



Zagreb – 31 October 2018

Hrvatski Telekom Results for the first nine months of 2018

Hrvatski Telekom records excellent financial performance for the first nine months 2018, including profit increase by 18.6 per cent.

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the first nine months of 2018 ended 30 September 2018.

The first nine months of 2018 were marked by an increase in all key financial indicators of Hrvatski Telekom.

The total consolidated revenue generated in 3Q 2018 is by HRK 2 million higher compared to the same period in 2017 and amounts to HRK 5,787 million.

Compared to the same period last year, EBITDA before exceptional items for the first nine months of 2018 has increased by 3.5% to HRK 2,427 million, with an EBITDA margin of 41.9%. Profitability increase has also been supported by Crnogorski Telekom, which has generated an EBITDA of HRK 177 million, which is an increase of 5.2% compared to the EBITDA CT generated in the same period in 2017.

HT's net profit amounts to HRK 872 million, which is a 18.6% increase compared to the same period last year.

Investment in network infrastructure continues, leadership position in all segments firmly established

Hrvatski Telekom has continued with its investments in the third quarter of 2018: a total of HRK 1,241 million has been invested so far. The major part of this amount has been spent for the modernization of HT's fixed and mobile network infrastructure.

Next generation access network (NGA) now covers 58.1% households, while optical access coverage is available to 399 thousand households. 4G network indoor coverage in mobile network is at the level of 78.7%, while outdoor coverage has reached 98.4%. HT has continued with the implementation of the high-speed 4G network, providing 350 Mbit/s in download.

HT's big investment program of mobile network modernization continued in Q3. After having successfully completed network modernisation in Istria, HT will soon finish infrastructure modernisation in the City of Zagreb as well.

In the first 9 months of 2018, Hrvatski Telekom has maintained its strong leadership position across all telecommunication services.

The customer base of HT's unique services concept, Magenta 1, continues to grow. Today, more than 168 thousand households are using this service. The recently launched Magenta 1 offering for business

customers is also showing good results. HT's has kept its leadership position in the TV offering, with more than 413 thousand customers using its TV service.

For additional improvement of customer experience and as an important step towards intensified digitalisation, HT has offered to its customers the new One App application. It has been implemented on a new technology concept, featuring a faster response time, user-friendliness, and a range of new functionalities. In a short time, 78% of users of the previous application "My Telecom" has switched to One App.

Until the end of the year, HT will keep focusing on investments, growth and increased quality of service

Commenting on the business results achieved in the first nine months of 2018, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, pointed out:

"We have delivered excellent results in the first 9 months of 2018. Judging from the growth in all our key financial indicators, Q3 2018 has been one of our best quarters in the last 5 years. Until the end of the year, we plan to continue with our investments, which are now exceeding HRK 1,241 million. By doing so, we will be re-confirming our position as the leading investor in Croatia.

After ensuring the preconditions for the implementation of 5G network in Istria this summer, we have now implemented this cutting-edge mobile technology in the City of Zagreb as well. At the same time, we have introduced the first commercial NB-IoT network in this part of Europe, thus enabling a further development and implementation of new smart IT solutions.

Apart from investments in the modernization of the fixed and mobile network, until the end of the year we plan to keep focusing on the growth in all our business segments, development of innovative products and improvement in the quality of service for all our customers.

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A conference call for analysts and investors will be held at 10:00 UK time / 11:00 CET on the same day.

International Dial In **+44 (0) 2071 928000**
Conference ID **1607759**

A replay of the call will be available until 7 November 2018 using the following details:

International Dial In **+44 (0) 3333009785**
Conference ID **1607759**

A presentation covering results for the first nine months of 2018 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Introduction

1.1. HT Group's good performance in 3Q 2018

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in 3Q 2018 in spite of competitive pressure.

1.2. Economic background

The Croatian economy continued to recover during the first half of 2018 with year-on-year growth figures of 2.5% and 2.9% for the first two quarters of 2018. Growth was driven by private and public consumption and a recovery in total fixed investment. The 2018 tourist season seems to be another record tourist season.¹

The registered unemployment rate keeps decreasing during 2018 to 8.5% in August 2018. This is the result of increased employment as well as constant emigration trend.¹

Citizens benefit from higher (+4% YoY) real wages, re-leveraging, tax cuts and remittances. While the recent strong increases in energy and tourism prices pushed inflation (measured by Consumer Price Index) above 2%, we expect it to fall back below 2% in the rest of 2018.¹

1.3. Croatian market overview

The Croatian highly saturated mobile market continues to adjust to the effects of increasing affordability of contract offers with different tariff packages and increasing popularity of attractive devices /smartphones and OTT services. Estimated mobile SIM penetration rate reached 126.8% at the end of September 2018. The Company maintains leading market position with estimated mobile SIM market share of 45.2% at the end of September 2018.

Total number of sent SMS messages continued to decrease on an annual basis by 12.9% in H1 2018. Total broadband traffic grew year-on-year by 37.3% in H1 2018. Total mobile market minutes of use (MOU) continued to increase on an annual basis by 3.0% in H1 2018.²

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 7.9% in H1 2018.²

¹ Sources: Croatian Bureau of Statistics, CEE Quarterly Macroeconomic Outlook, Addiko Bank, 28 September, 2018

² Source: Croatian Post and Electronic Communications Agency's quarterly reports for Q1/2018 and Q2/2018

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of June 2018. The year-on-year growth of FTTx (33.6%), Fixed Wireless Access (70.4%) and Cable Broadband (4.9%) connections drive total fixed broadband market connection growth (3.0%).² Telecommunication operators have been making significant investments in FTTH footprints, advanced technology and innovative services.

HT Group has set a strong focus on further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 620 thousand of broadband access lines at the end of September 2018.

The Croatian Pay TV market continued to grow in 2018, reaching 838 thousand customers at the end of June 2018 (year-on-year growth by 2.6%).³

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services, requested by alternative operators, has been mostly focused on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 129 thousand at the end of September 2018, which is decrease of 5.7% compared to the same period last year. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased because of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 124 thousand of ULL access and 55 thousand of WLRs at the end of September 2018.

IT market

Croatian IT market continues with growth in 2018 at estimated 5.7% yearly growth rate.⁴ All three segments of the IT market contribute to the market growth: IT services with estimated yearly growth by 10.7%, Software with estimated growth by 7.3% and Hardware by 2.6%. HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

1.4. Regulatory overview

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

On December 15th, 2017 the relevant Ministry of the Sea, Transport and Infrastructure adopted amendments to the Ordinance on payment of fees for the right of use of addresses, numbers and radio-

³ Source: Croatian Post and Electronic Communications Agency's quarterly reports for Q1/2018 and Q2/2018

⁴ Source: IDC Adriatics, July 2018

frequencies (hereinafter: Ordinance on fees), by which it imposed reduction of the annual fee for use of radio-frequency spectrum in mobile networks by one third of the current fee, applicable from 2019. On June 23rd 2018 the relevant Ministry of the Sea, Transport and Infrastructure adopted amendments to the Ordinance on fees introducing several changes. The crucial change is that the fee reduction from December 2017 will be applicable for the year 2018 and onwards.

