ANNUAL REPORT
2018

LIFE IS FOR SHARING.

CONTENT

FINANCIAL HIGHLIGHTS

Income statement in HRK million	2017	2018	% of change A18/A17
Revenue	7.756	7.783	0,4%
Mobile	3.305	3.450	4,4%
Fixed voice	927	809	-12,7%
Broadband & TV	1.439	1.411	-1,9%
Fixed wholesale	369	318	-13,8%
Other fixed	835	878	5,1%
System solutions	731	801	9,6%
Miscellaneous	151	118	-22,0%
EBITDA before exceptional items	3.138	3.186	1,5%
Exceptional items	151	55	-63,7%
EBITDA after exceptional items	2.986	3.131	4,8%
EBIT (Operating profit)	1.118	1.401	25,4%
Net profit after non controlling interests	863	1.061	22,9%
EBITDA margin before exceptional items	40,5%	40,9%	0,5 p.p.
EBITDA margin after exceptional items	38,5%	40,2%	1,7 p.p.
EBIT margin	14,4%	18,0%	3,6 p.p.
Net profit margin	11,1%	13,6%	2,5 p.p.

Balance sheet	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Total non current assets	10.385	10.694	3,0%
Total current assets	5.353	5.337	-0,3%
TOTAL ASSETS	**15.738**	**16.031**	**1,9%**
Total issued capital and reserves	12.573	13.208	5,1%
Total non current liabilities	737	498	-32,5%
Total current liabilities	2.429	2.326	-4,2%
TOTAL EQUITY AND LIABILITIES	**15.738**	**16.031**	**1,9%**

Cash flow	2017	2018	% of change A18/A17
Net cash flow from operating activities	2.691	2.345	-12,9%
Net cash flow from investing activities	-1.215	-1.368	-12,6%
Net cash flow from financing activities	-981	-992	-1,1%
Cash and cash equivalents at the end of period	**3.152**	**3.137**	**-0,5%**

Capex	2017	2018	% of change A18/A17
CAPEX	1.885	1.826	-3,1%
CAPEX / Revenue ratio	24,3%	23,5%	-0,8 p.p.

Number of employees	at 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Number of employees (FTEs)	5.110	5.447	6,6%
Residential segment	**2017**	**2018**	% of change A18/A17
Revenue	3.754	3.720	-0,9%
Contribution to EBITDA before exceptional items	**2.546**	**2.438**	**-4,2%**
Business segment	**2017**	**2018**	% of change A18/A17
Revenue	2.883	2.912	1,0%
Contribution to EBITDA before exceptional items	**1.329**	**1.365**	**2,7%**
Network & support functions	**2017**	**2018**	% of change A18/A17
Contribution to EBITDA before exceptional items	**-1.236**	**-1.177**	**4,8%**
Segment optima consolidated	**2017**	**2018**	% of change A18/A17
Revenue	483	526	8,9%
Contribution to EBITDA before exceptional items	**275**	**320**	**16,1%**
SEGMENT CRNOGORSKI TELEKOM CONSOLIDATED	**2017**	**2018**	% of change A18/A17
Revenue	636	625	-1,8%
Contribution to EBITDA before exceptional items	**223**	**239**	**7,4%**

OPERATIONAL STATISTICS

Key operational data	2017	2018	% of change A18/A17
Mobile customers in 000			
Number of customers	**2.244**	**2.273**	**1,3%**
- Prepaid	985	951	-3,4%
- Postpaid	1.260	1.322	4,9%
Minutes of use (MOU) per average customer	**216**	**225**	**4,0%**
Blended ARPU [4] (monthly average for the period in HRK)	**77**	**68**	**-11,7%**
- Prepaid	43	43	0,9%
- Postpaid	106	86	-18,6%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	**40**	**38**	**-5,8%**
SAC per gross add in HRK	**109**	**126**	**15,4%**
Churn rate (%)	**3**	**2**	**-0,1 p.p.**
Penetration (%) [1]	**118**	**123**	**4,9 p.p.**
Market share of customers (%) [1]	**46**	**45**	**-0,8 p.p.**
Smartphone customers (%) [2]	**58**	**67**	**8,8 p.p.**
Smartphones sold (%) [3]	**84**	**91**	**7,4 p.p.**

[1] Source: internal estimation of the competitors customers for EO December 2018
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)
[4] ARPU for 4Q 2018 includes IFRS 15 effects

Key operational data	2017	2018	% of change A18/A17
Fixed mainlines in 000			
Fixed mainlines - retail [1]	875	819	-6,3%
Fixed mainlines - wholesale (WLR - wholesale line rental)	63	53	-15,5%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	78	73	-7,3%
IP mainlines/customers in 000			
Broadband access lines - retail [3]	624	618	-0,9%
Broadband access lines - wholesale [4]	131	129	-1,8%
TV customers	417	418	0,3%
Broadband retail ARPU [5] (monthly average for the period in HRK)	117	111	-5,4%
TV ARPU [5] (monthly average for the period in HRK)	81	84	2,7%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	135	121	-10,3%

1 Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
2 Payphones excluded
3 Includes ADSL,VDSL, FTTH i Naked DSL
4 Includes Naked Bitstream + Bitstream
5 ARPU for 4Q 2018 includes IFRS 15 effects

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

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

Another successful year is behind us and we have posted an increase in all the key indicators. We have kept the leading position in all market areas in intense market competition.

The transformation of the company we started five years ago set Hrvatski Telekom firmly on the path of a modern and agile company, which with its offer and significance surpasses the telecommunications market and leads the digital transformation of Croatia. Successful acquisition of Crnogorski Telekom which shows significant positive synergies has shown that we can make a bigger step into the region and support the development of the digital economy across it. Under HT management, Crnogorski Telekom has, after several years, achieved the growth of key profitability indicators.

That is why I proudly point out business accents in 2018. We increased consolidated revenues 0.4 percent compared to 2017 and they reached HRK 7.783 billion. Growth was recorded thanks to the growth of HT group revenues in Croatia by 0.6 percent or HRK 60 million, while Crnogorski Telekom's contribution was at the same time lower by HRK 13 million or 2 percent.

Successful business enables us to continue the major investment cycle in which over the past five years we have invested more than HRK 7 billion in digital infrastructure. We see investments as a foundation for growth, and we put special focus on increasing the capacity of broadband internet access, improving customer experience and increasing competitiveness.

Capital expenditures in 2018 amounted to HRK 1,826 million.

Investments in fixed network allowed for internet coverage at speeds higher than 30 Mbit/s (next generation access - NGA) for 58.2 percent of households, 21 percent of which was covered by speeds above 100 Mbit/s. By the end of 2018, we were able to provide optical access network for 400,000 households.

In 2018, we launched a major project to modernize the complete mobile network throughout Croatia, aiming to further breakthrough in the quality of mobile service. The new equipment provides better network coverage, multiplies the capacity of the 4G network, consumes less power, and creates the prerequisites for the introduction of the 5G network as soon as the required radio frequency spectrum is assigned. By the end of the year, we have completely modernized the network in Istria, the Zagreb County and the City of Zagreb, and by the end of 2019, we should modernize all the remaining locations.

In the mobile network, the internal coverage of the 4G network is 82 percent, while coverage in the external environment has reached 98.5 percent. The implementation of the high-speed 4G network of 350 Mbit/s at download was continued, which was enabled for 51 percent of users by the end of the year.

Thanks to this, we have succeeded in winning the independent international P3 Award for the Best Mobile Network in Croatia for the second consecutive year and one of the best mobile networks that P3 evaluates globally. At Hrvatski Telekom, we are particularly proud of this recognition, as it best demonstrates our efforts to provide our customers with the best quality service.

From the key projects, I proudly point out the Agreement on the purchase of 100% stake in the HP Produkcija d.o.o., the holder of the right to provide Evotv service. By taking over Evotv we will further improve our position on the growing PayTV market and expand our range of services.

In 2018, we successfully tested the 5G network in Croatia, which ranked Croatia among the first European countries where 5G functionality was tested in real conditions.

We also celebrated the second birthday of our unique Magenta1 concept, which thanks to its premium content and numerous benefits, continues to grow its customer base. By the end of the year, 191 thousand households and 16 thousand business customers were part of the Magenta 1 family.

Despite such large investments, we have achieved the growth of key profitability measure. EBITDA before non-recurring items amounted to HRK 3.186 billion, up by 48 million or 1.5 percent, compared to 2017. Both HT Group in Croatia (HRK 35 million or 1.2 percent) and Crnogorski Telekom (HRK 13 million or 5.8 percent) contributed to the increase. We also achieved EBITDA margin growth, at 40.9 percent, which is by 0.5 percentage points more than in 2017. Without the impact of Crnogorski Telekom EBITDA is up by 1.2 percent compared to the year before. Net profit reached HRK 1.061 billion and is 22.9 percent higher.

The Management Board and the Supervisory Board proposed to the Company's General Assembly dividend allocation of HRK 10 per share, which is HRK 4 higher than last year. The dividend allocation is proposed in a way that HRK 7 per share is paid out from current profit in 2018 (in the amount of HRK 568,536,829.00) and additional HRK 3 per share from retained earnings of previous periods (in the amount of HRK 243,658,641.00).

The remaining portion of the current profit of 2018 in the amount of HRK 422,123,890.00 is proposed to be included in the share capital by increasing the share capital of the company without issuing new shares by proportionally increasing the share of all issued shares in the Company's share capital.

We continue with the Share Buyback Program, whereby by the end of 2018 we bought 450,517 own shares, which make 0.55% of the share capital, for the amount of HRK 71.062.380,96.

I thank all employees and colleagues in the Management Board and the Supervisory Board. I am proud of the results we have achieved together, and I am confident that Hrvatski Telekom will continue to meet expectations in the coming years.

Davor Tomašković,
President of the Management Board, Hrvatski Telekom d.d.

CORPORATE PROFILE

At a Glance

HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services, as well as wholesale, Internet and data services.

The core activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT – Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT – Hrvatske telekomunikacije d.d. (HT d.d.) and HP – Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Act on Privatization of Hrvatske telekomunikacije d.d. (AoP) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% of shares in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake.

Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred 51% of its shares in the Company to T-Mobile Global Holding № 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding № 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above-mentioned transfers of shares were executed as a part of the internal restructuring performed within DTAG and as a result thereof, DTAG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's registered name changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global T- family of Deutsche Telekom. This evolution of corporate identity was followed by the creation of trademarks for the two separate business units of the Group: the fixed network operations business unit, T-Com – which provides wholesale, Internet and data services; and the mobile operations business unit, T-Mobile.

On 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the AoP.

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia.

As part of the continued privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of HT ordinary shares through an Initial Public Offering (IPO). Of the total shares included in the IPO, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors are holding a share of 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. HT Group was organized into Residential and Business unit. On 21 May 2010, the Company's registered name was changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, according to the records stored in the Central Depository & Clearing Company, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center (Centar za restrukturiranje i prodaju – CERP). The Republic of Croatia established CERP in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in HT d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0.6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3.5% to 2.9%.

In June 2014 HT took over management of OT-Optima Telekom d.d. (Optima), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital and following the realization of a Mandatory Convertible Loan instrument in July 2014, HT has acquired total of 19.1% of Optima's share capital.

Zagrebačka banka d.d., as the largest creditor of Optima, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to HT. Croatian competition agency (Agencija za zaštitu tržišnog natjecanja -AZTN), has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima. The duration of the concentration of HT and Optima shall be limited to a period of four years, starting from HT's acquisition of control over Optima.

On 3 November 2014 an extraordinary General Assembly of Optima was held, at which the conversion of Tax Administration receivables into company capital was approved, thereby increasing the share capital by a total amount of HRK 2,910,110.00. After the registration of this change in the Court Registry in 2015, the ownership interest of HT in Optima decreased to 19.02%.

In July 2016, Optima's Management Board adopted a strategic decision on the merger of H1 Telekom d.d. (H1) with Optima in order to achieve positive synergies among the companies and to increase Optima's value for its existing and new shareholders (previous H1 shareholders). Accordingly, Optima submitted to the AZTN an Application for Intended Concentration. Following the aforementioned change in circumstances, HT submitted a request to prolong the temporary management of Optima until 2021.

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. AZTN has also reached the decision on conditional approval of the concentration pursuant to the Merger Agreement of the company H1 into Optima, concluded on 29 July 2016. Merger is executed in such a way that the total assets of H1 are transferred to Optima, thereby H1 ceases to exist as a separate legal entity, and in exchange for H1 shares previous H1 shareholders obtain shares of Optima.

The procedure of the merger of H1 into Optima was completed as at 1 August 2017, and for the purpose of the merger procedure, an increase of share capital of Optima, for the amount of 58,864,560.00 HRK, was also carried out. Increase of share capital was carried out by issuing 5,886,456 new ordinary shares that were transferred to previous shareholders of H1 Telekom. After the registration of this change in the Court Registry in August 2017, the ownership interest of HT in Optima decreased to 17.41%. Notwithstanding this decrease in ownership interest, controlling rights transferred to HT pursuant to the Agreement with Zagrebačka banka have remained unchanged.

At the beginning of January 2017, HT d.d. concluded a Share Purchase Agreement with Magyar Telekom, Nyrt, based in Budapest, Hungary. Under the agreement, Hrvatski Telekom acquires Magyar Telekom's 76.53% stake in Crnogorski Telekom A.D., based in Podgorica, Montenegro, at a purchase price of EUR 123.5 million (approximately HRK 933 million). Crnogorski Telekom is the largest telecommunications company in Montenegro and provides a full range of fixed and mobile telecommunications services. This transaction is part of HT's strategy of growth through expansion into regional markets. By creating considerable synergies, this acquisition enables HT to provide added value for its shareholders and customers.

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

In September 2018, upon the obtaining of all necessary regulatory approvals, HT d.d. concluded the sale transaction of its electric energy business to the buyer RWE Hrvatska d.o.o.

In November 2018, HT d.d. concluded a Purchase Agreement with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service. In February 2019, HAKOM approved HT's takeover of HP Produkcija d.o.o., thereby allowing the closing of the transaction. Evotv is a simple service at the Croatian PayTV market, enabled by using a digital DVB-T signal which can be received through the existing antenna. Evotv operates as of 2012, and its signal currently covers 94% of Croatian households.

INVESTOR INFORMATION

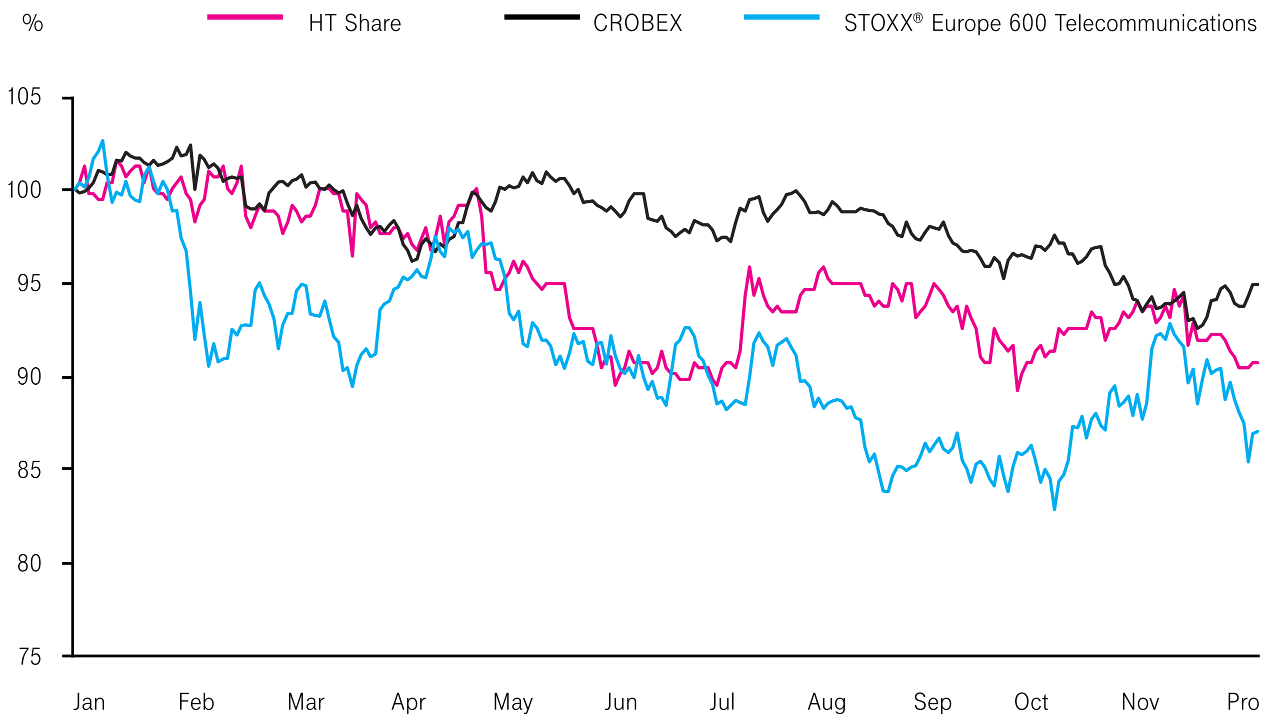
Share price performance

2018 brought a mostly negative performance in global equity markets, primarily as a result of uncertainties around the slowing of the global economy, rising interest rates and unresolved trade issues between the US and China. The European telecom sector continued to be under pressure from the need for increased capital expenditure related to fibre investments and upcoming spectrum auctions, the emergence of new entrants, regulatory uncertainty and the overall growth prospects of the sector.

Following the successful resolution of the Agrokor crisis in 2017, some shares in the food industry performed very well in 2018. However, this did not help the CROBEX, Croatia's benchmark index, to escape the global negative sentiment outlined above. The CROBEX also suffered from low trading volumes and at the end of the year it showed a decline of 5.1%.

HT shares were not immune to the above-mentioned developments and for the whole of 2018, the share price fell 9.3% to HRK 150.00. Nevertheless, it outperformed STOXX® Europe 600 Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some of Europe's largest telecom companies). The high for the year was HRK 169.00, against a low of HRK 147.00 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 1 January 2018 - 31 December 2018



With turnover of HRK 217 million, HT was the second most traded share on the Zagreb Stock Exchange in terms of value (2017: HRK 280 million; second most traded).

At the last revision of the CROBEX index in September 2018, HT's weighting was again set at 10% of the index.

Since its initial public offering in October 2007, HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

In October, at a conference of the Zagreb Stock Exchange and Croatian investment fund management industry, HT was ranked third in the Investor Relations Award in Croatia in 2018, sponsored by popular business newspaper Poslovni dnevnik (HT was ranked second in 2017).

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

Any future dividend, declared and paid in respect of any year, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2017 financial year

On 24 April 2018, the General Assembly of the Company approved a dividend payment to shareholders of HRK 490,020,384.00 (HRK 6.00 per share) representing a dividend payout ratio of 58.3% from the Company's net profit. The dividend was paid in May 2018.

At the end of 2018, this represented a dividend yield of 4.0% on HT's closing price of HRK 150.00.

Dividend proposal for financial year 2018

As communicated at the Capital Markets Day in November 2015, HT has committed to announcing a minimum target dividend for each year at the start of that particular year, within the range as set out in our dividend policy e.g. from 50% to 100% of the Company's distributable profits depending on its overall financial position and working capital needs.

To comply with that commitment, in February 2018, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2018 net profit.

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the distribution of the net profit from 2018 in a way that a part of net profit in the amount of HRK 568,536,829.00 is to be paid out as dividend to shareholders, in the amount of HRK 7.00 per share, and the remainder of net profit in the amount of HRK 422,123,890.25 is to be used for increase of Company's subscribed share capital.

The Management Board and Supervisory Board also propose to this year's General Assembly that a part of retained earnings from previous years in amount of 243,658,641.00 HRK is to be paid out as additional dividend to shareholders, in amount of HRK 3.00 per share.

The General Assembly is planned to be convoked for 6 May 2019. According to the proposal, the above mentioned dividend will be paid to shareholders on 27th May 2019 (payment day), registered at the Central Depository and Clearing Company (SKDD) on 21st May 2019 (record date).

Dividend proposal for financial year 2019

The Management Board currently expects a minimum dividend of HRK 6 per share for the financial year 2019.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012, while capital gains tax at the same rate was introduced as of 1 January 2016 (capital gains tax will not be levied on shares acquired after 1 January 2016 and held for more than three years).

Share Buyback Programme

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the abovementioned General Assembly decisions.

As already published, in June 2017 the Management Board has passed a decision on launching the Share Buyback Programme ("Programme"), in line with the above stated authorization by the General Assembly, that was to start on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition during the duration of the Programme, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.

Until 31 December 2017, the Company acquired at Zagreb Stock Exchange in total 216,005 Company shares, representing 0.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53. Acquired own shares were withdrawn in March 2018 without the share capital of the Company being decreased.

In March 2018, the Company withdrew 218,471 acquired Company shares (216,005 own shares purchased within Share Buyback Programme in 2017 and 2,466 previously held own shares) without the share capital of the Company being decreased. Thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares without nominal value, while the remaining shares' participation in the share capital is being increased.

During 2018 the Company acquired at Zagreb Stock Exchange further 450,517 Company shares, representing 0.55% of the Company's issued share capital, i.e., HT holds in total 450,517 Company shares as at 31 December 2018. For this acquisition of Company shares in 2018, the Company paid out an equivalent value of HRK 71,062,380.96.

The Programme is running alongside the Company's regular dividend payout policy, providing clear evidence of the Company's intention to transfer value to its shareholders.

Shareholder Structure as at 31 December 2018

Deutsche Telekom Europe B.V.	51.1%
War Veterans' Fund	6.7%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2.9%
Private and other institutional investors	39.3%

Total number of shares issued: 81,670,064

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 51.1% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding № 2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.

The Croatian War Veterans' Fund owns 6.7%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.9%.

The remaining 39.3% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Mandatory Pension Funds (Raiffeisen obvezni mirovinski fondovi) is the investor with the largest shareholding among private and institutional investors. As at 31 December 2018, Raiffeisen Mandatory Pension Funds had 9.1% of shares of the Company.

Financial Calendar

	Date
Release of full year 2018 results	February 15, 2019
Release of first quarter 2019 results	April 25, 2019
The General Assembly of the Company	May 6, 2019
Release of first half 2019 results	July 25, 2019
Release of first nine months 2019 results	October 31, 2019

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
Trading symbol at Zagreb Stock Exchange:	HT
Trading symbol at Central Depository and Clearing Company	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HTRA CZ
Number of Shares:	81,670,064
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

Investor Relations
Hrvatski Telekom d. d.

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MANAGEMENT BOARD

DAVOR TOMAŠKOVIĆ
President of the Management Board (CEO), until 1 April 2019

Davor Tomašković was born in 1969 in Vinkovci. He graduated as an electrical engineer from the University of Zagreb in 1994. He subsequently completed an MBA program at Bocconi University in Milan, Italy, graduating summa cum laude in 1997. For over a decade Mr.Tomašković has occupied top positions at some of the most prominent Croatian companies.

Following his graduation as an engineer, he was employed at the Croatian Ministry of Science and Technology implementing the first Internet network for academia. After his graduation from Milan, he worked in Austria, at the consultancy firm McKinsey & Company. In 2002, Mr. Tomašković returned to Croatia assuming the post of Director of Corporate Strategy and Business Development at Hrvatski Telekom.

