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Zagreb – 26 April 2019

Croatian Telecom Inc.

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Hrvatski Telekom

Results for the three months ended 31 March 2019

Continuation of strong financial performance in the first quarter of 2019

- Growth of Magenta 1 customers and acquisition of Evo TV
- Continued investments in fiber infrastructure and mobile network modernization, first 5G pilot in Croatia and new digital services
- Konstantinos Nempis, new CEO of Hrvatski Telekom as of 1 April 2019

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the three months ended 31 March 2019.

"IFRS 16", accounting standard is applied from 1 January 2019 and 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.¹

Strong financial performance

In Q1 2019, EBITDA before exceptional items AL (after leases) increased by HRK 22 million, or 3.4%, to HRK 673 million in comparison with Q1 2018. EBITDA AL margin is at the level of 37.9%. Strong increase in EBITDA in Q1 is partially influenced by one-time effects such as Evo TV transaction and other.

¹ 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. Therefore, "AL" or "After Leases" steering KPIs have been introduced to ensure comparability. In relation to 2018, only the income statement and the respective KPIs have been adjusted for IFRS 16 effects.

In Q1 2019, net profit after NCI (non-controlling interest) amounts to HRK 190 million, which is an increase of 14.1% in comparison with the same period a year ago.

Total consolidated revenue generated in the first three months of 2019 amounts to HRK 1,775 million, which is 1.3% below the realization of the same period last year.

Growth of Magenta 1 customers, acquisition of Evo TV

The core proposition of Hrvatski Telekom remains the convergent offer under the name Magenta 1 combining the best from fixed and mobile service world. The unique concept of Magenta 1 on the Croatian market has more than 230 thousand customers and the number of customers grew by 10.2% from previous quarter.

As of 1 March, following the approval by the National Regulatory Agency (HAKOM), Hrvatski Telekom acquired Evo TV business from Hrvatska Pošta. With Evo TV, Hrvatski Telekom pay TV customer base grew from Q1 2018 by 17.8%, reaching 488 thousand pay TV customers.

Continued investment in infrastructure, P3 best network award and first 5G pilot in Croatia

In Q1 2019, capital expenditure realization amounts to HRK 386 million and is below Q1 2018 as a result of seasonal effects. Outlook on capital expenditures for 2019 remains the same as announced, i.e. around 2018 level.

In Q1 2019, Hrvatski Telekom continued with investments into fiber infrastructure, modernizing fixed access network to a new generation (NGA), achieving coverage for 59% households with a speed beyond 30 Mbps and 22% households with a speed beyond 100 Mbps.

Also, Hrvatski Telekom continued with an investment program of the modernization of mobile radio and transport networks. Upon successful completion of network modernization in the region of Istria and in Zagreb and Zagreb County in 2018, in Q1 2019, network modernization has continued on the coastal part of Croatia from Dubrovnik to Rijeka region. At the end of March 2019, a total of 45% locations were swapped with modernized 5G ready mobile radio equipment and infrastructure.

Furthermore, Hrvatski Telekom has continued to improve coverage and speed of its mobile network, reaching indoor 4G population coverage of 83.1% and outdoor population coverage of 98.7%.

Hrvatski Telekom participated in tender procedure organized by the National Regulatory Agency (HAKOM) for spectrum at 2,600 MHz. Hrvatski Telekom successfully acquired 2 x 20 MHz.

Hrvatski Telekom has won the award for the best mobile network in Croatia (P3 award) for the 2nd year in a row. Furthermore, in March 2019, Hrvatski Telekom was the first operator in Croatia and among the first in Europe to pilot and demonstrate a 5G network. The demonstration was realized in the city of

Samobor in a real production environment by using commercial radio and core 5G equipment and functionality. Apart from Samobor, 5G technology will be piloted in other specific areas in Croatia.

Strong growth of customers using Moj Telekom app and announcement of new digital services

The key lever for digitalization of customer experience is Hrvatski Telekom's app called Moj Telekom that gives users a detailed overview of all fixed and mobile telco services, consumption, enables payment of bills, and manages tariffs and options. The usage of Moj Telekom app is strongly increasing and in Q1 there were more than 113 thousand users.

In the first quarter of 2019, Hrvatski Telekom and Zagrebačka banka partnered up for new digital banking service - Telekom Banking. This is the first cooperation of this type between a telecommunications operator and a bank on the Croatian market. The service, currently in the pilot phase, and commercial launch is expected in next few months.

Commenting on the business results of the first quarter of 2019, Konstantinos Nempis, new President of the Management Board of Hrvatski Telekom, said:

"The strong business results in the first quarter of 2019 show a continuation of successful business operations of Hrvatski Telekom. Such position of the Company, its investment capacity, access to state-of-the-art technologies and, most of all, its competent and talented people, will enable Hrvatski Telekom to leap forward in the era of digital world, creating a positive difference for the Croatian society. In the next period, strategic focus will be on simplification and digitization of customer experience and Company's operations to be faster and more agile, and on strong investments in high speed fixed and mobile networks, enabling our customers and Croatian citizens to connect to the opportunities of digitization, all leading to a sustainable growth of Hrvatski Telekom."

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A conference call for analysts and investors will be held at 12:00 UK time / 13:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In	+44 (0) 207 192 8000
Conference ID	5149269

A replay of the call will be available until Friday, 3 May 2019 using the following details:

International Dial In	+44 (0) 333 300 9785
Conference ID	5149269

A presentation covering results for the first three months of 2019 can be downloaded from the HT web site (www.t.ht.hr/eng/investors)

1. Economic environment

1.1. HT Group's good performance in Q1 2019

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in Q1 2019 in spite of competitive pressure.

1.2. Economic background

Croatian economic growth slowed down in 2018 (2.6% annual growth) compared with 2017 trend (2.9% annual growth). Private consumption was the key driver of GDP's growth: it went up by 3.5% thanks to the latest tax cuts that increased disposable income. GDP growth was also supported by a 6.1% rise in investments, which points to good economic sentiment thanks to tax cuts and better absorption of EU funds. A further economic slowdown could be expected in 2019 if Croatia continues with slow implementation of the reforms.²

The registered unemployment rate keeps decreasing as the result of increased employment as well as emigration trend. In February 2019 the registered unemployment rate was 10.2%, that is 1.9p.p. lower than in February 2018.¹

In February 2019 Consumer Price Index (CPI) increased by 1.4% on annual average.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 123.5% at the end of March 2019. The Company maintains leading market position with estimated mobile SIM market share of 45.6% at the end of March 2019.

Total number of sent SMS messages continued to decrease on an annual basis by 12.7% in 2018. Total broadband traffic grew year-on-year by 31.1% in 2018. In the same period total mobile market minutes of use (MOU) continued to increase on an annual basis by 2.2%.³

Negative trend in usage of fixed voice services resulted with a decline of originating voice minutes on an annual basis by 9.1% in 2018.²

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.1 million fixed broadband connections at the end of 2018 that was 2.2% growth vs. end of 2017². Telecommunication

² Sources: Croatian Bureau of Statistics, latest macroeconomic forecasts

³ Source: Croatian Post and Electronic Communications Agency's quarterly reports

³ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4/2018

operators have been making significant investments in FTTH footprints, advanced technology and innovative services.

