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Zagreb – 31 October 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 nine months of 2019

#### **Despite a slight decline of financial indicators, investments in fiber and mobile network modernization continue**

- Good performance in Mobile and System Solutions almost offset revenue decline following exit from Energy business and Fixed voice decline
- 40,000 new households covered by FTTH technology in Jan-Sep 2019 – 2.5 fold increase vs Jan-Sep 2018
- With its innovative hybrid approach, Hrvatski Telekom delivers high speeds of up to 30 megabits per second into rural areas of Croatia as well
- Increase in the number of Magenta 1 users and My Telecom application
- Expansion of the biggest data center in Selska street in Zagreb and implementation of the advanced cloud platform, Azure Stack

Hrvatski Telekom (Reuters: HT.ZA, Bloomberg: HT CZ), the leading telecommunications provider in Croatia, announces its unaudited consolidated results for the first nine months of 2019.

Consolidated revenues in the first nine months of 2019 were generated in the amount of HRK 5,713 million and are 1.3% lower compared to the same period last year. Within this, revenue growth was achieved in Mobile Telecommunications, Broadband and TV and System Solutions.

EBITDA before exceptional items after leases (EBITDA AL) in the first nine months of 2019 amounted to HRK 2,238 million and is 4.8% lower compared to the same period last year, mainly due to increased material and roaming costs and personnel costs. A high EBITDA AL margin was maintained at 39.2%.

Net profit after minority interests amounted to HRK 677 million and is 18.3% lower compared to the same period of 2018. This is a result of the EBITDA AL performance and the increased cost of depreciation and exceptional items.

#### **Further investment in infrastructure, high-speed thanks to innovative hybrid technology**

Hrvatski Telekom continued its capital investments in mobile and fixed broadband networks with the goal of ensuring superior customer experience and maintaining leading market position.

Optical Access Network (FTTx) is available for 428,000 households. 40,000 new households were covered by Fiber to the Home (FTTH) technology in the period from January to September 2019, which is a 2.5-fold increase vs. the period from January to September 2018. The total coverage by FTTH technology increased to 270,000 households.

In the mobile segment, the overall HT's 4G network reached 99% population coverage outdoors and 87% population coverage indoors. Also, Hrvatski Telekom has continued with its significant investment program of modernizing the mobile network across Croatia. In the period from January to September 2019, additional 537 mobile locations have been equipped with "four carrier aggregation" configuration, thus increasing Gigabit capable LTE population coverage from 40% to 53%, as well as increasing 4G network capacities to successfully meet the increasing demands for data services, especially in the tourist areas of Croatia. Compared to the previous year's tourist season, mobile data volume in the busiest week in HT network increased by 78%. In parallel, average download speed increased by 40%, from 43 Mbps to 60 Mbps, confirmed by Ookla measurements. Currently, 85% of the entire network has been modernized, and by the end of this year modernization will be completed, and the network will be fully ready for the implementation of 5G technology.

Thanks to the innovative hybrid technology, Hrvatski Telekom has provided access to high speeds of up to 30 megabits per second in rural and less populated areas of Croatia. It is a combination of the most affordable fixed and the best mobile network in a single service that provides stable and fast internet access. Thus, internet service users will have access to 50 percent faster speeds through this technology and will be able to enjoy the best television content provided by Hrvatski Telekom's IPTV service. 49,000 new Hybrid access customers were added in the period from January to September 2019 and 82,000 customers now enjoy the benefits of this innovative technology on the Croatian market.

In the first nine months of 2019, Hrvatski Telekom invested HRK 1,086 million, mostly in the modernization of infrastructure for fixed and mobile networks. Compared to the same period last year, investment is lower because of seasonal fluctuations, while the outlook for capital investment for the whole of 2019 remains the same as announced, at approximately the 2018 level.

#### **Further increase in the number of Magenta 1 users and My Telecom application**

The number of users of the unique concept of converged offering, Magenta 1, continues to grow, with 239,000 households and 30,000 business users today.

The key lever for digitalizing customer experience is Hrvatski Telekom's application My Telecom that gives customers a detailed overview of all telecommunications services in the fixed and mobile networks and their consumption, enables payment of bills, simple activation of e-bills and tariff plans and options management, and enables viewing of internet availability through an interactive map. The use of the My Telecom application is growing strongly and, at the end of September, it had around 338 thousand users.

#### **Continued digitalization of Croatian society**

Hrvatski Telekom has finished an upgrade of its biggest data center in Selska street in Zagreb and additionally expanded its data center services portfolio. As the first in Croatia, Hrvatski Telekom implements Azure Stack, the most popular public cloud platform, offering a wide range of advanced functionalities and tools. Azure Stack enables faster business operations and respective savings of time and funds, and enables data storage in Croatia, with certified local support. In this way, HT is

implementing the digitalization of Croatia, by offering to its customers advanced tools, services and finished solutions in its partnership with Microsoft and Combis.

**Commenting on the business results for the first nine months of 2019, Konstantinos Nempis, CEO of Hrvatski Telekom, stated:** *As the largest private investor in the digitalization of Croatia, we continue our activities by bringing technology to every corner of Croatia so that all citizens have an equal opportunity for a quality life. At the same time, we are contributing to the Croatian economy thanks to a strong investment cycle and digital transformation of the company. We are bringing our mobile network modernization project to a close, we invest heavily in optical infrastructure, and thanks to innovative hybrid technology, we provide users in all parts of the country with high-speed internet access, which means more opportunities for flexible work, entertainment, fast search for information, and communication. I am proud to be the head of a company that contributes directly to 3 percent of Croatia's GDP, and last year contributed directly and indirectly to HRK 11.3 billion in induced GDP, created 30.2 thousand jobs, and generated HRK 3.26 billion in taxes and contributions, as confirmed by the HT Group's Digital Atlas.*

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

The conference call dial in details are as follows:

International Dial In  
Conference ID

**+44 (0) 207 192 8000**  
**4698222**

A replay of the call will be available until Thursday, 7 November 2019 using the following details:

International Dial In  
Conference ID

**+44 (0) 333 300 9785**  
**4698222**

A presentation covering results for the first nine 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 stable performance in 3Q 2019

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

### 1.2. Economic background

Croatia's economy growth in the first half of 2019 (3.9% in Q1/19 and 2.4% in Q2/19 on an annual basis) was driven by growth in personal consumption and investments. Growth of personal consumption was supported by increase of available income. Lack of labour force in certain industries created pressure on income growth. Investments' growth was mostly driven by better absorption of EU funds.<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 because of increased employment as well as emigration trend. In the first eight months of 2019 number of employed citizens increased by 1.0% on an annual basis, while the registered unemployment rate for that period was 8.0%, that is 2.3 p.p. lower than in the first eight months of 2018.<sup>1</sup>

In August 2019 Consumer Price Index (CPI) increased by 0.9% 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 131.0% at the end of September 2019. The Company maintains leading market position with mobile SIM market share of 44.8% at the end of September 2019.

A consolidation of the telecommunication market goes on. HT finalized acquisition of Evo TV as of March 1<sup>st</sup> 2019. On May 31<sup>st</sup> 2019 Tele2 entered into agreement to sell Tele2 Croatia to United Group.

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of June 2019 that was 3.1% growth on an annual basis<sup>2</sup>. Further investments in infrastructure development continued both in mobile and fixed telecommunication segments.

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<sup>1</sup> Source: Croatian Bureau of Statistics

<sup>2</sup> Source: Croatian Post and Electronic Communications Agency's quarterly report for Q2/2019

HT Group continues with further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 622 thousand of broadband access lines at the end of September 2019.

HAKOM reported 826 thousand Pay TV customers at the end of June 2019, which is 3.4% annual growth.<sup>2</sup>

## **Wholesale**

The number of broadband wholesale customers (BSA and Naked BSA) was 118 thousand at the end of September 2019, which is a decrease of 8.4% compared to end of September 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 106 thousand ULL accesses and 47 thousand WLRs at the end of September 2019.