Analyses of the wholesale interconnection markets

On September 27th, 2018, HAKOM opened public consultations regarding the following wholesale markets:

- call origination on the public telephone network provided at a fixed location (M2/2007),
- call termination on individual public telephone networks provided at a fixed location (M1/2014),
- voice call termination on individual mobile networks (M2/2014).

1.5. Changes in reporting

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

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

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

in HRK million	3Q 2018 as reported	3Q 2018 without IFRS 15 effects	Q3 2018 as reported	Q3 2018 without IFRS 15 effects
Revenue	5,787	5,758	2,107	2,090
Operating expenses	3,508	3,524	1,208	1,211
EBITDA before exceptional items	2,427	2,382	956	936

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

1.6. Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Nine months to 30 Sep 2017	7.44	7.50	6.69	6.35
Nine months to 30 Sep 2018	7.41	7.42	6.21	6.40

2. Business review

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

in HRK million

INCOME STATEMENT	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Revenue	5,785	5,787	0.0%	2,094	2,107	0.6%
Mobile	2,478	2,609	5.3%	936	1,004	7.3%
Fixed voice	707	616	-12.9%	230	203	-11.9%
Broadband & TV	1,084	1,063	-1.9%	364	359	-1.6%
Fixed wholesale	291	243	-16.5%	86	78	-10.1%
Other fixed	611	646	5.7%	224	216	-3.6%
System solutions	501	515	2.6%	209	220	5.0%
Miscellaneous	112	96	-14.8%	43	27	-37.0%
EBITDA before exceptional items	2,345	2,427	3.5%	887	956	7.8%
Exceptional items	102	38	-62.4%	50	4	-92.5%
EBITDA after exceptional items	2,243	2,389	6.5%	837	952	13.8%
EBIT (Operating profit)	988	1,123	13.7%	406	526	29.5%
Net profit after non controlling interests	735	872	18.6%	325	425	30.7%
EBITDA margin before exceptional items	40.5%	41.9%	1.4 p.p.	42.4%	45.4%	3.0 p.p.
EBITDA margin after exceptional items	38.8%	41.3%	2.5 p.p.	40.0%	45.2%	5.2 p.p.
EBIT margin	17.1%	19.4%	2.3 p.p.	19.4%	25.0%	5.6 p.p.
Net profit margin	12.7%	15.1%	2.4 p.p.	15.5%	20.2%	4.6 p.p.

BALANCE SHEET	At 31 Dec 2017	At 30 Sep 2018	% of change A18/A17
Total non current assets	10,385	10,541	1.5%
Total current assets	5,353	5,413	1.1%
TOTAL ASSETS	15,738	15,954	1.4%
Total issued capital and reserves	12,573	13,030	3.6%
Total non current liabilities	737	696	-5.6%
Total current liabilities	2,429	2,228	-8.3%
TOTAL EQUITY AND LIABILITIES	15,738	15,954	1.4%

CASH FLOW	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Net cash flow from operating activities	1,887	1,801	-4.6%	657	791	20.3%
Net cash flow from investing activities	-865	-1,147	-32.6%	-435	-706	-62.1%
Net cash flow from financing activities	-862	-872	-1.2%	-119	-118	1.4%
Cash and cash equivalents at the end of period	2,876	2,933	2.0%	106	-31	-129.3%

CAPEX	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
CAPEX	1,250	1,241	-0.8%	427	346	-19.0%
CAPEX / Revenue ratio	21.6%	21.4%	-0.2 p.p.	20.4%	16.4%	-4.0 p.p.

NUMBER OF EMPLOYEES	At 30 Sep 2017	At 30 Sep 2018	% of change A18/A17	At 30 Sep 2017	At 30 Sep 2018	% of change A18/A17
Number of employees (FTEs)	5,146	5,453	6.0%	5,146	5,453	6.0%

2.1.1. HT Group highlights

Significant efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable estimated portion of 45.2%
- Magenta1 achieved 168 thousand of consumer households (H1 2018: 150) while in business area there are 14 thousand active accounts (H1 2018: 13 thousand active accounts)
- In CT, Magenta1 achieved 14% (H1 2018: 14%) of consumer households, while in business area there are more than 1,600 active accounts (H1 2018: 1,500 active accounts)

Good performance of main financial KPIs

- Revenue amounts to HRK 5,787 million and is above 3Q 2017 by HRK 2 million or 0.0% driven by HT Group in Croatia (HRK 6 million or 0.1%), while CT contribution is below 3Q 2017 by HRK 4 million or 0.8%
- EBITDA amounts to HRK 2,427 million and is above 3Q 2017 by HRK 83 million or 3.5% driven by both HT Group in Croatia (HRK 74 million or 3.4%) and CT (HRK 9 million or 5.2%)
- Capex amounts to HRK 1,241 million and is below 3Q 2017 by HRK 10 million or 0.8% driven by HT Group in Croatia (HRK 24 million or 2.1%), while CT contributed with higher capex by HRK 14 million or 14.7%

Continued significant investments in network infrastructure

- "Indoor" 4G population coverage increased to 78.7% (H1 2018: 77.6%), while "Outdoor" coverage resulted with 98.4% as in H1 2018
- Coverage of NGA access available for 58.1% of Croatian households (H1 2018: 58.1%)
- FTTx access is enabled for 399 thousand households (H1 2018: 388 thousand households)
- In CT broadband access expansion continued, FTTH rollout: Underground - expected flats coverage in urban areas over 91%; AIR - already three municipalities suburban areas; 4G Rollout 2018 finished as planned. LTE Coverage target 2018: „Outdoor" 96%

Mobile network modernization:

- After successfully completion of modernization in Istria (137 location) in Q3 program continued with modernization of Zagreb area-radio equipment swapped at 268 locations - reaching total 405 locations with swapped radio equipment
- Capacity expansion of the mobile access network continued reaching in total 332 location (H1 2018: 250 location)
- Modernization of IP/MPLS network significantly improved stability of network - resulted in Prio1 network incident reduction of 80% compared to 3Q 2017
- New technological concept - Virtual packet core (virtual EPC) implemented in 5 months and successfully served all traffic needs during the summer

Launch of One App application:

- Commercial launched One App application have 89,000 downloads and 47,000 monthly active users
- OneApp is substitute for “Moj Telekom” application in relation to which it is faster, easier to use with a range of new functionalities (One Click Payment, PayPal solution)
- 78% users of previous application are switched to OneApp which currently have average rating of 3.96 on Google Play platform

Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021. Based on the authorization granted by the General Assembly, in March 2018 the Management Board withdrew 218,471 acquired Company shares without nominal value, without the share capital of the Company being decreased, thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares without nominal value, while the remaining shares' participation in the share capital is being increased. Following the withdrawal, the number of acquired Company shares amounted to 386,309 on September 30th, 2018.

2.1.2. Main financials development

I. Revenue

Total consolidated revenue increased by HRK 2 million or 0.0% to HRK 5,787 million in 3Q 2018 in comparison to 3Q 2017. Revenue increase is driven by HT Group in Croatia (HRK 6 million or 0.1%), while Crnogorski Telekom contribution was lower by HRK 4 million or 0.8%.