In 2004, he was appointed President of the Management Board of Tisak, a leading Croatian distribution and retailing company. Subsequent to successful implementation of an extensive restructuring process at Tisak, he assumed position of President of the Management Board of TDR, the regional tobacco industry leader, position which he had occupied for seven years. As of 1 January 2014, Mr.Tomašković was appointed to the position of President of the Management Board of HT d.d.

At the Supervisory Board session held on 11 December 2018, Mr. Tomašković resigned from his position of President of the Management Board (CEO), effective as of 1 April 2019, and the Supervisory Board, at the same session, appointed Mr. Konstantinos Nempis as his successor, who will assume the duties of President of the Management Board as of 1 April 2019.

Mr. Nempis is transferring from OTE Group, the largest telecommunications provider in the Greek market, from the position of Chief Commercial Officer, Consumer segment. He gained nearly 20 years of experiences in Telekom Industry, managing the fixed and mobile telecom organizations of national and international commercial teams.

DANIEL DAUB
Member of the Management Board and Chief Financial Officer

Daniel Daub was born in 1976 in Germany. He completed his master's degree studies in Business Administration, at the Department of Corporate Finance, Marketing and Entrepreneurship in the leading German business school, WHU – Otto Beisheim.

For many years, he held leadership positions in the telecommunications sector and achieved significant results in the field of sales and services operations, as well as in finance and strategy.

From 2001 to 2006, he worked in T-Mobile International, first as a Project Manager in Corporate Finances Department and hence as Executive Assistant to Chief Sales and Services Officer. From 2006 to 2009, he was Vice-President for Market Management / Sales Planning and Reporting in T-Mobile Deutschland – Telekom Vertrieb, where he was responsible for strategic planning and business development in the field of sales and, amongst other things, he played a leading role upon introduction of iPhone on the German market.

From 2009 to 2014, Daniel Daub saw considerable career promotion within T-Mobile Austria. As a Senior Vice-President for Channel Development and Services and afterwards for Sales and Service Operations, he introduced value-based management, enabling a substantial increase in the value of market investment, and contributed to a successful corporate U-turn through a boost of effectiveness throughout the sales channels.

He arrived to the headquarters of Deutsche Telekom Group in 2014 as Vice-President for Equity & Innovation Controlling and was responsible for Controlling for the US and Europe segment, as well as for Innovation Controlling in the DT Group. Amongst other things, he played a leading role in the sales process of EE, mobile operator in the United Kingdom, as well as in the projects "Save4Innovation" and "Return on Innovation". The Supervisory Board of Hrvatski Telekom appointed Daniel Daub a Member of the Management Board and Chief Financial Officer of HT as of 1 November 2017.

MANAGEMENT BOARD

BORIS DRILO
Member of the Management Board and Chief Technical and Information Officer

Boris Drilo was born in Zagreb in 1976. He graduated from the Faculty of Electrical Engineering & Computing at University of Zagreb, where he spent one year as Research Assistant in the area of wireless data communications. He is a Master of Science in the field of Electrical Engineering, he also completed the Executive Leadership Programme at the Boston University, as well as the Executive MBA degree course at Cotrugli Business School in Zagreb.

He joined Hrvatski Telekom in the year 2012, coming from Ericsson Group, where he had spent 12 years at project and managerial functions related to the development and application of telecommunications networks and new technologies.

He was appointed to the HT Management Board from the position of Sector Director in the CTIO area. Prior to this, he was a Member of the Management Board in charge of technology and IT of Iskon Internet d.d., a company fully owned by HT.

On his career path, starting from the University and continuing through Ericsson Group and HT Group, he has been focused on business development in new telecommunications and technology areas, which is extremely important for development of the digital society and for the reinforcement of the position of HT Group as a technology leader on the Croatian market.

The Supervisory Board of Hrvatski Telekom has appointed Boris Drilo to the position of Member of the Management Board and Chief Technical and Information Officer for a three-year period commencing as of 1 January 2017.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Ms. Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000. Ms. Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries, and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

Ms. Rapaić acquired marketing experience in the telecom industry working as a consultant at Madrid-based Europraxis Consulting and on various projects for the marketing sector of Telefónica Móviles.

She joined Hrvatski Telekom in 2003 as the Executive Director of the Sub-Unit Responsible for Communications. On 1 September 2005, she was appointed Member of T-Com Executive Board and Chief Marketing Officer.

In 2010, she took over the position of the Operating Director of the Residential Marketing Sector and on 1 February 2013 was appointed to the position of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.

MANAGEMENT BOARD

SAŠA KRAMAR
Member of the Management Board and Chief Operating Officer Business

Saša Kramar was born in 1968 in Čakovec. He has many years of experience in the ICT industry, as well as in sales, marketing and management.

He started building his professional career at Novel Apple Centre, where he was employed for ten years, of which seven years as General Manager. He joined Iskon in 2000, starting at the position of Sales Manager, and in 2002, he assumed the position of Member of the Management Board in charge of sales, marketing, customer relations and public relations. At the General Assembly in 2005, he was appointed Member of the Management Board with a five-year term of office. At the Iskon Internet d.d. Supervisory Board session held in June 2007, he was appointed CEO of the company wholly owned by Hrvatski Telekom.

His mandate as President of the Management Board of Iskon was prolonged in 2011 and 2014.

During his long-standing work within the HT Group, he gained experience through key projects and managerial positions related to sales management, strategic management and customer relations management.

By decision of the Supervisory Board of HT, as of 1 June 2016 Saša Kramar took on responsibilities as HT's Member of the Management Board and Chief Operating Officer Business, for a term of three years.

MARIJA FELKEL
Member of the Management Board and Chief Human Resources Officer, until 18 January 2019

Marija Felkel was born in 1973 in Zagreb. She graduated from University of Zagreb, Faculty of Law, in 1998. As a lawyer by education, she began her professional life in public administration and very soon became a specialist in labor law. In 2004, she joined Siemens Croatia.

In this international corporation, over a period of more than ten years of work, she was responsible for all HR processes, leading a broad range of projects in the area of human resources. Particularly outstanding are the results in drawing HR functions nearer to business functions; under her leadership, the HR function truly developed into a recognized partner of the company's business management.

This way, she gained rich experience, having held all managerial positions – from Personnel Administration Manager to Head of Human Resources.

Moreover, Ms. Felkel achieved remarkable results in leading international projects, and she has been at the helm of the entire Adriatic Region Group at Siemens.

Ms. Felkel is an active member of the HR Manager Association; she is promoting the HR function in the organization as a recognized business partner that contributes to the organization's success, advancing decisions that have an impact on employees as the company's most valuable resource.

The Supervisory Board of Hrvatski Telekom has appointed Marija Felkel Member of the Management Board and Chief Human Resources Officer, for a period of three years as of 18th January 2016.

Marija Felkel left the Company on January 18th 2019.

By decicion of the Supervisory Board, Mr. Ivan Bartulović is the new Chief Human Resources Officer (CHRO), as of 1 March 2019.

Compensation to the Management Board members in 2018

Davor Tomašković, President of the Management Board and CEO, was paid in 2018 a fixed and variable salary and Long-term Incentive Plan (LTIP 2014) in gross amount of HRK 4,438,748. Other benefits amounted gross to HRK 73,473 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COOR, was paid in 2018 a fixed and variable salary and Long-term Incentive Plan (LTIP 2014) in gross amount of HRK 2,598,689. Other benefits amounted gross to HRK 65,624 (company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

Boris Batelić, Member of the Management Board and CCO, until 30th April 2018, was paid fixed and variable salary and Long-term Incentive Plan (LTIP 2014) in gross amount of HRK 1,013,504. Other benefits amounted gross to HRK 90,723 (company car usage, apartment rental).

Saša Kramar, Member of the Management Board and COOB was paid in 2018 fixed and variable salary and Long-term Incentive Plan (LTIP 2014) in gross amount of HRK 1,711,500. Other benefits amounted gross to HRK 53,149 (company car usage). The gift for child was paid in amount of HRK 600 net.

Boris Drilo, Member of the Management Board and CTIO was paid in 2018 fixed and variable salary in gross amount of HRK 1,618,120. Other benefits amounted gross to HRK 48,706 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Daniel Darius Denis Daub, Member of the Management Board and CFO was paid fixed and variable salary and Long-term Incentive Plan (LTIP 2014) in gross amount of HRK 1,456,083. Other benefits amounted gross to HRK 46,812 (apartment rental and company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

Marija Felkel, Member of the Management Board and CHRO was paid in 2018 a fixed and variable salary in gross amount of HRK 1,276,084 and a special compensation in gross amount of HRK 1,176,394. Other benefits amounted gross to HRK 51,872 (company car usage). The gift for child was paid in amount of HRK 600 net.

Long Term Incentive Plans for management

Long-term incentive plans Lead to Win 2015, Lead to Win 2016, Lead to Win 2017 and Lead to Win 2018 exist at Group level to ensure competitive total compensation for members of the Management Board and senior executives. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

HT Variable II 2014 ended on 31 December 2017, and the Supervisory Board has determined final target achievement of 61.1% and awarded amount of HRK 2,241,039.95 was paid to plan participants in July 2018.

In 2018 HT continued with the participation in performance management corporate plan “Lead to win”, model for HT senior management as one of the companies within DT group. Rewarding of top management is directly linked to individual performance and the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2018, is a cash-based plan and the awarded amount depends on Management Group (MG 1 - MG 3) to which positions of participant belongs and on individual performance. Participants can be only those individuals who achieve performance rating of at least 3 (score range is from 1 to 5). The participation amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from January 1st, 2018 to December 31st, 2021.The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2018 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers in Managements Groups MG1 – MG3. The entitlement for participation in the SMP and the number of additional shares depend on the executive’s overall performance. Plan participants purchase shares in DT before the start of the plan (“voluntary personal investment”). The amount of the voluntary personal investment is between 10% (“minimum amount”) and a third (“maximum amount”) of the gross payment amount of the 2017 Short Term Incentive (STI) paid out in 2018 and is determined by the plan participant when accepting the DT offer. The term of the 2018 SMP shall cover the period from July 1st, 2018 to June 30th, 2022. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan (“lock-up period”). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the personal performance of the plan participant. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members. There are 4 active SMP plans in 2018 with participation of President of the Management Board and other Management Board members (SMP 2015 – 2 MB members, SMP 2016 – 3 MB members, SMP 2017 – 1 MB member).

SUPERVISORY BOARD

Jonathan Richard Talbot	Chairman	From 25 April 2017
Ivica Mišetić, Ph. D.	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Dr. Oliver Knipping	Member	Until 24 April 2018
Vesna Mamić	Member, workers' representative	From 1 January 2016
Damir Grbavac	Member	From 25 April 2012
Dolly Predovic	Member	From 29 April 2014
Marc Stehle	Member	From 16 December 2015
Eirini Nikolaidi	Member	From 25 April 2016
Eva Somorjai-Tamassy	Member	From 25 April 2017
Tino Puch	Member	From 24 April 2018

Compensation to the members of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 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, in the amount of 1.5 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, in the amount of 1.25 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, in the amount of 1.25 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.

Compensation to the Supervisory Board members in 2018

		The period in 2018 in which the allowance was paid		
		From	**To**	**Gross I (HRK)**
Vesna Mamić	SB member	1st January	31st December	154,286.07
Dolly Predovic	SB member	1st January	31st December	190,046.35
Ivica Mišetić	SB member	1st January	31st December	192,857.54
Total				**537,189.96**

SUPERVISORY BOARD REPORT

Pursuant to Articles 263, paragraph 3, and 300.c of the Companies Act and pursuant to Article 31 of the Articles of Association of Croatian Telekom Inc., the Supervisory Board of Croatian Telekom Inc., Zagreb, Roberta Frangeša Mihanovića 9, (hereinafter referred to as "HT d.d." or "the Company"), consisting, on the day of issuance of this report, of Mr. Jonathan Richard Talbot, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Mr. Tino Puch, Mr. Marc Stehle, Mrs. Eirini Nikolaidi, Mrs. Éva Somorjai-Tamássy, Mrs. Dolly Predovic, Mr. Damir Grbavac and Mrs. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2018
and on the results of the examination of the business and financial reports for the business year 2018

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2018,
- the results of the examination of the annual financial statements as of 31 December 2018 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2018,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2018 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 51.1 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG).

The Croatian War Veterans' Fund owns 6.7 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2.9 per cent of shares of the Company. The remaining 39.3 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds (category A and category B) are investors with the largest shareholding among the private and institutional investors, with a 9.1 per cent holding in the Company.

An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007.

Supervisory Board

The Supervisory Board consists of nine members, five members representing Deutsche Telekom AG, one member nominated by the Raiffeisen Mandatory Pension Funds, two independent members and one member appointed by the Workers' Council of HT d.d.

During 2018, the composition of the Supervisory Board of the Company changed as follows:

Dr. Oliver Knipping resigned from his position in the Supervisory Board, with effect as of 24 April 2018.

Mr. Tino Puch was elected as new Member of the Supervisory Board, as of 24 April 2018

Audit Committee

On the day of issuance of this report Mr. Marc Stehle, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Ms. Eirini Nikolaidi, Member, are the members of this Committee.

Ms. Susanne von Campenhausen has resigned as Audit Committee Member, effective as of 21 April 2018.

Ms. Eirini Nikolaidi has been appointed as the third Member of the Audit Committee, as of 24 April 2018.

Pursuant to Article 65 of the Audit Act, all three Audit Committee Members are appointed from among Supervisory Board Members. All three Committee Members are financial experts.

Compensation and Nomination Committee

On the day of issuance of this report Mr. Jonathan Richard Talbot, Chairman, Ms. Éva Somorjai-Tamássy, Member, and Ms. Dolly Predovic, Member, are the members of this Committee.

Management Board

On the day of issuance of this report the Management Board of the Company has five members.

At today's session, Mr. Ivan Bartulović has been appointed as Chief Human Resources Officer (CHRO), with effect as of 1 March 2019. Therefore, as of 1 March 2019, the Management Board of the Company shall have six members.

The following section lists the changes in the Management Board membership:

The term of office of the Chief Customer Officer (CCO), Mr. Boris Batelić, expired as of 1 May 2018.

The Supervisory Board adopted the new division of competences among Management Board Members and the function of Chief Customer Experience Officer (CCO) was disintegrated, applicable as of 1 May 2018.

The term of office of the Chief Human Resources Officer (CHRO), Mrs. Marija Felkel, expired as of 18 January 2019. Activities falling within these Officers responsibilities are temporarily assigned to the function of the President of the Management Board, effective until 1 March 2019.

Ms. Nataša Rapaić was re-appointed as Chief Operating Officer Residential (COO Residential), for another term of office, with commencement as of 1 February 2019.

Mr. Davor Tomašković resigned from his position of President of the Management Board (CEO), effective as of 1 April 2019.

Mr. Konstantinos Nempis was appointed as President of the Management Board (CEO), as of 1 April 2019.

Performed supervision during the business year 2018

In 2018, there were seven sessions of the Supervisory Board and two decision makings out-of-session. One proposed decision making out-of-session in June 2018 was closed since one Supervisory Board Member opposed to such decision making and shortly thereafter a session was held.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

- Aside from the regular reports of the Management Board on the results and status of business operations of the Company and joint consultations on business development, major topics listed below were discussed in detail, and the Supervisory Board provided respective prior approvals, when required, and recommendations:
- Closing of the transformation program Horizont 2017 and launch of the Skyline 2018 strategic program with focus on growth, and launch of new innovative services and NB-IoT network, continuing to position HT as technology leader in the market;
- Development of the new HT 2018-2022 strategic program „#GROWHT" and launch of the Skyline 2019 strategic program, with continued focus on growth and Company transformation, i.e., further portfolio simplification, customer digitalization, lean and cost-effective organization and improvement of employee satisfaction;
- Ongoing investments in modernization of fixed access network and mobile radio and transport network and in capacity expansion of the mobile core and access network, to improve customer experience and to create foundation for 5G introduction; project of aggregation network modernization on the entire territory of the Republic of Croatia;
- P3 measurement results – international independent award won for best mobile network, 2nd year in a row, in the data and crowdsourcing segment in Croatia;
- Continuous speed increase in optical network, speed increase in mobile network, increase of 4G population coverage and NGA access coverage and increase of capacity and stability in the transport network;
- Continued BITT (Business and IT Trasformation) program which will include major interventions in HT's systems and service portfolio in order to position HT as a forerunner in the customer experience area;
- Customer satisfaction and Employee satisfaction initiatives and achieved results;
- HR accomplishments and challenges, plans and activities, performance management system, HT Culture, etc.;
- Corporate Governance topics and membership of the Management Board as described above;
- Proposals for the General Assembly;
- Performances of Crnogorski Telekom A.D. and results of synergies projects showing the improvements and stabilization of main financial indicators in 2018;
- Business Plans for 2019 and onwards;
- Compensation and Nomination Committee reports and proposals on target-setting and target-achievement of the Company and its management and remuneration proposals for MB Members;
- Composition of the Audit Committee and their reports;
- Procedures for commissioning external auditors' services;
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange;
- Transfer of HT's ownership interests and shares in subsidiaries seated in the Republic of Croatia to HT's subsidiary company HT holding Ltd., in March 2018, thus achieving more appropriate asset management, and implementating the long-term strategy of governance over all of its affiliates. This transfer was completed by the change of the registered name of the subsidiary M-Tele Ltd. to HT holding Ltd.;
- Implementation of the Share Buyback Programme at the Zagreb Stock Exchange during 2018 and withdrawal of 218,471 acquired Company shares in March 2018, without nominal value without the share capital of the Company being decreased, in accordance with the authorization by the General Assembly;
- Approval for the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o.;
- Approval for acquisition of evotv business, implemented by acquiring 100% shares in the company HP PRODUKCIJA Ltd., as part of HT's growth strategy through improvement of its position in the growing PayTV market. Conclusion of this transaction is subject to regulatory approvals, which have

not yet been issued on the day of issuance of this Report [1];
- Financial performance of the Company in 2018.

In 2018, the Audit Committee of the Supervisory Board held one extraordinary session and four regular sessions and two decision makings out-of-session and discussed various topics, in particular:
- 2017 year-end closing of HT d.d. and HT Group;
- Quarterly financial results of HT d.d. and HT Group;
- External Auditor's Report;
- Risk Reporting for HT d.d. and HT Group;
- Reports of the Compliance officer;
- Implementation and effectiveness of internal control over financial reporting;
- Internal Control System optimization;
- Annual audit program 2018 execution;
- Supervision over the realization of audit measures;
- Set up of Annual audit program 2019;
- Updated Internal Audit Charter.

Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement, there is no indication that internal control system does not work effectively.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2018 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o., Zagreb, reported on the results of its examination of the above report in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Information" and issued an unmodified confirmation on the audit of the above report, and the statement, as follows:

Statement of Independent Accountants

„Based on our work performed, nothing has come to our attention that causes us to believe that the Related Party Report for the year ended 31 December 2018 is not consistent with the books and records of Company, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Company Law".

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above.

The Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2018 and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2018.

The Supervisory Board, after considering the audited financial statements for the business year 2018, established that the Company acted in 2018 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2018.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The Management Board of the Company has been informed on the consent of the Supervisory Board to the annual financial statements of the Company and to the consolidated financial statements of HT group for the year 2018 at the Supervisory Board session. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2018 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders'

[1] In February 2019, HAKOM approved HT's takeover of HP Produkcija d.o.o., thereby allowing the closing of the transaction.

interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2018, and that is, that a part of net profit in the amount of HRK 568,536,829.00 is to be paid out as dividend to shareholders, in the amount of HRK 7.00 per share, and the remainder of net profit in the amount of HRK 422,123,890.25 is to be used for increase of Company's share capital.

The Supervisory Board also gave its consent to the proposal of the Management Board that a part of retained earnings from previous years in amount of 243,658,641.00 HRK is to be paid out as additional dividend to shareholders, in amount of HRK 3.00 per share.

The Supervisory Board also gave its consent to the decision proposal on increase of share capital, without issuance of new shares, by proportionate increase of participation of all issued shares in the Company's share capital, and to the corresponding proposal for amendments to the Articles of Association of the Company referring to the proposed increase of share capital.

All abovestated decision proposals are to be referred to the General Assembly of the Company as joint proposals by the Management Board and the Supervisory Board for decision making.

Summary

The Management Board of the Company regularly informed the Supervisory Board of the Company's business, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations.

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2018.

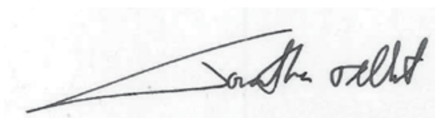
After analyzing the reports of the Management Board of the Company and monitoring the development in the main financial indicators, it was assessed that targets set for 2018 were delivered. Financial outlook was achieved, and the Company is reporting good financial performance, with year-on-year revenue, EBITDA and net profit growth, accompanied by continued significant investments in network infrastructure, with the focus on modernization of fixed access network of new generation (NGA) and mobile radio and transport networks modernization, increasing broadband access availability, customer experience and boosting competitiveness. Revenue growth was achieved through strong performance in mobile segment, continuous growth in system solutions revenues, compensating for fixed revenue decline, and also by taking advantage of consolidated contribution of subsidiaries in HT Group.

Results of strategic program Skyline 2018 are visible in terms of successfully delivered growth strategy and achieved plans in areas of Core and Non-Core business, Digitalization and Data Equity.

HT Group maintains a leading position in the Croatian telecommunications market across all business segments in 2018 successfully responding to market challenges and constantly increasing competitive pressure.

This report shall be delivered to the General Assembly of the Company.

Jonathan Richard Talbot,
Chairman of the Supervisory Board



[1] U veljači 2019. godine HAKOM odobrio HT-u preuzimanje HP Produkcije d.o.o., čime je omogućeno zaključenje transakcije.

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "the Company"), in accordance with Article 250b, paragraphs 4 and 5, and Article 272p of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12, 68/13 and 110/15), issues the Corporate Governance Code Compliance Statement.

The Company applies the Zagreb Stock Exchange Corporate Governance Code, in effect as of 1 January 2011, and published on the web-site of the ZSE (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency, HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those that were not or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not able to vote in person at the Assembly by themselves, should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies, i.e., distance participation in real time the General Assembly takes place. Possibility of such participation will be implemented in the future if so required by post requisite legislation (Part 2.6.).
- The Supervisory Board is not composed mostly of independent members. Two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. Pursuant to Article 65 of the Audit Act, the Supervisory Board appoints three Audit Committee members from among Supervisory Board members. Out of three Committee members one is an independent member of the Supervisory Board. All three Committee members are financial experts (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- Members of the Management Board are entitled to remuneration determined according to the Global Compensation Guidelines and Performance Dialogue Policy for MB Members, adopted by the Supervisory Board. Remuneration to Members of the Supervisory Board is determined by General Assembly decision in relation to the average net salary of Company employees. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The detailed data on all remunerations and other earnings of each Member of the Management Board and the Supervisory Board is disclosed within the Annual Report as well as the description of the policy itself (Part 6.3.).

Internal control and risk management

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT d.d. and HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

The Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers;
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee;
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed;
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfillment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). In July 2017 the Management Board adopted the updated Internal Audit Charter, a strategic document for internal audit performance which defines framework and main principles necessary for the work of internal audit function in HT d.d. and HT Group. Latest update to the Internal Audit Charter was made in May 2018.

Main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are evaluating whether:

- Risks relating to the achievement of HT d.d. and HT Group's strategic objectives are appropriately identified and managed.
- The actions of HT d.d. and HT Group's officers, directors,

employees and contractors are in compliance with HT d.d. and HT Group's policies, procedures, and applicable laws, regulations and governance standards.

- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact HT d.d. and HT Group.
- Information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

Significant company shareholders

As at 31 December 2018, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51.1 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 6.7 per cent of shares of the Company.
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.9 per cent of shares of the Company.
- The remaining 39.3 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2018 Raiffeisen Mandatory Pension Funds (category A and category B) owned 9.1 per cent of shares of the Company.

An up to date list of the top ten shareholders of the Company can be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d., owns 1,069 shares in total; Mr. Boris Batelić, Management Board Member of Hrvatski Telekom d.d. until 30 April 2018, owns 1 share in total; Mr. Saša Kramar, Management Board Member of Hrvatski Telekom d.d., owns 219 shares in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d., owns 69 shares in total.

Appointment of the management board, its functions and the amendments to the articles of association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. The Management Board consists of between five and seven members. Current composition of the Management Board includes six positions: the President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO).

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the management board members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions. The Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. The Management Board is also authorized by respective General Assembly decisions to act in accordance with the Article 352 paragraph 3 item 3 of the Companies Act and withdraw the shares without nominal value without the share capital of the Company being decreased in which case the remaining shares' participation in the share capital is increased.

The Management Board adopted in 2012 the Treasury share buyback program for the purpose of realization of the long-term incentive plans for senior management, Matching Share Plan, applicable at that time only to the President of the Management Board, as member of the business leaders group (BLT) within Deutsche Telekom Group.

The Company acquired at the Zagreb Stock Exchange 1,931 Company shares in May 2012 and 2,000 shares in May 2013, for the purpose of implementation of the above described Matching Share Plan.

Matching Share Plan initiated in 2012 has finished in 2016 and the Matching Share Plan initiated in 2013 has finished in 2017. Pursuant to the terms and conditions for participation in the Plan, given the fact that his employment at HT ended on 31 December 2013 and he continued working for DT Group until 31 December 2015, Mr. Ivica Mudrinić became entitled to one half of the total number of Company shares purchased in the year 2012 (2012 he purchased 1,931 HT shares), and to one fourth of the total number of Company shares purchased in the year 2013 (2013 he purchased 2,000 HT shares). In line therewith, in December 2016, 965 Company shares were transferred, and in December 2017, 500 Company shares were transferred to the custodian account of Mr. Mudrinić. Following this last transfer, Matching Share Plan has been closed, and the Company has fulfilled in total all its obligations towards Mr. Mudrinić pursuant to the said Plan. Following the closing of the Matching Share Plan, pursuant to the terms and conditions of the Plan, 2,466 acquired Company shares remained at the disposal of the Company.

In June 2017 the Share Buyback Programme has been launched, in line with the above stated authorization by the General Assembly, that started on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.

Until 31 December 2017, the Company acquired at Zagreb Stock Exchange in total 216,005 Company shares, representing 0.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53.

HT held in total 218,471 Company shares as at 31 December 2017, including the remaining Company shares from the above described Matching Share Plan.

During the year 2018, the Company continued with the implementation of the Share Buyback Programme.

In March 2018, the Company withdrew 218,471 acquired Company shares without nominal value without the share capital of the Company being decreased. Thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares without nominal value, while the remaining shares' participation in the share capital is being increased. The information on the new number of shares has been aligned in the Articles of Association of the Company.

During 2018 the Company acquired at Zagreb Stock Exchange further 450,517 Company shares, representing 0.55% of the Company's issued share capital, i.e., HT holds in total 450,517 Company shares as at 31 December 2018. For this acquisition of Company shares in 2018, the Company paid out an equivalent value of HRK 71,062,380.96.

The composition and functions of the supervisory board

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee.

ECONOMIC ENVIRONMENT

ECONOMIC BACKGROUND
CROATIAN MARKET OVERVIEW
REGULATORY OVERVIEW
CHANGES IN REPORTING

ECONOMIC ENVIRONMENT

HT Group's good performance in 2018

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

Economic background

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

The registered unemployment rate keeps decreasing during 2018 as the result of increased employment as well as constant emigration trend. Estimated average unemployment rate for 2018 could reach 9.9%, while reported average unemployment rate for 2017 was 12.1%.[2]

The recent strong increases in energy and tourism prices pushed inflation to the average 1.6% of Consumer Price Index (CPI) value for 2018.[2]

[2] Sources: Croatian Bureau of Statistics, latest macroeconomic forecasts of the Croatian National Bank and Addiko Bank

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 123.1% at the end of 2018. The Company maintains leading market position with estimated mobile SIM market share of 45.4% at the end of 2018.

Total number of sent SMS messages continued to decrease on an annual basis by 12.7% in the first nine months of 2018. Total broadband traffic grew year-on-year by 32.0% in the first nine months of 2018. In the same period total mobile market minutes of use (MOU) continued to increase on an annual basis by 1.8%.[3]

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 8.6% in the first nine months of 2018.[3]

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of September 2018. The year-on-year growth of FTTx (11.5%), Fixed Wireless Access (49.0%) and Cable Broadband (4.6%) connections drive total fixed broadband market connection growth (2.6%).[3] Telecommunication operators have been making significant investments in FTTH footprints, advanced technology and innovative services.

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

The Croatian Pay TV market continued to grow in 2018, reaching 845 thousand customers at the end of September 2018 (year-on-year growth by 3.3%).[4]

Wholesale

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

IT market

Croatian IT market continues with growth in 2018 at estimated 5.7% yearly growth rate.[5] All three segments of the IT market contribute to the market growth: IT services with estimated yearly growth by 10.7%, Software with estimated growth by 7.3% and Hardware by 2.6%. HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

[3] Source: Croatian Post and Electronic Communications Agency's quarterly reports
[4] Source: Croatian Post and Electronic Communications Agency's quarterly reports
[5] Source: IDC Adriatics, July 2018

REGULATORY OVERVIEW

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

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

New rounds of analysis of relevant electronic communications markets

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

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

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

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

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

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

New regulatory framework for electronic communications on the European Union level

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

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

Amendments to the Margin Squeeze Methodology

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

CHANGES IN REPORTING

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

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

IFRS 15 Revenue from contracts with customer is applied from January 1st, 2018. The Group utilized the option for simplified initial application, i.e., contracts that are not completed by January 1st, 2018 are accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition is recognized as an adjustment to the opening balance of equity in the year of initial application. Accounting effects of the changeover to the new standard are recognized directly in equity, the only effects on profit or loss in 2018 are related to changes in the point in time at which revenue and expenses are realized.

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

in HRK million	2018 as reported	2018 without IFRS 15 effects
Revenue	7,783	7,715
Operating expenses	4,819	4,856
EBITDA before exceptional items	**3,186**	**3,080**

BUSINESS REVIEW

SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP (INCLUDING CRNOGORSKI TELEKOM)
SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP IN CROATIA
SUMMARY OF KEY FINANCIAL INDICATORS – CRNOGORSKI TELEKOM STANDALONE

SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP (INCLUDING CRNOGORSKI TELEKOM)

Income statement in HRK million	2017	2018	% of change A18/A17
Revenue	7.756	7.783	0,4%
Mobile	3.305	3.450	4,4%
Fixed voice	927	809	-12,7%
Broadband & TV	1.439	1.411	-1,9%
Fixed wholesale	369	318	-13,8%
Other fixed	835	878	5,1%
System solutions	731	801	9,6%
Miscellaneous	151	118	-22,0%
EBITDA before exceptional items	3.138	3.186	1,5%
Exceptional items	151	55	-63,7%
EBITDA after exceptional items	2.986	3.131	4,8%
EBIT (Operating profit)	1.118	1.401	25,4%
Net profit after non controlling interests	863	1.061	22,9%
EBITDA margin before exceptional items	40,5%	40,9%	0,5 p.p.
EBITDA margin after exceptional items	38,5%	40,2%	1,7 p.p.
EBIT margin	14,4%	18,0%	3,6 p.p.
Net profit margin	11,1%	13,6%	2,5 p.p.
BALANCE SHEET	**At 31 Dec 2017**	**At 31 Dec 2018**	**% of change A18/A17**
Total non current assets	10.385	10.694	3,0%
Total current assets	5.353	5.337	-0,3%
TOTAL ASSETS	**15.738**	**16.031**	**1,9%**
Total issued capital and reserves	12.573	13.208	5,1%
Total non current liabilities	737	498	-32,5%
Total current liabilities	2.429	2.326	-4,2%
TOTAL EQUITY AND LIABILITIES	**15.738**	**16.031**	**1,9%**
CASH FLOW	**2017**	**2018**	**% of change A18/A17**
Net cash flow from operating activities	2.691	2.345	-12,9%
Net cash flow from investing activities	-1.215	-1.368	-12,6%
Net cash flow from financing activities	-981	-992	-1,1%
Cash and cash equivalents at the end of period	**3.152**	**3.137**	**-0,5%**

CAPEX	2017	2018	% of change A18/A17
CAPEX	1.885	1.826	-3,1%
CAPEX / Revenue ratio	24,3%	23,5%	-0,8 p.p.
NUMBER OF EMPLOYEES	**At 31 Dec 2017**	**At 31 Dec 2018**	**% of change A18/A17**
Number of employees (FTEs)	5.110	5.447	6,6%

HT Group highlights

Significant efforts taken to maintain position in the market

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

Strong financial performance of main financial KPIs

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

Continued significant investments in network infrastru-cture

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

Mobile network modernization

- After successful completion of modernization in Istria (138 locations) and in Q4 2018 with modernization in Zagreb area (428 locations) we continued with modernization of mobile and transport network in Kvarner region – radio equipment swapped at 47 locations – reaching total of 613 locations with swapped radio equipment
- Capacity expansion of the mobile access network continues reaching in total 356 locations (3Q 2018: 332 locations)
- Modernization of IP/MPLS network significantly improved stability of network - resulted in Prio1 network incident redu-ction of 80% compared to 2017
- HT finished 2018 with P3 award proving the best mobile network in the data and crowdsourcing segment in Croatia
- New technological concept – Virtual packet core (virtual EPC) implemented in 5 months and succesffuly served all traffic needs during the summer

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

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

Main financials development

Revenue

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

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

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

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

Mobile revenue

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

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

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

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

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

Fixed revenue

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

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

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

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

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

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

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

System Solutions

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

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

Miscellaneous revenue

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

Other operating income

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

Operating expenses

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

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

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

Material expenses

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

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

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

Energy sales costs decrease (HRK 71 million or 42.0%) is mainly due to lower consumption of large business customers and the sale of HT's energy business segment.

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

Telecommunication cost increased (HRK 32 million or 5.7%) mainly as a result of RLH regulation and consequently much higher traffic (higher data roaming, voice) which was partially offset by lower cost of international outgoing traffic due to decrease of average unit price.

Online costs increase (HRK 16 million or 76.8%) is driven by additional push in media and digital business.

Copyright fees increased (HRK 3 million or 6.7%) due to lower share of capitalized content rights contracts.

Employee benefits expenses

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

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

Other expenses

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

Write down of assets

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

Depreciation and amortization

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

Profitability

EBITDA before exceptional items

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

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

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

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

Net profit after non controlling interests

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

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

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

Financial position

Balance sheet

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

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

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

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

Cash flow

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

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

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

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

Capital expenditure

HT Group including Crnogorski Telekom

CAPEX in HRK million	2017	2018	% of change A18/A17
CAPEX	1.885	1.826	-3,1%
CAPEX / Revenue ratio	24,3%	23,5%	-0,8 p.p.

Crnogorski Telekom

CAPEX	2017	2018	% of change A18/A17
CAPEX	139	179	28,3%

Capital expenditure realization decreased by HRK 59 million or 3.1% driven by lower realization of HT Group in Croatia by HRK 98 million or 5.6%, while CT contributed with higher capex by HRK 40 million or 28.3% due to higher access investments. Main drivers for lower HT Group realization are lower content capitalization in 2018 and higher investment in Next TV in 2017 (Next TV project included replacement of STB CPE in 2017).

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

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

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

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

HT was chosen to lead HAL (Harmonized API Layer) on DT Group level. HAL is a new technological concept that allows fast and more flexible development of application programming interfaces and represents key part of DT digital architecture. HAL framework was built for OneApp to be used for all future front-end solutions (self-care, e-commerce, etc.) in DT national companies. In 2018 HT, as a first in DT Group, commercially launched One App application as a substitute for "Moj Telekom" application in relation to which it is faster, easier to use and with a range of new functionalities. Currently application is on monthly base used by 101,000 active users and has average rating of 4.4 on Google Play platform.

SUMMARY OF KEY FINANCIAL INDICATORS – HT GROUP IN CROATIA

Income statement in HRK million	2017	2018	% of change A18/A17
Revenue	7.125	7.165	0,6%
Mobile	2.988	3.125	4,6%
Fixed voice	843	736	-12,7%
Broadband & TV	1.318	1.294	-1,8%
Fixed wholesale	347	301	-13,2%
Other fixed	779	827	6,3%
System solutions	698	763	9,2%
Miscellaneous	151	118	-22,0%
EBITDA before exceptional items	2.918	2.953	1,2%
Exceptional items	144	50	-65,0%
EBITDA after exceptional items	2.774	2.903	4,6%
EBIT (Operating profit)	1.066	1.341	25,8%
Net profit after non controlling interests	833	1.045	25,5%
EBITDA margin before exceptional items	41,0%	41,2%	0,3 p.p.
EBITDA margin after exceptional items	38,9%	40,5%	1,6 p.p.
EBIT margin	15,0%	18,7%	3,8 p.p.
Net profit margin	11,7%	14,6%	2,9 p.p.

Key operational data	2017	2018	% of change A18/A17
Mobile customers in 000			
Number of customers	**2.244**	**2.273**	**1,3%**
- Prepaid	985	951	-3,4%
- Postpaid	1.260	1.322	4,9%
Minutes of use (MOU) per average customer	**216**	**225**	**4,0%**
Blended ARPU [4] (monthly average for the period in HRK)	**77**	**68**	**-11,7%**
- Prepaid	43	43	0,9%
- Postpaid	106	86	-18,6%
Blended non-voice ARPU [4] (monthly average for the period in HRK)	**40**	**38**	**-5,8%**
SAC per gross add in HRK	**109**	**126**	**15,4%**
Churn rate (%)	**3**	**2**	**-0,1 p.p.**
Penetration (%) [1]	**118**	**123**	**4,9 p.p.**
Market share of customers (%) [1]	**46**	**45**	**-0,8 p.p.**
Smartphone customers (%) [2]	**58**	**67**	**8,8 p.p.**
Smartphones sold (%) [3]	**84**	**91**	**7,4 p.p.**

1 Source: internal estimation of the competitors customers for EO December 2018
2 Number of customers using a smartphone handsets in total number of mobile customers
3 Number of smartphones sold in total number of handsets sold (postpaid only)
4 ARPU for 4Q 2018 includes IFRS 15 effects

Key operational data	2017	2018	% of change A18/17
Fixed mainlines in 000			
Fixed mainlines - retail [1]	875	819	-6,3%
Fixed mainlines - wholesale (WLR - wholesale line rental)	63	53	-15,5%
ARPU voice per user [5] (monthly average for the period in HRK) [2]	78	73	-7,3%
IP mainlines/customers in 000			
Broadband access lines - retail [3]	624	618	-0,9%
Broadband access lines - wholesale [4]	131	129	-1,8%
TV customers	417	418	0,3%
Broadband retail ARPU [5] (monthly average for the period in HRK)	117	111	-5,4%
TV ARPU (monthly average for the period in HRK)	81	84	2,7%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	135	121	-10,3%

1 Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; Payphones excluded
2 Payphones excluded
3 Includes ADSL,VDSL, FTTH i Naked DSL
4 Includes Naked Bitstream + Bitstream
5 ARPU for 4Q 2018 includes IFRS 15 effects

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

Mobile telecommunications

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

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

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

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

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

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

Xmass campaign was launched in November – We make New Year's wishes come true! Accent is put on Magenta 1 (M1 knows how to give) through: hardware offers with smartphones for HRK 1 in Najbolje XL tariff in M1 and new Samsung and Huawei smartphones with tablets giveaway in Najbolja tariffs in M1 and introduction of surprise and delight activities with Xmas content for free. Additionaly, all postpaid customers who download Moj Telekom App in this period get 50GB for free.

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

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

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

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

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

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

Fixed telecommunications

Fixed revenue below 2017 by HRK 128 million or 3.9% under influence of declining fixed voice revenue (HRK 107 million or 12.7%), lower wholesale (HRK 46 million or 13.2%), lower broadband (HRK 40 million or 4.4%) which were partially offset by higher other revenue (HRK 49 million or 6.3%) mainly coming from Optima and H1 consolidation and terminal equipment due to IFRS 15 introduction and TV revenue (HRK 16 million or 4.0%). IFRS 15 further decreased fixed revenue by HRK 8 million.

Fixed line

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

To mitigate the on-going decline promo offer for fixed line was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs. Fixed telephony users generated 1,107 million of minutes in 2018. That is 9.0% lower than in the same period in 2017 as a result of customer base shrinking and F2M substitution.

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

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

Broadband

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

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

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

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

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

In Q3 HT introduced two new offers - MAX 2 Mini package for HRK 149 per month in M1 and 6 months mobile L tariff promotion for HRK 1 per month. MAX2 Mini package includes even faster Internet with 100GB data (flat Internet in promo period until mid December) and 100 xnet minutes (flat towards fixed and 1,000 min towards mobile networks in promo period until mid-December). Direct and simple communication through autumn campaign was emphasizing availability, speed and price of our offers with parallel communication of great hardware offers.

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

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

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

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

TV

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

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

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

Wholesale

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

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

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

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

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

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

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

System solutions

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

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

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

Energy

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

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

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

SUMMARY OF KEY FINANCIAL INDICATORS – CRNOGORSKI TELEKOM STANDALONE

Income statement in HRK million	2017	2018	% of change A18/A17
Revenue	636	625	-1,9%
Mobile	317	324	2,2%
Fixed voice	83	73	-12,8%
Broadband & TV	120	117	-3,1%
Fixed wholesale	24	19	-19,8%
Other fixed	57	53	-5,9%
System solutions	35	39	10,7%
EBITDA before exceptional items	220	233	5,8%
Exceptional items	7	5	-37,3%
EBITDA after exceptional items	213	228	7,3%
EBIT (Operating profit)	49	58	17,4%
Net profit after non controlling interests	38	54	40,7%
EBITDA margin before exceptional items	34,5%	37,2%	2,7 p.p.
EBITDA margin after exceptional items	33,4%	36,5%	3,1 p.p.
EBIT margin	7,7%	9,3%	1,5 p.p.
Net profit margin	6,0%	8,6%	2,6 p.p.

Key operational data	2017	2018	% of change A18/A17
Mobile customers in 000	**352**	**369**	**4,9%**
- Prepaid	141	142	0,9%
- Postpaid	211	227	7,6%
Fixed mainlines - retail in 000	**123**	**114**	**-7,3%**
Broadband access lines - retail in 000	**70**	**70**	**0,9%**
TV customers in 000	**56**	**65**	**15,1%**

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

Mobile telecommunications

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

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

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

Postpaid market leadership was remained at the end of 2018.

Fixed telecommunications

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

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

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

TV revenues 1.7% higher than in 2017.

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

OVERVIEW OF SEGMENT PROFITABILITY

OVERVIEW OF SEGMENT PROFITABILITY

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

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

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

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

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

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

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

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

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

Residential segment 2018

in HRK million	2017	2018	% of change A18/A17
Mobile revenue	1.953	2.031	4,0%
Fixed revenue	1.764	1.651	-6,4%
Miscellaneous	37	38	3,7%
Revenue	**3.754**	**3.720**	**-0,9%**
Operating expenses	**1.208**	**1.282**	**6,1%**
Contribution to EBITDA before exceptional items	**2.546**	**2.438**	**-4,2%**

Business segment 2018

in HRK million	2017	2018	% of change A18/A17
Mobile revenue	1.035	1.094	5,7%
Fixed revenue	1.038	977	-5,9%
System solution	696	762	9,5%
Miscellaneous	114	80	-30,3%
Revenue	**2.883**	**2.912**	**1,0%**
Operating expenses	**1.554**	**1.547**	**-0,4%**
Contribution to EBITDA before exceptional items	**1.329**	**1.365**	**2,7%**

Network and support functions 2018

in HRK million	2017	2018	% of change A18/A17
Other operating income	166	152	-8,7%
Operating expenses	1.402	1.329	-5,2%
Contribution to EBITDA before exceptional items	**-1.236**	**-1.177**	**4,8%**

Segment Optima consolidated 2018

in HRK million	2017	2018	% of change A18/A17
Fixed revenue	483	526	8,9%
Revenue	**483**	**526**	**8,9%**
Other operating income	**4**	**8**	**126,8%**
Operating expenses	**211**	**214**	**1,7%**
Contribution to EBITDA before exceptional items	**275**	**320**	**16,1%**

Segment Crnogorski Telekom consolidated 2018

in HRK million	2017	2018	% of change A18/A17
Mobile revenue	317	325	2,5%
Fixed revenue	284	261	-8,1%
System solution	35	39	10,7%
Revenue	**636**	**625**	**-1,8%**
Other operating income	**4**	**6**	**55,6%**
Operating expenses	**417**	**392**	**-6,1%**
Contribution to EBITDA before exceptional items	**223**	**239**	**7,4%**

Segment P&L Bridge to HT Group EBITDA 2018

in HRK million	**2017**	**2018**	**% of change A18/A17**
Segment Result (Contribution to EBITDA)			
Residential Segment	2.546	2.438	-4,2%
Business Segment	1.329	1.365	2,7%
Network and Support Functions	-1.236	-1.177	4,8%
Segment Optima consolidated	275	320	16,1%
Segment Crnogorski telekom consolidated	223	239	7,4%
Total Contribution to EBITDA before exceptional items of the Segments	**3.138**	**3.186**	**1,5%**
Exceptional items	151	55	-63,7%
Total EBITDA	**2.986**	**3.131**	**4,8%**

HT INC.
FINANCIAL
HIGHLIGHTS

HT INC. FINANCIAL HIGHLIGHTS

Revenue

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

EBITDA before exceptional items

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

Net profit after non-controlling interests

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

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY

Hrvatski Telekom is the leader of the digital transformation of Croatia. As a company that brings technology to homes and offices across the country, we recognize our responsibility in preparing the society get ready for a new wave of technological change. We want to enrich the lives of our customers in their communities and enable them to get the most out of modern technology. In this way, we communicate our corporate values to all stakeholders; customers, suppliers and investors, employees, the environment and the community we do business with.

Our mission is to invest in new technology and knowledge to help future generations use all the opportunities the future brings. Our communications infrastructure and new products and services already support a new wave of technological change. We invest in the development of smart cities and ever more Croatian cities are equipped with our technology that is recognized at the European level.

Of course, Croatia needs more than just smart technology. Our technology-based world is dependent on people who have the knowledge to use technology in the best way. These people become key drivers of development. That's why we invest heavily in a new generation of young people with an emphasis on developing their skills in STEM areas. We want to encourage young people's interest in STEM skills and enable them to gain practical experience in working with new technologies that will help them in their future careers. We have scholarship programs, we continuously employ young professionals and open opportunities for them to work in an international environment. Investments in STEM education are part of our long-term development strategy. We believe that a well-organized and funded education of young professionals is a prerequisite for the development of the economy and society.

Compliance with laws and other regulations, compliance with internal rules and the Code of Conduct are the basis of responsible corporate governance.

Since 2015, HT Group and all its members have in place the Social Responsibility Policy, which is the basis upon which the Group continually establishes, maintains, monitors and develops responsibilities in relation to corporate responsibility and related duties.

