



Zagreb – 26 April 2018

## Hrvatski Telekom

### Results for the three months ended 31 March 2018

#### Hrvatski Telekom – growth of EBITDA, investments, and net profit in the first quarter

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the three months ended 31 March 2018.

In Q1, Hrvatski Telekom saw the growth of key financial indicators: EBITDA, net profit, and investments.

In Q1 2018, EBITDA before exceptional items increased by HRK 11 million, or 1.6%, to HRK 684 million compared to the same period last year. The EBITDA margin is at 38.1%, which is an increase by 1 percentage point. Crnogorski Telekom also contributed to the profitability growth by realising EBITDA in the amount of HRK 50 million, a HRK 5 million increase compared to EBITDA realised in Q1 2017. Excluding Crnogorski Telekom's contribution, HT Group's EBITDA in Croatia increased by 0.9% compared to the same period last year, amounting to HRK 634 million, along with an EBITDA margin at 38.3 %.

Compared to Q1 2017, net profit increased by HRK 18 million, or 11.8%, to HRK 166 million. The contribution by Crnogorski Telekom shows net profit realisation increased by HRK 3 million compared to Q1 2017. Excepting the contribution by Crnogorski Telekom, the net profit realised by HT Group in Croatia amounts to HRK 160 million, a 10.1% increase compared to the same period last year.

Total consolidated revenue generated in the first three months of 2018 amount to HRK 1,798 million, which is a 1.1% decrease compared to the same period last year.

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

CAPEX realisation increased by 21.0% compared to Q1 2017, amounting to HRK 442 million, including the contribution by Crnogorski Telekom. Without this effect, HT Group's CAPEX in Croatia increased by 13.8 % and amount to HRK 392 million.

The next generation access network (NGA) covers 58.1% of households, while optical access coverage is available to 380 thousand households.

In the mobile network, investments provided 4G mobile network indoor coverage at a level of 76.2% of the population, while outdoor coverage reached 98.3%. HT continued with the implementation of the high speed 4G network providing 350 Mbit/s in download.

Q1 2018 saw the start of the large investment programme related to additional modernisation of the mobile network aimed at increase of capacity for higher data traffic and improvement of the customer experience, including even faster Internet access and creation of the foundations for implementation of 5G technology.

In March 2018, a commercial offering of the fastest internet in Croatia was launched, providing symmetrical downlink and uplink speeds of 1 Gbit/s. This is a new technology concept, the so-called TeraStream, where the customer is provided with a dedicated fibre optical line. A TV service featuring content in 4K resolution was also enabled. Currently, the service is available to residential customers, covering about 20,000 households in parts of Zagreb, Split, and Karlovac.

The unique concept of service offering on the telecommunications market – Magenta 1, which marked its second anniversary – has been accepted by more than 134 thousand households, and this figure is continuously rising.

The TV customer base increased by 1.7 %, confirming that Hrvatski Telekom recognises the needs of its customers who, after a TV platform swap, were given the possibility to experience viewing of the TV of the future.

#### **In 2018, focus on growth, new digital experience, and expansion of operations**

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

*“In the first quarter of 2018, Hrvatski Telekom continued to increase key financial indicators. We saw an increase of EBITDA, net profit, and CAPEX, and we will continue on this path. The focus is on investments in infrastructure, as this way, we are creating the foundations for implementation of 5G technology. In March, we were among the first operators in Europe to launch the commercial offering of Internet access based on the advanced TeraStream technology concept providing speeds of up to 1 Gbit/s. The first quarter of 2018 was also marked by the second birthday of Magenta 1, a unique service on the market that integrates the benefits of Internet, mobile, and TV content offer, and I am extremely proud that the customers have recognised all benefits of this offering, and that the number of customers is continuously rising. Our focus is on further growth and maintaining of our technological superiority due to the best network, the best TV content offer, and the advanced and innovative services we are offering, which is a prerequisite for the best customer experience and a premium position on the market.”*

## Contact details

### Hrvatski Telekom Investor Relations

Marina Bengez Sedmak  
Elvis Knežević  
Email

+ 385 1 4911 114  
[ir@t.ht.hr](mailto:ir@t.ht.hr)

### Instinctif Partners

Kay Larsen / Adrian Duffield

+44 207 457 2020

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

The conference call dial in details are as follows:

International Dial In **+44 (0) 1452 555 566**  
Conference ID **4547219**

A replay of the call will be available until Thursday, 3 May 2018 using the following details:

International Dial In **+44 (0)1452 550 000**  
Conference ID **4547219**

A presentation covering results for the first three months of 2018 can be downloaded from the HT web site ([www.t.ht.hr/en/investor-relations/](http://www.t.ht.hr/en/investor-relations/)).

## **1. Introduction and environment**

### **1.1. Introduction**

HT Group's solid performance in Q1 2018

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in Q1 2018 in spite of competitive pressure.

### **1.2. Economic background**

Gradual slowdown of the Croatian economic activity

Croatia's economic yearly growth reached 2.8% in 2017, down slightly from 3.2% in 2016. Private consumption made the highest contribution to the overall GDP growth (thanks to tax reform), as well as increasing exports of goods and services. Tourism boomed, with arrivals and overnight stays increasing at double-digit rates. Based on the latest available data, a continuation of this gradual slowdown in economic activity is expected in 2018.<sup>1</sup>

The registered unemployment rate of 12.3% in February 2018, a decrease of 2.6 percentage points vs. February 2017 level, is the result of increased employment as well as constant emigration trend.<sup>1</sup>

Economic recovery, coupled with the tax reform and the increase in net wages, both in private and public sector, led to a rise in wages. The average monthly net wage in January 2018 amounted to 6,189 HRK, which is growth by 3.9% in real terms in comparison to January 2017. Inflation remained low with Consumer Price Index (CPI) growth by 0.8% in February 2018.<sup>1</sup>

### **1.3. Croatian market overview**

Further investments in infrastructure development, advanced technology and innovative services to continue

The Croatian mobile market has been saturated with estimated mobile SIM penetration rate at 118.5% at the end of March 2018. The Company maintains leading market position with estimated mobile SIM market share of 46.3% at the end of March 2018.