HT Group continues with further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 617 thousand of broadband access lines at the end of March 2019.

HAKOM reported 820 thousand Pay TV customers at the end of 2018.⁴ Growing PayTV customer segments were cable (5.3% annual growth), IPTV (2.6% annual growth), satellite TV (3.3% annual growth) and digital terrestrial PayTV (8.8% annual growth).

Wholesale

The number of broadband wholesale customers (BSA and Naked BSA) was 128 thousand at the end of March 2019, which is a decrease of 1.3% compared to end of March 2018. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased because of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 116 thousand ULL accesses and 51 thousand WLRs at the end of March 2019.

1.4. Regulatory overview

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

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

New rounds of analysis of relevant electronic communications markets

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

- a) Wholesale central access provided at a fixed location for mass-market products. The market analysis process is still pending.
- b) Wholesale local access provided at a fixed location. The market analysis process is still pending.
- c) Wholesale call termination on individual public telephone networks provided at a fixed location. HAKOM adopted the final decision on market analysis on 22nd February 2019.
- d) Wholesale voices call termination on individual mobile networks. HAKOM adopted the final decision on market analysis on 22nd February 2019.

⁴ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4/2018

- e) Wholesale call origination on the public telephone network provided at a fixed location. HAKOM adopted the final decision on market analysis on 15th January 2019.
 - f) Wholesale high-quality access provided at a fixed location. The market analysis process is still pending.
 - g) Wholesale trunk segments of leased lines. The market analysis process is still pending.
- End of the pending market analyses processes and adopting of final decisions are expected in Q2 2019.

New regulatory framework for electronic communications on the European Union level

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

EU member states are obliged to transpose the Directive into national law in two years after its publication, while the Regulation, which is directly applicable in all member states, sets maximum retail prices of international calls within EU (0.19 €/min) and SMS messages (0.06 €/SMS), mandatory applicable in all member states as of May 15th, 2019.

Amendments to the Margin Squeeze Methodology

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

1.5. Changes in reporting

In 2014 Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom, among which is the implementation of so called “Chinese wall” between Optima Telekom and HT employees involved in Optima Telekom’s business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively, only financial statements are consolidated while, due to limited access to Optima Telekom’s information, non financial KPIs are not consolidated in the Group results. In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

In February 2019, HT d.d. concluded a Purchase transaction with the company HP-Hrvatska pošta d.d. on acquisition of 100% stake in the company HP Produkcija d.o.o., provider of evotv service.

HP Produkcija d.o.o. is consolidated in HT Group financial results starting with March 2019. Operational highlights that relate to achievement of the main financial and non financial key performance indicators on the following pages are presented with consolidation impact of EvoTV.

IFRS 16 Leases

The standard is applied from January 1st, 2019. IFRS 16 has a material effect on the Company's financial statements, particularly on total assets, the results of operations, cash generated from operations, and the presentation of the financial position.

The new regulations affect the Company as a lessee especially in relation to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes. In relation to 2018, only the income statement, cash flow and respective KPIs are proforma adjusted for 2019 IFRS 16 effects.

„AL” or „After Leases” steering KPIs introduced to ensure comparability:

- EBITDA AL – increase in EBITDA due to elimination of operating lease expenses offset by adding back lease cost now booked in newly created depreciation and interest expense back to EBITDA
- Capex AL – increase in Capex due to capitalization of leases formerly booked as expense offset by AL principle back to pre-IFRS 16 level (remains unchanged)

2. Business review

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

in HRK million

INCOME STATEMENT	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Revenue	1,798	1,798	1,775	-1.3%
Mobile	766	766	797	4.1%
Fixed voice	207	207	184	-11.4%
Broadband & TV	349	349	346	-0.9%
Fixed wholesale	88	88	81	-8.3%
Other fixed	215	215	220	2.4%
System solutions	139	139	144	4.0%
Miscellaneous	34	34	3	-90.8%
Exceptional items	23	23	7	-68.4%
EBITDA before exceptional items after leases		651	673	3.4%
EBITDA before exceptional items	684	735	760	3.4%
EBITDA after exceptional items	661	712	753	5.8%
EBIT (Operating profit)	233	239	256	7.2%
Net profit after non controlling interests	166	167	190	14.1%
EBITDA margin before exceptional items after leases		36.2%	37.9%	1.7 p.p.
EBITDA margin before exceptional items	38.1%	40.9%	42.8%	2.0 p.p.
EBITDA margin after exceptional items	36.8%	39.6%	42.4%	2.8 p.p.
EBIT margin	13.0%	13.3%	14.4%	1.1 p.p.
Net profit margin	9.2%	9.3%	10.7%	1.4 p.p.

Note: Q1 2018 proforma adjusted for 2019 IFRS 16 effects

BALANCE SHEET	At 31 Dec 2018	At 31 Mar 2019	% of change A19/A18
Total non current assets	10,694	11,142	4.2%
Total current assets	5,337	5,299	-0.7%
TOTAL ASSETS	16,031	16,441	2.6%
Total issued capital and reserves	13,208	13,371	1.2%
Total non current liabilities	498	464	-6.7%
Total current liabilities	2,326	2,606	12.1%
TOTAL EQUITY AND LIABILITIES	16,031	16,441	2.6%

CASH FLOW	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Net cash flow from operating activities	563	610	559	-8.4%
Net cash flow from investing activities	-201	-201	-304	-51.4%
Net cash flow from financing activities	-137	-184	-201	-9.4%
Cash and cash equivalents at the end of period	3,374	3,374	3,193	-5.4%

CAPEX after leases	Q1 2018	Q1 2019	% of change A19/A18
CAPEX after leases	442	386	-12.7%
CAPEX after leases/ Revenue ratio	24.6%	21.8%	-2.8 p.p.

NUMBER OF EMPLOYEES	At 31 Mar 2018	At 31 Mar 2019	% of change A19/A18
Number of employees (FTEs)	5,343	5,473	2.4%

2.1.1. HT Group highlights

Significant efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable estimated portion of 45.6%
- Acquisition of EvoTV contributes HT's position on the growing pay-tv market providing wider range of services
- Hybrid access option ensuring higher Internet speeds included in all M1 packages for customers with low Broadband speed
- Magenta1 achieved 209 thousand of consumer households (4Q 2018: 191) while in business area there are 21 thousand active accounts (4Q 2018: 16 thousand active accounts)
- In CT, Magenta1 kept almost 15% (4Q 2018: 15%) of consumer households, while in business area there are more than 2,000 active accounts (4Q 2018:1,800 active accounts)

Strong financial performance of main financial KPIs

- Revenue amounts to HRK 1,775 million and is below Q1 2018 by HRK 23 million or 1.3%
- EBITDA AL amounts to HRK 673 million and is above Q1 2018 by HRK 22 million or 3.4%
- Capex AL amounts to HRK 386 million and is below Q1 2018 by HRK 56 million or 12.7%

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased to 83.1% (4Q 2018: 82.0%), while "Outdoor" coverage reached 98.6% (4Q 2018: 98.5%)
- Modernization of fixed access network of new generation (NGA) achieving realization of 8,560 HH on FTTH technology and 502 HH on FTTC in Q1 2019. In addition, 10,042 customers were upgraded on higher speeds through Hybrid access.
- In CT Further improvement of LTE coverage through mobile access rollout in preparation phase. 96% LTE postpaid outdoor coverage of 96% kept. According to NRA measurements, CT is on the first place in mobile data services with highest speed. Intensive FTTH Rollout ongoing; Home passed/Home install ready targets for Q1 overachieved. Underground expansion in 2 new and 4 existing municipalities. AIR expansion in 3 existing municipalities.