The central internal audit of HT Integrated Environmental Management, Health, and Safety at Work, as part of the DTAG Integrated Management System, was successfully carried out by DT's auditor in accordance with ISO 14001 and OHSAS 18001 standards. The audit confirmed the integration of environmental concerns into all relevant work processes and high environmental awareness of employees and showed that HT's Integrated System functions at a professional level, i.e. that HT meets all the requirements set by the Company as well as all standards requirements.

Responsibility towards the society

Knowledge society

We cooperate with STEM faculties, students come to practice and mentoring, have the opportunity to get a scholarship and the best ones get a job opportunity. The selected students from FER, whose student partner we are, get our scholarship of HRK 3,000 a month.

We collaborate with student associations to enable them to participate in competitions, we take part in job fairs, but also frequent visits by our specialists to faculties who teach the students concrete practical knowledge.

We are a partner of the e-Leadership MBA program by Visoko učilište Algebra, where with the best students we develop a smart city HT project on the subject of "Living with the Internet of Things in Smart Cities", which also raises the quality of life of citizens.

We signed a Business Cooperation Agreement with the University of Dubrovnik for educational, developmental and scientific research projects, and the first concrete project "Big Data - Crowd Management in Tourism" was announced through the cooperation.

Summer practice for students

Working with the student community, Hrvatski Telekom recognized that students often do not have the opportunity to apply the theoretical knowledge acquired at the faculties in practice. That's why the "HT Summer Practice" project was designed and launched. Practices are intended for students from different faculties across the country, mainly STEM and humanities, in Zagreb, Vinkovci, Split and Rijeka.

Projects for startup community

We support the startup community through the Idea Knockout Competition, and HackIT, Hrvatski Telekom's Hackathon, giving the winners a chance to realize their idea within hub:raum, the leading startup accelerator of Deutsche Telekom.

Donations and sponsorships

Hrvatski Telekom continually rewards and supports innovative and creative projects in Croatia through a donation program that has been running since 2006 and through which more than 300 projects have been created with donations worth over HRK 10 million.

In the last two years, the Generation Next donation contest has been directed to STEM skills. More than 160 schools have been equipped with advanced equipment for the Internet of Things based projects, and more than 2000 children participated in projects which trained over 130 mentors.

Generation Next donation program prepares young people for the jobs of the future.

The Generation Next donation program 2017/2018 searched for the best projects from two categories - Digital Innovation with IoT, and Research and Science Projects. In the Digital Innovation with IoT category, the jury selected 39 projects, which have a perspective of application in education, health, traffic and the area of broader social responsibility. Five projects were selected in the Research and Science category.

In 2018, Hrvatski Telekom donated HRK 900,000 within the Generation Next donation program to support the development of projects based on the practical application of knowledge from the STEM area. Strengthening know-how from the STEM area is key to stimulating an innovative and smart society that can take full advantage of the existing technology.

We sponsor participation at competitions

HT supports students in various professional and sports competitions. We supported the team of the Croatian Robotics Society at the International Robotics RoboCup in Canada, as well as MIOC students at the prestigious All-Star ACSL informatics competition in America, Vinkovci students at the international educational robotics competition, WERcontest in China, where they won second place in programming and robot testing among 8,000 students. We also supported FOI students at the student STEM competition in knowledge and sports - STEM Games.

Partnerships

HT has a key role in developing the knowledge society by supporting gatherings of scientific experts such as the WinDays, MIPRO, Combis, Cisco, CARNET CUC conferences and other events related to the telecommunications sector.

Partnership with the Museum of Contemporary Art is already traditionally continued in 2018, the 11th consecutive year.

In 2018 we sponsored five film festivals: ZagrebDox, Pula Film Festival, Motovun Film Festival, Vukovar Film Festival, Zagreb Film Festival and two marketing conferences HURA: Days of Communication and Weekend Media Festival. We also supported Croatian sport: The Croatian Football Federation, the 1st Croatian football league called Hrvatski Telekom First League and basketball A league called Hrvatski Telekom Premier League.

For the 11th consecutive year, Tportal announced a competition for the literary prize roman@tportal.hr worth HRK 50,000, and Dubravka Ugrešić won it for the novel “Fox”.

In 2018, HT was again the main sponsor of the Bug Future Show tech show and supported the largest regional launch event Idea Knockout, which provided a team with an opportunity to attend the biggest world fair of consumer electronics CES 2019, along with an exhibition stand at the fair.

Responsibility towards employees

We continuously raise the level of knowledge in the organization. Employee improvement is our priority, and apart from a classical education, we have introduced digital learning through a platform that offers over 7,000 online courses. At our HT Academy, participants receive targeted and applicable knowledge that they need to develop competencies, as well as knowledge of the latest trends in industry development necessary for HT's business today and in the near future. We have identified key talents from all areas of the company, and we develop their career individually, in order to maximize competencies, engagement, and motivation. In the past year, 30% of talented employees were promoted to a higher position.

Thank you! is the recognition and rewarding employees who put their souls into work. With it do better, learn more and provide top service.

Aware of the fact that as a technology leader we set high standards of business, we also care about the work and life balance and the health of our employees; flexible working hours, free day for parents of first graders on the first day of school, Friday in slippers, medical check-ups, HT Olympics and participation in the B2B Run racing series are some of the many possibilities.

We have confirmed the status of Employer Partner for excellence in human resource management and continuous improvement of work processes and following of global trends.

Attracting talents

Hrvatski Telekom wants to attract the best employees and talents. In 2018, we launched the first international online innovation challenge on a digital platform (challenge.telekom.com) which serves to connect companies with a community of 5 million innovators, including students, various development teams, and startup communities. HT is the first company in Croatia to use this global platform.

The theme of the challenge is “Let's Challenge - NB-IoT Saves Croatian Trees” and it sought the concept of the IoT sensor system that would, by measuring air temperature, relative humidity and carbon monoxide and dioxide levels, reveal possible fires.

Responsibility towards customers

Best network

Caring for our customer experience begins long before the service and product are offered or delivered, and the customer is at the very center of all our activities.

For the second year in a row, Hrvatski Telekom won the P3 - Best in Test certificate for the best mobile network in Croatia, further confirming its leading position on the market. The P3 certificate is considered a standard of measurement of network quality and the satisfaction of telecom users worldwide. In this measurement, Hrvatski Telekom has achieved the best result in the P3 measurement history in Croatia, and with as much as 948 out of the possible 1000 points, has further confirmed its goal of providing the highest quality network to every end customer. Users of Hrvatski Telekom thus have the best experience when they use applications and voice and data services on their mobile devices, mobile and Wi-Fi networks.

This is a result of big investments in telecommunication infrastructure.

We develop products and services that best suit customers' habits, needs and desires and add value that can be provided by the leading company on the market. In our tariffs, we continuously increase the speed, increase the amount of included data traffic, and add new attractive content that customers want to use.

Our Magenta 1 concept, which gives customers a premium offer from the fixed, mobile and cloud world, is still unparalleled on the market.

Ready for 5G technology

At the beginning of the year, HT initiated the modernization of the radio access network in the whole of Croatia. This network will enable the introduction of 5G technology as soon as the required radio frequency spectrum is allocated to it. The project encompasses the modernization of infrastructure, transport capacities and radio equipment that should be finalized by the end of 2019.

Quality infrastructure is a prerequisite for the development of the whole society. HT's capital investments over the past five years are higher than HRK 7 billion, and the benefits of these investments are felt in all segments of Croatian society.

A large part of total HT's investments is intended to improve network infrastructure, part of which is the largest project of the new mobile network in the whole region which started early this year. Over two years it will cover more than 2000 locations and the investment will exceed HRK 1 billion.

Smart cities

Hrvatski Telekom was the first to introduce in Croatia the new network technology Narrowband IoT (NB-IoT) last year. This technology will enable an extremely large number of connected IoT devices on the Croatian market in the short term and will provide Croatian IT companies with preconditions for the development of a large number of IoT solutions for domestic and foreign markets.

In 2018, we continued to develop and implement solutions in the smart city segment, and some of our solutions have been recognized as the leading on the level of Deutsche Telekom Group as well.

Hrvatski Telekom, with its partner, Mobilisis, implemented a smart parking solution for people with disabilities for Split parking, which will contribute to increasing the quality of life of people with disabilities in Split and reduce city crowds in the very center of Split.

Digital public payphones

Hrvatski Telekom and Go2Digital started replacing existing pay phones at the most frequented locations throughout Croatia and installing new digital ones, offering a wide range of new services. Citizens thus have access to many new features, ranging from wireless charging of mobile devices to information about the level of pollen in the air, using special sensors inside the booths, to the SOS key that can be used to call for emergency help in the event of an accident. To make users and passers-by connected, each booth is also a Wi-Fi Hot Spot with free and unlimited Internet.

For easier navigation in cities, the digital display features an interactive map in six languages, which instructs users on how to reach the desired location, and digital city light for advertisers on the back of the pay phone. At least 25 payphones throughout Croatia will be replaced annually.

EV charging stations

Just before the start of the tourist season, Hrvatski Telekom and Tower Center Rijeka opened the first fast EV charging station in Rijeka. It is part of the project "Comprehensive fast-charging corridor network in South East Europe".

With over 165 EV charging stations set up in 75 cities across the country, we have developed the widest national network of electric charging stations in Croatia. We have thus encouraged the use of electric vehicles that change the way we experience transportation. In 2018, the use of our EV charging stations was doubled again.

Responsibility towards the environment

Sustainable development and climate protection are one of the strategic determinants of HT and the entire DT Group, and the use of renewable energy sources is a step forward in the ongoing efforts of HT to create a society with reduced greenhouse gas emissions.

As the only telecommunications company in Croatia certified according to the ISO 14001 environmental management standard, HT focuses on the implementation of green technologies and energy-saving solutions that are beneficial to the society with reduced greenhouse gas emissions. Since 2016, we have been procuring "green" electricity from renewable sources only, and in our mobile networks, we also use renewable sources for powering base stations. By investing in the latest technology, we raise energy efficiency, and by introducing the latest ICT technologies and services, we are reducing our own and carbon footprint of our customers.

We continually encourage our employees to think and act ecologically, and numerous initiatives enable us to reduce energy consumption and climate impact and to manage waste.

The HT fleet is constantly being refurbished and modernized, enabling us to improve quality and efficiency and reduce environmental impacts.

A significant number of old mobile devices were collected in 2018 from customers and from internal inventories. So far, HT has collected and eco-managed over 148,000 old mobile devices, their batteries, and their equipment.

Corporate responsibility in companies owned by HT

Combis

CIn 2018 COMBIS actively supported the student population in many projects. It organized the third COMBIS try {code} catch hackathon, 24-hour student programming competition. COMBIS also sponsored the student competition in the development of mobile apps and web applications "App Start Contest", Job Fair and Career Speed Dating events focused on student recruitment and FER brucošijada.

COMBIS has supported numerous conferences in Croatia such as Cisco Connect, Microsoft Windays, F2 - Future of Fintech, VMware vForum 2018, Dell EMC Forum in Zagreb, 3T - Tourism, Travel & Tech, CrisCon, Best Stay.

The 12th COMBIS conference held in Poreč under the umbrella theme "BE THERE. CREATE VALUE" also justified the high expectations. In addition to the traditional COMBIS conference, COMBIS also organized COMBIS Technology Day, COMBIS Infrastructure Day and COMBIS 5+ event in Zagreb, as well as COMBIS Technology Day BiH event in Mostar.

COMBIS financially supported the reconstruction of a part of the children's hospital in Klaićeva, the project Princeza Pričalica of X. high school "Ivan Supek", the participation of the robotics team of elementary school Ivan Cankar at a competition, networking of the informatics classroom of Senj elementary school (Sv. Juraj), the Croatian Association for Guide Dogs Training and Mobility, and the sports equipment for young players of the football club FEŠK Feričanci.

Iskon

In 2018, Iskon continued to support cultural music projects of the international author scene. Under the slogan "Iskonovci, in love with good music", the SuperUho musical boutique festival in Primošten and the debut edition of Fiber Festival in Split were financially supported. For the second consecutive year, Iskon helped the annual program of Tvornica kulture, as well as the independent concert of the band The National at Šalata.

Iskon organized the biggest outdoor knowledge quiz, during the Zagreb Beer Festival, and continued to support the quiz population by collaborating with the Croatian Quiz Association on sponsorship of the National Team Championship in Quiz, as well as its children's variation during the Interliber Fair at the Zagreb Fair.

At the end of 2018, Iskon presented its partnership with Unison in the organization of an independent journalistic music award Rock&Off, whose aim is to present and further promote quality domestic rock performers and related music genres.

Iskon employees continued to be actively involved in the UOLL association from Čakovec, and by collecting plugs from PET packaging, they helped leukemia and lymphoma patients.

Kids Innovation Day was organized for the kids of Iskon's staff in 2018. During the day kids could spend a day with their parents at work and visit the internal robotics workshops for the youngest.

Rotaraction and JobFair initiatives were supported, where Iskon was presented as a potential employer for STEM students, and Carnet's CUC Conference was also sponsored.

Crnogorski Telekom

As one of the leading companies in Montenegro, CT seeks to be present in all areas that are important for Montenegrin society. In addition to the aspirations to provide the highest quality telecommunication services to users, they actively contribute to community development.

Internet in the service of education

During 2018, CT provided free broadband Internet for around 250 elementary and high schools as well as pre-school institutions in Montenegro, contributing significantly to quality and modernization of education. It is a continuation of strategic 11-year long cooperation with the Ministry of Education.

For Every Good

Within the donation program "For Every Good", whose aim is to support and promote projects of special importance to the community implemented by the application of digital technologies, six projects were supported in 2018: "Support Inclusion - Digitalize the World of Children with Developmental Disabilities" - a project for the implementation of assistive technologies for children with developmental problems in local schools and kindergartens in Pljevlja, "3D classroom" - the application of 3D printing techniques in the education process at the local elementary school Podgorica, "Supporting Children with Developmental Disabilities through the Application of New Technologies" - education of young people with developmental disabilities for independent use of smartphones, "Small Developers 2" - continuation of programming and robotics courses for elementary school students, "Pelican Village: Life on a Raft!" - protecting and promoting the biodiversity of Skadar lake through the application of digital technologies,", "One Click To All Information" - an online counseling center for children and adolescents who are suffering from malignant diseases and their families.

Volunteer club

During the year 2018, the Telekom's Club of Volunteers continued with the activities aimed at promoting and applying the principles of social responsibility in and out of the company. In cooperation with civil society organizations, four actions of planting trees and cleaning of parks and public areas in Podgorica were realized. Together with the Blood Transfusion Institute, a traditional voluntary blood drive was organized for the employees and management of the company. By joining forces with the International Women's Club in Montenegro, employees took part in the Humanitarian Christmas Bazaar and raised funds to support the work of several educational and child welfare institutions in Montenegro.

Teachtoday

In 2018, Telekom launched the Montenegrin version of the specialized Teachtoday web site, which contains advice and practical materials for parents and educators to help children to use digital technology more safely and more competently.

HT GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED INCOME STATEMENT

in HRK million	2017	2018	% of change A18/A17
Mobile revenue	3.305	3.450	4,4%
Fixed revenue	3.569	3.415	-4,3%
System solutions	731	801	9,6%
Miscellaneous	151	118	-22,0%
Revenue	**7.756**	**7.783**	**0,4%**
Other operating income	174	167	-4,4%
Total operating revenue	**7.930**	**7.950**	**0,2%**
Operating expenses	**4.943**	**4.819**	**-2,5%**
Material expenses	2.387	2.461	3,1%
Employee benefits expenses	1.073	1.087	1,3%
Other expenses	1.535	1.315	-14,3%
Work performed by the Group and capitalised	-158	-128	-19,2%
Write down of assets	106	83	-21,5%
EBITDA	**2.986**	**3.131**	**4,8%**
Depreciation and amortization	1.869	1.730	-7,5%
EBIT	**1.118**	**1.401**	**25,4%**
Financial income	38	28	-27,1%
Income/loss from investment in joint ventures	2	3	79,1%
Financial expenses	174	139	-20,0%
Profit before taxes	**984**	**1.293**	**31,5%**
Taxation	180	235	30,6%
Net profit	**804**	**1.059**	**31,6%**
Non controlling interests	-59	-3	-95,5%
Net profit after non controlling interests	**863**	**1.061**	**22,9%**
Exceptional items [1]	151	55	-63,7%
EBITDA before exceptional items	**3.138**	**3.186**	**1,5%**

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

CONSOLIDATED BALANCE SHEET

in HRK million	At 31 Dec 2017	At 31 Dec 2018	% of change A18/A17
Intangible assets	2.539	2.539	0,0%
Property, plant and equipment	6.175	6.218	0,7%
Non-current financial assets	1.333	1.312	-1,6%
Receivables	248	391	58,0%
Contract assets (IFRS 15)	0	58	-
Contract costs (IFRS 15)	0	81	-
Deferred tax asset	91	94	4,3%
Total non-current assets	**10.385**	**10.694**	**3,0%**
Inventories	128	136	6,2%
Receivables	1.631	1.549	-5,0%
Current financial assets	197	112	-43,2%
Contract assets (IFRS 15)	0	146	-
Contract costs (IFRS 15)	0	57	-
Cash and cash equivalents	3.152	3.137	-0,5%
Prepayments and accrued income	246	201	-18,3%
Total current assets	**5.353**	**5.337**	**-0,3%**
TOTAL ASSETS	**15.738**	**16.031**	**1,9%**
Subscribed share capital	9.823	9.823	0,0%
Reserves	530	562	5,9%
Revaluation reserves	2	-14	-919,4%
Treasury shares	-38	-71	84,7%
Retained earnings	1.024	1.503	46,8%
Net profit for the period	863	1.061	22,9%
Non controlling interests	369	344	-6,8%
Total issued capital and reserves	**12.573**	**13.208**	**5,1%**
Provisions	73	70	-4,0%
Non-current liabilities	617	384	-37,8%
Contract liabilities (IFRS 15)	0	0	-
Deferred tax liability	47	44	-7,6%
Total non-current liabilities	**737**	**498**	**-32,5%**
Current liabilities	2.310	2.223	-3,8%
Contract liabilities (IFRS 15)	0	52	-
Deferred income	89	39	-56,6%
Provisions for redundancy	30	13	-58,2%
Total current liabilities	**2.429**	**2.326**	**-4,2%**
Total liabilities	**3.166**	**2.823**	**-10,8%**
TOTAL EQUITY AND LIABILITIES	**15.738**	**16.031**	**1,9%**

CONSOLIDATED CASH FLOW STATEMENT

in HRK million	2017	2018	% of change A18/A17
Profit before tax	984	1.293	31,5%
Depreciation and amortization	1.869	1.730	-7,5%
Increase / decrease of current liabilities	321	-181	-156,3%
Increase / decrease of current receivables	-105	11	110,9%
Increase / decrease of inventories	-57	-28	50,7%
Other cash flow increases / decreases	-320	-480	-49,8%
Net cash inflow/outflow from operating activities	**2.691**	**2.345**	**-12,9%**
Proceeds from sale of non-current assets	99	38	-61,2%
Proceeds from sale of non-current financial assets	2	1	-2,3%
Interest received	11	8	-28,7%
Other cash inflows from investing activities	1.302	625	-52,0%
Total increase of cash flow from investing activities	**1.413**	**672**	**-52,4%**
Purchase of non-current assets	-1.467	-1.536	-4,8%
Purchase of non-current financial assets	-867	0	100,0%
Other cash outflows from investing activities	-295	-504	-70,6%
Total decrease of cash flow from investing activities	**-2.629**	**-2.040**	**22,4%**
Net cash inflow/outflow from investing activities	**-1.215**	**-1.368**	**-12,6%**
Total increase of cash flow from financing activities			
Repayment of loans and bonds	-72	-58	19,0%
Dividends paid	-493	-497	-0,8%
Repayment of finance lease	-53	-2	96,9%
Other cash outflows from financing activities	-363	-435	-19,8%
Total decrease in cash flow from financing activities	**-981**	**-992**	**-1,1%**
Net cash inflow/outflow from financing activities	**-981**	**-992**	**-1,1%**
Exchange gains/losses on cash and cash equivalents	**-19**	**0**	**98,8%**
Cash and cash equivalents at the beginning of period	2.676	3.152	17,8%
Net cash (outflow) / inflow	476	-15	-103,2%
Cash and cash equivalents at the end of period	**3.152**	**3.137**	**-0,5%**

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Croatian Telecom Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying consolidated financial statements were approved for issuance by the Management Board on 13 February 2019.

Croatian Telecom Inc.
Roberta Frangeša Mihanovića 9
10000 Zagreb
Republic of Croatia

13 February 2019

On behalf of the Group,

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

Mr. Daniel Daub
Member of the Management Board and CFO

Mr. Boris Drilo
Member of the Management Board and CTIO

Ms. Nataša Rapaić
Member of the Management Board and COO Residential

Mr. Saša Kramar
Member of the Management Board and COO Business

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hrvatski Telekom d.d.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Hrvatski Telekom d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

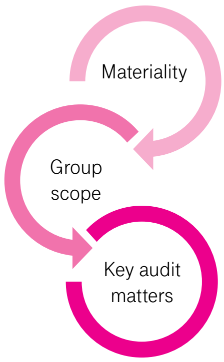
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the note 41 to the consolidated financial statements.

Our audit approach

Overview

- Overall materiality for consolidated financial statements: HRK 78 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA).



- We conducted audit work at four legal entities in Croatia (Hrvatski Telekom, Combis, Iskon and Optima) and one legal entity in Montenegro (Crnogorski telekom).
- Our audit scope addressed 99% of the Group's revenues and 99% of the Group's absolute value of underlying profit.
- Revenue recognition and adoption of IFRS 15
- Capitalisation of content rights
- Impairment of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality for consolidated financial statements

HRK 78 million

How we determined it

2.5% of EBITDA. EBITDA (HRK 3,131 million) is operating profit (HRK 1,401 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment and intangible assets (HRK 1,730 million).

Rationale for the materiality benchmark applied

We consider EBITDA to be the key metric in the industry the Group is operating in, and it is the benchmark against which the performance of the Group is most commonly measured by shareholders.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition and adoption of IFRS 15	
Refer to note 2.2. (Changes in accounting policies and disclosures), 2.4. o) (Summary of accounting policies) and note 4 (Segment information). The Group consolidated statement of comprehensive income includes revenue of HRK 7,783 million. Revenue is a subject to considerable inherent risk due to: ▪ the complexity of the systems necessary for properly recording and identifying revenue and ▪ the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives). Against this background, the proper application of the accounting standards is considered to be complex and to a certain extent based on estimates and assumptions made by management. In addition, the application of the new standard on revenue recognition, "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) has a significant impact from the financial year 2018 onward. The Group has exercised the option on initial application to recognize the cumulative effect of the transition directly in equity as of January 1, 2018 in accordance with the transitional provisions. As a result, the initial recognition of contract assets and the costs of obtaining contracts led to an increase in retained earnings under equity of around HRK 268 million (before accounting for deferred taxes) as of January 1, 2018. The implementation of IFRS 15 led to a decline in the share of revenue from the provision of services and an increase in the share of revenue from the sale of goods and merchandise of total revenue of around 3 percentage points. In view of the material impact and the complexity of the Group-wide implementation of the new standard, the recognition and presentation of the impact of IFRS 15 adoption was of particular importance for our audit.	In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognizing revenue as part of our audit. Our audit approach included testing of the controls and substantive audit procedures, including: ▪ Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes. ▪ Assessing the invoicing and measurement systems up to entries in the general ledger. ▪ Examining customer invoices and receipts of payment on a test basis. Furthermore, we assessed the accounting effects of new business and price models. We assured ourselves of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized. Our audit approach included, among other items: ▪ Assessing IFRS 15 impact analysis and the accounting estimates made for the different portfolios of contracts. ▪ Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements. ▪ Assessing the appropriateness of the methods used to determine the impact of the initial application of IFRS 15. ▪ We analysed sample of contracts with customers when performing procedures for all identified performance obligations and evaluated the Group's revenue recognition policies based on our experience with the Group and knowledge of the IFRS 15 impact on telecommunications industry. ▪ We assessed accuracy and completeness of financial statement presentation and disclosures. We assured ourselves that the systems and processes set up by management and the estimates and assumptions made are sufficiently documented and substantiated to ensure that the impact of initial application of IFRS 15 is properly recognised and presented.

