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Zagreb – 25 July 2019

Croatian Telecom Inc.

Radnička cesta 21, HR – Zagreb

Ordinary share: HT (ISIN: HRHT00RA0005)

LEI: 097900BFHJ0000029454

Listing: Zagreb Stock Exchange, Official Market

Member State: Republic of Croatia

## **Hrvatski Telekom Results for the first half of the year ended 30 June 2019**

### **Continuation of good financial results as well as investments in speed increase and service coverage**

- Continuing investments in fibre infrastructure and mobile network modernization, Ookla awards for top mobile network quality
- Increase in the number of users of Magenta 1 and 'Moj Telekom' app
- Smart parking project in Dubrovnik implemented, the award of 'Microsoft's best partner in Croatia' won

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the first six months of the year 2019.

### **Continuation of good financial results**

The total consolidated revenue in the first half of 2019 amounted to 3,695 million HRK, which is a 0.4% increase compared to the same period last year. The reason behind this positive development is primarily an increase in the revenues of System Solutions and Mobile Communications.

In the first six months of 2019, EBITDA before exceptional items after leases amounted to 1,403 million HRK, which is by 1.3% lower compared to the same period of the previous year. A high EBITDA contribution margin after leases was maintained, and it amounted to 38%.

Compared to the same period in 2018, net profit after non-controlling interests was increased by 5 million HRK, i.e. by 1.2%, and amounted to 438 million HRK.

### **Continuing investment in infrastructure, Ookla awards for top quality mobile network**

Hrvatski Telekom continued with its capital investments. In the first half of 2019, a total of 729 million HRK was invested, mostly in the modernization of fixed and mobile network infrastructure. Compared

to the first half of 2018, investments were lower due to seasonality. With respect to capital investments outlook for the entire 2019, it remains the same as previously announced, i.e. approximately at the level of the capital investments in 2018.

Fibre-based access network (FTTx) is available to 420 thousand households. In mobile network, the outdoor 4G population coverage is 99%, and the indoor population coverage reached 85%. Also, Hrvatski Telekom continued with its big mobile radio and transport networks modernization program across Croatia, as well increasing the capacities of its 4G network. The reason for this was to be able to meet the ever-growing demand for data services, especially notable in the tourist areas of Croatia. 64% of the network has been modernized so far. The network has been modernized in Istria, Zagreb County, in the city of Zagreb and along the entire coastline. In these areas of Croatia, a speed increase of as much as 30 percent has been enabled. Network modernization in other parts of Croatia will also be finished until the end of this year, and the network will be fully ready for the implementation of 5G technology.

Hrvatski Telekom is currently preparing for 5G implementation within its mobile network modernization project. A pilot 5G network testing in 3.5 GHz in the area of app. ten base stations in Croatia is underway, with the aim to achieve a better insight into the state of technology and its performance in real-life conditions. One of the results achieved was a speed higher than 1 Gbit/s on a commercial 5G device, which was measured in the streets of the city of Krk by Speed test.

In June, Hrvatski Telekom won the Ookla awards verifying the top quality of its mobile network. HT received the following awards: 'Fastest Mobile Network' for the fastest mobile network in Croatia and 'Best Coverage Award' for the best coverage. The awards were given out by Ookla, the world's leader in testing and analysis of the Internet. Ookla compared user speed tests at Speedtest iOS and Android mobile applications among all mobile operators in Croatia during the first and the second quarter of 2019. Hrvatski Telekom achieved significantly better results in the speeds for mobile download and upload as well as in mobile coverage compared to other mobile operators in Croatia. According to Ookla, the network of Hrvatski Telekom is among the 10 best networks in the world. In Europe, only the Netherlands achieved better results than Croatia.

### **Continued increase in users of Magenta 1 and Moj Telekom app**

The number of users of HT's unique concept of converged offer, Magenta 1, continues to grow and a total of 227 thousand households and 30 thousand business users currently use Magenta 1.

'Moj Telekom' app is the key lever for the digitalization of user experience. It enables users to have a detailed overview of all fixed and mobile telco services and consumption, enables bills payment, a simple activation of e-bill and management of tariffs and options, and also gives an overview of the Internet availability through an interactive map. The use of the 'Moj Telekom' app is growing strongly and, at the end of the first half of the year 2019, the app had 233 thousand users.

### **Smart parking project in Dubrovnik and the award of ‘the best Microsoft partner in Croatia’**

Hrvatski Telekom was the leader of the smart parking implementation project for the area of the entire city of Dubrovnik, thanks to which 1,900 sensors were set up with the aim to facilitate finding free parking spots and decreasing traffic jams. This project is part of a series of activities under the umbrella project ‘Dubrovnik Smart City’, and it was realized at HT’s top-notch NB-IoT network. Hrvatski Telekom’s strategic orientation is to facilitate setting up smart cities and to support their digital transformation by using modern technologies to increase the quality of life of their citizens, optimize local resources and develop entrepreneurship.

Hrvatski Telekom won the award of ‘the best Microsoft partner in Croatia’ for the year 2019. For the first time in Croatia, Microsoft, the world’s biggest software company, gave out this award to a company whose core business is not IT. The reason for this was the fact that HT was recognized as one of the best Microsoft’s partners for innovation excellence and implementation of user solutions based on Microsoft technologies globally. Microsoft and Hrvatski Telekom have been intensively collaborating with respect to business cloud services offering, in particular Office 365 and Microsoft 365.

Commenting on the business results for the first half of the year 2019, Konstantinos Nempis, the CEO of Hrvatski Telekom, stated:

*‘We at Hrvatski Telekom would like to create a world of better opportunities, facilitating the benefits of digitalization so that all Croatian citizens could have an equal opportunity for a high-quality life. I am proud because the result, which the company achieved at the end of the first half of the year 2019, is both a result of our investment in the top-notch technology, but also a confirmation of how determined we are in fulfilling our promise. Through a combination of fixed and mobile technologies and fibre infrastructure and fibre-based access, Hrvatski Telekom will provide the inhabitants of both urban and rural areas with 50 percent higher speeds, enabling them to have more opportunities to work flexibly, to have fun, to find information quickly and to communicate. Apart from that, we are continuing to develop new functionalities of ‘My Telekom’ app to enable a fast and simple user experience, and we are continuing to introduce the agile approach in the company’s business operations so that we can provide our customers with the opportunities of digitalization even more successfully.’*

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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) 207 192 8000**

Conference ID

**5998908**

A replay of the call will be available until Thursday, 1 August 2019 using the following details:

International Dial In

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

Conference ID

**5998908**

A presentation covering results for the first six months of 2019 can be downloaded from the HT web site ([www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)).

## 1. Introduction

### 1.1. HT Group's good performance in H1 2019

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in H1 2019 in spite of competitive pressure.

### 1.2. Economic background

Croatian economic growth in Q1 2019 was 3.9% on an annual basis as stronger private consumption, investments and industrial output offset weaker external demand and later Easter impact on tourist season. Economic slowdown is expected in 2019 mainly due to worsening external demand, partially offset by solid tourism and private consumption trend with stronger investments dynamics.<sup>1</sup>

A credit rating agency Fitch upgraded Croatia's credit rating to investment level in June 2019.

The registered unemployment rate keeps decreasing as the result of increased employment as well as emigration trend. In May 2019 the registered unemployment rate was 7.5%, that is 1.5 p.p. lower than in May 2018.<sup>1</sup>

In June 2019 Consumer Price Index (CPI) increased by 1.1% on annual average.<sup>1</sup>

### 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 126.6% at the end of June 2019. The Company maintains leading market position with mobile SIM market share of 44.9% at the end of June 2019.

Total number of sent SMS messages continued to decrease on an annual basis by 13.1% in Q1 2019. Total broadband traffic grew year-on-year by 22.6% in Q1 2019. In the same period total mobile market minutes of use (MOU) continued to increase on an annual basis by 3.0%.<sup>2</sup>

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 15.4% in Q1 2019.<sup>2</sup>

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of March 2019 that was 3.4% growth vs. end of March 2018<sup>2</sup>.

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<sup>1</sup> Sources: Croatian Bureau of Statistics, SEE Quarterly Report, Addiko bank, 3 May 2019

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

<sup>2</sup> Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4/2018

Telecommunication operators have been making significant investments in FTTH footprints, advanced technology and innovative services.

HT Group continues with further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 619 thousand of broadband access lines at the end of June 2019.

HAKOM reported 824 thousand Pay TV customers at the end of March 2019, which is 4.0% annual growth.<sup>1</sup>

## **Wholesale**

The number of broadband wholesale customers (BSA and Naked BSA) was 122 thousand at the end of June 2019, which is a decrease of 5.4% compared to end of June 2018. 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 109 thousand ULL accesses and 50 thousand WLRs at the end of June 2019.

