LIFE IS FOR SHARING.

Zagreb – 18 February 2020

Croatian Telecom Inc.
Radnička cesta 21, HR – Zagreb

Ordinary share: HT (ISIN: HRHT00RA0005)
LEI: 097900BFHJ0000029454
Listing: Zagreb Stock Exchange, Official Market
Member State: Republic of Croatia

Hrvatski Telekom

Unaudited results for the year ended 31 December 2019

A year marked by record investments in fiber and mobile network modernization supported by solid financial position

- Highest investments in the last 10 years
    - Successfully completed the modernization of our mobile network – now fully 5G ready
    - More than doubled fiber rollout vs. the previous year, improving fixed network and making significant progress with penetration of fiber speeds
- Substantially reduced customer complaints and waste calls to residential and business call centre agents while also reducing number of technical faults
- Significantly increased adoption of Group's digital channels and delivered increase in number of Magenta 1 users
- Growth in Mobile, TV and System Solutions almost offset revenue decline following exit from Energy business and Fixed voice decline
- As a part of four-year Share Buyback (SBB) programme launched in June 2017, acquired 453,318 Company shares in the amount of HRK 73 million

Hrvatski Telekom (Reuters: HT.ZA, Bloomberg: HT CZ), the leading telecommunications provider in Croatia, announces its unaudited consolidated results for the year ended 31 December 2019.

Total consolidated net revenue decreased by HRK 79 million or 1.0% yoy to HRK 7,704 million in 2019. Within this, revenue growth was achieved in Mobile Telecommunications, TV and System Solutions.

EBITDA before exceptional items after leases (EBITDA AL) in 2019 amounted to HRK 2,908 million and is 4.1% lower compared to FY 2018, mainly due to increased material, roaming and personnel costs. A high EBITDA AL margin was maintained at 37.7%.

In 2019, Hrvatski Telekom invested HRK 1,9 billion in infrastructure and development of innovative services, which is a 4.1% increase over the previous year.

Strong investments as a basis for digitalisation and future growth

Hrvatski Telekom continued its capital investments in mobile and fixed broadband networks with the goal of ensuring technology to every corner of Croatia so that all citizens have an equal opportunity for a quality life.

By the end of 2019, the radio access network modernization program was successfully completed. Radio equipment was swapped in 1,960 location and in addition 1,469 rooftop antenna poles and antenna masts have been upgraded or replaced. The modernization has enabled almost all HT mobile locations to be equipped with LTE (98%) which provides 3 times greater capacity and 75% of higher user throughput compared to network capacity before modernization.

Beside 4G performance improvement, modernization established the prerequisites for successful 5G network introduction.

In the mobile network, "indoor" 4G population coverage is 89.1% and "outdoor "coverage reached 99.4%. Implementation of 4G speed increase continued allows user throughput up to 350 Mbps for the 79% of population and speeds up to 300 Mbps for 6% of population.

As first operator in Croatia and in the region, HT established pilot 5G network which has been integrated into a real network environment. In 2019 in total 19 base station were implemented out of which 9 in Q4, including building of Croatian presidency of the EU Council. The pilot network will be used in 2020 for the testing purpose and demo cases showing the practical usage of 5G networks. We are the first in the Croatian market to launch a test 5G station in Samobor, and we have several test 5G locations across the country.

In 2019, the modernization and implementation of the fixed access network of new generation (NGA) has been focused on the fiber optic networks achieving realization of an additional 50,100 HH covered by FTTH technology in Q4. Total coverage with Fiber to the Home (FTTH) technology increased to 280,358 households. In addition, during 2019 intensive activities on Hybrid access were undertaken for the customers out of reach of the high speed fixed network. In total 110,356 customers were upgraded on higher speeds through Hybrid access at the end of 2019.

In total, HT achieved coverage available for 60.2% households with technologies that enable speed >30 Mbps from which 23.6% with technologies that enable speed >100 Mbp. The optical based access network (FTTx) is available for 438 thousand households.

Focus on customer centric culture, reduction of customer complaints

During 2019 we have substantially reduced customer complaints and wasted calls to our residential and business call centre agents while also reducing the number of technical faults. More precisely, in total customer complaints were down 22% comparing the same period last year due to proactive approach (e.g. process fixes, unified order form, proactive informing).

Growth of digital channels, further increase in the number of Magenta 1 users

The key lever for digitalizing customer experience is Hrvatski Telekom's application My Telecom, which gives customers a detailed overview of all telecommunications services in the fixed and mobile networks and their consumption, enables payment of bills, simple activation of e-bills and tariff plans and options management, and enables viewing of internet availability through an interactive map. The use of the My Telecom application is growing strongly and, at the end of December, it had more than 370 thousand users (32% of the base).

The number of users of the unique concept of converged offering, Magenta 1, continues to grow, with 244,000 households (4Q 2018: 191,000) and 31,000 business users today (4Q 2018: 21,000).

Capital allocation

During 2019 the Company acquired at Zagreb Stock Exchange further 453,318 Company shares, representing 0.6% of the Company's issued share capital, i.e. HT holds in total 453,318 Company shares as at 31 December 2019. For the acquisition of Company shares in 2019, the Company paid out an equivalent value of HRK 73 million.

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

HT will publish dividend proposal on 12 March 2020, together with audited annual results.

Within the strategy of restructuring non-core parts of HT's business operations, in November 2019 a Contract was concluded with Uniline d.o.o. on transfer and sale of the share held by HT holding d.o.o. in the company E-tours d.o.o. The transaction closed on 31 December 2019.

Commenting on the business results for 2019, Konstantinos Nempis, CEO of Hrvatski Telekom, stated:
As the largest private investor in the digitalization of Croatia, we continue with bringing technology to every corner of Croatia to ensure equal opportunity for a quality life to all of our citizens. We invested the biggest amount of CAPEX in the last 10 years progressively turning around our service revenues, by increasing BB and TV customer bases and increasing mobile ARPUs via more for more propositions. The investment in our mobile network has enabled us to triple the capacity of the network and increased the user speed by 75% compared to the pre-modernization status. We achieved availability of 4G mobile network service in the entire Croatian territory, hence created infrastructure preconditions for rural development but also provided sufficient capacity during tourist season. Furthermore, the new, modernized equipment is "5G ready". I'm also proud on our Partnership Agreements with local and regional governments in which we committed to develop optics for 135,000 customers across Croatia.

All of this is a crucial basis for connecting everyone in Croatia to the opportunities of digitization. And I can promise you, we will not stop until everyone in Croatia is connected.

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

The conference call dial in details are as follows:

International Dial In	**+44 (0) 207 192 8000**
Conference ID	**2955106**

A replay of the call will be available until Tuesday, 25 February using the following details:

International Dial In	**+44 (0) 333 300 9785**
Conference ID	**2955106**

Full audited accounts for HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2019 financial year, can be downloaded from the HT web site. (www.t.ht.hr/en/investor-relations/) and are fully available in the Official Register of Prescribed Information (SRPI).

1. Introduction

1.1. HT Group's stable performance in 2019

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

1.2. Economic background

Real GDP growth in Croatia is estimated to reach 3.0% in 2019. Economic growth in 2019 comes from strong personal consumption and is supported by public consumption and investments due to better absorption of EU funds. Growth of personal consumption was supported by an increase of available income. Lack of labor force in certain industries created pressure on income growth.[1]

Credit rating agency Fitch upgraded Croatia's credit rating to investment level in June 2019.

The registered unemployment rate keeps decreasing because of increased employment as well as emigration trends. Estimated average unemployment rate for 2019 could fall to 7.7%, which is 1.5 p.p. lower than in 2018.[1]

In 2019 Consumer Price Index (CPI) increased by 0.8% on annual average under the impact of recent decreases in energy prices and VAT for food and pharmaceutical products.[1]

1.3. Croatian market overview

The Croatian mobile market is highly saturated with estimated mobile SIM penetration rate of 125.8% at the end of December 2019. Three operators compete in this market. HT Group maintains the leading market position with an estimated mobile SIM market share of 44.9% at the end of December 2019.

Fierce competition between operators has led to many promotional offers with attractive devices /smartphones. Increasing smartphone penetration and popularity of OTT services via 4G mobile network generated a growing demand for mobile data. According to HAKOM, in the first nine months of 2019 mobile data traffic grew by 71.8% on an annual basis.[2]

A consolidation of the telecommunication market goes on. HT Group finalized the acquisition of EvoTV as of March 1st, 2019. On May 31st, 2019 Tele2 entered into an agreement to sell Tele2 Croatia to United Group. The expected time for closing is H1 2020.

The Croatian Post and Electronic Communications Agency (HAKOM) reported 1.2 million fixed broadband connections at the end of September 2019, which was 3.9% higher than in September 2018[3]. Further investments in infrastructure development continued in 2019. Total investments in the

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[1] Sources: Croatian Bureau of Statistics, the latest macro forecast of the Croatian National Bank, December 2019

[2] Sources: Croatian Post and Electronic Communications Agency's quarterly reports for 2018 and 2019

[3] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2019

mobile network in the first nine months of 2019 were higher by 40% compared to the same period 2018, which was a result of the allocation of additional radio frequency spectrum. Investments in fixed broadband infrastructure was focused on fiber optic investment, which has resulted in a 30.8% increase in the number of FTTX connections compared to the number of connections in September 2018.[4]

HT Group continues with further investment in infrastructure and innovative services to maintain a leading position in Croatia. HT Group had 621 thousand broadband access lines at the end of December 2019.

