	5,343	9.4%

2.1.1. HT Group highlights

Significant efforts taken to maintain position in the market

- HT keeps the leading mobile market share with stable estimated portion of 45.8%
- Magenta1 achieved 150 thousands of consumer households (Q1 2018: 134) while in business area there are 13 thousand active accounts (Q1 2018: 11 thousand active accounts)

- In Montenegro, Magenta1 achieved over 14% (Q1 2018: 14%) of consumer households, while in business area there are more than 1,500 active accounts (Q1 2018:1,200 active accounts)

Solid performance of main financial KPIs

- Revenue amounts to HRK 3,681 million and is below H1 2017 by HRK 10 million or 0.3% driven by both HT Group in Croatia (HRK 6 million or 0.2%) and CT contribution (HRK 5 million or 1.5%)
- EBITDA amounts to HRK 1,471 million and is above H1 2017 by HRK 13 million or 0.9% driven by both HT Group in Croatia (HRK 8 million or 0.6%) and CT (HRK 5 million or 4.7%)
- Capex amounts to HRK 895 million and is above H1 2017 by HRK 71 million or 8.7% driven by both HT Group in Croatia (HRK 63 million or 8.3%) and CT (HRK 8 million or 12.6%)

Continued significant investments in network infrastructure

- "Indoor" 4G population coverage increased to 77.6% (Q1 2018: 76.2%), "Outdoor" coverage increased to 98.4% (Q1 2018: 98.3%)
- Activities continued for achieving Digital Agenda 2020 targets, progress achieved in increasing coverage of NGA access that is now available for 58.1% of Croatian households
- FTTx access is enabled for 388 thousand households (Q1 2018: 380 thousand households)
- In Crnogorski Telekom broadband access expansion continued, FTTH rollout in progress

Mobile network modernization:

- First phase successfully completed in Istria - 137 locations of mobile radio and transport networks modernized
- Capacity expansion of the mobile access network continuous with focus on the coastline (250 location)
- Third mobile location in Split successfully installed - doubling the capacity of mobile core network to 80 Gbps
- 5G network ready – assured major prerequisites for smooth 5G rollout

Launch of One App application:

- Aim to further improve customer satisfaction and step forward to the digitization of society
- Implemented on new technology concept which ensures greater *flexibility* (enabled for the residential and business customer segment), *simplicity* (easier to use) and *speed* (faster application)
- New functionality are One Click Payment and PayPal solution

New collective agreement signed – focus on Frontline employees

Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021. Based on the authorization granted by the General Assembly, in March 2018 the Management Board withdrew 218,471 acquired Company shares without the share capital of the Company being decreased, while the remaining shares' participation in the share capital is being increased. The total number of shares has decreased from 81,888,535 shares to 81,670,064 shares without nominal value. Following the withdrawal, the number of acquired Company shares amounted to 242,935 on June 30th, 2018.

On March 1st 2018 HT concluded respective Agreements on transfer of HTs interest and shares in all of its subsidiaries and related companies seated in Croatia, to HT holding, a limited liability company fully owned by HT. Registration of transfers of interest and shares in all of these companies was conducted during March, 2018.

2.1.2. Main financials development

I. Revenue

Total consolidated revenue decreased by HRK 10 million or 0.3% to HRK 3,681 million in H1 2018 in comparison to H1 2017. Revenue decrease is driven by both HT Group in Croatia (HRK 6 million or 0.2%) and Crnogorski Telekom contribution (HRK 5 million or 1.5%).

On HT Group level, revenue decrease is driven by lower realization in fixed revenue (HRK 76 million or 4.2%) and miscellaneous revenue (HRK 1 million or 0.8%); partially offset by higher mobile revenue (HRK 63 million or 4.1%) and system solutions (HRK 3 million or 1.0%).

Optima Telekom contribution to HT Group was above by HRK 22 million in comparison to H1 2017 and amounted to HRK 163 million in H1 2018. Contribution consisted of HRK 260 million of Optima Telekom third party contribution (H1 2017: HRK 211 million) that was presented in the whole amount under fixed other revenue and HRK 97 million of inter-company relations that decreased mainly fixed wholesale revenue (H1 2017: HRK 71 million).

Contribution of subsidiaries in Group revenue in H1 2018 amounted for Iskon HRK 201 million (H1 2017: HRK 193 million) and for Combis HRK 171 million (H1 2017: HRK 170 million).

Mobile revenue

Mobile revenue rose by HRK 63 million or 4.1% to HRK 1,605 million in H1 2018 in comparison to H1 2017. Growth is driven by HT Group in Croatia by HRK 57 million or 4.1%, while Crnogorski Telekom contributed with HRK 7 million or 4.4%.

The growth resulted mainly from higher handset revenue (HRK 172 million or 78.0%) that offset decline in postpaid revenue (HRK 105 million or 12.3%) and prepaid (HRK 19 million or 6.3%). Such

revenue development in handsets and postpaid is strongly influenced by introduction of IFRS 15. If IFRS 15 effects are excluded, handset revenue is above H1 2017 by HRK 16 million or 7.3%, while postpaid revenue is above H1 2017 by HRK 33 million or 3.8%.

The handset revenue growth was driven by the increased sales volume of smartphones and higher share of more valuable handsets mainly additionally supported by growing convergent offers.

Reported postpaid revenue decreased driven by introduction of IFRS 15. 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 portfolio focused on content and data, while Crnogorski Telekom offers renewed tariffs.

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 76 million or 4.2% to HRK 1,713 million in H1 2018 in comparison to H1 2017. Decline in fixed revenue for HT Group in Croatia amounts to HRK 64 million or 3.9%, while Crnogorski Telekom contributed with decline of HRK 12 million or 8.5%. Introduction of IFRS 15 further declined fixed revenue by HRK 5 million.

The fall resulted mainly from lower voice revenue, wholesale and broadband but it was partially compensated by higher other revenue and TV revenue.

In H1 2018, fixed line voice retail revenue decreased in comparison to H1 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 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 customer base in HT Group in Croatia due to push of TV through Magenta1, Elderly offer and successful retention activities. Crnogorski Telekom contribution in line with H1 2017.