## **1.4. Regulatory overview**

### **Amendments to the Regulation on Services**

HAKOM initiated process of changing Regulation of Services. Public consultation of the Proposed Amendments was open until 24<sup>th</sup> June 2019. Some of the most significant changes are related to obligation to obtain contract confirmation from the customer, shortening of deadlines for service provisioning and fault repairs, introduction of penalties in case of delay in service provisioning and fault repair, prohibition of contacting customer in the process of contract termination, the right of the customer to terminate the contract over the phone.

Final decision of HAKOM is expected by the end of July 2019.

### **Changes of 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 was open until February 5<sup>th</sup>, 2019. Depending on received proposals,

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<sup>1</sup> Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4/2018

HAKOM is expected to prepare a proposal of potential changes of the methodology and publish for public consultation. Final decision of HAKOM is still pending.

#### **Revision of WACC rate**

On June 19<sup>th</sup>, 2019 HAKOM initiated public consultation of the changes of WACC rates applied in calculating the cost of services provided over fixed network, mobile network and over the fiber network. The public consultation is open until July 10, 2019. Final decision of HAKOM is still pending.

### **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 June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT is prolonged for an additional three-year period, that is, until 10 July 2021. HT submitted the documentation for Optima Telekom sale to AZTN according to measure from their respective decision.

In February 2019, HT d.d. concluded a Purchase transaction with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service.

HP Produkcija d.o.o. is consolidated in HT Group financial results starting with March 2019. Operational highlights that relate to achievement of the main financial and non financial key performance indicators on the following pages are presented with consolidation impact of EvoTV.

#### **IFRS 16 Leases**

The standard is applied from January 1<sup>st</sup>, 2019. IFRS 16 has a material effect on the Company’s financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position.

The new regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes. In relation to 2018, only the income statement, cash flow and respective KPIs are proforma adjusted for 2019 IFRS 16 effects.

„AL” or „After Leases” steering KPIs introduced to ensure comparability:

- EBITDA AL – increase in EBITDA due to elimination of operating lease expenses offset by adding back lease cost now booked in newly created depreciation and interest expense back to EBITDA
- Capex AL – increase in Capex due to capitalization of leases formerly booked as expense offset by AL principle back to pre-IFRS 16 level (remains unchanged)

## 1.6. Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Six months to 30 Jun 2018	7.42	7.38	6.12	6.34
Six months to 30 Jun 2019	7.42	7.39	6.56	6.49



## 2. Business review

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

in HRK million

INCOME STATEMENT	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18 adjusted
Revenue	3,681	3,681	3,695	0.4%	1,883	1,883	1,920	2.0%
Mobile	1,605	1,605	1,641	2.2%	839	839	844	0.5%
Fixed voice	413	413	366	-11.4%	206	206	182	-11.4%
Broadband & TV	704	704	707	0.4%	355	355	361	1.8%
Fixed wholesale	165	165	163	-1.3%	77	77	82	6.7%
Other fixed	430	430	435	1.2%	216	216	215	-0.1%
System solutions	295	295	376	27.3%	156	156	231	48.1%
Miscellaneous	68	68	8	-88.9%	35	35	4	-87.1%
Exceptional items	34	34	19	-44.5%	11	11	12	6.2%
EBITDA before exceptional items after leases		1,422	1,403	-1.3%		771	730	-5.3%
EBITDA before exceptional items	1,471	1,566	1,547	-1.2%	787	831	787	-5.3%
EBITDA after exceptional items	1,437	1,531	1,528	-0.2%	776	820	775	-5.4%
EBIT (Operating profit)	597	590	598	1.4%	363	351	342	-2.5%
Net profit after non controlling interests	447	433	438	1.2%	281	266	248	-6.9%
EBITDA margin before exceptional items after leases		38.6%	38.0%	-0.7 p.p.		40.9%	38.0%	-2.9 p.p.
EBITDA margin before exceptional items	40.0%	42.5%	41.9%	-0.7 p.p.	41.8%	44.1%	41.0%	-3.1 p.p.
EBITDA margin after exceptional items	39.0%	41.6%	41.4%	-0.3 p.p.	41.2%	43.5%	40.4%	-3.2 p.p.
EBIT margin	16.2%	16.0%	16.2%	0.2 p.p.	19.3%	18.6%	17.8%	-0.8 p.p.
Net profit margin	12.2%	11.8%	11.9%	0.1 p.p.	14.9%	14.1%	12.9%	-1.2 p.p.

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects

BALANCE SHEET	At 31 Dec 2018	At 30 Jun 2019	% of change A19/A18	At 31 Dec 2018	At 30 Jun 2019	% of change A19/A18
Total non current assets	10,694	11,092	3.7%	10,694	11,092	3.7%
Total current assets	5,337	4,653	-12.8%	5,337	4,653	-12.8%
<b>TOTAL ASSETS</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>
Total issued capital and reserves	13,208	12,763	-3.4%	13,208	12,763	-3.4%
Total non current liabilities	498	478	-3.9%	498	478	-3.9%
Total current liabilities	2,326	2,503	7.6%	2,326	2,503	7.6%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>

CASH FLOW	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18
Net cash flow from operating activities	1,010	1,094	1,072	-2.0%	447	484	513	6.0%
Net cash flow from investing activities	-441	-441	-461	-4.6%	-240	-240	-157	34.6%
Net cash flow from financing activities	-755	-839	-1,217	-45.0%	-618	-656	-1,016	-54.9%
<b>Cash and cash equivalents at the end of period</b>	<b>2,964</b>	<b>2,964</b>	<b>2,530</b>	<b>-14.6%</b>	<b>-410</b>	<b>-410</b>	<b>-663</b>	<b>-61.9%</b>

CAPEX after leases	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
CAPEX after leases	895	729	-18.6%	453	343	-24.3%
CAPEX after leases/ Revenue ratio	24.3%	19.7%	-4.6 p.p.	24.0%	17.8%	-6.2 p.p.

NUMBER OF EMPLOYEES	At 30 Jun 2018	At 30 Jun 2019	% of change A19/A18	At 30 Jun 2018	At 30 Jun 2019	% of change A19/A18
Number of employees (FTEs)	5,472	5,564	1.7%	5,472	5,564	1.7%

### 2.1.1. HT Group highlights

Significant efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable portion of 44.9%
- Following acquisition in March, EvoTV consolidation is contributing to overall HT Group TV revenue and customer base
- HT won OOKLA certificates for the fastest mobile network and the best mobile coverage
- Magenta1 achieved 227 thousands of consumer households (1Q 2019: 209) while in business area there are 30 thousand active and passive accounts (1Q 2019: 30 thousand active and passive accounts)
- In CT, Magenta1 kept almost 15% (1Q 2019: 15%) of consumer households, while in business area there are more than 2,200 active accounts (1Q 2019: 2,000 active accounts)

Strong financial performance of main financial KPIs

- Revenue amounts to HRK 3,695 million and is above H1 2018 by HRK 14 million or 0.4%
- EBITDA AL amounts to HRK 1,403 million and is below H1 2018 by HRK 19 million or 1.3%
- Capex AL amounts to HRK 729 million and is below H1 2018 by HRK 166 million or 18.6%

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased to 84.9% (1Q 2019: 83.1%), while "Outdoor" coverage reached 98.9% (1Q 2019: 98.7%)
- Modernization of fixed access network of new generation (NGA) achieving realization of 21,806 HH on FTTH technology and 2,035 HH on FTTC in Q1 2019. In addition, 15,131 customers were upgraded on higher speeds through Hybrid access.
- In CT LTE roll-out planned for 2019 mostly done prior touristic season increasing capacity and reaching 97% of LTE outdoor population coverage. Intensive FTTH Rollout underground and air ongoing; Targets for Home passed/Home install ready for H1 overachieved. Further deployment of VDSL Outdoor cabinets on good track, enabling higher speed on existing copper infrastructure.

Mobile network modernization

- Upon successful completion of network modernization in region of Istria and in Zagreb and Zagreb county in 2018, during Q1 2019 network modernization continued on coastal part of Croatia from Dubrovnik to Rijeka region where 581 locations were swapped. At the end of June 2019 in total 1,194 locations were swapped. Also, to support predicted traffic growth, HT continues with capacity expansions on 4G mobile network sites reaching in total 501 locations with finished expansions in 2019 which provides sufficient capacity in coastal part for the upcoming tourist season.
- After, as first operator in Croatia and in the region, HT established pilot 5G network and 5G data session in real production network environment testing and pilot area has been extended on surrounding of city of Samobor and on island of Krk in Q2 2019.