### **1.4. Regulatory overview**

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

In the latest round of analysis of relevant regulated electronic communications markets that HAKOM started in 2018 the status of remaining market analyses is:

- a) Wholesale high-quality access provided at a fixed location. The market analysis process is still pending.
- b) Wholesale trunk segments of leased lines. The market analysis process is still pending.

All other market analyses have been finalized:

- market analysis of access provided at a fixed location for residential and business customers in 2018;
- market analyses of wholesale call termination on individual public telephone networks provided at a fixed location, wholesale voices call termination on individual mobile networks and wholesale call origination on the public telephone network provided at a fixed location in 1Q 2019;
- market analyses of wholesale central access provided at a fixed location for mass-market products and wholesale local access provided at a fixed location 2Q 2019 (HAKOM adopted the final decisions on June 19th, 2019).

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<sup>2</sup> Source: Croatian Post and Electronic Communications Agency's quarterly report for Q2/2019

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

HAKOM initiated process of changing Regulation of Services. Public consultation of the Proposed Amendments was opened until June 24th, 2019.

On July 12th, 2019 HAKOM adopted changes of Regulation of Services.

Entry into force of the changes to go in two phases:

- Changes related to obtaining customer's contract confirmation, obligatory contract summary (PPO) and e-bill opt-out as of August the 1st, 2019
- Remaining changes as of January the 1st, 2020 concerning, among others, 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 and the right of the customer to terminate the contract over the phone.

### **Amendments to the Universal Service Regulation**

By its decision from September 13<sup>th</sup>, 2019, HAKOM designated HT as USO operator for the period of the following three years for the following services:

- access services (from minimum speed 1 Mbit/s to 4 Mbit/s as of January 1st, 2020),
- public payphones,
- special measures for disabled,
- special tariffs for users with special social needs.

### **Revision of the Margin Squeeze Methodology**

On December 17th, 2018 HAKOM published public call for delivery of comments on the current Margin Squeeze Methodology (the MST). Public call was opened until February 5th, 2019.

On June 18th, 2019 HAKOM published public consultation regarding the MST draft decision. The consultation was opened until September 6th, 2019. According to HAKOM, the main reason for changing the MST is HT Group's high market share on retail broadband access market and access to the retail public telephone network market. Analysis of impact arising from proposed modifications is ongoing.

On October 11<sup>th</sup>, 2019 HAKOM approved draft decision on the MST methodology, which is more strict than the current one and notified it to the European Commission. HAKOM's final decision is expected upon expiry of 30 days after notification to the European Commission under the condition that European Commission doesn't have any objections.

### **Revision of WACC rate**

On June 19th, 2019 HAKOM initiated public consultation of the reduction of WACC rates applied in calculating the cost of services provided over fixed network, mobile network and over the fibre network. The public consultation was opened until July 10th, 2019.

On 11 October 2019, HAKOM adopted the final decision allocating the WACC to the following levels:

- Fixed network: 6.28%
- Mobile network: 6.38%
- Additional risk premium for services on fibre infrastructure: 1.97%

Decision will be implemented as of January 1<sup>st</sup>, 2020.

### **Changes to the BSA and ULL Reference Offers**

From August 26th to September 23rd, 2019, HAKOM conducted public consultations on changes to the Croatian Telecom Reference Offers for wholesale central access and Croatian Telecom Standard Offer for wholesale local access.

Key changes relate to the introduction of a deadline for informing the operator of the possibility of realizing the request upon the repair of the twisted-pair, the deadline for the repair of the twisted-pair, shortening the deadline for upgrading the network and repairing the self-supporting/underground cable, and the obligation of HT to compensate the operator in case HT is responsible for exceeding the fault-repair timeline.

HAKOM's final decision is still pending.

### **Regulatory penalties**

The High Misdemeanour Court ruled the penalty against HT in the amount of HRK 28 million for offence under the Telecommunications Law. In 2015 HT did not notify of one of its tariffs that was offered to the market. HT paid penalty amounting 2/3 of the total amount i.e. HRK 19 million, as it is required under the law for release of the penalty obligation.

## **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 sales process 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 HT Produkcija d.o.o., provider of evotv service.

HT 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
Nine months to 30 Sep 2018	7.41	7.42	6.21	6.40
Nine months to 30 Sep 2019	7,41	7,40	6,59	6,77

## 2. Business review

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

HT Group including Crnogorski Telekom								
in HRK million								
INCOME STATEMENT	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18	Q3 2018 reported	Q3 2018 adjusted	Q3 2019	% of change A19/A18
Revenue	5,787	5,787	5,713	-1.3%	2,107	2,107	2,017	-4.2%
Mobile	2,609	2,609	2,622	0.5%	1,004	1,004	982	-2.2%
Fixed voice	616	616	545	-11.5%	203	203	179	-11.7%
Broadband & TV	1,063	1,063	1,069	0.6%	359	359	363	1.1%
Fixed wholesale	243	243	246	1.2%	78	78	83	6.4%
Other fixed	646	646	654	1.2%	216	216	218	1.1%
System solutions	515	515	564	9.7%	220	220	189	-14.1%
Miscellaneous	96	96	12	-87.8%	27	27	4	-85.0%
Exceptional items	38	38	89	133.4%	4	4	70	1753.1%
EBITDA before exceptional items after leases		2,351	2,238	-4.8%		929	835	-10.1%
EBITDA before exceptional items	2,427	2,585	2,472	-4.4%	956	1,019	925	-9.3%
EBITDA after exceptional items	2,389	2,547	2,383	-6.4%	952	1,015	855	-15.8%
EBIT (Operating profit)	1,123	1,094	912	-16.7%	526	505	313	-37.9%
Net profit after non controlling interests	872	828	677	-18.3%	425	395	238	-39.6%
EBITDA margin before exceptional items after leases		40.6%	39.2%	-1.4 p.p.		44.1%	41.4%	-2.7 p.p.
EBITDA margin before exceptional items	41.9%	44.7%	43.3%	-1.4 p.p.	45.4%	48.4%	45.8%	-2.5 p.p.
EBITDA margin after exceptional items	41.3%	44.0%	41.7%	-2.3 p.p.	45.2%	48.2%	42.4%	-5.8 p.p.
EBIT margin	19.4%	18.9%	16.0%	-3.0 p.p.	25.0%	24.0%	15.5%	-8.4 p.p.
Net profit margin	15.1%	14.3%	11.8%	-2.5 p.p.	20.2%	18.7%	11.8%	-6.9 p.p.

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects

BALANCE SHEET	At 31 Dec 2018	At 30 Sep 2019	% of change	At 31 Dec 2018	At 30 Sep 2019	% of change
Total non current assets	10,694	11,156	4.3%	10,694	11,156	4.3%
Total current assets	5,337	4,800	-10.1%	5,337	4,800	-10.1%
<b>TOTAL ASSETS</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>
Total issued capital and reserves	13,208	12,997	-1.6%	13,208	12,997	-1.6%
Total non current liabilities	498	477	-4.1%	498	477	-4.1%
Total current liabilities	2,326	2,482	6.7%	2,326	2,482	6.7%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>

CASH FLOW	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted	Q3 2018 reported	Q3 2018 adjusted	Q3 2019	% of change A19/A18
Net cash flow from operating activities	1,801	1,938	1,665	-14.1%	791	844	592	-29.8%
Net cash flow from investing activities	-1,147	-1,147	-803	29.9%	-706	-706	-342	51.5%
Net cash flow from financing activities	-872	-1,010	-1,405	-39.1%	-118	-171	-188	-10.2%
<b>Cash and cash equivalents at the end of period</b>	<b>2,933</b>	<b>2,933</b>	<b>2,597</b>	<b>-11.5%</b>	<b>-31</b>	<b>-31</b>	<b>66</b>	<b>313.7%</b>

CAPEX after leases	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
CAPEX after leases	1,241	1,086	-12.5%	346	357	3.2%
CAPEX after leases/ Revenue ratio	21.4%	19.0%	-2.4 p.p.	16.4%	17.7%	1.3 p.p.