The PayTV segment continued to show growth in 2019. HAKOM reported 827 thousand PayTV customers at the end of September 2019, which was 2.6% annual growth.[5]

Wholesale

The number of broadband wholesale customers (BSA and Naked BSA) was 115 thousand at the end of December 2019, which is a decrease of 10.5% compared to end of 2018. The number of broadband wholesale customers decreased compared to the previous year 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 in 103 thousand ULL accesses and 45 thousand WLRs at the end of 2019.

[4] Source: Croatian Post and Electronic Communications Agency's press release, 12th December 2019

[5] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2019

1.4. Regulatory overview

Further analysis of relevant electronic communications markets

In the latest round of analysis of relevant regulated electronic communications markets that HAKOM started in 2018 two market analyses are still pending:

- Wholesale high-quality access provided at a fixed location
- Wholesale trunk segments of leased lines

All other market analyses have been finalized:

- market analysis of access provided at a fixed location for residential and business customers in 2018
- market analyses of wholesale call termination on individual public telephone networks provided at a fixed location, wholesale voices call termination on individual mobile networks and wholesale call origination on the public telephone network provided at a fixed location in 1Q 2019
- market analyses of wholesale central access provided at a fixed location for mass-market products and wholesale local access provided at a fixed location 2Q 2019 (HAKOM adopted the final decisions on June 19th, 2019

Amendments to the Regulation on Services

HAKOM initiated process of changing Regulation of Services. Public consultation of the Proposed Amendments was opened until June 24th, 2019.

On July 12th, 2019 HAKOM adopted changes of Regulation of Services.

Entry into force of the changes was implemented in two phases:

- Changes related to obtaining customer's contract confirmation, obligatory contract summary (PPO) and e-bill opt-out as of August 1st, 2019
- Remaining changes as of January 1st, 2020 concerning, among others, obligation to obtain contract confirmation from the customer, shortening of deadlines for service provisioning and fault repairs, introduction of penalties in case of delay in service provisioning and fault repair, prohibition of contacting customer in the process of contract termination and the right of the customer to terminate the contract over the phone

Amendments to the Universal Service Regulation

By its decision from September 13th, 2019 HAKOM designated HT as USO operator for the period of the following three years for the following services:

- access services (of minimum speed 1 Mbit/s, 4 Mbit/s as of January 1st, 2020)
- public payphones
- special measures for disabled
- special tariffs for users with special social needs

Based on the above decision, HT submitted to HAKOM price proposal for the USO services. By its decision from November 27th, 2019 HAKOM approved HT's prices for the USO services which are applicable as of January 1st, 2020.

Revision of the Margin Squeeze Methodology

On December 17th, 2018 HAKOM published public call for delivery of comments on the current Margin Squeeze Methodology (the MST). Public call was opened until February 5th, 2019.

On June 18th, 2019 HAKOM published public consultation regarding the MST draft decision. The consultation was opened until September 6th, 2019. According to HAKOM, the main reason for changing the MST is HT Group's long-term high market share on retail broadband access market and access to the retail public telephone network market. Analysis of impact arising from proposed modifications is ongoing.

On October 11th, 2019, HAKOM approved draft decision to amend the MST methodology, which was notified to the European Commission. Since the European Commission didn't have any objections, on November 20th, 2019 HAKOM adopted its final document on MST Methodology with implementation starting from January 1st, 2020 for the new offers and April 1st, 2020 for the existing offers.

Revision of WACC rate

On June 19th, 2019 HAKOM initiated public consultation of the changes of WACC rates applied in calculating the cost of services provided over fixed network, mobile network and over the fiber network. The public consultation was opened until July 10th, 2019.

On October 11th, 2019, HAKOM adopted the final decision allocating the WACC to the following levels:

- Fixed network: 6.28%
- Mobile network: 6.38%
- Additional risk premium for services on fiber infrastructure: 1.97%

The decision will be implemented as of January 1st, 2020.

Law on the Treatment of Illegally Constructed Infrastructure

In July 2019 the Ministry of Construction and Physical Planning started the process of drafting a proposal of the new Law on the Treatment of Illegally Constructed Infrastructure, which aims to include in the Croatian legal system all infrastructure on the territory of the Republic of Croatia that has been illegally constructed or illegally reconstructed, among others also the electronic communication infrastructure (ECI). As a member of CEA HT has been called to participate in a working group established before the competent Ministry in drafting of the new Law. The Plan of the Ministry for the Law to be adopted by the Parliament and entered into force by the end of 2019 has been postponed for 2020.

Changes to the BSA and ULL Reference Offers

From August 26th to September 23rd, 2019, HAKOM conducted public consultations on changes to the Croatian Telecom Reference Offers for wholesale central access and Croatian Telecom Standard Offer for wholesale local access.

Key changes relate to the introduction of a deadline for informing the operator of the possibility of realizing the request upon the repair of the twisted-pair, the deadline for the repair of the twisted-pair, shortening the deadline for upgrading the network and repairing the self-supporting/underground cable, and the obligation of HT to compensate the operator in case HT is responsible for exceeding the fault-repair timeline. On November 27th, 2019 HAKOM passed its decisions on changes regarding the above Reference Offers. Starting from January 1st, 2020, Croatian Telecom is obliged to apply the above Reference Offers with implemented changes.

Regulatory penalties

The High Misdemeanour Court confirmed the penalty imposed to HT by the 1st instance ruling of the Misdemeanour Court in the amount of HRK 28 million. The Misdemeanour offence was initiated due to HT not notifying in 2015 HAKOM on MAX3 XS package HT has offered to the market. HT paid a penalty amounting 2/3 of the total amount of the respective penalty, i.e. HRK 18.7 million. HT filed a constitutional claim against the judgment of the High Misdemeanour Court.

Amendments of the Ordinance on payment of fees for carrying out of tasks of the Croatian Regulatory Authority for Network Industries

On December 20th, 2019 HAKOM adopted amendments of the Ordinance on payment of fees for carrying out tasks of the Croatian Regulatory Authority for Network Industries. New ordinance entered into force on January 1st, 2020.

The most significant change is the decrease of the annual fee for the use of radiofrequency spectrum for public mobile network:

<table>
<tr><td>(annually)</td><td>Old Ordinance</td><td>New Ordinance</td></tr>
<tr><td>below 3.4 GHz</td><td rowspan="3">100.000 HRK/MHz</td><td>80,000 /HRK/MHz*</td></tr>
<tr><td>3.4 – 3.8 GHz</td><td>25,000 HRK/MHz</td></tr>
<tr><td>above 3.8 GHz</td><td>7,500 HRK/MHz</td></tr>
</table>

* Assigned 1900 MHz spectrum released from the payment obligation

Future assignment of the 700 MHz, 1500 MHz, 3,6 GHz and 26 GHz frequency bands

On October 18th, 2019 HAKOM opened a public consultation on the future assignment of the 700 MHz, 1500 MHz, 3,6 GHz and 26 GHz frequency bands.

HAKOM invited interested parties to express their opinion on the assignment intention and future use of above-mentioned spectrum until January 20th, 2020.

1.5. Changes in reporting

In 2014 the Croatian Competition Agency 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. The 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 the 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. HT submitted the documentation for the Optima Telekom sales process to AZTN accordingly. In January 2020 HT initiated the sale process for its shares of Optima Telekom. The announcement on the sale of Optima's shares was published in the printed edition of the international financial newspaper The Financial Times on 31 January 2020.

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

HT 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	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	7,783	7,783	7,704	*-1.0%*	1,996	1,996	1,992	*-0.2%*
Mobile	3,450	3,450	3,464	*0.4%*	840	840	841	*0.1%*
Fixed voice	809	809	706	*-12.7%*	193	193	161	*-16.4%*
Broadband & TV	1,411	1,411	1,440	*2.1%*	348	348	370	*6.3%*
Fixed wholesale	318	318	325	*2.4%*	75	75	79	*6.4%*
Other fixed	878	878	872	*-0.6%*	231	231	219	*-5.5%*
System solutions	801	801	880	*10.0%*	286	286	316	*10.5%*
Miscellaneous	118	118	17	*-86.0%*	22	22	5	*-78.0%*
Exceptional items	55	55	115	*109.9%*	17	17	26	*56.2%*
EBITDA before exceptional items after leases		3,031	2,908	*-4.1%*		680	670	*-1.5%*
EBITDA before exceptional items	3,186	3,398	3,274	*-3.6%*	758	813	803	*-1.3%*
EBITDA after exceptional items	3,131	3,343	3,159	*-5.5%*	742	796	776	*-2.5%*
EBIT (Operating profit)	1,401	1,422	1,012	*-28.8%*	278	327	100	*-69.3%*
Net profit after non controlling interests	1,061	1,059	740	*-30.1%*	189	231	63	*-72.7%*
EBITDA margin before exceptional items after leases		38.9%	37.7%	*-1.2 p.p.*		34.1%	33.6%	*-0.5 p.p.*
EBITDA margin before exceptional items	40.9%	43.7%	42.5%	*-1.2 p.p.*	38.0%	40.7%	40.3%	*-0.4 p.p.*
EBITDA margin after exceptional items	40.2%	43.0%	41.0%	*-1.9 p.p.*	37.2%	39.9%	39.0%	*-0.9 p.p.*
EBIT margin	18.0%	18.3%	13.1%	*-5.1 p.p.*	14.0%	16.4%	5.0%	*-11.4 p.p.*
Net profit margin	13.6%	13.6%	9.6%	*-4.0 p.p.*	9.5%	11.6%	3.2%	*-8.4 p.p.*