On HT Group level, revenue increase is driven by higher realization in mobile revenue (HRK 131 million or 5.3%) and system solutions (HRK 13 million or 2.6%); partially offset by lower fixed (HRK 126 million or 4.7%) and miscellaneous revenue (HRK 17 million or 14.8%).

Optima Telekom contribution to HT Group was above by HRK 15 million in comparison to 3Q 2017 and amounted to HRK 240 million in 3Q 2018. Contribution consisted of HRK 389 million of Optima Telekom third party contribution (3Q 2017: HRK 350 million) that was presented in the whole amount under fixed other revenue and HRK 148 million of intercompany relations that decreased mainly fixed wholesale revenue (3Q 2017: HRK 124 million).

Contribution of subsidiaries in Group revenue in 3Q 2018 amounted for Iskon HRK 292 million (3Q 2017: HRK 287 million) and for Combis HRK 334 million (3Q 2017: HRK 318 million).

Mobile revenue

Mobile revenue rose by HRK 131 million or 5.3% to HRK 2,609 million in 3Q 2018 in comparison to 3Q 2017. Growth is driven by HT Group in Croatia by HRK 122 million or 5.5%, while Crnogorski Telekom contributed with HRK 9 million or 3.9%.

The growth resulted mainly from higher handset revenue that offset decline in postpaid revenue and prepaid. Such revenue development in handsets and postpaid is strongly influenced by introduction of IFRS 15. If IFRS 15 effects were excluded, handset revenue is above 3Q 2017 while postpaid revenue is above 3Q 2017.

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

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

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

Fixed revenue

Fixed revenue decreased by HRK 126 million or 4.7% to HRK 2,568 million in 3Q 2018 in comparison to 3Q 2017. Decline in fixed revenue for HT Group in Croatia amounts to HRK 107 million or 4.3%, while Crnogorski Telekom contributed with decline of HRK 18 million of 8.6%. Introduction of IFRS 15 further declined fixed revenue by HRK 6 million.

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

In 3Q 2018, fixed line voice retail revenue decreased in comparison to 3Q 2017 mainly as a result of continuous decline in the number of revenue producing fixed mainlines due to ongoing fixed to mobile substitution trend coming from strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment.

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

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

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

TV revenue increased in comparison to the same period last year as a result of higher ARPU in HT Group in Croatia due to push of TV through Magenta1, Elderly offer and successful retention activities. Crnogorski Telekom contribution is in line with 3Q 2017.

System Solutions

System solution revenue increased by HRK 13 million or 2.6% in comparison to 3Q 2017 driven by both HT Group in Croatia (HRK 8 million or 1.7%) and Crnogorski Telekom contribution (HRK 5 million or 21.8%) due to more projects realization.

Introduction of IFRS 15 decreased system solution revenue by HRK 1 million.

Miscellaneous revenue

Decrease in miscellaneous revenue is mainly driven by energy business due to lower consumption of large business customers.

II. Other operating income

Other operating income decreased by HRK 11 million or 8.9% compared to 3Q 2017. Decrease comes from HT Group in Croatia (HRK 13 million or 11.3%) driven by higher sale of land and buildings in 3Q 2017, while Crnogorski Telekom contributed with higher other operating income by HRK 3 million or 191.5% as a result of real estate sale.

III. Operating expenses

Total consolidated operating expenses decreased by HRK 154 million or 4.2% to HRK 3,508 million in 3Q 2018 driven by both HT Group in Croatia (HRK 142 million or 4.2%) and Crnogorski Telekom contribution (HRK 12 million or 3.8%).

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

Excluding from operating expenses costs treated as exceptional items (which in 3Q 2018 amounted to HRK 38 million, while in 3Q 2017 amounted to HRK 102 million), mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation, operating expenses decreased by HRK 91 million or 2.6%.

Material expenses

Material expenses increased to HRK 1,758 million in 3Q 2018 (HRK 22 million or 1.3%) as a result of higher service expenses and lower merchandise material and energy expenses. Increase in material expenses is driven by both HT Group in Croatia and Crnogorski Telekom.

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

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

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

Copyright fees increased due to seasonalization of content rights contracts capitalization.

Merchandise, material and energy expenses decreased primarily due to lower energy sales costs offset with increase in merchandise costs.

Energy sales costs decrease mainly due to lower consumption of large business customers.

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

Employee benefits expenses

Total employee benefits expenses increased by HRK 32 million or 4.1% in 3Q 2018 as a result of higher personnel costs driven by higher number of FTEs, primarily by HT Group in Croatia, partially offset by lower redundancy costs.

Total number of FTEs amounts to 5,453 FTEs, which is an increase of 307 FTEs compared to 3Q 2017, mainly coming from HT Group in Croatia as a result of project execution in customer care area.

Other expenses

Other expenses decreased by HRK 153 million or 13.3% to HRK 996 million in 3Q 2018, mainly driven by HT Group in Croatia (HRK 143 million or 13.8%). Crnogorski Telekom contributed also with lower other expenses by HRK 10 million or 9.3%. Decrease of other expenses is driven by spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd 2018), different timing of marketing activities, introduction of IFRS 15, implemented savings measures and seasonalization of costs.

Write down of assets

The assets write down decreased by HRK 51 million or 50.9% to HRK 49 million in 3Q 2018 driven by both HT Group in Croatia (HRK 50 million or 53.7%) mainly due to higher value adjustment of receivables driven by market influences in 3Q 2017 and better collection of receivables in 3Q 2017. Crnogorski Telekom contribute with decrease of HRK 1 million or 8.8%.

Depreciation and amortization

Depreciation and amortization increased to HRK 1,266 million by HRK 11 million or 0.9% compared to 3Q 2017 fully influenced by HT Group in Croatia (HRK 12 million or 1.1%) and mainly driven by subsidiaries (Optima & Iskon).

IV. Profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 83 million or 3.5% to HRK 2,427 million in 3Q 2018 driven by both HT Group in Croatia (HRK 74 million or 3.4%) and Crnogorski Telekom (HRK 9 million or 5.2%).

HT Group in Croatia EBITDA before exceptional items increase is influenced by lower operating expenses (before exceptional items) coming from spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd, 2018), energy sales costs decrease mainly due to lower consumption of large business customers, implemented savings measures, different timing of marketing campaigns and seasonalization of other costs; and increase of revenue; that have offset decline of other operating income.

Crnogorski Telekom EBITDA before exceptional items increase is result of lower operating expenses (before exceptional items) and higher other operating income; that have offset revenue decline.

Optima Telekom contribution to 3Q 2018 Group EBITDA was above by HRK 6 million in comparison to 3Q 2017. It amounted to HRK 84 million (3Q 2017: HRK 79 million) and consisted of HRK 223 million of Optima Telekom third party contribution (3Q 2017: HRK 195 million) and HRK 139 million of intercompany relations (3Q 2017: HRK 116 million).

Net profit after non controlling interests

In comparison to 3Q 2017 consolidated net profit after non controlling interests increased by HRK 137 million or 18.6% to HRK 872 million in 3Q 2018.

Except higher EBITDA before exceptional items realization, net profit after non controlling interests increased due to lower exceptional items, lower net financial loss mainly due to lower exchange rate loss that have compensated higher taxation as well as depreciation and amortization and non controlling interest.