NUMBER OF EMPLOYEES	At 30 Sep 2018	At 30 Sep 2019	% of change A19/A18	At 30 Sep 2018	At 30 Sep 2019	% of change A19/A18
Number of employees (FTEs)	5,453	5,475	0.4%	5,453	5,475	0.4%

#### 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 44.8%
- HT won OOKLA certificates for the fastest mobile network and the best mobile coverage
- HT has been proclaimed as Microsoft's partner of the year in Croatia for 2019

- Magenta1 achieved 239 thousand of consumer households (H1 2019: 227 thousand) while in business area there are 30 thousand active and passive accounts (H1 2019: 30 thousand active and passive accounts)
- In CT, Magenta1 kept almost 16% (2Q 2019: 15%) of consumer households, while in business area there were 2,380 active accounts (2Q 2019: 2,196 active accounts)

Stable financial performance of main financial KPIs:

- Revenue amounts to HRK 5,713 million and is below 3Q 2018 by HRK 75 million or 1.3%
- EBITDA AL amounts to HRK 2,238 million and is below 3Q 2018 by HRK 113 million or 4.8%
- Capex AL amounts to HRK 1,086 million and is below 3Q 2018 by HRK 155 million or 12.5%

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased to 87.1% in 3Q (H1 2019: 84.9%), while "Outdoor" coverage reached 99.0% (H1 2019: 98.9%)
- Modernization of fixed access network of new generation (NGA) is continued, achieving realization of 40,400 HH covered with FTTH technology in 3Q. Total coverage with Fiber to the Home (FTTH) technology increased on 270,320 households. In addition, 48,813 customers were upgraded on higher speeds through Hybrid access until end of Q3 2019.
- In CT LTE roll-out for 2019 done - MT (P3 like) drive tests from Aug 2019 (traffic peak) showing that CT is on the first place in mobile services (both data and voice). Intensive FTTH Rollout underground and air in final phase for 2019, already 50% of HH are passed with FTTH. Further deployment of VDSL Outdoor cabinets on good track, enabling higher speed on existing copper infrastructure. Towards "Radical shift to Digital" - OneApp to be commercially launched in Q4 2019.

Mobile network modernization:

- Comparing to the last year, mobile data volume increased for 78% and in parallel average download speed increased for 20%. In total 1.669 mobile locations have been modernized, which is 85% of total scope of activities.
- In Q3 HT finished modernization of the radio network in Lika, Gorski Kotar, Sisačko-moslavačka, Bjelovarsko-bilogorska and Koprivničko-križevačka counties. Major part of Zagorje and Međimurje areas were modernized and activities in Slavonija has been started.
- As first operator in Croatia and in the region, HT established pilot 5G network and 5G data session in real production network environment intensive activities on performance and use cases testing were continued in Q3 with additional test base station implementation in Zagreb. Within Weekend Media Festival conference in Rovinj HT implemented two demo cases: live video signal transmission and remote control of moving object showing practical usage of 5G technology.
- "Moj Telekom" application provides detailed overview of all fixed and mobile telco services, enables payment of bills, manages tariffs and options for 27 % of the Smartphone base (KPI now including all brands), with an average rating of 4.5 on Google Play platform and 4.3 on IOS platform.

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. 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. The number of acquired Company shares amounted to 415,807 on September 30th, 2019.

## **Main financials development**

### **I. Revenue**

Total consolidated net revenue decreased by HRK 75 million or 1.3% to HRK 5,713 million in 3Q 2019 in comparison to 3Q 2018. Revenue decrease is driven by both HT Group in Croatia (HRK 45 million or 0.8%) and Crnogorski Telekom (HRK 30 million or 6.4%).

On HT Group level, revenue decrease is caused by lower realization in miscellaneous revenue (HRK 84 million or 87.8%) and fixed revenue (HRK 54 million or 2.1%), partially offset by higher system solutions (HRK 50 million or 9.7%) and mobile revenue (HRK 13 million or 0.5%).

Optima Telekom contribution to HT Group was above by HRK 3 million in comparison to 3Q 2018 and amounted to HRK 243 million in 3Q 2019. Contribution consisted of HRK 392 million of Optima Telekom third party contribution (3Q 2018: HRK 389 million) that was presented in the whole amount under fixed other revenue and HRK 149 million of inter-company relations that decreased mainly fixed wholesale revenue (3Q 2018: HRK 148 million).

Contribution of subsidiaries in Group revenue in 3Q 2019 amounted for Iskon HRK 285 million (3Q 2018: HRK 292 million) and for Combis HRK 363 million (3Q 2018: HRK 334 million).

## **Mobile revenue**

Mobile revenue grew by HRK 13 million or 0.5% to HRK 2,622 million in 3Q 2019 in comparison to 3Q 2018. Growth is realized by HT Group in Croatia by HRK 28 million or 1.2%, while Crnogorski Telekom revenue fell by HRK 15 million or 6.0%.

The growth was supported by handset and postpaid revenue, which covered for decline in other, visitor and prepaid revenue.

Handset revenue growth due to strong retention activities and therefore higher number of contract prolongations as well as higher Market invests and higher reselling impact.

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 5.1%.

Prepaid revenue decreased due to lower customer base by 3.7% which resulted with lower voice, SMS and MMS revenue.

## **Fixed revenue**

Fixed revenue fell by HRK 54 million or 2.1% to HRK 2,514 million in 3Q 2019 in comparison to 3Q 2018. Fall in fixed revenue for HT Group in Croatia amounts to HRK 40 million or 1.7% and fall for Crnogorski Telekom amounts to HRK 14 million of 7.3%.

The fall is mainly a result of lower voice revenue and broadband and was partially compensated by higher TV revenue and other revenue.

Lower fixed line voice retail revenue is coming from continuous decline in the number of revenues producing fixed mainlines due to ongoing fixed to mobile substitution trend supported by strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment.

Broadband revenue decline is a result of lower broadband retail ARPU which is coming from stronger competition and aggressive offers in the market.

Increase of TV revenue is supported by 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 3Q 2018.

Other fixed revenue increase was mainly driven by higher terminal equipment and positive effect of Optima Telekom.

## **System Solutions**

System solution revenue rose by HRK 50 million or 9.7% in comparison to 3Q 2018 driven by HT Group in Croatia (HRK 51 million or 10.4%). Crnogorski Telekom reported lowered revenue (HRK 1 million or 2.8%). Increase in HT Group in Croatia is mainly due to strong 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 rose by HRK 10 million or 9.4% compared to 3Q 2018. The rise comes from HT Group in Croatia (HRK 12 million or 11.7%) mainly due to Evo TV transactions, while Crnogorski Telekom contribution decreased (HRK 2 million or 49.9%).

### **III. Operating expenses**

Total consolidated operating expenses increased by HRK 99 million or 3.0% to HRK 3,451 million in 3Q 2019, driven by HT Group in Croatia (HRK 118 million or 3.8%), while Crnogorski Telekom expenses decreased (HRK 19 million or 6.7%).

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

#### **Material expenses**

Material expenses increased to HRK 1,756 million in 3Q 2019 by HRK 12 million or 0.7% as a result of higher service expenses and lower merchandise, material and energy expenses. Increase in material expenses is driven by HT Group in Croatia, while material expenses in Crnogorski Telekom decreased 10.0%.

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.

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

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

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

#### **Employee benefits expenses**

Total employee benefits expenses increased by HRK 89 million or 11.1% to HRK 889 million in 3Q 2019 as a result of higher personnel costs driven by higher number of FTEs, primarily by HT Group in Croatia, and higher redundancy costs.

Total number of FTEs amounts to 5,475 FTEs, which is an increase of 22 FTEs compared to 3Q 2018, mainly coming from HT Group in Croatia driven by insourcing of employees.

#### **Other expenses**

Other expenses decreased by HRK 33 million or 3.9% to HRK 819 million in 3Q 2019 driven by both HT Group in Croatia (HRK 26 million or 3.4%) and Crnogorski Telekom (HRK 7 million or 9.3%). Decrease of other expenses is mainly driven by lower licenses, lower consulting fees and lower maintenance.

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

The assets write down increased by HRK 13 million or 26.5% to HRK 62 million in 3Q 2019 driven by HT Group in Croatia (HRK 14 million or 31.4%) mainly due to IFRS9 effect and consequently changes of bad debt rates. Crnogorski Telekom contributes with decrease of HRK 1 million or 9.7%.

