

**Croatian Telecom Inc.**

Financial statements

31 December 2018

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### *Supervisory Board*

The members of the Supervisory Board who served during 2018 and until the issuing of these statements are as follows:

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

### *Management Board*

The members of the Management Board who served during 2018 and until the issuing of these statements are as follows:

Davor Tomašković	President	From 1 January 2014
Nataša Rapaić	Member	From 1 February 2013
Boris Batelić	Member	Until 30 April 2018
Marija Felkel	Member	Until 17 January 2019
Saša Kramar	Member	From 1 June 2016
Boris Drilo	Member	From 1 January 2017
Daniel Daub	Member	From 1 November 2017

## Responsibility for the financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that 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. (the "Company") for that period.

The Management Board has a reasonable expectation that the Company 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 financial statements.

In preparing those 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 financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The accompanying 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 Company,

Mr. Davor Tomasković

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 Rapačić  
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 separate financial statements

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### *Our opinion*

In our opinion, the separate financial statements give a true and fair view of the financial position of Hrvatski Telekom d.d. (the "Company") as at 31 December 2018, and of its financial performance and its 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 Company's separate financial statements comprise:

- Statement of comprehensive income for the year ended 31 December 2018;
  - Statement of financial position as at 31 December 2018;
  - Statement of cash flows for the year then ended;
  - Statement of changes in equity for the year then ended; and
  - Notes to the 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 separate 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 Company 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 Company 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 Company, in the period from 1 January 2018 to 31 December 2018, are disclosed in the note 40 to the separate financial statements.

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## Our audit approach

### Overview

<b>Materiality</b>	<ul style="list-style-type: none"><li>Overall materiality for separate financial statements: HRK 66 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA).</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>Revenue recognition and adoption of IFRS 15</li><li>Capitalisation of content rights</li></ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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.

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

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the separate 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 separate financial statements as a whole.

<b>Overall materiality for separate financial statements</b>	HRK 66 million
<b>How we determined it</b>	2.5% of EBITDA. EBITDA (HRK 2,645 million) is operating profit (HRK 1,293 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment and intangible assets (HRK 1,352 million).
<b>Rationale for the materiality benchmark applied</b>	We consider EBITDA to be the key metric in the industry the Company is operating in, and it is the benchmark against which the performance of the Company 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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

### *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 3 (Segment information). The Company separate statement of comprehensive income includes revenue of HRK 6,028 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 Company 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 254 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 2 percentage points. In view of the material impact and the complexity of the implementation of the new standard, the recognition and presentation of the impact of IFRS 15 adoption was of particular importance for our audit.

## How our audit addressed the Key audit matter

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 Company'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 Company's revenue recognition policies based on our experience with the Company and knowledge of the IFRS 15 impact on telecommunications industry.
- We assessed accuracy and completeness of separate 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.



## Key audit matter

## How our audit addressed the Key audit matter

### *Capitalisation of content rights*

Refer to note 2.4.e (Summary of accounting policies) and note 14 (Intangible assets). The Company separate statement of financial position includes capitalised intangible assets of HRK 1,414 million, which includes capitalised content rights of HRK 222 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 Company’s accounting policy, and management’s assumptions were reasonable.

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

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

Our opinion on the separate 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 separate 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 separate 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 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 separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 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 Company 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.

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### *Responsibilities of management and those charged with governance for the separate financial statements*

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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### *Auditor's responsibilities for the audit of the separate financial statements*

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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.

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## Report on other legal and regulatory requirements

### *Appointment*

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

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

*PricewaterhouseCoopers d.o.o.*

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



PricewaterhouseCoopers d.o.o.<sup>4</sup>  
za reviziju i konzalting  
Zagreb, Heinzelova 70

  
John Mathias Gasparac  
President of the Management Board

*Tomičić*  
Michaela Tomičić  
Certified Auditor

Statement of comprehensive income  
For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
Revenue	3	6,028	6,073
Other operating income	4	146	157
Merchandise, material and energy expenses	5	(1,091)	(1,095)
Service expenses	6	(572)	(528)
Employee benefits expenses	8	(796)	(767)
Work performed by the Company and capitalised		74	87
Depreciation, amortization and impairment of non-current assets	7	(1,352)	(1,444)
Net impairment losses on trade receivables and contract assets	21	(55)	(82)
Other expenses	9	(1,089)	(1,286)
<b>Operating profit</b>	3	<b>1,293</b>	<b>1,115</b>
Finance income	10	20	25
Finance costs	11	(102)	(123)
Finance (costs) – net		(82)	(98)
Income from dividends – joint venture and subsidiaries	17,18	-	10
<b>Profit before income tax</b>		<b>1,211</b>	<b>1,027</b>
Income tax expense	12	(220)	(186)
<b>Profit for the year</b>		<b>991</b>	<b>841</b>
<b>Items that may be subsequently reclassified to comprehensive income</b>			
Change in value of available for sale financial assets		-	3
Changes in the fair value of debt instruments at fair value		(5)	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(5)</b>	<b>3</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>986</b>	<b>844</b>

Statement of comprehensive income (continued)  
For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
<b>Profit attributable to:</b>			
Equity holders of the Company		<u>991</u>	<u>841</u>
		<u>991</u>	<u>841</u>
<b>Total comprehensive income arisen from continuing operations attributable to:</b>			
Equity holders of the Company		<u>986</u>	<u>844</u>
		<u>986</u>	<u>844</u>
<b>Earnings per share</b>			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	13	<u>HRK 12.17</u>	<u>HRK 10.28</u>

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

Statement of financial position  
As at 31 December 2018

	Notes	31 December 2018 HRK million	31 December 2017 HRK million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	14	1,414	1,380
Property, plant and equipment	15	5,120	5,049
Investment property	16	21	35
Investments in subsidiaries	17	1,722	1,722
Investments accounted for using the cost method	18	337	337
Financial assets available for sale	19	-	948
Financial assets at fair value through other comprehensive income	19	926	-
Loans receivable from subsidiary	35	1	1
Trade and other receivables	21	302	164
Contract assets	22	111	-
Bank deposits	24	-	3
Deferred income tax asset	12	82	76
<b>Total non-current assets</b>		<b>10,036</b>	<b>9,715</b>
<b>Current assets</b>			
Inventories	20	92	89
Trade and other receivables	21	1,046	1,101
Contract assets	22	186	-
Receivables from subsidiaries	35	185	208
Prepayments	23	174	220
Loans receivable from subsidiary	35	95	-
Bank deposits	24	112	160
Cash and cash equivalents	24	2,871	2,912
<b>Total current assets</b>		<b>4,761</b>	<b>4,690</b>
<b>TOTAL ASSETS</b>		<b>14,797</b>	<b>14,405</b>

Statement of financial position (continued)  
As at 31 December 2018

	Notes	31 December 2018 HRK million	31 December 2017 HRK million
<b>EQUITY AND LIABILITIES</b>			
<b>Issued capital and reserves</b>			
Issued share capital	29	9,823	9,823
Legal reserves	30	491	491
Fair value reserves		1	6
Reserve for treasury shares	31	71	37
Treasury shares	31	(71)	(37)
Retained earnings	32	2,556	1,954
<b>Total issued capital and reserves</b>		<b>12,871</b>	<b>12,274</b>
<b>Non-current liabilities</b>			
Provisions	28	58	58
Employee benefit obligations	27	7	9
Other liabilities	25	84	250
Deferred income tax liability	12	3	3
<b>Total non-current liabilities</b>		<b>152</b>	<b>320</b>
<b>Current liabilities</b>			
Trade payables and other liabilities	25	1,536	1,576
Contract liabilities	22	52	-
Accruals	28	66	85
Payables to subsidiaries		53	67
Income tax payable		67	19
Deferred income	26	-	64
<b>Total current liabilities</b>		<b>1,774</b>	<b>1,811</b>
<b>Total liabilities</b>		<b>1,926</b>	<b>2,131</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,797</b>	<b>14,405</b>