Within mobile customer structure, mobile contract customers prevail as a result of offering different tariff packages with attractive devices / tablets and increasing the popularity of smartphones. Because of growing mobile data usage and the increasing popularity of online communication services, total number of sent SMS messages continued to decrease on an annual basis by 8.9% in

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<sup>1</sup> Sources: Croatian Bureau of Statistics, Croatian Economic Outlook No. 72, March 2018, The Institute of Economics Zagreb

2017. Total broadband traffic grew year-on-year by 35.5% in 2017. Total mobile market minutes of use (MOU) continued to increase on an annual basis by 1.7% in 2017.<sup>2</sup>

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 7.1% in 2017.<sup>2</sup>

The Croatian fixed broadband market continued to grow at a yearly rate by 5.0% reaching 1.1 million fixed broadband connections at the end of December 2017.<sup>2</sup> Telecommunication operators continued to invest in infrastructure development, advanced technology and innovative services in 2017. HAKOM reports about 2.6 billion HRK investment in network infrastructure in 2017, which is 4% more than in 2016. That resulted with an increase of fixed high-speed broadband connections, counting more than 24% of total fixed broadband connections at the end of 2017.<sup>2</sup>

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 620 thousand of broadband access lines at the end of March 2018.

The Croatian Pay TV market continued to grow in 2017, reaching 828 thousand customers at the end of December 2017 (growth by 4.1% on yearly level).<sup>3</sup>

## Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2018 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 130 thousand at the end of March 2018 which is a decrease of 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 as a result of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 131 thousand of ULL access and 59 thousand of WLRs at the end of March 2018.

## IT market

Estimated Croatian IT market growth in 2017 was 0.3% on annual basis. Hardware has been estimated to decline by 3.8%, while IT services and Software have been estimated to continue with growth by 4.7% and 5.6% in annual terms respectively.<sup>4</sup>

HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

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<sup>2</sup> Source: Croatian Post and Electronic Communications Agency

<sup>3</sup> Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4/2017

<sup>4</sup> Source: IDC Adriatics

## **Energy market**

At the end of 2017, Croatian Government ceased a part of “Renewables Law” which sets suppliers free of obligation to buy green energy at premium price. That decision is manifested as an additional cost for HT. Unlike all other energy suppliers, who are running business as primary activity, HT is seeking to exploit synergy effect from telco-energy convergent proposition.

### **1.4. Regulatory overview**

#### **Introduction of the additional wholesale fee for WLR service**

As of January 1st, 2018, new additional wholesale fee for wholesale line rental (WLR) service applies in case when WLR is used together with bitstream access service (BSA) to offer retail fixed broadband access of speeds 30 Mbit/s and above. New fee was defined by HAKOM in December 2017 as a difference between Naked BSA prices for 30 Mbit/s and the sum of WLR and BSA prices, and it currently equals 9.04 HRK. By introducing this additional wholesale fee, HAKOM corrected previous wholesale price inconsistency between wholesale services enabling same service quality.

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

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

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

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

In January 2018, relevant Ministry of Sea, Transport and Infrastructure published a study stating that Right of Way fee proscribed by OCFRW should be lowered by 50%.

#### **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. New decreased fee will be applicable as from the next annual billing period after the expiry of the period for which the fee has already been paid.

### **Positive steps towards friendlier FTTH roll-out environment**

In November 2017, HAKOM opened public consultation on the proposal to repeal the existing Ordinance on fiber-optic distribution networks, which prescribes strict technological rules of roll-out of FTTH networks in Croatia (hereinafter: Draft proposal). In its Draft proposal HAKOM explained that this ordinance represented a significant regulatory obstacle for FTTH roll-out in Croatia and should therefore be repealed. In its comments, HT supported reduction of regulatory burden, however, noted that it would be appropriate to keep the obligation of public announcement of FTTH investment as well as the symmetrical obligation to open FTTH networks for use by other operators. Final decision of HAKOM on this issue is expected in Q2 2018.

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

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

## **1.5. Changes in reporting**

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

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

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

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

in HRK million	Q1 2018 as reported	Q1 2018 without IFRS 15 effects
Revenue	1,798	1,798
Operating expenses	1,162	1,171
<b>EBITDA before exceptional items</b>	<b>684</b>	<b>676</b>

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

## 1.6. Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Three months to 31 Mar 2017	7.47	7.44	7.01	6.93
Three months to 31 Mar 2018	7.44	7.43	6.05	6.03



## 2. Business review

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

in HRK million

<b>INCOME STATEMENT</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
Revenue	1,818	1,798	-1.1%
Mobile	745	766	2.8%
Fixed voice	241	207	-13.8%
Broadband & TV	358	349	-2.5%
Fixed wholesale	102	88	-14.1%
Other fixed	196	215	9.6%
System solutions	141	139	-1.3%
Miscellaneous	35	34	-3.8%
EBITDA before exceptional items	674	684	1.6%
Exceptional items	32	23	-27.7%
EBITDA after exceptional items	641	661	3.1%
EBIT (Operating profit)	229	233	2.0%
Net profit after non controlling interests	149	166	11.8%
EBITDA margin before exceptional items	37.1%	38.1%	1.0 p.p.
EBITDA margin after exceptional items	35.3%	36.8%	1.5 p.p.
EBIT margin	12.6%	13.0%	0.4 p.p.
Net profit margin	8.2%	9.2%	1.1 p.p.

<b>BALANCE SHEET</b>	<b>At 31 Dec 2017</b>	<b>At 31 Mar 2018</b>	<b>% of change A18/A17</b>
Total non current assets	10,385	10,501	1.1%
Total current assets	5,353	5,418	1.2%
<b>TOTAL ASSETS</b>	<b>15,738</b>	<b>15,919</b>	<b>1.1%</b>
Total issued capital and reserves	12,573	12,870	2.4%
Total non current liabilities	737	784	6.4%
Total current liabilities	2,429	2,265	-6.7%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,738</b>	<b>15,919</b>	<b>1.1%</b>

<b>CASH FLOW</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
Net cash flow from operating activities	653	563	-13.8%
Net cash flow from investing activities	-624	-201	67.8%
Net cash flow from financing activities	-175	-137	21.9%
<b>Cash and cash equivalents at the end of period</b>	<b>2,576</b>	<b>3,374</b>	<b>31.0%</b>

<b>CAPEX</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
CAPEX	366	442	21.0%
CAPEX / Revenue ratio	20.1%	24.6%	4.5 p.p.

<b>NUMBER OF EMPLOYEES</b>	<b>At 31 Mar 2017</b>	<b>At 31 Mar 2018</b>	<b>% of change A18/A17</b>
Number of employees (FTEs)	4,885	5,343	9.4%

### 2.1.1. HT Group highlights

Significant efforts taken to maintain position in the market:

- HT managed to keep the leading mobile market share with stable estimated portion of 46.2%
- The Croatian fixed broadband and TV market continued to grow, HT records growth of TV customer base by 1.7%, while broadband customer base remained stable in comparison to Q1 2017.
- HT's Magenta1 convergent offer achieved 134 thousand of consumer households while in business area there are 11 thousand of Magenta1 active accounts making HT as One-Stop-Shop on market
- In Montenegro, Magenta1 base stable with over 14% of consumer households, while in business area there are more than 1,200 active accounts.