Capitalisation of content rights

Refer to note 2.4.e (Summary of accounting policies) and note 15 (Intangible assets). The Group consolidated statement of financial position includes capitalised intangible assets of HRK 2,539 million, which includes capitalised content rights of HRK 286 million.

We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – Intangible assets. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.

We obtained a detailed analysis of capitalised content contracts in current period and reconciled these amounts to the general ledger. No significant reconciling differences were identified.

We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the following criteria:

- Contracts are for period of more than 12 months;
- Value of the contract is reliably measurable;
- Contract is not cancellable.

In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We identified no significant variances.

Overall, we found that the costs were capitalised in line with the Group's accounting policy, and management's assumptions were reasonable.

Impairment of goodwill

Refer to note 2.3 (Significant accounting judgements, estimates and assumptions) and note 15 (Intangible assets). The Group statement of financial position includes goodwill of HRK 456 million.

Under IFRS the Group is required to, at least annually, test goodwill for impairment. We focused on this area because management's assessment of the 'fair value less costs of disposal' of the related cash-generating units involves significant judgement about future results of the business, particularly those relating to the cash flow forecasts (revenue projections and growth rates) and the applied discount rate.

Based on the management's assessment, no impairment to the carrying amount of goodwill was identified.

In the evaluation of the assumptions as disclosed in note 2.3 as well as methodologies used (discounted cash flow model) by management, we used internal valuation experts to assist us in evaluating the methodology used and the underlying assumptions.

We discussed with management their estimate of future cash flow forecasts, and the process by which they were drawn up. We tested the mathematical accuracy of underlying calculations, and we compared the cash-flow forecasts to approved budgets. We noted no significant exceptions.

We compared current year actual results with prior year forecasts as an indication of the quality of the forecasting process. We found no significant differences.

We evaluated the discount rate used by comparing the rates used to comparable organisations and market information. We also reviewed management's sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would cause the goodwill to be impaired. We found that the post-tax discount rate used by management was consistent with market data, and the growth rate assumption was consistent with historical results and did not exceed the industry forecasts.

We found the assumptions as well as managements' conclusions to be consistent with our expectations and no exception have been noted.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including the Management report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Consolidated Annual Report of the Group, which includes the Management Report and Corporate Governance Statement (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of

the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 4th May 2011. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Michaela Tomičić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
13 February 2019

John Mathias Gasparac
President of the Management Board

Michaela Tomičić
Certified Auditor

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
Revenue	4	7.783	7.756
Other operating income	5	167	174
Merchandise, material and energy expenses	6	(1.650)	(1.612)
Service expenses	7	(811)	(775)
Employee benefits expenses	9	(1.087)	(1.073)
Work performed by the Group and capitalised		128	158
Depreciation, amortization and impairment of non-current assets	8	(1.730)	(1.869)
Net impairment losses on trade receivables and contract assets	21	(76)	(101)
Other expenses	10	(1.323)	(1.540)
Operating profit	4	**1.401**	**1.118**
Finance income	11	28	38
Finance costs	12	(139)	(174)
Finance costs – net		(111)	(136)
Share of profit of investments accounted for using the equity method	18	3	2
Profit before income tax		**1.293**	**984**
Income tax expense	13	(234)	(180)
Profit for the year		**1.059**	**804**
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		-	3
Changes in the fair value of debt instruments at fair value and effects of foreign exchange		(20)	-
Other comprehensive income for the year, net of tax		**(20)**	**3**
Total comprehensive income for the year, net of tax		**1.039**	**807**
Profit attributable to:			
Equity holders of the Company		1,062	863
Non-controlling interest		(3)	(59)
		1,059	804

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		1.045	866
Non-controlling interest		(6)	(59)
		1.039	807
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	13,03 kuna	10,55 kuna

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 HRK million	31 December 2017 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	2,539	2,539
Property, plant and equipment	16	6,197	6,140
Investment property	17	21	35
Investments accounted for using the equity method	18	382	379
Financial assets available for sale	19	-	948
Financial assets at fair value through other comprehensive income	19	926	-
Trade and other receivables	21	392	248
Contract assets	22	139	-
Bank deposits	24	3	6
Deferred tax asset	13	95	90
Total non-current assets		**10,694**	**10,385**
Current assets			
Inventories	20	136	128
Trade and other receivables	21	1,548	1,630
Contract assets	22	203	-
Prepayments	23	201	246
Bank deposits	24	112	197
Cash and cash equivalents	24	3,137	3,152
Total current assets		**5,337**	**5,353**
TOTAL ASSETS		**16,031**	**15,738**
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	29	9,823	9,823
Legal reserves	30	491	491
Fair value reserves and effects of foreign exchange		(15)	2
Reserve for treasury shares	31	71	37
Treasury shares	31	(71)	(37)
Retained earnings	32	2,565	1,888
Total		**12,864**	**12,204**
Non-controlling interest		344	369
Total issued capital and reserves		**13,208**	**12,573**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Notes	31 December 2018 HRK million	31 December 2017 HRK million
Non-current liabilities			
Provisions	28	59	60
Borrowings	38	248	302
Employee benefit obligations	27	11	13
Deferred income	26	15	21
Other liabilities	25	118	290
Finance lease	38	3	4
Deferred tax liability	13	44	47
Total non-current liabilities		**498**	**737**
Current liabilities			
Trade payables and other liabilities	25	2,024	2,155
Contract liabilities	22	52	-
Accruals	28	76	103
Finance lease	38	2	2
Income tax payable		76	27
Deferred income	26	39	89
Borrowings	38	56	52
Total current liabilities		**2,325**	**2,428**
Total liabilities		**2,823**	**3,165**
TOTAL EQUITY AND LIABILITIES		**16,031**	**15,738**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Signed on behalf of the Group on 13 February 2019:

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

Mr. Daniel Daub
Member of the Management Board and CFO

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
Operating activities			
Profit before income tax		1.293	984
Depreciation, amortization and impairment of non-current assets	8	1,730	1,869
Interest income	11	(10)	(8)
Interest expense	12	114	122
(Gain) on disposal of assets	5,10	(16)	(70)
Other net financial loss (gain)	11,12	7	22
(Gain) on sale of electric energy business	5	(30)	-
Share of profit of joint venture	18	(3)	(2)
Increase in inventories	20	(28)	(58)
(Increase) in receivables and prepayments		(59)	(166)
(Increase) in contract assets	22	(106)	-
Increase/(decrease) in payables and accruals		(163)	327
(Decrease) in contract liabilities	22	(12)	-
Increase in employee benefit obligations	27	3	1
Increase/(decrease) in provisions and accruals	28	(34)	21
Other non-cash items		(9)	(1)
Cash generated from operations		2,677	3,041
Interest paid		(100)	(129)
Income tax paid		(232)	(221)
Net cash flows from operating activities		**2,345**	**2,691**
Investing activities			
Payments for non-current assets		(1,536)	(1,467)
Proceeds from sale of non-current assets		38	98
Proceeds from sale of electric energy business	5	30	-
Payment for acquisition of Crnogorski Telekom, net of cash acquired	3	-	(866)
Payments for deposits		-	(41)
Proceeds from deposits		42	33
Proceeds from financial assets at fair value through other comprehensive income		4	43
Payments for secured deposits (reverse REPO arrangements)	24	(504)	(255)
Proceeds from secured deposits (reverse REPO arrangements)	24	550	1,229
Interest received		8	11
Net cash flows used in investing activities		**(1,368)**	**(1,215)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
Financing activities			
Dividends paid	32	(489)	(491)
Dividend paid to non-controlling interest in subsidiary		(8)	(2)
Repayment of radio frequency spectrum, content and ECI contracts		(364)	(326)
Other financial repayments		(4)	-
Repayment MCL		(8)	(8)
Repayment of lease liability and borrowings		(48)	(116)
Acquisition of treasury shares		(71)	(38)
Net cash flows used in financing activities		**(992)**	**(981)**
Net increase in cash and cash equivalents		(15)	495
Cash and cash equivalents as at 1 January		3,152	2,676
Exchange (gains) on cash and cash equivalents		-	(19)
Cash and cash equivalents as at 31 December	24	**3,137**	**3,152**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - NET DEBT RECONCILIATION

For the year ended 31 December 2018

	Cash/ bank overdraft	Liquid investments	Finance lease due within 1 year	Finance lease due after 1 year	Borrow. due within 1 year	Borrow. due after 1 year	Other fin. liabilities (spectrum, content and ECI contracts) within 1 year	Other fin. liabilities (spectrum, content and ECI contracts) after 1 year	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2016	**2,676**	**2,164**	**(13)**	**(42)**	**(16)**	**(262)**	**(218)**	**(140)**	**4,149**
Cash flow	495	(1,013)	13	39	63	-	326	-	(77)
Acquisition of Crnogorski Telekom	-	-	-	-	(48)	-	(4)	(15)	(67)
Acquisition of H1	-	-	(1)	-	(12)	(73)	(8)	(19)	(113)
Reclassification of current portion	-	-	-	-	(35)	35	(357)	357	-
Other non financial movements	-	-	-	-	-	-	-	(465)	(465)
Foreign exchange movements	(19)	-	(1)	(1)	(4)	(2)	-	-	(27)
Net debt as at 31 December 2017	**3,152**	**1,151**	**(2)**	**(4)**	**(52)**	**(302)**	**(261)**	**(282)**	**3,400**
Cash flow	(15)	(88)	2	-	46	-	364	-	309
Reclassification of current portion	-	-	(2)	2	(53)	53	(459)	459	-
Other non financial movements	-	(22)	-	-	3	-	(17)	(289)	(325)
Foreign exchange movements	-	-	(1)	-	-	1	-	-	-
Net debt as at 31 December 2018	**3,137**	**1,041**	**(3)**	**(2)**	**(56)**	**(248)**	**(373)**	**(112)**	**3,384**

Liquid investments consist of bank deposits and financial assets at fair value through other comprehensive income.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Issued share capital HRK million (Note 29)	Legal reserves HRK million (Note 30)	Fair value of debt instruments and effects of foreign exchange HRK million	Reserve for treasury shares HRK million (Note 31)	Treasury shares HRK million (Note 31)	Retained earnings HRK million (Note 32)	Total HRK million	Non-controlling interest HRK million	Total equity HRK million
Balance as at 1 January 2017	**9,823**	**491**	**3**	**-**	**-**	**1,567**	**11,884**	**163**	**12,047**
Profit for the year	-	-	-	-	-	863	863	(59)	804
Other comprehensive income for the year	-	-	3	-	-	-	3	-	3
Total comprehensive income for the year	-	-	3	-	-	863	866	(59)	807
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	(491)	(491)	-	(491)
Reserve for treasury shares	-	-	-	37	-	(37)	-	-	-
Acquisition of treasury shares	-	-	-	-	(37)	-	(37)	-	(37)
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Acquisition of H1	-	-	-	-	-	-	-	43	43
Acquisition of Crnogorski Telekom	-	-	-	-	-	(12)	(12)	231	219
Effects of Changes in Foreign Exchange Rates	-	-	(4)	-	-	(2)	(6)	(1)	(7)
Balance as at 31 December 2017	**9,823**	**491**	**2**	**37**	**(37)**	**1,888**	**12,204**	**369**	**12,573**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	-	(48)	(48)	(8)	(56)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	-	223	223	5	228
Balance as at 1 January 2018 after adjustments	**9,823**	**491**	**2**	**37**	**(37)**	**2,063**	**12,379**	**366**	**12,745**
Profit for the year	-	-	-	-	-	1,062	1,062	(3)	1,059
Effects of Changes in Forei-gn Exchange Rates	-	-	(12)	-	-	-	(12)	(3)	(15)
Other comprehensive income for the year	-	-	(5)	--	--	-	(5)	-	(5)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

As at 31 December 2018

	Issued share capital HRK million (Note 29)	Legal reserves HRK million (Note 30)	Fair value of debt instruments and effects of foreign exchange HRK million	Reserve for treasury shares HRK million (Note 31)	Treasury shares HRK million (Note 31)	Retained earnings HRK million (Note 32)	Total HRK million	Non-controlling interest HRK million	Total equity HRK million
Total comprehensive income for the year	**-**	**-**	**(17)**	**--**	**--**	**1,062**	**1,045**	**(6)**	**1,039**
Dividends paid to equity holders of the Company (Note 32)	-	-	-	-	-	(489)	(489)	(8)	(497)
Reserve for treasury shares	-	-	-	71	-	(71)	-	-	-
Acquisition of treasury shares	-	-	-	-	(71)	-	(71)	-	(71)
Shares cancelled	-	-	-	(37)	37	-	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Balance as at 31 December 2018	**9,823**	**491**	**(15)**	**71**	**(71)**	**2,565**	**12,864**	**344**	**13,208**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51.14% holding. Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V is 100% owned by Deutsche Telekom Europe Holding GmbH which is 100% owned by Deutsche Telekom AG. Thus, Deutsche Telekom AG is the ultimate controlling parent.

The registered office address of the Company is Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2018 was 5,698 (31 December 2017: 5,304).

The principal activities of the Group are described in Note 4.

The consolidated financial statements for the financial year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Management Board on 13 February 2019. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The consolidated financial statements also comply with the Croatian Accounting Act on consolidated financial statements, which refers to IFRS as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation financial assets at fair value through other comprehensive income (Note 19), as disclosed in the accounting policies hereafter.

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated. During 2018, HT d.d. transferred its investments in Iskon Internet d.d., Combis d.o.o., E-Tours d.o.o., KDS d.o.o. and Optima Telekom d.d. in HT holding d.o.o. These investments were transferred from HT d.d. to HT holding d.o.o. at its net book value. The consolidated financial statements include the financial statements of Croatian Telecom Inc. and HT holding d.o.o. in which HT holds 100.00% shares which comprise together HT Group ("Group").

Company HT holding d.o.o. acts as special purpose vehicle entity which holds following investments:

Entity	Country of Business	Principal Activities	Ownership interest 31 December 2018	Ownership interest 31 December 2017
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%	100%
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%	100%
E-tours d.o.o.	Republic of Croatia	Provision of travel agency services	100%	100%
OT-Optima Telekom d.d. /i/	Republic of Croatia	Provision of internet and data services	17.41%	17.41%
Crnogorski Telekom AD	Republic of Montenegro	Provision of fixed and mobile telephony services, internet and data services	76.53%	76.53%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2.1. Basis of preparation (continued)

Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT and determined a set of measures with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima initially was limited to a period of four years, up to 18 June 2018.

On 14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of temporary management rights of the company OT-Optima Telekom d.d. for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

As of July 2021 control by HT is automatically terminated, without the possibility of extension. One year prior to such date, HT is required to commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well (see Note 3).

Set out below is summarised financial information for subsidiaries with non-controlling interest OT-Optima Telekom d.d. and Crnogorski Telekom AD. The amounts disclosed are before intercompany eliminations including purchase price fair value allocation on consolidation level.

OT-Optima Telekom d.d. Summarised statement of financial position	31 December 2018 HRK million	31 December 2017 HRK million
Current assets	148	154
Current liabilities	355	288
Current net assets	**(207)**	**(134)**
Non-current assets	674	709
Non-current liabilities	311	388
Non-current net assets	**363**	**321**
Net assets	**156**	**187**
Accumulated non-controlling interest	102	129

Summarised statement of comprehensive income	31 December 2018 HRK million	31 December 2017 HRK million
Revenue	539	495
Profit for the period	(19)	(83)
Other comprehensive income		-
Total comprehensive income	**(19)**	**(83)**
Profit allocated to non-controlling interest	(16)	(69)
Dividends paid to non-controlling interest	-	-

Summarised statement of cash flows	31 December 2018 HRK million	31 December 2017 HRK million
Cash flow from operating activities	36	145
Cash flow from investing activities	(53)	(49)
Cash flow from financing activities	5	(56)
Net decrease in cash and cash equivalents	**(12)**	**40**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2018 HRK million	31 December 2017 HRK million
Current assets	293	399
Current liabilities	248	353
Current net assets	**45**	**46**
Non-current assets	1,185	1,028
Non-current liabilities	45	42
Non-current net assets	**1,140**	**986**
Net assets	**1,185**	**1,032**
Accumulated non-controlling interest	242	240

Summarised statement of comprehensive income	31 December 2018 HRK million	31 December 2017 HRK million
Revenue	631	640
Profit for the period	56	40
Other comprehensive income	-	-
Total comprehensive income	**56**	**40**
Profit allocated to non-controlling interest	13	10
Dividends paid to non-controlling interest	-	-

Summarized statement of cash flows	HRK million	HRK million
Cash flow from operating activities	158	285
Cash flow from investing activities	(81)	(213)
Cash flow from financing activities	(67)	(72)
Net decrease in cash and cash equivalents	**10**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2.2. Changes in accounting policies and disclosures

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(a) New and amended standards adopted by the Group

Adoption of IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the International Financial Reporting Standard (IFRS 9) "Financial Instruments". The standard application is mandatory for reporting periods beginning on or after 1 January 2018. The Standard introduces a new way of the classification and measurement of financial instruments and replaces IAS 39.

The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018 by using simplified method. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in 2.4 Summary of accounting policies and 2.3 Significant accounting judgments, estimates and assumptions. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in note 43.

The first and continuous implementation of the Group did not show significant impacts to the consolidated financial statements.

On the day of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39) HRK million	New (IFRS 9) HRK million	IFRS 9 Remeasurement HRK million
Non current					
Bonds	Available for sale	FVOCI	948	945	(3)
Trade and other receivables	Amortised cost	Amortised cost	248	236	(14)
Contract assets	Amortised cost	Amortised cost	-	44	(3)
Bank deposits	Amortised cost	Amortised cost	6	6	-
Current					
Trade and other receivables	Amortised cost	Amortised cost	1,630	1,598	(33)
Contract assets	Amortised cost	Amortised cost	-	173	(10)
Bank deposits	Amortised cost	Amortised cost	197	197	-
Cash and cash equivalents	Amortised cost	Amortised cost	3,152	3,152	-
Total					**(63)**

Adoption of IFRS 15 Revenue from contracts with customers

The Group applied simplified method of transition to IFRS 15. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the consolidated financial statements. The main changes from the adoption of IFRS 15 are explained below:

Standard, in particular, has impact, on following business events (further information provided under note 2.4.):

Multiple element arrangements - one of the most significant changes to revenue recognition is the elimination of contingent cap requirements which linked revenue recognition to cash payments. The primary driver of the contingent cap rules was that Group could not recognize revenue until delivery is complete. In practical terms, if Group provided subsidized handset and will provide mobile service over 24 months (multiple element arrangement), Group could not recognize any portion of service revenue to already delivered subsidized handset, because if Group do not provide the mobile service it will never be entitled to the revenue. Since the business model of subsidizing handsets is built upon delivering the service in the future, new Standard applies that revenue from performance obligations is not contingent at all on the future performance.

The result of this position is that revenue will get recorded earlier under the new Standard compared to the old one.

In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, the transaction price is allocated to the performance obligations in the contract by reference to their relative standalone selling prices. Standalone selling prices of hardware are determined using price list prices. As a result a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue which results in higher revenue from the sale of goods and merchandise and lower revenue from provision of service (mobile communication service) compared to the revenue under IAS 18. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position. The contract asset is amortized over the remaining term of the contract. Contract liabilities are netted off against the contract assets on portfolio level.

Material rights which are granted to customers at contract inception with the option to be exercised at later point of time - the total transaction price of the combined contract is allocated to the individual, separate performance obligations on a relative stand-alone selling price basis. A larger portion of the total remuneration is attributable to the material right (e.g. right to a subsidy on a mobile phone). In the balance sheet, this leads to the recognition of a contract asset, which is amortized over the remaining term of the contract and, compared with the amounts invoiced, reduces the revenue from service obligations.

Expenses for sales commissions paid to indirect partners or own employees (assessed as incremental costs to obtain contracts) are capitalized as Contract costs within Contract asset and amortised over the estimated customer retention period (5 years or more depending on service) in case of contact acquisitions or over contract duration period (usually 24 months) in case of contract prolongations. The amortisation expense with regards to the contract assets is not reported in the Group's income statement under depreciation and amortization, but as other expenses or employee expenses, depending on the sales channel.

One-time payments made in advance by the customer that not fulfil definition of a separate performance obligation but represent a prepayment on future services are deferred and recognized in revenue over the (remaining) term of the contract and presented within contract liability.

Discounts or uneven transaction prices - When discounts on service fees are granted unevenly for specific months of a contract or monthly service fees are charged unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenue is recognized on a straight-lined basis.

IFRS 15 adjustments had major impact on revenues from mobile services. On fixed revenues impacts mainly relate to multiple element arrangements and even service revenue recognition over contract duration period. System solution area was not significantly impacted due to continuity in timing of revenue recognition.

At the date of first-time adoption, total assets and shareholders' equity increased due to the capitalization of contract assets and contract costs for contracts not yet fully performed.