“Moj Telekom” application provides detailed overview of all fixed and mobile telco services, enables payment of bills, manages tariffs and options for 21 % of the Smart Phone base (KPI now including all brands), with an average rating of 4.6 on Google Play platform.

Following start of pilot phase for Telekom Banking in the first quarter of 2019, Hrvatski Telekom and Zagrebačka banka continued with further activities and commercial launch is expected in next few months. The service will offer the largest number of digital banking services to customers in Croatia, as well as contracting a banking package through mobile app without having to go to a bank office. By entering the digital banking business, Hrvatski Telekom continues to transform into a digital company.

Smart cities / IOT top deals are parking solutions (including payment), air quality management and bike sharing: cooperation of HT and partners on one of the largest smart parking projects on the narrowband IOT network in the world realized in Dubrovnik.

“A world of better opportunities” launch including manifesto with new brand promise and network campaign as first substantiate to our promise.

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 nominal value, thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares, while the remaining shares’ participation in the share capital is being increased. In 2019 the Company continues with the Share Buyback Program, and the number of acquired Company shares amounted to 825,610 on June 30th, 2019. In June 2019 the Management Board passed the decision on withdrawal of 450,517 Company shares without nominal value, thereby the total number of shares has decreased from 81,670,064 shares to 81,219,547 shares, while the remaining shares’ participation in the share capital is being increased. The change of the total number of shares in the Articles of Association of the Company has been entered into the register of the Commercial Court in Zagreb on 17 July 2019.

## **Main financials development**

### **I. Revenue**

Total consolidated revenue increased by HRK 14 million or 0.4% to HRK 3,695 million in H1 2019 in comparison to H1 2018. Revenue increase is driven by HT Group in Croatia (HRK 26 million or 0.8%), while Crnogorski Telekom contributed with decrease of HRK 12 million or 4.1%.

On HT Group level, revenue increase is driven by higher system solutions (HRK 81 million or 27.3%) and mobile revenue (HRK 36 million or 2.2%); partially offset by lower realization in miscellaneous revenue (HRK 61 million or 88.9%) and fixed revenue (HRK 41 million or 2.4%).

Optima Telekom contribution to HT Group was below by HRK 2 million in comparison to H1 2018 and amounted to HRK 161 million in H1 2019. Contribution consisted of HRK 261 million of Optima Telekom third party contribution (H1 2018: HRK 260 million) that was presented in the whole amount under fixed

other revenue and HRK 100 million of inter-company relations that decreased mainly fixed wholesale revenue (H1 2018: HRK 97 million).

Contribution of subsidiaries in Group revenue in H1 2019 amounted for Iskon HRK 189 million (H1 2018: HRK 201 million) and for Combis HRK 231 million (H1 2018: HRK 170 million).

### **Mobile revenue**

Mobile revenue rose by HRK 36 million or 2.2% to HRK 1,641 million in H1 2019 in comparison to H1 2018. Growth is driven by HT Group in Croatia by HRK 42 million or 2.9%, while Crnogorski Telekom contributed with HRK 6 million or 3.9%.

The growth resulted mainly from higher handset revenue and postpaid revenue that offset decline in other revenue and prepaid.

The handset revenue growth was driven by the increased number of sales transactions followed by increased sales volume mainly additionally supported by growing convergent offers.

Reported postpaid revenue increased mainly due to higher mobile data revenue as a result of continuous substitution trend of traditional services with data and higher voice revenue due to higher customer base by 4.8%.

Prepaid revenue decrease due to lower customer base by 4.6% which resulted with lower voice and SMS revenue.

### **Fixed revenue**

Fixed revenue decreased by HRK 41 million or 2.4% to HRK 1,671 million in H1 2019 in comparison to H1 2018. Decline in fixed revenue for HT Group in Croatia amounts to HRK 32 million or 2.0%, while Crnogorski Telekom contributed with decline of HRK 10 million of 7.6%.

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

In H1 2019, fixed line voice retail revenue decreased in comparison to H1 2018 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 both HT Group in Croatia and Crnogorski Telekom. Decrease in HT Group in Croatia is primarily under influence of lower transit in Iskon.

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 higher terminal equipment and positive effect of Optima Telekom.

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 acquisition of EvoTV and push of TV through Magenta1. Crnogorski Telekom contribution is almost in line with H1 2018.

### **System Solutions**

System solution revenue increased by HRK 81 million or 27.3% in comparison to H1 2018 driven by both HT Group in Croatia (HRK 77 million or 27.8%) and Crnogorski Telekom contribution (HRK 3 million or 20.2%). Increase in HT Group in Croatia is mainly due to strongest growth in the area of customized ICT solutions and standard ICT portfolio.

### **Miscellaneous revenue**

Decrease in miscellaneous revenue is driven by energy business which was sold in September 2018.

## **II. Other operating income**

Other operating income increased by HRK 47 million or 87.9% compared to H1 2018. Increase comes from HT Group in Croatia mainly due to EvoTV transaction, while Crnogorski Telekom contribution decreased.

## **III. Operating expenses**

Total consolidated operating expenses increased by HRK 64 million or 2.9% to HRK 2,267 million in H1 2019 driven by HT Group in Croatia, while Crnogorski Telekom contributed with decreased.

Increase is a result of higher material expenses, employee benefits expenses, higher write down of assets and lower amount of work performed by the Group and capitalized; partially offset by lower other expenses.

### **Material expenses**

Material expenses increased to HRK 1,151 million in H1 2019 as a result of higher merchandise, material and energy expenses and higher service expenses. Increase in material expenses is driven by

HT Group in Croatia while material expenses in Crnogorski Telekom decreased 4.4% mainly due to lower international costs.

Merchandise, material and energy expenses increased primarily due to higher merchandise costs; partially offset by lower energy costs.

Merchandise costs increase following increase of system solution revenue in the area of customized ICT solutions and standard ICT portfolio.

Energy costs decrease due to selling of energy business in September 2018.

Service expenses increase is mainly influenced by higher telecommunication costs and copyright.

Telecommunication cost increased mainly as a result of higher international costs due to higher roaming traffic and international sms - bulk.

Copyright fees increased due to contract terms and different seasonalization of Capex Contract capitalization.

#### **Employee benefits expenses**

Total employee benefits expenses increased by HRK 32 million or 6.0% in H1 2019 as a result of higher personnel costs driven by higher number of FTEs, primarily by HT Group in Croatia, partially offset by lower redundancy costs.

Total number of FTEs amounts to 5,564 FTEs, which is an increase of 92 FTEs compared to H1 2018, mainly coming from HT Group in Croatia driven by insourcing of employees.

#### **Other expenses**

Other expenses decreased by HRK 27 million or 4.6% to HRK 552 million in H1 2019 driven by both HT Group in Croatia (HRK 20 million or 3.7%) and Crnogorski Telekom contributed with HRK 7 million or 13.2%. Decrease of other expenses is mainly driven by lower Spectrum fees, lower consulting fees and lower maintenance.

#### **Write down of assets**

The assets write down increased by HRK 13 million or 46.1% to HRK 40 million in H1 2019 driven by HT Group in Croatia (HRK 11 million or 48.6%) mainly due to IFRS9 effect and consequently changes of bad debt rates. Crnogorski Telekom contributes with increase of HRK 1 million or 31.0%.

## **Depreciation and amortization**

Depreciation and amortization decreased to HRK 930 million by HRK 12 million or 1.4% compared to H1 2018 mainly influenced by HT Group in Croatia mainly driven by electronic communication infrastructure assets. Part of depreciation is included in EBITDA after leases.

Crnogorski Telekom contributes with increase of HRK 5 million or 5.7%.

## **IV. Profitability**

### **EBITDA before exceptional items after leases**

EBITDA before exceptional items after leases decreased by HRK 19 million or 1.3% to HRK 1,403 million in H1 2019 driven by both HT Group in Croatia (HRK 13 million or 1.0%) and Crnogorski Telekom contributed (HRK 6 million or 5.7%).

HT Group in Croatia EBITDA before exceptional items after leases decrease is influenced by higher operating expenses (before exceptional items) (HRK 88 million or 4.4%) mainly coming from higher material expenses and higher employee benefits; offset with higher other operating income (HRK 49 million or 99.0%) and increase of revenue (HRK 26 million or 0.8%).

Crnogorski Telekom EBITDA before exceptional items after leases decrease is primarily result of lower revenue and other operating income; offset with lower operating expenses.

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

In comparison to H1 2018 consolidated net profit after non controlling interests increased by HRK 5 million or 1.2% to HRK 438 million in H1 2019. HT Group in Croatia contributed with HRK 15 million or 3.4% while Crnogorski Telekom contributed negative with HRK 10 million or 110.5%.