Solid performance of main financial KPIs:

- Revenue is below Q1 2017 by HRK 20 million or 1.1% mainly driven by HT Group in Croatia (HRK 16 million or 0.9%), while CT contribution is below Q1 2017 by HRK 4 million or 3.0%.
- EBITDA is above Q1 2017 by HRK 11 million or 1.6% driven by both HT Group in Croatia (HRK 6 million or 0.9%) and CT (HRK 5 million or 10.6%).
- Capex realization is above Q1 2017 by HRK 77 million or 21.0% influenced by both HT Group in Croatia (HRK 48 million or 13.8%) and CT (HRK 29 million or 135.0%).

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased up to 76.2% , "Outdoor" coverage increased to 98.3%.
- Activities continued for achieving Digital Agenda 2020 targets, progress achieved in increasing coverage of NGA access that is now available for 58.1% of Croatian households
- FTTx access is enabled for 380 thousand households
- In Crnogorski Telekom broadband access expansion continued, "Outdoor" 4G coverage increased to 95%, FTTH rollout in progress.

TeraStream: network of the future:

- HT commercially launched the fastest Internet service in Croatia in March 2018;
- New generation fiber service: dedicated fiber to customer with highest and symmetrical speed;
- TV service with 4k content enabled (Max TV to go and Android STB);
- Currently available to residential customers and covers about 20.000 households in parts of Zagreb, Split and Karlovac.

Mobile network modernization:

- HT started modernization of the mobile radio and transport network

- The objective is to ensure sufficient capacity for the mobile data traffic growth including improvement of customer experience through faster mobile Internet and applications access
- With this project HT is building foundation for the introduction of 5G technology.

Share Buyback Program has started on 3rd July, 2017 and it will last until 20th April, 2021. Based on the authorization granted by the General Assembly, in March 2018 the Management Board withdrew 218,471 acquired Company shares without nominal value, 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. Following the withdrawal, the number of acquired Company shares amounted to 139,661 on April 13th, 2018.

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

## 2.1.2. Main financials development

### I. Revenue

Total consolidated revenue decreased by HRK 20 million or 1.1% to HRK 1,798 million in Q1 2018 in comparison to Q1 2017. Revenue decrease is driven by both HT Group in Croatia (HRK 16 million or 0.9%) and Crnogorski Telekom contribution (HRK 4 million or 3.0%).

On HT Group level, revenue decrease is driven by lower realization in fixed revenue (HRK 38 million or 4.2%), system solutions (HRK 2 million or 1.3%) and miscellaneous revenue (HRK 1 million or 3.8%); partially offset by higher mobile revenue (HRK 21 million or 2.8%). IFRS 15 brought HRK 1 million negative impact on net revenue.

Optima Telekom contribution to HT Group was above by HRK 12 million in comparison to Q1 2017 and amounted to HRK 83 million in Q1 2018. Contribution consisted of HRK 131 million of Optima Telekom third party contribution (Q1 2017: HRK 108 million) that was presented in the whole amount under fixed other revenue and HRK 48 million of inter-company relations that decreased mainly fixed wholesale revenue (Q1 2017: HRK 37 million).

Contribution of subsidiaries in Group revenue in Q1 2018 amounted for Iskon HRK 104 million (Q1 2017: HRK 97 million) and for Combis HRK 86 million (Q1 2017: HRK 82 million).

## **II. Other operating income**

Other operating income increased by HRK 3 million or 11.6% compared to Q1 2017. Increase comes from HT Group in Croatia (HRK 2 million or 10.0%) driven by sale of technical equipment, while Crnogorski Telekom contribution is in line with Q1 2017.

## **III. Operating expenses**

Total consolidated operating expenses decreased by HRK 37 million or 3.1% to HRK 1,162 million in Q1 2018 driven by both HT Group in Croatia (HRK 29 million or 2.7%) and Crnogorski Telekom contribution (HRK 8 million or 7.4%).

Decrease is a result of lower other expenses (HRK 40 million or 10.3%), higher amount of work performed by the Group and capitalised (HRK 9 million or 62.8%), lower write down of assets (HRK 5 million or 32.6%) and lower employee benefits expenses (HRK 3 million or 1.1%); partially offset by higher material expenses (HRK 21 million or 3.9%).

### **Material expenses**

Material expenses increased to HRK 561 million in Q1 2018 as a result of higher service expenses and merchandise, material and energy expenses. Increase in material expenses is driven by HT Group in Croatia while Crnogorski Telekom decreased material expenses by 7.7% mainly due to capitalization of TV content.

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

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

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

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

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

### **Employee benefits expenses**

Total employee benefits expenses decreased by HRK 3 million or 1.1% in Q1 2018 as a result of lower redundancy costs, partially offset by higher personnel costs driven by higher number of FTEs, primarily by HT Group in Croatia.

Total number of FTEs amounts to 5,343 FTEs, which is an increase of 458 FTEs compared to Q1 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 40 million or 10.3% to HRK 352 million in Q1 2018, mainly driven by HT Group in Croatia (HRK 38 million or 10.6%). Crnogorski Telekom contributed with lower other expenses by HRK 3 million or 7.7%. Decrease of other expenses is driven by different timing of marketing activities (postponed to Q2 2018), introduction of IFRS 15, implemented savings measures and seasonalization of costs.

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

The assets write down decreased by HRK 5 million or 32.6% to HRK 11 million in Q1 2018 driven by HT Group in Croatia (HRK 6 million or 44.7%) mainly due to better collection of receivables.

#### **Depreciation and amortization**

Depreciation and amortization increased to HRK 427 million by HRK 15 million or 3.7% compared to Q1 2017 fully influenced by HT Group in Croatia (HRK 15 million or 3.9%) and mainly driven by electronic communication infrastructure assets.

### **IV. Profitability**

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

EBITDA before exceptional items increased by HRK 11 million or 1.6% to HRK 684 million in Q1 2018 driven by both HT Group in Croatia (HRK 6 million or 0.9%) and Crnogorski Telekom (HRK 5 million or 10.6%).

HT Group in Croatia EBITDA before exceptional items increase is influenced by lower operating expenses (before exceptional items) (HRK 19 million or 1.8%) coming from implemented savings measures, different timing of marketing campaigns and seasonalization of other costs; and other operating income (HRK 2 million or 10.0%), that have offset revenue decline (HRK 16 million or 0.9%).

Crnogorski Telekom EBITDA before exceptional items increase is primarily result of lower operating expenses.