#### **Depreciation and amortization**

Depreciation and amortization increased by HRK 19 million or 1.3% to HRK 1,471 million compared to 3Q 2018 mostly influenced by HT Group in Croatia due to seasonalisation. Part of depreciation is included in EBITDA after leases.

Crnogorski Telekom contributes with increase of HRK 6 million or 3.9%.

### **IV. Profitability**

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

EBITDA before exceptional items after leases decreased by HRK 113 million or 4.8% to HRK 2,238 million in 3Q 2019 driven by both HT Group in Croatia (HRK 100 million or 4.6%) and Crnogorski Telekom (HRK 13 million or 7.2%).

HT Group in Croatia EBITDA before exceptional items after leases decrease is a result of lower revenue (HRK 45 million or 0.8%), higher other operating income (HRK 12 million or 11.7%) and higher operating expenses (before exceptional items) (HRK 68 million or 2.2%).

Crnogorski Telekom EBITDA before exceptional items after leases decrease is influenced by lower net revenue and other operating income, offset with lower operating expenses (before exceptional items).

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

Net profit after non controlling interests decreased by HRK 151 million or 18.3% to HRK 677 million in 3Q 2019. Decrease in HT Group in Croatia amounted to HRK 136 million or 16.6% and decrease in Crnogorski Telekom amounted to HRK 16 million or 116.0%.

In HT Group in Croatia decrease is primarily caused fall in EBITDA (HRK 150 million or 6,4%). Higher depreciation and amortization (HRK 13 million or 1,0%) and lower non controlling interest (HRK 10 million or 51.4%) negatively contributed, as well. Lower taxation (HRK 29 million or 16,2%) and positive effect of net financial result (HRK 9 million or 15,2%) just slightly mitigated decrease.

Crnogorski Telekom lower net profit is primarily driven by lower EBITDA 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 1% or HRK 75 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 12,997 million at 30 September 2019 mainly driven by dividend pay-out in amount of HRK 809 million and purchase of own share in amount of HRK 66 million that is offset with realized net profit for Q3 2019 in the amount of HRK 677 million.

Total non-current liabilities decreased by HRK 21 million or 4% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities increased by HRK 156 million to HRK 2,482 million at 30 September 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 decreased 273 HRK million (14%) mainly due to lower EBT, unfavourable working capital movement and higher tax paid.

CF from investing activities increased by HRK 343 million (30%) mainly due to higher inflows from repo arrangements, lower cash capex partially offset by acquisition of HT produkcija.

CF from financing activities decreased by HRK 395 million (39 %) mainly affected by higher dividend pay-out and higher lease repayments (IFRS 16).

## **VI. Capital expenditure after leases**

HT Group including Crnogorski Telekom

in HRK million

<b>CAPEX after leases</b>	<b>3Q 2018</b>	<b>3Q 2019</b>	<b>% of change A19/A18</b>	<b>Q3 2018</b>	<b>Q3 2019</b>	<b>% of change A19/A18</b>
CAPEX after leases	1,241	1,086	-12.5%	346	357	3.3%
CAPEX after leases/ Revenue ratio	21.4%	19.0%	-2.4 p.p.	16.4%	17.7%	1.3 p.p.

Crnogorski Telekom

<b>CAPEX after leases</b>	<b>3Q 2018</b>	<b>3Q 2019</b>	<b>% of change A19/A18</b>	<b>Q3 2018</b>	<b>Q3 2019</b>	<b>% of change A19/A18</b>
CAPEX after leases	110	85	-22.4%	37	25	-33.0%

Capital expenditure after leases realization decreased by HRK 155 million or 12.5% driven by lower realization of HT Group in Croatia by HRK 130 million or 11.5% and CT contributed with lower capex by HRK 25 million or 22.4% due to seasonality.

In 2019 HT continued with modernization of fixed access network of new generation (NGA) achieving realization of additional 40,400 HH covered with FTTH technology in Q3. Total coverage with Fiber to the Home (FTTH) technology increased on 270,320 households. In addition, 48,813 customers were upgraded on higher speeds through Hybrid access until end of Q3 2019.

In total, HT achieved coverage available for 60% households with technologies that enable speed >30 Mbps from which 23% with technologies that enable speed > 100 Mbp. Optical based access network (FTTx) is available for 428 thousand households.

In mobile network, "indoor" 4G population coverage is 87.1% and "outdoor" coverage reached 99.0%. Implementation of 4G speed increased to 350 Mbps download speeds continued to population coverage of 72% and speed to 300 Mbps download speeds continued to population coverage of 12%.

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

By the end on H1/2019 modernization of radio network in coastal part of Croatia from Dubrovnik to Rijeka area was finished enabling sufficient network capacity and higher customer speeds during tourist season. Comparing to the last year, mobile data volume increased for 78% and in parallel average download speed increased for 20%. In total 1,669 mobile locations have been modernized which is 85% of total scope of activities.

In Q3 HT finished modernization of the radio network in Lika, Gorski Kotar, Sisačko-moslavačka, Bjelovarsko-bilogorska and Koprivničko-križevačka counties. Major part of Zagorje and Međimurje areas were modernized and activities in Slavonija has been started.

After, as first operator in Croatia and in the region, HT established pilot 5G network and 5G data session in real production network environment intensive activities on performance and use cases testing were continued in in Q3 with additional test base station implementation in Zagreb. Within Weekend Media Festival conference in Rovinj HT implemented two demo cases: live video signal transmission and remote control of moving object showing practical usage of 5G technology.

IT transformation continues; besides the technological transformation, agile approach in product development is applied: several agile multidisciplinary product development teams have been formed.

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

in HRK million

INCOME STATEMENT	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted	Q3 2018 reported	Q3 2018 adjusted	Q3 2019	% of change A19/A18 adjusted
Revenue	5,317	5,317	5,272	-0.8%	1,936	1,936	1,865	-3.7%
Mobile	2,361	2,361	2,389	1.2%	910	910	896	-1.5%
Fixed voice	560	560	500	-10.7%	185	185	164	-11.4%
Broadband & TV	975	975	982	0.8%	329	329	333	1.3%
Fixed wholesale	230	230	235	2.1%	73	73	79	8.1%
Other fixed	609	609	617	1.4%	203	203	206	1.5%
System solutions	487	487	538	10.4%	209	209	183	-12.7%
Miscellaneous	96	96	12	-87.8%	27	27	4	-85.0%
Exceptional items <sup>1)</sup>	37	37	87	137.4%	4	4	69	1801.0%
EBITDA before exceptional items after leases		2,174	2,074	-4.6%		859	772	-10.2%
EBITDA before exceptional items	2,251	2,384	2,284	-4.2%	889	941	854	-9.3%
EBITDA after exceptional items	2,214	2,348	2,197	-6.4%	885	938	784	-16.4%
EBIT (Operating profit)	1,068	1,036	872	-15.8%	499	474	291	-38.6%
Net profit after non controlling interests	860	814	679	-16.6%	406	372	222	-40.4%
EBITDA margin before exceptional items after leases		40.9%	39.3%	-1.6 p.p.		44.4%	41.4%	-3.0 p.p.
EBITDA margin before exceptional items	42.3%	44.8%	43.3%	-1.5 p.p.	45.9%	48.6%	45.8%	-2.8 p.p.
EBITDA margin after exceptional items	41.6%	44.1%	41.7%	-2.5 p.p.	45.7%	48.4%	42.1%	-6.4 p.p.
EBIT margin	20.1%	19.5%	16.5%	-2.9 p.p.	25.8%	24.5%	15.6%	-8.9 p.p.
Net profit margin	16.2%	15.3%	12.9%	-2.4 p.p.	21.0%	19.2%	11.9%	-7.3 p.p.