Mobile network modernization

- Upon successful completion of network modernization in region of Istria and in Zagreb and Zagreb county in 2018, during Q1 2019 network modernization continued on coastal part of Croatia from Dubrovnik to Rijeka region where 267 locations were swapped. At the end of March 2019 in total 880 locations were swapped. Also, to support predicted traffic growth, HT continues with capacity expansions on 4G mobile network sites reaching in total 235 locations with finished expansions in 2019.
- Pilot 5G network and 5G data session established in real production network environment, as first in Croatia and the region

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

- OneApp project improved “Moj Telekom” application which is faster, easier to use with a range of new functionalities (One Click Payment, PayPal solution)
Currently application has 113,000 monthly active users (4Q 2018: 101,000) and has average rating of 4.5 on Google Play platform (4Q 2018: 4,4)

In the first quarter of 2019, Hrvatski Telekom and Zagrebačka banka signed a contract on cooperation in the provision and distribution of a new digital banking service - Telekom Banking. This is the first such cooperation between a telecommunications operator and a bank on the Croatian market. The service, currently in the pilot phase, will offer the largest number of digital banking services to customers in Croatia, as well as contracting a banking package through mobile app without having to go to a bank office. By entering the digital banking business, Hrvatski Telekom continues to transform into a digital company.

Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021. Based on the authorization granted by the General Assembly, in March 2018 the Management Board withdrew 218,471 acquired Company shares without nominal value, thereby the total number of shares has decreased from 81,888,535 shares to 81,670,064 shares, while the remaining shares' participation in the share capital is being increased. In 2019 the Company continues with the Share Buyback Program, and the number of acquired Company shares amounted to 611,476 on March 31st, 2019.

2.1.2. Main financials development

I. Revenue

Total consolidated revenue decreased by HRK 23 million or 1.3% to HRK 1,775 million in Q1 2019 in comparison to Q1 2018. Revenue decrease is driven by both HT Group in Croatia (HRK 19 million or 1.2%) and Crnogorski Telekom contribution (HRK 4 million or 2.7%).

On HT Group level, revenue decrease is driven by lower realization in miscellaneous revenue (HRK 31 million or 90.8%) and fixed revenue (HRK 29 million or 3.4%); partially offset by higher mobile revenue (HRK 31 million or 4.1%) and system solutions (HRK 6 million or 4.0%).

Optima Telekom contribution to HT Group was below by HRK 1 million in comparison to Q1 2018 and amounted to HRK 82 million in Q1 2019. Contribution consisted of HRK 133 million of Optima Telekom third party contribution (Q1 2018: HRK 131 million) that was presented in the whole amount under fixed other revenue and HRK 52 million of inter-company relations that decreased mainly fixed wholesale revenue (Q1 2018: HRK 48 million).

Contribution of subsidiaries in Group revenue in Q1 2019 amounted for Iskon HRK 93 million (Q1 2018: HRK 104 million) and for Combis HRK 88 million (Q1 2018: HRK 86 million).

Mobile revenue

Mobile revenue rose by HRK 31 million or 4.1% to HRK 797 million in Q1 2019 in comparison to Q1 2018. Growth is driven by HT Group in Croatia by HRK 32 million or 4.7%, while Crnogorski Telekom contributed with HRK 1 million or 1.8%.

The growth resulted mainly from higher handset revenue (HRK 41 million or 21.8%) and postpaid revenue (HRK 13 million or 3.5%) that offset decline in other revenue (HRK 14 million or 25.5%) and prepaid (HRK 11 million or 8.2%).

The handset revenue growth was driven by the increased number of sales transactions followed by increased sales volume of smartphones mainly additionally supported by growing convergent offers.

Reported postpaid revenue increased mainly due to higher mobile data revenue as a result of continuous substitution trend of traditional services with data and higher voice revenue due to higher customer base by 4.5%.

Prepaid revenue decrease due to lower customer base by 2.6% which resulted with lower voice, SMS and data revenue.

Fixed revenue

Fixed revenue decreased by HRK 29 million or 3.4% to HRK 830 million in Q1 2019 in comparison to Q1 2018. Decline in fixed revenue for HT Group in Croatia amounts to HRK 24 million or 3.0%, while Crnogorski Telekom contributed with decline of HRK 5 million or 8.3%. Introduction of IFRS 15 further increase fixed revenue by HRK 3 million.

The fall resulted mainly from lower voice revenue (HRK 24 million or 11.4%), broadband (HRK 14 million or 5.9%) and wholesale (HRK 7 million or 8.3%) but it was partially compensated by higher TV revenue (HRK 11 million or 9.1%) and other revenue (HRK 5 million or 2.4%)

In Q1 2019, fixed line voice retail revenue decreased in comparison to Q1 2018 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 from HT Group in Croatia, primarily under influence of lower transit in Iskon.

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 positive effect of Optima Telekom.

TV revenue increased in comparison to the same period last year as a result of higher customer base in HT Group in Croatia due to acquisition of EvoTV, push of TV through Magenta1. Crnogorski Telekom contribution is in line with Q1 2018.

System Solutions

System solution revenue increased by HRK 6 million or 4.0% in comparison to Q1 2018 driven by both HT Group in Croatia (HRK 3 million or 2.1%) and Crnogorski Telekom contribution (HRK 3 million or 48.2%) due to different dynamic in projects realization.

Miscellaneous revenue

Decrease in miscellaneous revenue is driven by energy business which was sold in September 2018.

II. Other operating income

Other operating income increased by HRK 54 million or 212.3% compared to Q1 2018. Increase comes from HT Group in Croatia (HRK 54 million or 223.1%) mainly due to EvoTV transaction, while Crnogorski Telekom contribution is in line with Q1 2018.

III. Operating expenses

Total consolidated operating expenses decreased by HRK 10 million or 0.9% to HRK 1,102 million in Q1 2019 driven by both HT Group in Croatia (HRK 7 million or 0.7%) and Crnogorski Telekom contribution (HRK 3 million or 3.3%).

Decrease is a result of lower other expenses (HRK 23 million or 7.8%) and material expenses (HRK 16 million or 2.9%); partially offset by higher employee benefits expenses (HRK 15 million or 5.5%), higher write down of assets (HRK 14 million or 132.1%) and lower amount of work performed by the Group and capitalized (HRK 1 million or 3.0%).