Optima Telekom contribution to Q1 2018 Group EBITDA was in line with Q1 2017. It amounted to HRK 25 million (Q1 2017: HRK 24 million) and consisted of HRK 70 million of Optima Telekom third party contribution (Q1 2017: HRK 57 million) and HRK 45 million of inter-company relations (Q1 2017: HRK 34 million).

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

In comparison to Q1 2017 consolidated net profit after non controlling interests increased by HRK 18 million or 11.8% to HRK 166 million in Q1 2018. HT Group in Croatia contributed with HRK 15 million or 10.1% while Crnogorski Telekom contributed with HRK 3 million or 80.7%.

In HT Group in Croatia, except higher EBITDA before EI realization, net profit after non controlling interests increased due to lower restructuring costs, lower net financial loss mainly due to lower exchange rate loss and non controlling interest that have compensated higher depreciation and amortization as well as higher taxation due to higher profit before tax.

Crnogorski Telekom higher net profit is primarily driven by higher EBITDA realization.

Optima Telekom brought to HT Group net profit a loss of HRK 2 million (Q1 2017: loss of HRK 1 million).

## **V. Financial position**

### **Balance sheet**

In comparison to 2017 year end, there is only minor increase in the total asset value of 1.1% or HRK 181 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 December 31<sup>st</sup>, 2017 to HRK 12,870 million at March 31<sup>st</sup>, 2018 mainly driven by realized net profit for Q1 2018 in the amount of HRK 166 million as well as catch-up effect of introduction of IFRS 15 that is recognized within retained earnings in amount of HRK 179 million.

Total non-current liabilities increased by HRK 47 million or 6.4% primarily due to recognizing contract liabilities as a result of introduction of IFRS 15.

Total current liabilities decreased by HRK 164 million to HRK 2,265 million at March 31<sup>st</sup>, 2018 mainly driven by lower purchase volume in Q1 2018 in comparison to 2017 year end.

### **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.

Cash flow from operating activities down mainly due to higher Capex payments and adverse movements in working capital.

Cash flow from investing activities increased by HRK 423 million (67.8%), mainly due to acquisition of Crnogorski Telekom in Q1 2017, partially offset by higher net REPO arrangements proceeds in Q1 2017.

Cash flow increased by HRK 38 million (21.9%) mainly due to early repayment of financial lease in HT in Q1 2017, partially offset by higher content repayments in Q1 2018.

## VI. Capital expenditure

HT Grupa including Crnogorski Telekom

in HRK million

<b>CAPEX</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
CAPEX	366	442	21.0%
CAPEX / Revenue ratio	20.1%	24.6%	4.5 p.p.

Crnogorski Telekom

<b>CAPEX</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
CAPEX	22	51	135.0%

Capital expenditure realization increased by HRK 77 million or 21.0% driven by higher realization of HT Group in Croatia by HRK 48 million or 13.8%, mainly as a result of IT transformation, while CT contributed with higher capex by HRK 29 million or 135.0% due to content capitalization.

HT continued with modernization of access network of new generation (NGA) available for 58.1% households with a speed >30 Mbps from which 20% with speed > 100Mbps. Optical access network (FTTx) is available for 380 thousand households.

In mobile network, "indoor" 4G population coverage is 76.2% and "outdoor" coverage reached 98.3%. Implementation of 4G speed increase to 350 Mbps download speeds continued to population coverage of 24% and speed to 300 Mbps download speeds continued to population coverage of 39%.

In 2018, HT started modernization of the mobile radio and transport network. The objective is to ensure sufficient capacity for the mobile data traffic growth including improvement of customer experience through faster mobile Internet and applications access. With this project HT is building foundation for the introduction of 5G technology.

In March 2018, HT commercially launched the fastest Internet service in Croatia, with symmetrical speed in downlink and uplink of 1 Gbps. Service is based on TeraStream technology, new generation of fiber services that provides dedicated (point-to-point) fiber to customer. TV service with 4k content

was also enabled (Max TV to go and Android STB). The service is currently available to residential customers and covers about 20.000 households in parts of Zagreb, Split and Karlovac.

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

in HRK million

<b>INCOME STATEMENT</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
Revenue	1,670	1,655	-0.9%
Mobile	675	693	2.6%
Fixed voice	220	188	-14.4%
Broadband & TV	327	320	-2.2%
Fixed wholesale	98	84	-13.7%
Other fixed	181	202	11.8%
System solutions	134	133	-0.7%
Miscellaneous	35	34	-3.8%
EBITDA before exceptional items	628	634	0.9%
Exceptional items	32	22	-31.4%
EBITDA after exceptional items	596	612	2.7%
EBIT (Operating profit)	224	225	0.7%
Net profit after non controlling interests	145	160	10.1%
EBITDA margin before exceptional items	37.6%	38.3%	0.7 p.p.
EBITDA margin after exceptional items	35.7%	37.0%	1.3 p.p.
EBIT margin	13.4%	13.6%	0.2 p.p.
Net profit margin	8.7%	9.6%	1.0 p.p.



Key operational data	Q1 2017	Q1 2018	% of change A18/A17
<b>Mobile customers in 000</b>			
<b>Number of customers</b>	<b>2,210</b>	<b>2,229</b>	<b>0.9%</b>
- Prepaid	1,045	958	-8.3%
- Postpaid	1,165	1,271	9.1%
<b>Minutes of use (MOU) per average customer</b>	<b>209</b>	<b>220</b>	<b>5.3%</b>
<b>Blended ARPU</b> (monthly average for the period in HRK)	<b>75</b>	<b>67</b>	<b>-11.1%</b>
- Prepaid	40	42	4.8%
- Postpaid	107	86	-19.9%
<b>Blended non-voice ARPU</b> (monthly average for the period in HRK)	<b>39</b>	<b>36</b>	<b>-7.2%</b>
<b>SAC per gross add in HRK</b>	<b>147</b>	<b>178</b>	<b>21.4%</b>
<b>Churn rate (%)</b>	<b>3</b>	<b>2</b>	<b>-0.3 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>114</b>	<b>119</b>	<b>4.8 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>47</b>	<b>46</b>	<b>-0.8 p.p.</b>
<b>Smartphone customers (%) <sup>2)</sup></b>	<b>55</b>	<b>57</b>	<b>1.2 p.p.</b>
<b>Smartphones sold (%) <sup>3)</sup></b>	<b>80</b>	<b>90</b>	<b>10.0 p.p.</b>

1) Source: competitors customers for EO March 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)