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

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
<b>Mobile customers in 000</b>						
<b>Number of customers</b>	<b>2,331</b>	<b>2,359</b>	<b>1.2%</b>	<b>2,331</b>	<b>2,359</b>	<b>1.2%</b>
- Prepaid	1,026	988	-3.7%	1,026	988	-3.7%
- Postpaid	1,305	1,371	5.1%	1,305	1,371	5.1%
<b>Minutes of use (MOU) per average customer</b>	<b>223</b>	<b>232</b>	<b>3.9%</b>	<b>218</b>	<b>231</b>	<b>5.9%</b>
<b>Blended ARPU<sup>4)</sup></b> (monthly average for the period in HRK)	<b>68</b>	<b>69</b>	<b>1.6%</b>	<b>71</b>	<b>72</b>	<b>1.4%</b>
- Prepaid	44	45	2.2%	46	48	5.4%
- Postpaid	87	87	-0.3%	90	88	-2.0%
<b>Blended non-voice ARPU<sup>4)</sup></b> (monthly average for the period in HRK)	<b>38</b>	<b>41</b>	<b>9.4%</b>	<b>40</b>	<b>43</b>	<b>7.8%</b>
<b>SAC per gross add in HRK</b>	<b>121</b>	<b>127</b>	<b>4.7%</b>	<b>93</b>	<b>97</b>	<b>4.2%</b>
<b>Churn rate (%)</b>	<b>2</b>	<b>2</b>	<b>0.0 p.p.</b>	<b>2</b>	<b>2</b>	<b>-0.2 p.p.</b>
<b>Penetration (%)<sup>1)</sup></b>	<b>127</b>	<b>131</b>	<b>4.3 p.p.</b>	<b>127</b>	<b>131</b>	<b>4.3 p.p.</b>
<b>Market share of customers (%)<sup>1)</sup></b>	<b>45</b>	<b>45</b>	<b>-0.5 p.p.</b>	<b>45</b>	<b>45</b>	<b>-0.5 p.p.</b>
<b>Smartphone customers (%)<sup>2)</sup></b>	<b>66</b>	<b>68</b>	<b>2.5 p.p.</b>	<b>66</b>	<b>68</b>	<b>2.5 p.p.</b>
<b>Smartphones sold (%)<sup>3)</sup></b>	<b>91</b>	<b>91</b>	<b>0.8 p.p.</b>	<b>91</b>	<b>90</b>	<b>-1.3 p.p.</b>

<sup>1)</sup> Source: competitors' official reports for 3Q/2019

<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	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
<b>Fixed mainlines in 000</b>						
Fixed mainlines - retail <sup>1)</sup>	834	792	-5.0%	834	792	-5.0%
Fixed mainlines - wholesale (WLR - wholesale line rental)	55	47	-14.3%	55	47	-14.3%
ARPU voice per user <sup>5)</sup> (monthly average for the period in HRK) <sup>2)</sup>	73	69	-5.1%	73	69	-6.3%
<b>IP mainlines/customers in 000</b>						
Broadband access lines - retail <sup>3)</sup>	620	622	0.4%	620	622	0.4%
Broadband access lines - wholesale <sup>4)</sup>	129	118	-8.4%	129	118	-8.4%
TV customers	413	490	18.7%	413	490	18.7%
Broadband retail ARPU <sup>5)</sup> (monthly average for the period in HRK)	112	104	-7.3%	112	103	-8.0%
TV ARPU <sup>5)</sup> (monthly average for the period in HRK)	83	86	3.0%	84	85	0.9%
<b>Wholesale customers in 000</b>						
ULL (Unbundled Local Loop)	124	106	-14.7%	124	106	-14.7%

<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 3Q 2018 by HRK 28 million or 1.2% supported by higher handsets and postpaid, offset with decline in other mobile (HRK 63 or 37.9%), visitors and prepaid.

Mobile customer base at 2,359 thousand customers in September 2019 is higher (1.2%) compared to September 2018; lower prepaid segment and higher postpaid segment performance.

Number of postpaid customers is 5.1% 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 and M2M and voice tariffs growth.

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.

In April HTs FMS offer Gigabox was launched providing our customers internet with mobility functionality and no MCD on service but with MCD on router. Customers can for HRK 199 (HRK 149 in M1) have 100GB on 4G speed with SSD to 4Mbit/s; additional 100GB option for HRK 30. Gigabox offer for M1 customers was refreshed in June and now they can get 200GB for 179kn.

In order to offer unlimited data to customers, in May HT launched new Neograničena offer (HRK 249 promo, HRK 199 in M1) followed with best hardware and speed benefits. During the same period, HT was named as best mobile network speed and coverage provider, approved by OOCLA SPEEDTEST. To celebrate this award, HT gave 1GB to all mobile residential customers. In September, Neograničena offer got extra benefits in M1 and now for including second Neograničena tariff price is 189kn and third Neograničena tariff price is 179kn with special hardware offers.

In September Apple has presented new iPhone 11 and it was available first in pre-sale and later for purchase in HT.

Number of residential prepaid customers is 3.4% 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 1st 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 2019 increased by 6.7% compared to 2018 and blended ARPU increased by 4.2% yoy.

Business postpaid customer base increased by 5.8%, to 577 thousand customers at the end of 3Q 2019 in comparison to 3Q 2018 due to M2M and voice tariffs growth.

In 3Q 2019, minutes of usage per average business customer are 4.3% lower than in 3Q 2018 due to higher share of M2M subscribers with lower usage. Blended postpaid ARPU is lower by 6.1% due to roaming regulation and M2M migration from prepaid to postpaid with lower ARPU.

## **II. Fixed telecommunications**

Fixed revenue below 3Q 2018 by HRK 40 million or 1.7% under influence of declining fixed voice revenue (HRK 60 million or 10.7%) and lower broadband (HRK 44 million or 6.6%), which were partially offset by higher TV revenue (HRK 51 million or 16.5%) due to EvoTV acquisition, other revenue (HRK 8 million or 1.4%) and wholesale (HRK 5 million or 2.1%).

### **Fixed line**

By the end of September 2019, total fixed mainlines of 792 thousand are 5.0% lower than in September 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 731 million of minutes in 2019.

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 5.1% compared to 2018 as a result of mentioned general market trends.

### **Broadband**

Broadband customer base was 0.4% higher than in the same period last year and at the level of 622 thousand.

At the same time broadband retail ARPU was 7.3% below last year 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 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 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 HT continued with providing combined fixed and mobile technology in one product and one device without additional charge – Hybrid access.

In first half of the year special offer was available for 2P FMC 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 which includes AirTies devices that enable better and wider range of Wi Fi signal through entire home is available for all fixed internet users. The offer is priced HRK 49 per month with MCD 24 and assures fast and reliable internet connection at any time.

At the end of 3Q 2019, business retail broadband customer base was lower by 0.7% in the comparison to 2018 reaching 91 thousand, due to stronger competition and aggressive offers in the market.

Business retail broadband ARPU is below 2018 by 3.3%.

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 18.7% increase from 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 3.0% increase compared to the same period last year at a level of HRK 86.

MAXtv Sat service has declined by 4.9% 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 ARPA. On the other hand, MAXtv customer base is higher 4.0% 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 September 2019 there were 106 thousand of active ULL lines, which was lower by 14.7% 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 118 thousand at the end of period, which was 8.4% 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 14.3% compared to previous year and reached 47 thousand as a result of declining voice market and migration to broadband services.

There were no price changes for regulated wholesale fixed services during 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 2.6% 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 3.8% more voice originating minutes and 57.1% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 18.0% more roaming voice traffic in foreign countries and 27.1% 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 4.7% in 3Q 2019 compared to the last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 11.1% and from HT mobile network users increased by 7.1%.

## **System solutions**

System solution revenue is higher than in 3Q 2018 (increase of HRK 51 million or 10.4%).

System solutions revenue is continuously growing in all portfolio segments. The strongest growth achievement in 3Q is in 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.

HT has participated in the successful implementation of the largest integrated solar power plant in Croatia on the site of the pharmaceutical company Genera, which was officially put into operation in early September 2019. This project will enable Genera to reduce their operating costs, increase energy independence and reduce carbon dioxide emissions by using green energy sources. Project showcases how HT is helping companies to benefit from technologies, that are already available to them, to improve their business and contribute to making environment cleaner, which is in line with HT's mission and strategic orientation.