Optima Telekom brought to HT Group net profit loss of HRK 4 million (3Q 2017: loss of HRK 4 million).

V. Financial position

Balance sheet

In comparison to 2017 year end, there is only minor increase in the total asset value of 1.4% or HRK 215 million under the influence of recognizing contract assets and contract costs as a result of introduction of IFRS 15.

Total issued capital and reserves increased from HRK 12,573 million at 31 December 2017 to HRK 13,030 million at 30 September 2018 mainly driven by realized net profit for 3Q 2018 in the amount of HRK 872 million as well as catch-up effect of introduction of IFRS 15 that is recognized within retained earnings in amount of HRK 179 million that is offset with dividend payment for 2017 in amount of HRK 497 million and purchase of own share in amount of HRK 61 million.

Total non-current liabilities decreased by HRK 41 million or 5.6% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities decreased by HRK 201 million to HRK 2,228 million at 30 September 2018 mainly driven by lower volume of trade payables.

Cash flow

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

Net cash flow from operating activities decreased by HRK 87 million or 4.6% mainly due to unfavourable movement of working capital.

Cash flow from investing activities decreased by HRK 282 million or 32.6%, mainly due to higher net REPO arrangements proceeds in 3Q 2017 partially offset with acquisition into Crnogorski Telekom in 3Q 2017.

Cash flow from financing activities decreased by HRK 10 million or 1.2% due to higher financial repayments in 3Q 2018 partially offset by early finance lease repayment in 3Q 2017.

VI. Capital expenditure

HT Group including Crnogorski Telekom

in HRK million

CAPEX	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
CAPEX	1,250	1,241	-0.8%	427	346	-19.0%
CAPEX / Revenue ratio	21.6%	21.4%	-0.2 p.p.	20.4%	16.4%	-4.0 p.p.

Crnogorski Telekom

CAPEX	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
CAPEX	96	110	14.7%	31	37	19.3%

Capital expenditure realization decreased by HRK 10 million or 0.8% driven by lower realization of HT Group in Croatia by HRK 24 million or 2.1%, mainly as a result of content capitalization, while CT contributed with higher capex by HRK 14 million or 14.7% due to higher access investments.

HT continued with modernization of access network of new generation (NGA) available for 58.1% households with a speed >30 Mbps from which 21% with speed > 100Mbps. Optical access network (FTTx) is available for 399 thousand households.

In mobile network, "indoor" 4G population coverage is 78.7% and "outdoor" coverage reached 98.4%. Implementation of 4G speed increase to 350 Mbps download speeds continued to population coverage of 38% and speed to 300 Mbps download speeds continued to population coverage of 34%.

HT continues to achieve planned targets related to major investment program of modernization of mobile radio and transport networks. Upon successful completion of network modernization in region of Istria (137 locations) in Q3 program continued with modernization of site infrastructure and transmission on Zagreb area with radio equipment swapped at 268 locations reaching in total 405 locations with swapped radio equipment. Also, to support predicted traffic growth, HT continue with capacity expansions on mobile network sites reaching in total 332 locations with finished expansions. This focused approach resulted with improved network coverage at all frequency layers (for example, at Istria region during this summer season peak data traffic increase 73% compared to last year while at the same time average data throughput per user during this traffic peaks increased for 68%).

Activities targeted at reduction of major root causes of network incidents are continued in which a five-year project of aggregation network modernization on the entire territory of the Republic of Croatia has been completed. Project included replacement of 178 older generation devices (Ethernet aggregation) with newer generation IP/MPLS equipment, which resulted with higher available network capacity and better reliability and stability of the customer services. Overall activities resulted in Prio1 network incident reduction of 80% compared to same period last year.

HT, as a first in the Group, commercial launched One APP application which have 89,000 downloads and 47,000 monthly active users. OneApp is substitute for "Moj Telekom" application in relation to which it is faster, easier to use with a range of new functionalities (One Click Payment, PayPal solution)

and 78% users of previous application are switched to OneApp which currently have average rating of 3.96 on Google Play platform. Being most reliable partner to small and medium enterprises which continually work on new and innovative offers for digital society, HT introduced improved Magenta 1 Business convergent offer which comprise fixed, mobile and ICT services. Beside improved mobile and fixed tariffs new Magenta 1 Business offer introduce additional bonus scheme in which user can select ICT service or equipment by their own choice. Two new offers targeted at residential customers, MAX2 Mini for Internet access at attractive price for fixed line users regardless of access technology including mobile access, and MAXtv Mini for dual play users allowing them access to IPTV content offering reduced basic package with additional regional programs at affordable price, are continuation of listening of customer needs and adaptation of portfolio accordingly.

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

in HRK million

INCOME STATEMENT	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Revenue	5,311	5,317	0.1%	1,924	1,936	0.6%
Mobile	2,239	2,361	5.5%	844	910	7.7%
Fixed voice	645	560	-13.2%	210	185	-11.8%
Broadband & TV	993	975	-1.8%	334	329	-1.6%
Fixed wholesale	274	230	-16.2%	79	73	-8.4%
Other fixed	569	609	7.1%	210	203	-3.4%
System solutions	479	487	1.7%	203	209	3.1%
Miscellaneous	112	96	-14.8%	43	27	-37.0%
EBITDA before exceptional items	2,177	2,251	3.4%	823	889	8.0%
Exceptional items	98	37	-62.6%	49	4	-92.6%
EBITDA after exceptional items	2,079	2,214	6.5%	774	885	14.4%
EBIT (Operating profit)	946	1,068	13.0%	384	499	30.0%
Net profit after non controlling interests	709	860	21.2%	313	406	29.9%
EBITDA margin before exceptional items	41.0%	42.3%	1.3 p.p.	42.8%	45.9%	3.1 p.p.
EBITDA margin after exceptional items	39.1%	41.6%	2.5 p.p.	40.2%	45.7%	5.5 p.p.
EBIT margin	17.8%	20.1%	2.3 p.p.	20.0%	25.8%	5.8 p.p.
Net profit margin	13.4%	16.2%	2.8 p.p.	16.2%	21.0%	4.7 p.p.

Key operational data	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile customers in 000						
Number of customers	2,297	2,331	1.5%	2,297	2,331	1.5%
- Prepaid	1,075	1,026	-4.5%	1,075	1,026	-4.5%
- Postpaid	1,222	1,305	6.8%	1,222	1,305	6.8%
minutes of use (MOU) per average	216	223	3.2%	221	218	-1.2%
Blended ARPU⁴⁾ (monthly average for the period in HRK)	77	68	-11.6%	78	71	-9.0%
- Prepaid	43	44	2.2%	45	46	1.6%
- Postpaid	107	87	-19.2%	106	90	-15.1%
Blended non-voice ARPU⁴⁾ (monthly average for the period in HRK)	40	38	-6.4%	41	40	-1.9%
SAC per gross add in HRK	117	121	3.7%	95	93	-2.0%
Churn rate (%)	2	2	-0.2 p.p.	2	2	0.1 p.p.
Penetration (%)¹⁾	122	127	5.2 p.p.	122	127	5.1 p.p.
Market share of customers (%)¹⁾	46	45	-0.6 p.p.	46	45	-0.5 p.p.
Smartphone customers (%)²⁾	61	66	4.7 p.p.	61	66	4.7 p.p.
Smartphones sold (%)³⁾	80	91	10.6 p.p.	79	91	11.9 p.p.