In HT Group in Croatia, in spite of lower EBITDA before EI after leases realization (HRK 13 million), net profit after non controlling interests increased due to lower exceptional items (HRK 16 million or 47.3%), positive effect of net financial result (HRK 13 million or 30.5%) and lower depreciation and amortization (HRK 16 million or 2.2%); offset by higher taxation (HRK 10 million or 10.7%) and lower non controlling interest (HRK 7 million or 56.9%).

Crnogorski Telekom lower net profit is primarily driven by lower EBITDA before EI after leases realization and higher depreciation and amortization.

## V. Financial position

### Balance sheet

In comparison to 2018 year end, there is decrease in the total asset value of 2% or HRK 287 million mainly driven by lower cash partially offset under the influence of recognizing lease assets as a result of introduction of IFRS 16.

Total issued capital and reserves decreased from HRK 13,208 million at 31 December 2018 to HRK 12,763 million at 30 June 2019 mainly driven by dividend pay-out in amount of HRK 809 million and purchase of own share in amount of HRK 60 million that is offset with realized net profit for H1 2019 in the amount of HRK 438 million.

Total non-current liabilities decreased by HRK 19 million or 4% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities increased by HRK 178 million to HRK 2,503 million at 30 June 2019 mainly under the influence of recognizing lease liabilities as a result of introduction of IFRS 16.

### Cash flow

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

CF from operating activities incl IFRS 16 decreased by HRK 22 million (2%) mainly due to unfavourable movement of working capital.

CF from investing activities decreased by HRK 20 million (5%) mainly due to acquisition of HP Produkcija and partially offset by lower cash capex realization.

CF from financing activities decreased by HRK 377 million (45%) mainly due to higher dividend pay-out and lease and content repayments.



## VI. Capital expenditure after leases

HT Group including Crnogorski Telekom

in HRK million

<b>CAPEX after leases</b>	<b>H1 2018</b>	<b>H1 2019</b>	<b>% of change A19/A18</b>	<b>Q2 2018</b>	<b>Q2 2019</b>	<b>% of change A19/A18</b>
CAPEX after leases	895	729	-18.6%	453	343	-24.3%
CAPEX after leases/ Revenue ratio	24.3%	19.7%	-4.6 p.p.	24.0%	17.8%	-6.2 p.p.

Crnogorski Telekom

<b>CAPEX after leases</b>	<b>H1 2018</b>	<b>H1 2019</b>	<b>% of change A19/A18</b>	<b>Q2 2018</b>	<b>Q2 2019</b>	<b>% of change A19/A18</b>
CAPEX after leases	73	61	-17.0%	23	35	53.5%

Capital expenditure after leases realization decreased by HRK 166 million or 18.6% driven by lower realization of HT Group in Croatia by HRK 154 million or 18.7% and CT contributed with lower capex by HRK 12 million or 17.0%, due to seasonality.

In 2019 HT continued with modernization of fixed access network of new generation (NGA) achieving realization of 21,806 HH covered with FTTH technology and 2,035 HH on FTTC in H1 2019. In addition, 15,131 customers were upgraded on higher speeds through Hybrid access.

In total, HT achieved coverage available for 59% households with technologies that enable speed >30 Mbps from which 22.3% with technologies that enable speed > 100 Mbps. Optical based access network (FTTx) is available for 420 thousand households.

In mobile network, "indoor" 4G population coverage is 84.9% and "outdoor" coverage reached 98.9%. Implementation of 4G speed increased to 350 Mbps download speeds continued to population coverage of 63% and speed to 300 Mbps download speeds continued to population coverage of 17%.

HT continues to achieve planned targets related to major investment program in modernization of mobile radio and transport networks.

Upon successful completion of network modernization in region of Istria and in Zagreb and Zagreb county in 2018, during Q1 2019 network modernization continued on coastal part of Croatia from Dubrovnik to Rijeka region where 581 locations were swapped.

At the end of June 2019 in total 1,194 locations were swapped. Also, to support predicted traffic growth, HT continues with capacity expansions on 4G mobile network sites reaching in total 501 locations with finished expansions in 2019 which provides sufficient capacity in coastal part for the upcoming tourist season.

After, as first operator in Croatia and in the region, HT established pilot 5G network and 5G data session in real production network environment testing and pilot area has been extended on surrounding of city of Samobor and on island of Krk in Q2 2019.

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

in HRK million

INCOME STATEMENT	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18 adjusted
Revenue	3,381	3,381	3,407	0.8%	1,726	1,726	1,772	2.6%
Mobile	1,451	1,451	1,493	2.9%	758	758	767	1.2%
Fixed voice	375	375	336	-10.4%	187	187	167	-10.6%
Broadband & TV	646	646	649	0.5%	326	326	332	1.9%
Fixed wholesale	157	157	156	-0.7%	73	73	79	7.7%
Other fixed	406	406	411	1.3%	204	204	204	0.1%
System solutions	278	278	355	27.8%	145	145	219	51.5%
Miscellaneous	68	68	8	-88.9%	35	35	4	-87.1%
Exceptional items	33	33	17	-47.3%	11	11	10	-2.1%
EBITDA before exceptional items after leases		1,315	1,302	-1.0%		714	675	-5.5%
EBITDA before exceptional items	1,362	1,443	1,430	-0.9%	728	763	723	-5.1%
EBITDA after exceptional items	1,329	1,410	1,413	0.2%	717	752	713	-5.2%
EBIT (Operating profit)	569	562	581	3.4%	344	332	329	-1.0%
Net profit after non controlling interests	454	442	457	3.4%	294	282	267	-5.2%
EBITDA margin before exceptional items after leases		38.9%	38.2%	-0.7 p.p.		41.4%	38.1%	-3.3 p.p.
EBITDA margin before exceptional items	40.3%	42.7%	42.0%	-0.7 p.p.	42.1%	44.2%	40.8%	-3.3 p.p.
EBITDA margin after exceptional items	39.3%	41.7%	41.5%	-0.2 p.p.	41.5%	43.6%	40.2%	-3.3 p.p.
EBIT margin incl	16.8%	16.6%	17.0%	0.4 p.p.	19.9%	19.2%	18.6%	-0.7 p.p.
Net profit margin	13.4%	13.1%	13.4%	0.3 p.p.	17.0%	16.3%	15.1%	-1.2 p.p.

<sup>1)</sup> Mainly related to restructuring redundancy costs and legal cases

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
<b>Mobile customers in 000</b>						
<b>Number of customers</b>	<b>2,268</b>	<b>2,286</b>	<b>0.8%</b>	<b>2,268</b>	<b>2,286</b>	<b>0.8%</b>
- Prepaid	981	936	-4.6%	981	936	-4.6%
- Postpaid	1,287	1,350	4.8%	1,287	1,350	4.8%
<b>Minutes of use (MOU) per average customer</b>	<b>226</b>	<b>232</b>	<b>2.9%</b>	<b>232</b>	<b>239</b>	<b>3.2%</b>
<b>Blended ARPU <sup>4)</sup></b> (monthly average for the period in HRK)	<b>67</b>	<b>68</b>	<b>1.8%</b>	<b>67</b>	<b>70</b>	<b>4.2%</b>
- Prepaid	43	43	0.4%	44	47	5.9%
- Postpaid	85	86	0.6%	85	86	1.9%
<b>Blended non-voice ARPU <sup>4)</sup></b> (monthly average for the period in HRK)	<b>36</b>	<b>40</b>	<b>10.2%</b>	<b>36</b>	<b>41</b>	<b>13.2%</b>
<b>SAC per gross add in HRK</b>	<b>139</b>	<b>148</b>	<b>6.3%</b>	<b>108</b>	<b>130</b>	<b>20.2%</b>
<b>Churn rate (%)</b>	<b>2</b>	<b>2</b>	<b>0.1 p.p.</b>	<b>2</b>	<b>2</b>	<b>0.1 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>122</b>	<b>127</b>	<b>4.6 p.p.</b>	<b>122</b>	<b>127</b>	<b>4.6 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>45.8</b>	<b>44.9</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>65</b>	<b>68</b>	<b>2.9 p.p.</b>	<b>65</b>	<b>68</b>	<b>2.9 p.p.</b>
<b>Smartphones sold (%) <sup>3)</sup></b>	<b>90</b>	<b>92</b>	<b>1.9 p.p.</b>	<b>91</b>	<b>90</b>	<b>-1.3 p.p.</b>

<sup>1)</sup> Source: competitors' official reports for H1/2019 and internal estimation of HR population