Note: 2018 proforma adjusted for 2019 IFRS 16 effects

BALANCE SHEET	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Total non current assets	10,694	10,447	*-2.3%*	10,694	10,447	*-2.3%*
Total current assets	5,337	5,880	*10.2%*	5,337	5,880	*10.2%*
TOTAL ASSETS	**16,031**	**16,327**	***1.8%***	**16,031**	**16,327**	***1.8%***
Total issued capital and reserves	13,208	13,054	*-1.2%*	13,208	13,054	*-1.2%*
Total non current liabilities	498	839	*68.6%*	498	839	*68.6%*
Total current liabilities	2,326	2,434	*4.7%*	2,326	2,434	*4.7%*
TOTAL EQUITY AND LIABILITIES	**16,031**	**16,327**	***1.8%***	**16,031**	**16,327**	***1.8%***

CASH FLOW	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Net cash flow from operating activities	2,345	2,528	2,573	*1.8%*	791	590	908	*54.0%*
Net cash flow from investing activities	-1,368	-1,368	-1,326	*3.1%*	-706	-222	-523	*-135.9%*
Net cash flow from financing activities	-992	-1,175	-1,625	*-38.3%*	-118	-165	-220	*-33.1%*
Cash and cash equivalents at the end of period	**3,137**	**3,137**	**2,762**	***-11.9%***	**-31**	**203**	**165**	***-18.6%***

CAPEX after leases	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
CAPEX after leases	1,826	1,900	*4.1%*	585	814	*39.2%*
CAPEX after leases/ Revenue ratio	23.5%	24.7%	*1.2 p.p.*	29.3%	40.9%	*11.6 p.p.*

NUMBER OF EMPLOYEES	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Number of employees (FTEs)	5,447	5,571	*2.3%*	5,447	5,571	*2.3%*

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 portion of 44.9%
- Winner of OOKLA certificates for the fastest mobile network and the best mobile coverage
- Announced as Microsoft's partner of the year in Croatia for 2019
- Participation in the successful implementation of the largest integrated solar power plant in Croatia
- Key technological partner in the project of implementation of Smart Parking solution in Dubrovnik
- Opened Business Showroom, an innovation center for advanced digital technologies
- New handset insurance option introduced
- Introduced professional modem for very small business customers, the first on the market
- Magenta1 signed up 244 thousand consumer households (3Q 2019: 239 thousand) while in business area there are 31 thousand active and passive accounts (3Q 2019: 30 thousand active and passive accounts)

Strong financial performance of main financial KPIs

- Revenue totalled HRK 7,704 million, slightly down on 2018 by HRK 79 million or 1.0%
- EBITDA AL amounted to HRK 2,908 million, a decrease of HRK 123 million or 4.1%
- Capex AL was to HRK 1,900 million, an increase on 2018 by HRK 74 million or 4.1%

Continued significant investments in network infrastructure:

- "Indoor" 4G population coverage increased to 89.1% (3Q 2019: 87.1%), while "Outdoor" coverage reached 99.4% (3Q 2019: 99.0%)
- In 2019 modernization and implementation of the fixed access network of new generation (NGA) focused on fiber optic networks achieving realization of additional 50,100 HH covered with FTTH technology in Q4. Total coverage with FTTH technology increased to 280,358 households.
- During 2019 intensive activities on hybrid access were undertaken for customers out of reach of high speed fixed network. In total 110,356 customers were upgraded on higher speeds through Hybrid access at the end of 2019.

Mobile network modernization

- Radio equipment was swapped on 1,960 locations and in addition 1,469 rooftop antenna poles and antenna masts have been upgraded or replaced.
- As first operator in Croatia and in the region, HT established pilot 5G network which has been integrated into a real network environment. In 2019 in total 19 base station were implemented out of which 9 in Q4, including building of Croatian presidency of the EU Council. The pilot network will be used in 2020 for the testing purpose and demo cases showing the practical usage of 5G network.

Smart cities / IOT key initiatives are parking solutions (including payment), air quality management and bike sharing: cooperation of HT and partners on one of the largest smart parking projects on the narrowband IOT network in the world realized in Dubrovnik.

We launched “A world of better opportunities” - including the manifesto with new brand promise and network campaign.

2.1.2. Main financials development

I. Revenue

Total consolidated net revenue decreased by HRK 79 million or 1.0% to HRK 7,704 million in 2019 in comparison to 2018. The revenue decrease was driven by both HT Group in Croatia (HRK 46 million or 0.6%) and Crnogorski Telekom (HRK 32 million or 5.2%).

The decrease was caused by lower realization in miscellaneous revenue (HRK 101 million or 86.0%) and fixed revenue (HRK 71 million or 2.1%), partially offset by higher system solutions (HRK 80 million or 10.0%) and mobile revenue (HRK 14 million or 0.4%).

The Optima Telekom contribution to HT Group amounted to HRK 320 million in 2019 and was below 2018 by HRK 8 million. The contribution consisted of HRK 516 million of Optima Telekom third party contribution (2018: HRK 526 million) that was presented in the whole amount under fixed other revenue and HRK 195 million of inter-company relations that negatively impacted mainly fixed wholesale revenue (2018: HRK 197 million).

The contribution of the subsidiaries in Group revenue in 2019 amounted to: Iskon HRK 387 million (2018: HRK 382 million) and for Combis HRK 587 million (2018: HRK 526 million).

Mobile revenue

Mobile revenue increased by HRK 14 million or 0.4% to HRK 3,464 million in 2019, in comparison to 2018. HT Group in Croatia realized growth of HRK 26 million or 0.8%, while Crnogorski Telekom revenue fell by HRK 12 million or 3.8%.

Increases were recorded in postpaid revenue (HRK 73 million or 4.8%), handset (HRK 26 million or 3.0%) and visitor (HRK 14 million or 6.3%), which compensated for lower other mobile revenue (HRK 82 million or 36.7%), prepaid revenue (HRK 12 million or 2.1%) and default interests and dunning fees (HRK 6 million or 29.2%).

Postpaid revenue increased mainly due to higher mobile data revenue as a result of the continued substitution trend of traditional services with data and higher voice revenue due to an increase in the customer base of 4.2%.

Handset revenue increased due to strong retention activities and therefore a higher number of contract prolongations as well as higher Marketing investment and a higher reselling impact.

Prepaid revenue decreased due to a fall in the customer base of 5.7%, which resulted with lower voice, SMS and MMS revenue.

Fixed revenue

Fixed revenue fell by HRK 71 million, or 2.1%, to HRK 3,344 million in 2019 in comparison to 2018. The fall in fixed revenue for HT Group in Croatia was HRK 53 million, or 1.7%, and the decline for Crnogorski Telekom amounted to HRK 18 million, or 7.2%.

The decrease was mainly a result of lower voice revenue (HRK 103 million or 12.7%) and broadband (HRK 42 million or 4.5%) and was partially offset by higher TV revenue (HRK 71 million or 15.1%) and wholesale revenue (HRK 8 million or 2.4%).

Lower fixed line voice retail revenue resulted from the continuous decline in the number of revenue-producing fixed mainlines, due to the ongoing fixed to mobile substitution trend as well as strong mobile offers which are much more attractive than fixed voice propositions, and the tough regulatory environment.

Broadband revenue declined as a result of lower broadband retail ARPU, owing to stronger competition and aggressive offers in the market.

An increase in TV revenue was supported by a higher customer base in HT Group in Croatia, due to the acquisition of EvoTV and push of TV services through Magenta1. The Crnogorski Telekom contribution was almost in line with 2018.

Fixed wholesale revenue increased from HT Group in Croatia mainly due to higher transit traffic in Iskon.

System Solutions

System solution revenue rose by HRK 80 million or 10.0% in comparison to 2018 driven by HT Group in Croatia (HRK 81 million or 10.7%). Crnogorski Telekom reported lower revenue (HRK 2 million or 4.2%). The increase in HT Group in Croatia was mainly due to strong growth in the area of customized ICT solutions and the standard ICT portfolio.

Miscellaneous revenue

The decrease in miscellaneous revenue was driven by the sale of the energy business in September 2018.

II. Other operating income

Other operating income grew by HRK 14 million or 8.3% compared to 2018. Growth was reported by HT Group in Croatia (HRK 16 million or 9.8%), while the Crnogorski Telekom contribution decreased (HRK 2 million or 29.9%).

III. Operating expenses

Total consolidated operating expenses increased by HRK 119 million, or 2.6%, to HRK 4,726 million in 2019, driven by HT Group in Croatia (HRK 137 million or 3.2%), while Crnogorski Telekom expenses decreased (HRK 18 million or 4.9%). The increase was a result of higher employee benefits expenses (HRK 84 million or 7.7%), other expenses (HRK 21 million or 1.9%), material expenses (HRK 25 million or 1.0%), partially offset by higher amount of work performed by the Group and capitalized (HRK 6 million or 4.5%) and lower write down of assets (HRK 5 million or 5.9%).

Employee benefits expenses

Total employee benefits expenses increased by HRK 84 million, or 7.7%, to HRK 1,171 million in 2019 because of higher personnel costs (HRK 61 million or 5.8%), driven by a higher number of FTEs, primarily by HT Group in Croatia, and higher redundancy costs (HRK 23 million or 53.9%). The total number of FTEs amounted to 5,571 FTEs, which is an increase of 124 FTEs compared to 4Q 2018, mainly coming from HT Group in Croatia driven by insourcing of employees.