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

Signed on behalf of the Company on 13 February 2019:

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

  
  
HRVATSKI TELEKOM D.D.  
Zagreb

Mr. Daniel Daub  
Member of the Management Board and CFO

# Statement of cash flows

## For the year ended 31 December 2018

	Notes	2018 HRK million	2017 HRK million
<b>Operating activities</b>			
Profit before income tax		1,211	1,027
Depreciation, amortization and impairment of non-current assets	7	1,352	1,444
Interest income	10	(8)	(6)
Interest expense	11	81	77
(Gain) on disposal of assets	4,9	(12)	(69)
Other net financial loss (gain)	10,11	10	27
(Gain) on sale of electric energy business	4	(30)	
Income from dividends – joint venture and subsidiaries	17,18	-	(10)
Increase in inventories	20	(23)	(41)
(Increase) in receivables and prepayments		(38)	(232)
(Increase) in contract assets	22	(83)	-
Increase/(decrease) in payables and accruals	28	(77)	248
(Decrease) in contract liabilities	22	(12)	-
Increase in employee benefit obligations	27	3	1
Increase/(decrease) in provisions and accruals	28	(26)	13
Other non-cash items		(11)	(1)
Cash generated from operations		2,337	2,478
Interest paid		(61)	(88)
Income tax paid		(216)	(205)
<b>Net cash flows from operating activities</b>		<b>2,060</b>	<b>2,185</b>
<b>Investing activities</b>			
Payments for non-current assets		(1,285)	(1,168)
Acquisition of subsidiary		-	(924)
Proceeds from sale of non-current assets		26	97
Proceeds from sale of electric energy business	4	30	-
Payments for deposits		-	(5)
Proceeds from deposits		5	33
Proceeds from sale of financial assets at fair value through other comprehensive income		13	44
Payments for secured deposits (reverse REPO arrangements)	24	(504)	(255)
Proceeds from secured deposits (reverse REPO arrangements)	24	550	1,229
Given loan to subsidiary		(95)	(48)
Loan repayment from subsidiary		-	48
Dividend received (joint venture and subsidiaries)	17,18	-	10
Interest received		4	9
<b>Net cash flows used in investing activities</b>		<b>(1,256)</b>	<b>(930)</b>
<b>Financing activities</b>			
Dividends paid	32	(489)	(491)
Repayment of radio frequency spectrum, content and ECI contracts		(285)	(266)
Repayment of lease liability and borrowings		-	(50)
Acquisition of treasury shares		(71)	(37)
<b>Net cash flows used in financing activities</b>		<b>(845)</b>	<b>(844)</b>
Net increase in cash and cash equivalents		(41)	411
Cash and cash equivalents as at 1 January		2,912	2,520
Exchange (gains) on cash and cash equivalents		-	(19)
<b>Cash and cash equivalents as at 31 December</b>	24	<b>2,871</b>	<b>2,912</b>

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 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	
<b>Net debt as at 31 December 2016</b>	<b>2,520</b>	<b>2,149</b>	<b>(11)</b>	<b>(38)</b>	<b>(197)</b>	<b>(132)</b>	<b>4,291</b>
Cash flow	411	(1,038)	11	39	266	-	(311)
Reclassification of current portion	-	-	-	-	(279)	279	-
Other non financial movements	-	-	-	-	-	(390)	(390)
Foreign exchange movements	(19)	-	-	(1)	-	-	(20)
<b>Net debt as at 31 December 2017</b>	<b>2,912</b>	<b>1,111</b>	<b>-</b>	<b>-</b>	<b>(210)</b>	<b>(243)</b>	<b>3,570</b>
Cash flow	(41)	(51)	-	-	285	-	193
Reclassification of current portion	-	-	-	-	(365)	365	-
Other non financial movements	-	(22)	-	-	(15)	(200)	(237)
Foreign exchange movements	-	-	-	-	-	-	-
<b>Net debt as at 31 December 2018</b>	<b>2,871</b>	<b>1,038</b>	<b>-</b>	<b>-</b>	<b>(305)</b>	<b>(78)</b>	<b>3,526</b>

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



Statement of changes in equity  
For the year ended 31 December 2018

	Issued share capital	Legal reserves	Fair value reserves	Reserve for treasury shares	Treasury shares	Retained earnings	Total
	HRK million (Note 29)	HRK million (Note 30)	HRK million	HRK million (Note 31)	HRK million (Note 31)	HRK million (Note 32)	HRK million
<b>Balance as at 1 January 2017</b>	<b>9,823</b>	<b>491</b>	<b>3</b>	-	-	<b>1,641</b>	<b>11,958</b>
Profit for the year	-	-	-	-	-	841	841
Other comprehensive income for the year	-	-	3	-	-	-	3
Total comprehensive income for the year	-	-	3	-	-	841	844
Reserve for treasury shares	-	-	-	37	-	(37)	-
Acquisition of treasury shares	-	-	-	-	(37)	-	(37)
Dividends paid to equity holders of the Company	-	-	-	-	-	(491)	(491)
<b>Balance as at 31 December 2017</b>	<b>9,823</b>	<b>491</b>	<b>6</b>	<b>37</b>	<b>(37)</b>	<b>1,954</b>	<b>12,274</b>
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-	-	-	-	-	(38)	(38)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	-	-	-	-	-	209	209
<b>Balance as at 1 January 2018 after adjustments</b>	<b>9,823</b>	<b>491</b>	<b>6</b>	<b>37</b>	<b>(37)</b>	<b>2,125</b>	<b>12,445</b>
Profit for the year	-	-	-	-	-	991	991
Other comprehensive income for the year	-	-	(5)	-	-	-	(5)
<b>Total comprehensive income for the year</b>	-	-	<b>(5)</b>	-	-	<b>991</b>	<b>986</b>
Reserve for treasury shares	-	-	-	71	-	(71)	-
Acquisition of treasury shares	-	-	-	-	(71)	-	(71)
Shares cancelled	-	-	-	(37)	37	-	-
Dividends paid to equity holders of the Company	-	-	-	-	-	(489)	(489)
<b>Balance as at 31 December 2018</b>	<b>9,823</b>	<b>491</b>	<b>1</b>	<b>71</b>	<b>(71)</b>	<b>2,556</b>	<b>12,871</b>

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

# Notes to the 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 Company as at 31 December 2018 was 4,216 (31 December 2017: 3,709).

The principal activities of the Company are described in Note 3.

The 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 financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

#### 2.1. Basis of preparation

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

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

The Company's financial statements are presented in Croatian Kuna ("HRK") which is the Company's functional currency. All amounts disclosed in the financial statements are presented in millions of HRK if not otherwise stated.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"), which were approved by the Management Board on 13 February 2019. In the consolidated financial statements, subsidiary undertakings (Note 17) have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

# Notes to the financial statements (continued)

## For the year ended 31 December 2018

### 2.2. Changes in accounting policies and disclosures

The Company 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 Company 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 Company*

#### **Adoption of IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the International Financial Reporting Standard 9 (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 Company adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company 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 42.