System Solutions

System solution revenue increased by HRK 3 million or 1.0% in comparison to H1 2017 driven by both HT Group in Croatia (HRK 2 million or 0.7%) and Crnogorski Telekom contribution (HRK 1 million or 5.4%) due to different dynamic in projects realization. Introduction of IFRS 15 declined system solution revenue by HRK 1 million.

Miscellaneous revenue

Slight decrease in miscellaneous revenue is driven by energy business due to lower number of business customers (22.0%).

II. Other operating income

Other operating income decreased by HRK 4 million or 7.2% compared to H1 2017. Decrease comes from HT Group in Croatia (HRK 7 million or 11.8%) driven by sale of land and buildings, while Crnogorski Telekom contributed with higher other operating income by HRK 3 million or 183.6%.

III. Operating expenses

Total consolidated operating expenses decreased by HRK 45 million or 1.9% to HRK 2,300 million in H1 2018 driven by both HT Group in Croatia (HRK 37 million or 1.7%) and Crnogorski Telekom contribution (HRK 8 million or 4.0%).

Decrease is a result of lower other expenses (HRK 91 million or 12.0%), higher amount of work performed by the Group and capitalized (HRK 13 million or 29.2%), lower write down of assets (HRK 10 million or 25.7%); partially offset by higher material expenses (HRK 44 million or 4.1%) and higher employee benefits expenses (HRK 25 million or 4.9%).

Material expenses

Material expenses increased to HRK 1,121 million in H1 2018 (by HRK 44 million or 4.1%) as a result of higher service expenses (HRK 32 million or 8.5%) and merchandise, material and energy expenses (HRK 12 million or 1.8%). Increase in material expenses is driven by HT Group in Croatia (HRK 43 million or 4.3%) and Crnogorski Telekom increased material expenses by HRK 2 million or 2.0% mainly due to higher merchandise costs.

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

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

Copyright fees increased due to delay of content rights contracts capitalization.

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

Merchandise, material and energy expenses increased primarily due to higher merchandise.

Merchandise costs increase mainly driven by higher system solution merchandise and higher mobile merchandise under influence of business segment as a result of increased sales volume of smartphones and higher share of more valuable handsets additionally supported by growing convergent offers.

Employee benefits expenses

Total employee benefits expenses increased by HRK 25 million or 4.9% in H1 2018 as a result of higher personnel costs (HRK 33 million or 6.8%) driven by higher number of FTEs, primarily by HT Group in Croatia, partially offset by lower redundancy costs (HRK 8 million or 22.9%).

Total number of FTEs amounts to 5,473 FTEs, which is an increase of 480 FTEs compared to H1 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 91 million or 12.0% to HRK 672 million in H1 2018, mainly driven by HT Group in Croatia (HRK 88 million or 12.7%). Crnogorski Telekom contributed with lower other expenses by HRK 3 million or 4.5%. Decrease of other expenses is driven by spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd 2018), different timing of marketing activities, introduction of IFRS 15, implemented savings measures and seasonalization of costs.

Write down of assets

The assets write down decreased by HRK 10 million or 25.7% to HRK 27 million in H1 2018 driven by both HT Group in Croatia (HRK 9 million or 27.6%) mainly due to better collection of receivables and Crnogorski Telekom contribution (HRK 1 million or 11.6%).

Depreciation and amortization

Depreciation and amortization increased to HRK 840 million by HRK 15 million or 1.8% compared to H1 2017 fully influenced by HT Group in Croatia (HRK 17 million or 2.2%) and mainly driven by electronic communication infrastructure assets and subsidiaries.

IV. Profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 13 million or 0.9% to HRK 1,471 million in H1 2018 driven by both HT Group in Croatia (HRK 8 million or 0.6%) and Crnogorski Telekom (HRK 5 million or 4.7%).

HT Group in Croatia EBITDA before exceptional items increase is influenced by lower operating expenses (before exceptional items) (HRK 21 million or 1.0%) coming from spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd 2018), implemented savings measures, different timing of marketing campaigns and seasonalization of other costs; that have offset decline of other operating income (HRK 7 million or 11.8%) and revenue decline (HRK 6 million or 0.2%).

Crnogorski Telekom EBITDA before exceptional items increase is result of lower operating expenses (HRK 7 million or 3.4%) and higher other operating income (HRK 3 million or 183.6%); that have offset revenue decline (HRK 5 million or 1.5%).

Optima Telekom contribution to H1 2018 Group EBITDA was above by HRK 6 million in comparison to H1 2017. It amounted to HRK 54 million (H1 2017: HRK 48 million) and consisted of HRK 145 million of Optima Telekom third party contribution (H1 2017: HRK 113 million) and HRK 92 million of inter-company relations (H1 2017: HRK 65 million).

Net profit after non controlling interests

In comparison to H1 2017 consolidated net profit after non controlling interests increased by HRK 37 million or 9.1% to HRK 447 million in H1 2018.

Except higher EBITDA before EI realization (HRK 13 million), net profit after non controlling interests increased due to lower restructuring costs (HRK 17 million or 33.0%), lower net financial loss (HRK 25 million or 30.1%) mainly due to lower exchange rate loss and non controlling interest (HRK 5 million or 245.9%) that have compensated higher depreciation and amortization (HRK 15 million or 1.8%) as well as higher taxation (HRK 8 million or 8.8%).

Optima Telekom brought to HT Group net profit loss of HRK 3 million (H1 2017: loss of HRK 1 million).

V. Financial position

Balance sheet

In comparison to 2017 year end, there is only minor increase in the total asset value of 1.1% or HRK 174 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 12,620 million at 30 June 2018 mainly driven by realized net profit for H1 2018 in the amount of HRK 447 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 490 million.

Total non-current liabilities decreased by HRK 13 million or 1.7% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities decreased by HRK 1,210 million to HRK 2,219 million at 30 June 2018 mainly driven by lower volume of trade payables.