HT was also a key technological partner in the project of implementation of Smart Parking solution in Dubrovnik, realized in July 2019, allowing drivers to find an available parking space faster and easier by using the Smart Parking application, which will save them time and fuel, but also reduce traffic jams and emissions of harmful gases. With sensors installed on more than 1900 parking spaces in the entire urban area, this was the largest project in the segment of Smart Cities in Croatia and the region, as well as one of the largest Smart Parking projects in Europe realized with this number of sensors on the Narrowband IoT network.

Combis continuous with investments in research and development of own products and continuous with releases of new products like Smart managed remote access (ARA) & Managed security (penetration testing & managed firewall). Ongoing strong marketing activities & monetization regarding EMA- Enterprise mobility as a Service.

Strong activities have been made on offering complex solutions which resulted with few major deals including Cloud solutions, application development and managed services.

#### **Miscellaneous**

Revenues from energy were lower by HRK 80 million or 100.0% when compared to 3Q 2018 due to selling of energy business in September 2018.

Non-telco revenue lower by HRK 4 million or 25.6%.

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

in HRK million

INCOME STATEMENT	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted
Revenue	474	474	446	-5.9%	172	172	155	-10.4%
Mobile	248	248	234	-5.9%	95	95	86	-9.8%
Fixed voice	56	56	45	-19.1%	18	18	15	-14.9%
Broadband & TV	88	88	87	-0.7%	30	30	30	-0.7%
Fixed wholesale	15	15	13	-12.3%	6	6	5	-16.1%
Other fixed	39	39	38	-1.8%	14	14	13	-4.2%
System solutions	28	28	28	1.6%	10	10	6	-40.6%
Exceptional items	2	2	2	45.0%	0	0	1	387.0%
EBITDA before exceptional items after leases		177	164	-7.2%		70	63	-9.5%
EBITDA before exceptional items	177	201	188	-6.4%	67	78	71	-8.6%
EBITDA after exceptional items	175	199	186	-6.8%	67	78	70	-9.2%
EBIT (Operating profit)	53	57	38	-33.5%	26	30	22	-27.4%
Net profit after non controlling interests	49	49	31	-37.8%	24	26	21	-20.7%
EBITDA margin before exceptional items after leases		37.3%	36.8%	-0.5 p.p.		40.5%	40.9%	0.4 p.p.
EBITDA margin before exceptional items	37.3%	42.3%	42.1%	-0.2 p.p.	39.1%	45.0%	46.0%	0.9 p.p.
EBITDA margin after exceptional items	36.9%	42.0%	41.6%	-0.4 p.p.	39.0%	45.0%	45.6%	0.6 p.p.
EBIT margin	11.1%	12.0%	8.5%	-3.5 p.p.	15.1%	17.2%	14.0%	-3.3 p.p.
Net profit margin	10.4%	10.4%	6.9%	-3.5 p.p.	13.8%	15.2%	13.5%	-1.8 p.p.

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	3Q 2018	3Q 2019	% of change A19/A18	3Q 2018	3Q 2019	% of change A19/A18
<b>Mobile customers in 000</b>	<b>384</b>	<b>394</b>	<b>2.6%</b>	<b>384</b>	<b>394</b>	<b>2.6%</b>
- Prepaid	159	156	-2.3%	159	156	-2.3%
- Postpaid	224	238	6.1%	224	238	6.1%
<b>Fixed mainlines - retail in 000</b>	<b>116</b>	<b>110</b>	<b>-5.1%</b>	<b>116</b>	<b>110</b>	<b>-5.1%</b>
<b>Broadband access lines - retail in 000</b>	<b>71</b>	<b>78</b>	<b>10.8%</b>	<b>71</b>	<b>78</b>	<b>10.8%</b>
<b>TV customers in 000</b>	<b>61</b>	<b>69</b>	<b>14.7%</b>	<b>61</b>	<b>69</b>	<b>14.7%</b>

Note: customer base reported to Crnogorski Telekom local regulatory agency

### I. Mobile telecommunications

Mobile revenues decreased compared to 3Q 2018 by HRK 15 million or 5.9%, influenced by lower prepaid, visitor, handset and postpaid revenue, partially offset by higher other revenue.

Postpaid segment (on retail level; excl. IFRS15 impact) continued growing with 1.5% YoY growth and 6.2% higher subscriber base.

Postpaid revenues performance was driven by residential segment (9.8% customer base increase), while Business postpaid revenues decreased (though customer base increased by 3.6%). Looking only at Q3, positive development is visible in Postpaid: while H1 YoY growth was 1.3% (on retail level and

before IFRS15), in Q3 it was 2.0%, despite introduction of flat voice tariffs on the market. The growth in Residential segment could not fully compensate lower prepaid revenues.

Challenge continued in prepaid segment. Prepaid decline of 17.0% (on retail level) was driven by 6.6% lower customer number (active pre-to-post migration) and by lower ARPA (11.4% on retail level). Positive development in Prepaid in Q3 only, driven by good results of summer campaign: Prepaid retail revenues down by 14.3% (as compared to Q3 of 2018), while H1 YoY downside was 18.4%.

Crnogorski Telekom remained leader in Postpaid market at the end of Q3 2019, overall and in both customer segments.

## **II. Fixed telecommunications**

Fixed revenues decreased compared to 3Q 2018 by HRK 14 million or 7.0%, mostly due to fall in voice revenue.

Fix BB and TV revenues are stable and altogether are flat YoY, while Fix voice revenues continued the decline.

Fix BB and TV revenues in line altogether, as higher customer numbers (by 0.7% and 4.2% respectively) could compensate ARPA decrease.

System solution revenues were in line with 3Q 2018.

## **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 HT 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 3Q 2019

in HRK million	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
Mobile revenue	1,479	1,528	3.3%	524	533	1.6%
Fixed revenue	1,248	1,209	-3.1%	417	406	-2.7%
Miscellaneous	32	11	-65.9%	9	4	-56.2%
<b>Revenue</b>	<b>2,759</b>	<b>2,747</b>	<b>-0.4%</b>	<b>950</b>	<b>943</b>	<b>-0.8%</b>

### Business segment 3Q 2019

in HRK million	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
Mobile revenue	881	861	-2.2%	385	364	-5.7%
Fixed revenue	734	730	-0.6%	242	243	0.3%
System solution	487	536	10.1%	209	183	-12.7%
Miscellaneous	64	1	-98.9%	18	0	-98.7%
<b>Revenue</b>	<b>2,165</b>	<b>2,127</b>	<b>-1.7%</b>	<b>856</b>	<b>790</b>	<b>-7.7%</b>

### Network and support functions 3Q 2019

in HRK million	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
Other operating income	101	117	15.8%	56	20	-64.2%

### Segment Optima consolidated 3Q 2019

in HRK million	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
Fixed revenue	389	392	0.9%	129	131	1.8%
<b>Revenue</b>	<b>389</b>	<b>392</b>	<b>0.9%</b>	<b>129</b>	<b>131</b>	<b>1.8%</b>
Other operating income	5	2	-64.3%	1	0	-72.7%

### Segment Crnogorski Telekom consolidated 3Q 2019

in HRK million	3Q 2018	3Q 2019	% of change A19/A18	Q3 2018	Q3 2019	% of change A19/A18
Mobile revenue	249	234	-6.2%	95	86	-9.8%
Fixed revenue	197	184	-7.0%	67	63	-6.5%
System solution	28	28	1.6%	10	6	-40.6%
<b>Revenue</b>	<b>475</b>	<b>446</b>	<b>-6.1%</b>	<b>172</b>	<b>154</b>	<b>-10.4%</b>
Other operating income	4	2	-49.9%	0	0	-51.9%

## **4. HT Inc. financial highlights**

### **Revenue**

Revenue decreased by HRK 97 million or 2.1% to HRK 4,429 million in 3Q 2019 when compared to 3Q 2018. Decrease was driven by lower miscellaneous coming from sale of energy business and fixed revenue mostly as a result of declining voice and lower broadband. Decrease was partially offset by higher mobile revenue influenced by increased handset and postpaid revenue and higher system solution revenue.