The first and continuous implementation of Hrvatski Telekom using the simplified method did not show significant impacts to financial statements.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**2.2. Changes in accounting policies and disclosures**

(a) *New and amended standards adopted by the Company (continued)*

**Adoption of IFRS 9 Financial Instruments (continued)**

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

	Measurement category		Carrying amount		IFRS 9 Remeasurement HRK million
	Original	New	Original	New	
	(IAS 39)	(IFRS 9)	(IAS 39)	(IFRS 9)	
					HRK million
<b>Non-current</b>					
Bonds	Available for sale	FVOCI	948	945	(3)
Loans receivable from subsidiaries	Amortised cost	Amortised cost	1	1	-
Trade and other receivables	Amortised cost	Amortised cost	164	152	(12)
Contract assets	Amortised cost	Amortised cost	-	44	(3)
Bank deposits	Amortised cost	Amortised cost	3	3	-
<b>Current</b>					
Trade and other receivables	Amortised cost	Amortised cost	1,101	1,084	(17)
Contract assets	Amortised cost	Amortised cost	-	170	(10)
Receivables from subsidiaries	Amortised cost	Amortised cost	208	208	-
Bank deposits	Amortised cost	Amortised cost	160	160	-
Cash and cash equivalents	Amortised cost	Amortised cost	2,912	2,912	-
<b>Total</b>					<b>(45)</b>

**Adoption of IFRS 15 Revenue from contracts with customers**

The Company applied simplified method of transition to IFRS 15. The Company 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 Company could not recognize revenue until delivery is complete. In practical terms, if Company provided subsidized handset and will provide mobile service over 24 months (multiple element arrangement), Company could not recognize any portion of service revenue to already delivered subsidized handset, because if Company 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.2. Changes in accounting policies and disclosures (continued)

(a) *New and amended standards adopted by the Company (continued)*

##### **Adoption of IFRS 15 Revenue from contracts with customers (continued)**

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 contract 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 Company'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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.2 Changes in accounting policies and disclosures (continued)

(a) *New and amended standards adopted by the Company (continued)*

#### Adoption of IFRS 15 Revenue from contracts with customers (continued)

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 completed as at 1 January 2018.

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 amount 1 January 2018
	HRK million	HRK million	HRK million	HRK million
Non-current receivables	164	26	-	190
Non-current contract assets	-	28	-	28
Current contract assets	-	120	-	120
Non-current costs to obtain contract	-	48	-	48
Current costs to obtain contract	-	32	-	32
Current contract liabilities	-	-	(64)	(64)
Deferred income	(64)	-	64	-
Income tax payable	(19)	(45)	-	(64)
Retained earnings	(1,954)	(208)	-	(2,163)

The following table shows comparison between financial statements prepared by applying IFRS 15 and IAS 11/IAS18:

#### Statement of financial position

	31 December 2018 IFRS 15 HRK million	31 December 2018 IAS 11/IAS 18 HRK million	Difference HRK million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	1,414	1,414	-
Property, plant and equipment	5,120	5,120	-
Investment property	21	21	-
Investments in subsidiaries	1,722	1,722	-
Investments accounted for using the cost method	337	337	-
Financial assets at fair value through other comprehensive income	926	926	-
Loans receivable from subsidiary	1	1	-
Trade and other receivables	302	302	-
Bank deposits	-	-	-
Deferred income tax asset	82	82	-
Contract assets	111	-	111
<b>Total non-current assets</b>	<b>10,036</b>	<b>9,925</b>	<b>111</b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**2.2 Changes in accounting policies and disclosures (continued)**

(a) *New and amended standards adopted by the Company (continued)*

**Adoption of IFRS 15 Revenue from contracts with customers (continued)**

Statement of financial position (continued)

	31 December 2018	31 December 2018	Difference
	IFRS 15	IAS 11/IAS 18	
	HRK million	HRK million	HRK million
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	92	92	-
Contract assets	186	-	186
Trade and other receivables	1,046	1,046	-
Receivables from subsidiaries	185	185	-
Prepayments	174	174	-
Loans receivable from subsidiary	95	95	-
Bank deposits	112	112	-
Cash and cash equivalents	2,871	2,871	-
<b>Total current assets</b>	<b>4,761</b>	<b>4,575</b>	<b>186</b>
<b>TOTAL ASSETS</b>	<b>14,797</b>	<b>14,500</b>	<b>297</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Issued capital and reserves</b>			
Issued share capital	9,823	9,823	-
Legal reserves	491	491	-
Fair value reserves	1	1	-
Reserve for treasury shares	71	71	-
Treasury shares	(71)	(71)	-
Retained earnings	2,556	2,275	281
<b>Total issued capital and reserves</b>	<b>12,871</b>	<b>12,590</b>	<b>281</b>
<b>Non-current liabilities</b>			
Provisions	58	58	-
Employee benefit obligations	7	7	-
Other liabilities	84	84	-
Deferred income tax liability	3	3	-
<b>Total non-current liabilities</b>	<b>152</b>	<b>152</b>	<b>-</b>
<b>Current liabilities</b>			
Trade payables and other liabilities	1,536	1,536	-
Contract liabilities	52	-	52
Accruals	66	66	-
Payables to subsidiaries	53	53	-
Income tax payable	67	51	16
Deferred income	-	52	(52)
<b>Total current liabilities</b>	<b>1,774</b>	<b>1,758</b>	<b>16</b>
<b>Total liabilities</b>	<b>1,926</b>	<b>1,910</b>	<b>16</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,797</b>	<b>14,500</b>	<b>297</b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**2.2. Changes in accounting policies and disclosures (continued)**

(a) *New and amended standards adopted by the Company (continued)*

**IFRS 15 Revenue from contracts with customers (continued)**

Statement of comprehensive income

	31 December 2018	31 December 2018	
	IFRS 15	IAS 11/IAS 18	Difference
	HRK million	HRK million	HRK million
Revenue	6,028	5,965	63
Other operating income	146	146	-
Merchandise, material and energy expenses	(1,091)	(1,091)	-
Service expenses	(572)	(572)	-
Employee benefits expenses	(796)	(805)	9
Work performed by the Company and capitalised	74	74	-
Depreciation, amortization and impairment of non-current assets	(1,352)	(1,352)	-
Net impairment losses on trade receivables and contract assets	(55)	(50)	(5)
Other expenses	(1,089)	(1,105)	16
<b>Operating profit</b>	<b>1,293</b>	<b>1,210</b>	<b>83</b>
Finance income	20	20	-
Finance costs	(102)	(102)	-
Finance (costs) – net	(82)	(82)	-
<b>Profit before income tax</b>	<b>1,211</b>	<b>1,128</b>	<b>83</b>
Income tax expense	(220)	(205)	(15)
<b>Profit for the year</b>	<b>991</b>	<b>923</b>	<b>68</b>
<b>Items that may be subsequently reclassified to comprehensive income</b>			
Change in value of financial assets at fair value through other comprehensive income	(5)	(5)	-
<b>Other comprehensive income for the year, net of tax</b>	<b>(5)</b>	<b>(5)</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>986</b>	<b>918</b>	<b>68</b>
<b>Profit attributable to:</b>			
Equity holders of the Company	991	923	68
<b>Total comprehensive income arisen from continuing operations attributable to:</b>			
Equity holders of the Company	986	918	68



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**2.2. Changes in accounting policies and disclosures (continued)**

*(a) New and amended standards adopted by the Company (continued)*

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

	<b>HRK millions</b>
<b>Retained earnings 31 December 2017</b>	<b>1,954</b>
Recognition of contract assets	148
Unwinding of discounted non current receivables	26
Recognition of costs to obtain contract	80
Income tax on IFRS 15 effect	(45)
Total IFRS 15 effect	<hr/> 209
IFRS 9 effect	(45)
Income tax on IFRS 9 effect	7
Total IFRS 9 effect	<hr/> (38)
<b>Retained earnings 1 January 2018</b>	<b>2,125</b>

# Notes to the financial statements (continued)

## For the year ended 31 December 2018

### 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 Company. None of these standards and interpretations are expected to have significant effect on the Company'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 the Company's financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position.

The new regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes.

The Company 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, Company 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, Company 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 270 million to HRK 310 million and lease liabilities in the amount of HRK 250 million to HRK 290 million.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**2.2. Changes in accounting policies and disclosures (continued)**

*(b) New standards and interpretations not yet adopted (continued)*

**IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) (continued)**

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 Company 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 Company as a lessor.