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 220 million (17,9%) mainly due to unfavourable movement of working capital.

Cash flow from investing activities decreased by HRK 12 million (2,7%), mainly due to higher net REPO arrangements proceeds in H1 2017 partially offset with acquisition into Crnogorski Telekom in H1 2017.

Cash flow from financing activities decreased by HRK 12 million (1,6%) due to higher financial repayments in H1 2018 partially offset by early finance lease repayment in H1 2017.

VI. Capital expenditure

HT Group including Crnogorski Telekom

in HRK million

CAPEX	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
CAPEX	824	895	8.7%	458	453	-1.2%
CAPEX / Revenue ratio	22.3%	24.3%	2.0 p.p.	24.4%	24.0%	-0.4 p.p.

Crnogorski Telekom

CAPEX	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
CAPEX	65	73	12.6%	44	23	-48.0%

Capital expenditure realization increased by HRK 71 million or 8.7% driven by higher realization of HT Group in Croatia by HRK 63 million or 8.3%, mainly as a result of SRAN rollout and IT transformation, while CT contributed with higher capex by HRK 8 million or 12.6% due to content capitalization.

HT continued with modernization of access network of new generation (NGA) available for 58.1% households with a speed >30 Mbps from which 20% with speed > 100Mbps. Optical access network (FTTx) is available for 388 thousand households.

In mobile network, "indoor" 4G population coverage is 77.6% and "outdoor" coverage reached 98.4%. Implementation of 4G speed increase to 350 Mbps download speeds continued to population coverage of 31% and speed to 300 Mbps download speeds continued to population coverage of 37%.

In the area of Istria, HT successfully completed the first phase of a major investment program of modernization of mobile radio and transport networks (137 locations). Additional capacity per cell (850/950 Mbps) was provided through modernization program. Improved coverage at all frequency levels was achieved. With this project HT is building foundation for the introduction of 5G technology. In addition to the above-mentioned network modernization activities, HT continues with capacity expansion of the mobile access network to support traffic growth with a focus on the coastline (250 locations).

As a prerequisite for ensuring sufficient capacity of mobile core network (expected traffic peak is > 70 Gbps), HT has successfully installed a third mobile location in Split, thus doubling the capacity of mobile core network to 80 Gbps. The new location is based on the virtualized cloud solution, the technology of the future. This has provided prerequisites for scalable and simpler future extensions with a better cost ratio of installed new Gbps capacity.

HT has commercially launched One APP application, aiming further improvement of customer satisfaction as well as a step forward towards the digitalization of society. The application is implemented on a new technological concept which ensures greater flexibility, simplicity and speed in the development of new future applications. Through One App, a faster application was obtained, easier to use with a range of new functionalities (One Click Payment, PayPal solution). Application is now enabled for the residential and business customer segment.

2.2. Summary of key financial indicators – HT Group in Croatia

in HRK million

INCOME STATEMENT	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Revenue	3,387	3,381	-0.2%	1,717	1,726	0.6%
Mobile	1,394	1,451	4.1%	719	758	5.4%
Fixed voice	435	375	-13.9%	216	187	-13.3%
Broadband & TV	659	646	-2.0%	332	326	-1.8%
Fixed wholesale	195	157	-19.3%	97	73	-24.9%
Other fixed	358	406	13.2%	178	204	14.6%
System solutions	276	278	0.7%	142	145	2.0%
Miscellaneous	69	68	-0.8%	34	35	2.2%
EBITDA before exceptional items	1,353	1,362	0.6%	725	728	0.4%
Exceptional items	49	33	-32.2%	16	11	-33.7%
EBITDA after exceptional items	1,305	1,329	1.8%	709	717	1.1%
EBIT (Operating profit)	562	569	1.3%	338	344	1.8%
Net profit after non controlling interests	397	454	14.4%	252	294	16.8%
EBITDA margin before exceptional items	40.0%	40.3%	0.3 p.p.	42.2%	42.1%	-0.1 p.p.
EBITDA margin after exceptional items	38.5%	39.3%	0.8 p.p.	41.3%	41.5%	0.2 p.p.
EBIT margin	16.6%	16.8%	0.3 p.p.	19.7%	19.9%	0.2 p.p.
Net profit margin	11.7%	13.4%	1.7 p.p.	14.7%	17.0%	2.4 p.p.

Key operational data	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile customers in 000						
Number of customers	2,237	2,268	1.4%	2,237	2,268	1.4%
- Prepaid	1,030	981	-4.8%	1,030	981	-4.8%
- Postpaid	1,206	1,287	6.7%	1,206	1,287	6.7%
Minutes of use (MOU) per average customer	214	226	5.6%	219	232	5.8%
Blended ARPU ⁴⁾ (monthly average for the period in HRK)	77	67	-12.9%	79	67	-14.5%
- Prepaid	42	43	2.5%	44	44	0.4%
- Postpaid	108	85	-21.2%	109	85	-22.5%
Blended non-voice ARPU ⁴⁾ (monthly average for the period in HRK)	40	36	-8.8%	41	36	-11.8%
SAC per gross add in HRK	131	139	6.1%	118	108	-8.1%
Churn rate (%)	2.4	2.1	-0.3 p.p.	2.2	2.0	-0.2 p.p.
Penetration (%) ¹⁾	117	122	4.9 p.p.	117	122	4.9 p.p.
Market share of customers (%) ¹⁾	46	46	-0.5 p.p.	46	46	-0.5 p.p.
Smartphone customers (%) ²⁾	62	53	-8.5 p.p.	62	53	-8.5 p.p.
Smartphones sold (%) ³⁾	81	90	9.4 p.p.	81	91	9.8 p.p.