¹⁾ Source: internal estimation of the competitors customers for EO September 2018

²⁾ Number of customers using a smartphone handsets in total number of mobile customers

³⁾ Number of smartphones sold in total number of handsets sold (postpaid only)

⁴⁾ ARPU for 3Q 2018 includes IFRS 15 effects

Key operational data	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Fixed mainlines in 000						
Fixed mainlines - retail¹⁾	885	834	-5.8%	885	834	-5.8%
Fixed mainlines - wholesale (WLR - wholesale line rental)	68	55	-19.3%	68	55	-19.3%
ARPU voice per user⁵⁾ (monthly average for the period in HRK) ²⁾	79	73	-7.9%	78	73	-6.3%
IP mainlines/customers in 000						
Broadband access lines - retail³⁾	624	620	-0.6%	624	620	-0.6%
Broadband access lines - wholesale⁴⁾	136	129	-5.7%	136	129	-5.7%
TV customers	413	413	0.0%	413	413	0.0%
Broadband retail ARPU⁵⁾ (monthly average for the period in HRK)	118	112	-5.4%	118	112	-4.9%
TV ARPU⁵⁾ (monthly average for the period in HRK)	81	83	2.2%	81	84	3.7%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	135	124	-8.2%	135	124	-8.2%

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

²⁾ Payphones excluded

³⁾ Includes ADSL, VDSL, FTTH i Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

⁵⁾ ARPU for 3Q 2018 includes IFRS 15 effects

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

I. Mobile telecommunications

Mobile revenue above 3Q 2017 by HRK 122 million or 5.5% under influence of higher handsets (HRK 257 million or 82.7%) that offset lower postpaid (HRK 146 million or 12.8%) and decline in prepaid (HRK 18 million or 4.5%). Excluding IFRS 15 effects, handset revenue above 3Q 2017 by HRK 23 million or 7.5%, and postpaid above by HRK 54 million or 4.7%.

Mobile customer base slightly increased by 1.5%, to 2,331 thousand customers at the end of 3Q 2018 in comparison to 3Q 2017 mainly as a result of great overall performance of postpaid by 6.8% under influence of Magenta1 offers, Bonbon campaigns and M2M growth, which was partially offset by lower prepaid segment performance by 4.5%.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as attractive TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta1 campaign and offer "In Magenta1 everyone gets double amount of minutes, SMS and GBs" continued through 3Q 2018.

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

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

New offer started in Q3 for Najbolja L tarifa autumn promo 6 months for HRK 1 as extra benefit for customers. Visible positive development of mobile postpaid gross adds (+12% MoM) with increased share of L tariff in M1 (from 16% to 19% MoM).

Number of prepaid customers was 4.5% lower than in 3Q 2017 due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

HT continued with promotion of Simpa Hybrid tariff with main message "Best of both worlds". New Hybrid tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world – enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. Except Hybrid offers Simpa customers can choose between different tariff options and VAS services (MAXtv To Go); for example Simpa Veliki Glanc option which includes 5.000 MB/ 1000 MIN /1000 SMS which users can use for HRK 74 per month.

Simpa launched its new Glanc options managing in one month to grab more than 25% of the existing base in previous options resulting in ARPU increase.

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

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

Minutes of usage per average customer in 3Q 2018 increased by 3.2% compared to 3Q 2017 while blended ARPU decreased due to introduction of IFRS 15. Excluding IFRS 15 effects, blended ARPU slightly above 3Q 2017 at level of HRK 78 (1.2% above).

II. Fixed telecommunications

Fixed revenue below 3Q 2017 by HRK 107 million or 4.3% under influence of declining fixed voice revenue (HRK 85 million or 13.2%), lower wholesale (HRK 44 million or 16.2%), lower broadband (HRK 30 million or 4.3%) which were partially offset by higher other revenue (HRK 40 million or 7.1%) mainly coming from Optima and H1 consolidation and TV revenue (HRK 12 million or 3.9). IFRS 15 further decreased fixed revenue by HRK 6 million.

Fixed line

By the end of 3Q 2018, total fixed access mainlines of 834 thousand are 5.8% lower than in 3Q 2017. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro- and reactive churn prevention offers and activities.

To mitigate the on-going decline promo offer for fixed line was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs. Fixed telephony users generated 836 million of minutes in 3Q 2018. That is 8.7% lower than in the same period in 2017 as a result of customer base shrinking and F2M substitution.

HT continued with attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks as well as mobile tariff with 2,000 MB/MIN/SMS for HRK 248 per month. Offer was further accompanied by tablet for HRK 99 with special simplified applications and screen for easy use, Huawei phone and SOS bracelet. Another offer for elderly introduced in 2017 continued through Q3

2018 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPU decreased by 7.9% compared to 3Q 2017 as a result of mentioned general market trends and is slightly affected by introduction of IFRS 15. Excluding IFRS 15 effects, fixed voice ARPU is 7.1% below 3Q 2017.

Broadband

At the end of 3Q 2018 broadband customer base was in line with the end of 3Q 2017 amounting to 620 thousand.

At the same time broadband retail ARPU was 5.4% below 3Q 2017 at the level of HRK 112 due to stronger competition and aggressive offers in the market, as well as IFRS 15 introduction. Excluding IFRS 15 effects, broadband retail ARPU is 4.6% below 3Q 2017.

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

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

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

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

New Smart Wi Fi offer for all fixed internet users which includes AirTies devices that enable better and

wider range of Wi Fi signal through entire home. The offer is priced HRK 49 per month with MCD 24 and assures fast and reliable internet connection at any time.

TV

TV customer base is at the level of 413 thousand as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content, there is no significant change in comparison to 3Q 2017. TV ARPU is above 3Q 2017 at a level of HRK 83. Excluding IFRS 15 effects, ARPU is 3.4% above 3Q 2017.

MAXtv Sat service has declined by 3.7% compared to the same period last year due to competitors' aggressive promo campaigns with discounted prices, while we were trying to keep stable prices on market by abolishing promo discounts and keeping/increasing ARPU. On the other hand, MAXtv customer base is slightly higher by 0.7% than in 3Q 2017 as a result of continuous service and program offer improvements through premium and enriched exclusive TV content.

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

Wholesale

At the end of 3Q 2018 there were 124 thousand of active ULL lines, which was lower by 8.2% in comparison to the same period last year. Number of ULL lines decreased due to focus of alternative operators to broadband services, usage of own infrastructure and overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 129 thousand at the end of period, which was 5.7% below last year realization with driver being higher usage of operator's own infrastructure.

Number of WLR lines at the end of period decreased by 19.3% compared to previous year and reached 55 thousand as a result of declining voice market and migration to broadband services.

In 2018 successful sales of IP and data services continued in spite of competitive domestic wholesale market of data and IP services. In the international wholesale market total capacity of sold IP increased by 32.5% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2018, both from foreign visitors in HT mobile network and by HT retail users

abroad. Visitors generated 10.9% more voice originating minutes and 79.9% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 151.0% more roaming voice traffic in foreign countries and 395.2% more data traffic.