Material expenses

Material expenses decreased to HRK 544 million in Q1 2019 (by HRK 16 million or 2.9%) as a result of lower merchandise, material and energy expenses (HRK 26 million or 7.2%); partially offset by higher service expenses (HRK 10 million or 5.0%). Decrease in material expenses is driven by HT Group in Croatia (HRK 17 million or 3.3%) while Crnogorski Telekom increased material expenses by HRK 1 million or 2.2% mainly due to lower capitalization of TV content.

Merchandise, material and energy expenses decreased primarily due to lower energy costs.

Energy costs decrease (HRK 34 million or 99.9%) mainly due to selling of energy business in September 2018.

Service expenses increase is mainly influenced by higher telecommunication costs, copyright fees and other services purchased.

Telecommunication cost increased (HRK 6 million or 4.2%) mainly as a result of higher international costs due to higher roaming traffic and international sms - bulk.

Copyright fees increased (HRK 1 million or 7.3%) due to contract terms and delayed Capex Contract capitalization.

Other services purchased increased (HRK 1 million or 3.5%) mainly due to increased cost of Iskon mobile.

Employee benefits expenses

Total employee benefits expenses increased by HRK 15 million or 5.5% in Q1 2019 as a result of higher personnel costs (HRK 31 million or 11.9%) driven by higher number of FTEs, primarily by HT Group in Croatia, partially offset by lower redundancy costs (HRK 17 million or 87.3%).

Total number of FTEs amounts to 5,473 FTEs, which is an increase of 130 FTEs compared to Q1 2018, mainly coming from HT Group in Croatia as a result of insourcing from external to internal employment during 2018.

Other expenses

Other expenses decreased by HRK 23 million or 7.8% to HRK 277 million in Q1 2019, mainly driven by HT Group in Croatia (HRK 19 million or 7.1%). Crnogorski Telekom contributed with lower other expenses by HRK 4 million or 14.5%. Decrease of other expenses is mainly driven by lower Spectrum fees and lower consulting fees due to different scope of the projects than last year; partially offset by higher rental and leasing costs and higher advertising expenses.

Write down of assets

The assets write down increased by HRK 14 million or 132.1% to HRK 25 million in Q1 2019 driven by HT Group in Croatia (HRK 15 million or 191.5%) mainly due to IFRS9 effect and lower value adjustment of receivables.

Depreciation and amortization

Depreciation and amortization increased to HRK 497 million by HRK 24 million or 5.1% compared to Q1 2018 fully influenced by HT Group in Croatia (HRK 20 million or 4.5%) due to different seasonalization. Part of depreciation is included in EBITDA after leases.

IV. Profitability

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases increased by HRK 22 million or 3.4% to HRK 673 million in Q1 2019 driven by HT Group in Croatia (HRK 27 million or 4.4%) while Crnogorski Telekom contributed negatively (HRK 5 million or 9.1%).

HT Group in Croatia EBITDA before exceptional items after leases increase is influenced by higher other operating income (HRK 54 million or 223.1%); offset with revenue decline (HRK 19 million or 1.2%) and higher operating expenses (before exceptional items) (HRK 8 million or 0.8%) mainly coming from higher employee benefits.

Crnogorski Telekom EBITDA before exceptional items after leases decrease is primarily result of lower revenue and IFRS16 effect; offset with lower operating expenses.

Net profit after non controlling interests

In comparison to Q1 2018 consolidated net profit after non controlling interests increased by HRK 24 million or 14.1% to HRK 190 million in Q1 2019. HT Group in Croatia contributed with HRK 29 million or 18.4% while Crnogorski Telekom contributed negative with HRK 6 million or 89.3%.

In HT Group in Croatia, except higher EBITDA before EI after leases realization (HRK 27 million), net profit after non controlling interests increased due to lower exceptional items (HRK 15 million or 69.1%), positive effect of net financial result (HRK 18 million or 43.5%) and non controlling interest (HRK 3 million or 36.0%); offset by higher depreciation and amortization (HRK 20 million or 4.5%) and higher taxation (HRK 8 million or 23.1%).

Crnogorski Telekom lower net profit is primarily driven by lower EBITDA before EI after leases realization and higher depreciation and amortization.

V. Financial position

Balance sheet

In comparison to 2018 year end, there is only minor increase in the total asset value of 3% or HRK 410 million under the influence of recognizing lease assets as a result of introduction of IFRS 16.

Total issued capital and reserves increased from HRK 13,208 million at 31 December 2018 to HRK 13,371 million at 31 March 2019 mainly driven by realized net profit for 1Q 2019 in the amount of HRK 190 million as well as catch-up effect of introduction of IFRS 16 that is recognized within retained earnings in amount of HRK 6 million that is offset with purchase of own share in amount of HRK 25 million.

Total non-current liabilities decreased by HRK 33 million or 7% primarily due to decrease in financial liabilities due to maturity.

Total current liabilities increased by HRK 280 million to HRK 2,606 million at 31 March 2019 mainly under the influence of recognizing lease liabilities as a result of introduction of IFRS 16.

Cash flow

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

CF from operating activities incl IFRS 16 decreased by HRK 51 million (8%) mainly due to unfavourable movement of working capital.

CF from investing activities decreased by HRK 103 million (51%) mainly due to lower inflow from repo arrangements partially offset by lower cash capex.

CF from financing activities decreased by HRK 17 million (9%) mainly due to higher lease and content repayments.

VI. Capital expenditure after leases

HT Group including Crnogorski Telekom

in HRK million

CAPEX after leases	Q1 2018	Q1 2019	% of change A19/A18
CAPEX after leases	442	386	-12.7%
CAPEX after leases/ Revenue ratio	24.6%	21.8%	-2.8 p.p.

Crnogorski Telekom

CAPEX after leases	Q1 2018	Q1 2019	% of change A19/A18
CAPEX after leases	51	26	-48.6%

Capital expenditure after leases realization decreased by HRK 56 million or 12.7% driven by lower realization of HT Group in Croatia by HRK 31 million or 8.0%, due to content capitalization and CT contributed with lower capex by HRK 25 million or 48.6% due to content capitalization.

In 2019 HT continued with modernization of fixed access network of new generation (NGA) achieving realization of 8,560 HH street passed FTTH covered HH and 502 HH on FTTC in Q1 2019. In addition, 10,042 customers were upgraded on higher speeds through Hybrid access.

In total, coverage available for 59% households with a speed >30 Mbps from which 21.8% with speed > 100 Mbps was achieved. Optical access network (FTTx) is available for 411 thousand households.

In mobile network, "indoor" 4G population coverage is 83.0% and "outdoor" coverage reached 98.6%. Implementation of 4G speed increased to 350 Mbps download speeds continued to population coverage of 57% and speed to 300 Mbps download speeds continued to population coverage of 22%.

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

Upon successful completion of network modernization in region of Istria and in Zagreb and Zagreb county in 2018, during Q1 2019 network modernization continued on coastal part of Croatia from Dubrovnik to Rijeka region where 267 locations were swapped.