¹⁾ Source: internal estimation of the competitors customers for EO June 2018

²⁾ Number of customers using a smartphone handsets in total number of mobile customers

³⁾ Number of smartphones sold in total number of handsets sold (postpaid only)

⁴⁾ ARPU for H1 2018 includes IFRS 15 effects

Key operational data	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	899	846	-5.9%	899	846	-5.9%
Fixed mainlines - wholesale (WLR - wholesale line rental)	72	57	-21.1%	72	57	-21.1%
ARPU voice per user ⁵⁾ (monthly average for the period in HRK) ²⁾	80	73	-8.7%	79	73	-7.8%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	624	621	-0.5%	624	621	-0.5%
Broadband access lines - wholesale ⁴⁾	142	129	-9.1%	142	129	-9.1%
TV customers	411	415	0.8%	411	415	0.8%
Broadband retail ARPU ⁵⁾ (monthly average for the period in HRK)	118	111	-5.7%	118	112	-5.3%
TV ARPU ⁵⁾ (monthly average for the period in HRK)	81	83	1.5%	81	84	3.0%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	140	128	-8.3%	140	128	-8.3%

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

²⁾ Payphones excluded

³⁾ Includes ADSL, VDSL, FTTH i Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

⁵⁾ ARPU for H1 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

I. Mobile telecommunications

Mobile revenue above H1 2017 by HRK 57 million or 4.1% under influence of higher handsets (HRK 164 million or 80.7%) that offset lower postpaid (HRK 109 million or 14.4%) and decline in prepaid (HRK 14 million or 5.3%). Excluding IFRS 15 effects, handset revenue above H1 2017 by HRK 13 million or 6.3%, and postpaid above by HRK 27 million or 3.5%.

Mobile customer base slightly increased by 1.4%, to 2,268 thousand customers at the end of H1 2018 in comparison to H1 2017 mainly as a result of great overall performance of postpaid by 6.7% under influence of Magenta1 offers, Bonbon campaigns and M2M growth, which was partially offset by lower prepaid segment performance by 4.8%.

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. Magenta1 campaign and offer "In Magenta1 everyone gets double amount of minutes, SMS and GBs" continued through H1 2018.

HT continued with push of new postpaid portfolio with value heavy offers focused on content, data and zero rated offers to fully utilize network leadership - 4G with the highest speed up to 350 Mbps 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.

Number of prepaid customers was 4.8% lower than in H1 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 Hibrid with main message “Best of both worlds”. New Hibrid 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 Hibrid offers Simpa customers can choose between different tariff options and VAS services (MAXtv To Go); for example Simpa Zmajska option which includes 5,000 MB/MIN/SMS which users can use as they want for HRK 69 per month.

Simpa launched its new Glanc options managing in one month to grab more than 25% of the existing base in previous options resulting in ARPU increase.

Bonbon continued with bringing its customers additional value, this time through new 2 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 H1 2018 increased by 5.6% compared to H1 2017 while blended ARPU decreased due to introduction of IFRS 15. Excluding IFRS 15 effects, blended ARPU slightly above H1 2017 at level of HRK 77 (0.2% above).

II. Fixed telecommunications

Fixed revenue below H1 2017 by HRK 64 million or 3.9% under influence of declining fixed voice revenue, lower wholesale, lower broadband which were partially offset by higher other revenue mainly coming from Optima and H1 consolidation and TV revenue. IFRS 15 further decreased fixed revenue by HRK 4 million.

Fixed line

By the end of H1 2018, total fixed access mainlines of 846 thousand were by 5.9% lower than at the end of H1 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 578 million of minutes in H1 2018. That is 7.9% 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 H1 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 8.7% compared to H1 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 7.8% below H1 2017.

Broadband

At the end of H1 2018 broadband customer base was in line with the end of H1 2017 amounting to 621 thousand.

At the same time broadband retail ARPU was 5.7% below H1 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 4.8% below H1 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.

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 September) and zero rated MAXtv To Go and was accompanied by Hardware options e.g. attractive Mini smart projector M6000, Samsung TV, 4G/Mifi 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 performed by Zaprešić boys group and Goran Ivanišević as a main star of the whole campaign.

Regarding business customers, both, Magenta1 for very small business customers which includes fixed and mobile customer tailored tariffs, cloud and security services, premium service, and maximum speeds, as well as Magenta 1 for small, medium and large enterprises, which is unique and innovative work seat based offer with included professional data services, have strong growth.

In March, Smart working proposition is launched with focus on ICT and Telco and special benefits for M1 business customers.

TV

TV customer base shows 0.8% increase from H1 2017 and is at the level of 415 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 above H1 2017 at a level of HRK 83. Excluding IFRS 15 effects, ARPU is 2.8% above H1 2017.

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. HT further improved their best and exclusive content with premium movie channels.

Satellite TV, alternative TV technology, is still significantly contributing to the overall TV success. It continued with attractive promo offering 50% discount on Basic or Basic Extra package monthly fee for first nine months with MCD 24. In H1 2018 MAXtv SAT offer is redefined and additional STB is available with special pricing.

Wholesale

At the end of H1 2018 there were 128 thousand of active ULL lines, which was lower by 8.3% 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 H1 2018, which was 9.1% 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 21.1% compared to previous year and reached 57 thousand as a result of declining voice market and migration to broadband services.

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 39.4% 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 41.2% more voice originating minutes and 187.8% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 295.8% more roaming voice traffic in foreign countries and 979.5% more data traffic. During 2018, additional 4G (LTE) international roaming services with foreign partners were set up reaching 165 4G worldwide roaming interconnections in total.

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 69.5% in H1 2018 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.4% and from HT mobile network users increased by 70.2%.

System solutions

System solution revenue is in line with H1 2017 (increase of HRK 2 million or 0.7%).

System solutions revenue is continuously growing in all portfolio segments. Strategic focus remains on Cloud and Managed Solutions. The strongest growth achievement is in the area of customized ICT solutions. In February, first managed service "Smart Hands & Eyes" is launched within Enterprise infrastructure program, which is offered as addition to existing ICT collocation service. Continuous focus is on fiscalisation offer; promo campaign started in March for seasonal businesses.

Combis continues with positive trends in revenue and profitability. Synergy with HT is bringing positive impact on company profitability due to shared corporate functions and growth in professional ICT services due to huge common market footprint. Company will maintain focus on key services like cloud solutions, security solutions and managed services. Boosting R&D and new services development is also one of priorities that can bring new revenue streams in following periods.