Material expenses

Material expenses increased to HRK 2,463 million in 2019, up HRK 25 million or 1.0%, as a result of higher service expenses (HRK 66 million or 8.4%) and lower merchandise, material and energy expenses (HRK 42 million or 2.5%). An increase in material expenses was driven by HT Group in Croatia (HRK 39 million or 1.7%), while material expenses in Crnogorski Telekom decreased (HRK 14 million or 8.2%).

The service expenses increase was mainly influenced by higher telecommunication costs and copyright. Telecommunication costs increased (HRK 68 million or 11.8%), mainly as a result of higher international costs due to higher roaming traffic and international sms - bulk. Copyright fees increased (HRK 8 million or 14.2%) due to different contract capitalization.

The decrease in merchandise, material and energy expenses was primarily due to lower energy costs, partially offset by higher merchandise costs. Energy costs decreased (HRK 98 million or 100.0%) due to the sale of the energy business in September 2018. However, merchandise costs increased (HRK 58 million or 4.2%) following increase of system solution revenue in the area of customized ICT solutions and standard ICT portfolio.

Other expenses

Other expenses increased by HRK 21 million, or 1.9%, to HRK 1.148 million in 2019 driven by HT Group in Croatia expenses (HRK 22 million or 2.1%), while other expenses of Crnogorski Telekom decreased (HRK 1 million or 0.6%). The increase of other expenses was mainly driven by miscellaneous other operating costs and provisions cost.

Write down of assets

The assets write down decreased by HRK 5 million, or 5.9%, to HRK 78 million in 2019 driven by both HT Group in Croatia (HRK 1 million or 2.0%) and Crnogorski Telekom (HRK 3 million or 29.8%).

Depreciation and amortization

Depreciation and amortization increased by HRK 226 million, or 11.8%, to HRK 2,147 million compared to 2018, rising in HT Group in Croatia (HRK 226 million or 13.1%) and lower in Crnogorski Telekom (HRK 0 million or 0.2%).

IV. Profitability

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 123 million or 4.1% to HRK 2,908 million in 2019 due to both HT Group in Croatia (HRK 110 million or 3.9%) and Crnogorski Telekom (HRK 14 million or 6.0%).

The HT Group in Croatia decrease was driven by lower revenue (HRK 46 million or 0.6%) and higher operating expenses (before exceptional items) (HRK 79 million or 1.9%), partially offset by higher other operating income (HRK 16 million or 9.8%).

The Crnogorski Telekom decrease was the result of a revenue decline (HRK 32 million or 5.2%), lower other operating income (HRK 2 million or 29.9%), partially offset by lower operating expenses (before exceptional items) (HRK 20 million or 5.6%).

Net profit after non-controlling interests

Net profit after non-controlling interests decreased by HRK 319 million, or 30.1%, to HRK 740 million in 2019. The decrease in HT Group in Croatia amounted to HRK 305 million or 29.2% and the decrease in Crnogorski Telekom amounted to HRK 14 million or 107.6%.

In HT Group in Croatia, decrease was primarily caused by the fall in EBITDA (HRK 168 million or 5.4%), higher depreciation and amortization (HRK 226 million or 13.1%) and a lower non-controlling interest (HRK 7 million or 44.9%). Lower taxation (HRK 65 million or 29.3%) and the positive effect of net financial results (HRK 31 million or 28.4%) just slightly mitigated decrease.

Crnogorski Telekom's lower net profit was primarily driven by lower EBITDA (HRK 16 million or 6.3%), the negative effect of net financial results (HRK 6 million or 20.7%), partially offset by the positive effect of the non-controlling interest (HRK 5 million or 39.6%) and lower taxation (HRK 2 million or 29.3%).

V. Financial position

Balance sheet

In comparison to 2018 year end, there is increase in the total asset value of 2% or HRK 296 million mainly driven under the influence of recognizing lease assets as a result of introduction of IFRS 16 partially offset by lower cash.

Total issued capital and reserves decreased from HRK 13,208 million at 31 December 2018 to HRK 13,054 million at 31 December 2019 mainly driven by dividend pay-out in amount of HRK 809 million and purchase of own share in amount of HRK 73 million that is offset with realized net profit for Q4 2019 in the amount of HRK 740 million.

Total non-current liabilities increased by HRK 341 million or 69% primarily due to the influence of recognizing lease liabilities as a result of introduction of IFRS 16.

Total current liabilities increased by HRK 109 million to HRK 2,434 million at 31 December 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 increased by 45 HRK million (1,8%) mainly due to favourable working capital movement.

CF from investing activities increased by HRK 42 million (3,1%) mainly due higher inflows from repo arrangements, lower cash capex, positive effects from exchange of real estate (HT Produkcija) partially offset by HT Produkcija acquisition, lower inflows from bonds and sale of energy business.

CF from financing activities decreased by HRK 449 million (38,3%) mainly affected by higher dividend pay-out, content and lease repayments (IFRS 16).

VI. Capital expenditure

HT Group including Crnogorski Telekom

in HRK million

CAPEX after leases	2018	2019	*% of change A19/A18*	Q4 2018	Q4 2019	*% of change A19/A18*
CAPEX after leases	1,826	1,900	*4.1%*	585	814	*39.2%*
CAPEX after leases/ Revenue ratio	23.5%	24.7%	*1.2 p.p.*	29.3%	40.9%	*11.6 p.p.*

Crnogorski Telekom

CAPEX after leases	2018	2019	*% of change A19/A18*	Q4 2018	Q4 2019	*% of change A19/A18*
CAPEX after leases	179	119	*-33.8%*	69	33	*-52.1%*

Capital expenditure after leases realization increased by HRK 74 million, or 4.1%, driven by higher realization of HT Group in Croatia by HRK 135 million or 8.2%, while CT reported lower capex, down by HRK 60 million or 33.8%.

Optical Access Network (FTTx) is now available for 438,000 households. 50,100 new households were covered by Fiber to the Home (FTTH) technology in the period from January to December 2019, which is more than double the increase vs. the period from January to December 2018. The total coverage by FTTH technology increased to 280,358 households. In addition, during 2019 intensive activities on hybrid access were undertaken for the customers out of the reach of high speed fixed network. In total 110,356 customers were upgraded on higher speeds through hybrid access at the end of 2019.

In the mobile segment, the overall HT's 4G network reached 99.4% population coverage outdoors and 89.1% population coverage indoors. Also, Hrvatski Telekom has continued with its significant investment program of modernizing the mobile network across Croatia. In the period from January to December 2019, radio equipment was swapped on 1,960 location and in addition 1,469 rooftop antenna poles and antenna masts have been upgraded or replaced. Modernization enabled almost all HT mobile locations to be equipped with LTE (98%) which provides 3 times larger capacity and 75% of higher user throughput comparing to network capacity before modernization.

Within IT, the first delivery of the BITT project, which included the production system for the Customer HUB and pilots for the production systems for Order Capture and Order Execution, have been finished. In Q4 additional agile teams have been established for FMCC, oneApp, Online and voice selfcare services.

Summary of key financial indicators – HT Group in Croatia

in HRK million

INCOME STATEMENT	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	7,165	7,165	7,119	*-0.6%*	1,848	1,848	1,847	*-0.1%*
Mobile	3,125	3,125	3,152	*0.8%*	765	765	763	*-0.2%*
Fixed voice	736	736	648	*-12.1%*	177	177	148	*-16.3%*
Broadband & TV	1,294	1,294	1,323	*2.3%*	320	320	341	*6.8%*
Fixed wholesale	301	301	312	*3.4%*	71	71	77	*7.7%*
Other fixed	827	827	824	*-0.4%*	218	218	207	*-5.4%*
System solutions	763	763	844	*10.7%*	276	276	306	*11.2%*
Miscellaneous	118	118	17	*-86.0%*	22	22	5	*-78.0%*
Exceptional items[1]	50	50	108	*115.3%*	14	14	22	*56.7%*
EBITDA before exceptional items after leases		2,802	2,692	*-3.9%*		628	619	*-1.5%*
EBITDA before exceptional items	2,953	3,138	3,028	*-3.5%*	703	754	744	*-1.2%*
EBITDA after exceptional items	2,903	3,087	2,920	*-5.4%*	689	740	723	*-2.3%*
EBIT (Operating profit)	1,341	1,360	966	*-29.0%*	273	324	94	*-71.0%*
Net profit after non controlling interests	1,045	1,046	741	*-29.2%*	185	231	62	*-73.4%*
EBITDA margin before exceptional items after leases		39.1%	37.8%	*-1.3 p.p.*		34.0%	33.5%	*-0.5 p.p.*
EBITDA margin before exceptional items	41.2%	43.8%	42.5%	*-1.3 p.p.*	38.0%	40.8%	40.3%	*-0.5 p.p.*
EBITDA margin after exceptional items	40.5%	43.1%	41.0%	*-2.1 p.p.*	37.3%	40.0%	39.1%	*-0.9 p.p.*
EBIT margin	18.7%	19.0%	13.6%	*-5.4 p.p.*	14.8%	17.5%	5.1%	*-12.4 p.p.*
Net profit margin	14.6%	14.6%	10.4%	*-4.2 p.p.*	10.0%	12.5%	3.3%	*-9.2 p.p.*