Another significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 39.4% in 2018 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.6% and from HT mobile network users increased by 30.0%.

System solutions

System solution revenue increased by HRK 8 million or 1.7%.

System solutions revenue is continuously growing in all portfolio segments. Strategic focus remains on Cloud and Managed Solutions. The strongest growth achievement is in the area of customized ICT solutions. As part of new Magenta1 Business, M1 bonus is launched with focus on ICT services (Cloud storage, Office 365, ICT equipment, Mini and Maxi fiscal register, Antivirus, Mini CRM, Cloud Exchange mail, Cloud fax). New proposition for Fleet Management service is launched.

Combis is maintaining positive trends for previous quarters in revenue and profitability. Synergy effect between Combis and HT is already bringing positive impact on business so company has opportunity to move into new markets. Additional resources and bigger market coverage will bring new revenue in following quarters.

Energy

Revenues from energy were lower by HRK 24 million or 23.2% when compared to 3Q 2017.

Croatian Telecom 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, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018. This transfer of the business to RWE and change of the electric energy supplier has no influence on the manner of the provision of telecommunication services to the customers of Croatian Telecom who were electric energy services customers of Croatian Telecom until the sale of this business to RWE.

2.3. Summary of key financial indicators – Crnogorski Telekom standalone

in HRK million

INCOME STATEMENT	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Revenue	476	474	-0.4%	170	172	1.7%
Mobile	239	248	3.8%	91	95	4.2%
Fixed voice	63	56	-10.3%	21	18	-13.4%
Broadband & TV	91	88	-3.0%	30	30	-1.6%
Fixed wholesale	19	15	-18.1%	8	6	-25.2%
Other fixed	42	39	-8.7%	14	14	0.4%
System solutions	23	28	22.7%	6	10	66.7%
EBITDA before exceptional items	168	177	5.2%	64	67	5.9%
Exceptional items	4	2	-57.0%	1	0	-86.6%
EBITDA after exceptional items	164	175	6.6%	63	67	7.3%
EBIT (Operating profit)	41	53	29.9%	21	26	21.3%
Net profit after non controlling interests	32	49	53.0%	16	24	51.7%
EBITDA margin before exceptional items	35.3%	37.3%	2.0 p.p.	37.5%	39.1%	1.6 p.p.
EBITDA margin after exceptional items	34.5%	36.9%	2.4 p.p.	37.0%	39.0%	2.1 p.p.
EBIT margin	8.5%	11.1%	2.6 p.p.	12.7%	15.1%	2.4 p.p.
Net profit margin	6.8%	10.4%	3.6 p.p.	9.2%	13.8%	4.5 p.p.

Key operational data	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile customers in 000	370	384	3.8%	370	384	3.8%
- Prepaid	167	159	-4.7%	167	159	-4.7%
- Postpaid	202	224	10.8%	202	224	10.8%
Fixed mainlines - retail in 000	127	116	-8.9%	127	116	-8.9%
Broadband access lines - retail in 000	70	71	0.5%	70	71	0.5%
TV customers in 000	57	61	6.2%	57	61	6.2%

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

Crnogorski Telekom stabilized YoY revenues.

I. Mobile telecommunications

Mobile revenues increased compared to 3Q 2017 by HRK 9 million or 3.8% influenced by higher handsets and postpaid, partially offset by lower prepaid and visitors.

Crnogorski Telekom has set its focus on postpaid segment. Postpaid revenues increased by HRK 6 million or 4.3% compared to 3Q 2017, driven by customer base growth of 10.8%. Retail postpaid revenues were partly offset by lower mobile termination. Overall, mobile revenues increased YoY, as strong postpaid growth compensated the decline in the prepaid segment.

Challenge continued in prepaid segment, though the situation improved. Prepaid revenues declined by HRK 6 million or 10.9% compared to 3Q 2017. Main driver of prepaid decline is lower customer base by 4.7%. Mobile termination decreased as well.

Postpaid market leadership in the residential segment, obtained in H1, was kept at the end of 3Q.

II. Fixed telecommunications

Fixed revenues declined compared to 3Q 2017 by HRK 16 million or 7.6% coming mainly from the decline in the fixed voice, broadband and wholesale segment.

Fixed voice declined by HRK 6 million or 10.3%. Decrease is driven by ongoing fixed to mobile substitution and lower customer base by 8.9%.

Broadband revenue below 3Q 2017 by HRK 4 million or 7.2% driven by 7.0% lower ARPU. Customer base was 0.5% above 3Q 2017 level, as it's experienced positive development throughout 2018.

TV revenues 2.3% higher than in 3Q 2017.

System solution revenue above 3Q 2017, by HRK 5 million or 22.7%.

Fixed broadband and TV customer numbers had positive development in Q3 2018, influenced by the seasonal offer introduced in Q2.

3. Overview of segment profitability

Disclosure

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

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

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

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

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

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

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

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

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

Residential segment

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile revenue	1,443	1,479	2.5%	497	524	5.4%
Fixed revenue	1,335	1,248	-6.6%	443	417	-5.9%
Miscellaneous	27	32	17.5%	8	9	7.5%
Revenue	2,805	2,759	-1.6%	949	950	0.1%
Operating expenses	896	898	0.2%	296	304	2.8%
Contribution to EBITDA before exceptional items	1,909	1,861	-2.5%	653	646	-1.1%

Business segment

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile revenue	796	881	10.7%	347	385	11.0%
Fixed revenue	794	734	-7.5%	251	242	-3.4%
System solution	479	487	1.7%	203	209	3.1%
Miscellaneous	85	64	-25.2%	35	18	-47.5%
Revenue	2,153	2,165	0.5%	836	856	2.3%
Operating expenses	1,129	1,107	-2.0%	435	416	-4.4%
Contribution to EBITDA before exceptional items	1,024	1,058	3.3%	402	440	9.6%

Network and support functions

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Other operating income	116	100	-13.8%	59	52	-10.7%
Operating expenses	1,070	996	-6.9%	374	330	-11.8%
Contribution to EBITDA before exceptional items	-954	-896	6.1%	-315	-277	12.0%

Segment Optima consolidated

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Fixed revenue	350	389	11.0%	138	129	-7.1%
Revenue	350	389	11.0%	138	129	-7.1%
Other operating income	3	5	102.5%	1	1	-17.1%
Operating expenses	158	170	8.1%	58	52	-11.1%
Contribution to EBITDA before exceptional items	195	223	14.7%	82	78	-4.4%

Segment Crnogorski Telekom consolidated

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile revenue	239	249	4.1%	92	95	3.3%
Fixed revenue	214	197	-7.8%	72	67	-7.3%
System solution	23	28	22.7%	6	10	66.7%
Revenue	476	475	-0.3%	170	172	1.1%
Other operating income	1	4	191.5%	0	0	501.5%
Operating expenses	308	298	-3.1%	105	103	-1.7%
Contribution to EBITDA before exceptional items	170	181	6.4%	65	69	5.9%