Energy

Revenues from energy were lower by HRK 6 million or 9.1% when compared to H1 2017 due to lower number of business customers by 22.0%.

Croatian Telecom concluded in May 2018 a contract with the company RWE Hrvatska d.o.o., thereby initiating the process of the transfer of its electric energy business segment to RWE Hrvatska d.o.o..

This transaction has no influence on the manner and price of the provision of electric energy services to the customers of Croatian Telecom, nor does it affect the price and provision of the contracted telecommunication services. The transfer transaction is subject to regulatory approvals and it shall only be finalized upon the obtaining of all necessary approvals.

2.3. Summary of key financial indicators – Crnogorski Telekom standalone

in HRK million

INCOME STATEMENT	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Revenue	307	302	-1.6%	159	158	-0.7%
Mobile	148	154	3.5%	79	81	2.6%
Fixed voice	42	38	-8.8%	21	19	-10.2%
Broadband & TV	60	58	-3.7%	30	29	-1.9%
Fixed wholesale	11	9	-12.9%	6	5	-15.0%
Other fixed	29	25	-13.0%	14	12	-11.0%
System solutions	17	18	6.0%	10	12	19.0%
EBITDA before exceptional items	104	109	4.7%	59	59	0.2%
Exceptional items	3	2	-47.2%	3	0	-89.7%
EBITDA after exceptional items	101	108	6.2%	56	59	4.8%
EBIT (Operating profit)	19	27	39.6%	14	19	31.2%
Net profit after non controlling interests	17	26	54.2%	12	17	42.0%
EBITDA margin before exceptional items	34.0%	36.2%	2.2 p.p.	37.3%	37.6%	0.3 p.p.
EBITDA margin after exceptional items	33.1%	35.7%	2.6 p.p.	35.5%	37.4%	1.9 p.p.
EBIT margin	6.2%	8.9%	2.6 p.p.	9.1%	12.0%	2.9 p.p.
Net profit margin	5.4%	8.4%	3.1 p.p.	7.7%	11.1%	3.3 p.p.

Key operational data	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile customers in 000	354	359	1.6%	354	359	1.6%
- Prepaid	157	138	-11.9%	157	138	-11.9%
- Postpaid	197	221	12.4%	197	221	12.4%
Fixed mainlines - retail in 000	131	117	-10.3%	131	117	-10.3%
Broadband access lines - retail in 000	71	70	-0.6%	71	70	-0.6%
TV customers in 000	58	57	-1.8%	58	57	-1.8%

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

Market pressure resulted with lower revenue realization by HRK 5 million or 1.6% in comparison to H1 2017.

I. Mobile telecommunications

Mobile revenues increased compared to H1 2017 by HRK 5 million or 3.5% influenced by higher handsets and postpaid, partially offset by lower prepaid.

Crnogorski Telekom has set its focus on postpaid segment. Postpaid revenue increased by HRK 4 million or 4.6% compared to H1 2017, driven by customer base growth of 12.4% supported by the renewed tariff portfolio. Retail postpaid revenues were partly offset by lower mobile termination. Overall, mobile revenues increased YoY, reaching a milestone of postpaid market leadership in the residential segment. Revenue growth achieved with a focus on the postpaid segment, highlighted with refresh of the standalone service portfolio as well as Magenta 1. Initiatives resulted in a customer base increase. Strong postpaid growth compensated the decline in the prepaid segment.

Challenge continues in Prepaid segment, though the situation improved. Prepaid revenues declined by HRK 5 million or 14.2% compared to H1 2017. Main driver of prepaid decline is lower customer base by 11.9%. Mobile termination was lower, as well. Crnogorski Telekom initiated new measures and is already seeing some positive developments.

II. Fixed telecommunications

Fixed revenues declined compared to H1 2017 by HRK 11 million or 7.8% coming dominantly from the decline in revenues in the fixed voice and wholesale segment. Retention activities are maintained continuously as well as the revenue growth offers.

Fixed voice decline continued HRK 4 million or 8.8% but at a slower rate. Decrease is driven by ongoing fixed to mobile substitution and lower customer base by 10.3%. Sale efforts resulted in a positive net add in Fixed voice in June.

Broadband revenue below H1 2017 by HRK 3 million or 8.1% driven by 7.3% lower ARPU. Customer base was on the level of H1 2017, as it's experienced positive development in last few months.

TV revenues 1.8% higher than in H1 2017.

System solution revenue above H1 2017, by HRK 1 million or 6.0% driven by different project seasonality.

A redesigned and improved Magenta 1 offer was introduced, while for seasonal customers CT introduced a new broadband and TV offer, with both offers being successful on the market. As a result, net adds for TV and BB are higher YoY.

3. Overview of segment profitability

Disclosure

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.

Residential segment

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile revenue	946	955	1.0%	483	483	-0.2%
Fixed revenue	892	831	-6.9%	446	417	-6.5%
Miscellaneous	19	23	21.8%	8	13	60.6%
Revenue	1,857	1,809	-2.6%	937	912	-2.7%
Operating expenses	601	594	-1.0%	293	303	3.4%
Contribution to EBITDA before exceptional items	1,256	1,215	-3.3%	644	609	-5.4%

Business segment

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile revenue	449	495	10.4%	236	275	16.7%
Fixed revenue	543	492	-9.5%	272	242	-10.7%
System solution	276	277	0.7%	142	144	2.0%
Miscellaneous	50	45	-9.6%	26	22	-16.1%
Revenue	1,317	1,309	-0.6%	675	683	1.3%
Operating expenses	694	691	-0.5%	361	343	-4.9%
Contribution to EBITDA before exceptional items	623	618	-0.8%	314	341	8.5%

Network and support functions

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Other operating income	58	48	-16.9%	36	24	-34.5%
Operating expenses	697	667	-4.3%	325	323	-0.9%
Contribution to EBITDA before exceptional items	-639	-619	3.2%	-289	-299	-3.4%