<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 includes IFRS 15 effects

Key operational data	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
<b>Fixed mainlines in 000</b>						
<b>Fixed mainlines - retail</b> <sup>1)</sup>	846	798	-5.8%	846	798	-5.8%
<b>Fixed mainlines - wholesale</b> (WLR - wholesale line rental)	57	50	-12.3%	57	50	-12.3%
<b>ARPU voice per user</b> <sup>5)</sup> (monthly average for the period in HRK) <sup>2)</sup>	73	69	-4.5%	73	70	-4.9%
<b>IP mainlines/customers in 000</b>						
<b>Broadband access lines - retail</b> <sup>3)</sup>	621	619	-0.4%	621	619	-0.4%
<b>Broadband access lines - wholesale</b> <sup>4)</sup>	129	122	-5.4%	129	122	-5.4%
<b>TV customers</b>	415	490	18.0%	415	490	18.0%
<b>Broadband retail ARPU</b> <sup>5)</sup> (monthly average for the period in HRK)	111	104	-6.9%	112	104	-7.4%
<b>TV ARPU</b> <sup>5)</sup> (monthly average for the period in HRK)	83	86	4.0%	84	85	1.6%
<b>Wholesale customers in 000</b>						
<b>ULL (Unbundled Local Loop)</b>	128	109	-14.6%	128	109	-14.6%

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

<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 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 2018 by HRK 42 million or 2.9% under influence of higher handsets (HRK 58 million or 15.8%) and higher postpaid (HRK 35 million or 5.4%), offset with decline in other mobile (HRK 40 or 36.3%) and prepaid (HRK 7 million or 2.8%).

Mobile customer base at 2,286 thousand customers in June 2019 is higher (0.8%) compared to June 2018; lower prepaid segment and higher postpaid segment performance.

Number of postpaid customers is 4.8% higher than in 2018 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

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 2019.

HT continued with push of 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 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 2019 Samsung has presented the new generation Smartphone - Samsung Galaxy S10 and S10+ available for purchase in HT – in presale customers got extra gift Samsung Galaxy Buds.

Postpaid was in focus of Q1 activities with retention and acquisition offers with very attractive handset prices. HT received Best in Test certificate (P3) and celebrated with 1GB free to all mobile residential customers from Najbolja Mreža.

Number of residential prepaid customers is 4.5% lower than in 2018 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.

As of March 1<sup>st</sup> 2019, HT terminated network fee in all prepaid brands – Simpa, T-Prepaid and Bonbon. Customers get full paid amount for voucher on their account.

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 Hibrid customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. In Q1 Simpa Hibrid offer was enriched with very attractive handset prices.

In Q2 our Prepaid portfolio was repriced with price and value increase (more for more). Bonbon in April launched new packages so that customers can choose combinations of MB/MIN/SMS fitting exactly to their needs. Simpa in June polished their *Glanc* options offering to customers even more MB/MIN/SMS. Additionally, for whole prepaid portfolio new voucher denomination was introduced.

Bonbon is presented as part of the T-family in all customer communications.

Minutes of usage per average residential customer in H1 2019 increased by 5.6% compared to 2018 and blended ARPU increased by 3.7% yoy.

Business postpaid customer base increased by 6.4%, to 563 thousands customers at the end of H1 2019 in comparison to H1 2018 due to M2M and voice tariffs growth.

In H1 2019, minutes of usage per average business customer are 4.8% lower than in H1 2018 due to higher share of M2M subscribers with lower usage. Blended business postpaid ARPU is lower by 4.3% due to roaming regulation, M2M migration from prepaid to postpaid with lower ARPU.

## **II. Fixed telecommunications**

Fixed revenue below H1 2018 by HRK 32 million or 2.0% under influence of declining fixed voice revenue (HRK 39 million or 10.4%), lower broadband (HRK 28 million or 6.3%), lower wholesale (HRK 1 million or 0.7%) which were partially offset by higher TV revenue (HRK 31 million or 15.0%) mainly coming from residential segment due to EvoTV acquisition and higher terminal equipment revenue (HRK 3 million or 28.1 %).

## **Fixed line**

By the end of June 2019, total fixed mainlines of 798 thousand are 5.8% lower than in June 2018. 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 continuous promo offer for fixed line is in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs. Fixed telephony users generated 505 million of minutes in H1.

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 total price of 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 2016 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 4.5% compared to H1 2018 as a result of mentioned general market trends.

## **Broadband**

Broadband customer base was 0.4% lower than in the same period last year and at the level of 619 thousand.

At the same time broadband retail ARPU was 6.9% below H1 2018 at the level of HRK 104 due to stronger competition and aggressive offers in the market.

HT continued with Max 2P and 3P packages “Biraj i mijeňaj” 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 1,000 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 is included in all M1 packages for customers on low Broadband speed.

Continuation of 2P FMC offer with 6 months Najbolja L mobile tariff for 1 HRK accompanied by attractive HW offers to maintain fixed market share and value through M1.

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 providing better quality, stability and better Wi-Fi coverage.

## TV

TV customer base shows 18.0% increase from H1 2018 is at the level of 490 thousand as a result of successful M&A activities and including EvoTV service in HT portfolio – TV service offered through DVB-T technology. TV ARPU is 4.0% increase compared to H1 2018 at a level of HRK 86.

MAXtv Sat service has declined by 5.1% 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 higher 3.1% than last year because of continuous service and program offer improvements through premium and enriched exclusive TV content and introduction of MAXtv Mini offer.

In 2019 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 is offering 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). From Q1 2019 HT's TV portfolio is richer for one new service – EvoTV which is based on DVB-T technology.

## Wholesale

At the end of June 2019 there were 109 thousand of active ULL lines, which was lower by 14.6% 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 122 thousand at the end of period, which was 5.4% 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 12.3% compared to previous year and reached 50 thousand as a result of declining voice market and migration to broadband services.

There were no price changes for regulated wholesale fixed services during H1 2019.

In 2019 successful sales of IP and data services continued in spite of competitive wholesale market of data and IP services. Total capacity of sold IP increased by 5.7% compared to last year contributing to stability of wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2019, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 9.1% more voice originating minutes and 61.8% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 20.3% more roaming voice traffic in foreign countries and 26.5% 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 7.7% in H1 2019 compared to the last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 10.7% and from HT mobile network users increased by 11.8%.

### **System solutions**

System solution revenue is higher than in H1 2018 (increase of HRK 77 million or 27.8%).

System solutions revenue is continuously growing in all portfolio segments. The strongest growth achievement in H1 2019 is in the area of customized ICT solutions and standard ICT portfolio. Key revenue drivers in standard ICT portfolio are Office 365, Mini and Maxi fiscal register and ICT equipment. Promo offer for Fiscalisation (seasonal offer) is ongoing resulting in higher revenue growth. ICT portfolio monetization is additionally successfully encouraged through Magenta 1 Business offer.

HT has been proclaimed as Microsoft's Partner of the Year in Croatia for 2019, that is important recognition demonstrating excellence in innovation and implementation of customer solutions based on Microsoft Technology. Additionally, new products from Microsoft portfolio (M365) have been launched as part of HT ICT standard services.

In Combis activities from previous quarter regarding investments in research and development of own new products are ongoing. As a result, Combis has launched new service „EMA“, which is a specific MDM solution for business customers. Further launches expected in next quarter. Regarding market focus remains on Security, Cloud & Managed services & piloting new products.

## Miscellaneous

Revenues from energy were lower by HRK 58 million or 100.0% when compared to H1 2018 due to selling of energy business in September 2018.

Non telco revenue lower by HRK 3 million or 28.8%.

## 2.3. Summary of key financial indicators – Crnogorski Telekom standalone

in HRK million

INCOME STATEMENT	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18 adjusted
Revenue	302	302	292	-3.4%	158	158	151	-4.2%
Mobile	154	154	148	-3.6%	81	81	77	-5.1%
Fixed voice	38	38	30	-21.0%	19	19	15	-19.8%
Broadband & TV	58	58	58	-0.7%	29	29	29	0.2%
Fixed wholesale	9	9	8	-9.8%	5	5	5	-7.4%
Other fixed	25	25	25	-0.5%	12	12	12	-0.7%
System solutions	18	18	22	26.8%	12	12	13	13.6%
Exceptional items	2	2	2	16.2%	0	0	1	308.6%
EBITDA before exceptional items after leases		107	101	-5.7%		57	55	-2.7%
EBITDA before exceptional items	109	123	117	-5.0%	59	68	63	-6.9%
EBITDA after exceptional items	108	122	115	-5.2%	59	68	62	-8.3%
EBIT (Operating profit)	27	27	16	-40.2%	19	18	13	-30.7%
Net profit after non controlling interests	26	23	10	-57.2%	17	15	9	-36.8%
EBITDA margin before exceptional items after leases		35.4%	34.6%	-0.9 p.p.		36.0%	36.5%	0.6 p.p.
EBITDA margin before exceptional items	36.2%	40.8%	40.1%	-0.7 p.p.	37.6%	43.2%	42.0%	-1.2 p.p.
EBITDA margin after exceptional items	35.7%	40.3%	39.5%	-0.8 p.p.	37.4%	43.0%	41.2%	-1.8 p.p.
EBIT margin	8.9%	9.0%	5.6%	-3.4 p.p.	12.0%	11.7%	8.4%	-3.2 p.p.
Net profit margin	8.4%	7.7%	3.4%	-4.3 p.p.	11.1%	9.5%	6.3%	-3.2 p.p.