Segment P&L Bridge to HT Group EBITDA

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Segment Result (Contribution to EBITDA)						
Residential Segment	1,909	1,861	-2.5%	653	646	-1.1%
Business Segment	1,024	1,058	3.3%	402	440	9.6%
Network and Support Functions	-954	-896	6.1%	-315	-277	12.0%
Segment Optima consolidated	195	223	14.7%	82	78	-4.4%
Segment Crnogorski telekom consolidated	170	181	6.4%	65	69	5.9%
Total Contribution to EBITDA before exceptional items of the Segments	2,345	2,427	3.5%	887	956	7.8%
Exceptional items	102	38	-62.4%	50	4	-92.5%
Total EBITDA	2,243	2,389	6.5%	837	952	13.8%

4. HT Inc. financial highlights

Revenue

Revenue decreased by HRK 34 million or 0.7% to HRK 4,526 million in 3Q 2018 when compared to 3Q 2017. Decrease was driven by lower fixed revenue (HRK 123 million or 6.0%) mostly as a result of declining voice, wholesale, broadband, lower miscellaneous (HRK 23 million or 22.2%) coming from energy business, and lower system solution (HRK 9 million or 5.5%). Decrease was partially offset by higher mobile revenue (HRK 121 million or 5.4%) mainly influenced by increased handset revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 67 million or 3.3% to HRK 2,082 million in 3Q 2018, mainly as a result of lower operating expenses (before exceptional items) (HRK 117 million or 4.4%), partially compensated with lower net revenue realization (HRK 34 million or 0.7%) and lower other operating income (HRK 17 million or 15.1%). Operating expenses decreased due to spectrum fee decrease (according to the Ordinance on fees adopted on June 23rd 2018), implemented savings measures, different timing of marketing campaigns and seasonalization of other costs, while lower revenue realization is primarily under influence of declining fixed voice.

Net profit after non-controlling interests

Net profit after non-controlling interests increased by HRK 121 million or 17.2% to HRK 823 million in 3Q 2018. Increase was primarily a result of higher EBITDA before exceptional items (HRK 67 million or 3.3%), lower exceptional items (HRK 59 million or 63.2), lower net financial loss (HRK 18 million or 26.3%), and lower depreciation and amortization (HRK 5 million or 0.5%); slightly offset by higher taxation (HRK 28 million or 18.0%).

5. Risk management

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

6. HT Group 2018 outlook

Revenue outlook 2018 amended from "Slightly higher" to "Around 2017 level"

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

7. HT Group financial statements

7.1. Consolidated Income Statement

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Mobile revenue	2,478	2,609	5.3%	936	1,004	7.3%
Fixed revenue	2,693	2,568	-4.7%	905	855	-5.5%
System solutions	501	515	2.6%	209	220	5.0%
Miscellaneous	112	96	-14.8%	43	27	-37.0%
Revenue	5,785	5,787	0.0%	2,094	2,107	0.6%
Other operating income	121	110	-8.9%	60	54	-10.5%
Total operating revenue	5,906	5,897	-0.1%	2,154	2,160	0.3%
Operating expenses	3,663	3,508	-4.2%	1,317	1,208	-8.3%
Material expenses	1,736	1,758	1.3%	659	637	-3.3%
Employee benefits expenses	769	800	4.1%	255	261	2.6%
Other expenses	1,149	996	-13.3%	385	324	-16.0%
Work performed by the Group and capitalised	-91	-95	4.9%	-45	-36	-20.1%
Write down of assets	100	49	-50.9%	63	21	-65.7%
EBITDA	2,243	2,389	6.5%	837	952	13.8%
Depreciation and amortization	1,255	1,266	0.9%	431	426	-1.0%
EBIT	988	1,123	13.7%	406	526	29.5%
Financial income	31	25	-20.8%	2	1	-28.4%
Income/loss from investment in joint ventures	6	4	-29.7%	5	4	-24.7%
Financial expenses	138	97	-30.0%	24	15	-40.2%
Profit before taxes	887	1,055	19.0%	388	516	32.9%
Taxation	161	190	18.4%	71	93	30.5%
Net profit	726	864	19.1%	318	424	33.5%
Non controlling interests	-9	-8	-17.2%	-7	-1	-88.6%
Net profit after non controlling interests	735	872	18.6%	325	425	30.7%
Exceptional items ¹⁾	102	38	-62.4%	50	4	-92.5%
EBITDA before exceptional items	2,345	2,427	3.5%	887	956	7.8%

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

7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2017	At 30 Sep 2018	% of change A18/A17
Intangible assets	2,539	2,464	-2.9%
Property, plant and equipment	6,175	6,198	0.4%
Non-current financial assets	1,333	1,320	-1.0%
Receivables	248	348	40.5%
Contract assets (IFRS 15)	0	44	
Contract costs (IFRS 15)	0	77	
Deferred tax asset	91	91	0.1%
Total non-current assets	10,385	10,541	1.5%
Inventories	128	131	2.2%
Receivables	1,631	1,650	1.2%
Current financial assets	197	394	99.6%
Contract assets (IFRS 15)	0	158	
Contract costs (IFRS 15)	0	39	
Cash and cash equivalents	3,152	2,933	-6.9%
Prepayments and accrued income	246	108	-56.2%
Total current assets	5,353	5,413	1.1%
TOTAL ASSETS	15,738	15,954	1.4%
Subscribed share capital	9,823	9,823	0.0%
Reserves	530	492	-7.2%
Revaluation reserves	2	16	
Treasury shares	-38	-61	58.4%
Retained earnings	1,024	1,548	51.2%
Net profit for the period	863	872	1.0%
Non controlling interests	369	339	-8.0%
Total issued capital and reserves	12,573	13,030	3.6%
Provisions	73	73	0.1%
Non-current liabilities	617	574	-7.0%
Contract liabilities (IFRS 15)	0	6	
Deferred tax liability	47	43	-8.8%
Total non-current liabilities	737	696	-5.6%
Current liabilities	2,310	2,100	-9.1%
Contract liabilities (IFRS 15)	0	30	
Deferred income	89	96	7.5%
Provisions for redundancy	30	2	-92.9%
Total current liabilities	2,429	2,228	-8.3%
Total liabilities	3,166	2,924	-7.6%
TOTAL EQUITY AND LIABILITIES	15,738	15,954	1.4%