Segment Optima consolidated

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Fixed revenue	211	260	22.9%	104	129	24.6%
Revenue	211	260	22.9%	104	129	24.6%
Other operating income	1	4	218.7%	1	4	497.9%
Operating expenses	100	119	19.3%	48	58	20.1%
Contribution to EBITDA before exceptional items	113	145	28.5%	56	75	34.2%

Segment Crnogorski Telekom consolidated

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile revenue	148	154	4.7%	78	82	4.7%
Fixed revenue	142	130	-8.0%	70	65	-7.4%
System solution	17	18	6.0%	10	12	19.0%
Revenue	306	302	-1.1%	158	158	0.2%
Other operating income	1	4	183.6%	1	3	373.8%
Operating expenses	203	195	-3.9%	99	100	0.6%
Contribution to EBITDA before exceptional items	105	112	6.7%	59	61	3.1%

Segment P&L Bridge to HT Group EBITDA

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Segment Result (Contribution to EBITDA)						
Residential Segment	1,256	1,215	-3.3%	644	609	-5.4%
Business Segment	623	618	-0.8%	314	341	8.5%
Network and Support Functions	-639	-619	3.2%	-289	-299	-3.4%
Segment Optima consolidated	113	145	28.5%	56	75	34.2%
Segment Crnogorski telekom consolidated	105	112	6.7%	59	61	3.1%
Total Contribution to EBITDA before exceptional items of the Segments	1,458	1,471	0.9%	784	787	0.3%
Exceptional items	51	34	-33.0%	19	11	-42.2%
Total EBITDA	1,406	1,437	2.2%	765	776	1.4%

4. HT Inc. financial highlights

Revenue

Revenue decreased by HRK 38 million or 1.3% to HRK 2,897 million in H1 2018 when compared to H1 2017. Decrease was driven by lower fixed revenue (HRK 92 million or 6.7%) mostly as a result of declining voice, wholesale and lower broadband; and miscellaneous (HRK 5 million or 7.9%) coming from energy business. Decrease was partially offset by higher mobile revenue (HRK 57 million or 4.0%) influenced by increased handset revenue and higher system solution (HRK 1 million or 0.8%).

EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 3 million or 0.2% to HRK 1,251 million in H1 2018, mainly as a result of lower revenue (HRK 39 million or 1.3%) and lower other operating income (HRK 12 million or 21.8%), partially compensated with lower operating expenses excluding exceptional items (HRK 48 million or 2.8%). Lower revenue realization is primarily under influence of declining fixed voice while operating expenses decreased due to spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd 2018), implemented savings measures, different timing of marketing campaigns and seasonalization of other costs.

Net profit after non-controlling interests

Net profit after non-controlling interests increased by HRK 23 million or 5.9% to HRK 420 million in H1 2018. Increase was primarily a result of lower exceptional items related to personnel redundancy restructuring costs (HRK 17 million or 36.1%), lower financial loss (HRK 16 million or 26.0%); slightly offset by higher taxation (HRK 7 million or 7.5%), lower EBITDA before exceptional items (HRK 3 million or 0.2%) and higher depreciation and amortization (HRK 1 million or 0.1) mainly driven by electronic communication infrastructure assets.

5. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2017 made public, there were no material changes to the Group's risk profile in the period under review.

6. HT Group 2018 outlook

Outlook 2018 remains unchanged even after IFRS 15 implementation (impact is not material)

	2017 Results	Outlook 2018 vs 2017
Revenue	HRK 7,756 million	Slightly higher
EBITDA before exceptional items	Margin of 40.5%	Margin of around 40%
CAPEX	HRK 1,885 million	Slightly lower
Regional expansion	Acquisition of Crnogorski Telekom in Jan 2017	HT is monitoring and evaluating potential M&A opportunities

7. HT Group financial statements

7.1. Consolidated Income Statement

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Mobile revenue	1,542	1,605	4.1%	797	839	5.3%
Fixed revenue	1,788	1,713	-4.2%	891	853	-4.3%
System solutions	292	295	1.0%	151	156	3.1%
Miscellaneous	69	68	-0.8%	34	35	2.2%
Revenue	3,691	3,681	-0.3%	1,874	1,883	0.5%
Other operating income	61	56	-7.2%	38	31	-18.7%
Total operating revenue	3,752	3,737	-0.4%	1,911	1,914	0.1%
Operating expenses	2,345	2,300	-1.9%	1,146	1,138	-0.7%
Material expenses	1,077	1,121	4.1%	537	560	4.3%
Employee benefits expenses	514	539	4.9%	248	276	11.3%
Other expenses	763	672	-12.0%	372	321	-13.7%
Work performed by the Group and capitalised	-46	-59	29.2%	-31	-35	13.2%
Write down of assets	37	27	-25.7%	21	17	-20.4%
EBITDA	1,406	1,437	2.2%	765	776	1.4%
Depreciation and amortization	825	840	1.8%	412	412	0.0%
EBIT	582	597	2.6%	353	363	3.0%
Financial income	30	24	-20.5%	7	10	36.5%
Income/loss from investment in joint ventures	1	0	-68.6%	2	3	73.3%
Financial expenses	114	82	-27.8%	44	35	-19.8%
Profit before taxes	498	538	8.1%	318	341	7.3%
Taxation	90	98	8.8%	56	61	8.7%
Net profit	408	440	7.9%	262	280	6.9%
Non controlling interests	-2	-7	245.9%	0	-1	-527.4%
Net profit after non controlling interests	410	447	9.1%	262	281	7.5%
Exceptional items ¹⁾	51	34	-33.0%	19	11	-42.2%
EBITDA before exceptional items	1,458	1,471	0.9%	784	787	0.3%