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
<b>Mobile customers in 000</b>	<b>359</b>	<b>360</b>	<b>0.2%</b>	<b>359</b>	<b>360</b>	<b>0.2%</b>
- Prepaid	138	125	-9.8%	138	125	-9.8%
- Postpaid	221	236	6.5%	221	236	6.5%
<b>Fixed mainlines - retail in 000</b>	<b>117</b>	<b>111</b>	<b>-5.4%</b>	<b>117</b>	<b>111</b>	<b>-5.4%</b>
<b>Broadband access lines - retail in 000</b>	<b>70</b>	<b>71</b>	<b>0.7%</b>	<b>70</b>	<b>71</b>	<b>0.7%</b>
<b>TV customers in 000</b>	<b>57</b>	<b>68</b>	<b>19.8%</b>	<b>57</b>	<b>68</b>	<b>19.8%</b>

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



## **I. Mobile telecommunications**

Mobile revenues decreased compared to H1 2018 by HRK 5 million or 3.6%, influenced mainly by lower prepaid revenues.

CT continued growth in postpaid segment, with 1.3% revenue increase YoY (on retail level; excl. IFRS15 impact) and 6.5% higher subscriber base.

Postpaid revenues performance was driven by residential segment (11.2% customer base increase), while Business postpaid decreased. The growth in Residential segment could not fully compensate lower prepaid revenue.

Challenge continued in prepaid segment. Prepaid decline of 16.3% was driven by 9.8% lower customer number (active pre-to-post migration) and by lower ARPA.

Crnogorski Telekom remained leader in Postpaid market at the end of H1 2019. Reported period was very much specific, as all operators have lunched flat residential postpaid tariffs.

## **II. Fixed telecommunications**

Fixed revenues declined by HRK 9 million or 7.2% compared to H1 2018, coming from further decline of fixed voice and wholesale revenues.

Fix BB and TV revenues are stable and altogether are flat YoY and 1,8% higher than planned, while Fix voice revenues continued the decline.

Fixed voice declined by HRK 8 million or 21%. Decrease is largely driven by the still strong positive impact of Fix-market-repair in H1 2018, as well as by the 5.4% decrease in customer base.

Fix BB and TV revenues in line, as higher customer numbers (by 0.8% and 4.0% respectively) could compensate ARPA decrease.

System solution revenues were higher in H1 2019 by HRK 5 million or 26.8%, driven by one-time deals.

## **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, E-tours and HP Produkcija 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 after leases 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 H1 2019

in HRK million	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
Mobile revenue	955	995	4.2%	483	502	3.9%
Fixed revenue	831	803	-3.3%	417	407	-2.3%
Miscellaneous	23	7	-69.6%	13	4	-67.3%
<b>Revenue</b>	<b>1,809</b>	<b>1,805</b>	<b>-0.2%</b>	<b>912</b>	<b>913</b>	<b>0.1%</b>

### Business segment H1 2019

in HRK million	H1 2018	H1 2019	% of change A19/A18	Q2 2018	Q2 2019	% of change A19/A18
Mobile revenue	495	497	0.4%	275	265	-3.5%
Fixed revenue	492	487	-1.0%	242	245	1.2%
System solution	277	353	27.4%	144	218	50.9%
Miscellaneous	45	0	-98.9%	22	0	-98.9%
<b>Revenue</b>	<b>1,309</b>	<b>1,338</b>	<b>2.2%</b>	<b>683</b>	<b>729</b>	<b>6.6%</b>

## Network and support functions H1 2019

in HRK million	H1 2018	H1 2019	<i>% of change A19/A18</i>	Q2 2018	Q2 2019	<i>% of change A19/A18</i>
Other operating income	45	97	114.1%	21	18	-13.1%

## Segment Optima consolidated H1 2019

in HRK million	H1 2018	H1 2019	<i>% of change A19/A18</i>	Q2 2018	Q2 2019	<i>% of change A19/A18</i>
Fixed revenue	260	261	0.4%	129	128	-1.2%
<b>Revenue</b>	<b>260</b>	<b>261</b>	<b>0.4%</b>	<b>129</b>	<b>128</b>	<b>-1.2%</b>
Other operating income	4	2	-62.2%	4	1	-63.6%

## Segment Crnogorski Telekom consolidated H1 2019

in HRK million	H1 2018	H1 2019	<i>% of change A19/A18</i>	Q2 2018	Q2 2019	<i>% of change A19/A18</i>
Mobile revenue	154	148	-4.0%	82	77	-5.9%
Fixed revenue	130	121	-7.3%	65	61	-6.4%
System solution	18	22	26.8%	12	13	13.6%
<b>Revenue</b>	<b>302</b>	<b>291</b>	<b>-3.6%</b>	<b>158</b>	<b>151</b>	<b>-4.7%</b>
Other operating income	4	2	-49.8%	3	1	-77.2%

## 4. HT Inc. financial highlights

### Revenue

Revenue decreased by HRK 38 million or 1.3% to HRK 2,859 million in H1 2019 when compared to H1 2018. Decrease was driven by lower miscellaneous (HRK 59 million or 99.2%) coming from energy business and fixed revenue (HRK 37 million or 2.9%) mostly as a result of declining voice and lower broadband. Decrease was partially offset by higher mobile revenue (HRK 42 million or 2.9%) influenced

by increased handset and postpaid revenue and higher system solution revenue (HRK 16 million or 15.3%).

#### **EBITDA before exceptional items after leases**

EBITDA before exceptional items after leases increased by HRK 2 million or 0.1% to HRK 1,208 million in H1 2019, mainly as a result of higher other operating income (HRK 54 million or 134.2%), partially offset with lower revenue realization and higher operating expenses excluding exceptional items (HRK 15 million or 0.9%).

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

Net profit after non controlling interests increased by HRK 44 million or 10.8% to HRK 453 million in H1 2019. Except higher EBITDA before exceptional items after leases (HRK 2 million or 0.12%) increase was result of lower depreciation and amortization (HRK 21 million or 3.4%), positive effect of net financial result (HRK 17 million or 32.8%), lower exceptional items mainly related to personnel redundancy restructuring costs (HRK 13 million or 58.1%); offset by higher taxation (HRK 10 million or 11.3%).

## **5. 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.

## 6. HT Group 2019 outlook

Group 2019 Outlook remains unchanged; now set on „after leases” (al) basis

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Around 2018 level
EBITDA AL	Margin of 38.6%	Margin of around 38%
CAPEX AL	HRK 1,826 million	Around 2018 level
Regional expansion	Acquisition of evotv service	HT is monitoring and evaluating potential M&A opportunities