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

EBITDA before exceptional items after leases decreased by HRK 77 million or 3.8% to HRK 1,935 million in 3Q 2019, mainly as a result of lower revenue realization partially offset with higher operating income and lower operating expenses excluding exceptional items.

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

Net profit after non controlling interests decreased by HRK 94 million or 12.1% to HRK 684 million in 3Q 2019 due to lower EBITDA and higher depreciation and amortization, offset by lower taxation and positive effect of net financial result.

## **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: revenue amended from “Around 2018 level” to “Slightly lower”

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Slightly lower
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	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted	Q3 2018 reported	Q3 2018 adjusted	Q3 2019	% of change A19/A18 adjusted
Mobile revenue	2,609	2,609	2,622	0.5%	1,004	1,004	982	-2.2%
Fixed revenue	2,568	2,568	2,514	-2.1%	855	855	843	-1.4%
System solutions	515	515	564	9.7%	220	220	189	-14.1%
Miscellaneous	96	96	12	-87.8%	27	27	4	-85.0%
<b>Revenue</b>	<b>5,787</b>	<b>5,787</b>	<b>5,713</b>	<b>-1.3%</b>	<b>2,107</b>	<b>2,107</b>	<b>2,017</b>	<b>-4.2%</b>
Other operating income	110	110	121	9.4%	54	57	20	-64.3%
<b>Total operating revenue</b>	<b>5,897</b>	<b>5,898</b>	<b>5,833</b>	<b>-1.1%</b>	<b>2,160</b>	<b>2,163</b>	<b>2,038</b>	<b>-5.8%</b>
<b>Operating expenses</b>	<b>3,508</b>	<b>3,351</b>	<b>3,451</b>	<b>3.0%</b>	<b>1,208</b>	<b>1,148</b>	<b>1,183</b>	<b>3.0%</b>
Material expenses	1,758	1,744	1,756	0.7%	637	627	605	-3.6%
Employee benefits expenses	800	800	889	11.1%	261	261	318	21.8%
Other expenses	996	853	819	-3.9%	324	274	267	-2.5%
Work performed by the Group and capitalised	-95	-95	-76	-19.6%	-36	-36	-29	-18.6%
Write down of assets	49	49	62	26.5%	21	21	22	1.5%
<b>EBITDA</b>	<b>2,389</b>	<b>2,547</b>	<b>2,383</b>	<b>-6.4%</b>	<b>952</b>	<b>1,015</b>	<b>855</b>	<b>-15.8%</b>
Depreciation and amortization	1,266	1,452	1,471	1.3%	426	511	541	6.0%
<b>EBIT</b>	<b>1,123</b>	<b>1,094</b>	<b>912</b>	<b>-16.7%</b>	<b>526</b>	<b>505</b>	<b>313</b>	<b>-37.9%</b>
Financial income	25	26	16	-36.0%	1	1	3	136.4%
Income/loss from investment in joint ventures	4	4	-3	-	4	4	1	-77.0%
Financial expenses	97	118	93	-20.8%	15	24	24	-3.7%
<b>Profit before taxes</b>	<b>1,055</b>	<b>1,006</b>	<b>831</b>	<b>-17.4%</b>	<b>516</b>	<b>485</b>	<b>293</b>	<b>-39.5%</b>
Taxation	190	186	157	-15.7%	93	91	54	-40.9%
<b>Net profit</b>	<b>864</b>	<b>820</b>	<b>675</b>	<b>-17.7%</b>	<b>424</b>	<b>394</b>	<b>239</b>	<b>-39.2%</b>
Non controlling interests	-8	-8	-2	-74.0%	-1	-1	1	-231.9%
<b>Net profit after non controlling interests</b>	<b>872</b>	<b>828</b>	<b>677</b>	<b>-18.3%</b>	<b>425</b>	<b>395</b>	<b>238</b>	<b>-39.6%</b>
Exceptional items <sup>1)</sup>	38	38	89	133.4%	4	4	70	1753.1%
<b>EBITDA before exceptional items</b>	<b>2,427</b>	<b>2,585</b>	<b>2,472</b>	<b>-4.4%</b>	<b>956</b>	<b>1,019</b>	<b>925</b>	<b>-9.3%</b>
<b>EBITDA before exceptional items after leases</b>		<b>2,351</b>	<b>2,238</b>	<b>-4.8%</b>		<b>929</b>	<b>835</b>	<b>-10.1%</b>

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

Note: 3Q 2018 proforma adjusted for 2019 IFRS 16 effects

## 7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2018	At 30 Sep 2019	% of change A19/A18
Intangible assets	2,539	2,235	-12.0%
Property, plant and equipment	6,218	6,286	1.1%
Non-current financial assets	1,312	1,306	-0.4%
Receivables	391	388	-0.8%
Lessee use rights to leased assets (IFRS 16)	0	685	-
Contract assets (IFRS 15)	58	56	-4.7%
Contract costs (IFRS 15)	81	97	19.9%
Deferred tax asset	94	102	8.1%
<b>Total non-current assets</b>	<b>10,694</b>	<b>11,156</b>	<b>4.3%</b>
Inventories	136	154	13.5%
Receivables	1,549	1,639	5.8%
Current financial assets	112	1	-99.3%
Contract assets (IFRS 15)	146	224	53.6%
Contract costs (IFRS 15)	57	68	18.1%
Cash and cash equivalents	3,137	2,597	-17.2%
Prepayments and accrued income	201	118	-41.2%
<b>Total current assets</b>	<b>5,337</b>	<b>4,800</b>	<b>-10.1%</b>
<b>TOTAL ASSETS</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	492	-12.5%
Revaluation reserves	-14	-13	-1.9%
Treasury shares	-71	-66	-6.5%
Retained earnings	1,503	1,338	-11.0%
Net profit for the period	1,061	677	-36.2%
Non controlling interests	344	325	-5.4%
<b>Total issued capital and reserves</b>	<b>13,208</b>	<b>12,997</b>	<b>-1.6%</b>
Provisions	70	88	25.7%
Non-current liabilities	384	285	-25.9%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	64	-
Contract liabilities (IFRS 15)	0	1	-
Deferred tax liability	44	40	-8.0%
<b>Total non-current liabilities</b>	<b>498</b>	<b>477</b>	<b>-4.1%</b>
Current liabilities	2,223	1,852	-16.7%
Contract liabilities (IFRS 15)	52	60	15.3%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	519	-
Deferred income	39	50	29.3%
Provisions for redundancy	13	0	-97.6%
<b>Total current liabilities</b>	<b>2,326</b>	<b>2,482</b>	<b>6.7%</b>
<b>Total liabilities</b>	<b>2,823</b>	<b>2,959</b>	<b>4.8%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,031</b>	<b>15,956</b>	<b>-0.5%</b>