Key operational data	Q1 2017	Q1 2018	% of change A18/A17
<b>Fixed mainlines in 000</b>			
<b>Fixed mainlines - retail</b> <sup>1)</sup>	911	858	-5.8%
<b>Fixed mainlines - wholesale</b> (WLR - wholesale line rental)	76	59	-22.4%
<b>ARPU voice per user</b> (monthly average for the period in HRK) <sup>2)</sup>	80	72	-9.5%
<b>IP mainlines/customers in 000</b>			
<b>Broadband access lines - retail</b> <sup>3)</sup>	621	620	-0.1%
<b>Broadband access lines - wholesale</b> <sup>4)</sup>	142	130	-8.4%
<b>TV customers</b>	408	415	1.7%
<b>Broadband retail ARPU</b> (monthly average for the period in HRK)	118	111	-6.1%
<b>TV ARPU</b> (monthly average for the period in HRK)	81	81	0.0%
<b>Wholesale customers in 000</b>			
<b>ULL (Unbundled Local Loop)</b>	144	131	-9.2%

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

2) Payphones excluded

3) Includes Includes ADSL, VDSL, FTTH, FTTB, FTTC

4) Includes Naked Bitstream + Bitstream

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

Note: ARPU for Q1 2018 includes IFRS 15 effects

## I. Mobile telecommunications

Mobile revenue above Q1 2017 by HRK 18 million or 2.6% under influence of higher handsets that offset lower postpaid and decline in prepaid. Excluding IFRS 15 effects, handset revenue above Q1 2017 by HRK 14 million or 13.3%, and postpaid above by HRK 12 million or 3.2%.

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

Mobile customer base slightly increased by 0.9%, to 2,229 thousand customers at the end of Q1 2018 in comparison to Q1 2017 mainly as a result of great overall performance of postpaid under influence of Magenta1 offers, Bonbon campaigns and M2M growth, which was partially offset by lower prepaid segment performance.

Number of postpaid customers was higher by 9.1% than at the end of Q1 2017 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as attractive TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta1 Christmas campaign and offer "In Magenta1 everyone gets double amount of minutes, SMS and GBs" continued through Q1 2018. Offer was further enriched by attractive gadgets like Huawei Y6 2017 with 50% discount, Huawei P 10 and P10 Lite and Samsung S8 & J7.

HT continued with push of new postpaid portfolio with value heavy offers focused on content and data to fully utilize network leadership - 4G with the highest speed up to 350 Mbit/s in all new postpaid tariffs. All tariffs include MAXtv To Go mobile application, 1 zero rated app and possibility of unlimited access to entertainment content without spending traffic included in tariff package. First tariff fully specialized for young which was launched in 2017 was further enriched and promoted. The greatest benefit is unlimited Youtube, Netflix, HBO GO Pickbox and MAXtv To Go via Stream On service without the usage of 6 GB included in the tariff plan. Young can also choose one additional app that will not spend the plan traffic and which can be changed each month free of charge.

Offer includes a broad range of best innovative gadgets with possibility to choose 36 monthly installments and 24/7 customer support on social networks.

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

Number of prepaid customers was 8.3% lower than in Q1 2017 due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

HT continued with promotion of Simpa Hibrid with main message "Best of both worlds". New Hibrid tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world - enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. Except Hibrid offers Simpa customers can choose between different tariff options and VAS services (MAXtv To Go); for example Simpa Zmajaska option which includes 5,000 MB/MIN/SMS which users can use as they want for HRK 69 per month.

Bonbon continued with bringing its customers additional value, this time through new 2 weekly options for MB, MIN, SMS for HRK 10 or HRK 20 which bonbon customers can combine with monthly options. Furthermore Bonbon continued with 20GB package offer for all postpaid customers which can be purchased alone or combined with current minutes and/or SMS packages as well as other well-known benefits like Bonbon agents 0-24h availability, "Rollover" and 4G speed Internet.

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 Q1 2018 increased by 5.3% compared to Q1 2017 while blended ARPU decreased due to introduction of IFRS 15. Excluding IFRS 15 effects, blended ARPU slightly above Q1 2017 at level of HRK 76 (0.6% above).

## **II. Fixed telecommunications**

Fixed revenue below Q1 2017 by HRK 31 million or 3.7% under influence of declining fixed voice revenue, lower wholesale, lower broadband which were partially offset by higher other revenue mainly coming from Optima and H1 consolidation and TV revenue. IFRS 15 further decreased fixed revenue by HRK 2 million.

### **Fixed line**

Fixed voice revenue below Q1 2017 by HRK 32 million or 14.4% influenced by 5.8% lower total fixed access mainlines (amounting to 858 thousand in Q1 2018) in comparison to same period last year. 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 304 million of minutes in Q1 2018. That is 4.6% 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 249 per month. Offer was further accompanied by tablet for HRK 99 with special simplified applications and screen for easy use, Huawei phone and SOS bracelet. Another offer for elderly introduced in 2016 continued through Q1 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 9.5% compared to Q1 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 8.6% below Q1 2017.

### **Broadband**

Broadband revenue lower by HRK 10 million or 4.6% in comparison to Q1 2017 in spite of stable customer base that amounts to 620 thousand.

At the same time broadband retail ARPU was 6.1% below Q1 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 4.9% below Q1 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 Mbit/s (or up to 1000 Mbit/s 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.

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

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

## TV

TV revenue is above Q1 2017 by 3.4%. Customer base shows 1.7% increase from Q1 2017 and is at the level of 415 thousand as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content. TV ARPU is in line with Q1 2017 at a level of HRK 81. Excluding IFRS 15 effects, ARPU is 1.9% above Q1 2017.

In 2017 HT presented a new generation of MAXtv television services (IPTV and OTT) which due to broad range of functionalities available on Croatian market for the first time sets a new standard in TV world. Richest content, premium picture quality, interactivity, new interface and full integration with mobile devices provide customers a unique TV viewing experience fully adapted to their habits. HT further improved the content with new documentary, movie and lifestyle channels.

Satellite TV, alternative TV technology, continues to grow with further improvements in offerings providing more value for the customers and is expected to contribute significantly to the overall TV success. It continued with attractive promo offering 50% discount on Basic or Basic Extra package monthly fee for first nine months with MCD 24.

## **Wholesale**

Lower wholesale revenue (HRK 13 million or 13.7%) is mainly driven by Optima and H1 consolidation from July 2017.

At the end of Q1 2018 there were 131 thousand of active ULL lines, which was lower by 9.2% 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 130 thousand at the end of Q1 2018, which was 8.4% below last year realization with driver being higher usage of operator's own infrastructure.

Number of WLR lines at the end of period decreased by 22.4% compared to previous year and reached 59 thousand as a result of declining voice market and migration to broadband services.