¹⁾ Mainly related to restructuring redundancy costs

7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2017	At 30 Jun 2018	% of change A18/A17	At 31 Dec 2017	At 31 Mar 2018	% of change A18/A17
Intangible assets	2,539	2,491	-1.9%	2,539	2,548	0.4%
Property, plant and equipment	6,175	6,245	1.1%	6,175	6,166	-0.1%
Non-current financial assets	1,333	1,310	-1.7%	1,333	1,313	-1.5%
Receivables	248	330	33.3%	248	277	11.8%
Contract assets (IFRS 15)	0	39	-	0	38	-
Contract costs (IFRS 15)	0	73	-	0	68	-
Deferred tax asset	91	96	5.8%	91	91	0.2%
Total non-current assets	10,385	10,584	1.9%	10,385	10,501	1.1%
Inventories	128	119	-7.2%	128	150	17.0%
Receivables	1,631	1,525	-6.4%	1,631	1,459	-10.5%
Current financial assets	197	1	-99.6%	197	42	-78.8%
Contract assets (IFRS 15)	0	158	-	0	158	-
Contract costs (IFRS 15)	0	39	-	0	37	-
Cash and cash equivalents	3,152	2,964	-6.0%	3,152	3,374	7.0%
Prepayments and accrued income	246	174	-29.2%	246	198	-19.3%
Total current assets	5,353	4,980	-7.0%	5,353	5,418	1.2%
TOTAL ASSETS	15,738	15,564	-1.1%	15,738	15,919	1.1%
Subscribed share capital	9,823	9,823	0.0%	9,823	9,823	0.0%
Reserves	530	492	-7.2%	530	492	-7.2%
Revaluation reserves	2	-14	-943.2%	2	-7	-516.2%
Treasury shares	-38	-39	1.5%	-38	-17	-54.9%
Retained earnings	1,024	1,573	53.6%	1,024	2,063	101.5%
Net profit for the period	863	447	-48.2%	863	166	-80.8%
Non controlling interests	369	339	-8.1%	369	350	-5.1%
Total issued capital and reserves	12,573	12,620	0.4%	12,573	12,870	2.4%
Provisions	73	75	3.0%	73	73	0.6%
Non-current liabilities	617	596	-3.5%	617	652	5.7%
Contract liabilities (IFRS 15)	0	9	-	0	13	-
Deferred tax liability	47	45	-5.7%	47	46	-3.8%
Total non-current liabilities	737	724	-1.7%	737	784	6.4%
Current liabilities	2,310	2,083	-9.8%	2,310	2,108	-8.7%
Contract liabilities (IFRS 15)	0	37	-	0	45	-
Deferred income	89	96	7.8%	89	92	3.7%
Provisions for redundancy	30	2	-92.8%	30	20	-34.5%
Total current liabilities	2,429	2,219	-8.6%	2,429	2,265	-6.7%
Total liabilities	3,166	2,943	-7.0%	3,166	3,049	-3.7%
TOTAL EQUITY AND LIABILITIES	15,738	15,564	-1.1%	15,738	15,919	1.1%

7.3. Consolidated Cash Flow Statement

in HRK million	H1 2017	H1 2018	% of change A18/A17	Q2 2017	Q2 2018	% of change A18/A17
Profit before tax	498	538	8.1%	318	341	7.3%
Depreciation and amortization	825	840	1.8%	412	412	0.0%
Increase / decrease of current liabilities	45	-282	-725.2%	45	-142	-418.6%
Increase / decrease of current receivables	28	142	406.3%	-98	-43	56.2%
Increase / decrease of inventories	-44	-3	93.6%	-8	25	397.2%
Other cash flow increases / decreases	-122	-226	-85.0%	-93	-147	-58.8%
Net cash inflow/outflow from operating activities	1,230	1,010	-17.9%	576	447	-22.5%
Proceeds from sale of non-current assets	27	23	-14.9%	23	14	-41.3%
Proceeds from sale of non-current financial assets	1	1	-6.5%	0	0	-12.3%
Interest received	6	8	39.6%	2	2	14.5%
Dividend received	0	0	-	0	0	-
Other cash inflows from investing activities	2,406	199	-91.7%	1,689	40	-97.6%
Total increase of cash flow from investing activities	2,440	230	-90.6%	1,714	56	-96.7%
Purchase of non-current assets	-701	-671	4.3%	-381	-296	22.4%
Purchase of non-current financial assets	-924	0	100.0%	6	0	-100.0%
Other cash outflows from investing activities	-1,244	0	100.0%	-1,144	0	100.0%
Total decrease of cash flow from investing activities	-2,869	-671	76.6%	-1,520	-296	80.5%
Net cash inflow/outflow from investing activities	-429	-441	-2.7%	195	-240	-223.0%
Total increase of cash flow from financing activities						
Repayment of loans and bonds	-57	-43	23.8%	-8	-11	-30.9%
Dividends paid	-493	-489	0.8%	-492	-489	0.5%
Repayment of finance lease	-51	-1	97.9%	-1	0	27.4%
Other cash outflows from financing activities	-142	-221	-55.8%	-67	-118	-74.8%
Total decrease in cash flow from financing activities	-743	-755	-1.6%	-568	-618	-8.9%
Net cash inflow/outflow from financing activities	-743	-755	-1.6%	-568	-618	-8.9%
Exchange gains/losses on cash and cash equivalents	-22	-2	91.3%	-9	2	117.3%
Cash and cash equivalents at the beginning of period	2,734	3,152	15.3%	0	0	-
Net cash (outflow) / inflow	35	-188	-630.1%	194	-410	-311.1%
Cash and cash equivalents at the end of period	2,770	2,964	7.0%	194	-188	-196.7%

8. Notes to the condensed consolidated financial statements for the six months ended on 30 June 2018

Basis of preparation

The condensed consolidated financial statements as of 30 June 2018 and for the six months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention, except for investments available-for-sale stated at fair value.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2017 with introduction of the following standards as of January 1st, 2018:

IFRS 15 Revenue from contracts with customer is applied from January 1st, 2018. HT Group utilized the option for simplified initial application, i.e., contracts that are not completed by January 1st, 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.

IFRS 9 Financial instruments is applied from January 1st, 2018. IFRS 9 primarily has effects on HT Group'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). HT Group 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. HT Group recognized effects of general expected credit loss model as of first application of IFRS 9 in equity. HT Group adopted the simplified expected credit loss model for trade receivables and contract assets (which were recognized for the first time as of January 1st, 2018 in accordance with IFRS 15), which lead to earlier recognition of impairment losses in some cases.