In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount 31 December 2017	IFRS 15 Remeasurement	IFRS 15 Reclassification	IFRS 15 carrying amoun 1 January 2018
	HRK million	HRK million	HRK million	HRK million
Non current receivables	248	26	-	274
Non current contract assets	-	28	-	28
Current contract assets	-	124	-	124
Non current costs to obtain contract	-	55	-	55
Current costs to obtain contract	-	41	-	41
Current contract liabilities	-	-	65	65
Deferred income	89	-	(65)	24
Income tax payable	(27)	(46)	-	(73)
Retained earnings	(1,888)	(223)	-	(2,111)
Non controlling interest	(369)	(5)	-	(374)

The following table shows comparison between financial statements prepared by applying IFRS 15 and IAS11/IAS18:

Statement of financial position

	31 December 2018 IFRS 15	31 December 2018 IAS 11/IAS 18	Difference
ASSETS	HRK million	HRK million	HRK million
Non-current assets			
Intangible assets	2,539	2,539	-
Property, plant and equipment	6,197	6,197	-
Investment property	21	21	-
Investments accounted for using the cost method	382	382	-
Financial assets at fair value through other comprehensive income	926	926	-
Trade and other receivables	392	392	-
Bank deposits	3	3	-
Deferred income tax asset	95	95	-
Contract assets	139	-	139
Total non-current assets	**10,694**	**10,555**	**139**

ASSETS	31 December 2018 IFRS 15 HRK million	31 December 2018 IAS 11/IAS 18 HRK million	Difference HRK million
Current assets			
Inventories	136	136	-
Contract assets	203	-	203
Trade and other receivables	1,548	1,548	-
Prepayments	201	201	-
Bank deposits	112	112	-
Cash and cash equivalents	3,137	3,137	-
Total current assets	**5,337**	**5,134**	**203**
TOTAL ASSETS	**16,031**	**15,689**	**342**

EQUITY AND LIABILITIES	31 December 2018 IFRS 15 HRK million	31 December 2018 IAS 11/IAS 18 HRK million	Difference HRK million
Issued capital and reserves			
Issued share capital	9,823	9,823	-
Legal reserves	491	491	-
Fair value reserves and effects of foreign exchange	(15)	(15)	-
Reserve for treasury shares	71	71	-
Treasury shares	(71)	(71)	-
Retained earnings	2,565	2,249	316
Total issued capital and reserves	**12,864**	**12,548**	**316**
Non-controlling interest	344	338	6
Total issued capital and reserves	**13,208**	**12,886**	**322**
Non current liabilities			
Provisions	59	59	-
Borrowings	248	248	-
Employee benefit obligations	11	11	-
Deferred income	15	15	-
Other liabilities	118	118	-
Finance lease	3	3	-
Deferred tax liability	44	44	-
Total non-current liabilities	**498**	**498**	**-**

EQUITY AND LIABILITIES	31 December 2018 IFRS 15 HRK million	31 December 2018 IAS 11/IAS 18 HRK million	Difference HRK million
Current liabilities			
Trade payables and other liabilities	2,025	2,025	-
Contract liabilities	52	-	52
Accruals	76	76	-
Finance lease	2	2	-
Income tax payable	75	55	20
Deferred income	39	91	(52)
Borrowings	56	56	-
Total current liabilities	**2,325**	**2,305**	**20**
Total liabilities	**2,823**	**2,803**	**20**
TOTAL EQUITY AND LIABILITIES	**16,031**	**15,689**	**342**

Statement of comprehensive income

	31 December 2018 IFRS 15 HRK million	31 December 2018 IAS 11/IAS 18 HRK million	Difference HRK million
Revenue	7,783	7,715	68
Other operating income	167	167	-
Merchandise, material and energy expenses	(1,650)	(1,650)	-
Service expenses	(811)	(812)	1
Employee benefits expenses	(1,087)	(1,097)	10
Work performed by the Group and capitalised	128	128	-
Depreciation, amortization and impairment of non-current assets	(1,730)	(1,730)	-
Net impairment losses on trade receivables and contract assets	(76)	(71)	(5)
Other expenses	(1,323)	(1,354)	31
Operating profit	**1,401**	**1,296**	**105**
Finance income	28	28	-
Finance costs	(139)	(139)	-
Finance (costs) – net	(111)	(111)	-
Share of profit of investments accounted for using the equity method	3	3	-
Profit before income tax	**1,293**	**1,188**	**105**

	31 December 2018 IFRS 15	31 December 2018 IAS 11/IAS 18	Difference
	HRK million	HRK million	HRK million
Income tax expense	(234)	(218)	(16)
Profit for the year	**1,059**	**970**	**89**
Items that may be subsequently reclassified to comprehensive income			
Change in value of debt instruments at fair value	(20)	(20)	-
Other comprehensive income for the year, net of tax	**(20)**	**(20)**	**-**
Total comprehensive income for the year, net of tax	**1,039**	**950**	**89**
Profit attributable to:			
Equity holders of the Group	1,062	974	88
Non-controlling interest	(3)	(4)	1
	1,059	970	89
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Group	1,045	957	88
Non-controlling interest	(6)	(7)	1
	1,039	950	89

The impact of introduction of IFRS 9 and IFRS 15 on the Group's retained earnings as of 31 December 2017 and 1 January 2018 is as follows:

	HRK millions
Retained earnings 31 December 2017	**1,888**
Recognition of contract assets	152
Unwinding of discounted non current receivables	26
Recognition of costs to obtain contract	96
Income tax on IFRS 15 effect	(46)
Amount that belongs to non controlling interest	(5)
Total IFRS 15 effect	223
IFRS 9 effect	(63)
Income tax on IFRS 9 effect	7
Amount that belongs to non controlling interest	8
Total IFRS 9 effect	(48)
Retained earnings 1 January 2018	2,063

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. None of these standards and interpretations are expected to have significant effect on the Group's financial statements, except for the following standards:

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)
In January 2016, the IASB issued IFRS 16 "Leases." The standard will be effective for the first time for financial years beginning on or after 1 January 2019. IFRS 16 has a material effect on Group 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 Group 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.

Group will not apply the new lease standard retrospectively in full, but will make 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 will be discounted using the relevant incremental borrowing rate and recognized as a lease liability. The right-of-use assets will be 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, Group will apply 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 that are reclassified to right-of-use asset and whose liability will become lease liability as at 1 January 2019. Carrying amount of such asset amounts HRK 133 million.

On the basis of management's current estimate, Group expects the transition to the new standard to have the following material effects as of 1 January 2019: increase in total assets/total shareholders' equity and liabilities as a consequence of the recognition of right-of-use assets in the amount of HRK 470 million to HRK 530 million and lease liabilities in the amount of HRK 450 million to HRK 500 million.

Significant options and expedients will be exercised as follows:

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

The recognition, measurement, and disclosure requirements of IFRS 16 will also apply to short-term leases and leases based on low-value assets. The Group will use practical expedient not to capitalise leases shorter than 3 months.

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

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

Please refer to note 33 a) for operating lease commitments.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, during the reporting period or at the reporting date respectively. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 28 and 34. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 15, 16 and 17.

Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in the Group's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Group's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2018	+10	115
	-10	(126)
Year ended 31 December 2017	+10	120
	-10	(129)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the business and residential cash-generating units to materially exceed their recoverable amount. In case of cash-generating unit Optima Telekom and Crnogorski Telekom, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge of up to HRK 57 million.

Content contract liability

As explained in intangible asset accounting policy (Note 2.4.) content costs are capitalised with related liability recognised. The determination of liability for variable content contracts requires judgement as it is based on estimated number of future customers and use of a discount rate. Management believes that no reasonably possible change in any of the key assumptions would cause a significant change in content contract liability.

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brand has an indefinite life, the Group considered the fact that the brand represents a whole business segment and relates to an operator with proven and sustained demand for its products and services in a well-established market. The brand has historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brand name indefinitely and the absence of any competitive factors that could limit the life of the brand name. The Group expects continued economic benefits from the acquired brand in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 2% and change in royalty relief rate by 0.1%) does not lead to impairment.

Expected credit loss (ECL) measurement

With application of IFRS 9, Model of Expected Loss (ECL) is introduced. The measurement of expected loss is based on reasonable and supporting information that is available without additional expenses and effort and which include information on past events, current and foreseeable future conditions and circumstances.

When estimating the expected credit loss, historical probabilities of non-collection are usually used, complemented with future parameters relevant to the credit risk.

Macroeconomic data are linked to historical customer behavior, which is corrected under the following conditions:

- Unemployment rate - If changes in unemployment rate are more than 2% compared to the average of the last two years
- GDP - If GDP change rates are higher than 1% compared to the average of the last four years
- Average interest rates - If changes in average interest rates are greater than 2% compared to the average of the last four years

The general approach of expected credit losses applies to loans, debt instruments measured at amortized cost and debt instruments measured at fair value through other comprehensive income. A simplified approach to expected credit losses is applied to customer and contract assets, which results in earlier recognition of impairment charges. Applying simplified approach to financial assets and by reducing the value of the contract assets that is recognized as of 1 January 2018 in accordance with IFRS 9 (International Financial Reporting Standard 9), the impairment was slightly increased.

Besides above stated assets to which a simplified approach applies, subsequent measurement of all other financial assets applies a general approach of expected credit loss consisting of three stages: Bucket 1, Bucket 2 and Bucket 3. The degree of application depends on the increase in credit risk by financial instrument after initial recognition, i.e. on the credit quality of the financial instrument:

Buckets for measurement of credit risk	**Period of measurement of ECL**	**Increase of credit risk**
Bucket 1 Performing	12-month expected credit losses	None or not significant
Bucket 2 Underperforming	Lifetime expected credit losses	Significant
Bucket 3 Non-performing	Lifetime expected credit losses	Significant + There is an evidence that financial asset is impaired at the reporting date

A credit risk is the risk that a counterparty of a financial instrument creates financial losses for the other counterparty by not fulfilling the contractual obligation. Since the standard does not prescribe a definition of "significant increase in credit risk" an entity decides how to define it in the context of its specific types of instruments taking into account the availability of information and own historic data. Basis for assessing an increase in credit risk is either the probability of default or an analysis of overdue receivables. Revision of applied simplified approach credit risk percentages is done twice a year to measure credit risk and historical data in order to quantify expected credit loss. Additionally, financial analyst analyses macroeconomic and external data – inflation rates, consumer credit interest rates, GDP per capita, unemployment and employment rates and consumer price index change. These data are put in correlation with historical HT customer payment behaviour in order to see possible change of credit risk percentages applied.

The standard contains the rebuttable assumption that a "default event" has occurred when the financial asset is more than 90 days overdue. The assumption may also be supported by the following indicators:

- Counterparty repeatedly fails to meet payment obligations and the service is blocked (contract not yet terminated).
- Counterparty is over the credit limit with unpaid invoices and fails to pay despite repeated demands.
- Country embargo/countries are in recession or payment restrictions by the relevant state bank.

In making these assumptions, estimates based on historical data and existing market conditions are used.

Simplified approach of expected credit loss measurement i.e measurement on collective basis is applied for trade receivables, due to large number of analytical data (customers) and homogeneous base of receivables. Trade receivables are divided into portfolios based on type of customer and tracked according to aging structure. Portfolios are created based on similarities of the customer behavior as to historical data and future expectations. Portfolios are for example Mobile Residential Customers, Fixed Residential Customers, Mobile Business Customers, Fixed Business Customers. Aging clusters for example are Undue, Overdue 0-29 days, Overdue 30-89 days and so further. Aging clusters are created based on the steps in collection process.

Upon first IFRS 9 implementation we expect all receivables to be fully impaired 3 years after due date. If not collected earlier, all telco receivables are claimed at Court within one year from due date. Receivables cannot be written-off (removed from balance sheet) until HT loses the case in Court. Court cases can last for more than 3 years. Recovery after 3 years is rather small, and this is taken into account when calculating the percentages in provision matrix.

Analysis of claimed and impaired receivables showed significant collection in first year from due date and subsequent two years through claims. Historically these trends were stable and there are no known facts nor expected indication that the trend will change in future periods.

In 2017, the impairment of trade receivables was assessed based on the incurred loss model and as of IFRS 9 implementation, credit risk for trade receivables was recognized through ECL provision matrix. No changes in the initial estimation techniques or significant assumptions were made during the reporting period.

During the reporting period there were no significant changes in the gross carrying amount of financial instruments during, so there were no significant impacts on the loss allowance during the reporting period.

Revenue recognition

Contrary to IFRS 15 determination on contract level more judgements (statistics based on historical information and experience) had to be applied in portfolio approach in order to reflect contracts behaviour from contract inception over the contract duration period. The most relevant judgements include:

- value adjustment of contract asset due to early contract termination in range of 3%-10% and penalty fee collection in range of 55%-75%, depending on portfolio / customer group
- value adjustment of contract asset due to non payment (relation with IFRS 9) in range of 0.1%-1.5%, depending on portfolio / customer group
- handset budget usage behaviour linear within next 12 months after contract inception

2.4. Summary of accounting policies

a) Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing financial assets at fair value through other comprehensive income, share of profit and loss from associate and joint venture, interest expense on borrowings, gains and losses on the sale of financial assets at fair value through other comprehensive income and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquire's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquire over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings.

c) Investment in associate

In the Group's financial statements, investment in an associated company (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group is accounted for using the equity method less any impairment in value. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. An assessment of investment in associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

d) Investment in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognized at the date on which the Group ceases to have joint control over the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

e) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Group, and that the cost of the asset can be measured reliably.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Amortization of the telecommunication licence commences when the licence is acquired and ready for use, with the amortization period being the term of the licence.

The Group recognizes costs of content as an intangible asset at the inception of the related contract. The Group determined that the following conditions have to be met for capitalization of content provider contracts: contract duration must be longer than one year, cost must be determined or determinable, contracted rights must be continuous and costs under the contract are unavoidable. Assets recognized under these contracts will be amortized over the contract period. Content contracts which do not meet the criteria for capitalization are expensed and presented in 'other expenses' in the statement of comprehensive income.

The Group capitalizes rights of servitude and rights of way related to the Electronic Communication Infrastructure (ECI) as intangible assets according to criteria for acquired rights at the moment of signing the contract for rights of servitude or receiving certificate for right of way. The Group presents the acquired rights as intangible assets and financial liability as the acquired rights. Until 2017, related costs were capitalized for the period of 3 years. The cost is the amount of one-off fee paid at entering into the arrangement and any other fees which are considered to be unavoidable. The non-cancellable term of the contract is three years, as it is assumed that this payment is unavoidable due to the fact that there will be no significant changes in technology and topology in that time period, and the Group cannot change its routes or find other locations for ECI in a shorter time period. Accordingly, it is Group's estimate that consistent period of 3 years is the period of liability and useful life of ECI assets from each balance sheet date.

Taking into account many changes in legal environment that would cause a lot of contract modifications in the near future, the Group shortened the lease term to 1 year in 2018. Management of the Group considers that the lessor can terminate the lease if the Group does not have the user permit and that the fee is variable to certain extent and that it is optimal to have a lease term of one year for easements with indefinite term. This means that the judgment of the Group´s management is that it is reasonably certain that the Group will have the access to the land provided by the easement for one year, as this is the year for which the fee is not variable and will be paid. This change in estimate has impact on decrease of financial liability and intangible assets in amount of HRK 46 millions.

Unwinding of accrued interest is recognized as an interest expense and is presented within other financial income/expense.

Customer relationships and long-term customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years

Radio frequency spectrum in 800 MHz frequency band	11-12 years
Right of servitude for Distributive Telecommunication Infrastructure (DTI)	1 year
Software, content and other assets	2-5 years or as per contract duration
Customer relationship	6.5–10.5 years
Brand	Indefinite
Long-term customer contracts	1.5-7 years

Assets under construction are not amortised.

Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill and intangible assets with indefinite useful lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment for goodwill is determined by assessing the recoverable amount, based on fair value less cost of disposal, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

f) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

Subsequent expenditure on an asset that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

Buildings	10-50 years
Telecom plant and machinery	
Cables	8-18 years
Cable ducts and tubes	30 years
Other	2-15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	4-15 years

Land and assets under construction are not depreciated.

Useful lives, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Construction-in-progress represents plant and properties under construction and is stated at cost.

Depreciation of an asset begins when it is available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expenses' in the statement of comprehensive income.

g) Impairment of assets/Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.

Phone sets are often sold for less than cost in connection with promotions to obtain new and/or retain existing subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as inventory impairment immediately.

i) Investment property

Investment property, principally comprising business premises and land, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2017: 10 to 50 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

j) Financial assets

All assets are classified and measured as described below:

Classification and measurement	Classification / measurement
Assets	
Current assets	
Cash and cash equivalents (deposits, commercial papers)	Hold to collect / Amortized cost
Trade and other receivables	Hold to collect / Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost
Equity instruments	Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)
Non-current assets	
Trade and other receivables	Hold to collect Amortized cost
Other financial assets	
Given loans and other receivables	Hold to collect Amortized cost
Equity instruments	Hold to collect and sell Fair value through Other Comprehensive Income without recycling to Profit and Loss (FVOCI)

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Debt instruments

For the measurement of debt instruments, it is important which business model applies to each of them, and whether they have the characteristics of an ordinary loan, i.e. whether their cash flows consist solely of interest and principal. If they have these characteristics, and if they are not sold according to the business model but are held to maturity, they must be measured at amortized cost. If the business model aims to sell and partially hold such instruments, they are to be measured at fair value through other comprehensive income with subsequent reclassification to the income statement. In all other cases, financial assets are to be measured at fair value through profit or loss.

Receivables which are sold to Collecting Agency as way of collection are initially considered to be in the 'held to collect' business model and are therefore measured at amortized cost since HT initially has the credit risk and the SPPI test is satisfied.

Equity instruments

Held equity instruments include strategic investments. HT has exercised the option of valuing these in the Other comprehensive income without subsequent reclassification. The reason for this is that strategic investments do not focus on short-term profit maximization. Acquisition and sale of strategic investments are based on business policy considerations. Dividends are recognized directly in profit or loss, in case that they do not constitute a capital repayment.

Collateralized financial instruments
The only collateralized financial asset relates to reverse REPO affairs which is disclosed in note 36.

k) Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the statement of comprehensive income within financial income or financial expense, respectively.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
b. income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
c. all resulting exchange differences are recognized in statement of other comprehensive income.

l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

m) Taxation

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the balance sheet method.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Generally the Group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets are recognized to the extent that it is probable that

future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Current and deferred taxes are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

n) Employee benefit obligations

The Group provides other long-term employee benefits (Note 27). These benefits include retirement payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized in the statement of comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognized when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

The Group provides death in service short term benefits which are recognized as an expense of the period in which it incurred.

o) Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities.

A five-step model applied to recognize revenue from contracts with customers is:

Step 1: Identify the contract(s) with a customer

Step2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized for each distinct performance obligation in the contract in the amount of transaction price. Transaction price is the amount of consideration in a contract to which Group expects to be entitled in exchange for transferring promised goods or services to a customer.

For contracts that contain more than one performance obligation (multiple element arrangements), Group allocates the transaction price to those performance obligations on a relative stand-alone selling price basis. The stand-alone selling price (SSP) is the price at which Company would sell a promised good or service separately to a customer.

Revenue is recognized when performance obligations are satisfied by transferring control of a promised good or service to a customer. Control of good (e.g. sale of equipment) is transferred when goods are delivered to customer, the customer has full discretion over goods and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when goods have been shipped to the specific location, and the risks of obsolescence and loss have been transferred to customer. Control of good is usually transferred at point in time.

Control of services (e.g. sales of telecommunication services, maintenance services, sale of licences, etc) transfers over time or at a point in time, which affects when revenue is recorded. Revenue from providing services is recognized in the accounting period in which the services are rendered. If service realization extend to more than one accounting period both, input method (based on cost incurred) and output method (based on units/work delivered) are used to measure progress towards completion.

Output method is used in mass market services (e.g. voice and data services provided on a monthly basis to customers) as well as in system solutions (e.g. installation of equipment, when time period between start of work and delivery of service is not too long and / or where work completed is regularly confirmed by both parties). Input method is mainly used in complex systems solution (e.g. in case of development of customer tailored maid solution which lasts longer period of time), where revenue is recognized monthly based on cost incurred in order to reflect progress towards completion in periods where mutual confirmations are still not due.

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2018 amounts to HRK 209 million. The Group expects to recognize this amount to revenue in next 30 months period. Group uses practical expedient not to disclose the outstanding transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) when the revenue is recognised overtime in line with billed revenue. In determining the transaction price, an Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. The Group makes use of the option not to consider a significant financing component if the maximum period between delivery of a good or provision of a service and payment by the customer is one year or less. As well under the Group's policy, it is assumed that if the amount of the financing component exceeds 5% of a total contract's transaction price, this will indicate that such financing component will be deemed significant. By contrast, if the amount is 5% or lower, an entity may conclude that the financing component will not be considered significant. Based on these criteria the Group did not identify significant financing component in contracts with customers.

The Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, the Standard may be applied to a portfolio of contracts, if:

- the contracts aggregated to a portfolio possess similar characteristics, and
- applying the Standard to the portfolio does not result in a materially different result compared to accounting of single contracts.

In the Group IFRS 15 revenue is applied to portfolios of contracts as well as to single contracts. The Standard is applied to portfolios of contracts for mass market products, while for special solutions it is applied on individual contracts level. Portfolios are defined within each relevant business area and are set up based on common adjustment requirements for the individual contracts.

p) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, corporate commercial papers and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised costs because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. .

q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Mandatory convertible loan (MCL) is classified as equity and it is recognized at its nominal value which approximates its fair value.

r) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as financial expense.

Provisions for termination benefits are recognized when the Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which is without realistic possibility of withdrawal. Provisions for termination benefits are computed based on amounts paid or expected to be paid in redundancy programs.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as prepayment.

A number of sites and other assets are utilised which are expected to have costs associated with de-commissioning. Provision is recognized for associated cash outflows which are substantially expected to occur at the dates of exit of the assets to which they relate, which are long-term in nature, primarily in periods up to 20 years from when the asset is brought into use.

s) Contingencies

Contingent assets are not recognized in the financial statements. They are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

t) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 40. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability for cash-settled and equity-settled transactions are recognised in equity. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

u) Events after reporting period

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

v) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

w) Dividend distribution

Dividend distributions to the Group's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

x) Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares.

y) Contributed equity

Ordinary shares are classified as equity. Shares held by the Group are disclosed as treasury shares and deducted from contributed equity.

3. Business combinations

Crnogorski Telekom AD

In January 2017, Group signed a Sale and Purchase agreement to acquire majority shareholding in Crnogorski Telekom AD Podgorica (CT) from Magyar Telekom NYRT Hungary. The transaction was executed through purchase of a SPV entity (M-Tele d.o.o., in 2018 renamed in HT holding d.o.o.) which holds 76.53% shares of Crnogorski Telekom AD. Since the entities involved in this transaction are all part of the DT Group, the Group records all assets acquired, liabilities assumed and any non-controlling interest in the acquisition using the predecessor accounting method. The fair value of consideration transferred in this transaction was HRK 924 million.

Financial results for 2017 of Crnogorski Telekom are consolidated in the Group for entire year.

The predecessor carrying values of the assets and liabilities of Crnogorski Telekom as at the date of acquisition were:

	Value recognised at acquisition HRK millions
Assets	
Intangible assets	380
Goodwill	156
Property, plant and equipment	590
Non-current assets	68
Inventories	10
Trade receivables	232
Prepaid expenses and other current assets	29
Cash and cash equivalents	58
	1,523
Liabilities	
Long-term liabilities	37
Trade payables	239
Other liabilities and accrued expenses	104
	380
Net assets	**1,143**
Non-controlling interest	(231)
Difference recognised in equity	12
Purchase consideration transferred	924
Cash and cash equivalents acquired	(58)
Payment for acquisition of Crnogorski Telekom, net of cash acquired	**866**

OT-Optima Telekom d.d.

In 2014, the Group acquired voting shares in OT- Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with a value of HRK 52 million were acquired directly through court decision by converting receivables into equity share as of 18 June 2014. An additional interest was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million, as of 9 July 2014, hereby was converted into Optima equity pursuant to Management Board decision as of 23 July 2014 and approval of the Supervisory Board. These two transactions are treated as a single transaction in these consolidated financial statements.

The Group's total share in Optima amounts to 17.41% as of 31 December 2018 (31 December 2017: 17.41%). Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for a participant in concentration with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima is limited to a period of four years starting 18 June 2014.

On 14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of temporary management rights of the company OT-Optima Telekom d.d. for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

On the same date, the Croatian Competition Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and OT-Optima Telekom d.d.

As of July 2021 control by HT is automatically terminated, without the possibility of extension. One year prior to such date, HT is required to commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

The purchase consideration for H1 TELEKOM d.d. was a share issuance of Optima Telekom d.d.. The fair value of these shares was based on the HRK 7.31 share price on 30 June 2017, which amounted to HRK 54 millions.

The fair value of the identifiable assets and liabilities of H1 TELEKOM d.d. as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	101
Property, plant and equipment	61
Trade receivables	23
Prepaid expenses and other current assets	1
Cash and cash equivalents	1
	187
Liabilities	
Long-term borrowings	33
Issued bonds	41
Long-term payables	38
Short-term borrowings	12
Short-term payables	78
Other liabilities and accrued expenses	19
	221
Total identifiable net assets at fair value	(34)
Goodwill arising on acquisition	**88**

Intangible assets acquired consist of customer relationships and brand.