In 2018 successful sales 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 19.9% 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 66.3% more voice originating minutes and 434.5% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 327.7% more roaming voice traffic in foreign countries and 1,360.4% more data traffic. During 2018, additional 4G (LTE) international roaming services with foreign partners were set up reaching 156 4G worldwide roaming interconnections in total.

Another significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 76.7% in Q1 2018 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.1% and from HT mobile network users increased by 92.6%.

## **System solutions**

System solution revenue is in line with Q1 2017 (decrease of HRK 1 million or 0.7%).

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

In Combis growth in all portfolio segments continues followed by significant growth of profitability. To support further growth, in Q1 2018 Combis started with strategic reorganization in two streams: sharing business functions with HT and strategic internal reorganization. In alignment with HT several internal functions, like HR, Legal affairs and Controlling are now shared between Combis and HT. The other part is internal Combis reorganization which resulted with better customer support, efficiency and focus on key businesses such as: managed services; enterprise infrastructure and system integration; application development and business solutions; emerging businesses and growth; ICT sales and new business development.

## Energy

Revenues from energy were lower by HRK 3 million or 7.7% when compared to Q1 2017 due to lower number of business customers by 12.9%. Further focus on telco-energy convergent proposition to increase customer loyalty.

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

in HRK million

<b>INCOME STATEMENT</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
Revenue	148	144	-2.6%
Mobile	70	73	4.5%
Fixed voice	21	20	-7.5%
Broadband & TV	31	29	-5.6%
Fixed wholesale	5	4	-10.5%
Other fixed	15	13	-14.9%
System solutions	7	6	-13.1%
EBITDA before exceptional items	45	50	10.6%
Exceptional items	0	1	-
EBITDA after exceptional items	45	49	7.9%
EBIT (Operating profit)	5	8	65.4%
Net profit after non controlling interests	4	8	89.7%
EBITDA margin before exceptional items	30.5%	34.7%	4.1 p.p.
EBITDA margin after exceptional items	30.5%	33.8%	3.3 p.p.
EBIT margin	3.2%	5.4%	2.2 p.p.
Net profit margin	2.9%	5.6%	2.7 p.p.

<b>Key operational data</b>	<b>Q1 2017</b>	<b>Q1 2018</b>	<b>% of change A18/A17</b>
<b>Mobile customers in 000</b>	<b>353</b>	<b>348</b>	<b>-1.4%</b>
- Prepaid	161	134	-16.9%
- Postpaid	192	214	11.5%
<b>Fixed mainlines - retail in 000</b>	<b>132</b>	<b>119</b>	<b>-10.4%</b>
<b>Broadband access lines - retail in 000</b>	<b>71</b>	<b>69</b>	<b>-1.9%</b>
<b>TV customers in 000</b>	<b>58</b>	<b>56</b>	<b>-3.3%</b>

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

Market pressure resulted with lower revenue realization by HRK 4 million or 2.6% in in comparison to Q1 2017.

### **I. Mobile telecommunications**

Mobile revenues increased compared to Q1 2017 by HRK 3 million or 4.5% influenced by higher handsets and postpaid, partially offset by lower prepaid.

Crnogorski Telekom has set its focus on postpaid segment. Postpaid revenue increased by 5.1% compared to Q1 2017 driven by customer base growth of 11.5% supported by the renewed tariff portfolio. Consumer customers had the opportunity to benefit from the new version of Max Postpaid, which provides a better service with more minutes and internet. Also, the focus was kept on Magenta1 consumers through Magenta Retention campaign. On the other hand, business customers were offered the new Postpaid portfolio, giving them more postpaid benefits and internet.

Prepaid segment still represents a challenge, and has declined compared to Q1 2017 by 19.0%. Main drivers of prepaid decline are lower customer base by 16.9% as a result of main competitors focus on prepaid segment.

Crnogorski Telekom has enriched its offer by introducing Xiaomi handsets to the portfolio of mobile devices as well as the new Samsung Galaxy S9 line of products.

### **II. Fixed telecommunications**

Although Crnogorski Telekom has market share leadership in fixed voice and broadband in Montenegrin market, fixed revenues declined compared to Q1 2017 by HRK 6 million or 8.4%. Churn prevention efforts are taken with Magenta1 refresh, VDSL and Extra Duo offers in core telco retail.

Fixed voice decline continued (HRK 2 million or 7.5%) but at a slower rate. Decrease is driven by ongoing fixed to mobile substitution and lower customer base by 10.4%.



Broadband revenue below Q1 2017 by HRK 2 million or 9.9% driven by 8.3% lower ARPU while customer base decreased by 1.9%.

TV revenues in line with Q1 2017.

System solution revenue slightly below Q1 2017 by HRK 1 million or 13.1% driven by different project seasonalization.

Regarding fixed services, beside Magenta1 retention, in Q1 2018 a gross add campaign was going on where customers were getting discounts for adding broadband and/or IPTV component. Fixed BB and IPTV customer numbers witness positive development in Q1 2018, i.e., stabilization and slight growth even as compared to decrease throughout 2017.

Finally, the latest measurements show increase of customer satisfaction index (TRIM) as compared to Q4 2017, for both fix and mobile services and for both Consumer and Business customer segments.

### **3. Overview of segment profitability**

#### **Disclosure**

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

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

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

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

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

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

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

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

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

### Residential segment

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
Mobile revenue	462	473	2.3%
Fixed revenue	446	414	-7.2%
Miscellaneous	11	10	-6.6%
<b>Revenue</b>	<b>919</b>	<b>897</b>	<b>-2.4%</b>
<b>Operating expenses</b>	<b>307</b>	<b>291</b>	<b>-5.3%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>612</b>	<b>606</b>	<b>-1.0%</b>

### Business segment

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
Mobile revenue	213	220	3.4%
Fixed revenue	272	249	-8.2%
System solution	134	133	-0.7%
Miscellaneous	24	23	-2.5%
<b>Revenue</b>	<b>643</b>	<b>626</b>	<b>-2.6%</b>
<b>Operating expenses</b>	<b>334</b>	<b>348</b>	<b>4.4%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>309</b>	<b>278</b>	<b>-10.1%</b>

### Network and support functions

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
Other operating income	21	24	13.0%
Operating expenses	371	344	-7.3%
<b>Contribution to EBITDA before exceptional items</b>	<b>-350</b>	<b>-320</b>	<b>8.6%</b>

### Segment Optima consolidated

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
Fixed revenue	108	131	21.3%
<b>Revenue</b>	<b>108</b>	<b>131</b>	<b>21.3%</b>
Other operating income	1	0	-65.6%
Operating expenses	51	61	18.6%
<b>Contribution to EBITDA before exceptional items</b>	<b>57</b>	<b>70</b>	<b>22.8%</b>