Dividends

On 24 April 2018 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution for 2017 in amount of HRK 490,020,384.00 (6.00 HRK per share).

Dividend was paid in May 2018.

Segment information

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 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, E-tours and HT holding are part of above mentioned segments, following the same structure as 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 Miscellaneous revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. So 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, as the majority is related to the fixed and mobile network, which is part of NSF.

The following tables present revenue and direct cost information regarding the Group's segments:

Period ended 30 June 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	1,857	1,317	-	211	306	3,691
Mobile revenue	946	449	-	-	147	1,542
Fixed revenue	892	543	-	211	142	1,788
System solutions revenue	-	275	-	-	17	292
Miscellaneous revenue	19	50	-	-	-	69
Usage related direct costs	(97)	(106)	-	(41)	(26)	(270)
Income and losses on accounts receivable	(14)	(13)	-	(2)	(5)	(34)
Contribution margin I	1,746	1,198	-	168	275	3,387
Non-usage related direct costs	(311)	(376)	-	(4)	(52)	(743)
Segment result	1,435	822	-	164	223	2,644
Other income	-	-	58	1	1	60
Other operating expenses, restated	(185)	(206)	(732)	(53)	(122)	(1,298)
Depreciation, amortization and impairment of non-current assets	-	-	(695)	(48)	(81)	(824)
Operating profit, restated	1,250	616	(1,369)	64	21	582

Period ended 30 June 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	1,809	1,309	-	260	303	3,681
Mobile revenue	955	495	-	-	155	1,605
Fixed revenue	831	492	-	260	130	1,713
System solutions revenue	-	277	-	-	18	295
Miscellaneous revenue	23	45	-	-	-	68
Usage related direct costs	(117)	(112)	-	(44)	(23)	(296)
Income and losses on accounts receivable	(18)	-	-	(3)	(4)	(25)
Contribution margin I	1,674	1,197	-	213	276	3,360
Non-usage related direct costs	(279)	(401)	-	(12)	(55)	(747)
Segment result	1,395	796	-	201	221	2,613
Other income	-	-	48	4	4	56
Other operating expenses	(186)	(181)	(688)	(62)	(115)	(1,232)
Depreciation, amortization and impairment of non-current assets	-	-	(703)	(57)	(80)	(840)
Operating profit	1,209	615	(1,343)	86	30	597

Period 1 April to 30 June 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
HRK million HRK million HRK million HRK million HRK million HRK million						
Net revenue	938	674	-	103	158	1,873
Mobile revenue	484	236	-	-	77	797
Fixed revenue	446	271	-	103	71	891
System solutions revenue	-	141	-	-	10	151
Miscellaneous revenue	8	26	-	-	-	34
Usage related direct costs	(46)	(57)	-	(20)	(14)	(137)
Income and losses on accounts receivable	(9)	(8)	-	-	(2)	(19)
	-	-	-	-	-	-
Contribution margin I	883	609	-	83	142	1,717
Non-usage related direct costs	(149)	(188)	-	(2)	(26)	(365)
	-	-	-	-	-	-
Segment result	734	421	-	81	116	1,352
Other income	-	-	37	-	-	37
Other operating expenses, restated	(89)	(107)	(342)	(26)	(60)	(624)
Depreciation, amortization and impairment of non-current assets	-	-	(347)	(24)	(41)	(412)
	-	-	-	-	-	-
Operating profit	645	314	(652)	31	15	353

Period 1 April to 30 June 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
HRK million HRK million HRK million HRK million HRK million HRK million						
Net revenue	912	683	-	129	159	1,883
Mobile revenue	482	275	-	-	82	839
Fixed revenue	417	243	-	129	65	854
System solutions revenue	-	144	-	-	12	156
Miscellaneous revenue	13	21	-	-	-	34
Usage related direct costs	(68)	(53)	-	(20)	(13)	(154)
Income and losses on accounts receivable	(11)	(3)	-	(1)	-	(15)
	-	-	-	-	-	-
Contribution margin I	833	627	-	108	146	1,714
Non-usage related direct costs	(130)	(198)	-	(7)	(31)	(366)
	-	-	-	-	-	-
Segment result	703	429	-	101	115	1,348
Other income	-	-	24	4	3	31
Other operating expenses	(96)	(88)	(330)	(31)	(57)	(602)
Depreciation, amortization and impairment of non-current assets	-	-	(344)	(29)	(40)	(413)
	-	-	-	-	-	-
Operating profit	607	341	(650)	45	21	364

Relations with the governing company and its affiliated companies

In the first six months of 2018 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first six months of 2018 there were no changes in transactions among related parties which were specified in the annual financial report for 2017 and which had a significant impact on the financial position and operations of the Group in the first six months of 2018.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first six months of 2018 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

Transactions with related companies primarily relate to the transactions with the companies owned by Deutsche Telekom AG (hereinafter referred to as: DTAG). The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies.

In the first six months of 2018 the Group generated total revenue from related companies from international traffic to the amount of HRK 64 million (the first six months of 2017: HRK 63 million), while total costs of international traffic amounted to HRK 74 million (the first six months of 2017: HRK 60 million).

Compensation of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 times of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, remuneration is the amount of 1.25 times of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month. DT AG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DT AG.

In the first six months of 2018 the Company paid a total amount of HRK 0.3 million (the first six months of 2017: HRK 0.6 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first six months of 2018 the total compensation paid to key management personnel of the Group amounted to HRK 28 million (first six months of 2017: HRK 29 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

9. Statement of the Management Board of Hrvatski Telekom d.d.

To the best of our knowledge, unaudited financial statements of the company Hrvatski Telekom d.d. (hereinafter: "Company") and unaudited 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 first six months of 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

Ms. Marija Felkel, Member of the Management Board and Chief Human Resources Officer

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

Zagreb, 26 July 2018

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).

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