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

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Company'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 Company 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 Company 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 Company.

#### *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 14, 15 and 16.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.3. Significant accounting judgments, estimates and assumptions (continued)

##### *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 Company. Further, due to the significant weight of depreciable assets in the Company's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Company.

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 Company's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2018	+10	83
	-10	(93)
Year ended 31 December 2017	+10	87
	-10	(97)

##### *Impairment of investments in subsidiaries*

The Company tests annually whether investments in subsidiaries have 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. 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 30 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.3. Significant accounting judgments, estimates and assumptions (continued)

#### *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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.3. Significant accounting judgments, estimates and assumptions (continued)

#### *Expected credit loss (ECL) measurement (continued)*

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:

<b>Buckets for measurement of credit risk</b>	<b>Period of measurement of ECL</b>	<b>Increase of credit risk</b>
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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### **2.3. Significant accounting judgments, estimates and assumptions (continued)**

##### *Expected credit loss (ECL) measurement (continued)*

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.



## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.3. Significant accounting judgments, estimates and assumptions (continued)

#### *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

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 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, dividend income from associate, subsidiaries 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) *Investments in subsidiaries*

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are measured at cost less any impairment in value.

##### c) *Investment in associate*

In the Company'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 Company is measured at cost less any impairment in value. 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.

##### d) *Investment in joint venture*

The Company 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. This investment is measured at cost less any impairment in value. An assessment of investment in joint venture 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.

##### 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 Company, 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 Company recognizes costs of content as an intangible asset at the inception of the related contract. The Company 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.4. Summary of accounting policies (continued)

#### e) *Intangible assets (continued)*

The Company 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 Company 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 Company cannot change its routes or find other locations for ECI in a shorter time period. Accordingly, it is Company's estimate that consistent period of 3 year 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 Company shortened the lease term to 1 year in 2018. Management of HT considers that the lessor can terminate the lease if HT 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 Company's management is that it is reasonably certain that HT 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 million.

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

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

Assets under construction are not amortised.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### 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.

Assets under construction represent plant and properties under construction and are 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### 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 Company. 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 Company 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.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

2.4. Summary of accounting policies (continued)

j) *Financial assets*

All assets are classified and measured as described below:

Classification and measurement	Classification / measurement
Assets	
<b>Current assets</b>	
Cash and cash equivalents (deposits, commercial papers, ...)	Hold to collect / Amortized cost
Trade and other receivables	Hold to collect Amortized cost
<b>Other financial assets</b>	
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)
<b>Non-current assets</b>	
Trade and other receivables	Hold to collect Amortized cost
<b>Other financial assets</b>	
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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *j) Financial assets (continued)*

##### *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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *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.

##### *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 Company 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 Company will obtain ownership at the end of the lease term.



## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *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 Company 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Company 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *n) Employee benefit obligations (continued)*

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 Company 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 Company'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 Company 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), Company 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *o) Revenue recognition (continued)*

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 193 million. The Company expects to recognize this amount to revenue in next 30 months period. Company 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 Company 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 Company with a significant benefit of financing the transfer of goods or services to the customer. The Company 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 Company'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 Company 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 Company 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 2.4. Summary of accounting policies (continued)

#### *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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

##### *r) Provisions*

A provision is recognized when, and only when, the Company 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 Company is demonstrably committed to a termination of employment contracts, that is when the Company 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 39. 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 Company'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 financial statements when material.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 2.4. Summary of accounting policies (continued)

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 Company's shareholders are recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

x) *Earnings per share*

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

y) *Contributed equity*

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

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 3 Segment information

The business reporting format of the Company for the purposes of segment reporting is determined to be Residential, Business and Network and Support Function segments as the Company'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 are rendered to, 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, TV distribution services and electricity 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 not meet the criteria for an operating segment.

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 II or segment result (as calculated in the table below).

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

Management of the Company does not monitor assets and liabilities by segments and therefore this information has not been disclosed.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**3 Segment information (continued)**

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

	Residential	Business	Network and Support functions	Total
	HRK million	HRK million	HRK million	HRK million
Year ended 31 December 2017				
Net revenue				
	3,534	2,539	-	6,073
<i>Mobile revenue</i>	1,963	1,049	-	3,012
<i>Fixed revenue</i>	1,545	1,149	-	2,694
<i>System solutions revenue</i>	-	226	-	226
<i>Miscellaneous revenue</i>	26	115	-	141
Usage related direct costs	(202)	(153)	-	(355)
Income and losses on accounts receivable	(24)	(58)	-	(82)
Contribution margin I	3,308	2,328	-	5,636
Non-usage related direct costs	(602)	(561)	-	(1,163)
Segment result (contribution margin II)	2,706	1,767	-	4,473
Other operating income	-	-	157	157
Other operating expenses	(327)	(261)	(1,483)	(2,071)
Depreciation, amortization and impairment of non-current assets	-	-	(1,444)	(1,444)
<b>Operating profit</b>	<b>2,379</b>	<b>1,506</b>	<b>(2,770)</b>	<b>1,115</b>
Year ended 31 December 2018				
Net revenue	3,496	2,532	-	6,028
<i>Mobile revenue</i>	2,042	1,106	-	3,148
<i>Fixed revenue</i>	1,436	1,113	-	2,549
<i>System solutions revenue</i>	-	233	-	233
<i>Miscellaneous revenue</i>	18	80	-	98
Usage related direct costs	(238)	(151)	-	(389)
Income and losses on accounts receivable	(38)	(12)	-	(50)
Contribution margin I	3,220	2,369	-	5,589
Non-usage related direct costs	(598)	(552)	-	(1,150)
Segment result (contribution margin II)	2,622	1,817	-	4,439
Other operating income	-	-	146	146
Other operating expenses	(350)	(229)	(1,361)	(1,940)
Depreciation, amortization and impairment of non-current assets	-	-	(1,352)	(1,352)
<b>Operating profit</b>	<b>2,272</b>	<b>1,588</b>	<b>(2,567)</b>	<b>1,293</b>



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**3 Segment information (continued)**

*Revenue by geographical area*

	2018 HRK million	2017 HRK million
Republic of Croatia	5,638	5,773
Rest of the world	390	300
	<b>6,028</b>	<b>6,073</b>

All of the Company's assets are located in Croatia.

None of the Company's external customers represents a significant source of revenue.

*Revenue by category*

	2018 HRK million	2017 HRK million
Revenue from rendering of services	5,061	5,450
Revenue from sale of goods and merchandise	967	623
	<b>6,028</b>	<b>6,073</b>

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

**4 Other operating income**

	2018 HRK million	2017 HRK million
Gain from sale of non-current assets	13	71
Rental income	34	28
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	28	32
	<b>146</b>	<b>157</b>

The Company 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 million, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**5 Merchandise, material and energy expenses**

	2018 HRK million	2017 HRK million
Cost of goods sold	859	814
Energy costs	108	97
Energy sales costs	98	169
Cost of raw material and supplies	14	15
Cost of services sold	12	-
	<u>1,091</u>	<u>1,095</u>

**6 Service expenses**

	2018 HRK million	2017 HRK million
Domestic interconnection	182	199
International interconnection	207	156
Other services	183	173
	<u>572</u>	<u>528</u>

**7 Depreciation, amortization and impairment of non-current assets**

	2018 HRK million	2017 HRK million
Depreciation	708	854
Amortization	620	553
	<u>1,328</u>	<u>1,407</u>
Impairment loss	24	37
	<u>1,352</u>	<u>1,444</u>

Notes 14, 15 and 16 disclose further details on amortization and depreciation expense and impairment loss.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**8 Employee benefits expenses**