The goodwill arising on acquisition is attributable to economies of scale which are expected to be realised mainly through cost reductions synergies within Optima.

After the date of acquisition and subsequent consolidation of H1 into the financial statements of the Group for 2017, H1 has contributed HRK 65 million of revenues and HRK 2 million of loss to the Group.

If the acquisition had taken place at the beginning of the year, Group consolidated revenue for 2017 would have been HRK 7,806 million, and net profit of the Group would have been HRK 860 million for the year.

4. Segment information

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business, Network and Support Function, Optima Telekom and Crnogorski Telekom as the Group's risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing mobile, fixed line telecommunications, electricity and TV distribution and services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications, electricity and systems integration services to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business in both fixed and mobile services.

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

The Optima Telekom segment includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

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

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin or segment result (as calculated in the table below).

The Group's geographical disclosures are based on the geographical location of its customers.

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed. Fully owned subsidiaries Iskon Internet, Combis, KDS, E-tours (that are owned through HT holding d.o.o.) are consolidated within the respective operating segments to which they relate.

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

Year ended 31 December 2017	Residential HRK million	Business HRK million	Network and Support functions HRK million	Optima Telekom consolidated HRK million	Crnogorski Telekom consolidated HRK million	Total HRK million
Net revenue	3,754	2,883	-	483	636	7,756
Mobile revenue	1,953	1,035	-	-	317	3,305
Fixed revenue	1,764	1,038	-	483	284	3,569
System solutions revenue	-	696	-	-	35	731
Miscellaneous revenue	37	114	-	-	-	151
Usage related direct costs	(202)	(228)	-	(84)	(54)	(568)
Income and losses on accounts receivable	(28)	(61)	-	(3)	(9)	(101)
Contribution margin I	3,524	2,594	-	396	573	7,087
Non-usage related direct costs	(626)	(929)	-	(11)	(110)	(1,676)
Segment result (contribution margin II)	2,898	1,665	-	385	463	5,411
Other operating income	-	-	166	4	4	174
Other operating expenses	(363)	(407)	(1,458)	(119)	(251)	(2,598)
Depreciation, amortization and impairment of non-current assets	-	-	(1,531)	(177)	(161)	(1,869)
Operating profit	**2,535**	**1,258**	**(2,823)**	**93**	**55**	**1,118**

Year ended 31 December 2018

Net revenue	3,720	2,912	-	526	625	7,783
Mobile revenue	2,031	1,094	-	-	325	3,450
Fixed revenue	1,651	977	-	526	261	3,415
System solutions revenue	-	762	-	-	39	801
Miscellaneous revenue	38	79	-	-	-	117
Usage related direct costs	(240)	(230)	-	(86)	(45)	(601)
Income and losses on accounts receivable	(43)	(13)	-	(4)	(11)	(71)
Contribution margin I	3,437	2,669	-	436	569	7,111
Non-usage related direct costs	(621)	(945)	-	(19)	(116)	(1,701)
Segment result (contribution margin II)	2,816	1,724	-	417	453	5,410
Other operating income	-	-	152	9	6	167
Other operating expenses	(386)	(364)	(1,359)	(113)	(224)	(2,446)
Depreciation, amortization and impairment of non-current assets	-	-	(1,443)	(119)	(168)	(1,730)
Operating profit	**2,430**	**1,360**	**(2,650)**	**194**	**67**	**1,401**

Revenue by geographical area	2018 HRK million	2017 HRK million
Republic of Croatia	6,533	6,606
Rest of the world	1,250	1,150
	7,783	**7,756**

The majority of the Group's assets are located in Croatia. None of the Group's external customers represent a significant source of revenue.

Revenue by category	2018 HRK million	2017 HRK million
Revenue from rendering of services	6,416	6,784
Revenue from sale of goods and merchandise	1,367	972
	7,783	**7,756**

Analysis of revenue by category under revenue recognition guidance effective from 1 January 2018.

5. Other operating income

	2018 HRK million	2017 HRK million
Gain from sale of non-current assets	17	72
Rental income	34	30
Income from penalties and damage compensations	13	11
Income from assets received free of charge	7	11
Liabilities write off	19	2
Sale of waste	2	2
Sale of energy business	30	-
Other income	45	46
	167	**174**

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

Upon the obtaining of all necessary regulatory approvals and following the payout of the purchase price in amount of HRK 30 millions, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018.

6. Merchandise, material and energy expenses

	2018 HRK million	2017 HRK million
Cost of goods sold	1,371	1,282
Energy costs	130	116
Energy sales costs	98	169
Cost of raw material and supplies	26	32
Cost of services sold	8	-
Arrangement sales cost	17	13
	1,650	**1,612**

7. Service expenses

	2018 HRK million	2017 HRK million
Domestic interconnection	231	253
International interconnection	370	316
Other services	210	206
	811	**775**

8. Depreciation, amortization and impairment of non-current assets

	2018 HRK million	2017 HRK million
Depreciation	883	1,036
Amortization	823	734
	1,706	1,770
Impairment loss	24	99
	1,730	**1,869**

Notes 15, 16 and 17 disclose further details on amortization and depreciation expense and impairment loss.

9. Employee benefits expenses

	2018 HRK million	2017 HRK million
Gross salaries without contribution	683	649
Taxes, contribution and other payroll costs	189	188
Contribution from gross salaries	165	163
Redundancy expenses (Note 28)	48	72
Amortisation of capitalised cost to obtain contract	1	-
Long-term employee benefits	1	1
	1,087	**1,073**

10. Other expenses

	2018 HRK million	2017 HRK million
Licence cost	196	326
Maintenance services	310	324
Rent (Note 33)	175	162
Contract workers	107	132
Advertising	124	130
Selling commissions	63	127
Amortisation of capitalised cost to obtain contract	46	-
Non-income taxes and contribution	47	57
Call centre and customer care support	43	40
Postal expenses	37	38
Provisions for charges and risks	13	33
Education and consulting	31	31
Expenses related to customers acquisition	8	14
Daily allowances and other costs of business trips	16	14
Expenses from penalties and damage compensations	7	14
Discounts granted to customers	13	11
Insurance	13	11
Write down of inventories	7	5
Loss on disposal of fixed assets	1	2
Other operating charges	66	69
	1,323	**1,540**

11. Finance income

	2018 HRK million	2017 HRK million
Interest income	10	8
Foreign exchange gains	18	29
Income from sale of bonds	-	1
	28	**38**

12. Finance cost

	2018 HRK million	2017 HRK million
Interest expense	114	122
Foreign exchange loss	22	52
Other	3	-
	139	**174**

13. Income tax expense

a) Tax on profit	2018 HRK million	2017 HRK million
Porez tekuće godine	242	217
Odgođeni porezni rashod	(8)	(37)
	234	**180**

b) Reconciliation of the taxation charge to the income tax rate	2018 HRK million	2017 HRK million
Profit before tax	1,293	984
Income tax at 18% (domestic rate)	233	177
Tax effect of:		
Expenses not deductible for tax purposes	9	8
Tax effects of tax loss carry forward for which no deferred income tax asset was recognised	-	(1)
Effect of different tax rates	(8)	(6)
Tax paid abroad	1	-
Other	(1)	2
	234	**180**
Effective tax rate	18.10%	18.29%

The Group utilized a tax incentive in previous periods in respect of reinvesting profit and increasing the share capital in the same amount. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard.

As at 1 January 2018, the Group achieved an increase in opening retained earnings from the application of new accounting standards in the amount of HRK 172 million. The tax effect of this event is HRK 39 million, which will be included in the tax returns of the companies, which reduced the starting effect of HRK 211 million.

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2018 HRK million	(charged) / credited in 2018 HRK million	31 December 2017 HRK million	(charged) / credited in 2017 HRK million	Acquisition of Crnogorski Telekom HRK million	31 December 2016 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	15	7	8	(3)	-	11
Property, plant and equipment write down	43	(2)	45	13	-	32
Accrued interest on legal cases	3	(2)	5	4	-	1
Losses	11	(3)	14	14	-	-
Other	23	5	18	3	-	15
Deferred tax asset	**95**	**5**	**90**	**31**	**-**	**59**
Statement of comprehensive income						
Purchase price allocation adjustments	23	(4)	27	(6)	-	33
Upward revaluation of fixed assets	18	1	17	-	17	-
	41	**(3)**	**44**	**(6)**	**17**	**33**
Other comprehensive income						
Actuarial gains and losses	3	-	3	-	-	3
Deferred tax liability	**44**	**(3)**	**47**	**(6)**	**17**	**36**

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 40 million.

Deferred tax asset arises on the property, plant and equipment impairment, on provision of impairment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2020 for the 2018 tax liability.

The Group recognised deferred income tax assets of HRK 11 million in respect of losses amounting to HRK 59 million that can be carried forward against future taxable income. These losses relate to subsidiaries of the Group.

In 2015, the tax authorities started conducting a supervision review of HT's corporate tax and VAT returns for the year ended 2014. Currently issuing of the second instance resolution is expected.

Losses expires in:	HRK million
2019	11
2021	25
2022	23
	59

14. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018	2017
Profit for the year attributable to ordinary equity holders of the Company u milijunima kuna	1,062	863
Weighted average number of ordinary shares for basic earnings per share	81,427,562	81,833,631
	HRK 13.03	**HRK 10.55**

15. Intangible assets

	Licences HRK million	Software HRK million	Goodwill HRK million	Other assets HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2018						
Cost	497	3,361	252	1,300	129	5,539
Accumulated amortization and impairment losses	(204)	(2,879)	-	(718)	-	(3,801)
Net book value	**293**	**482**	**252**	**582**	**129**	**1,738**
Year ended 31 December 2017						
Opening net book value	293	482	252	582	129	1,738
Acquisition of CT (Note 3)	183	105	156	19	73	536
Acquisition of H1 (Note 3)	-	1	88	100	-	189
Additions	14	221		476	151	862
Transfers	62	102	-	(40)	(112)	12
Amortization charge	(82)	(277)	-	(375)	-	(734)
Impairment loss	-	(1)	(40)	(23)	-	(64)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**
As at 31 December 2017						
Cost	757	3,775	496	1,849	241	**7,118**
Accumulated amortization and impairment losses	(287)	(3,142)	(40)	(1,110)	-	(4,579)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**
Year ended 31 December 2018						
Opening net book value	470	633	456	739	241	2,539
Additions	27	294	-	367	184	872
Change in estimate	-	-	-	(46)	-	(46)
Transfers	20	161	-	27	(189)	19
Disposal	-	-	-	(14)	-	(14)
Amortization charge	(67)	(366)	-	(390)	-	(823)
Foreign exchange difference	1	(9)	-	-	-	(8)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**
As at 31 December 2018						
Cost	806	4,217	496	2,144	236	7,899
Accumulated amortization and impairment losses	(355)	(3,504)	(40)	(1,461)	-	(5,360)
Net book value	**451**	**713**	**456**	**683**	**236**	**2,539**

The intangible assets of the Group as at 31 December 2018 include five licences for use of the radio frequency spectrum (Notes 2.4. e) and 39 b)).

Other assets mainly consist of brand, customer relationships, capitalised content contracts (HRK 286 million) and capitalised cost of electronic communication infrastructure.

Assets under construction primarily relate to software and the various licences for the use of software.

Intangible assets with indefinite useful life consist of brand name related to Optima Telekom d.d. Carrying value as at 31 December 2018 is HRK 61 million (31 December 2017: HRK 61 million).

Additions of intangible assets

Major additions in 2018 relate to capitalised content costs in the amount of HRK 267 million, application, system and network technology software and user licences in the amount of HRK 294 million and capitalised cost of electronic communication infrastructure in amount of HRK 97 million.

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of capitalized ECI costs in gross amount of HRK 53 million and software HRK 15 million (2017: HRK 20 million).

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2018 HRK million	31 December 2017 HRK million
Residential	55	55
Business	107	107
Optima Telekom consolidated	138	138
Crnogorski Telekom	156	156
	456	**456**

The key assumptions used for fair value less cost of disposal calculations are as follows:

	Optima Telekom consolidated		Crnogorski Telekom	Residential		Business	
	31 December 2018	31 December 2017	31 December 2018	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	8.99%	9.53%	9.05%	7.81%	8.96%	7.81%	8.96%

The recoverable amount of a CGU is determined based on fair value less cost of disposal calculations. The key assumptions reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. Forecast period is 10 years.

Impairment testing of brand

Optima has registered the name and trade mark "Optima" as intellectual property rights. Brand is an indefinitive – lived asset, and it is tested for impairment annually using the Relief from Royalty method. The brand value represents the net present value of the projected brand earnings, discounted using the pre-tax discount rate on projected cash flows. The net present value calculation comprises both the explicit five and a half year projections and the terminal period, as this reflects the brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

16. Property, plant and equipment

	Land and buildings HRK million	Telecom plant and machinery HRK million	Tools, vehicles, IT and office equipment HRK million	Assets under construction HRK million	Total HRK million
As at 1 January 2017					
Cost	2,274	12,967	978	425	16,644
Accumulated depreciation and impairment losses	(1,387)	(8,858)	(823)	-	(11,068)
Net book value	**887**	**4,109**	**155**	**425**	**5,576**
Year ended 31 December 2017					
Opening net book value	887	4,109	155	425	5,576
Acquisition of CT (Note3)	153	384	6	47	590
Acquisition of H1 (Note 3)	1	56	-	4	61
Additions	28	581	44	363	1,016
Transfers	35	290	12	(349)	(12)
Disposals	(19)	(1)	-	-	(20)
Depreciation charge	(81)	(886)	(68)	-	(1,035)
Impairment loss	-	(36)	-	-	(36)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**
As at 31 December 2017					
Cost	2,472	14,090	940	490	17,992
Accumulated depreciation and impairment losses	(1,468)	(9,593)	(791)	-	(11,852)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**
Year ended 31 December 2018					
Opening net book value	1,004	4,497	149	490	6,140
Additions	14	493	28	463	998
Transfers	20	324	16	(379)	(19)
Disposals	(20)	(14)	(1)	-	(35)
Depreciation charge	(78)	(742)	(62)	-	(882)
Impairment loss	-	(9)	-	-	(9)
Foreign exchange difference	(1)	3	2	-	4
Net book value	**939**	**4,552**	**132**	**574**	**6,197**
As at 31 December 2018					
Cost	2,494	14,520	959	574	18,547
Accumulated depreciation and impairment losses	(1,555)	(9,968)	(827)	-	(12,350)
Net book value	**939**	**4,552**	**132**	**574**	**6,197**

Included within assets under construction of the Group are major spare parts of HRK 5 million (31 December 2017: HRK 5 million).

Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title.

The Group does not have any material property, plant and equipment held for disposal.

Additions of property, plant and equipment

Major additions in 2018 relate to infrastructure and network equipment.

Impairment loss

In 2018, the Group recognized an impairment loss on property, plant and equipment of HRK 9 million (2017: HRK 36 million) mostly relating to change of equipment due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs of disposal, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 478 million (2017: HRK 405 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the Law on Separation of Croatian Post and Telecommunication and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) which may be relevant to the issue of proving the ownership towards third parties. Some claims of ownership over these assets by the local authorities (the City of Zagreb) may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for such ducts. However, HT management believes the likelihood of occurrence of such circumstances is remote. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2018 is HRK 878 million (31 December 2017: HRK 862 million).

Leased assets

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	31 December 2018 HRK million	31 December 2018 HRK million
Cost	84	97
Accumulated depreciation	(37)	(41)
Net book value	**47**	**56**

17. Investment property

	HRK million
As at 1 January 2017	
Cost	83
Accumulated depreciation	(39)
Net book value	**44**
Year ended 31 December 2017	
Opening net book value	44
Additions	-
Disposals	(8)
Depreciation charge	(1)
Net book value	**35**
As at 31 December 2017	
Cost	60
Accumulated depreciation	(25)
Net book value	**35**
Year ended 31 December 2018	
Opening net book value	35
Additions	2
Depreciation charge	(1)
Impairment loss	(15)
Net book value	**21**
As at 31 December 2018	
Cost	50
Accumulated depreciation	(29)
Net book value	**21**

The Group has classified unoccupied buildings and undeveloped land as investment property.

18. Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2018 represents estimations as HT d.d. Mostar and HP d.o.o. Mostar did not issue their financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2018 HRK million	31 December 2017 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	377	375
Prior period correction of error	-	-
Share of profit	3	2
Dividends paid	-	-
As at 31 December	380	377
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Share of (loss) / profit	-	-
(Impairment loss) / reversal of impairment loss	-	-
As at 31 December	2	2
	382	**379**

a. Investment in joint venture:
The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50.10%).

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2018 is recognized in the statement of comprehensive income in the amount of HRK 3 million (2017: HRK 2 million).

In 2018, HT did not receive any dividend from HT d.d. Mostar (2017: HRK 0 million).

b. Investment in associate:
The Group has an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of the associate is provision of postal services.

Summarised financial information for investments accounted for using the equity method is as follows:

Summarised statement of financial position:	31 December 2018 HRK million	31 December 2017 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	108	131
Other current assets	166	156
Total current assets	**274**	**287**
Financial liabilities	1	1
Other current liabilities	168	212
Total current liabilities	**169**	**213**
Non-current		
Non-current assets	**1,175**	**1,182**
Financial liabilities	8	8
Other liabilities	14	8
Total non-current liabilities	**22**	**16**
Net assets	**1,258**	**1,240**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	17	14
Other current assets	12	20
Total current assets	**29**	**34**
Financial liabilities	-	-
Other current liabilities	11	11
Total current liabilities	**11**	**11**
Non-current		
Non-current assets	**67**	**63**
Financial liabilities	-	-
Other liabilities	2	2
Total non-current liabilities	**2**	**2**
Net assets	**83**	**84**

Summarised statement of comprehensive income:	2018 HRK million	2017 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	808	890
Depreciation and amortisation	(222)	(222)
Interest income	9	3
Interest expense	(1)	(3)
Pre-tax profit	**9**	**4**
Income tax expense	(1)	-
Net income	8	4
Dividends received		
Associate HP d.o.o. Mostar:		
Revenue	94	95
Depreciation and amortisation	(4)	(4)
Interest income	1	1
Interest expense	-	-
Pre-tax gain / (loss)	**1**	**1**
Income tax expense	**-**	**-**
Net income	**1**	**1**
Dividends received	**-**	**-**

Reconciliation of summarised financial information	31 December 2018 HRK million	31 December 2017 HRK million
Joint venture HT d.d. Mostar	Estimated	Actual
Opening net assets 1 January	1,240	1,240
Profit for the period	8	4
Dividends paid	-	-
Foreign currency translation	10	(4)
Closing net assets	**1,258**	**1,240**
Interest in joint venture 39.10%	492	485
Foreign currency translation	5	12
Impairment	(120)	(120)
Carrying value	**377**	**377**
Associate HP d.o.o. Mostar		
Opening net assets 1 January	84	84
Profit / (loss) for the period	1	-
Foreign currency translation	(1)	-
Closing net assets	**84**	**84**
Interest in associates 30.29%	25	25
Foreign currency translation	2	2
Impairment	(25)	(25)
Carrying value	**2**	**2**

19. Financial asset at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, include the following:

Issuer	Credit rating	Currency	Maturity	31 December 2018 HRK million	31 December 2017 HRK million
Foreign bonds:					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	924	945
Other				2	3
Total non current financial assets				**926**	**948**

Interest rate on foreign bond is 0.033%.

The estimated fair value of investments in bonds at 31 December 2018 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to Bucket 1 under the financial instruments measurement hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2018 in comparison to 2017, and the bond belongs to Stage 1 of credit risk grading system as there is no decline in credit rating.

The only change relates to application of general approach of expected credit loss in measurement of financial assets.

20. Inventories

	31 December 2018 HRK million	31 December 2017 HRK million
Merchandise	113	105
Inventories and spare parts	23	23
	136	**128**

21. Trade and other receivables

	31 December 2018 HRK million	31 December 2017 HRK million
Trade receivables	177	128
Loans to employees	81	79
Prepayments to regulator	102	-
Other receivables	32	41
Non-current	392	248
Trade receivables	1,485	1,551
Loans to employees	20	21
Other receivables	43	58
Current	1,548	1,630
	1,940	**1,878**

During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulate that part of reported current trade receivables is converted to non-current receivables (31 December 2018: HRK 10 million) with maturities up to 5 years.

The aging analysis of trade receivables is as follows:

	Total HRK million	Current HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2018						
Gross carrying amount - trade receivables	2,678	1,380	66	30	38	1,164
Loss allowance	(1,193)	(31)	(5)	(3)	(15)	(1,139)
Net amount – trade receivables	**1,485**	**1,349**	**61**	**27**	**23**	**25**
Gross carrying amount - contract assets	357	-	-	-	-	-
Loss allowance	(15)	-	-	-	-	-
Net amount – contract assets	**342**	**-**	**-**	**-**	**-**	**-**
1 January 2018						
Gross carrying amount - trade receivables	2,794	1,340	66	42	83	1,263
Loss allowance	(1,290)	(34)	(6)	(4)	(14)	(1,232)
Net amount – trade receivables	**1,504**	**1,306**	**60**	**38**	**69**	**31**
Gross carrying amount - contract assets	249	-	-	-	-	-
Loss allowance	(13)	-	-	-	-	-
Net amount – contract assets	236	-	-	-	-	-

The aging analysis of trade receivables as of 31 December 2017 was as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-180 days	>180 days
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
31 December 2017	1,551	1,220	154	58	35	62	22

As at 31 December 2017, trade receivables with a nominal value of HRK 1,243 million were deemed impaired and fully provided for, and refer to mainly receivable past-due over 180 days.

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	Contract assets HRK million	Trade receivables HRK million
As at 1 January 2018	**13**	**1,290**
Changes in estimates and assumptions	5	122
Financial assets derecognised during the period	-	(51)
Total credit loss allowance charge in profit and loss for the period	5	71
Write-offs	(3)	(168)
As at 31 December 2018	**15**	**1,193**

Effect of initial application of IFRS 9 simplified method on trade receivables amounts to HRK 47 millions on 1 January 2018.

Movements in the impairment provision for trade receivables during 2017 are as follows:

	2017 HRK million
As at 1 January 2017	1,068
Acquisition of Crnogorski Telekom	152
Acquisition of H1	27
Charge for the year	152
Unused amounts reversed	(51)
Receivables written-off	(105)
As at 31 December 2017	**1,243**

22. Assets and liabilities arising from contracts with customers

The Group has recognized following assets and liabilities related to contracts with customers:

	31 December 2018 HRK million	1 January 2018 HRK million
Current contract asset resulting from		
Equipment and service sales	164	124
Value adjustment	(10)	(10)
Cost to obtain a contract	49	58
Total current contract asset	**203**	**172**
Non current contract asset resulting from		
Equipment and service sales	55	28
Value adjustment	(5)	(3)
Cost to obtain a contract	89	39
Total non current contract asset	**139**	**64**

	31 December 2018 HRK million	1 January 2018 HRK million
Current contract liabilities resulting from		
Deferred income	52	64
Total current contract liabilities	**52**	**64**

23. Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 123 million (2017: HRK 178 million).

24. Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2018 HRK million	31 December 2017 HRK million
Cash on hand and balances with banks	1,643	1,493
Commercial papers	1,079	1,080
Time deposits with maturity less than 3 months	415	425
Secured deposits (reverse REPO agreements)	-	154
	3,137	**3,152**

b) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2018 HRK million	31 December 2017 HRK million
HRK	2,700	2,843
EUR	319	254
USD	86	66
BAM	31	23
RSD	1	3
	3,137	**3,189**

c) Time deposits with maturities more than 3 months

	31 December 2018 HRK million	31 December 2017 HRK million
Foreign bank	-	37
Domestic banks	-	-
	-	**37**

d) Guarantee deposits

	Current		Non-current	
	31 December 2018 HRK million	31 December 2017 HRK million	31 December 2018 HRK million	31 December 2017 HRK million
Foreign bank	-	2	-	3
Domestic banks	1	1	3	3
	1	**3**	**3**	**6**

e) Secured deposits (reverse REPO agreements)

Issuer	Currency	Maturity	31 December 2018 HRK million	31 December 2017 HRK million
Reverse REPO agreements (Note 36 g)):				
Raiffeisen Bank Austria d.d.	HRK	17 May 2019	111	-
Erste Steiermärkische Bank d.d.	HRK	18 January 2018	-	157
			111	**157**

25. Trade payables and other liabilities

	31 December 2018 HRK million	31 December 2017 HRK million
Content contracts	77	147
ECI contracts	27	119
Licence for radio frequency spectrum	8	16
Other	6	8
Non-current	118	290
Trade payables	1,471	1,646
Content contracts	264	201
VAT and other taxes payable	78	120
ECI contracts	108	63
Payroll and payroll taxes	65	63
Liabilities related to pre-bankruptcy settlements	-	18
Licence for radio frequency spectrum	1	(3)
Other	37	47
Current	2,024	2,155
	2,142	**2,445**

26. Deferred income

	31 December 2018 HRK million	31 December 2017 HRK million
Deferred equipment rental income	15	21
Non-current	15	21
Prepaid vouchers	-	50
Deferred income for assets received free of charge	-	11
Connection fee	-	5
Other	39	23
Current	**39**	**89**
	54	**110**

Deferred income is classified as contract liabilities according to IFRS 15.

27. Employee benefit obligations

Long-term employee benefits include retirement payments in accordance with the collective agreement.. Long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Long-term employee benefits include a compensation for the employees described in Note 40.

The movement in the liability recognized in the statement of financial position was as follows:

	2018 HRK million	2017 HRK million
As at 1 January	**13**	**12**
Acquisition of Crnogorski Telekom (Note 3)	-	4
LTIP – Variable II (Note 40)	3	2
Current portion of employee benefits obligations (Note 28)	(5)	(4)
Service costs	1	0
Benefit paid	(1)	(1)
Actuarial gains	-	-
As at 31 December	**11**	**13**
Retirement	1	1
Jubilee awards	3	2
LTIP – Variable II	7	10
	11	**13**

As at 31 December 2018, the current portion of the provision for LTIP programme amounts to HRK 7 million.

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2018 u %	2017 u %
Discount rate (annually)	3.00	3.00

28. Provisions and accruals

	Legal claims HRK million	Asset retirement obligation HRK million	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2018	**35**	**25**	**68**	**30**	**5**	**163**
Additions	21	-	81	45	2	149
Utilisation	(15)		(92)	(62)	-	(169)
Reversals	(8)	(1)	(6)	-	-	(15)
Current portion of employee benefits obligations (Note 26)			5			5
Interest costs		2				2
As at 31 December 2018	**33**	**26**	**56**	**13**	**7**	**135**
Non-current	33	26				59
Current			56	13	7	76
	33	**26**	**56**	**13**	**7**	**135**

a) Legal claims

As at 31 December 2018, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

b) Asset retirement obligation

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

c) Redundancy

Redundancy expenses and provisions include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2018.

29. Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2018 HRK million
81,670,064 ordinary shares without par value	9,823

	31 December 2017 HRK million
81,888,535 ordinary shares without par value	9,823

218,471 shares were cancelled in 2018.

30. Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

31. Treasury shares

In 2017, the Group started with acquisition of treasury shares due to introduction of share buy-back program which will last until 20 April 2021. The Group will withdraw shares without nominal value without reduction of share capital

Within this program total of 666,522 shares are bought from the introduction of share buy-back program. 216,005 shares that were bought through this Program in 2017 were cancelled in 2018, together with 2,466 shares from Share Matching Plan.

Reserve for purchased own shares amounts to HRK 71 million as of 31 December 2018 (2017: HRK 37 million) and is not distributable.

The Group holds 450,517 own shares as at 31 December 2018 (31 December 2017: 218,471).

32. Retained earnings

In 2018, the Group paid a dividend of HRK 6.00 per share (2017: HRK 6.00) for a total of HRK 489 million (2017: HRK 491 million).

33. Commitments

a) Operating lease commitments

The Group has operating lease commitments in respect of buildings, land, equipment and cars.
Operating lease charges:

	2018 HRK million	2017 HRK million
Current year expense (Note 10)	175	162

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2018 HRK million	31 December 2017 HRK million
Within one year	125	133
Between 1 and 5 years	256	272
Greater than 5 years	77	101
	458	**506**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

The Group was committed under contractual agreements to capital expenditure as follows:

	31 December 2018 HRK million	31 December 2017 HRK million
Intangible assets	224	218
Property, plant and equipment	945	670
	1,169	**888**

34. Contingencies

At the time of preparation of these consolidated financial statements, there are outstanding claims against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (Note 28).

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases.

Competition Agency proceedings regarding retransmission of football games

Competition Authority initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to potential abuse of dominant position in the market of distribution of premium sport content due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

The proceeding is pending.

The pecuniary fine pursuant to the Competition Act is limited to up to 10% of yearly turnover of the Group in the last year for which financial reports have been concluded. Also, according to the Agency´s practice, the fine is usually connected with up to 30% of the turnover acquired from the services provided on the relevant market. On the basis of the results for 2018, 30% of the revenue of MAXtv services would amount to HRK 113 million.

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb

With respect to the ducts issue mentioned under Property, plant and equipment (Note 16), on 16 September 2008, the Group received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Group. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Group received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Group submitted the appeal against this judgment.

On 4 August 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/ locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on which location, how and during what period was used by HT.

In June 2016, the plaintiff raised its claim for the additional amount of HRK 90 million; that is fee for usage of the DTI system in the area of Zagreb for period as of 20 June 2011 until 20 June 2012, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 480 million, plus interest.

In June 2017, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2012 until 20 June 2013, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 570 million, plus interest.

In June 2018, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2013 until 20 June 2014, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 660 million, plus interest.

Based on the merit and development of the above legal proceedings, the Group concluded that the likelihood of an obligation arising from these legal cases is remote and that there was no need to present a provision related to these cases in these financial statements.

35. Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by 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 during 2018 and 2017.

The main transactions with related parties during 2018 and 2017 were as follows:

	Revenue		Expenses	
Related party:	2018 HRK million	2017 HRK million	2018 HRK million	2017 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	93	100	139	123
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	33	32	21	25
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	23	27	34	18
T-Mobile Austria GmbH, Austria	11	10	8	4
Slovak Telecom a.s., Slovakia	16	18	1	-
Hellenic Telecommunications Organization	-	-	5	-
Magyar Telekom Nyrt., Hungary	7	6	5	8
T-Mobile Czech	6	6	2	1
DT Pan-Net Croatia	5	-	-	-
T-Mobile Polska	5	6	-	-
T-Mobile Netherlands	4	5	1	1
DT Europe Holding	3	4	4	6
T-Systems International GmbH, Germany	3	2	3	5
Deutsche Telekom IT	1	4	14	10
Others	9	8	19	17
	219	**228**	**256**	**218**

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
Related party:	31 December 2018 HRK million	31 December 2017 HRK million	31 December 2018 HRK million	31 December 2017 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	5	9	102	115
Subsidiaries of ultimate parent				
DT Pan-Net Croatia	14	-	-	-
Telekom Deutschland GmbH, Germany	-	-	14	11
Magyar Telekom, Hungary	-	-	2	2
Albanian Telecom	-	-	4	13
Slovak Telecom a.s., Slovakia	4	4	-	-
T-Systems International GmbH, Germany	-	5	7	13
Others	4	9	9	9
	27	**27**	**138**	**163**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 millions (31 December 2017: HRK 1,080 millions) (Note 24) and investment in bond of Deutsche Telekom International Finance B.V. in the amount of HRK 924 millions (31 December 2017: 945 millions) (Note 19).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2018 or 2017 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation of the members 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.

DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

In 2018, the Group paid a total amount of HRK 0.7 million (2017: HRK 0.9 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 2018, the total compensation paid to key management personnel of the Group amounted to HRK 49 million (2017: HRK 46 million). 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.

Compensation paid to key management personnel includes:	2018 HRK million	2017 HRK million
Short-term benefits	49	46
	49	**46**

36. Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 21) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2018, the Group had business transactions with thirtyeight banks (2017: thirty banks). The Group held cash and deposits in three banks almost exclusively. For five domestic banks with foreign ownership, the Group received guarantees for deposits placed from parent banks which have a minimum rating of BBB+ or guarantees in form of low-risk government securities. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The group has identified the GDP and the unemployment rate in the country in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Deposited amounts in Banks are money on current account and deposits under 3 months which are collected at maturity. That is why it is classified as hold to collect according to IFRS 9 and according to that measurement is to amortized cost. Credit risk is measured using the general approach. Impairment losses are recognized on the basis of individual impairment. Group uses the daily CDS-level which covers insurance for a period of five years. A CDS with an insurance of five years has the highest market liquidity and was therefore chosen as a reference. The CDS-level reacts immediately if a default risk increases - independently if an insurance with a period of three years or five years has been chosen. Domestic banks do not have a rating or CDS indicator as a measure of risk. For the risk measure Company took the CDS indicator of Croatia, which was on 31.12.2018. amounted to 0.95%.

Credit risk amount calculated using the formula: deposit amount * number of days * 0.95% / 365. For a vista deposits the Company uses 2 days.

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	31 December 2017 HRK million
Trade receivables for rendered telecom services to domestic customers	983
Trade receivables for rendered telecom services to foreign customers	210
Other trade receivables	27
Current	**1,220**
Trade receivables from prebankruptcy settlements	20
Trade receivables for merchandise sold	128
Loans to employees	24
Other receivables	76
Non-current	**248**

Other current receivables are neither past due nor impaired.
The credit quality of all other financial assets (see Note 37): the total carrying amount as at the balance sheet date is considered neither past due nor impaired.

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in financial assets that are valued at fair value through other comprehensive income. The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2018	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,815	12	-	-
Capitalized content rights	74	237	68	3
Finance lease	-	2	4	-
Bank borrowings	15	28	122	105
Capitalized ECI rights	30	90	27	48
Liabilities from pre-bankruptcy settlement	6	-	11	-
Issued bond	10	18	77	-
Other liabilities	23	2	58	7
31 December 2017				
Trade and other payables	2,059	17	-	-
Capitalized rights	73	185	167	-
Finance lease	-	1	4	-
Bank borrowings	27	22	148	125
Capitalized ECI rights	21	62	160	51
Liabilities from pre-bankruptcy settlement	12	-	38	-
Issued bond	2	18	96	9
Other liabilities	57	2	83	16

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through other comprehensive income, cash, cash equivalents, time deposits and bank borrowings

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase / decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2018		
HRK	+100	22
	-100	(22)
EUR	+100	9
	-100	(9)
Year ended 31 December 2017		
HRK	+100	13
	-100	(13)
EUR	+100	10
	-100	(10)

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, financial assets at fair value through other comprehensive income and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase / decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2018	+3%	34
	-3%	(34)
Year ended 31 December 2017	+3%	39
	-3%	(39)

e) Fair value estimation

The fair value of securities included in financial assets at fair value through other comprehensive income is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 13,208 million as at 31 December 2018 (31 December 2017: HRK 12,573 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017 (Notes 29 and 32).

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2018 HRK million	31 December 2017 HRK million
Foreign bonds:			
Government of Germany	AAA	113	-
Government of Austria	AA+	-	159
Government of France	AA	-	-
Bank of America Corporation	A	-	78
Goldman Sachs Group Inc	A	-	77
		113	**314**

All above stated values are fair market values. The accepted collateral is level 1 under IFRS13 categorisation.

h) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2018 HRK million	31 December 2017 HRK million	31 December 2018 HRK million	31 December 2017 HRK million
Gross recognised amounts	388	391	581	578
Offsetting amount	(142)	(114)	(142)	(114)
	246	**277**	**439**	**464**

37. Financial instruments

Recurring fair value measurement

The level in fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2018		31 December 2017	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Financial assets:				
Cash and cash equivalents	3,137	-	3,152	-
Guarantee deposits, current	1	-	3	-
Time deposits	-	-	37	-
Financial assets at fair value through other comprehensive income, non-current	926	-	948	-
Financial assets at fair value through other comprehensive income, current	-	-	-	-
Secured deposits	111	-	157	-
Guarantee deposits, non-current	-	-	6	-
Trade receivables – current and non-current	-	1,662	-	1,679
Loans to employees – current and non-current	-	101	-	100

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amount and fair value of all of the Group's financial instruments are the same in 2018 and 2017.

38. Borrowings

	31 December 2018		31 December 2017	
	HRK million Level 1	HRK million Level 2	HRK million Level 1	HRK million Level 2
Bank borrowings	-	180	-	212
Issued bond	68	-	90	-
Finance lease	-	3	-	4
Non-current	**68**	**183**	**90**	**216**
Bank borrowings	-	32	-	36
Issued bond	24	-	16	-
Finance lease	-	2	-	2
Current	**24**	**34**	**16**	**38**
Total	**92**	**217**	**106**	**254**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4.52% at 31 December 2018 (31 December 2017: 4.52%).

Currency breakdown of borrowings and finance lease

	31 December 2018 HRK million	31 December 2017 HRK million
HRK	119	159
EUR	185	201
	304	**360**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2017 the Group will pay semi-annual interest at interest rate of 5.25% per year, and principal will be repaid from 30 May 2017 to 30 May 2022.

Through acquisition the Group acquired the obligation for issued bonds in nominal value of HRK 41 million that will be paid in 5 annually instalments at interest rate of 4.5% and principal will be repaid from 27 January 2019 to 27 January 2023.

Finance lease liability breakdown

	31 December 2018 HRK million	31 December 2017 HRK million
Commitments in relation to finance lease are payable as follows:		
Within one year	2	1
Later than one year but not later than five years	3	4
Minimum lease payments	**5**	**5**
Future finance changes	-	(1)
Recognised as a liability	**5**	**4**
The present value of finance lease liabilities is as follows:		
Within one year	2	1
Later than one year but not later than five years	3	3
Minimum lease payments	**5**	**4**

39. Authorization for Services and Applicable Fees

The Company is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

a) Service authorization for the performance of electronic communications services in a fixed and mobile network

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications, the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 5 May 2017:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Company special authorization to perform account reconciliation of accounts for the provision of electronic communications services in maritime for a period of 10 years i.e. till 26 February 2023.

In accordance with HAKOM's decision of 23 September 2015, the Company was designated as the Universal services provider in the Republic of Croatia for a period of four years with the obligation to provide following universal services during the mentioned period:

- access to the public communications network and publicly available telephone services at a fixed location, allowing for the voice communications, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers as well as the technological feasibility,
- setting up of public pay telephones or other publicly available access points for the public voice service on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones or other publicly available access points for the public voice service and their accessibility for disabled persons,
- special measures for disabled persons, including access to services under 1 and 2 above, including the access to emergency services, equivalent to that enjoyed by other end-users, and

- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users, that comprise the service under item 1 above.

The Company is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, the Company shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Company the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2014 until 18 October 2024.

HAKOM also issued to the Company licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2015 until 11 August 2020.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Group is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure. The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2018, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15, 77/16, 126/17, 55/18 and 99/18)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 33/17).

d) Audiovisual and electronic media services

Pursuant amendment of the Law on audiovisual activities (Official Gazette No. 76/07 and 90/11), the Group is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Group (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, (Official Gazette No. 153/09, 84/11, 94/13 and 136/13), the Group is obliged to pay upon the request the fee of 0.5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services.

Licences are not issued to all members of the Group.

e) Electronic communications infrastructure and associated facilities

The Company, as the infrastructure operator, is obligated to pay fees for the right of way in amount that the Company contracted with land owners or accordance with the Law on Electronic Communications. The fees for the right of way are defined by the Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 152/11, 151/14 and 95/17) that was adopted by HAKOM in December 2011 and became effective as of 4 January 2012. The fee is calculated according to the area of land used for the installation of electronic communications infrastructure and associated facilities. The last amendment of the Ordinance on the Certificate and Fees for the Right of Way regulates that the fee is to be paid as of the day of the receipt of request for payment of the fee and not as of the day of issuance of the Certificate.

f) Supply of electricity

Croatian Energy Regulatory Agency (HERA) has reissued a licence for energy activities relating to supply of electricity to the Company on 16 October 2016 for a period of five years.

40. Share-based and non share-based payment transactions

Long-term incentive plans Lead to Win 2015, Lead to Win 2016, Lead to Win 2017 and Lead to Win 2018 currently exist at Group level.

Lead to Win is DT model of performance management for Executives adapted for the local needs and it integrates target management, performance and potential review (PPR) and succession management. This model is based on clear and transparent link between performance rating and rewards for short term incentive STI, LTI (Long term incentive) and SMP (Share Matching Plan), based on DT share. Eligibility and grant-value depend on individual performance and MG (Management Group) level (MG1 – MG3), and MG1 represents the highest level managerial positions.

LTI plan, as a part of Lead to Win model is a global Deutsche Telekom Group's (DT Group) 2018, Group-wide compensation instrument. The aim of the 2018 LTI is to enhance willingness to take on entrepreneurial responsibility and identification with DT Group and thus boost the Group's value in the medium to long-term. This leads to a greater balance of management and shareholder interests. The term of the 2018 LTI shall cover the period from 1 January 2018 to 31 December 2021.

HT Variable II 2014 ended on 31 December 2017, and the Supervisory Board has determined final target achievement of 61.1%. In accordance to this achievement, in July 2018 the awarded amount was paid to participants.

LTI as part of Lead to Win Program 2015, 2016, 2017 and 2018 are also cash based plan, and awarded amount depends on MG (Management Group) to which positions of participant belongs and on individual performance. Participants can be only those who meet at least performance rating 3 (score range is from 1 to 5). The participation amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The plan currency is euro and four defined success parameters are DT Group targets.

Parameters are following: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have a target achievement corridor of between 0% and 150%. The term of LTI shall cover the period from 1 January, 2018 to 31 December 2021. The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

As a part of Lead to Win Program 2015, 2016, 2017 and 2018, Share Matching Plan was introduced for managers in Managements Groups MG1, MG2 and MG3. The Share Matching Plan is a long-term voluntary compensation instrument, which makes the executives co-owners of the DT and enables them to benefit from the success of the DT share. The entitlement for participation in the SMP and number of additional shares depend on the executive's overall performance. Plan participations purchase shares in DT before the start of the plan ("voluntary personal investment"). The amount of the voluntary personal investment is between 10% ("minimum amount") and a third ("maximum amount") of the gross payment amount of the Short Term Incentive payment for previous year (STI, Variable I), and is determined by the plan participant when accepting the DT offer. The term of the 2018 SMP shall cover the period from July 1st, 2018 to June 30th, 2022. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period"). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the personal performance of the plan participant. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board Members.

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2018 HRK million	2017 HRK million
Expenses	5	-
	5	**-**

41. Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 6 million in 2018 (2017: HRK 6 million). Services rendered in 2018 and 2017 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes. Other services rendered by auditor of financial statements include educational services.

42. Subsequent events

In November 2018, HT d.d. concluded a Purchase Agreement with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service. Conclusion of this transaction is subject to regulatory approvals, which have not yet been issued on the day of issuance of this Report. Evotv is a simple service at the Croatian PayTV market, enabled by using a digital DVB-T signal which can be received through the existing antenna.

43. Accounting policies before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If collection is expected after one year, the receivables are presented as non-current assets. Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

Impairment of trade receivables

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Provisions for impairment are measured according to the collection best estimate. Receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

Impairment of financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

Financial assets

All investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Available-for-sale financial assets are classified as current assets if management intends to realise them within 12 months after the statement of financial position date. All purchases and sales of investments are recognized on the settlement date.Financial assets are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale financial assets and trading financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the statement of financial position date. Gains or losses on measurement to the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the net profit or loss for the period. Financial instruments are generally recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. A financial asset is derecognized when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Securities obtained under agreements to resell (“reverse REPO agreements”) are essentially guarantees or collateral for money held with banks and are not recorded in the balance sheet. The related amounts held by banks are recorded as secured deposits for maturities over three months or as cash equivalents for maturities less than three months.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer and sale of electricity. In these cases, the Group is acting as an agent.

Revenue from fixed telephony includes revenue from activation fees, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

Revenue from wholesale services includes interconnection services for domestic and international carriers, and revenue from usage of network by other operators. Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

Third parties using the Group’s telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Group’s network. These wholesale (incoming) traffic revenues included in voice and non-voice (data and internet) revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these transit calls are stated gross in the financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and are recognized in the period of related usage.

Revenue from mobile telephony includes revenue from monthly fee and call charges for “post-paid” mobile customers, call charges for “pre-paid” mobile customers, call charges for customers of international mobile operators when roaming on the Group’s mobile network, sale of mobile handsets, domestic interconnection revenues related to mobile network, revenues for short and multimedia messages and data traffic revenues.

Revenue from unused tariff packages and prepaid vouchers is recognized when they are realised. Before their realisation, they are recorded as deferred revenues.

Revenue from the sales of electricity is recognized at fair value in the period when service is provided to customers.

The Group offers certain multiple-element arrangements (bundled product offers) arrangements. For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e. a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated).

The relative fair value of an individual element is limited by the proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total consideration and the fair value of the undelivered elements.

Revenue from internet and data services includes revenue from leased lines, frame relay, ATM, Ethernet services, ADSL subscription and traffic, fixed line access, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions.

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance, the design and development of complex IT systems to a client’s specifications (design and build) and WEB hosting. For bundled product arrangements, revenue recognition for each of the elements relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e. a ratio of the fair value of each element to the aggregated fair value of the bundled deliverable).

Revenues from application management services, technology infrastructure and system maintenance are recognised on a straight-line basis over the term of the contract. Revenues from time and material contracts are recognised based on contracted prices and direct cost incurred. Revenue from product maintenance contracts are recognized on a straight-line basis over the delivery period.

Revenues and expenses from fixed-price design and build contracts where the outcome can be estimated reliably are recognised under percentage-of completion (POC) method. Estimates are revised and can result in decrease or an increase of estimated revenues and expenses and are included in statement of comprehensive income in the year in which circumstances that give rise to the revision become known to management.

Revenues from one-time-charge licensed software are recognized at the inception of licence term when all revenue recognition criteria have been met. Revenues from monthly licence charges are recognised on a subscription basis over the period that the client is entitled to use the licence. Revenues for maintenance, unspecified upgrades and technical support are recognised over the period such items are delivered.

The Group provides advice, assistance and other services relating to marketing, logistic, accounting, organization and administration to related parties. Majority of these services are provided on a time and material basis and revenue is recognised at the contractual rates as labour hours are delivered and expenses are incurred increased by 5% mark-up on own costs.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement.

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Interest revenue is recognized as interest accrues (using the effective interest rate which is the rate that discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, corporate commercial papers and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value. Investments that are classified as cash and cash equivalents are held only as means of settling liabilities and not as an investment.

Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred, except those which directly attributable to the acquisition, construction or production of qualifying assets and are capitalised. Borrowings are initially recognized in the amount of the proceeds received net of transaction costs.

CONTACTS

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