[1] Mainly related to restructuring redundancy costs and legal cases

Note: 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile customers in 000						
Number of customers	**2,273**	**2,274**	***0.0%***	**2,273**	**2,274**	***0.0%***
- Prepaid	951	896	*-5.7%*	951	896	*-5.7%*
- Postpaid	1,322	1,377	*4.2%*	1,322	1,377	*4.2%*
Minutes of use (MOU) per average customer	**225**	**232**	***3.0%***	**230**	**231**	***0.5%***
Blended ARPU [4] (monthly average for the period in HRK)	**68**	**70**	***2.8%***	**66**	**70**	***6.3%***
- Prepaid	43	45	*3.9%*	40	44	*9.5%*
- Postpaid	86	87	*0.6%*	85	87	*3.2%*
Blended non-voice ARPU [4] (monthly average for the period in HRK)	**38**	**41**	***9.8%***	**38**	**43**	***11.2%***
SAC per gross add in HRK	**126**	**133**	***5.4%***	**144**	**153**	***6.6%***
Churn rate (%)	**2**	**2**	***0.0 p.p.***	**3**	**3**	***0.0 p.p.***
Penetration (%) [1]	**123**	**126**	***2.7 p.p.***	**123**	**126**	***2.7 p.p.***
Market share of customers (%) [1]	**45**	**45**	***-0.5 p.p.***	**45**	**45**	***-0.5 p.p.***
Smartphone customers (%) [2]	**67**	**70**	***3.0 p.p.***	**67**	**70**	***3.0 p.p.***
Smartphones sold (%) [3]	**91**	**91**	***0.0 p.p.***	**93**	**91**	***-2.1 p.p.***

[1] Source: competitors' official reports for 4Q/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	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed mainlines in 000						
Fixed mainlines - retail [1)]	819	782	-4.6%	819	782	-4.6%
Fixed mainlines - wholesale (WLR - wholesale line rental)	53	45	-15.3%	53	45	-15.3%
ARPU voice per user [5)] (monthly average for the period in HRK) [2)]	73	68	-6.8%	71	63	-12.0%
IP mainlines/customers in 000						
Broadband access lines - retail [3)]	618	621	0.4%	618	621	0.4%
Broadband access lines - wholesale [4)]	129	115	-10.5%	129	115	-10.5%
TV customers	418	491	17.4%	418	491	17.4%
Broadband retail ARPU [5)] (monthly average for the period in HRK)	111	104	-5.6%	107	107	-0.5%
TV ARPU [5)] (monthly average for the period in HRK)	84	85	2.0%	85	84	-0.7%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	121	103	-14.9%	121	103	-14.9%

[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

I. Mobile telecommunications

Mobile revenue rose against 2018 by HRK 26 million or 0.8%, driven by higher postpaid (HRK 72 million or 5.4%), handset (HRK 26 million or 3.1%) and visitor revenue (HRK 17 million or 8.1%), which offset the fall in other mobile revenue (HRK 82 million or 38.2%) and default interests and dunning fees (HRK 6 million or 29.2%).

Mobile customer base at 2,274 thousand customers in December 2019 is stable (0.0%) compared to December 2018, with a fall in the prepaid segment (5.7%) and a rise in the postpaid segment (4.2%). Higher number of postpaid customers is the result of overall push of successful and attractive tariffs and handsets, as well as successful Bonbon campaigns resulting in a strong 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. The Magenta 1 campaign and offer "In Magenta 1 everyone gets double amounts of minutes, SMS and GBs" continued through 2019.

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

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

Postpaid was the focus of Q1 activities with retention and acquisition offers with very attractive handset prices. HT received Best in Test certificate (P3) and celebrated with 1GB free to all mobile residential customers from Najbolja Mreža.

In April, HTs FMS offer Gigabox was launched providing customers internet with mobility functionality and no MCD on service but with MCD on router. Customers can for HRK 199 (HRK 149 in M1) have 100GB on 4G speed with SSD to 4Mbit/s; additional 100GB option for HRK 30. Gigabox offer for M1 customers was refreshed in June and now they can get 200GB for HRK 179.

In order to offer unlimited data to customers, in May HT launched new *Neograničena* offer (HRK 249 promo, HRK 199 in M1) followed with best hardware and speed benefits. During the same period, HT was named as best mobile network speed and coverage provider, approved by OOKLA SPEEDTEST. To celebrate this award, HT gave 1GB to all mobile residential customers. In September, *Neograničena* offer got extra benefits in M1 and now for including a second *Neograničena* the tariff price is HRK 189 and for a third *Neograničena* the tariff price is HRK 179 with special hardware offers.

In September Apple presented the new iPhone 11 and it was available first in pre-sale and later for purchase in HT.

The Xmas campaign „It's not what's under the Christmas tree that matters, it's what we do to each other" – special offer including 7 days of unlimited data for all mobile prp and pop without any additional fee. Additionally, HW bundles with tablets or smartphones/bracelets/watches as a gift in all HW segments.

The number of residential prepaid customers was 5.4% lower than in 2018 due to an overall decline in the 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 the network fee in all prepaid brands – Simpa, T-Prepaid and Bonbon. Customers were fully paid the amount with a voucher on their account.

HT continued with the promotion of Simpa Hibrid with the main message "Best of both worlds". New Hibrid tariff is a unique offer on the market that combines benefits of Postpaid and Prepaid world – it enables cost control and top up by vouchers but also the 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 the Simpa Hibrid offer was enriched with very attractive handset prices and in Q3 the offer was refreshed with increased units and prices.

In Q2 our Prepaid portfolio was repriced with price and value increases (more for more). Bonbon in April launched new packages so that customers can choose combinations of MB/MIN/SMS fitting exactly to their needs. Simpa in June polished their *Glanc* options offering to customers even more MB/MIN/SMS. Additionally, for whole prepaid portfolio a new voucher denomination was introduced. Prepaid weekly flat options were introduced for summer campaigns and visitors.

In November Bonbon introduced 7+7 GB - promotion for all prp and pop customers of an additional 7GB (gift) on existing 7GB for all new customers.

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

Minutes of usage per average residential customer in 2019 increased by 5.3% compared to 2018 and blended ARPU also increased by 5.3% yoy.

The business postpaid customer base increased by 3.5%, to 576 thousand customers at the end of 2019 in comparison to 2018, due to M2M tariffs growth and migration from prepaid to postpaid.

In 2019, minutes of usage per average business customer were 3.8% lower than in 2018 due to a higher share of M2M subscribers with lower usage. Blended postpaid ARPU was lower by 5.1% due to roaming regulation and M2M migration from prepaid to postpaid with lower ARPU.

II. Fixed telecommunications

Fixed revenue was down from 2018 by HRK 53 million or 1.7%, influenced by declining fixed voice (HRK 89 million or 12.1%), broadband revenue (HRK 40 million or 4.6%) and other fixed revenue (HRK 3 million or 0.4%), and partially offset by higher TV (HRK 69 million or 16.6%) supported by EvoTV.

Fixed line

At the end of December 2019, total fixed mainlines of 782 thousand were 4.6% lower than December 2018. The decline was driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition, and HT further continues with pro- and reactive churn prevention offers and activities.

To mitigate the on-going decline, continuous promo offers for fixed line are in place offering phone connection for HRK 1 with 24 MCD accompanied by attractive fixed line tariffs. Fixed telephony users generated 968 million of minutes in 2019.

HT continued with attractive offer for the 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. The 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 the elderly introduced in 2016 continued through 2019 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 6.8% compared to 2018 as a result of the above mentioned general market trends.

Broadband

The broadband customer base was 0.4% higher than 2018 at 621 thousand. At the same time, broadband retail ARPU was 5.6% below the previous year at HRK 104.4 due to stronger competition and aggressively competitive offers in the market.

HT continued its Max 2P and 3P packages "Biraj i mijenjaj", bringing its customers the possibility of choosing the services they require. 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 also continued to push the Ultra MAX packages on FTTH with additional speed increases up to 200 Mbps with the Turbo Fast option or up to 500 Mbps with the Turbo Super Fast 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, HT continued providing combined fixed and mobile technology in one product and one device without additional charge – known as hybrid access.

In the first half of the year, a special offer was available for 2P FMC with 6 months on the Najbolja L mobile tariff for 1 HRK accompanied by attractive HW offers to maintain fixed market share and value through M1.

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

From November, a fixed customer who signs the contract gets HRK 30 lower prices than they would without the contract, and the discount for MAX3 Premium promo offer was by HRK 30.

At the end of 2019, the business retail broadband customer base was flat to 2018, reaching 91 thousand, due to stronger competition and aggressive offers in the market. Business retail broadband ARPU was down from 2018 by 2.5%.

In September 2018, HT launched new, simplified fixed and mobile portfolios and convergent M1 proposition, followed by a big above the line advertising campaign.

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

Within the new fixed/M1 offer, HT also introduced a professional modem for VSE customers. By introducing the 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

The TV customer base at the end of 2019 was 491 thousand, showing a 17.4% increase from 2018 as a result of successful M&A activities and including the EvoTV service in the HT portfolio – a TV service offered through DVB-T technology. TV ARPU was 2.0% higher compared to 2018 at HRK 85.3.

The MAXtv Sat service declined by 4.1% compared to the same period last year due to competitors' aggressive promo campaigns, with discounted prices, while HT focused on maintaining stable pricing on the market by abolishing promo discounts and maintaining or increasing ARPA. On the other hand, the MAXtv customer base was up by 1.8% over 2018 because of continuous service and program offer improvements through premium and enriched exclusive TV content and the introduction of the MAXtv Mini offer.

In 2019 MAXtv is still standard for the premium television service. It offers the richest content, premium picture quality, interactivity, new interface and full integration with mobile devices, providing customers a unique TV viewing experience fully adapted to their habits. In order to introduce pay tv services to all Broadband users, HT is offering the 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 was also enriched by for a new service – EvoTV - which is based on DVB-T technology. In November the first EvoTV campaign with a promo offer under the T brand was launched.