	2018	2017
	HRK million	HRK million
Gross salaries without contribution	506	466
Taxes, contribution and other payroll costs	135	129
Contribution from gross salaries	116	115
Redundancy expenses (Note 28)	37	56
Amortisation of capitalised cost to obtain contract	1	-
Long-term employee benefits	1	1
	<u>796</u>	<u>767</u>

**9 Other expenses**

	2018	2017
	HRK million	HRK million
Licence cost	183	309
Maintenance services	253	265
Contract workers	96	123
Rent (Note 33)	132	122
Selling commissions	55	108
Amortisation of capitalised cost to obtain contract	40	-
Advertising	94	96
Provisions for charges and risks	13	36
Non-income taxes and contribution	33	31
Postal expenses	30	29
Education and consulting	28	28
Call centre and customer care support	17	15
Daily allowances and other costs of business trips	15	17
Expenses related to customers acquisition	8	14
Expenses from penalties and damage compensations	9	13
Discounts granted to customers	13	11
Insurance	11	10
Write down of inventories	7	5
Loss on disposal of fixed assets	1	2
Other operating charges	51	52
	<u>1,089</u>	<u>1,286</u>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**10 Finance income**

	2018 HRK million	2017 HRK million
Interest income	8	6
Foreign exchange gains	12	18
Income from sale of bonds	-	1
	<u>20</u>	<u>25</u>

**11 Finance costs**

	2018 HRK million	2017 HRK million
Interest expense	81	77
Foreign exchange loss	18	44
Other finance costs	4	2
	<u>102</u>	<u>123</u>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**12 Income tax expense**

a) *Tax on profit*

	2018 HRK million	2017 HRK million
Current tax expense	226	203
Deferred tax expense	(6)	(17)
	<u>220</u>	<u>186</u>

b) *Reconciliation of the taxation charge to the income tax rate*

	2018 HRK million	2017 HRK million
Profit before taxes	1,211	1,027
Income tax at 18% domestic rate	218	185
Tax effect of:		
Income not subject to tax	-	(2)
Expenses not deductible for tax purposes	2	2
Other	-	1
	<u>220</u>	<u>186</u>
Effective tax rate	<u>18.17%</u>	<u>18.11%</u>

The Company 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 Company. The Company believes a future tax liability will not arise in this regard.

As at 1 January 2018, the Company achieved an increase in retained earnings from the application of new accounting standards in the amount of HRK 171 million. The tax effect of this event is 18% or HRK 38 million, which will be included in the tax return of the company, which reduced the starting effect of HRK 209 million.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**12 Income tax expense (continued)**

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	31 December 2016 HRK million
<i>Statement of comprehensive income</i>					
Non-tax deductible provisions	15	7	8	(3)	11
Property, plant and equipment write down	41	(4)	45	13	32
Accrued interest on legal cases	4	(1)	5	4	1
Other	22	4	18	3	15
	<u>82</u>	<u>6</u>	<u>76</u>	<u>17</u>	<u>59</u>
<i>Other comprehensive income</i>					
Actuarial gains and losses	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deferred income tax asset</b>	<b><u>82</u></b>	<b><u>6</u></b>	<b><u>76</u></b>	<b><u>17</u></b>	<b><u>59</u></b>
<i>Other comprehensive income</i>					
Actuarial gains and losses	3	-	3	-	3
	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
<b>Deferred income tax liability</b>	<b><u>3</u></b>	<b><u>-</u></b>	<b><u>3</u></b>	<b><u>-</u></b>	<b><u>3</u></b>

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 12 Income tax expense (continued)

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.

Deferred tax assets arise on the impairment of property, plant and equipment, on provision for impairment of receivables and inventories (materials, merchandise), and accruals and provisions and other temporary differences. Out of the total deferred tax asset, current portion amounts to HRK 26 million.

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.

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.

#### 13 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company 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 in HRK million	991	841
Weighted average number of ordinary shares for basic earnings per share	81,427,562	81,833,631
	<u>HRK 12.17</u>	<u>HRK 10.28</u>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**14 Intangible assets**

	Licences	Software	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
<b>As at 1 January 2017</b>					
Cost	481	3,170	821	129	4,601
Accumulated amortization and impairment losses	(196)	(2,736)	(470)	-	(3,402)
<b>Net book value</b>	<b>285</b>	<b>434</b>	<b>351</b>	<b>129</b>	<b>1,199</b>
<b>Year ended 31 December 2017</b>					
Opening net book value	285	434	351	129	1,199
Additions	-	183	403	145	731
Transfers	-	95	(43)	(48)	4
Amortization charge	(37)	(222)	(294)	-	(553)
Impairment loss	-	(1)	-	-	(1)
<b>Net book value</b>	<b>248</b>	<b>489</b>	<b>417</b>	<b>226</b>	<b>1,380</b>
<b>As at 31 December 2017</b>					
Cost	481	3,433	1,176	226	5,316
Accumulated amortization and impairment losses	(233)	(2,944)	(759)	-	(3,936)
<b>Net book value</b>	<b>248</b>	<b>489</b>	<b>417</b>	<b>226</b>	<b>1,380</b>
<b>Year ended 31 December 2018</b>					
Opening net book value	248	489	417	226	1,380
Additions	-	244	283	182	709
Change in management estimate	-	-	(46)	-	(46)
Transfers	-	143	47	(185)	5
Disposal	-	-	(14)	-	(14)
Amortization charge	(36)	(304)	(280)	-	(620)
<b>Net book value</b>	<b>212</b>	<b>572</b>	<b>407</b>	<b>223</b>	<b>1,414</b>
<b>As at 31 December 2018</b>					
Cost	481	3,816	1,408	223	5,928
Accumulated amortization and impairment losses	(269)	(3,244)	(1,001)	-	(4,514)
<b>Net book value</b>	<b>212</b>	<b>572</b>	<b>407</b>	<b>223</b>	<b>1,414</b>



## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### **14 Intangible assets (continued)**

The intangible assets of the Company as at 31 December 2018 include five licences for use of the radio frequency spectrum (Notes 2.4. e) and 38 b)).

Other assets mainly consist of capitalised content contracts (HRK 222 million) and capitalised cost of electronic communication infrastructure. Assets under construction primarily relate to software and the various licences for the use of software.

##### *Additions of intangible assets*

Major additions in 2018 relate to application, system and network technology software and user licences in the amount of HRK 243 million, capitalised content costs of content in the amount of HRK 184 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 15 million).

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**15 Property, plant and equipment**

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
<b>As at 1 January 2017</b>					
Cost	2,258	11,911	901	419	15,489
Accumulated depreciation and impairment losses	(1,385)	(8,232)	(768)	-	(10,385)
<b>Net book value</b>	<b>873</b>	<b>3,679</b>	<b>133</b>	<b>419</b>	<b>5,104</b>
<b>Year ended 31 December 2017</b>					
Opening net book value	873	3,679	133	419	5,104
Additions	28	507	35	289	859
Transfers	36	241	12	(293)	(4)
Disposals	(20)	(1)	-	-	(21)
Depreciation charge	(74)	(723)	(56)	-	(853)
Impairment loss	-	(36)	-	-	(36)
<b>Net book value</b>	<b>843</b>	<b>3,667</b>	<b>124</b>	<b>415</b>	<b>5,049</b>
<b>As at 31 December 2017</b>					
Cost	2,301	12,470	848	415	16,034
Accumulated depreciation and impairment losses	(1,458)	(8,803)	(724)	-	(10,985)
<b>Net book value</b>	<b>843</b>	<b>3,667</b>	<b>124</b>	<b>415</b>	<b>5,049</b>
<b>Year ended 31 December 2018</b>					
Opening net book value	843	3,667	124	415	5,049
Additions	11	387	15	393	806
Transfers	20	244	8	(277)	(5)
Disposals	(12)	(1)	(1)	-	(14)
Depreciation charge	(71)	(589)	(47)	-	(707)
Impairment loss	-	(9)	-	-	(9)
<b>Net book value</b>	<b>791</b>	<b>3,699</b>	<b>99</b>	<b>531</b>	<b>5,120</b>
<b>As at 31 December 2018</b>					
Cost	2,329	12,725	843	531	16,428
Accumulated depreciation and impairment losses	(1,538)	(9,026)	(744)	-	(11,308)
<b>Net book value</b>	<b>791</b>	<b>3,699</b>	<b>99</b>	<b>531</b>	<b>5,120</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 15 Property, plant and equipment (continued)

Included within assets under construction of the Company are major spare parts of HRK 5 million (31 December 2017: HRK 5 million).