## 7. HT Group financial statements

### 7.1. Consolidated Income Statement

in HRK million	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18 adjusted
Mobile revenue	1,605	1,605	1,641	2.2%	839	839	844	0.5%
Fixed revenue	1,713	1,713	1,671	-2.4%	853	853	841	-1.4%
System solutions	295	295	376	27.3%	156	156	231	48.1%
Miscellaneous	68	68	8	-88.9%	35	35	4	-87.1%
<b>Revenue</b>	<b>3,681</b>	<b>3,681</b>	<b>3,695</b>	<b>0.4%</b>	<b>1,883</b>	<b>1,883</b>	<b>1,920</b>	<b>2.0%</b>
Other operating income	56	53	100	87.9%	31	28	20	-26.7%
<b>Total operating revenue</b>	<b>3,737</b>	<b>3,734</b>	<b>3,795</b>	<b>1.6%</b>	<b>1,914</b>	<b>1,911</b>	<b>1,941</b>	<b>1.6%</b>
<b>Operating expenses</b>	<b>2,300</b>	<b>2,203</b>	<b>2,267</b>	<b>2.9%</b>	<b>1,138</b>	<b>1,092</b>	<b>1,166</b>	<b>6.8%</b>
Material expenses	1,121	1,117	1,151	3.1%	560	556	607	9.1%
Employee benefits expenses	539	539	571	6.0%	276	276	293	6.4%
Other expenses	672	579	552	-4.6%	321	278	275	-1.2%
Work performed by the Group and capitalised	-59	-59	-47	-20.3%	-35	-35	-24	-32.1%
Write down of assets	27	27	40	46.1%	17	17	15	-10.9%
<b>EBITDA</b>	<b>1,437</b>	<b>1,531</b>	<b>1,528</b>	<b>-0.2%</b>	<b>776</b>	<b>820</b>	<b>775</b>	<b>-5.4%</b>
Depreciation and amortization	840	942	930	-1.2%	412	468	433	-7.6%
<b>EBIT</b>	<b>597</b>	<b>590</b>	<b>598</b>	<b>1.4%</b>	<b>363</b>	<b>351</b>	<b>342</b>	<b>-2.5%</b>
Financial income	24	25	14	-43.6%	10	11	7	-36.1%
Income/loss from investment in joint ventures	0	0	-4	-	3	3	-2	-155.8%
Financial expenses	82	93	70	-25.2%	35	42	40	-5.5%
<b>Profit before taxes</b>	<b>538</b>	<b>521</b>	<b>538</b>	<b>3.3%</b>	<b>341</b>	<b>323</b>	<b>308</b>	<b>-4.7%</b>
Taxation	98	95	103	8.5%	61	58	58	0.8%
<b>Net profit</b>	<b>440</b>	<b>426</b>	<b>435</b>	<b>2.1%</b>	<b>280</b>	<b>265</b>	<b>250</b>	<b>-5.9%</b>
Non controlling interests	-7	-7	-3	-54.9%	-1	-1	2	-240.0%
<b>Net profit after non controlling interests</b>	<b>447</b>	<b>433</b>	<b>438</b>	<b>1.2%</b>	<b>281</b>	<b>266</b>	<b>248</b>	<b>-6.9%</b>
Exceptional items <sup>1)</sup>	34	34	19	-44.5%	11	11	12	6.2%
<b>EBITDA before exceptional items</b>	<b>1,471</b>	<b>1,566</b>	<b>1,547</b>	<b>-1.2%</b>	<b>787</b>	<b>831</b>	<b>787</b>	<b>-5.3%</b>
<b>EBITDA before exceptional items after leases</b>		<b>1,422</b>	<b>1,403</b>	<b>-1.3%</b>		<b>771</b>	<b>730</b>	<b>-5.3%</b>

<sup>1)</sup> Mainly related to restructuring redundancy costs and legal cases

Note: H1 2018 proforma adjusted for 2019 IFRS 16 effects

## 7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2018	At 30 Jun 2019	% of change A19/A18
Intangible assets	2,539	2,376	-6.4%
Property, plant and equipment	6,218	6,250	0.5%
Non-current financial assets	1,312	1,305	-0.6%
Receivables	391	388	-0.8%
Lessee use rights to leased assets (IFRS 16)	0	520	-
Contract assets (IFRS 15)	58	59	0.3%
Contract costs (IFRS 15)	81	93	15.4%
Deferred tax asset	94	101	7.0%
<b>Total non-current assets</b>	<b>10,694</b>	<b>11,092</b>	<b>3.7%</b>
Inventories	136	146	7.9%
Receivables	1,549	1,557	0.5%
Current financial assets	112	1	-99.4%
Contract assets (IFRS 15)	146	206	40.9%
Contract costs (IFRS 15)	57	63	10.1%
Cash and cash equivalents	3,137	2,530	-19.3%
Prepayments and accrued income	201	150	-25.3%
<b>Total current assets</b>	<b>5,337</b>	<b>4,653</b>	<b>-12.8%</b>
<b>TOTAL ASSETS</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	563	0.2%
Revaluation reserves	-14	-14	2.5%
Treasury shares	-71	-131	84.3%
Retained earnings	1,503	1,338	-11.0%
Net profit for the period	1,061	438	-58.7%
Non controlling interests	344	324	-5.8%
<b>Total issued capital and reserves</b>	<b>13,208</b>	<b>12,763</b>	<b>-3.4%</b>
Provisions	70	79	12.7%
Non-current liabilities	384	312	-18.9%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	47	-
Contract liabilities (IFRS 15)	0	1	-
Deferred tax liability	44	39	-10.4%
<b>Total non-current liabilities</b>	<b>498</b>	<b>478</b>	<b>-3.9%</b>
Current liabilities	2,223	2,042	-8.1%
Contract liabilities (IFRS 15)	52	64	24.4%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	374	-
Deferred income	39	23	-40.5%
Provisions for redundancy	13	0	-97.6%
<b>Total current liabilities</b>	<b>2,326</b>	<b>2,503</b>	<b>7.6%</b>
<b>Total liabilities</b>	<b>2,823</b>	<b>2,982</b>	<b>5.6%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,031</b>	<b>15,745</b>	<b>-1.8%</b>

### 7.3. Consolidated Cash Flow Statement

in HRK million	H1 2018 reported	H1 2018 adjusted	H1 2019	% of change A19/A18 adjusted	Q2 2018 reported	Q2 2018 adjusted	Q2 2019	% of change A19/A18 adjusted
Profit before tax	538	521	538	3.3%	341	323	308	-4.6%
Depreciation and amortization	840	942	930	-1.2%	412	468	433	-7.5%
Increase / decrease of current liabilities	-282	-282	-107	62.2%	-142	-142	42	129.5%
Increase / decrease of current receivables	142	142	-1	-100.7%	-43	-43	-115	-169.4%
Increase / decrease of inventories	-3	-3	-17	-489.5%	25	25	-5	-120.7%
Other cash flow increases / decreases	-226	-226	-271	-20.0%	-147	-147	-149	-1.4%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,010</b>	<b>1,094</b>	<b>1,072</b>	<b>-2.0%</b>	<b>447</b>	<b>484</b>	<b>513</b>	<b>6.0%</b>
Proceeds from sale of non-current assets	23	23	81	246.6%	14	14	80	488.5%
Proceeds from sale of non-current financial assets	1	1	13	1567.7%	0	0	12	3375.4%
Interest received	8	8	7	-10.1%	2	2	3	47.5%
Other cash inflows from investing activities	199	199	113	-43.0%	40	40	113	180.9%
<b>Total increase of cash flow from investing activities</b>	<b>230</b>	<b>230</b>	<b>214</b>	<b>-7.2%</b>	<b>56</b>	<b>56</b>	<b>208</b>	<b>270.2%</b>
Purchase of non-current assets	-671	-671	-562	16.2%	-296	-296	-282	4.5%
Purchase of non-current financial assets	0	0	-113	-	0	0	-83	-
Other cash outflows from investing activities	0	0	0	100.0%	0	0	0	308.1%
<b>Total decrease of cash flow from investing activities</b>	<b>-671</b>	<b>-671</b>	<b>-675</b>	<b>-0.6%</b>	<b>-296</b>	<b>-296</b>	<b>-365</b>	<b>-23.3%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-441</b>	<b>-441</b>	<b>-461</b>	<b>-4.6%</b>	<b>-240</b>	<b>-240</b>	<b>-157</b>	<b>34.6%</b>
<b>Total increase of cash flow from financing activities</b>								
Repayment of loans and bonds	-43	-43	-34	21.6%	-11	-11	-11	-1.4%
Dividends paid	-489	-489	-810	-65.5%	-489	-489	-809	-65.4%
Repayment of finance lease	-1	-85	-166	-93.8%	0	-38	-110	-190.6%
Other cash outflows from financing activities	-221	-221	-207	6.4%	-118	-118	-86	27.0%
<b>Total decrease in cash flow from financing activities</b>	<b>-755</b>	<b>-839</b>	<b>-1,217</b>	<b>-45.0%</b>	<b>-618</b>	<b>-656</b>	<b>-1,016</b>	<b>-54.9%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-755</b>	<b>-839</b>	<b>-1,217</b>	<b>-45.0%</b>	<b>-618</b>	<b>-656</b>	<b>-1,016</b>	<b>-54.9%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-2</b>	<b>-2</b>	<b>-1</b>	<b>57.0%</b>	<b>2</b>	<b>2</b>	<b>-4</b>	<b>-324.3%</b>
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%	0	0	0	-
Net cash (outflow) / inflow	-188	-188	-606	-223.2%	-410	-410	-663	-61.9%
<b>Cash and cash equivalents at the end of period</b>	<b>2,964</b>	<b>2,964</b>	<b>2,530</b>	<b>-14.6%</b>	<b>-410</b>	<b>-410</b>	<b>-663</b>	<b>-61.9%</b>

## 8. Notes to the condensed consolidated financial statements for the six months ended on 30 June 2019

### **Basis of preparation**

The condensed consolidated financial statements as of 30 June 2019 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 2018 with introduction of the following standard as of 1 January 2019:

IFRS 16 Leases is applied from 1 January 2019. HT Group did not apply the new lease standard retrospectively in full, but made use of the exemption provisions for lessees, also known as the modified retrospective method. On the transition to IFRS 16, payment obligations from existing operating leases were discounted using the relevant incremental borrowing rate and recognized as a lease liability. The right-of-use assets is carried in the amount of the lease liability, adjusted by the amount of the prepaid or accrued lease payments.