### Segment Crnogorski Telekom consolidated

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
Mobile revenue	70	73	4.6%
Fixed revenue	72	65	-8.6%
System solution	7	6	-13.1%
<b>Revenue</b>	<b>148</b>	<b>144</b>	<b>-2.6%</b>
Other operating income	1	1	53.6%
Operating expenses	103	95	-8.3%
<b>Contribution to EBITDA before exceptional items</b>	<b>46</b>	<b>51</b>	<b>11.3%</b>

## Segment P&L Bridge to HT Group EBITDA

in HRK million	Q1 2017	Q1 2018	<i>% of change A18/A17</i>
<b>Segment Result (Contribution to EBITDA)</b>			
Residential Segment	612	606	-1.0%
Business Segment	309	278	-10.1%
Network and Support Functions	-350	-320	8.6%
Segment Optima consolidated	57	70	22.8%
Segment Crnogorski telekom consolidated	46	51	11.3%
<b>Total Contribution to EBITDA before exceptional items of the Segments</b>	<b>674</b>	<b>684</b>	<b>1.6%</b>
Exceptional items	32	23	-27.7%
<b>Total EBITDA</b>	<b>641</b>	<b>661</b>	<b>3.1%</b>

## 4. HT Inc. financial highlights

### Revenue

Revenue decreased by HRK 38 million or 2.6% to HRK 1,409 million in Q1 2018 when compared to Q1 2017. Decrease was driven by lower fixed revenue (HRK 49 million or 7.2%) mostly as a result of declining voice and lower broadband; lower system solution (HRK 4 million or 7.3%) and miscellaneous (HRK 2 million or 6.7%) coming from energy business. Decrease was partially offset by higher mobile revenue (HRK 17 million or 2.6%) influenced by increased handset revenue.

### EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 2 million or 0.3% to HRK 581 million in Q1 2018, mainly as a result of lower revenue (HRK 38 million or 2.6%), partially compensated with lower operating expenses excluding exceptional items (HRK 34 million or 3.8%) and higher other operating income (HRK 2 million or 9.2%). Lower revenue realization is primarily under influence of declining fixed voice while operating expenses decreased due to implemented savings measures, different timing of marketing campaigns and seasonalization of other costs.

### Net profit after non controlling interests

Net profit after non controlling interests increased by HRK 14 million or 10.0% to HRK 159 million in Q1 2018. Increase was primarily a result of lower financial loss (HRK 15 million or 36.0%), lower exceptional items related to personnel redundancy restructuring costs (HRK 11 million or 33.9%); slightly offset by higher depreciation and amortization (HRK 8 million or 2.4%) mainly driven by electronic communication infrastructure assets, higher taxation (HRK 2 million or 6.1%) and lower EBITDA before exceptional items (HRK 2 million or 0.3%).

## 5. Risk management

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

## 6. HT Group 2018 outlook

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

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

## 7. HT Group financial statements

### 7.1. Consolidated Income Statement

in HRK million	Q1 2017	Q1 2018	% of change A18/A17
Mobile revenue	745	766	2.8%
Fixed revenue	897	859	-4.2%
System solutions	141	139	-1.3%
Miscellaneous	35	34	-3.8%
<b>Revenue</b>	<b>1,818</b>	<b>1,798</b>	<b>-1.1%</b>
Other operating income	23	26	11.6%
<b>Total operating revenue</b>	<b>1,841</b>	<b>1,823</b>	<b>-0.9%</b>
<b>Operating expenses</b>	<b>1,199</b>	<b>1,162</b>	<b>-3.1%</b>
Material expenses	540	561	3.9%
Employee benefits expenses	266	263	-1.1%
Other expenses	392	352	-10.3%
Work performed by the Group and capitalised	-15	-24	62.8%
Write down of assets	16	11	-32.6%
<b>EBITDA</b>	<b>641</b>	<b>661</b>	<b>3.1%</b>
Depreciation and amortization	412	427	3.7%
<b>EBIT</b>	<b>229</b>	<b>233</b>	<b>2.0%</b>
Financial income	22	14	-38.6%
Income/loss from investment in joint ventures	-1	-3	164.4%
Financial expenses	70	47	-32.8%
<b>Profit before taxes</b>	<b>180</b>	<b>197</b>	<b>9.5%</b>
Taxation	34	37	9.0%
<b>Net profit</b>	<b>146</b>	<b>160</b>	<b>9.6%</b>
Non controlling interests	-2	-6	153.4%
<b>Net profit after non controlling interests</b>	<b>149</b>	<b>166</b>	<b>11.8%</b>
Exceptional items <sup>1)</sup>	32	23	-27.7%
<b>EBITDA before exceptional items</b>	<b>674</b>	<b>684</b>	<b>1.6%</b>

1) Mainly related to restructuring redundancy costs

## 7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2017	At 31 Mar 2018	% of change A18/A17
Intangible assets	2,539	2,548	0.4%
Property, plant and equipment	6,175	6,166	-0.1%
Non-current financial assets	1,333	1,313	-1.5%
Receivables	248	277	11.8%
Contract assets (IFRS 15)	0	38	-
Contract costs (IFRS 15)	0	68	-
Deferred tax asset	91	91	0.2%
<b>Total non-current assets</b>	<b>10,385</b>	<b>10,501</b>	<b>1.1%</b>
Inventories	128	150	17.0%
Receivables	1,631	1,459	-10.5%
Current financial assets	197	42	-78.8%
Contract assets (IFRS 15)	0	158	-
Contract costs (IFRS 15)	0	37	-
Cash and cash equivalents	3,152	3,374	7.0%
Prepayments and accrued income	246	198	-19.3%
<b>Total current assets</b>	<b>5,353</b>	<b>5,418</b>	<b>1.2%</b>
<b>TOTAL ASSETS</b>	<b>15,738</b>	<b>15,919</b>	<b>1.1%</b>
Subscribed share capital	9,823	9,823	0.0%
Reserves	492	492	0.0%
Revaluation reserves	2	-7	-
Treasury shares	0	-17	-
Retained earnings	1,024	2,063	101.5%
Net profit for the period	863	166	-80.8%
Non controlling interests	369	350	-5.1%
<b>Total issued capital and reserves</b>	<b>12,573</b>	<b>12,870</b>	<b>2.4%</b>
Provisions	73	73	0.6%
Non-current liabilities	617	652	5.7%
Contract liabilities (IFRS 15)	0	13	-
Deferred tax liability	47	46	-3.8%
<b>Total non-current liabilities</b>	<b>737</b>	<b>784</b>	<b>6.4%</b>
Current liabilities	2,310	2,108	-8.7%
Contract liabilities (IFRS 15)	0	45	-
Deferred income	89	92	3.7%
Provisions for redundancy	30	20	-34.5%
<b>Total current liabilities</b>	<b>2,429</b>	<b>2,265</b>	<b>-6.7%</b>
<b>Total liabilities</b>	<b>3,166</b>	<b>3,049</b>	<b>-3.7%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,738</b>	<b>15,919</b>	<b>1.1%</b>