Wholesale

At the end of December 2019 there were 103 thousand active ULL lines, which was lower by 14.9% in comparison to 2018. The number of ULL lines decreased due to a focus by alternative operators on broadband services, usage of own infrastructure and the overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 115 thousand at the end of 2019, which was 10.5% below 2018, with the driver being higher usage of operators' own infrastructure.

The number of WLR lines at the end of 2019 decreased by 15.3% compared to 2018 and reached 45 thousand as a result of the declining voice market and a migration to broadband services.

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

In 2019 successful sales of IP and data services continued in spite of a competitive wholesale market of data and IP services. Total capacity of sold IP increased by 23.2% compared to 2018, contributing to stability of wholesale revenue.

Visitor roaming services are a significant source of international wholesale revenue. Roaming traffic shows further growth in 2019, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 4.2% more voice originating minutes and 58.2% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 14.8% more roaming voice traffic in foreign countries and 28.1% more data traffic.

Another significant contributor to wholesale international revenue is the termination and transit of international voice traffic. Total international voice traffic volume terminating in the HT mobile network increased by 3.9% in 2019 compared to the 2018. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 11.1% and from HT mobile network users it increased by 6.6%.

III. System solutions

System solutions revenue is continuously growing in all portfolio segments. The strongest growth achievement in Q4 was in the area of customized ICT solutions and standard ICT portfolio. Key revenue drivers in the standard ICT portfolio are Office 365, Mini and Maxi fiscal register and ICT equipment.

HT has successfully participated in the now mostly completed implementation of the integrated solar power plant on the site of the construction and interior furnishing company Građa d.d. This project will enable Građa d.d. to reduce their operating costs, increase energy independence and reduce carbon dioxide emissions by using green energy sources. The project shows how HT is helping companies to benefit from technologies, that are already available to them, to improve their business and contribute to making environment cleaner, which is in line with HT's mission and strategic orientation.

HT was also a partner in the ongoing project of building a passive network infrastructure in schools under the 2nd phase of the e-Schools program for the Croatian Academic and Research Network – CARNET. The purpose of the e-Schools pilot project is to establish a system for the development of digitally mature schools through the project and the evaluation of the application of ICT (information and communications technologies) in the educational and operational processes of schools in the Republic of Croatia. This project demonstrates that HT is a reliable partner to the public sector in the implementation of the most complex projects regarding new technologies as well as in the digital transformation of the Croatian educational system, which is in line with HT's strategy in the years to come.

The HT Business Showroom, an innovation center for advanced digital technologies, officially opened its doors. In front of media and over 100 business partners and top Croatian entrepreneurs HT presented digital technology solutions and advantages they offer for Croatian society, companies and entrepreneurs. Four key initiatives were presented: expansion of HT data center and advantages of cloud technologies, Azure Stack technology in partnership with Microsoft, Smart city technologies and projects, and Blockchain technology in the digitization of industry and public sector. At the event, all Croatian entrepreneurs were invited to join Hrvatski Telekom in our efforts to reinforce process of digitization and economic growth in Croatia.

HT also launched the communications campaign „Digital Advertising“ during October on all media. In the campaign HT was presented as a company that connects businesses in Croatia to the opportunities of now through technology, supporting the main claim: “We are a reliable partner in the digitization of companies. We introduce smart technologies to companies to improve their productivity and efficiency”. The media campaign was also supported by four roadshow events for entrepreneurs about digitization and digital advertising. More than 220 companies attended the workshops to learn about digitization in practice, and the ways that the internet has changed the way we communicate, do our business, and all the possibilities it offers for advertising. The interactive workshops proved to be a great concept for entrepreneurs who wanted to receive practical advice for their actual business situations.

Combis' continued with investments in research and development of proprietary products and releases of new products like Smart managed remote access (ARA) & Managed security (penetration testing & managed firewall). It is also undertaking strong marketing activities & monetization regarding EMA - Enterprise mobility as a Service.

Strong initiatives are underway on offering complex solutions which have resulted in some major deals including Cloud solutions, application development and managed services.

IV. Miscellaneous

Revenues from energy were down by HRK 96 million or 100.0% when compared to 2018 due to the sale of the energy business in September 2018.

Non-telco revenue fell by HRK 5 million or 24.1%.

2.2. Summary of key financial indicators – Crnogorski Telekom standalone

in HRK million

INCOME STATEMENT	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Revenue	625	625	594	*-4.9%*	150	150	148	*-1.5%*
Mobile	324	324	312	*-3.8%*	76	76	78	*3.2%*
Fixed voice	73	73	59	*-18.9%*	17	17	14	*-18.3%*
Broadband & TV	117	117	116	*-0.2%*	29	29	29	*1.4%*
Fixed wholesale	19	19	17	*-11.2%*	4	4	4	*-7.3%*
Other fixed	53	53	52	*-2.9%*	15	15	14	*-5.8%*
System solutions	39	39	38	*-1.1%*	11	11	10	*-8.0%*
Exceptional items	5	5	7	*50.7%*	3	3	4	*53.8%*
EBITDA before exceptional items after leases		229	215	*-6.0%*		52	51	*-2.1%*
EBITDA before exceptional items	233	260	246	*-5.3%*	56	59	58	*-1.8%*
EBITDA after exceptional items	228	256	239	*-6.3%*	53	57	54	*-4.7%*
EBIT (Operating profit)	58	59	44	*-26.5%*	5	2	6	*135.6%*
Net profit after non controlling interests	54	51	32	*-37.2%*	5	1	1	*-14.0%*
EBITDA margin before exceptional items after leases		36.7%	36.3%	*-0.5 p.p.*		34.9%	34.7%	*-0.2 p.p.*
EBITDA margin before exceptional items	37.2%	41.7%	41.5%	*-0.2 p.p.*	37.1%	39.6%	39.4%	*-0.1 p.p.*
EBITDA margin after exceptional items	36.5%	40.9%	40.3%	*-0.6 p.p.*	35.2%	37.6%	36.4%	*-1.2 p.p.*
EBIT margin	9.3%	9.5%	7.3%	*-2.2 p.p.*	3.3%	1.6%	3.9%	*2.3 p.p.*
Net profit margin	8.6%	8.1%	5.4%	*-2.8 p.p.*	3.1%	0.9%	0.7%	*-0.1 p.p.*

Note: 2018 proforma adjusted for 2019 IFRS 16 effects

Key operational data	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile customers in 000	**369**	**375**	***1.5%***	**369**	**375**	***1.5%***
- Prepaid	142	134	*-5.8%*	142	134	*-5.8%*
- Postpaid	227	241	*6.1%*	227	241	*6.1%*
Fixed mainlines - retail in 000	**114**	**109**	***-4.4%***	**114**	**109**	***-4.4%***
Broadband access lines - retail in 000	**70**	**82**	***15.9%***	**70**	**82**	***15.9%***
TV customers in 000	**65**	**71**	***9.7%***	**65**	**71**	***9.7%***

Note: customer base reported to Crnogorski Telekom local regulatory agency

I. Mobile telecommunications

Mobile revenue decreased from 2018 by HRK 12 million or 3.8%, influenced by lower prepaid (HRK 12 million or 18.8%) and visitor revenue (HRK 3 million or 24.7%), partially offset by higher postpaid revenue (HRK 1 million or 0.7%) and other mobile revenue (HRK 1 million or 9.1%).

Postpaid segment (on retail level; excl. IFRS15 impact) continued growing, with 2.6% yoy growth and a 6.1% higher subscriber base.

Postpaid revenue performance was driven by residential segment (9.6% customer base increase), while business postpaid revenues decreased (though customer base increased by 3.5%). Looking only at Q4, a positive development is visible in postpaid: while 3Q yoy growth was 1.5% (on retail level and before IFRS15), in Q4 it was 5.4%, despite the introduction of flat voice tariffs on the market. The growth in residential segment could not fully compensate for lower prepaid retail revenues.

Challenges continued in the prepaid segment. A prepaid decline of 16.6% (on retail level) was driven by an 8.2% fall in customer numbers (active pre-to-post migration) and by lower ARPU (10.6% on retail level).

Crnogorski Telekom remained the leader in the postpaid market at the end of 2019, overall and in both customer segments.

II. Fixed telecommunications

Fixed revenues decreased compared to 2018 by HRK 18 million or 6.7%, mostly due to a fall in voice revenue (HRK 14 million or 18.9%).

Fixed BB and TV revenues were stable and overall were flat yoy, while fixed voice revenue continued the decline, but at a decreased pace in Q4.

Fixed BB and TV revenues were in line altogether, as higher customer numbers (by 1.7% and 4.2% respectively) compensated for an ARPU decrease.

System solutions revenue was in line with 4Q 2018.