As an exemption to modified retrospective approach, HT Group applied general approach, also known as grandfathering approach for land easements (Rights of servitude and Rights of way) for installed telecommunication cables on or into that land that are reclassified to right-of-use asset and whose liability will become lease liability as at 1 January 2019.

Significant options and expedients are exercised as follows:

Right-of-use assets and lease liabilities are reported separately in the statement of financial position.

The recognition, measurement, and disclosure requirements of IFRS 16 are applied to short-term leases and leases based on low-value assets. HT Group used practical expedient not to capitalise leases shorter than 1 month.

In leases that contain both lease components and non-lease components, a distinction is not be made between these components. Each lease component is accounted for – as a lease – in conjunction with other related performance components.

Overall, the new definition of a lease does not have a material impact for HT Group as a lessor.

### **Dividends**

On May 6<sup>th</sup> 2019, General Assembly of Hrvatski Telekom has brought the decision regarding the dividend payout. Under that decision, HRK 808,885,810.00 or HRK 10 per share were paid out to shareholders. Dividend was distributed in the way that HRK 566,220,067.00 (HRK 7 per share) was



paid out from net profit in 2018, while HRK 242,665,743.00 was paid out from retained earnings from previous years.

### **Business combination**

As of 1st March 2019, following the approval of the National Regulatory Agency (HAKOM), HT acquired EVO TV business (HT Production) from Hrvatska Pošta.

The fair value of the identifiable assets and liabilities of HT Production as at the date of acquisition were:

	28 February 2019 HRK million
<b>ASSETS</b>	
<b>Non-current assets</b>	
Intangible assets	7
Property, plant and equipment	2
<b>Total non-current assets</b>	<b>9</b>
<b>Current assets</b>	
Inventories	4
Trade and other receivables	15
<b>Total current assets</b>	<b>19</b>
<b>TOTAL ASSETS</b>	<b>28</b>
<b>LIABILITIES</b>	
<b>Non-current liabilities</b>	
Other liabilities	1
<b>Total non-current liabilities</b>	<b>1</b>
<b>Current liabilities</b>	
Trade payables and other liabilities	11
Deferred income	3
<b>Total current liabilities</b>	<b>14</b>
<b>Total liabilities</b>	<b>15</b>

\*The provisional amounts recognised as of the acquisition date. The amounts may change after final purchase price allocation is performed.

### 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 Group Iskon, Combis, KDS, E-tours, HT Production 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:

<b>Period ended 30 June 2018</b>	<b>Residential</b>	<b>Business</b>	<b>Network and support functions</b>	<b>Optima Telekom</b>	<b>Crnogorski Telekom</b>	<b>Total</b>
	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>
<b>Net revenue</b>	<b>1.809</b>	<b>1.309</b>	<b>-</b>	<b>260</b>	<b>303</b>	<b>3.681</b>
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)
<b>Contribution margin I</b>	<b>1.674</b>	<b>1.197</b>	<b>-</b>	<b>213</b>	<b>276</b>	<b>3.360</b>
Non-usage related direct costs	(279)	(401)	-	(12)	(55)	(747)
<b>Segment result</b>	<b>1.395</b>	<b>796</b>	<b>-</b>	<b>201</b>	<b>221</b>	<b>2.613</b>
Other income	-	-	48	4	4	56
Other operating expenses, restated	(186)	(181)	(688)	(62)	(115)	(1.232)
Depreciation, amortization and impairment of non-current assets	-	-	(703)	(57)	(80)	(840)
<b>Operating profit</b>	<b>1.209</b>	<b>615</b>	<b>(1.343)</b>	<b>86</b>	<b>30</b>	<b>597</b>

<b>Period ended 30 June 2019</b>	<b>Residential</b>	<b>Business</b>	<b>Network and support functions</b>	<b>Optima Telekom</b>	<b>Crnogorski Telekom</b>	<b>Total</b>
	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>	<b>HRK million</b>
<b>Net revenue</b>	<b>1.805</b>	<b>1.338</b>	<b>-</b>	<b>261</b>	<b>291</b>	<b>3.695</b>
Mobile revenue	995	498	-	-	148	1.641
Fixed revenue	803	487	-	261	121	1.672
System solutions revenue	-	353	-	-	22	375
Miscellaneous revenue	7	-	-	-	-	7
Usage related direct costs	(121)	(120)	-	(43)	(19)	(303)
Income and losses on accounts receivable	(19)	(10)	-	(3)	(5)	(37)
<b>Contribution margin I</b>	<b>1.665</b>	<b>1.208</b>	<b>-</b>	<b>215</b>	<b>267</b>	<b>3.355</b>
Non-usage related direct costs	(320)	(397)	-	(7)	(55)	(779)
<b>Segment result</b>	<b>1.345</b>	<b>811</b>	<b>-</b>	<b>208</b>	<b>212</b>	<b>2.576</b>
Other income	-	-	97	2	2	101
Other operating expenses	(185)	(181)	(639)	(48)	(96)	(1.149)
Depreciation, amortization and impairment of non-current assets	-	-	(769)	(63)	(98)	(930)
<b>Operating profit</b>	<b>1.160</b>	<b>630</b>	<b>(1.311)</b>	<b>99</b>	<b>20</b>	<b>598</b>

Period 1 April to 30 June 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	0	0	0	- €	- €	- €
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
<b>Net revenue</b>	<b>912</b>	<b>683</b>	<b>-</b>	<b>129</b>	<b>159</b>	<b>1.883</b>
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)
<b>Contribution margin I</b>	<b>833</b>	<b>627</b>	<b>-</b>	<b>108</b>	<b>146</b>	<b>1.714</b>
Non-usage related direct costs	(130)	(198)	-	(7)	(31)	(366)
<b>Segment result</b>	<b>703</b>	<b>429</b>	<b>-</b>	<b>101</b>	<b>115</b>	<b>1.348</b>
Other income	-	-	24	4	3	31
Other operating expenses, restated	(96)	(88)	(330)	(31)	(57)	(602)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(344)	(29)	(40)	(413)
<b>Operating profit, restated</b>	<b>607</b>	<b>341</b>	<b>(650)</b>	<b>45</b>	<b>21</b>	<b>364</b>

Period 1 April to 30 June 2019	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
	<b>Net revenue</b>	<b>913</b>	<b>729</b>	<b>-</b>	<b>128</b>	<b>150</b>
Mobile revenue	502	266	-	-	76	844
Fixed revenue	407	246	-	128	61	842
System solutions revenue	-	217	-	-	13	230
Miscellaneous revenue	4	-	-	-	-	4
Usage related direct costs	(67)	(66)	-	(13)	(9)	(155)
Income and losses on accounts receivable	(12)	-	-	1	(2)	(13)
<b>Contribution margin I</b>	<b>834</b>	<b>663</b>	<b>-</b>	<b>116</b>	<b>139</b>	<b>1.752</b>
Non-usage related direct costs	(155)	(231)	-	(4)	(29)	(419)
<b>Segment result</b>	<b>679</b>	<b>432</b>	<b>-</b>	<b>112</b>	<b>110</b>	<b>1.333</b>
Other income	-	-	18	2	1	21
Other operating expenses	(98)	(90)	(315)	(29)	(47)	(579)
Depreciation, amortization and impairment of non-current assets	-	-	(352)	(32)	(49)	(433)
<b>Operating profit</b>	<b>581</b>	<b>342</b>	<b>(649)</b>	<b>53</b>	<b>15</b>	<b>342</b>

## **Relations with the governing company and its affiliated companies**

In the first six months of 2019 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 2019 there were no changes in transactions among related parties which were specified in the annual financial report for 2018 and which had a significant impact on the financial position and operations of the Group in the first six months of 2019.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first six months of 2019 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 2019 the Group generated total revenue from related companies from international traffic to the amount of HRK 81 million (the first six months of 2018: HRK 64 million), while total costs of international traffic amounted to HRK 87 million (the first six months of 2018: HRK 74 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 2019 the Company paid a total amount of HRK 0.4 million (the first six months of 2018: HRK 0.3 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 2019 the total compensation paid to key management personnel of the Group amounted to HRK 34 million (the first six months of 2018: HRK 28 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 2019 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. Kostas Nebis, President of the Management Board (CEO)

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

Mr. Ivan Bartulović, Member of the Management Board and Chief Human Resources 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, 25 July 2019

## 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](http://www.t.ht.hr)