### 7.3. Consolidated Cash Flow Statement

in HRK million	Q1 2017	Q1 2018	% of change A18/A17
Profit before tax	180	197	9.5%
Depreciation and amortization	412	427	3.7%
Increase / decrease of current liabilities	0	-140	
Increase / decrease of current receivables	126	185	47.3%
Increase / decrease of inventories	-36	-28	21.9%
Other cash flow increases / decreases	-30	-79	-166.8%
<b>Net cash inflow/outflow from operating activities</b>	<b>653</b>	<b>563</b>	<b>-13.8%</b>
Proceeds from sale of non-current assets	4	10	123.0%
Proceeds from sale of non-current financial assets	0	0	-0.7%
Interest received	4	6	51.0%
Dividend received	0	0	-
Other cash inflows from investing activities	716	158	-77.9%
<b>Total increase of cash flow from investing activities</b>	<b>725</b>	<b>174</b>	<b>-76.0%</b>
Purchase of non-current assets	-320	-375	-17.4%
Purchase of non-current financial assets	-930	0	100.0%
Other cash outflows from investing activities	-99	0	100.0%
<b>Total decrease of cash flow from investing activities</b>	<b>-1,349</b>	<b>-375</b>	<b>72.2%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-624</b>	<b>-201</b>	<b>67.8%</b>
<b>Total increase of cash flow from financing activities</b>			-
Repayment of loans and bonds	-48	-32	33.1%
Dividends paid	-1	0	99.1%
Repayment of finance lease	-51	-1	98.7%
Other cash outflows from financing activities	-75	-104	-38.7%
<b>Total decrease in cash flow from financing activities</b>	<b>-175</b>	<b>-137</b>	<b>21.9%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-175</b>	<b>-137</b>	<b>21.9%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>-13</b>	<b>-4</b>	<b>72.3%</b>
Cash and cash equivalents at the beginning of period	2,734	3,152	15.3%
Net cash (outflow) / inflow	-159	222	239.9%
<b>Cash and cash equivalents at the end of period</b>	<b>2,576</b>	<b>3,374</b>	<b>31.0%</b>

## 8. Notes to the condensed consolidated financial statements for the three months ended on 31 March 2018

### **Basis of preparation**

The condensed consolidated financial statements as of 31 March 2018 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

### **Significant Accounting Policies**

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

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

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

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

### **Dividends**

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

Dividend will be paid in May 2018.

## Segment information

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

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

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

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

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

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

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

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

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

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

Period ended 31 March 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
<b>Net revenue</b>	<b>919</b>	<b>643</b>	-	<b>108</b>	<b>148</b>	<b>1.818</b>
Mobile revenue	462	213	-	-	70	745
Fixed revenue	446	272	-	108	71	897
System solutions revenue	-	134	-	-	7	141
Miscellaneous revenue	11	24	-	-	-	35
Usage related direct costs	(51)	(49)	-	(21)	(12)	(133)
Income and losses on accounts receivable	(5)	(5)	-	(2)	(3)	(15)
<b>Contribution margin I</b>	<b>863</b>	<b>589</b>	-	<b>85</b>	<b>133</b>	<b>1.670</b>
Non-usage related direct costs	(162)	(188)	-	(2)	(26)	(378)
<b>Segment result</b>	<b>701</b>	<b>401</b>	-	<b>83</b>	<b>107</b>	<b>1.292</b>
Other income	-	-	21	1	1	23
Other operating expenses, restated	(96)	(99)	(390)	(27)	(62)	(674)
Depreciation, amortization and impairment of non-current assets	-	-	(348)	(24)	(40)	(412)
<b>Operating profit</b>	<b>605</b>	<b>302</b>	<b>(717)</b>	<b>33</b>	<b>6</b>	<b>229</b>

Period ended 31 March 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
<b>Net revenue</b>	<b>897</b>	<b>626</b>	-	<b>131</b>	<b>144</b>	<b>1.798</b>
Mobile revenue	473	220	-	-	73	766
Fixed revenue	414	249	-	131	65	859
System solutions revenue	-	133	-	-	6	139
Miscellaneous revenue	10	24	-	-	-	34
Usage related direct costs	(49)	(59)	-	(24)	(10)	(142)
Income and losses on accounts receivable	(7)	3	-	(2)	(4)	(10)
<b>Contribution margin I</b>	<b>841</b>	<b>570</b>	-	<b>105</b>	<b>130</b>	<b>1.646</b>
Non-usage related direct costs	(149)	(203)	-	(5)	(24)	(381)
<b>Segment result</b>	<b>692</b>	<b>367</b>	-	<b>100</b>	<b>106</b>	<b>1.265</b>
Other income	-	-	24	-	1	25
Other operating expenses	(90)	(93)	(358)	(31)	(58)	(630)
Depreciation, amortization and impairment of non-current assets	-	-	(359)	(28)	(40)	(427)
<b>Operating profit</b>	<b>602</b>	<b>274</b>	<b>(693)</b>	<b>41</b>	<b>9</b>	<b>233</b>

## Relations with the governing company and its affiliated companies

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

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

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

#### *Transactions with related companies*

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

In the first three months of 2018 the Group generated total revenue from related companies from international traffic to the amount of HRK 34 million (the first three months of 2017: HRK 32 million), while total costs of international traffic amounted to HRK 40 million (the first three months of 2017: HRK 34 million).

#### *Compensation of the Supervisory Board*

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

In the first three months of 2018 the Company paid a total amount of HRK 0.2 million (the first three months of 2017: HRK 0.2 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

#### *Compensation to key management personnel*

In the first three months of 2018 the total compensation paid to key management personnel of the Group amounted to HRK 7 million (first three months of 2017: HRK 8 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

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

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

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

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

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

Mr. Boris Batelić, Member of the Management Board and Chief Customer Experience Officer

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

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

Zagreb, 26 April 2018

## Presentation of information

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

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

Therefore, references to “Business” are to business operations performed within the Company’s Business Segment.

References to “Residential” are to business operations performed within the Company’s Residential Segment.

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

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

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

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

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

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

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

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

## Disclaimer

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company’s expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional information concerning important factors that could cause actual results to differ materially is available in the Group’s reports which may be found at [www.t.ht.hr](http://www.t.ht.hr)