7.3. Consolidated Cash Flow Statement

in HRK million	3Q 2017	3Q 2018	% of change A18/A17	Q3 2017	Q3 2018	% of change A18/A17
Profit before tax	887	1,055	19.0%	388	516	32.9%
Depreciation and amortization	1,255	1,266	0.9%	431	426	-1.0%
Increase / decrease of current liabilities	64	-255		19	27	37.3%
Increase / decrease of current receivables	8	66		-20	-77	-290.9%
Increase / decrease of inventories	-60	-19	68.8%	-16	-16	1.6%
Other cash flow increases / decreases	-267	-312	-16.7%	-145	-86	40.8%
Net cash inflow/outflow from operating activities	1,887	1,801	-4.6%	657	791	20.3%
Proceeds from sale of non-current assets	91	25	-72.7%	64	2	-97.6%
Proceeds from sale of non-current financial assets	1	1	-3.3%	0	0	3.9%
Interest received	7	10	32.3%	2	2	9.7%
Other cash inflows from investing activities	1,306	202	-84.5%	-1,100	4	100.3%
Total increase of cash flow from investing activities	1,405	238	-83.1%	-1,034	7	100.7%
Purchase of non-current assets	-1,080	-990	8.3%	-379	-320	15.7%
Purchase of non-current financial assets	-924	0	100.0%	0	0	-100.0%
Other cash outflows from investing activities	-266	-394	-48.2%	978	-394	-140.3%
Total decrease of cash flow from investing activities	-2,270	-1,384	39.0%	599	-713	-219.1%
Net cash inflow/outflow from investing activities	-865	-1,147	-32.6%	-435	-706	-62.1%
Total increase of cash flow from financing activities						
Repayment of loans and bonds	-57	-43	24.6%	0	0	
Dividends paid	-493	-497	-0.8%	0	-8	
Repayment of finance lease	-52	-2	96.8%	-1	-1	25.0%
Other cash outflows from financing activities	-260	-331	-27.1%	-118	-110	7.3%
Total decrease in cash flow from financing activities	-862	-872	-1.2%	-119	-118	1.4%
Net cash inflow/outflow from financing activities	-862	-872	-1.2%	-119	-118	1.4%
Exchange gains/losses on cash and cash equivalents	-19	0	98.7%	3	2	-49.5%
Cash and cash equivalents at the beginning of period	2,734	3,152	15.3%	0	0	
Net cash (outflow) / inflow	141	-219	-254.5%	106	-31	-129.3%
Cash and cash equivalents at the end of period	2,876	2,933	2.0%	106	-31	-129.3%

8. Notes to the condensed consolidated financial statements for the nine months ended on 30 September 2018

Basis of preparation

The condensed consolidated financial statements as of 30 September 2018 and for the nine months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

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

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

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

Dividends

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

Dividend was paid in May 2018.

Sale of energy business

Hrvatski Telekom d.d. 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, the sale transaction of electric energy business to the buyer RWE Hrvatska d.o.o. has been concluded in September 2018. This transfer of the business to RWE and change of the electric energy supplier has no influence on the manner of the provision of telecommunication services to the customers of Croatian Telecom who were electric energy services customers of Croatian Telecom until the sale of this business to RWE.

Segment information

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

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

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

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

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

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

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

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

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

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

Period ended 30 September 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	2.806	2.153	-	350	476	5.785
Mobile revenue	1.443	796	-	-	239	2.478
Fixed revenue	1.335	794	-	350	214	2.693
System solutions revenue	-	479	-	-	23	502
Miscellaneous revenue	28	84	-	-	-	112
Usage related direct costs	(146)	(177)	-	(61)	(42)	(426)
Income and losses on accounts receivable	(28)	(59)	-	(2)	(7)	(96)
Contribution margin I	2.632	1.917	-	287	427	5.263
Non-usage related direct costs	(463)	(659)	-	(9)	(75)	(1.206)
Segment result	2.169	1.258	-	278	352	4.057
Other income	-	-	116	3	1	120
Other operating expenses, restated	(266)	(300)	(1.091)	(90)	(187)	(1.934)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(1.055)	(78)	(122)	(1.255)
Operating profit, restated	1.903	958	(2.030)	113	44	988

Period ended 30 September 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	2.759	2.165	-	388	475	5.787
Mobile revenue	1.479	881	-	-	250	2.610
Fixed revenue	1.248	734	-	388	197	2.567
System solutions revenue	-	487	-	-	28	515
Miscellaneous revenue	32	63	-	-	-	95
Usage related direct costs	(178)	(176)	-	(64)	(36)	(454)
Income and losses on accounts receivable	(26)	(7)	-	(6)	(6)	(45)
Contribution margin I	2.555	1.982	-	318	433	5.288
Non-usage related direct costs	(427)	(659)	-	(17)	(85)	(1.188)
Segment result	2.128	1.323	-	301	348	4.100
Other income	-	-	100	5	5	110
Other operating expenses	(273)	(269)	(1.021)	(85)	(173)	(1.821)
Depreciation, amortization and impairment of non-current assets	-	-	(1.057)	(88)	(121)	(1.266)
Operating profit	1.855	1.054	(1.978)	133	59	1.123

Period 1 July to 30 September 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
HRK million HRK million HRK million HRK million HRK million HRK million						
Net revenue	949	836	-	139	170	2.094
Mobile revenue	497	347	-	-	92	936
Fixed revenue	443	251	-	139	72	905
System solutions revenue	-	204	-	-	6	210
Miscellaneous revenue	9	34	-	-	-	43
Usage related direct costs	(49)	(71)	-	(20)	(16)	(156)
Income and losses on accounts receivable	(14)	(46)	-	-	(2)	(62)
	-	-	-	-	-	-
Contribution margin I	886	719	-	119	152	1.876
Non-usage related direct costs	(152)	(283)	-	(5)	(23)	(463)
	-	-	-	-	-	-
Segment result	734	436	-	114	129	1.413
Other income	-	-	58	2	-	60
Other operating expenses, restated	(81)	(94)	(359)	(37)	(65)	(636)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(360)	(30)	(41)	(431)
	-	-	-	-	-	-
Operating profit, restated	653	342	(661)	49	23	406

Period 1 July to 30 September 2018	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
HRK million HRK million HRK million HRK million HRK million HRK million						
Net revenue	950	856	-	128	172	2.106
Mobile revenue	524	386	-	-	95	1.005
Fixed revenue	417	242	-	128	67	854
System solutions revenue	-	210	-	-	10	220
Miscellaneous revenue	9	18	-	-	-	27
Usage related direct costs	(61)	(64)	-	(20)	(13)	(158)
Income and losses on accounts receivable	(8)	(7)	-	(3)	(2)	(20)
	-	-	-	-	-	-
Contribution margin I	881	785	-	105	157	1.928
Non-usage related direct costs	(148)	(258)	-	(5)	(30)	(441)
	-	-	-	-	-	-
Segment result	733	527	-	100	127	1.487
Other income	-	-	52	1	1	54
Other operating expenses	(87)	(88)	(333)	(23)	(58)	(589)
Depreciation, amortization and impairment of non-current assets	-	-	(354)	(31)	(41)	(426)
	-	-	-	-	-	-
Operating profit	646	439	(635)	47	29	526

Relations with the governing company and its affiliated companies

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

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

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

Transactions with related companies

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

In the first nine months of 2018 the Group generated total revenue from related companies from international traffic to the amount of HRK 188 million (the first nine months of 2017: HRK 128 million), while total costs of international traffic amounted to HRK 134 million (the first nine months of 2017: HRK 102 million).

Compensation of the Supervisory Board

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

In the first nine months of 2018 the Company paid a total amount of HRK 0.6 million (the first nine months of 2017: HRK 0.7 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first nine months of 2018 the total compensation paid to key management personnel of the Group amounted to HRK 38 million (first nine months of 2017: HRK 41 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

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

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

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

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

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

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

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

Zagreb, 31 October 2018

Presentation of information

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

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

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

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

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

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

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

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

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

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

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

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

Disclaimer

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