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 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 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 (until 13 December 2019) and HT Produkcija 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

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	2,031	2,046	*0.7%*	552	518	*-6.1%*
Fixed revenue	1,651	1,604	*-2.9%*	403	395	*-2.0%*
Miscellaneous	38	16	*-59.2%*	6	5	*-22.7%*
Revenue	**3,720**	**3,666**	***-1.5%***	**961**	**918**	***-4.5%***

Business segment

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	1,094	1,106	*1.1%*	213	245	*14.9%*
Fixed revenue	977	980	*0.4%*	243	251	*3.2%*
System solution	762	842	*10.5%*	275	306	*11.2%*
Miscellaneous	80	1	*-98.8%*	16	0	*-98.5%*
Revenue	**2,912**	**2,929**	***0.6%***	**747**	**802**	***7.3%***

Network & Support

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Other operating income	**153**	**173**	***13.1%***	**52**	**56**	***7.9%***

Optima consolidated

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Fixed revenue	526	516	*-1.9%*	137	124	*-9.8%*
Revenue	**526**	**516**	***-1.9%***	**137**	**124**	***-9.8%***
Other operating income	**8**	**4**	***-55.7%***	**3**	**2**	***-40.8%***

Crnogorski Telekom consolidated

in HRK million	2018	2019	% of change A19/A18	Q4 2018	Q4 2019	% of change A19/A18
Mobile revenue	325	312	*-4.0%*	76	78	*3.2%*
Fixed revenue	261	244	*-6.7%*	64	60	*-6.0%*
System solution	39	38	*-1.1%*	11	10	*-8.0%*
Revenue	**625**	**594**	***-5.0%***	**150**	**148**	***-1.5%***
Other operating income	**6**	**4**	***-29.9%***	**2**	**2**	***15.2%***

4. HT Inc. financial highlights

Revenue

Revenue decreased by HRK 135 million or 2.2% to HRK 5,893 million in 2019 compared to 2018. The decrease was driven by lower miscellaneous (HRK 97 million or 99.0%) coming from the sale of energy business and fixed revenue (HRK 84 million or 3.3%), mostly as a result of declining voice and lower broadband. The decrease was partially offset by higher mobile revenue (HRK 27 million or 0.9%), mainly influenced by increased postpaid and handset revenue and higher system solution revenue (HRK 19 million or 8.2%).

EBITDA before exceptional items after leases

EBITDA before exceptional items after leases decreased by HRK 89 million, or 3.5%, to HRK 2,454 million in 2019, because of lower revenue realization, partially offset by lower operating expenses excluding exceptional items (HRK 35 million or 1.0%) and higher operating income (HRK 11 million or 7.3%).

Net profit after non-controlling interests

Net profit after non-controlling interests decreased by HRK 281 million or 28.1% to HRK 717 million in 2019 due to lower EBITDA (HRK 154 million or 5.5%) and higher depreciation and amortization (HRK 215 million or 14.6%), partially offset by lower taxation (HRK 54 million or 25.2%) and positive effect of net financial result (HRK 35 million or 33.8%).

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 2020 outlook

	2019 Results	Outlook 2020 vs 2019
Revenue	HRK 7,704 million	Stable to slightly lower
EBITDA AL	Margin of 37.7%	Margin of around 38%
CAPEX AL	HRK 1,900 million	Around HRK 1.7 billion
Regional expansion	Completed purchase of EVO TV	HT is monitoring and evaluating potential M&A opportunities

7. HT Group financial statements

7.1. Consolidated Income Statement

in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Mobile revenue	3,450	3,450	3,464	*0.4%*	840	840	841	*0.1%*
Fixed revenue	3,415	3,415	3,344	*-2.1%*	847	847	830	*-2.1%*
System solutions	801	801	880	*10.0%*	286	286	316	*10.5%*
Miscellaneous	118	118	17	*-86.0%*	22	22	5	*-78.0%*
Revenue	**7,783**	**7,783**	**7,704**	***-1.0%***	**1,996**	**1,996**	**1,992**	***-0.2%***
Other operating income	167	167	181	*8.3%*	57	57	61	*6.4%*
Total operating revenue	**7,950**	**7,950**	**7,885**	***-0.8%***	**2,052**	**2,053**	**2,052**	***0.0%***
Operating expenses	**4,819**	**4,607**	**4,726**	***2.6%***	**1,311**	**1,256**	**1,276**	***1.6%***
Material expenses	2,461	2,438	2,463	*1.0%*	703	694	707	*1.8%*
Employee benefits expenses	1,087	1,087	1,171	*7.7%*	287	287	281	*-1.9%*
Other expenses	1,315	1,126	1,148	*1.9%*	319	274	328	*20.0%*
Work performed by the Group and capitalised	-128	-128	-133	*4.5%*	-32	-32	-57	*75.1%*
Write down of assets	83	83	78	*-5.9%*	34	34	16	*-52.5%*
EBITDA	**3,131**	**3,343**	**3,159**	***-5.5%***	**742**	**796**	**776**	***-2.5%***
Depreciation and amortization	1,730	1,921	2,147	*11.8%*	463	469	676	*44.1%*
EBIT	**1,401**	**1,422**	**1,012**	***-28.8%***	**278**	**327**	**100**	***-69.3%***
Financial income	28	26	22	*-16.3%*	3	0	5	*1276.9%*
Income/loss from investment in joint ventures	3	3	0	-	-1	-1	3	*-547.9%*
Financial expenses	139	167	134	*-19.8%*	42	49	40	*-17.5%*
Profit before taxes	**1,293**	**1,284**	**900**	***-29.9%***	**239**	**278**	**69**	***-75.3%***
Taxation	235	228	161	*-29.3%*	44	42	5	*-89.0%*
Net profit	**1,059**	**1,056**	**739**	***-30.0%***	**194**	**236**	**64**	***-72.8%***
Non controlling interests	-3	-3	-1	*-71.5%*	5	5	1	*-75.3%*
Net profit after non controlling interests	**1,061**	**1,059**	**740**	***-30.1%***	**189**	**231**	**63**	***-72.7%***
Exceptional items [1]	55	55	115	*109.9%*	17	17	26	*56.2%*
EBITDA before exceptional items	**3,186**	**3,398**	**3,274**	***-3.6%***	**758**	**813**	**803**	***-1.3%***
EBITDA before exceptional items after leases		**3,031**	**2,908**	***-4.1%***		**680**	**670**	***-1.5%***

[1] Mainly related to restructuring redundancy costs and legal cases

Note: 2018 proforma adjusted for 2019 IFRS 16 effects

7.2. Consolidated Balance Sheet

in HRK million	At 31 Dec 2018	At 31 Dec 2019	% of change A19/A18
Intangible assets	2,539	2,334	-8.1%
Property, plant and equipment	6,218	6,390	2.8%
Non-current financial assets	1,312	388	-70.4%
Receivables	391	347	-11.2%
Lessee use rights to leased assets (IFRS 16)	0	709	-
Contract assets (IFRS 15)	58	51	-12.9%
Contract costs (IFRS 15)	81	98	20.6%
Deferred tax asset	94	129	36.3%
Total non-current assets	**10,694**	**10,447**	**-2.3%**
Inventories	136	158	16.8%
Assets held for sale	0	68	-
Receivables	1,549	1,519	-1.9%
Current financial assets	112	928	728.6%
Contract assets (IFRS 15)	146	231	57.9%
Contract costs (IFRS 15)	57	72	24.6%
Cash and cash equivalents	3,137	2,762	-11.9%
Prepayments and accrued income	201	141	-29.7%
Total current assets	**5,337**	**5,880**	**10.2%**
TOTAL ASSETS	**16,031**	**16,327**	**1.8%**
Subscribed share capital	9,823	10,245	4.3%
Reserves	562	565	0.5%
Revaluation reserves	-14	-10	-24.0%
Treasury shares	-71	-73	2.4%
Retained earnings	1,503	1,260	-16.2%
Net profit for the period	1,061	740	-30.3%
Non controlling interests	344	328	-4.6%
Total issued capital and reserves	**13,208**	**13,054**	**-1.2%**
Provisions	70	85	22.4%
Non-current liabilities	384	245	-36.1%
Lessee lease liabilities to third partie due > 1 year (IFRS 16)	0	465	-
Contract liabilities (IFRS 15)	0	0	-
Deferred tax liability	44	42	-3.4%
Total non-current liabilities	**498**	**839**	**68.6%**
Current liabilities	2,223	2,160	-2.8%
Contract liabilities (IFRS 15)	76	85	11.3%
Lessee lease liabilities due <= 1 year (IFRS 16)	0	183	-
Deferred income	14	6	-61.0%
Provisions for redundancy	13	0	-98.0%
Total current liabilities	**2,326**	**2,434**	**4.7%**
Total liabilities	**2,823**	**3,273**	**15.9%**
TOTAL EQUITY AND LIABILITIES	**16,031**	**16,327**	**1.8%**