Beginning in 2001, the Company 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 Company is still in the process of formally registering this legal title. The Company 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 Company recognized an impairment loss on property, plant and equipment of HRK 9 million (2017: HRK 37 million) mostly relating to change of equipment due to transfer to the 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 Company 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 old devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 411 million (2017: HRK 357 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 Company's ducts as at 31 December 2018 is HRK 878 million (31 December 2017: HRK 862 million).

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**15 Property, plant and equipment (continued)**

*Leased assets*

Telecom equipment includes the following amounts where the Company is a lessee under a finance lease:

	31 December 2018 HRK million	31 December 2017 HRK million
Cost	58	58
Accumulated depreciation	(25)	(17)
<b>Net book value</b>	<b>33</b>	<b>41</b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**16 Investment property**

	HRK million
<b>As at 1 January 2017</b>	
Cost	83
Accumulated depreciation	(39)
	<hr/>
<b>Net book value</b>	<b>44</b>
	<hr/>
<b>Year ended 31 December 2017</b>	
Opening net book value	44
Additions	-
Disposal	(8)
Transfers to property, plant and equipment	-
Depreciation charge	(1)
	<hr/>
<b>Net book value</b>	<b>35</b>
	<hr/>
<b>As at 31 December 2017</b>	
Cost	60
Accumulated depreciation	(25)
	<hr/>
<b>Net book value</b>	<b>35</b>
	<hr/>
<b>Year ended 31 December 2018</b>	
Opening net book value	35
Addition	2
Depreciation charge	(1)
Impairment loss	(15)
	<hr/>
<b>Net book value</b>	<b>21</b>
	<hr/>
<b>As at 31 December 2018</b>	
Cost	50
Accumulated depreciation	(29)
	<hr/>
<b>Net book value</b>	<b>21</b>
	<hr/>

The Company has classified unoccupied buildings and undeveloped land as investment property.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**17 Investments in subsidiaries**

The net book value of investments in subsidiaries comprises:	31 December	31 December
	2018	2017
	HRK million	HRK million
Iskon Internet d.d.	-	477
Combis d.o.o.	-	189
E-tours d.o.o.	-	8
KDS d.o.o.	-	3
Optima Telekom d.d.	-	121
HT holding d.o.o. (M-Tele d.o.o. changed its name to HT holding d.o.o.)	1,722	924
	<u>1,722</u>	<u>1,722</u>

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.

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

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

*Acquisition of OT-Optima Telekom d.d.*

In 2014, the Company acquired voting shares in Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with value of HRK 52 million were acquired directly through court decision of converting receivables into equity share as of 18 June 2014. An additional ownership share was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million as of 9 July 2014 and increase in 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 financial statements.

The Company's total ownership share in Optima amounts to 17.41% as of 31 December 2018. 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 17 Investments in subsidiaries (continued)

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom 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 initially was limited to a period of four years starting from 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.

Upon the expiration of the four-year period it is automatically terminated, without the possibility of extension. On the date of expiry of the third year, HT is required to start the process of selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

#### *Acquisition of Crnogorski Telekom AD Podgorica*

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

#### 18 Investments accounted for using the cost method

The net book value of investments accounted for using the cost method comprises:

	31 December 2018 HRK million	31 December 2017 HRK million
<i>Joint venture:</i>		
HT d.d. Mostar	335	335
	<hr/> 335	<hr/> 335
<i>Associate:</i>		
HP d.o.o. Mostar	2	2
	<hr/> 2	<hr/> 2
	<hr/> <b>337</b>	<hr/> <b>337</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 18 Investments accounted for using the cost method (continued)

#### a) *Investment in joint venture:*

The Company 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 Federation of Bosnia and Herzegovina (50.10%).

In 2018, the Company did not receive dividend from HT d.d. Mostar (2017: HRK 0 million).

#### b) *Investment in associate:*

The Company 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.



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**19 Financial assets at fair value through other comprehensive income**

Financial assets at fair value through other comprehensive income, include the following:

<i>Issuer</i>	<i>Credit rating</i>	<i>Currency</i>	<i>Maturity</i>	31 December 2018	31 December 2017
				HRK million	HRK million
<i>Foreign bonds:</i>					
Deutsche Telekom International Finance B.V.	BBB+	EUR	3 April 2020	924	945
Other				2	3
Total non-current financial assets				<b>926</b>	<b>948</b>

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.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**20 Inventories**

	31 December 2018 HRK million	31 December 2017 HRK million
Inventories and spare parts	21	23
Merchandise	71	66
	<u>92</u>	<u>89</u>

**21 Trade and other receivables**

	31 December 2018 HRK million	31 December 2017 HRK million
Trade receivables	171	135
Loans to employees	17	16
Prepayment to regulator	102	-
Other receivables	12	13
Non-current	<u>302</u>	<u>164</u>
Trade receivables	995	1,044
Loans to employees	12	9
Other receivables	39	48
Current	<u>1,046</u>	<u>1,101</u>
	<u><b>1,348</b></u>	<u><b>1,265</b></u>

During 2013, the Company 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.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**21 Trade and other receivables (continued)**

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
<b>31 December 2018</b>						
Gross carrying amount - trade receivables	<b>1,910</b>	969	24	13	16	888
Loss allowance	<b>(915)</b>	(23)	(2)	(1)	(5)	(884)
<b>Net amount – trade receivables</b>	<b>995</b>	946	22	12	11	4
Gross carrying amount - contract assets	<b>310</b>	-	-	-	-	-
Loss allowance	<b>(12)</b>	-	-	-	-	-
<b>Net amount – contract assets</b>	<b>298</b>	-	-	-	-	-
<b>1 January 2018</b>						
Gross carrying amount - trade receivables	<b>2,034</b>	952	36	21	41	984
Loss allowance	<b>(1,019)</b>	(27)	(3)	(1)	(6)	(982)
<b>Net amount – trade receivables</b>	<b>1,015</b>	925	33	20	35	2
Gross carrying amount - contract assets	<b>227</b>	-	-	-	-	-
Loss allowance	<b>(13)</b>	-	-	-	-	-
<b>Net amount – contract assets</b>	<b>214</b>	-	-	-	-	-

The aging analysis of trade receivables as of 31 December 2017 was as follows:

	Total HRK million	Neither past due nor impaired HRK million	Past due but not impaired				
			< 30 days HRK million	31-60 days HRK million	61-90 days HRK million	91-180 days HRK million	>180 days HRK million
31 December 2017	1,044	844	101	37	21	41	-

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**21 Trade and other receivables (continued)**

As at 31 December 2018, trade receivables with a nominal value of HRK 915 million (31 December 2017: HRK 990 million) were deemed impaired and fully provided for.

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
<b>As at 1 January 2018</b>	<b>13</b>	<b>1,019</b>
Changes in estimates and assumptions	5	93
Financial assets derecognised during the period	-	(43)
Total credit loss allowance charge in profit and loss for the period	5	50
Write-offs	(6)	(154)
<b>As at 31 December 2018</b>	<b>12</b>	<b>915</b>

Effect of initial application of IFRS 9 simplified method on trade receivables amounts to HRK 29 million on 1 January 2018.