### 7.3. Consolidated Cash Flow Statement

in HRK million	3Q 2018 reported	3Q 2018 adjusted	3Q 2019	% of change A19/A18 adjusted	Q3 2018 reported	Q3 2018 adjusted	Q3 2019	% of change A19/A18 adjusted
Profit before tax	1,055	1,006	831	-17.4%	516	485	293	-39.5%
Depreciation and amortization	1,266	1,452	1,471	1.3%	426	511	541	6.0%
Increase / decrease of current liabilities	-255	-255	-187	26.7%	27	27	-80	-402.0%
Increase / decrease of current receivables	66	66	-79	-221.2%	-77	-77	-78	-2.3%
Increase / decrease of inventories	-19	-19	-28	-47.8%	-16	-16	-11	30.6%
Other cash flow increases / decreases	-312	-312	-343	-10.1%	-86	-86	-72	16.2%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,801</b>	<b>1,938</b>	<b>1,665</b>	<b>-14.1%</b>	<b>791</b>	<b>844</b>	<b>592</b>	<b>-29.8%</b>
Proceeds from sale of non-current assets	25	25	87	249.7%	2	2	6	295.9%
Proceeds from sale of non-current financial assets	1	1	11	849.7%	0	0	-2	-633.1%
Interest received	10	10	9	-10.9%	2	2	2	-14.1%
Dividend received	0	0	0	-	0	0	0	-
Other cash inflows from investing activities	202	202	110	-45.3%	4	4	-3	-177.5%
<b>Total increase of cash flow from investing activities</b>	<b>238</b>	<b>238</b>	<b>217</b>	<b>-8.8%</b>	<b>7</b>	<b>7</b>	<b>3</b>	<b>-57.9%</b>
Purchase of non-current assets	-990	-990	-908	8.4%	-320	-320	-345	-8.0%
Purchase of non-current financial assets	0	0	-113	-	0	0	0	-
Other cash outflows from investing activities	-394	-394	0	100.0%	-394	-394	0	100.0%
<b>Total decrease of cash flow from investing activities</b>	<b>-1,384</b>	<b>-1,384</b>	<b>-1,020</b>	<b>26.3%</b>	<b>-713</b>	<b>-713</b>	<b>-345</b>	<b>51.6%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-1,147</b>	<b>-1,147</b>	<b>-803</b>	<b>29.9%</b>	<b>-706</b>	<b>-706</b>	<b>-342</b>	<b>51.5%</b>
<b>Total increase of cash flow from financing activities</b>								
Repayment of loans and bonds	-43	-43	-43	0.4%	0	0	-9	-
Dividends paid	-497	-497	-818	-64.5%	-8	-8	-8	1.5%
Repayment of finance lease	-2	-139	-249	-79.2%	-1	-54	-84	-55.8%
Other cash outflows from financing activities	-331	-331	-295	10.8%	-110	-110	-88	19.7%
<b>Total decrease in cash flow from financing activities</b>	<b>-872</b>	<b>-1,010</b>	<b>-1,405</b>	<b>-39.1%</b>	<b>-118</b>	<b>-171</b>	<b>-188</b>	<b>-10.2%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-872</b>	<b>-1,010</b>	<b>-1,405</b>	<b>-39.1%</b>	<b>-118</b>	<b>-171</b>	<b>-188</b>	<b>-10.2%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>1375.0%</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>139.1%</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	-219	-219	-540	-146.9%	-31	-31	66	313.7%
<b>Cash and cash equivalents at the end of period</b>	<b>2,933</b>	<b>2,933</b>	<b>2,597</b>	<b>-11.5%</b>	<b>-31</b>	<b>-31</b>	<b>66</b>	<b>313.7%</b>

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

### **Basis of preparation**

The condensed consolidated financial statements as of 30 September 2019 and for the nine 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>
Total identifiable net assets at fair value	<b>13</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</b> <b>30 September 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>2.759</b>	<b>2.165</b>	<b>-</b>	<b>389</b>	<b>474</b>	<b>5.787</b>
Mobile revenue	1.479	880	-	-	249	2.608
Fixed revenue	1.248	734	-	389	197	2.568
System solutions revenue	-	487	-	-	28	515
Miscellaneous revenue	32	64	-	-	-	96
Usage related direct costs	(178)	(176)	-	(64)	(36)	(454)
Income and losses on accounts receivable	(26)	(8)	-	(6)	(6)	(46)
<b>Contribution margin I</b>	<b>2.555</b>	<b>1.981</b>	<b>-</b>	<b>319</b>	<b>432</b>	<b>5.287</b>
Non-usage related direct costs	(427)	(658)	-	(17)	(85)	(1.187)
<b>Segment result</b>	<b>2.128</b>	<b>1.323</b>	<b>-</b>	<b>302</b>	<b>347</b>	<b>4.100</b>
Other income	-	-	100	5	4	109
Other operating expenses, restated	(273)	(269)	(1.021)	(85)	(172)	(1.820)
Depreciation, amortization and impairment of non-current assets	-	-	(1.057)	(88)	(121)	(1.266)
<b>Operating profit</b>	<b>1.855</b>	<b>1.054</b>	<b>(1.978)</b>	<b>134</b>	<b>58</b>	<b>1.123</b>

<b>Period ended</b> <b>30 September 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>2.747</b>	<b>2.128</b>	<b>-</b>	<b>392</b>	<b>446</b>	<b>5.713</b>
Mobile revenue	1.527	861	-	-	234	2.622
Fixed revenue	1.209	730	-	392	184	2.515
System solutions revenue	-	536	-	-	28	564
Miscellaneous revenue	11	1	-	-	-	12
Usage related direct costs	(181)	(189)	-	(73)	(32)	(475)
Income and losses on accounts receivable	(30)	(15)	-	(7)	(5)	(57)
<b>Contribution margin I</b>	<b>2.536</b>	<b>1.924</b>	<b>-</b>	<b>312</b>	<b>409</b>	<b>5.181</b>
Non-usage related direct costs	(482)	(599)	-	(15)	(79)	(1.175)
<b>Segment result</b>	<b>2.054</b>	<b>1.325</b>	<b>-</b>	<b>297</b>	<b>330</b>	<b>4.006</b>
Other income	-	-	117	2	2	121
Other operating expenses	(286)	(274)	(982)	(59)	(143)	(1.744)
Depreciation, amortization and impairment of non-current assets	-	-	(1.231)	(94)	(146)	(1.471)
<b>Operating profit</b>	<b>1.768</b>	<b>1.051</b>	<b>(2.096)</b>	<b>146</b>	<b>43</b>	<b>912</b>

Period 1 July to 30 September 2018	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>950</b>	<b>856</b>	-	<b>129</b>	<b>171</b>	<b>2.106</b>
Mobile revenue	524	385	-	-	94	1.003
Fixed revenue	417	242	-	129	67	855
System solutions revenue	-	210	-	-	10	220
Miscellaneous revenue	9	19	-	-	-	28
Usage related direct costs	(61)	(64)	-	(20)	(13)	(158)
Income and losses on accounts receivable	(8)	(8)	-	(3)	(2)	(21)
<b>Contribution margin I</b>	<b>881</b>	<b>784</b>	-	<b>106</b>	<b>156</b>	<b>1.927</b>
Non-usage related direct costs	(148)	(257)	-	(5)	(30)	(440)
<b>Segment result</b>	<b>733</b>	<b>527</b>	-	<b>101</b>	<b>126</b>	<b>1.487</b>
Other income	-	-	52	1	-	53
Other operating expenses, restated	(87)	(88)	(333)	(23)	(57)	(588)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(354)	(31)	(41)	(426)
<b>Operating profit, restated</b>	<b>646</b>	<b>439</b>	<b>(635)</b>	<b>48</b>	<b>28</b>	<b>526</b>

Period 1 July to 30 September 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>942</b>	<b>790</b>	-	<b>131</b>	<b>155</b>	<b>2.018</b>
Mobile revenue	532	363	-	-	86	981
Fixed revenue	406	243	-	131	63	843
System solutions revenue	-	183	-	-	6	189
Miscellaneous revenue	4	1	-	-	-	5
Usage related direct costs	(60)	(69)	-	(30)	(13)	(172)
Income and losses on accounts receivable	(11)	(5)	-	(4)	-	(20)
<b>Contribution margin I</b>	<b>871</b>	<b>716</b>	-	<b>97</b>	<b>142</b>	<b>1.826</b>
Non-usage related direct costs	(162)	(202)	-	(8)	(24)	(396)
<b>Segment result</b>	<b>709</b>	<b>514</b>	-	<b>89</b>	<b>118</b>	<b>1.430</b>
Other income	-	-	20	-	-	20
Other operating expenses	(101)	(93)	(343)	(11)	(47)	(595)
Depreciation, amortization and impairment of non-current assets	-	-	(462)	(31)	(48)	(541)
<b>Operating profit</b>	<b>608</b>	<b>421</b>	<b>(785)</b>	<b>47</b>	<b>23</b>	<b>314</b>

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

In the first nine 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 nine 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 nine months of 2019.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first nine 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 nine months of 2019 the Group generated total revenue from related companies from international traffic to the amount of HRK 181 million (the first nine months of 2018: HRK 188 million), while total costs of international traffic amounted to HRK 132 million (the first nine months of 2018: HRK 134 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 nine months of 2019 the Company paid a total amount of HRK 0.6 million (the first nine months of 2018: 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 nine months of 2019 the total compensation paid to key management personnel of the Group amounted to HRK 48 million (the first nine months of 2018: HRK 38 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 nine 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, 31 October 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)