At the end of March 2019 in total 880 locations were swapped. Also, to support predicted traffic growth, HT continues with capacity expansions on 4G mobile network sites reaching in total 235 locations with finished expansions in 2019.

As first in Croatia and in the region, HT established pilot 5G network and 5G data session in real production network environment. Network has been operating with test 3,5GHz spectrum in Samobor city. During 2019 test 5G network will be extended on the island of Krk and on the city of Osijek for technology testing and 5G based services development.

In Q1 2019 NRA (HAKOM) announced and proceed two radio frequency spectrum assignment procedures: for 2100MHz and 2600MHz spectrum bands. HT was not allowed to participate in 2100MHz spectrum assignment procedure due to spectrum cap set by HAKOM. HT appealed legal suit against discriminatory decision. In the meantime, the assignment procedure was preceded, and spectrum was granted to A1 and Tele2. HT participated in 2600MHz spectrum award and acquired block of 2x20MHz. Operating cost of spectrum is 12 million HRK per annum without initial cost. Other two operators acquired also 2x20MHz each.

Hrvatski Telekom introduced fault management system tool (Umbrella Fault Management tool) for fixed network, mobile network, NT / IT infrastructure and NT / IT services monitoring. Advanced analytics techniques, machine learning are used together with artificial intelligence algorithms in perspective for centralized data collection and processing of network and services status. Optimized filtering and real time display enable better response time, potential faults prediction and prevention and thus increase customer experience. System enables precise displaying of key alarms by filtering 98% of events on key 2% of alarms.

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

in HRK million

INCOME STATEMENT	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Revenue	1,655	1,655	1,635	-1.2%
Mobile	693	693	725	4.7%
Fixed voice	188	188	169	-10.3%
Broadband & TV	320	320	317	-0.9%
Fixed wholesale	84	84	78	-7.9%
Other fixed	202	202	207	2.5%
System solutions	133	133	136	2.1%
Miscellaneous	34	34	3	-90.8%
Exceptional items	22	22	7	-69.1%
EBITDA before exceptional items after leases		601	627	4.4%
EBITDA before exceptional items	634	680	707	3.9%
EBITDA after exceptional items	612	658	700	6.4%
EBIT (Operating profit)	225	229	252	9.8%
Net profit after non controlling interests	160	160	190	18.4%
EBITDA margin before exceptional items after leases		36.3%	38.4%	2.1 p.p.
EBITDA margin before exceptional items	38.3%	41.1%	43.2%	2.1 p.p.
EBITDA margin after exceptional items	37.0%	39.8%	42.8%	3.0 p.p.
EBIT margin incl	13.6%	13.9%	15.4%	1.5 p.p.
Net profit margin	9.6%	9.7%	11.6%	1.9 p.p.

¹⁾ Mainly related to restructuring redundancy costs and legal cases

Note: Q1 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	Q1 2018	Q1 2019	% of change A19/A18
Mobile customers in 000			
Number of customers	2,229	2,262	1.5%
- Prepaid	958	933	-2.6%
- Postpaid	1,271	1,329	4.5%
Minutes of use (MOU) per average customer	220	225	2.5%
Blended ARPU ⁴⁾ (monthly average for the period in HRK)	67	66	-0.7%
- Prepaid	42	40	-5.3%
- Postpaid	86	85	-0.6%
Blended non-voice ARPU ⁴⁾ (monthly average for the period in HRK)	36	38	7.2%
SAC per gross add in HRK	178	168	-5.8%
Churn rate (%)	2	2	0.1 p.p.
Penetration (%) ¹⁾	119	123	4.7 p.p.
Market share of customers (%) ¹⁾	46	46	-0.6 p.p.
Smartphone customers (%) ²⁾	64	67	2.9 p.p.
Smartphones sold (%) ³⁾	90	94	4.2 p.p.

¹⁾ Source: internal estimation of the competitors customers for 1Q 2019

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 includes IFRS 15 effects

Key operational data	Q1 2018	Q1 2019	% of change A19/A18
Fixed mainlines in 000			
Fixed mainlines - retail ¹⁾	858	805	-6.2%
Fixed mainlines - wholesale (WLR - wholesale line rental)	59	51	-13.6%
ARPU voice per user ⁵⁾ (monthly average for the period in HRK) ²⁾	72	69	-4.2%
IP mainlines/customers in 000			
Broadband access lines - retail ³⁾	620	617	-0.6%
Broadband access lines - wholesale ⁴⁾	130	128	-1.3%
TV customers	415	488	17.8%
Broadband retail ARPU ⁵⁾ (monthly average for the period in HRK)	111	104	-6.4%
TV ARPU ⁵⁾ (monthly average for the period in HRK)	81	87	6.7%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	131	116	-11.1%

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

²⁾ Payphones excluded

³⁾ Includes ADSL, VDSL, FTTH i Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

⁵⁾ ARPU 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 Q1 2018 by HRK 32 million or 4.7% under influence of higher handsets (HRK 42 million or 24.1%) and higher postpaid (HRK 13 million or 4.0%), offset with decline in other mobile (HRK 13 or 19.1%) and prepaid (HRK 10 million or 7.9%).

Mobile customer base at 2,262 thousand customers in March 2019 is higher (1.5%) compared to March 2018; lower prepaid segment and higher postpaid segment performance.

Number of postpaid customers is 4.5% higher than in 2018 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as attractive TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive

smartphones and gadgets. Magenta 1 campaign and offer “In Magenta 1 everyone gets double amount of minutes, SMS and GBs” continued through 2019.

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

In Q1 2019 Samsung has presented the new generation Smartphone - Samsung Galaxy S10 and S10+ available for purchase in HT – in presale customers got extra gift Samsung Galaxy Buds.

Postpaid was in focus of Q1 activities with retention and acquisition offers with very attractive handset prices. Additionally, Najbolja L tariff promo 6 months for HRK1 was continued as extra benefit for customers and increasing share of L tariff in M1.

Number of residential prepaid customers is 2.4% lower than in 2018 due to overall decline of prepaid market, less visitors due to regulatory changes and strong competition on the market. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

As of March 1st 2019, HT terminated network fee in all prepaid brands – Simpa, T-Prepaid and Bonbon. Customers get full paid amount for voucher on their account.

HT continued with promotion of Simpa Hibrid with main message “Best of both worlds”. New Hibrid tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world – enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa Hibrid customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world. In Q1 Simpa Hibrid offer was enriched with very attractive handset prices.

Bonbon is presented as part of the T family in all customer communications.

Minutes of usage per average residential customer in Q1 2019 increased by 5.1% compared to 2018 and blended ARPU increased by 2.5% yoy.

Business postpaid customer base increased by 6.5%, to 557 thousands customers at the end of Q1 2019 in comparison to Q1 2018 due to M2M and voice tariffs growth.