Movements in the impairment provision for trade receivables during 2017 are as follows:

	2017 HRK million
As at 1 January	1,006
Charge for the year	125
Unused amounts reversed	(43)
Receivables written-off	(98)
<b>As at 31 December</b>	<b>990</b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**22 Assets and liabilities arising from contracts with customers**

The Company 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	154	119
Value adjustment	(9)	(10)
Cost to obtain a contract	41	32
<b>Total current contract asset</b>	<b>186</b>	<b>141</b>
Non-current contract asset resulting from		
Equipment and service sales	52	28
Value adjustment	(3)	(3)
Cost to obtain a contract	63	48
<b>Total non-current contract asset</b>	<b>112</b>	<b>73</b>
Current contract liabilities resulting from		
Deferred income	52	64
<b>Total current contract liabilities</b>	<b>52</b>	<b>64</b>

**23 Prepayments**

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 123 million (31 December 2017: HRK 178 million).

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**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	1,377	1,278
Commercial papers	1,079	1,080
Time deposits with maturity less than 3 months	415	400
Secured deposits (reverse REPO agreements) with maturity less than 3 months	-	154
	<b><u>2,871</u></b>	<b><u>2,912</u></b>

b) *Currency breakdown of cash and cash equivalents and time deposits:*

	31 December 2018 HRK million	31 December 2017 HRK million
HRK	2,567	2,698
EUR	221	153
USD	83	61
	<b><u>2,871</u></b>	<b><u>2,912</u></b>

c) *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	-	-
	<b><u>1</u></b>	<b><u>3</u></b>	<b><u>-</u></b>	<b><u>3</u></b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**24 Cash and cash equivalents and bank deposits (continued)**

*d) Secured deposits (reverse REPO agreements)*

<i>Issuer</i>	<i>Currency</i>	<i>Maturity</i>	31 December 2018 HRK million	31 December 2017 HRK million
<i>Reverse REPO agreements (Note 36 g):</i>				
Erste Steiermärkische Bank d.d.	HRK	18 January 2018	-	157
Raiffeisen Bank Austria d.d.	HRK	17 May 2019	111	-
			<b>111</b>	<b>157</b>

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**25 Trade payables and other liabilities**

	31 December 2018 HRK million	31 December 2017 HRK million
Content contracts	43	108
ECI contracts	27	119
Licence for radio frequency spectrum	8	16
Other	6	7
	<hr/>	<hr/>
Non-current	84	250
	<hr/>	<hr/>
Trade payables	1,116	1,191
Content contracts	196	150
VAT and other taxes payable	51	99
ECI contracts	108	63
Payroll and payroll taxes	53	49
Licence for radio frequency spectrum	1	(3)
Other	11	27
	<hr/>	<hr/>
Current	1,536	1,576
	<hr/>	<hr/>
	<b>1,620</b>	<b>1,826</b>
	<hr/>	<hr/>

**26 Deferred income**

	31 December 2018 HRK million	31 December 2017 HRK million
Prepaid vouchers	-	44
Deferred income for assets received free of charge	-	11
Other	-	9
	<hr/>	<hr/>
Current	-	64
	<hr/>	<hr/>
	-	<b>64</b>
	<hr/>	<hr/>

Deferred income is classified as contract liabilities according to IFRS 15.



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**27 Employee benefit obligations**

Long-term employee benefits include retirement payments in accordance with the collective agreement. Jubilee awards were discontinued during 2014. 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 39.

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	9	11
LTIP – Variable II (Note 39)	3	2
Current portion of employee benefits obligations (Note 28)	(5)	(4)
Service costs	1	1
Benefit paid	(1)	(1)
Actuarial gains	-	-
<b>As at 31 December</b>	<b>7</b>	<b>9</b>
Retirement	1	1
LTIP – Variable II	6	8
	<b>7</b>	<b>9</b>

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 in %	2017 in %
Discount rate (annually)	3.0	3.0

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 28 Provisions and accruals

	Legal claims	Asset retirement obligation	Variable salary	Redundancy	Unused vacation	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
<b>As at 1 January 2018</b>	<b>33</b>	<b>25</b>	<b>54</b>	<b>26</b>	<b>5</b>	<b>143</b>
Additions	20	-	67	37	1	125
Utilisation	(14)	-	(75)	(50)	-	(139)
Reversals	(7)	(1)	(4)	-	-	(12)
Current portion of employee benefits obligations (Note 27)	-	-	5	-	-	5
Interest costs	-	2	-	-	-	2
<b>As at 31 December 2018</b>	<b>32</b>	<b>26</b>	<b>47</b>	<b>13</b>	<b>6</b>	<b>124</b>
Non-current	32	26	-	-	-	58
Current	-	-	47	13	6	66
	<b>32</b>	<b>26</b>	<b>47</b>	<b>13</b>	<b>6</b>	<b>124</b>

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 28 Provisions and accruals (continued)

##### a) *Legal claims*

As at 31 December 2018, the Company has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Company.

##### b) *Asset retirement obligation*

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Company 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	<u>9,823</u>
	31 December 2017 HRK million
81,888,535 ordinary shares without par value	<u>9,823</u>

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 Company. These reserves are not distributable.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 31 Treasury shares

In 2017, the Company started with acquisition of own shares due to introduction of share buy-back program which will last until 20 April 2021. The Company 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 (31 December 2017: HRK 37 million) and is not distributable.

The Company holds 450,517 own shares as at 31 December 2018 (31 December 2017: 218,471).

### 32 Retained earnings

In 2018, the Company paid a dividend of HRK 6.00 per share (2017: HRK 6.00) for a total of HRK 489 million (2017: HRK 491 million).

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**33 Commitments**

*a) Operating lease commitments*

The Company 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 9)	<u>132</u>	<u>122</u>

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	104	114
Between 1 and 5 years	212	243
Greater than 5 years	<u>75</u>	<u>100</u>
	<b><u>391</u></b>	<b><u>457</u></b>

The contracts relate primarily to property leases and car leases.

*b) Capital commitments*

The Company was committed under contractual agreements to capital expenditure as follows:

	31 December 2018 HRK million	31 December 2017 HRK million
Intangible assets	227	211
Property, plant and equipment	<u>1,056</u>	<u>658</u>
	<b><u>1,283</u></b>	<b><u>869</u></b>

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 34 Contingencies

At the time of preparation of these consolidated financial statements, there are outstanding claims against the Company. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Company, except for certain claims for which a provision was established (Note 28).

The Company 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 Company 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 Company 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 15), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHSDG") against the Company. ZHSDG 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 Company received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHSDG 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 Company submitted the appeal against this judgment.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 34 Contingencies (continued)

##### *Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb (continued)*

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 what 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 Company 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.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**35 Balances and transactions with related parties**

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Company 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	
	2018	2017	2018	2017
<i>Related party:</i>	HRK million	HRK million	HRK million	HRK million
<i>Ultimate parent</i>				
Deutsche Telekom AG, Germany	61	62	112	105
<i>Joint venture</i>				
HT d.d. Mostar, Bosnia and Herzegovina	6	6	4	4
<i>Subsidiaries of ultimate parent</i>				
Telekom Deutschland GmbH, Germany	23	27	33	18
T-Mobile Austria GmbH, Austria	11	10	8	4
Slovak Telecom a.s., Slovakia	16	17	1	-
T-Systems International GmbH, Germany	3	2	3	3
Magyar Telekom Nyrt., Hungary	6	6	4	6
T-Mobile Czech	6	6	2	1
T-Mobile Polska	5	6	-	-
T-Mobile Netherlands	4	5	1	1
Deutsche Telekom IT	1	4	14	10
DT Europe Holding	3	4	4	6
DT Pan-Net Croatia	5	1	-	-
Hellenic Telecommunications Organization	-	-	5	1
Others	8	5	11	9
	<b>158</b>	<b>161</b>	<b>202</b>	<b>168</b>



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**35 Balances and transactions with related parties (continued)**

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	HRK million	HRK million	HRK million	HRK million
<i>Related party:</i>				
<i>Ultimate parent</i>				
Deutsche Telekom AG, Germany	5	9	97	111
<i>Subsidiaries of ultimate parent</i>				
Telekom Deutschland GmbH, Germany	-	-	12	11
Magyar Telekom, Hungary	-	-	-	1
Slovak Telecom a.s., Slovakia	4	4	-	-
T-Systems International GmbH, Germany	-	5	4	7
Others	4	8	7	-
	<b>13</b>	<b>26</b>	<b>120</b>	<b>130</b>

At the year end the Company holds investment in commercial paper of ultimate parent in the amount of HRK 1,079 million (31 December 2017: HRK 1,080 million) (Note 24) and investment in bond of Deutsche Telekom International Finance B.V. in the amount of HRK 924 million (31 December 2017: 945 millions) (Note 19).