7.3. Consolidated Cash Flow Statement

in HRK million	2018 reported	2018 adjusted	2019	% of change A19/A18 adjusted	Q4 2018 reported	Q4 2018 adjusted	Q4 2019	% of change A19/A18 adjusted
Profit before tax	1,293	1,284	900	-29.9%	239	278	69	-75.3%
Depreciation and amortization	1,730	1,921	2,147	11.8%	463	469	676	44.1%
Increase / decrease of current liabilities	-181	-181	-104	42.7%	74	74	84	12.3%
Increase / decrease of current receivables	11	11	51	343.1%	-54	-54	130	340.2%
Increase / decrease of inventories	-28	-28	-36	-25.7%	-9	-9	-8	18.7%
Other cash flow increases / decreases	-480	-480	-386	19.6%	-168	-168	-43	74.6%
Net cash inflow/outflow from operating activities	**2,345**	**2,528**	**2,573**	**1.8%**	**545**	**590**	**908**	**54.0%**
Proceeds from sale of non-current assets	38	38	41	7.4%	13	13	-46	-440.9%
Proceeds from sale of non-current financial assets	1	1	0	-100.0%	0	0	-11	-3110.8%
Interest received	8	8	10	26.9%	-2	-2	1	166.5%
Dividend received	0	0	0	-	0	0	0	-
Other cash inflows from investing activities	625	625	112	-82.1%	422	422	1	-99.7%
Total increase of cash flow from investing activities	**672**	**672**	**163**	**-75.8%**	**434**	**434**	**-54**	**-112.4%**
Purchase of non-current assets	-1,536	-1,536	-1,459	5.0%	-546	-546	-552	-1.0%
Purchase of non-current financial assets	0	0	0	-	0	0	113	-
Other cash outflows from investing activities	-504	-504	-29	94.1%	-110	-110	-29	73.2%
Total decrease of cash flow from investing activities	**-2,040**	**-2,040**	**-1,489**	**27.0%**	**-656**	**-656**	**-469**	**28.6%**
Net cash inflow/outflow from investing activities	**-1,368**	**-1,368**	**-1,326**	**3.1%**	**-222**	**-222**	**-523**	**-135.9%**
Total increase of cash flow from financing activities								
Repayment of loans and bonds	-58	-58	-66	-14.0%	-15	-15	-24	-54.3%
Dividends paid	-497	-497	-818	-64.6%	0	0	-1	-397.4%
Repayment of lease	-2	-277	-345	-24.3%	0	-138	-96	30.9%
Other cash outflows from financing activities	-435	-343	-395	-15.4%	-104	-12	-100	-764.4%
Total decrease in cash flow from financing activities	**-992**	**-1,175**	**-1,625**	**-38.3%**	**-120**	**-165**	**-220**	**-33.1%**
Net cash inflow/outflow from financing activities	**-992**	**-1,175**	**-1,625**	**-38.3%**	**-120**	**-165**	**-220**	**-33.1%**
Exchange gains/losses on cash and cash equivalents	**0**	**0**	**3**	**1364.0%**	**0**	**0**	**0**	**-1508.7%**
Cash and cash equivalents at the beginning of period	3,152	3,152	3,137	-0.5%	0	0	0	-98.8%
Net cash (outflow) / inflow	-15	-15	-374	-2324.4%	203	203	165	-18.6%
Cash and cash equivalents at the end of period	**3,137**	**3,137**	**2,762**	**-11.9%**	**203**	**203**	**165**	**-18.6%**

8. Notes to the condensed consolidated unaudited financial statements for the year ended on 31 December 2019

The condensed consolidated financial statements as of 31 December 2019 and for the year 2019, 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.

Dividends

On 6th May 2019, General Assembly of Hrvatski Telekom has brought the decision regarding the dividend payout. Under that decision, HRK 808,885,810.00 or HRK 10 per share were paid out to shareholders. Dividend was distributed in the way that HRK 566,220,067.00 (HRK 7 per share) was paid out from net profit in 2018, while HRK 242,665,743.00 (HRK 3 per share) was paid out from retained earnings from previous years.

Business combination

HT Production d.o.o

As at 1st March 2019 the Group acquired 100% of the voting shares of HT Production d.o.o., following the approval of the National Regulatory Agency (HAKOM), from Hrvatska Pošta. HT Production is an unlisted company located in Zagreb, pay TV provider – EVOtv.

The goodwill of HRK 40 million comprises the value of expected synergies arising from the acquisition.

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

	Fair value recognised at acquisition HRK million
Assets	
Intangible assets	95
Right-of-use assets	45
Contract assets	1
Property, plant and equipment	2
Inventories	4
Trade and other receivables	12
	159
Liabilities	
Other non-current liabilities	(11)
Trade payables and other liabilities	(24)
Lease liabilities	(45)
Deferred income	(3)
Deferred tax liability	(3)
	(86)
Total identifiable net assets at fair value	73
Goodwill arising on acquisition	40
Purchase consideration transferred	113

The total fair value of consideration amounted to HRK 113 million:

Business combination (continued)

Shares in HP Mostar	11
Properties	72
Cash	30
Purchase consideration transferred	**113**

Cash flow on acquisition:

	HRK million
Net cash acquired with the subsidiary	-
Cash paid	(30)
Net cash outflow	(30)

HT Production d.o.o (continued)

Financial results for 2019 of HT Production are consolidated in the Group for ten months.

If the acquisition had taken place at the beginning of the year, Group consolidated revenue for 2019 would have been HRK 7,715 million, and net profit of the Group would have been HRK 734 million for the year.

E-tours d.o.o

The Group concluded in November 2019 a contract with the company Uniline d.o.o., thereby initiating the process of the sale of its subsidiary E-tours to Uniline d.o.o. The sale transaction of E-tours to the buyer Uniline d.o.o. has been concluded as at 31 December 2019 for HRK 18 million.

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) perform cross-segment management and support functions, including Technology department, Procurement, Accounting, Treasury, Legal and other central functions.

Companies in the HT Group Iskon, Combis, KDS, E-tours (until 31 December 2019), 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 December 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	*3.720*	*2.912*	-	*526*	*625*	*7.783*
Mobile revenue	2.031	1.094	-	-	325	3.450
Fixed revenue	1.651	977	-	526	261	3.415
System solutions revenue	-	762	-	-	39	801
Miscellaneous revenue	38	79	-	-	-	117
Usage related direct costs	(240)	(230)	-	(86)	(45)	(601)
Income and losses on accounts receivable	(43)	(13)	-	(4)	(11)	(71)
Contribution margin I	**3.437**	**2.669**	**-**	**436**	**569**	**7.111**
Non-usage related direct costs	(621)	(945)	-	(19)	(116)	(1.701)
Segment result	**2.816**	**1.724**	**-**	**417**	**453**	**5.410**
Other income	-	-	152	9	6	167
Other operating expenses, restated	(386)	(364)	(1.359)	(113)	(224)	(2.446)
Depreciation, amortization and impairment of non-current assets	-	-	(1.443)	(119)	(168)	(1.730)
Operating profit	**2.430**	**1.360**	**(2.650)**	**194**	**67**	**1.401**

Period ended 31 December 2019	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	*3.665*	*2.929*	-	*516*	*594*	*7.704*
Mobile revenue	2.045	1.106	-	-	312	3.463
Fixed revenue	1.604	980	-	516	244	3.344
System solutions revenue	-	842	-	-	38	880
Miscellaneous revenue	16	1	-	-	-	17
Usage related direct costs	(253)	(257)	-	(97)	(41)	(648)
Income and losses on accounts receivable	(32)	(19)	-	(6)	(8)	(65)
Contribution margin I	**3.380**	**2.653**	**-**	**413**	**545**	**6.991**
Non-usage related direct costs	(628)	(922)	-	(20)	(110)	(1.680)
Segment result	**2.752**	**1.731**	**-**	**393**	**435**	**5.311**
Other income	-	-	173	4	4	181
Other operating expenses	(389)	(377)	(1.307)	(67)	(193)	(2.333)
Depreciation, amortization and impairment of non-current assets	-	-	(1.773)	(180)	(194)	(2.147)
Operating profit	**2.363**	**1.354**	**(2.907)**	**150**	**52**	**1.012**

Period 1 October to 31 December 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	*961*	*747*	-	*137*	*151*	*1.996*
Mobile revenue	552	214	-	-	76	842
Fixed revenue	403	243	-	137	64	847
System solutions revenue	-	275	-	-	11	286
Miscellaneous revenue	6	15	-	-	-	21
Usage related direct costs	(62)	(54)	-	(22)	(9)	(147)
Income and losses on accounts receivable	(17)	(5)	-	2	(5)	(25)
	-	-	-	-	-	-
Contribution margin I	**882**	**688**	**-**	**117**	**137**	**1.824**
Non-usage related direct costs	(194)	(287)	-	(2)	(31)	(514)
Segment result	**688**	**401**	**-**	**115**	**106**	**1.310**
Other income	-	-	52	4	2	58
Other operating expenses, restated	(113)	(95)	(338)	(28)	(52)	(626)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(386)	(31)	(47)	(464)
Operating profit, restated	**575**	**306**	**(672)**	**60**	**9**	**278**

Period 1 October to 31 December 2019	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	*918*	*801*	-	*124*	*148*	*1.991*
Mobile revenue	518	245	-	-	78	841
Fixed revenue	395	250	-	124	60	829
System solutions revenue	-	306	-	-	10	316
Miscellaneous revenue	5	-	-	-	-	5
Usage related direct costs	(72)	(68)	-	(24)	(9)	(173)
Income and losses on accounts receivable	(2)	(4)	-	1	(3)	(8)
Contribution margin I	**844**	**729**	**-**	**101**	**136**	**1.810**
Non-usage related direct costs	(146)	(323)	-	(5)	(31)	(505)
Segment result	**698**	**406**	**-**	**96**	**105**	**1.305**
Other income	-	-	56	2	2	60
Other operating expenses	(103)	(103)	(325)	(8)	(50)	(589)
Depreciation, amortization and impairment of non-current assets	-	-	(542)	(86)	(48)	(676)
Operating profit	**595**	**303**	**(811)**	**4**	**9**	**100**

Relations with the governing company and its affiliated companies

In 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 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 2019.

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

Transactions with related companies

Transactions with related companies primarily related 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 and other services between related companies.

In 2019 the Group generated total revenue from related companies to the amount of HRK 272 million (2018: HRK 219 million), while total costs amounted to HRK 248 million (2018: HRK 256 million).

At the end of January, Company has granted the loan to its associated company OT-Optima Telekom in amount of HRK 201million and with maturity date on June 30th 2021. The purpose of this loan is refinancing of existing loan in amount of HRK 95 million, together with refinancing of major part of Hrvatski Telekom's due receivables from OT – Optima Telekom.

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 2019 the Company paid a total amount of HRK 0.8 million (2018: 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 2019 the total compensation paid to key management personnel of the Group amounted to HRK 59 million (2018: HRK 49 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 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. Kostas Nebis, 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 Rescources Officer

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

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

Zagreb, 18 February 2020

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