In Q1 2019, minutes of usage per average business customer are 4.9% lower than in Q1 2018 due to higher share of M2M subscribers with lower usage. Blended business postpaid ARPU is lower by 10.0% due to roaming regulation, M2M migration from prepaid to postpaid with lower ARPU and IFRS applied.

II. Fixed telecommunications

Fixed revenue below Q1 2018 by HRK 24 million or 3.0% under influence of declining fixed voice revenue (HRK 19 million or 10.3%), lower broadband (HRK 13 million or 6.0%), lower wholesale (HRK 7 million or 7.9%) which were partially offset by higher TV revenue (HRK 10 million or 10.0%) mainly coming from residential segment due to EvoTV acquisition and higher other fixed revenue (HRK 5 million or 2.5 %).

Fixed line

By the end of March 2019, total fixed access mainlines of 805 thousand are 6.2% lower than in March 2018. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro- and reactive churn prevention offers and activities.

To mitigate the on-going decline continuous promo offer for fixed line is in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs. Fixed telephony users generated 260 million of minutes in Q1 2019. That is 14.7% lower than in the same period in 2018 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 total price of HRK 248 per month. Offer was further accompanied by tablet for HRK 99 with special simplified applications and screen for easy use, Huawei phone and SOS bracelet. Another offer for elderly introduced in 2016 continued through 2018 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPA decreased by 4.2% compared to Q1 2018 as a result of mentioned general market trends.

Broadband

Broadband customer base was 0.6% lower than in the same period last year and at the level of 617 thousand.

At the same time broadband retail ARPA was 6.4% below Q1 2018 at the level of HRK 104 due to stronger competition and aggressive offers in the market.

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

HT continues with push of Ultra MAX packages on FTTH with additional speed increase up to 500 Mbps (or up to 1,000 Mbps with Turbo+ option). These packages are based on FTTH technology which enables multiple times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones. To ensure higher Internet speeds to all low speed Broadband customers 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 is included in all M1 packages for customers on low Broadband speed.

Continuation of 2P FMC offer with 6 months Najbolja L mobile tariff for 1 HRK accompanied by attractive HW offers to maintain fixed market share and value through M1.

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

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

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

Within new fixed/M1 offer, HT also introduced Professional modem for VSE customers. By introducing Professional modem, HT became first in the market to offer professional Internet access equipment to small business customers providing better quality, stability and better Wi-Fi coverage.

TV

TV customer base shows 17.8% increase from Q1 2018 is at the level of 488 thousand as a result of successful M&A activities and including EvoTV service in HT portfolio – TV service offered through DVB-T technology. TV ARPU is 6.7% increase compared to Q1 2018 at a level of HRK 87.

MAXtv Sat service has declined by 5.7% 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 ARPA. On the other hand, MAXtv customer base is higher 2.7% than last year because of continuous service and program offer improvements through premium and enriched exclusive TV content and introduction of MAXtv Mini offer.

In 2019 MAXtv is still standard for the premium television service. Richest content, premium picture quality, interactivity, new interface and full integration with mobile devices provide customers a unique TV viewing experience fully adapted to their habits. In order to introduce pay tv service to all Broadband users, HT is offering MAXtv Mini TV package. MAXtv Mini is IPTV service that includes free to air national, local and regional channels, Arena sport with the best content from national sport and one of the most popular pay tv channels PickboxTV. It also includes Snimalica and all on-demand pay tv

features (Pay Per View, Video on Demand). From Q1 2019 HT's TV portfolio is richer for one new service – EvoTV which is based on DVB-T technology.

Wholesale

At the end of March 2019 there were 116 thousand of active ULL lines, which was lower by 11.1% 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 128 thousand at the end of period, which was 1.3% 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 13.6% compared to previous year and reached 51 thousand as a result of declining voice market and migration to broadband services.

There were no price changes for regulated wholesale fixed services during Q1 2019.

In 2019 successful sales of IP and data services continued in spite of competitive domestic wholesale market of data and IP services. Total capacity of sold IP increased by 8.1% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in Q1 2019, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 13.5% more voice originating minutes and 58.6% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 26.6% more roaming voice traffic in foreign countries and 36.2% 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 11.4% in Q1 2019 compared to the last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 11.0% and from HT mobile network users increased by 17.7%.

System solutions

System solution revenue is higher than in Q1 2018 (increase of HRK 3 million or 2.1%).

System solutions revenue is continuously growing in all portfolio segments. Strategic focus remains on Cloud and Managed Solutions. The strongest growth achievement in Q1 is in the area of customized ICT solutions and standard ICT portfolio. Promo offer for Fiscalisation (seasonal offer) has been launched. ICT portfolio monetization is additionally successfully encouraged through Magenta 1 Business offer which was launched in Q4 2018 and which includes unique-in-the market Magenta 1 Bonus created with goal to encourage customers to use ICT services. Services offered via M1 Business

offer (Bonus) for VSE customers are: Cloud storage, Office 365, ICT equipment, Mini and Maxi fiscal register, Antivirus, Mini CRM, Cloud Exchange mail, Cloud fax.

Combis is investing in research and development of own new products to be launched on the market in the following quarters. Focus is on service like Security, Cloud and Managed services.

Energy

Revenues from energy were lower by HRK 30 million or 100.0% when compared to Q1 2018 due to selling of energy business in September 2018.

2.3. Summary of key financial indicators – Crnogorski Telekom standalone

in HRK million

INCOME STATEMENT	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Revenue	144	144	141	-2.5%
Mobile	73	73	71	-1.9%
Fixed voice	20	20	15	-22.1%
Broadband & TV	29	29	28	-1.5%
Fixed wholesale	4	4	4	-12.6%
Other fixed	13	13	13	-0.2%
System solutions	6	6	9	53.2%
Exceptional items	1	1	1	-55.0%
EBITDA before exceptional items after leases		50	46	-9.1%
EBITDA before exceptional items	50	55	54	-2.6%
EBITDA after exceptional items	49	54	53	-1.4%
EBIT (Operating profit)	8	9	4	-60.1%
Net profit after non controlling interests	8	8	0	-94.3%
EBITDA margin before exceptional items after leases		34.8%	32.5%	-2.3 p.p.
EBITDA margin before exceptional items	34.7%	38.1%	38.1%	0.0 p.p.
EBITDA margin after exceptional items	33.8%	37.3%	37.7%	0.4 p.p.
EBIT margin	5.4%	6.1%	2.5%	-3.6 p.p.
Net profit margin	5.6%	5.7%	0.3%	-5.4 p.p.

Note: Q1 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	Q1 2018	Q1 2019	% of change A19/A18
Mobile customers in 000	348	350	0.7%
-Prepaid	134	119	-10.5%
-Postpaid	214	231	7.6%
Fixed mainlines - retail in 000	119	112	-6.0%
Broadband access lines - retail in 000	69	70	1.0%
TV customers in 000	56	65	15.7%

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

I. Mobile telecommunications

Mobile revenues decreased compared to Q1 2018 by HRK 1 million or 1.9%, influenced mainly by lower prepaid revenues.

CT continued growth in postpaid segment, with 1% revenue increase YoY (excl. IFRS15 impact) and 8% higher subscriber base, while prepaid decline is still on stabilized level.