In 2018, the Company granted short term loan to Optima Telekom d.d. in amount of HRK 95 million.

The Company had the following balances arising from transactions with its subsidiaries excluding loans in the amount of HRK 1 million (31 December 2017: HRK 1 million):

	Revenues	Capital expenditures	Expenses	Receivables	Payables
	HRK million	HRK million	HRK million	HRK million	HRK million
<i>Subsidiaries:</i>					
2018 / 31 December 2018	330	116	91	185	53
2017 / 31 December 2017	299	118	94	208	67

The Company was committed under contractual agreements to capital expenditure with its subsidiaries as follows:

	31 December 2018	31 December 2017
	HRK million	HRK million
Intangible assets	24	70
Property, plant and equipment	132	56
	<b>156</b>	<b>126</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 35 Balances and transactions with related parties (continued)

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32% 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 Company as well. The Company 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 to the members 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.

DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

In 2018, the Company paid a total amount of HRK 0.5 million (2017: HRK 0.5 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 Company amounted to HRK 32 million (2017: HRK 26 million). Key management personnel include members of the Management Boards and the operating directors of the Company, who are employed by the Company.

Compensation paid to key management personnel includes:

	2018 HRK million	2017 HRK million
Short-term benefits	32	26
	<b>32</b>	<b>26</b>

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 36 Financial risk management objectives and policies

The Company is exposed to international service-based markets. As a result, the Company can be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

##### a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company 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 Company does not guarantee obligations of third parties. The Company has issued guarantees for obligations of its subsidiaries in total amount of EUR 1.5 million, EUR 6.5 million (currency clause) and HRK 13.7 million.

The Company 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 Company is exposed to risk through cash deposits in the banks. As at 31 December 2018, the Company had business transactions with eleven banks (2017: eleven banks). The Company held major portion of cash and deposits in three banks. For four domestic banks with foreign ownership, the Company 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.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**36 Financial risk management objectives and policies (continued)**

*a) Credit risk (continued)*

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 as of 31 December 2017 can be assessed by historical information about counterparty default rates:

	31 December 2017 HRK million
Trade receivables for rendered telecom services to domestic customers	810
Trade receivables for rendered telecom services to foreign customers	35
	<u>845</u>

The credit quality of non-current financial assets can be assessed by historical information about counterparty default rates:

	31 December 2018 HRK million	31 December 2017 HRK million
Trade receivables from prebankruptcy settlements	10	20
Trade receivables for merchandise sold	161	115
Prepayments to regulator	102	-
Loans to employees	17	16
Other receivables	12	13
	<u>302</u>	<u>164</u>

Trade receivables from subsidiaries and other current receivables are neither past due nor impaired.

The credit quality of all other financial assets (Note 37): the total carrying amount as at the balance sheet date is considered.

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**36 Financial risk management objectives and policies (continued)**

*b) Liquidity risk*

The Company 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.

all amounts in HRK million	Trade and other payables			Other non-current liabilities		
	Less than 3 months	3 to 12 months	<i>Total</i>	1 to 5 years	> 5 years	<i>Total</i>
Year ended 31 December 2018	1,464	278	1,742	124	48	172
Year ended 31 December 2017	1,539	229	1,768	347	57	404

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**36 Financial risk management objectives and policies (continued)**

*c) Interest rate risk*

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company'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 Company'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	+100	21
HRK	-100	(21)
	+100	9
EUR	-100	(9)
Year ended 31 December 2017		
HRK	+100	13
	-100	(13)
EUR	+100	10
	-100	(10)

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**36 Financial risk management objectives and policies (continued)**

*d) Foreign currency risk*

The Company'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, cash 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 Company'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%	28
	-3%	(28)
Year ended 31 December 2017	+3%	33
	-3%	(33)

*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 Company'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 Company's capital management is to ensure that business support and maximise shareholder value. The capital structure of the Company comprises issued share capital, reserves and retained earnings and totals HRK 12,871 million as at 31 December 2018 (31 December 2017: HRK 12,274 million).

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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).

Notes to the financial statements (continued)  
For the year ended 31 December 2018

**36 Financial risk management objectives and policies (continued)**

*g) Accepted collaterals*

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2018 HRK million	31 December 2017 HRK million
<i>Foreign bonds:</i>			
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
		<u>113</u>	<u>314</u>

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	104	103	233	226
Offsetting amount	(78)	(61)	(78)	(61)
	<u>26</u>	<u>42</u>	<u>155</u>	<u>165</u>



Notes to the financial statements (continued)  
For the year ended 31 December 2018

**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
<i>Financial assets:</i>				
Cash and cash equivalents	2,871	-	2,912	-
Guarantee deposits, short-term	1	-	3	-
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 (reverse REPO agreements)	111	-	157	-
Loans given to subsidiary, current	-	95	-	-
Loans given to subsidiary, non-current	-	1	-	1
Guarantee deposits, long-term	-	-	3	-
Trade receivables – current and non-current	-	1,166	-	1,179
Loans to employees – current and non-current	-	29	-	25
<i>Financial liabilities:</i>				
<b>Non-current liability</b>				
Interest-bearing loans	-	6	-	7

Fair value of Level 2 financial instruments is calculated using discounted cash flows method. Carrying amounts and fair values of all of the Company's financial instruments are the same in 2018 and 2017.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 38 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 free phone 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 in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers of publicly available telephone services 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 38 Authorization for Services and Applicable Fees (continued)

a) *Service authorization for the performance of electronic communications services in a fixed and mobile network (continued)*

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 Company 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 Company 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 6 November 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).

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### **38 Authorization for Services and Applicable Fees (continued)**

##### *d) Audiovisual and electronic media services*

Pursuant to the Law on audiovisual activities (Official Gazette No. 76/07 and 90/11), the Company 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 Company (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 Company 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.

##### *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 in 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, 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### **39 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 1 July 2018 to 30 June 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 member.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 39 Share-based and non share-based payment transactions (continued)

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	2017
	HRK million	HRK million
Expenses	5	-
	<u>5</u>	<u>-</u>

#### 40 Auditor's fees

The auditors of the Company's financial statements have rendered services of HRK 4 million in 2018 (2017: HRK 4 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.

#### 41 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.

#### 42 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 Company 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 42 Accounting policies before 1 January 2018 (continued)

##### **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 Company, 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 Company 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.

## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 42 Accounting policies before 1 January 2018 (continued)

##### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company 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 Company 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 Company's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Company'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 Company 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 Company'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 Company 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).



## Notes to the financial statements (continued)

### For the year ended 31 December 2018

#### 42 Accounting policies before 1 January 2018 (continued)

##### Revenue recognition (continued)

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 Company 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### **42 Accounting policies before 1 January 2018 (continued)**

#### **Revenue recognition (continued)**

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 Company'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.