Postpaid revenues performance was driven by residential segment (as a result of a 14% customer base increase), while Business postpaid decreased. The growth in Residential segment compensated lower prepaid revenue (mainly a result of prp2pop base migration).

Challenge continued in prepaid segment, as prepaid revenues declined by HRK 1 million or 11.0% compared to Q1 2018.

Postpaid market leadership was remained at the end of Q1 2019.

II. Fixed telecommunications

Fixed revenues declined by HRK 5 million or 8.2% compared to Q1 2018, coming from further decline of fixed voice, broadband and wholesale revenues.

Fixed voice declined by HRK 4 million or 22.1%. Decrease is largely driven by the still strong positive impact of Fix-market-repair in H1 2018, as well as by the 6% decrease in customer base.

Fix broadband and TV revenues in line with Q1 2018, while higher customer numbers (by 7.6%) compensate ARPA decrease.

System solution revenues were higher in Q1 2019 by HRK 3 million or 53.2%, driven by one-time deals.

3. Overview of segment profitability

Disclosure

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

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

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

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

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

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

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

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

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

Residential segment Q1 2019

in HRK million	Q1 2018	Q1 2019	% of change A19/A18
Mobile revenue	473	493	4.4%
Fixed revenue	414	395	-4.4%
Miscellaneous	10	3	-72.4%
Revenue	897	892	-0.6%

Business segment Q1 2019

in HRK million	Q1 2018	Q1 2019	% of change A19/A18
Mobile revenue	220	232	5.3%
Fixed revenue	249	241	-3.2%
System solution	133	135	1.8%
Miscellaneous	23	0	-99.0%
Revenue	626	609	-2.7%

Network and support functions Q1 2019

in HRK million	Q1 2018	Q1 2019	% of change A19/A18
Other operating income	24	79	224.8%

Segment Optima consolidated Q1 2019

in HRK million	Q1 2018	Q1 2019	% of change A19/A18
Fixed revenue	131	133	2.0%
Revenue	131	133	2.0%
Other operating income	0	0	-35.6%

Segment Crnogorski Telekom consolidated Q1 2019

in HRK million	Q1 2018	Q1 2019	<i>% of change A19/A18</i>
Mobile revenue	73	72	-1.8%
Fixed revenue	65	60	-8.2%
System solution	6	9	53.2%
Revenue	144	141	-2.5%
Other operating income	1	1	8.1%

4. HT Inc. financial highlights

Revenue

Revenue decreased by HRK 15 million or 1.0% to HRK 1,394 million in Q1 2019 when compared to Q1 2018. Decrease was driven by lower miscellaneous (HRK 30 million or 99.2%) coming from energy business and fixed revenue (HRK 17 million or 2.7%) mostly as a result of declining voice and lower broadband. Decrease was partially offset by higher mobile revenue (HRK 33 million or 4.7%) influenced by increased handset revenue.

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases increased by HRK 33 million or 6.0% to HRK 581 million in Q1 2019, mainly as a result of higher other operating income (HRK 55 million or 248.9%), partially offset with lower revenue realization and higher operating expenses excluding exceptional items (HRK 7 million or 0.9%).

Net profit after non controlling interests

Net profit after non controlling interests increased by HRK 39 million or 24.4% to HRK 200 million in Q1 2019. Increase was primarily a result of higher EBITDA before exceptional items after leases (HRK 33 million or 6.0%), positive effect of net financial result (HRK 18 million or 59.8%) and lower exceptional items mainly related to personnel redundancy restructuring costs (HRK 15 million or 70.4%); offset by higher depreciation and amortization (HRK 17 million or 4.6%) and higher taxation (HRK 10 million or 27.0%).

5. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2018 made public, there were no material changes to the Group's risk profile in the period under review.

6. HT Group 2019 outlook

Group 2019 Outlook remains unchanged; now set on „after leases” (al) basis

	2018 Results	Outlook 2019 vs 2018
Revenue	HRK 7,783 million	Around 2018 level
EBITDA AL	Margin of 38.6%	Margin of around 38%
CAPEX AL	HRK 1,826 million	Around 2018 level
Regional expansion	Acquisition of evotv service	HT is monitoring and evaluating potential M&A opportunities

7. HT Group financial statements

7.1. Consolidated Income Statement

in HRK million	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Mobile revenue	766	766	797	4.1%
Fixed revenue	859	859	830	-3.4%
System solutions	139	139	144	4.0%
Miscellaneous	34	34	3	-90.8%
Revenue	1,798	1,798	1,775	-1.3%
Other operating income	26	26	80	212.3%
Total operating revenue	1,823	1,823	1,855	1.7%
Operating expenses	1,162	1,111	1,102	-0.9%
Material expenses	561	561	544	-2.9%
Employee benefits expenses	263	263	278	5.5%
Other expenses	352	301	277	-7.8%
Work performed by the Group and capitalised	-24	-24	-23	-3.0%
Write down of assets	11	11	25	132.1%
EBITDA	661	712	753	5.8%
Depreciation and amortization	427	473	497	5.1%
EBIT	233	239	256	7.2%
Financial income	14	14	7	-49.6%
Income/loss from investment in joint ventures	-3	-3	-2	-17.7%
Financial expenses	47	52	30	-41.3%
Profit before taxes	197	198	230	16.2%
Taxation	37	37	45	20.6%
Net profit	160	161	186	15.2%
Non controlling interests	-6	-6	-5	-17.5%
Net profit after non controlling interests	166	167	190	14.1%
Exceptional items ¹⁾	23	23	7	-68.4%
EBITDA before exceptional items	684	735	760	3.4%
EBITDA before exceptional items after leases		651	673	3.4%

¹⁾ Mainly related to restructuring redundancy costs and legal cases

Note: Q1 2018 proforma adjusted for 2019 IFRS 16 effects

7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2018	At 31 Mar 2019	% of change A19/A18
Intangible assets	2,539	2,468	-2.8%
Property, plant and equipment	6,218	6,205	-0.2%
Non-current financial assets	1,312	1,310	-0.1%
Receivables	391	383	-2.0%
Lessee use rights to leased assets (IFRS 16)	0	531	-
Contract assets (IFRS 15)	58	58	-1.4%
Contract costs (IFRS 15)	81	91	12.1%
Deferred tax asset	94	96	1.6%
Total non-current assets	10,694	11,142	4.2%
Inventories	136	146	7.8%
Receivables	1,549	1,445	-6.7%
Current financial assets	112	112	-0.2%
Contract assets (IFRS 15)	146	180	23.2%
Contract costs (IFRS 15)	57	59	2.4%
Cash and cash equivalents	3,137	3,193	1.8%
Prepayments and accrued income	201	165	-18.0%
Total current assets	5,337	5,299	-0.7%
TOTAL ASSETS	16,031	16,441	2.6%
Subscribed share capital	9,823	9,823	0.0%
Reserves	562	563	0.3%
Revaluation reserves	-14	14	-205.1%
Treasury shares	-71	-96	35.8%
Retained earnings	1,503	2,545	69.3%
Net profit for the period	1,061	190	-82.1%
Non controlling interests	344	331	-3.6%
Total issued capital and reserves	13,208	13,371	1.2%
Provisions	70	78	11.8%
Non-current liabilities	384	276	-28.1%
Lessee lease liabilities to third partie due > 1 year	0	68	-
Contract liabilities (IFRS 15)	0	0	-
Deferred tax liability	44	42	-3.2%
Total non-current liabilities	498	464	-6.7%
Current liabilities	2,223	2,089	-6.0%
Contract liabilities (IFRS 15)	52	439	-
Lessee lease liabilities due <= 1 year (IFRS 16)	0	51	-
Deferred income	39	27	-29.8%
Provisions for redundancy	13	0	-97.6%
Total current liabilities	2,326	2,606	12.1%
Total liabilities	2,823	3,070	8.8%
TOTAL EQUITY AND LIABILITIES	16,031	16,441	2.6%

7.3. Consolidated Cash Flow Statement

in HRK million	Q1 2018 reported	Q1 2018 adjusted	Q1 2019	% of change A19/A18 adjusted
Profit before tax	197	198	230	16.1%
Depreciation and amortization	427	473	497	5.0%
Increase / decrease of current liabilities	-140	-140	-149	-6.4%
Increase / decrease of current receivables	185	185	114	-38.3%
Increase / decrease of inventories	-28	-28	-12	58.4%
Other cash flow increases / decreases	-79	-79	-122	-54.6%
Net cash inflow/outflow from operating activities	563	610	559	-8.4%
Proceeds from sale of non-current assets	10	10	1	-85.7%
Proceeds from sale of non-current financial assets	0	0	0	-4.5%
Interest received	6	6	4	-29.9%
Other cash inflows from investing activities	158	158	0	-100.0%
Total increase of cash flow from investing activities	174	174	6	-96.7%
Purchase of non-current assets	-375	-375	-280	25.4%
Purchase of non-current financial assets	0	0	-30	-
Other cash outflows from investing activities	0	0	0	-
Total decrease of cash flow from investing activities	-375	-375	-310	17.4%
Net cash inflow/outflow from investing activities	-201	-201	-304	-51.4%
Total increase of cash flow from financing activities				
Repayment of loans and bonds	-32	-32	-23	29.2%
Dividends paid	0	0	-1	-
Repayment of finance lease	-1	-48	-56	-
Other cash outflows from financing activities	-104	-104	-121	-17.1%
Total decrease in cash flow from financing activities	-137	-184	-201	-9.4%
Net cash inflow/outflow from financing activities	-137	-184	-201	-9.4%
Exchange gains/losses on cash and cash equivalents	-4	-4	3	179.2%
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%
Net cash (outflow) / inflow	222	222	57	-74.5%
Cash and cash equivalents at the end of period	3,374	3,374	3,193	-5.4%

8. Notes to the condensed consolidated financial statements for the three months ended on 31 March 2019

Basis of preparation

The condensed consolidated financial statements as of 31 March 2019 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2018 with introduction of the following standard as of 1 January 2019:

IFRS 16 Leases is applied from 1 January 2019. HT Group did not apply the new lease standard retrospectively in full, but made use of the exemption provisions for lessees, also known as the modified retrospective method. On the transition to IFRS 16, payment obligations from existing operating leases were discounted using the relevant incremental borrowing rate and recognized as a lease liability. The right-of-use assets is carried in the amount of the lease liability, adjusted by the amount of the prepaid or accrued lease payments.

As an exemption to modified retrospective approach, HT Group applied general approach, also known as grandfathering approach for land easements (Rights of servitude and Rights of way) for installed telecommunication cables on or into that land that are reclassified to right-of-use asset and whose liability will become lease liability as at 1 January 2019.

Significant options and expedients are exercised as follows:

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

The recognition, measurement, and disclosure requirements of IFRS 16 are applied to short-term leases and leases based on low-value assets. HT Group used practical expedient not to capitalise leases shorter than 1 month.

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

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

Business combination

As of 1st March, following the approval of the National Regulatory Agency (HAKOM), HT acquired EVO TV business (HT Production) from Hrvatska Pošta.

The fair value of the identifiable assets and liabilities of HT Production as at the date of acquisition were:

	28 February 2019 HRK million
ASSETS	
Non-current assets	
Intangible assets	7
Property, plant and equipment	2
Total non-current assets	9
Current assets	
Inventories	4
Trade and other receivables	15
Total current assets	19
TOTAL ASSETS	28
LIABILITIES	
Non-current liabilities	
Other liabilities	1
Total non-current liabilities	1
Current liabilities	
Trade payables and other liabilities	11
Deferred income	3
Total current liabilities	14
Total liabilities	15
Total identifiable net assets at fair value	13

*The provisional amounts recognised as of the acquisition date. The amounts may change after final purchase price allocation is performed.

Segment information

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

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

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

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

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

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

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

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

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

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

Period ended 31 March 2019	Residential	Business	Network and support	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	892	609	-	133	141	1.775
Mobile revenue	493	232	-	-	72	797
Fixed revenue	396	241	-	133	60	830
System solutions revenue	-	136	-	-	9	145
Miscellaneous revenue	3	-	-	-	-	3
Usage related direct costs	(54)	(54)	-	(30)	(10)	(148)
Income and losses on accounts receivable	(7)	(10)	-	(4)	(3)	(24)
Contribution margin I	831	545	-	99	128	1.603
Non-usage related direct costs	(165)	(166)	-	(3)	(26)	(360)
Segment result	666	379	-	96	102	1.243
Other income	-	-	79	-	1	80
Other operating expenses	(87)	(91)	(324)	(19)	(49)	(570)
Depreciation, amortization and impairment of non-current assets	-	-	(417)	(31)	(49)	(497)
Operating profit	579	288	(662)	46	5	256

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

Relations with the governing company and its affiliated companies

In the first three months of 2019 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first three months of 2019 there were no changes in transactions among related parties which were specified in the annual financial report for 2018 and which had a significant impact on the financial position and operations of the Group in the first three months of 2019.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first three months of 2019 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first three months of 2019 the Group generated total revenue from related companies from international traffic to the amount of HRK 36 million (the first three months of 2018: HRK 34 million), while total costs of international traffic amounted to HRK 39 million (the first three months of 2018: HRK 40 million).

Compensation of the Supervisory Board

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

In the first three months of 2019 the Company paid a total amount of HRK 0.2 million (the first three months of 2018: HRK 0.2 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first three months of 2019 the total compensation paid to key management personnel of the Group amounted to HRK 10 million (first three months of 2018: HRK 7 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

The Management report for the first three months of 2019 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

Mr. Konstantinos Nempis, President of the Management Board (CEO)

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

Mr. Ivan Bartulović, Member of the Management Board and Chief Human Resources Officer

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

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

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

Zagreb, 26 April 2019

Presentation of information

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

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

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

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

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

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

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

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

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

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

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

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

Disclaimer

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